

The report was prepared by Dom Maklerski BDM at the request of the WSE as part of the Exchange's Analytical Coverage Support Programme

			2018	2019	2020F	
Price [PLN]	9,80	P/E	-	-	13,8	<b>Analyst:</b> Krzysztof Tkocz Krzysztof.tkocz@bdm.pl tel.: 516 086 705
MC [mln PLN]	116,6	EV/EBITDA MSSF 16	-	-	6,7	
		EV/EBIT MSSF 16	-	-	11,3	
		P/BV	3,3	5,5	3,9	

**Last recommendation BDM: Buy with target price 13,6 PLN/share (10.08.2020)**

**Q2'20 results [mln PLN]**

	Q2'19	Q2'20	zmiana r/r	Q2'20F BDM	dev.	H2'19	H2'20	zmiana r/r
Sales	4,11	7,74	88,2%	7,74	0,0%	8,11	13,36	64,6%
Gross profit	1,92	4,81	150,7%	4,81	0,0%	4,06	8,13	100,2%
SG&A	3,12	3,51	12,4%	3,93	12,2%	5,92	6,55	10,6%
Other op.income/expenses	0,02	-1,73	-	1,01	-	0,80	-0,97	-221,7%
EBITDA	2,88	6,09	111,6%	6,05	-0,7%	4,91	9,64	96,5%
EBIT	1,03	4,01	290,0%	4,01	0,0%	1,59	5,84	266,8%
Financial income/expense, net	-0,14	0,10	-167,8%	0,19	-	-0,08	0,00	-96,8%
Profit before tax	0,88	4,11	365,1%	4,20	2,2%	1,51	5,84	286,1%
Net profit	0,91	3,40	273,5%	3,40	0,0%	1,18	4,81	309,0%
Gross margin	46,7%	62,2%		62,15%		50,0%	60,8%	46,7%
EBITDA margin	70,1%	78,8%		78,24%		60,5%	72,2%	70,1%
EBIT margin	25,0%	51,9%		51,84%		19,6%	43,7%	25,0%
Net margin	22,2%	44,0%		43,97%		14,5%	36,0%	22,2%

Source: BDM S.A., company

- In Q2'20, the company generated PLN 7.74m in revenues, an increase of approx. 88% y/y. The jump in sales was achieved thanks to better monetization of HOPA games, the portfolio of which was expanded to include consoles and the commercialization of F2P games, including "Unsolved". In addition, the COVID-19 pandemic contributed to the better dynamics in this period, which translated into a global increase in demand for entertainment offered via digital channels (this effect was most visible in March-May).
- At the level of EBIT in this period, the company generated PLN 4.01 million (+ 290% y/y). Apart from higher revenues, the increase in operating result was also driven by lower management and sales costs. Costs of sales amounted to PLN 2.9 million (royalties = PLN 0.8 million, depreciation of: HOPA games = PLN 1.1 million, F2P games = PLN 0.3 million, premium games = PLN 0.4 million).
- Artifex Mundi generated PLN 3.40 million net profit in Q2'20 (+ 274% y/y).
- Gross profitability in this period increased to 62.2% from 46.7% a year earlier, which was due to mix of sold products and amortized HOPA games.
- In H1'20, due to the reorganization, the average number of employees in the company decreased by nearly 42% y/y from 155 people to 90.
- At the end of June 2020, the largest part of assets was the sum of capitalized costs of computer games, which increased to PLN 10.7 million (it includes expenditure on the development of games, partially reduced by depreciation and write-offs). The largest share of the item was the expenditure related to the implementation of games intended for commercialization in the F2P model, amounting to PLN 7.6 million at the end of 1H20.
- Over the last three months, the company's cash and cash equivalents increased by PLN 3.3 million to PLN 7.3 million.
- In the entire H1'20, the company generated PLN 13.36m in revenues, PLN 11.3m was attributable to the HOPA gaming segment, which grew by 65% y/y, PLN 1.4 million (+ 131% y/y) was by F2P productions (PLN 0.8 million "Bladebound" and PLN 0.5 million "Unsolved"), while the premium segment contributed PLN 0.6 million (+ 5% y/y).
- In H1'20, the company launched the 4 new HOPA games for sale, the total share of which in sales amounted to 7.2% of revenues. In turn, the total share of revenues from the commercialization of 4 games (on all platforms), versions of which for PS4, Xbox One and Nintendo Switch consoles were released in H1'20 (and one title released exclusively on Switch), amounted to nearly 13% of the group's total revenues.
- The most dynamically growing sales channel for Artifex Mundi games were console digital distribution platforms, through which sales in the last six months increased by 147%, to PLN 4.2 million. The share of games for consoles in the total sales of the group in H1'20 increased to 31%, from 20% a year ago. The driving force behind the growth of the console segment is the development of the Nintendo Switch offer, where sales increased by over 670% y/y.
- In H1'20, the group recognized and booked in assets as activated game costs, expenses in the amount of PLN 5.5 million. Nearly PLN 3.7 million were booked as capitalized costs for games from the F2P segment, over PLN 1.8 million were costs related to the HOPA games segment.

