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The gaming industry

The gaming industry, particularly the hardware segment, presents a compelling investment opportunity driven by increased levels of global gaming, global demographic trends and technological advancements. This contributes to an anticipated industry growth rate of 4,6%¹-8,6%² annually until 2030-2032 for gaming hardware.

Global PC gamers have increased from 1,1 billion in 2008 to 1,8 billion in 2022³, a growth rate of 4,2% annually, which is expected to continue driven by the increased adoption rate of gamers worldwide as younger generations mature, and some maintain the habit of gaming.

The increase in global gaming activity can also be seen through various popular providers of PC gaming related content as in games (Steam platform), views (Twitch) and communication (Discord).

- Concurrent Steam users rose from 8,4 million in 2015 to 30 million in 2022⁴, an increase of 19,9% annually.
- Year-end concurrent viewers on Twitch grew from 555k viewers in 2015 to 2,24 million viewers in 2022⁵, an increase of 22,3% annually.
- Discord registered users expanded from 200 million at year-end 2018 to 563 million in January 2023⁶, an increase of 29,5% annually.

Additionally, the rise of e-sports and competitive gaming has brought gaming into the mainstream, elevating it from a leisure activity to a professional sport. This shift has amplified the demand for high-performance gaming hardware, as professional gamers and enthusiasts seek the best tools to gain a competitive edge. The growing popularity of e-sports events and tournaments worldwide further amplifies the need for top-tier gaming equipment.

Gaming development vs gaming hardware

Similar to the California Gold Rush, where significant and steady profits were made by supplying tools to gold diggers rather than engaging in mining itself, the gaming industry presents a comparable opportunity. While the demand for gaming is expected to surge, investments in gaming hardware, akin to supplying tools to gold diggers, seem to offer more stable and predictable returns compared to the volatility inherent in game development. Publishing a block buster game will bring huge profits, but they are usually canalized back into capex for new games and the success of these new games is highly uncertain. Especially, small and medium-sized game development studios struggle with consistently producing commercially successful games, resulting in poor financial performance while some of the large studios with the most popular gaming franchises are able to develop more predictable commercially successful games and trade at high multiples.

¹ www.factmr.com/report/gaming-hardware-market.

² <https://www.researchandmarkets.com/report/game-hardware>

³ www.statista.com/statistics/number-of-pc-gamers/

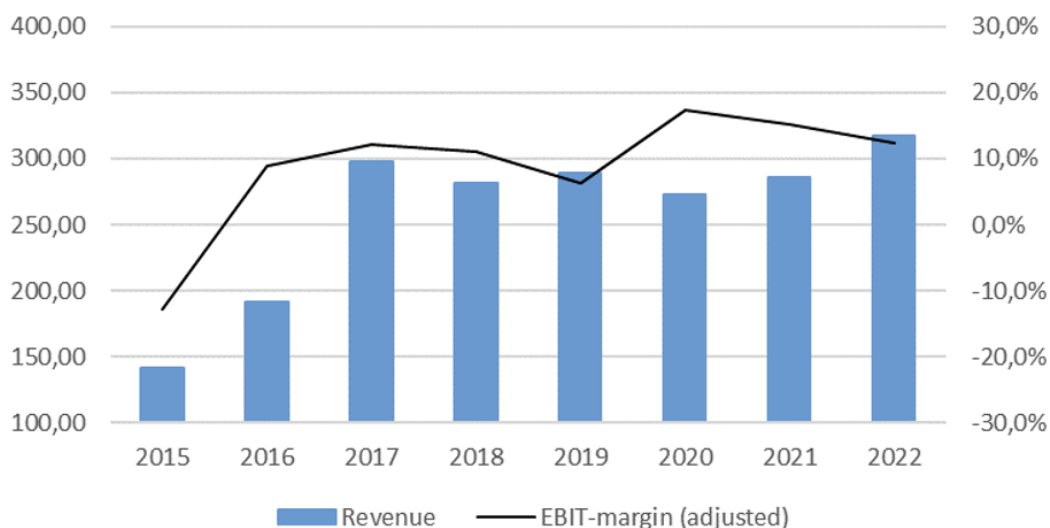
⁴ www.statista.com/statistics/steam-peak-concurrent-players/

⁵ www.twitchtracker.com/statistics/viewers

⁶ www.statista.com/statistics/discord-registered-users-worldwide/

There have been many examples of companies developing successful games, such as Rovio, a Finnish gaming company that created the highly successful game Angry Birds. As seen from the chart below their revenues and earnings have since their IPO in 2017 stagnated. Extrapolating the development from 2015 to 2017 for how successful their future games development will become would have been a bad forecast for the actual performance from 2017-2022.

Chart 1 - Rovio stagnation since IPO 2017



A more modern analogy is the current boom in artificial intelligence (AI), where companies supplying the hardware (like Nvidia) needed to run the AI models, along with the largest companies developing AI models (OpenAI, Alphabet etc.), seem to be the most predictable beneficiaries. However, it is less certain who the winners in the other parts of the ecosystem are.

Gaming hardware

We have established that the underlying growth rates for gaming are high, and that gaming hardware has some attractive investment attributes with more predictable returns compared to the very wide range of likely outcomes many (especially smaller) games development studios face. Additionally, we identify two drivers for gaming hardware demand that are contributing to a higher demand for premium products in this category.

Firstly, the underlying driver of premium gaming hardware is the demographic trend of PC gamers. As younger generations (58% of US gamers are under 35 years old⁷), who have been exposed to gaming from an early age, enter adulthood, some are likely to continue their gaming habits, contributing to a sustained increase in the global gaming population. With increased disposable income, we expect them to result in an increased demand for high-end gaming hardware. The new generation of gamers entering adulthood are also likely to be more supportive of their kids' gaming. The demographic trend is thus a driver for premium gaming hardware that embraces high-end performance, design and convenience.

