

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

			2019	2020	2021F	2022F	
Price [PLN]	15,95	P/E	-	23,0	16,5	15,2	Analyst: Krzysztof Tkocz krzysztof.tkocz@bdm.pl tel.: 516 086 705
MC [mln PLN]	189,8	EV/EBITDA MSSF 16	-	11,2	9,9	9,1	
		EV/EBIT MSSF 16	-	19,0	14,4	13,3	
		P/BV	9,0	6,5	4,8	3,7	

Last recommendation BDM: Buy with target price 22,5 PLN/share (16.04.2021)

Q1'21 results [mln PLN]

	Q1'20	Q1'21	zmiana r/r	Q1'21F BDM	dev.
Sales	5,6	10,5	87,2%	10,5	0,0%
Gross profit	3,3	7,9	137,1%	7,3	8,1%
SG&A	0,7	3,7	399,8%	3,7	0,1%
Other op.income/expenses	-0,7	0,0	-	0,0	-
EBITDA	3,5	5,9	66,5%	5,2	12,9%
EBIT	1,8	4,2	130,4%	3,6	17,3%
Financial income/expense, net	-0,1	-0,1	30,9%	-0,1	17,8%
Profit before tax	1,7	4,1	136,2%	3,5	17,3%
Net profit	1,4	3,3	133,7%	3,1	4,8%
Gross margin	59,0%	74,8%		69,2%	
EBITDA margin	63,1%	56,1%		49,7%	
EBIT margin	32,6%	40,1%		34,2%	
Net margin	25,0%	31,3%		29,8%	

Source: BDM S.A., company

- In Q1'21, the company generated PLN 10.5 million in revenues - of which HOPY PLN 5.2 million, F2P PLN 5.1 million and the premium segment PLN 0.2 million, EBIT was PLN 4.2 million, and on the profit level net, the company generated PLN 3.3 million.
- The sharp increase in the revenues of the F2P segment was possible, among others, by thanks to the launch of more effective player acquisition campaigns for the Unsolved application.
- In Q1'21, Artifex continued the implementation of the strategy for the HOPA games segment, with particular emphasis on maximizing the profitability and positive cash flow of the segment. During the period in question, the following console versions of the following games were released: "Abyss: The Wraiths of Eden" - NS, "Persian Nights 2: Moonlight Veil" - X1/ XS, "Demon Hunter 3: Revelation" - X1/ XS, NS, PS4 . In total, at the end of March '21, 37 games from the group's entire portfolio were available on at least two console platforms.
- In the quarter which is under discussion, the Unsolved application had a dominant share in revenues (39.3% of total sales). Bladebound came second with 9.5%. The remaining places in the list of the 10 best-selling games from the portfolio were taken by HOPA titles. More than half of them are titles that have expanded their availability to players over the last 12 months by releasing versions for selected consoles.
- The largest share in revenues in Q1'21 was generated by sales generated through the Apple Store, accounting for 28% of the company's total sales. Google Play came second with a 25% share in sales. The dominant share of the above-mentioned platforms in the group's revenues is related to the dynamic increase in revenues from commercialization of Unsolved applications. The development of the portfolio of games for consoles resulted in an increase in revenues from the sale of games available for Sony, Microsoft and Nintendo devices by 34% and a 21% share in the total revenues of the group. The console responsible for the largest part of sales in the last quarter was NS Switch.
- In Q1'21, the company recognized PLN 6.4 million of consolidated own selling costs and operating costs, compared to PLN 3.8 million in the corresponding period of 2020. The increase in costs was due to the start of regular acquisition campaigns on a significant scale for the Unsolved application. As a result, the cost / income ratio of the group decreased from 68% the year before to 61% in Q1'21.
- In Q1'21 royalties amounted to PLN 1.1m (+ 44.2% y/y), HOPA games amortization decreased to PLN 0.8m (-19.3% y/y), F2P games amortization increased by 89.6% y/y to PLN 0.4 million, and the amortization of premium games remained at a similar level (PLN 0.2 million). The total amortization of games was PLN 1.4 million (+ 1.7% y/y).
- The expenditure related to the implementation of free-to-play games has the largest share in the balance sheet item "activated game costs". At the end of March 2021, capitalized costs amounted to PLN 12.4 million, compared to PLN 10.2 million at the end of 2020. The increase in the value of this item is related, among others, to with investments in the development of a new RPG game.
- Unsolved - at the beginning of 2021, the group started conducting regular acquisition campaigns for players. Up to the date of publication of the report, the campaigns were conducted almost exclusively using social media (Facebook). Expenses for the acquisition of players incurred in Q1'21 amounted to over PLN 2.9 million. In 2021, the company continued work on the expansion of the meta and updates intended to have a positive impact on the monetization of the game, including by introducing advertisements, premium currency and the Gift Pass. The last functionality, introducing a repeatable special offer, was introduced in May this year. The project development plan for 2021 assumes, inter alia, extension of the campaign's reach with new media (Google, Unity).