**Summary of Q2'20 results:**

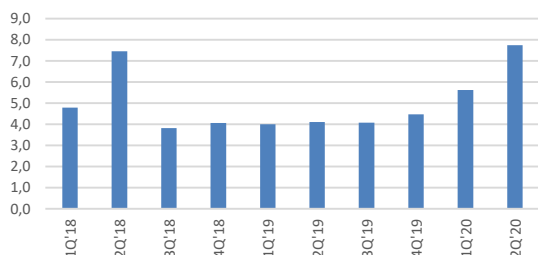
Artifex Mundi's results are in line with earlier estimates published in early August. Better dynamics in this period, is due to the extension of its offer to the ports of the existing HOPA game portfolio for consoles, marketing measures and by the COVID-19 pandemic too, which caused an increase in interest in the developer's products. Thanks to the change of strategy, the abandonment of unprofitable projects and reduction of expenses, e.g. by reducing employment, Q2'20 turned out to be the best quarter in the company's history. The studio focused on F2P productions and a new way of monetizing HOPA games through the "Unsolved" application, which began to bring results in the form of a rapid increase in revenues from this segment (PLN 0.8 million, i.e. an increase by 207% y/y).

**Results in previous quarters [mln PLN]**

Results Q [mln PLN]	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20	Q2'20	2017	2018	2019
Sales	4,8	7,5	3,8	4,1	4,0	4,1	4,1	4,5	5,6	7,74	20,5	20,1	16,7
Gross profit	2,6	2,2	1,2	2,0	2,1	1,9	1,9	2,4	3,3	4,81	8,2	8,0	8,4
SG&A	2,8	6,0	3,6	3,0	2,8	3,1	3,4	3,1	3,0	3,51	15,2	15,4	12,4
Other op.income/expenses	-0,2	0,0	-0,1	-17,7	-0,6	0,0	0,0	-18,0	-0,7	-1,73	-10,1	-17,6	-18,6
EBITDA	3,5	6,0	2,6	-14,6	2,0	2,9	2,5	-15,6	3,5	6,09	-4,3	-12,4	-8,2
EBIT	1,8	1,6	0,4	-16,6	0,6	1,0	0,7	-16,6	1,8	4,01	-4,8	-12,9	-14,4
Profit before tax	1,8	1,4	0,3	-16,7	0,6	0,9	0,9	-16,9	1,7	4,11	-4,3	-13,2	-14,4
Net profit	1,4	1,2	0,3	-13,4	0,3	0,9	0,8	-15,7	1,4	3,40	-3,6	-10,5	-13,7
Sales change y/y	17,5%	49,9%	-9,7%	-26,5%	-16,3%	44,9%	6,5%	10,1%	40,4%	88,2%	-9,6%	-2,0%	17,2%
Net profit change y/y	30,0%	49,4%	-38,2%	94,9%	-80,4%	26,4%	163,1%	17,4%	431,1%	273,5%	164,2%	191,9%	30,8%
Gross margin	54,8%	29,4%	30,2%	50,1%	53,5%	46,7%	47,4%	53,3%	59,0%	62,2%	39,9%	39,8%	50,3%
EBITDA margin	73,3%	80,5%	67,3%	-360,8%	50,6%	70,1%	60,6%	-347,9%	63,1%	78,8%	-20,9%	-61,6%	-49,1%
EBIT margin	37,3%	21,2%	9,9%	-409,7%	14,1%	25,0%	16,8%	-372,0%	32,6%	51,9%	-23,4%	-64,1%	-86,2%
Net margin	28,3%	16,6%	8,4%	-329,6%	6,6%	22,2%	20,7%	-351,5%	25,0%	44,0%	-17,5%	-52,1%	-82,3%