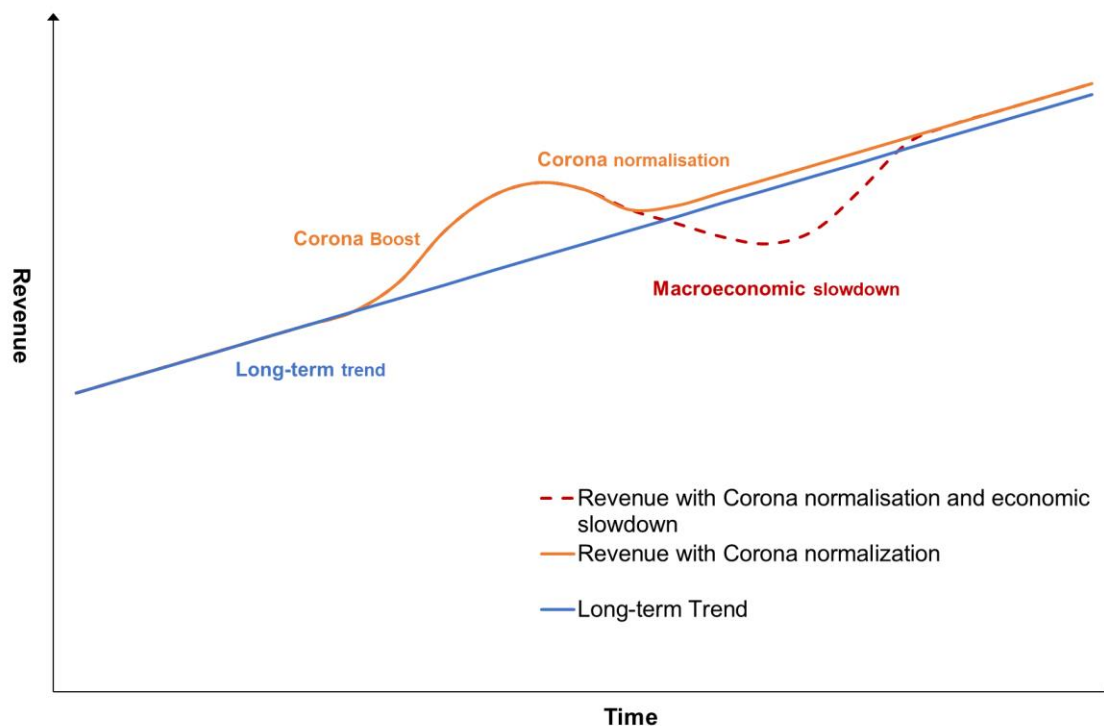
⁷ www.explodingtopics.com/blog/number-of-gamers

Secondly, the gaming hardware industry is characterized by rapid technological advancements. The continuous improvement in graphics capabilities, processing power, AI and virtual reality (VR) experiences is enticing both existing and new gamers to upgrade their hardware. This cycle of innovation is expected to perpetuate, fostering a constant need for cutting-edge gaming equipment.

Pre-COVID, during COVID and today

The gaming industry witnessed significant growth pre-COVID, followed by a substantial surge in demand during the pandemic due to people being confined to their homes and limited in other recreational activities. Gaming emerged as a convenient substitute for many individuals during this period, evident in the notable increase in Twitch viewers and Steam users after 2019.

Post-COVID, a normalization of demand was anticipated, particularly in the peripheral product category as the gaming components were already hit by an external supply shock in the form of a shortage of graphic cards. While hardware sales for peripherals have declined from peak levels, they remain at higher levels than pre-COVID. Whether they have fully normalized yet is hard to predict, but we have seen several listed companies within gaming peripherals with declining revenue since Q3 2021. The graph below visually represents the anticipated impact of COVID on the gaming industry.



Gaming components vs peripherals

The gaming hardware market consists primarily of two categories: gaming components integral to building a gaming PC and peripherals encompassing various products external to the PC, such as headsets, webcams, speakers, keyboards and mousepads.

During the COVID-19 pandemic, the two segments underwent disparate developments, largely influenced by a global shortage of graphics cards from Q4 2020 to Q3 2022. This scarcity led to soaring graphics card prices and constrained availability, primarily due to significant purchases by cryptocurrency miners at inflated prices but also impacted by general supply shortages and the very early days of the current AI boom.

Given that graphics cards constitute the most expensive component in building a gaming PC, consumers naturally deferred upgrades and new gaming computer builds. This substantial external shock to graphics card prices subdued the gaming components market, resulting in pent-up demand. Conversely, the peripheral category, unaffected by the graphics card price fluctuations, experienced even higher demand because the share of wallet was artificially increased by the shortage of graphics cards, before experiencing a normalization of demand during the same period.

As the graphics card shortage abated, demand for components slowly started to pick up again in the second half of 2022, driven by improved availability, normalized prices and pent-up demand. Under ordinary circumstances, without significant external shocks to the industry, both gaming components and peripheral categories have historically exhibited high single digit growth rates with relatively low volatility and resistance to economic downturns. The COVID boom bust cycle has been the perfect storm for the hardware gaming industry and future cycles are likely to be much less dramatic, just as past cycles have been.

Companies specializing in premium gaming hardware within the gaming components sector, having navigated past the challenges posed by graphics card prices and normalized demand post-COVID, present attractive investment opportunities. Notably, Danish-listed Asetek and Swedish-listed Fractal are two such companies we find appealing, and their detailed analysis follows in the subsequent sections.

Fractal

Established in 2010, Fractal specializes in manufacturing premium gaming equipment, primarily focusing on PC gaming cases. The company has successfully and impressively secured a top-three global market position within PC gaming cases, continuously gaining market share. Noteworthy achievements include winning the Red Dot Product Design Award 2023⁸ and receiving positive reviews from influential platforms such as Tom's Hardware and Hardware Canucks. Fractal's cases are recognized for their quality, innovative Scandinavian designs and high performance, often positioned within the high-end price range. This appeals to consumers seeking a premium gaming computer that seamlessly integrates into modern living spaces. Fractal has reimagined the traditional gaming computer and have included organic materials such as real walnut or oak panels

⁸ www.red-dot.org/project/north

in their design of the North series, a design feature that is unique to the market, while not reducing the quality parameters such as cooling, noise levels and build functionality. While Fractal also provides power supply units, cooling products and fans for gaming computers built on third-party components, these items constitute less than 10% of their sales and exhibit a weaker margin profile, partly caused by the reliance on third parties.

Competing products from Lian Li (left) and Corsair (right).



Fractal's North (left) and Terra (right) are not only among the best performing cases, but they also clearly stand out in terms of design and esthetics.



The company conducts in-house innovation, concept development, and design at its headquarters in Gothenburg, with manufacturing currently is concentrated in China. Although efforts are

underway to diversify manufacturing into other South-east Asian countries like Vietnam, Fractal maintains a significant reliance on Chinese production for now.

In addition to their existing product line, Fractal has for several years been diligently exploring new categories based on in-house designs and has communicated that these new product categories will be launched during the summer of 2024. We see this as an optionality for the investment case, which is centered around their strong market position within cases. While success in these new categories could significantly enhance growth rates from 2025 onward, the formidable challenge of successfully penetrating new products categories lead us to exclude it from our forecasts.