- New RPG game - the company continued conceptual work on a new RPG game, using the know-how and technology developed during work on Bladebound. The work is carried out by the group's RPG studio. Currently, the new project is a strategic undertaking of the RPG studio, involving the majority of its resources.
- "Bladebound" - in Q1'21, Artifex took steps to improve key game parameters. One of them were the so-called LiveOps, temporary special in-game events designed to increase player engagement. In Q1'21, the group also conducted test campaigns to acquire players for Bladebound. The changes to the application implemented in 2020 and the actions taken in 2021 had a positive impact on the KPI of the game, however, they were still below the business assumptions of the project. Due to the failure to achieve the above-mentioned According to the assumptions, the company decided to gradually reduce the investment outlays for the development of the game and focus on achieving maximum net profits in its commercialization with limited outlays. The project's goal for 2021 is, inter alia, stabilization, optimization and ordering of processes, allowing for a significant reduction in the costs of maintaining the game as well as the growth and stabilization of profits from the game, generated mainly on the basis of organic traffic.

Summary of Q1'21 results:

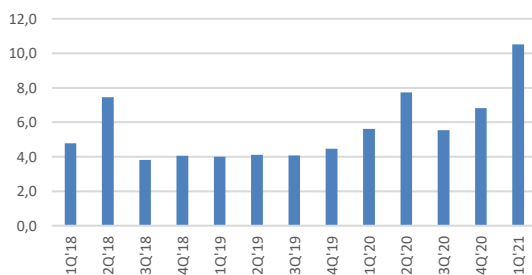
Artifex Mundi's results are in line with earlier estimates published in early May. The EBIT level generated in Q1'21 is higher than our assumptions, therefore we perceive it positively. This difference results, among others, from a lower royalty level than assumed by us. The company announces the continuation of work on the expansion of the "Unsolved" application, both in terms of meta (by introducing advertisements, premium currency and Gift Pass) and extending the channels for marketing campaigns with new media (Google, Unity). These measures should have a positive impact on its further dynamically growing result path. Conceptual work on a new RPG game is currently underway and most of the resources of the segment responsible for this category are involved. Bladebound's goal for this year is to maximize profits with limited outlays.

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	Q3'20	Q4'20	Q1'21	2017	2018	2019	2020
Sales	4,8	7,5	3,8	4,1	4,0	4,1	4,1	4,5	5,6	7,7	5,5	6,8	10,5	20,5	20,1	16,7	25,7
Gross profit	2,6	2,2	1,2	2,0	2,1	1,9	1,9	2,4	3,3	4,8	3,2	4,5	7,9	8,2	8,0	8,4	15,8
SG&A	2,8	6,0	3,6	3,0	2,8	3,1	3,4	3,1	3,0	3,5	3,2	1,0	3,7	15,2	15,4	12,4	3,2
Other op.income/expenses	-0,2	0,0	-0,1	-17,7	-0,6	0,0	0,0	-18,0	-0,7	0,2	-0,1	-1,7	0,0	-10,1	-17,6	-18,6	-2,6
EBITDA	3,5	6,0	2,6	-14,6	2,0	2,9	2,5	-15,6	3,5	6,1	4,1	3,1	5,9	-4,3	-12,4	-8,2	17,0
EBIT	1,8	1,6	0,4	-16,6	0,6	1,0	0,7	-16,6	1,8	4,0	2,4	1,7	4,2	-4,8	-12,9	-14,4	10,0
Profit before tax	1,8	1,4	0,3	-16,7	0,6	0,9	0,9	-16,9	1,7	4,1	2,4	1,9	4,1	-4,3	-13,2	-14,4	10,2
Net profit	1,4	1,2	0,3	-13,4	0,3	0,9	0,8	-15,7	1,4	3,4	2,0	1,4	3,3	-3,6	-10,5	-13,7	8,2
Sales change y/y	17,5%	49,9%	-9,7%	-26,5%	-16,3%	44,9%	6,5%	10,1%	40,4%	88,2%	36,3%	52,5%	87,2%	-9,6%	-2,0%	17,2%	54,5%
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%	135,5%	-	31,3%	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%	57,8%	65,4%	74,8%	39,9%	39,8%	50,3%	61,4%
EBITDA margin	73,3%	80,5%	67,3%	-360,8%	50,6%	70,1%	60,6%	-347,9%	63,1%	79,2%	74,7%	46,1%	56,1%	-20,9%	-61,6%	-49,1%	65,9%
EBIT margin	37,3%	21,2%	9,9%	-409,7%	14,1%	25,0%	16,8%	-372,0%	32,6%	51,9%	43,7%	25,5%	40,1%	-23,4%	-64,1%	-86,2%	38,9%
Net margin	28,3%	16,6%	8,4%	-329,6%	6,6%	22,2%	20,7%	-351,5%	25,0%	44,0%	35,8%	21,2%	31,3%	-17,5%	-52,1%	-82,3%	32,0%