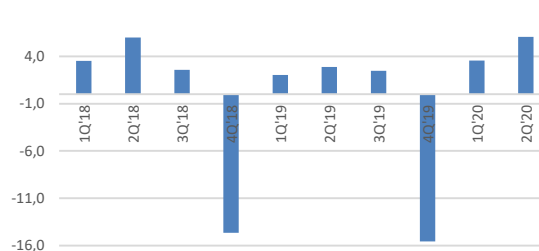
Źródło: BDM S.A., company

**Sales [mln PLN]**



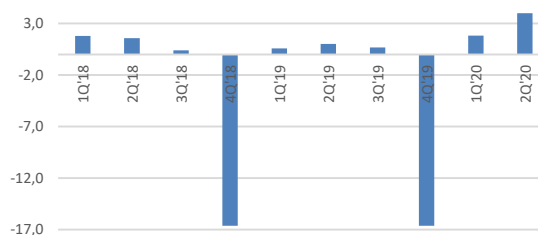
Source: Dom Maklerski BDM S.A., company

**EBITDA [mln PLN]**



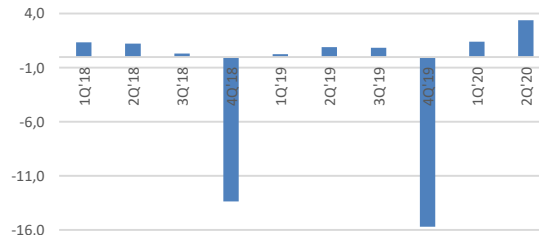
Source: Dom Maklerski BDM S.A., company

**EBIT [mln PLN]**



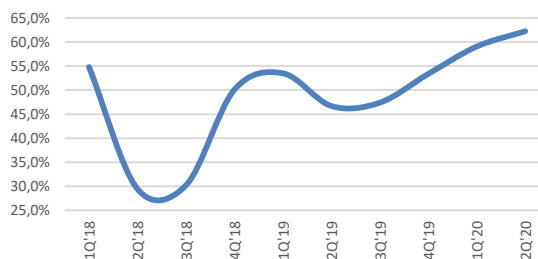
Source: Dom Maklerski BDM S.A., company

**Net profit [mln PLN]**



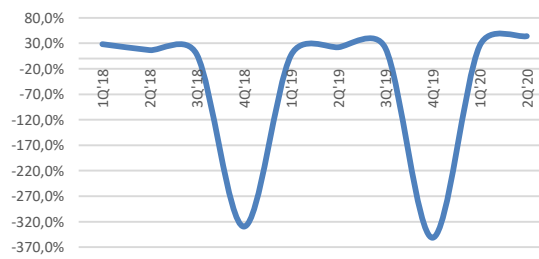
Source: Dom Maklerski BDM S.A., company

**Gross margin [%]**



Source: Dom Maklerski BDM S.A., company

**Net margin [%]**



Source: Dom Maklerski BDM S.A., company

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**Explanations of terminology:**

EBIT - earnings before interest and tax  
EBITDA - earnings before interest, taxes, depreciation, and amortization  
Net debt - interest bearing debt minus cash and equivalents  
WACC - weighted average cost of capital  
CAGR - cumulative average annual growth  
EPS - earnings per share  
DPS - dividend per share  
CEPS - net profit plus depreciation per share  
EV - market capitalization plus interest bearing debt minus cash and equivalents  
EV/S - market capitalization / sales  
EV/EBITDA - EV / sales  
P/EBIT - market capitalization / EBIT  
MC/S - market capitalization / sales  
P/E - market capitalization / net profit  
P/BV - market capitalization / book value  
P/CE - market capitalization / net profit plus depreciation  
ROE - net profit / equity  
ROA - net income / assets  
Gross margin - gross profit on sales / sales  
EBITDA margin - EBITDA / sales  
EBIT margin - EBIT / sales  
Net margin - net profit / sales

**Explanation of ratings:**

**Buy** - we believe that the security will reach the target price in the recommended period, which significantly exceeds the current market price (at least +15%);  
**Accumulate** - we believe that the security will reach the target price in the recommended period, which exceeds the current market price (in the range of +5 to +14.99%);  
**Hold** - we believe that a security in the recommended period will fluctuate around the target price, which is close to the current market price (in the range from -4.99% to +4.99%);  
**Reduce** - we believe that the security will reach the target price in the recommended period, which is lower than the market price (range of decline from 5% to 14.99%);  
**Sell** - we believe that a security in the recommended period will reach the target price, which is significantly lower than the market price (suggested erosion of the value exceeds 15%).  
Target price - the theoretical price which, in our opinion, should reach a security in the recommended period; This price is the result of the company's value (eg based on DCF, comparative and other valuations), market conditions and the industry as well as other factors subjectively considered by the analyst.  
Recommendations made by BDM are binding for 12 months from the issue date or until the target level is reached, unless they are updated during this period of time.

**Ratings and price targets history:**

rating	price target	previous rating	previous target price	report date	report date (hour)	price	WIG
Buy	13,6	-	-	10.08.2020*	07:00 CEST	9,12	51 732

**Distribution of BDM's recommendations in Q3'20\*:**

	number	%	number	%
Buy	2	40%	0	0%
Accumulate	2	40%	0	0%
Hold	0	0%	0	0%
Reduce	1	20%	0	0%
Sell	0	0%	0	0%

, distribution of BDM's recommendations for the companies which BDM has supplied with investment banking services within the last 12 months

\* detailed list of all analytical reports (recommendations) published by BDM during the last 12 months and information on the numbers of issuers to which BDM has supplied services of investment firms set out in Sections A and B of Annex 1 to Directive 2014/65/EU is included in a cyclical "Monthly Report" or at [www.bdm.pl](http://www.bdm.pl)

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The report constitutes an investment research within the meaning of art. 36 §1 of Commission Delegated Regulation (EU) 2017/565.

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