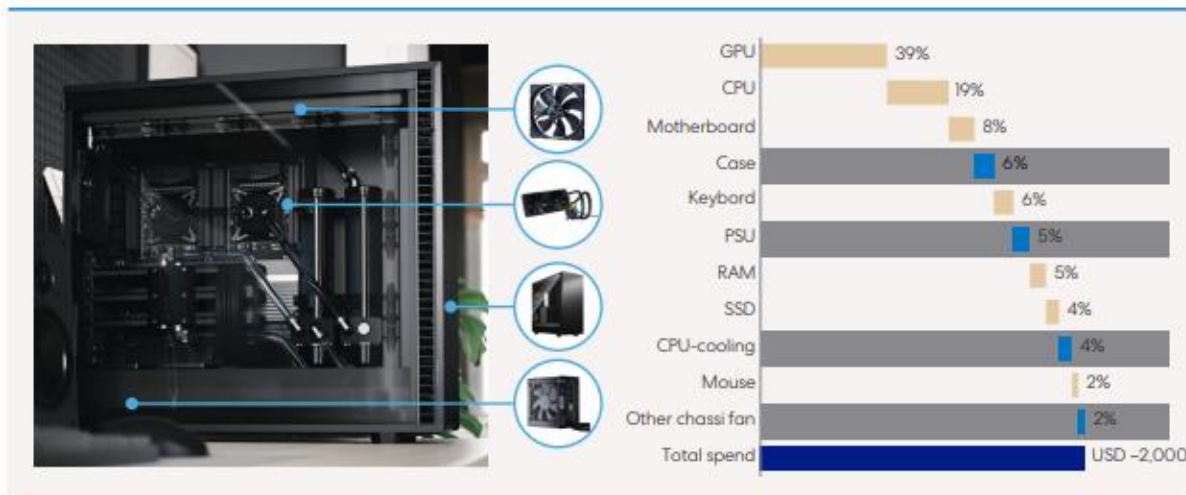
Management

Hannes Wallin, the founder and long-time front figure of Fractal, recently announced his retirement as CEO, transitioning to the role of Chairman of the Board. As Fractal's largest shareholder with a 29% ownership stake, Wallin remains a significant figure in the company's leadership. We view Hannes Wallin as an influential and effective leader, and we welcome his continued involvement as Chairman. Notably, Wallin has expressed his commitment to retaining his substantial shareholding, a positive indication for the company's shareholder structure and strategic direction in the upcoming years.

The recently appointed CEO, Jonas Holst, who previously held the position of Vice President of Sales, has 1.5 years of experience with the company. While changes to the management team can pose short-term disruptions and represent an additional short-term uncertainty for the investment case, we view it as less impactful than usual for Fractal. This is attributed to the concurrent announcement of the leadership transition with Wallin assuming the role of Chairman, and the positive factor that Jonas Holst is an internal candidate, familiar with the company, its culture and customers. In short, the change in leadership was perfectly executed.

Recent history

Fractal's historical performance is impressive with strong brands, award winning products and market share gains resulting in strong organic growth rates with double-digit profitability. Following the IPO in 2021 and the strong demand increase experienced in 2020, the underlying market for gaming PC builds was hit by the severe graphics card shortage starting in Q4 2020, resulting in very subdued sales from Fractal's resellers, and thus from Fractal to their resellers. A graphics processing unit (GPU) is the most expensive part of building a new gaming PC as seen by the illustration below and thus created a very reduced interest in upgrading and building new gaming PCs.



This dip in demand resulted in subdued sales, low single-digit margins, increased debt levels, and persisted until Q4 2022. The turning point occurred when the supply of graphics cards normalized in terms of both prices and availability. Resellers experienced a surge in sales to end-customers, prompting strong orders to Fractal. The prolonged period of limited gaming computer builds created a pent-up demand among gamers, contributing significantly to Fractal's robust performance since Q4 2022 that has resulted in the best reported financials in Fractal's history as of Q3 2023.

Fractal sales vs Reseller's sales out

Fractal's primary sales channel involves limited direct-to-consumer transactions, with the majority of sales occurring through both retail and e-commerce resellers on a global scale. A key metric for predicting demand for Fractal's products is the reported sales out from resellers, a figure disclosed quarterly. When Fractal's sales exceed sales out, it indicates inventory stocking at the resellers, and vice versa.

Fractal's current assessment suggests that inventory has stabilized at a normalized level. The company anticipates a more balanced alignment between revenues and sales out in the future. This viewpoint is plausible given that resellers recently grappled with excessive inventories during the graphics card shortage, culminating in a destocking period. Importantly, since Q4 2022, sales out numbers from resellers have exhibited considerable strength, serving as the primary driver behind Fractal's robust performance in 2023 and indicating a continued strong demand for Fractal's products.

Furthermore, it is noteworthy that Fractal has embarked on a strategic partnership with iBUYPOWER, a leading U.S.-based manufacturer specializing in high-performance custom gaming PCs. While Fractal's sales to system integrators selling fully built gaming PCs constitute a relatively small portion of their sales, this represents an area where Fractal is currently underrepresented for end-customers and thus an area that could generate additional growth.

IPO and shareholder structure

Fractal underwent its initial public offering (IPO) in March 2021, debuting at 41 SEK per share with a market capitalization of 1.2 billion SEK. During the IPO, the private equity firm Litorina reduced its stake from 52.8% to 13.2%, ultimately divesting the remaining shares on December 16, 2023. The current shareholder structure of Fractal is notably more stable, primarily comprising long-term investors, including MediumInvest with a substantial stake of 9.99%. The historic share overhang in the form of the inevitable sale from private equity firm Litorina is likely to have subdued the share price of Fractal significantly. This can most easily be seen by studying the share price reaction when Fractal reported excellent quarterly reports. On August 17th 2023 Fractal reported Q2 results with a 49% increase of sales to end customers and a huge margin improvement along with excellent cashflows. The share started trading higher, almost reaching 50 SEK but ended the day at 38,8 SEK, below the previous close at 40,1 SEK. Since then, Fractal has reported an excellent Q3 report, the general stock market has rallied since the end of October and Fractal's share price has trended down slightly, currently sitting at 34,2 SEK per share. With the recent sale of Litorina's remaining shares in Fractal we think the excellent fundamental results are likely to start being reflected in the share price sooner rather than later.

Summary

We foresee robust long-term growth in the underlying market, driven by a combination of factors: a generation of gamers transitioning into adulthood with higher incomes, alongside the emergence of a large new generation of gamers. This demographic shift indicates a growing influx of gamers into the market, and an increasing number of them have the financial capacity to invest in premium products. With Fractal's strong track record, award-winning products, unique Scandinavian design style, the introduction of two new internally developed product categories in 2024, and the company's founder serving as the largest shareholder and Chairman of the Board, we believe the success is likely to continue with double-digit growth rates and margins.

Fractal is currently trading at an exceptionally low EV/EBIT TTM of 7.8. The company maintains a robust balance sheet with a net cash position and is trading at a significant discount compared to competitors, despite being excellently positioned in the industry and surpassing competitors in performance, attributes that we believe merits a premium valuation to peers.

Asetek

Asetek specializes in designing and manufacturing water cooling systems for gaming computers and holds a patented solution developed over two decades ago. Despite engaging in recent legal battles to defend their patents, the high costs, legal challenges, and the imminent expiration of the main patents in 2024/25 led to the discontinuation of lawsuits last year. Asetek's management deems the patent as having negligible impact, given competitors' replication of their solution. We agree with this assessment because competitors have had products that allegedly infringe on Asetek's patents for years, meaning Asetek's recent financial results have been achieved in an environment with little to no patent protection. Despite the lack of recent patent protection, Asetek maintains leadership in key water-cooling parameters—acoustics, thermal performance, and quality—resulting in an adjusted EBITDA margin of 25-35%. Coupled with market growth akin to Fractal, Asetek sustains a robust historical, current and future core business in water cooling for gaming computers.