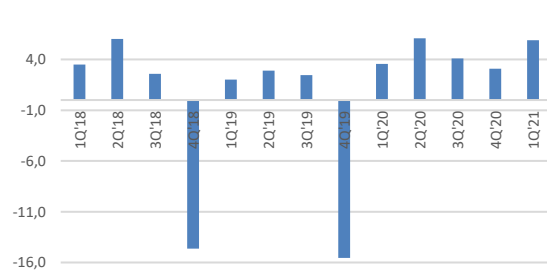
Źródło: BDM S.A., company

Sales [mln PLN]



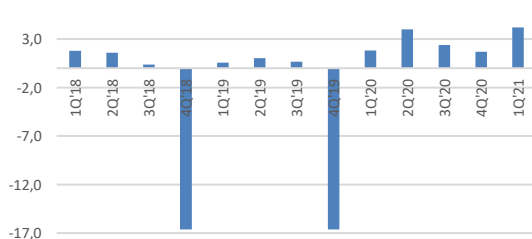
Source: Dom Maklerski BDM S.A., company

EBITDA [mln PLN]



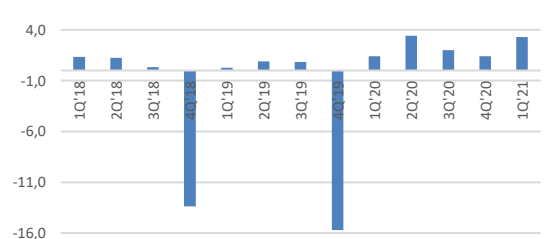
Source: Dom Maklerski BDM S.A., company

EBIT [mln PLN]



Source: Dom Maklerski BDM S.A., company

Net profit [mln PLN]



Source: Dom Maklerski BDM S.A., company

**RESEARCH DEPARTMENT:****Krystian Brymora**

Director

tel. (+48) 501 238 443

e-mail: krystian.brymora@bdm.pl

[strategy, chemicals, industry, energy](#)**Michał Fidelus**

Analityk rynku akcji

tel. (+48) 666 073 972

e-mail: michal.fidelus@bdm.pl

[banking, financial services](#)**Adrian Górniak**

Analyst

tel. (+48) 668 516 977

e-mail: adrian.gorniak@bdm.pl

[Real estate, retail, media](#)**Krzysztof Tkocz**

Junior analyst

e-mail: krzysztof.tkocz@bdm.pl

tel. (+48) 516 086 705

[Gaming](#)**INSTITUTIONAL SALES DEPARTMENT:****Leszek Mackiewicz**

Director

tel. (022) 62-20-848

e-mail: leszek.mackiewicz@bdm.pl

Tomasz Ilczyszyn

tel. (022) 62-20-854

e-mail: tomasz.ilczyszyn@bdm.pl

Maciej Fink-Finowicki

tel. (022) 62-20-855

e-mail: maciej.fink-finowicki@bdm.pl

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.

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rating	price target	previous rating	previous target price	report date	report date (hour)	price	WIG
Buy	22,5	Buy	13,9	16.04.2021*	07:00 CEST	17,80	60 280
Buy	13,9	Buy	13,6	19.10.2020*	07:00 CEST	9,00	48 210
Buy	13,6	-	-	10.08.2020*	07:00 CEST	9,12	51 732

Distribution of BDM's recommendations in Q2'21*:

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

	number	%	number	%
Buy	3	33%	0	0%
Accumulate	2	22%	0	0%
Hold	2	22%	0	0%
Reduce	2	22%	1	100%
Sell	0	0%	0	0%

* 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 I to Directive 2014/65/EU is included in a cyclical "Monthly Report" or at 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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