Asetek boasts a high but not perfect retention of major customers in water-cooling, attributed to the high quality of their products and customization efforts aligned with partners' specifications, including additional features in software, design and colors. While water cooling represents a relatively small portion of high-end gaming computer costs, it is quite significant in ensuring quality, robustness and performance. If water leaks into the computer, much more expensive components are likely to be destroyed and that would be catastrophic for the end-user and for the OEM that had implemented Asetek's water-cooling into its gaming computers. Degradation of cooling can also lead to overheating and irreparable damage to vital components. Asetek's commitment to providing a quality stamp is vital to their brand and ongoing success in the market.

With a primary focus on sales to OEMs, Asetek faces a significant risk due to a concentration of sales with the top five customers, Alienware (Dell's high-end gaming PC brand), ASUS, Lian Li, MSI and NXZT, accounting for approximately 91% of revenue. Despite the inherent risk in this very concentrated OEM customer base, Asetek maintains a strong track record of over a decade showcasing reliability in R&D, development, production flexibility and importantly profitability. An early warning signal could be dual sourcing from their largest customers, but our research suggests, the largest customers are very likely to stay and Asetek continues to win new significant customers, most recently Lian Li which immediately became a top five customer of Asetek.

Simsport

André Eriksen, the founder and CEO of Asetek, is renowned for his innovative product development. In recent years André has directed his energy toward establishing a new business segment for Asetek within the hardware niche for Simsport. With a personal passion for racing, fueled by his son's involvement in the sport, André's dedication has led Asetek to introduce Simsport products tailored for racing enthusiasts. The company's foray into this sector has garnered significant acclaim, with strong reviews and positive feedback from the Simsport industry (see appendix).

The Simsport business segment, having generated its first revenue in 2021, is currently in its early stages and is unprofitable. The gross margin reflects ongoing manufacturing in Denmark before transitioning to Malaysia as the products mature and early learnings are incorporated. Asetek has a poor track record with new business ventures, which will be explored in more detail in the following section. For now, it is sufficient to say, it warrants a healthy dose of skepticism regarding Simsport. However, given the early results of Simsport with great products launches and excellent reviews, coupled with positive sales development, we believe Simsport has a reasonable chance of achieving profitability in the medium term and can contribute significantly to Asetek's profits in the long term. The Simsport segment would also help mitigate the current inherent risk arising from the very concentrated customer mix. We think the net present value of Simsport to Asetek is at least zero today.

Track record

The management of the company has a mixed track record, having invested large sums into building a new business area in cooling data centers which ultimately failed and was wind down. Furthermore, Asetek's decision to build a large new headquarters (HQ) unfortunately coincided

with the challenges posed by the COVID-19 pandemic, graphics card shortages, and ongoing patent lawsuits. This led to a worst-case scenario for the shareholders when the bank insisted on higher equity financing for the new headquarters. In H1 2021, Asetek's stock traded at NOK 50-60 per share, but by the spring of 2023, they had to raise funds at NOK 3 per share—a deeply discounted valuation resulting from a substantial rights issue to raise the capital required by the bank to finance the new HQ.

Despite the challenges, Asetek's core business remained solid and profitable throughout the downturn and has good long-term growth prospects. We also think management has learned valuable lessons from past experiences and are very unlikely to end up in a similar situation.

Management

Founder and CEO André Eriksen is recognized for his impressive track record in product innovation, attracting new customers and building companies from the ground up. However, there have also been notable failures, particularly within the data center segment and the need for a highly dilutive equity raise at a historically low valuation.

We have assessed the management team through multiple interactions, both before and after the equity raise. We believe they have learned valuable lessons, emphasizing the importance of financial independence, self-financing and discontinuing unprofitable business. The commitment to avoiding reliance on external funding and discontinuing unprofitable business segments is seen as crucial for preserving operational flexibility and acting in the company's best interests.

These insights instill confidence in the investment case, suggesting that Asetek's capital structure will be conservative and Simsport ultimately dropped if it fails to turn profitable within a reasonable timeframe.

Financials and adjustments to reported numbers

We employ two key adjustments to unveil the intrinsic value of Asetek. The first pertains to the segmentation of business components: liquid cooling, Simsport, and the company's overhead costs. We subtract the Simsport financial figures from the reported data, assuming Simsport will either become profitable or be discontinued within a reasonable timeframe. Removing Simsport from the financial figures is equivalent to assuming the net present value of Simsport is zero. Given the impressive execution and reviews of Asetek's Simsport, this could be quite a conservative assumption.

Table 1 illustrates that the revenues generated by Liquid Cooling over the last twelve months amount to 64 million USD. On an EBITDA adjusted level, we delve into the segmentation, incorporating the margin of liquid cooling and the overhead costs, excluding the Simsport loss.

Below the EBITDA adjusted line, we account for depreciation, amortization, and share-based compensation. To err on the side of caution, we utilize the full reported figures, even though portions may be associated with Simsport. This enables us to estimate the EBIT margin of Asetek, excluding Simsport, representing the core operations of the company.

Notably, the liquid cooling segment demonstrates an EBIT-margin of 21.3% that underscores the strong value proposition of their products, especially considering persistent competition that allegedly for years has infringed on Asetek's main patents. Asetek has consistently maintained these robust margins over the years. While potential downward pressure on margins from competition exists, the company's track record suggests this risk is less likely to materialize.

Table 1 - Earnings adjusted to exclude Simsport

	Amount, mUSD
Revenue, Liquid cooling	64,07
EBITDA adjusted, Liquid cooling	23,16
EBITDA adjusted, Overhead*	-3,60
EBITDA adjusted ex Simsport*	19,56
EBITDA adjusted-margin (ex Simsport)*	30,5%
Depreciation and amortization	-5,11
Share based compensation*	-0,81
EBIT ex Simsport*	13,65
EBIT-margin (ex Simsport)*	21,3%

* Partly or fully estimated values

The second adjustment pertains to the balance sheet and, consequently, the enterprise value, considering Asetek's investment in a new HQ in Aalborg, Denmark, with a total cost of 50-52 million USD. As the HQ is expected to be completed in the summer of 2024, it is already reflected on the balance sheet with roughly 44 MUSD of the construction cost already being paid. The advantages of owning the HQ will only start kicking in when construction is finished. Owning the HQ will result in lower operating costs while potentially renting out a significant portion will generate revenue with minimal associated costs. Depending on the classification of the HQ, the costs can be depreciated over a long period. If a significant portion is lent out to external parties it can be classified as investment property without continuous depreciation. Regardless of which sets of accounting principles the HQ ultimately falls into, the real value of the property may slowly increase over time, if the property is well maintained.

An alternative scenario involves selling the HQ and leasing it back, resulting in cash from the sale positively impacting net interest-bearing debt (NIBD), but increasing costs as Asetek will have to pay a substantial rent to the new owner. When Asetek moves and the associated accounting advantages starts to show up in the reported financials, no adjustments for the new HQ needs to be made. Currently, only the disadvantages of having already paid the vast majority of the construction cost is visible in the reported financials. Until both the advantages and disadvantages of the new HQ materialize in the reported financials of Asetek, we propose adding the remaining capex for the new HQ to the reported debt, thereby increasing Net Interest-Bearing Debt (NIBD) by 8 million USD. Simultaneously, we include the construction cost of the HQ as cash in the calculation of the enterprise value with a 20% discount to reflect a realistic sales price.

Table 2 - Enterprise value (adjusted)

Enterprise value	Amount, mUSD
Market cap	55,70
NIBD	11,17
Enterprise value	66,87
NIBD (adjusted)	
NIBD	11,17
Capex remaining HQ	8,00
NIBD (adjusted)	19,17
Enterprise value (adjusted)	
Market cap	55,70
NIBD (adjusted)	19,17
Value of HQ (80%)	40,00
Enterprise value (adjusted)	34,87

These adjustments bear significant importance and more accurately reflect the true underlying economic reality of Asetek. Assuming Simsport becomes profitable or is discontinued within a reasonable timeframe, the adjusted EBIT offers the most accurate representation of Asetek's future income. If Asetek ultimately sells the HQ and opts for a leaseback arrangement, the resulting enterprise value is accurately captured in Table 2. If Asetek chooses to keep the new HQ on their own balance sheet, the enterprise value will be unchanged, but Asetek will benefit from lower operational costs and potential rental income from external renters. The choice of adjustment methodology is subjective, and we find that incorporating the HQ at an 80% cash value is both reasonable and pragmatic.

These two adjustments play a pivotal role in shaping the investment case for Asetek, as illustrated in table 3 below and further emphasized in the peer analysis. Asetek may not appear very cheap based on reported figures, but the adjusted numbers present a more favorable valuation. In the medium term, we anticipate a convergence of reported numbers towards the adjusted figures.

Table 3 - Adjusted valuation

EV/EBIT, Reported	10,5
EV/EBIT, Adjusted	2,6

Capital allocation restriction

Asetek currently faces an ongoing taxation dispute between the US and Denmark, a situation that has persisted and may continue to remain unresolved for an extended period. The implication of this dispute for investors is that Asetek is not allowed to pay dividends and only allowed to do limited share buybacks until the dispute is resolved. While the hope is for a resolution over time, potential solutions could include a merger with an equal or larger-sized company or an outright sale. If this issue cannot be resolved without a merger or sale, we are in favor of initiating a structural sales process for Asetek. We think a merger is a less attractive solution due to added risks associated with valuation, cultural alignment, personnel, technology fit and the challenges of integration.

Asetek, historically listed on Oslo Børs in Norway, opted for a dual listing with an equity raise on Nasdaq in Denmark in 2023, with the aim of transitioning to a primary listing in Denmark, where the company's headquarters is located. The delisting from Oslo Børs is anticipated to be finalized by March 2024.

Summary

In our assessment, we anticipate robust long-term growth in the underlying market for Asetek, akin to the scenario described for Fractal. However, we think Asetek has some significant risks compared to Fractal. In particular, the management team's mixed track record and the concentration of sales with a few large OEM customers introduce negative elements and higher risks compared to Fractal.

Conversely, we still think Asetek is a compelling investment case with a remarkably low adjusted valuation, significantly lower than that of Fractal. Asetek's strong, stable, and profitable underlying business in liquid cooling is quite valuable and Simsport has a reasonable chance of succeeding. When the new HQ is finished, the value will start showing up in the reported financials as reduced costs and potential income from subleases, or in the form of cash from a sale and lease back. We think that the management team at Asetek has learned crucial lessons from their past experiences and eventually the reported numbers are likely aligned with the adjusted figures presented earlier.

Should this convergence occur, Asetek would be trading at a very low single-digit EV/EBIT with a promising growth prospect and stable to slightly declining margins. While we do think Asetek should trade at a discount to peers, the current discount is way too large. If Simsport succeed many of the risks (customer concentration, mixed history) that warrant a discount are remedied and the discount could become minor.

Peer analysis

Corsair, Endor, Logitech, and Turtle Beach are publicly traded companies primarily focused on computer gaming components or peripherals. Companies such as Nvidia and AMD, while integral to gaming, are excluded due to their substantial gains from the AI boom, leading to currently inflated valuations.

As seen from below the peer group covers a broad range of market capitalization and shows the historical development of each company grouped into periods we call pre-COVID (2015-2019), COVID (2019-TTM) and the most recent twelve months development (TTM).

Table 4 - Peer analysis

	Market cap (MUSD)	Enterprise value (MUSD)	NIBD/EBITDA Adjusted TTM	Revenue growth 2015-2019	Revenue growth 2019-TTM	Revenue growth TTM
Corsair	1.475	1.550	0,8	21,1%	7,5%	-3,0%
Endor	109	184	Neg. EBITDA	42,6%	24,4%	-33,0%
Logitech	14.932	13.769	-1,8	10,2%	10,8%	-17,6%
Turtle Beach	191	192	Neg. EBITDA	9,6%	2,8%	4,4%
Asetek	56	67	1,4	10,9%	6,7%	16,7%
Asetek adjusted	56	35	-1,1	11,0%	5,8%	21,8%
Fractal	100	93	-0,5	20,7%	19,1%	66,3%
<i>Average ex Asetek & Fractal</i>				20,9%	11,4%	-12,3%
<i>Median ex Asetek & Fractal</i>				15,6%	9,1%	-10,3%

Corsair, founded in 1994 and based in the US, is a global company engaged in high-performance computer gaming and has a diverse product range that includes gaming peripherals (keyboards, mice, headsets) and components (memory modules, power supplies, cases). Corsair has experienced strong growth pre-COVID, modest growth following COVID and slightly negative growth recently.

Endor, founded in 1997 and based in Germany, is a global company engaged in Simsport with a focus on racing and racing hardware like high-end steering wheels and pedals used in combination with gaming consoles and PCs, as well as driving school simulators. Endor experienced exceptionally high pre-COVID growth rates, albeit from a low base sales figure of 8.7 million EUR in 2015, leading to a potentially upward-biased growth perception. Post-COVID, Endor maintained strong double-digit growth, but the most recent twelve months have seen a sharp reversal. Endor has enjoyed a very high underlying market growth in Simsport and is the leading company in this niche today. Endor has a substantial amount of debt, negative EBITDA margins and is the company with the most distressed balance sheet in the peer analysis. The share price has followed the poor development and is down 55% YTD.

Logitech, founded in 1981 and based in Switzerland, is a global company that designs and manufactures a diverse range of computer peripherals and accessories. Their product lineup includes computer mice, keyboards, webcams, speakers, headphones and other audio and video devices. Logitech has grown around 10% annually since 2015 but has recently seen sales decline.

Turtle Beach Corporation, founded in 1975 and based in the US, is a prominent gaming audio technology company that specializes in the design and manufacturing of gaming headsets and audio accessories. Turtle Beach has experienced single digit growth over the whole period and has returned to positive sales growth despite their exposure to peripherals.

Asetek has experienced pre-COVID growth rates of approximately 11% annually, experiencing single-digit growth during the COVID period. The recent easing of graphic card shortage has further boosted growth in the last twelve months, which has been strong and second best in the peer group.

Fractal stands out to us with what we see as the best growth rates in the peer group, excluding Endor. Fractal has surpassed Corsair, its closest comparable peer in terms of product offerings, in pre-COVID, post-COVID, and recent growth. Even when considering Corsair's peripheral sales with a slightly different sales cycle, Fractal demonstrates significant outperformance. Additionally, it is impressive that Fractal has grown by 66% in the last twelve months compared to the rest of the peer group.

An analysis of sector profitability from pre-COVID to post-COVID reveals that while COVID temporary increased profitability the post COVID normalization has pushed the current average profitability below the pre-COVID level. Looking at Asetek and Fractal we see that their gross margins are among the highest in the industry and on EBITDA adjusted and EBIT reported they also have the highest margins. In contrast to the peer group, both Asetek and Fractal have shown a positive trend, improving their operational margins from 2019 until today, helped by the recent uptick in components.

Directly comparing Fractal to Corsair, it becomes evident that Fractal has successfully gained market share without compromising profitability. This achievement makes Fractal's market share gains not only more sustainable but also more impressive.

Table 5 - Peer analysis

	Gross margin 2019	Gross margin TTM	EBITDA Adjusted margin 2019	EBITDA Adjusted margin TTM	EBIT Reported margin 2019	EBIT Reported margin TTM
Corsair	20,5%	24,7%	6,5%	6,5%	2,2%	0,8%
Endor	47,2%	38,9%	17,0%	-6,9%	14,0%	-17,5%
Logitech	37,7%	38,3%	16,0%	15,2%	11,8%	10,6%
Turtle Beach	33,6%	24,5%	9,7%	-0,4%	4,4%	-12,7%
Asetek	42,3%	44,6%	11,3%	18,9%	1,9%	9,2%
Asetek adjusted	42,6%	N/A	20,2%	30,5%	10,1%	21,2%
Fractal	37,1%	39,9%	15,9%	17,9%	14,3%	15,2%
<i>Average ex Asetek & Fractal</i>	<i>34,7%</i>	<i>31,6%</i>	<i>12,3%</i>	<i>3,6%</i>	<i>8,1%</i>	<i>-4,7%</i>
<i>Median ex Asetek & Fractal</i>	<i>35,6%</i>	<i>31,5%</i>	<i>12,9%</i>	<i>3,0%</i>	<i>8,1%</i>	<i>-6,0%</i>

In our valuation analysis of the peer group, the three key multiples used are: EV/EBITDA Adjusted, EV/EBIT Reported, and P/E Reported. These metrics are evaluated for both the last twelve months and the 2024 forecast provided by analysts covering the shares.⁹

Notably, EV/EBITDA Adjusted is considered due to its common usage among peer companies in which it is common to add back share-based compensation and one offs. Additionally, EV/EBITDA allows for comparison with peers that are not profitable measured on EBIT or net profits. However, our primary focus is on EV/EBIT Reported, as we regard share-based compensation as a genuine economic cost, along with tangible depreciation and development amortization, excluding M&A-derived amortization. Additionally, P/E is included as a widely referenced valuation metric.

⁹ Estimates for 2024 are from www.Marketscreener.com

Table 6 - Peer analysis

	EV/EBITDA Adjusted TTM	EV/EBITDA Adjusted 2024E	EV/EBIT Reported TTM	EV/EBIT Reported 2024E	P/E Reported TTM	P/E Reported 2024E
Corsair	16,6	11,9	138,8	13,5	Neg.	49,2
Endor	Neg.	N/A	Neg.	N/A	N/A	N/A
Logitech	21,3	19,3	30,6	20,8	39,1	29,2
Turtle Beach	Neg.	6,6	Neg.	23,9	Neg.	38,1
Asetek	5,1	N/A	10,5	N/A	11,5	N/A
Asetek adjusted	1,8	N/A	2,6	N/A	5,9	N/A
Fractal	6,7	6,3	7,8	7,4	11,1	10,8
<i>Average ex Asetek & Fractal</i>	<i>19,0</i>	<i>12,6</i>	<i>84,7</i>	<i>19,4</i>	<i>39,1</i>	<i>38,8</i>
<i>Median ex Asetek & Fractal</i>	<i>19,0</i>	<i>11,9</i>	<i>84,7</i>	<i>20,8</i>	<i>39,1</i>	<i>38,1</i>
<i>Upside to median, Asetek adjusted</i>	<i>604%</i>	<i>N/A</i>	<i>2002%</i>	<i>N/A</i>	<i>557%</i>	<i>N/A</i>
<i>Upside to median, Fractal</i>	<i>171%</i>	<i>84%</i>	<i>907%</i>	<i>167%</i>	<i>253%</i>	<i>252%</i>

The valuation table highlights that several peers of Asetek and Fractal are currently struggling with profitability challenges. EV/EBITDA Adjusted multiples generally fall within a reasonable range across the peer group, Asetek and Fractal trade at notably lower multiples compared to their peers on this metric. When assessing EV/EBIT the low levels of profitability lead to elevated multiples for trailing twelve months (TTM) figures. In contrast, both Asetek and Fractal trade at single-digit multiples. Looking at the more reasonable multiples for 2024 we unfortunately do not have available estimates for Asetek, but Fractal trades well below the peer group.

If Asetek were to trade at the peer median EV/EBIT Reported 2024 and using TTM numbers to compute the value, assuming no growth next year, unchanged margins and same enterprise value, it would trade at 20,82 DKK per share, a return of 448%.

If Fractal were to trade at the peer median EV/EBIT Reported 2024 it would trade at 91,30 SEK per share, a return of 167%.

It's noteworthy that Corsair trades significantly higher than Fractal despite being direct peers, with Corsair exhibiting lower growth, poorer profitability, and a less healthy balance sheet. While Corsair boasts a larger market capitalization and higher liquidity, these attributes are not considered sufficient justification for the substantial discount at which Fractal is traded.

The peer analysis indicates both Asetek and Fractal trade at a significant discount, which is not warranted considering their historical development, market share gains, growth rates, profitability and the state of their balance sheets. We argue Fractal should trade at a premium to its peers while Asetek should trade at a substantial discount, at least for now.

Conclusion

Our long-term outlook for Asetek and Fractal is optimistic, underpinned by the anticipation of robust market growth. This expectation is bolstered by a dual influence: I) a demographic shift, as gamers enter parenthood with increased incomes, and a new generation of gamers emerges, driving higher demand for gaming equipment, especially premium high-end gaming computers; and II) technological innovation prompting upgrades and new purchases of cutting-edge hardware.

Fractal stands out with a compelling proposition— a strong track record with significant market share gains, award-winning products, distinctive Scandinavian designs, the introduction of two new product categories, high margins and a very favorable peer analysis. With the foundation laid for future double-digit growth rates and margins, combined with a net cash position on the balance sheet and trading at EV/EBIT TTM of 7.8, Fractal appears very attractive to us and combines a high-quality company with a very low valuation.

We think Asetek offers a compelling investment case, with a remarkably low adjusted valuation of EV/EBIT TTM 2.6 based on its historically stable and very profitable core liquid cooling business. Asetek has also done a very good job entering the Simsport business which despite the obvious difficulty in successfully building a new business area offers further upside to the investment case. However currently Asetek should trade at a significant discount to the peers to reflect the mixed history and the customer concentration.

We think the peer analysis is highly supportive of both Asetek and Fractal. The median EV/EBIT 2024 implies a potential return of 448% for Asetek and 167% for Fractal. While we advocate for a discount in Asetek, we believe Fractal's high quality and performance justify a premium.

In conclusion, we think Fractal and Asetek are undervalued by a significant margin and offer highly attractive risk adjusted returns in an attractive market. Asetek offers the highest absolute return but also carries significant risks while Fractal offers great absolute returns with significant less risks in our view.

Appendix¹⁰

Boosted Media

Channel subscribers: 305,500
Total channel videos: 914
Product: Asetek 330 mm rims & button boxes
Video views: 30,750
Video-likes: 716
Publication date: 29/11/2023
Link is available [here](#)



“There is definitely a lot to like here. I love that way that they’ve gone with this modular system, with the paddles as well so if you’re wanting to upgrade to additional paddles and analogue paddles on your Forte wheel, at least you have the option of doing that, nice and easy to install, and you know just the materials choices that they’ve made here. The principle that they have in reducing functionality rather than reducing quality to reduce price, I think is a really smart one. And again, if we compare this across to similarly priced Fanatic wheels and Mozza wheels, I do have to say that, while visually maybe, the quality doesn't look quite as high as some of the Fanatic wheels do, at least in photographs. The quality of the actual user experience, the way the buttons feel, the materials that they’ve used for the rims, and everything is a step up above equivalently priced Fanatic and Mozza counterparts (...). Everywhere I look I think that they’ve made some really smart decision here, and looking forward to seeing how they flesh out this open ecosystem even further into the future, but for now at least I think this is definitely another tick in the box for Asetek.”
(48:58)

Product: Asetek Invicta/Forte Direct Racing Wheel
Video views: 76,402
Video-likes: 1,408
Publication date: 17/02/2023
Link is available [here](#)

“Overall, I am very impressed, and I really do have to keep going back to the fact that all the fundamental building blocks of an absolutely awesome product are definitely, there-the software look, and feel is excellent and I’m really excited to see how they flesh that out with additional features.” (1:25:11)

¹⁰ All numbers presented are retrieved in December 2023.

OverTake_gg

Channel subscribers: 131,000
Total channel videos: 670
Product: Asetek Invicta Wheelbase
Video views: 9,211
Video-likes: 269
Publication date: 02/06/2023
Link is available [here](#)



“I don't think you will find any other wheelbase that has such a direct and quick reacting time that will give you so much information on what the car is actually doing on track and even find a wheel that is better suited for this because it fits really well with GT driving, formula driving, and the pair of them is just a good combination to have mounted to your rig.” (15:45)

Dave Cam

Channel subscribers: 83,300
Total channel videos: 1,303
Product: Asetek La Prima Wheels
Video views: 13,866
Video-likes: 464
Publication date: 20/11/2023
Link is available [here](#)



“This would cost €499,99. I've got to tell you, I think that is pretty good value. The quality is excellent. (...). As I mentioned in the beginning-Asetek are kind of leading the way and showing everybody what can be done. I like this modular upgrade path that you can take with Asetek products, like with the pedals you can upgrade them to the Forte or Invictor, same with the wheelbases now with the wheel rims. You buy something you don't have to replace the whole lot you just change the wheel rim. I think it's genius” (14:58)

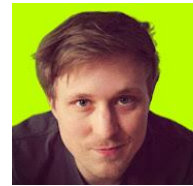
Product: Asetek Invicta Wheelbase & Forte Wheel
Video views: 19,708
Video-likes: 671
Publication date: 17/02/2023
Link is available [here](#)

“(...) but I really like the way the steering wheel looks, I really like the shift lights, the flag lights-works perfectly on eye racing and the Asseto Corsa they're the only two titles that I've tried it on, but it worked flawlessly. Build quality really good, no flex, it is rigid, all of the encoders are really tight (...) really really good build quality, brilliant. Performance, well I can't say anything negative about the wheel, how it performed at all. Like everything was in easy reach, I did numerous races with this wheel rim, and it was flawless, it worked perfectly (...) I think 620 euros for this genuinely is a bargain.” (36:26)

“So, looks wise, I think this looks really good, like I mentioned earlier on. There's no reason why manufactures and brands can't make their wheelbases aesthetically pleasing, and this one is. So looks wise for me, it's a winner. Build quality, well I can only talk about what I can see here, I haven't taken it to pieces, I've taken the front cover off, and adjusted the quick release on the shaft itself. But Build quality appears to me brilliant, the software was a breeze to use, like really simple. (...). So, on to performance, and it's going to come as a no surprise to you, when I tell you that this performed perfectly. (...) I really can't see why anybody would buy a Simcube or similar over this, I really can't. And to be honest with you, I just put by Simucube 2 Pro up for sale. This is replacing it.” (40:00)

Dan Suzuki

Channel subscribers: 37,300
Total channel videos: 489
Product: Asetek Pedal Set
Video views: 32,370
Video-likes: 1,043
Publication date: 14/02/2022
Dan Suzuki rating: 10/10
Link is available [here](#)



“To sum it up. I love this pedal set and I definitely plan on leaving it on my rig if there are no bad surprises in the long term. (...).If you have the chance, try these out. I think they are excellent. Yeah, so for me it actually ticks all the boxes it has a great throttle pedal, the brake is very unique, the brake is awesome. (...). It has a great and easy to use software that also looks pretty cool (...) it’s an early version of the pedal set, but I still, like I thought a long time about this, I would still give it the full 10 points.” (27:38)

The Sim Circuit

Channel subscribers: 962
Total channel videos: 20
Product: Asetek Invicta vs Simucube 2 Pro
Video views: 11,319
Video-likes: 489
Publication date: 22/03/2023
Link is available [here](#)



“(...) if you have to make me pick like 100% which one of the two, I would pick, I would just pick the Invicta purely because it’s got a few more updated features like I said the USB, quick release, and them type of things.” (37:51)

Product: Asetek Invicta Quick Release
Video views: 1,405
Video-likes: 92
Publication date: 02/11/2023
Link is available [here](#)

“Honestly, out of all the quick releases I’ve tested in my times this is by far my favourite, I mean what a job has Asetek done, they have been on the market a couple of years, and they innovated something like this that is rock solid.” (18:11)

Laurence Dusowa

Product: Asetek Forte Wheelbase & Steering Wheel
Video views: 18,083
Video-likes: 484
Channel subscribers: 17,400
Total channel videos: 820
Publication date: 17/02/2023
Link is available [here](#)



“All in all, the experience of driving and setting up this wheelbase and steering wheel is very pleasant, at times the force feedback is amongst the best I’ve ever used especially in eye racing and at Asseto Corsa Competizione. (...). There’s an air of quality about this brand and they’re very serious about being the best. They are not afraid to take constructive criticism and have proven their ability to pivot and adjust their trajectory.” (24:21)

OC Racing

Product: Asetek La Prima Steering Wheel

Video views: 8,227

Video-likes: 354

Channel subscribers: 82,300

Total channel videos: 243

Publication date: 20/11/2023

Link is available [here](#)



“All put together, in game the wheel feels responsive offering a level of immersion that truly enhances the racing experience. The fast functionality combined with the high-quality construction of the wheel makes very seamless integration between the driver and the car. (...). So, in conclusion the Asetek sim sports La Prima Formula steering wheel stands as a noteworthy contender in the sim racing market. It’s blend of high-quality materials, thoughtful design, and advanced functionality positions it as a desirable option for both novice and experienced sim racers.(...). Overall Asetek La Prima Formula steering wheel with its impressive build and performance, not only meets the expectations set by its price tag, but also sets the bar higher for what mid-range sim racing wheels can offer (...).” (06:06)

Sim Racing Setups

Channel subscribers: 78,600

Total channel videos: 429

Product: Asetek Forte Direct Drive Wheelbase

Video views: 1,919

Video-likes: 43

Publication date: 26/05/2023

Link is available [here](#)



“Would I recommend the Asetek Forte Wheelbase? Well, hell yeah, I would. The shear force feedback performance and offer from this direct drive racing wheel is incredible, and I have to say, it outperforms the other direct drive wheelbases I’ve tested up until now. Aside from the force feedback, there is a lot to love about this wheelbase, it’s cheaper than its direct rivals, has one of the very best quick release designs of any sim racing wheel, and you’ll have an upgrade kit available to unlock additional performance at some point in the near future.” (15:53)

Karl Gosling

Channel subscribers: 46,600

Total channel videos: 387

Product: Asetek La Prima Direct Drive Bundle

Video views: 6,214

Video-likes: 243

Publication date: 15/09/2023

Link is available [here](#)



“We’ve covered the wheel you know the buttons, the construction - how it feels, the paddles, the quick release-that’s all good. We’ve covered the wheelbase, its torque, it’s quick release, it’s upgradeability-that’s all good, and we’ve covered the pedals again. The build quality their construction and their upgradeability, and again everything here is good. So, as you know, as a ready to race bundle to get you started with sim racing if it’s within your budget, I can definitely recommend it.” (16:23)

Gperformance.eu

Product: Asetek Forte Sim Pedals

“The Forte is controlled by the excellent Race Hub software with attractive graphics and all the settings a simracer needs, including the ability to import and export calibration profile saves. The Forte is undoubtedly an excellent value-for-money pedalboard that combines excellent build quality with a realistic and convincing feel.” ([Link](#), 22/09/2023)

CoachDaveAcademy.com

Product: Asetek SimSports Pedal set Pagani Huayra R Edition

“In addition to the excellent products already offered by Asetek, they also carry one product that is unparalleled by other brands. That’s the Asetek SimSports Pagani Huayra R Sim Racing Pedals. Available for about €840, these carry official Pagani branding as well as the design made famous by one of the posterchild hypercars on the market. The ultimate component for any sim racing petrolhead, it leads the way when compared to most of its rivals on offer today.” ([Link](#), 02/03/2023)

SimRace-blog.nl

Product: Asetek Forte Formula Steering Wheel

“All in all, the Asetek SimSports Forte steering wheel is a steering wheel that does nothing wrong fundamentally, but of which we secretly expected more. With a price tag of €660.91, the Forte steering wheel is anything but a cheap steering wheel. We see that other brands in the same price range, in our opinion, opt for materials that feel more luxurious and gearshift paddles that operate faster and give more feedback. That said, we suspect that a large part of this price is also in the development of, among other things, the Asetek Quick Release system which is of course integrated with this steering wheel, and the development of the software that controls the steering wheel and the Asetek wheelbases. This thought softens the price somewhat for us, knowing that this steering wheel is a good extension of the Asetek Forte wheelbase. In any case, we had a lot of fun driving it!” ([Link](#), 06/06/2023)

BoxThisLap.org

Product: Asetek Forte Formula Steering Wheel

“The first Asetek SimSports steering wheel called Asetek Forte Formula has very good ideas and serves as a benchmark for the rest of the steering wheels that will be released in the coming months. It seems they have some improvement reserved, as otherwise, they would have named it like the Asetek Invicta series. Nevertheless, the quality of this model is within the higher range, offering a variety of options and configurations that outshine steering wheels at much higher prices. In general, I find it a very capable steering wheel, and like the wheelbase, it has met the high expectations I had for it. There are a couple of details that I think could be improved, but for the moment, it remains the ideal companion.”

([Link](#), 04/06/2023)

BoxThisLap.org

Product: Asetek Forte Direct Drive Wheelbase

“(…) I can say that everything has positively surprised me. Each detail I have come across is better than the previous one, and the only thing I can fault it for is not satisfying my darker and more subjective quirks. Asetek Simsports entering the world of bases with this mid-range proposition should leave other companies trembling in fear. If the Forte pedals already seemed fantastic to me, there is no doubt that the experience provided by the entire Forte lineup is outstanding and makes the market very exciting with these new competitors. All the combined Forte products, with the centerpiece being this base, possibly offer one of the most consistent and solid experiences currently available in a virtual cockpit. The feeling of peace that everything fits in its place and works perfectly at a very reasonable price is extraordinary.”

([Link](#), 19/05/2023)

SimonTibbett.com

Product: Asetec Invicta Pedels

“The throttle is beautiful and like everything else, it too is easily adjustable. All of these knobs and dials strategically engineered onto this pedal set adjust every detail you may wish whether it's stiffness or even the angle of the pedals. I love the fact that a lot of these adjustments can be done without tools. Let me be very clear in saying that these pedals don't just add to the realism, they are realism brought into your simulator. So far I have tested nothing like this on the simulator market. The true "plug and play" nature of this pedal set makes it worth every penny.” ([Link](#), 03/11/2022)

SimRacing-pc.de

Product: Asetek Forte Direct Drive Wheelbase

“All in all, Asetek's Forte Wheelbase is an excellent introduction to the world of direct drives. At 18 Newton metres for €1050, it is fairly priced and offers additional features with real added value: the external buttons in their own housings and the USB hub on the back, the integrated LED strips are an additional nice-to-have. The base's force feedback is impressive across the board, starting with the good profiles supplied, which can be further customised in the uncluttered but very good software. The only downer at the moment is the still very limited ecosystem, which Asetek says will be expanded in the future. (...). All in all, the Base is a clear recommendation to buy.” ([Link](#), 16/02/2023)