

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

			2020	2021	2022	
Price [PLN]	16,1	P/E skoryg..	17,7	14,7	15,4	Analyst: Krzysztof Tkocz krzysztof.tkocz@bdm.pl tel.: (+48) 516 086 705
MC [mln PLN]	191,5	EV/EBITDA skoryg.	9,8	9,7	12,7	
		P/BV	6,5	4,8	3,8	

Last recommendation BDM: BUY with target price 22,8 PLN/share (2023/08/30) [LINK](#)

BDM Comment:

The company's Q3'23 results are close to our expectations, which we perceive neutrally. At the revenue level, Artifex generated PLN 23,6m (+166,1% y/y), which is in line with the readings reported in recent months. We were positively surprised by the cost of royalties, which reached PLN 1,2m (+41,4% y/y), and the ratio of revenue from 'Unsolved' less UA to royalties fell from 10,2% in Q2'23 to 10,0% in Q3'23. This indicates the company's further ability to improve the profitability of this application using just the rotation of starter games. SG&A costs were close to our expectations and their significant increase y/y (+245,4%) is an effect of increase in marketing campaign spending on 'Unsolved', which amounted to 12,9m in the period (+370,7% y/y, +24,7% q/q). **Artifex generated a record Q3'23 adjusted EBITDA of PLN 7,8m (+89,9% y/y; adj. by PLN 0,2m costs related to the company's incentive program), slightly exceeding our expectations, which we perceive slightly positively.** On the other hand, we were slightly negatively surprised by the result from financing activities (PLN -1,4m), the main reason being a higher loss on the valuation of FX transactions concluded (PLN 1,1m). Thus, the company's adjusted net profit amounted to PLN 4,6m (+142,2%), which was slightly below our forecast. In the period under discussion, capital expenditure on game development amounted to PLN 4,7m (+24,6% y/y, -9,6% q/q). At the end of September'23, the company had PLN 23,3m in cash and financial assets (+PLN 0,1m q/q). In the past quarter, work continued on the development of the current version of **Unsolved**, as well as the engine enabling the expansion of the application with a metagame. Pace on the **new RPG game** was on schedule. The next steps for this project include in 1H'24 a round of further testing with players, and in 2H'24 reveal the game and the start of marketing activities.

Q3'23 results [mln PLN]

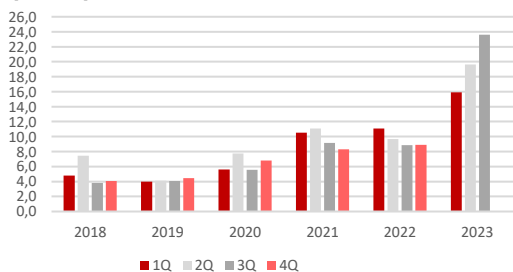
	Q3'22	Q3'23	change y/y	Q3'23P BDM	dev.
Sales	8,9	23,6	166,1%	23,6	0,0%
F2P Games	6,0	21,3	251,5%	21,3	0,0%
HOPA Games	2,8	2,3	-16,6%	2,3	0,0%
Premium Games	0,1	0,1	-15,9%	0,1	0,0%
Gross profit	6,7	21,2	214,7%	20,6	2,9%
EBITDA	3,9	7,6	95,5%	7,1	7,0%
EBITDA adj.*	4,1	7,8	89,9%	7,3	6,9%
EBIT	2,5	6,4	158,7%	6,0	7,8%
Net profit	1,7	4,5	161,5%	4,8	-7,5%
Net profit adj.*	1,9	4,6	142,2%	5,0	-7,1%
Gross margin	75,8%	89,6%		87,1%	
EBITDA margin	43,8%	32,2%		30,1%	
Adj. EBITDA margin*	46,2%	33,0%		30,9%	
EBIT margin	28,0%	27,2%		25,2%	
Net margin	19,2%	18,9%		20,4%	
Adj. net margin*	21,6%	19,7%		21,2%	

Source: BDM S.A., company *- adj. for cost of the incentive program

- In Q3'23, the company generated PLN 23,6 million in revenue (+166,1% y/y), of which HOPY accounted for PLN 2,3 million (-16,6% y/y), F2P for PLN 21,3 million (+251,5% y/y) - including 'Bladebound' at PLN 0,3 million (-59,2% y/y), 'Unsolved' at PLN 21,0 million (+284,6% y/y; PLN 4,8 million from advertising), and the remaining PLN 0,1 million from premium games (-15,9% y/y).
- In Q3'23, the cost of services amounted to PLN 2,4 million (+14,0y/y, +6,7% q/q), including royalties of PLN 1,2 million (+41,4% y/y, +11,6% q/q) and depreciation of PLN 1,2 million (-15,9% y/y, -2,9% q/q).
- In the mentioned period, the group recognized PLN 1,6 million in general administrative costs (+18,3% y/y, +43,0% q/q - of which PLN 0,2 million were non-cash costs of the incentive programme) and PLN 13,1 million in selling expenses (+355,5% y/y, +24,9% q/q) – of which PLN 12,9 million pertains to User Acquisition (+370,7% y/y, 24,7% q/q).

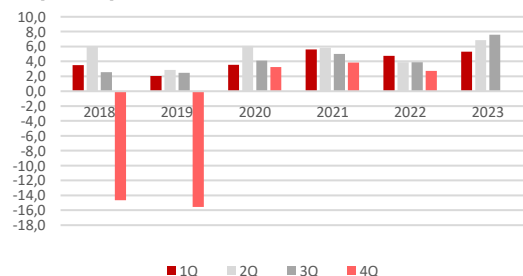
- In Q3'23, EBITDA amounted to PLN 7,6 million (+95,5% y/y), adjusted EBITDA reached PLN 7,8 million (+89,9% y/y; PLN 0.2 million costs related to the incentive programme).
- Financial revenues amounted to PLN 0,3 million (the total of this amount relates to interest on deposits and bank accounts). Financial costs were PLN 1,7 million PLN 0.1 million relates to interest, PLN 0.3 million to exchange rate differences and PLN 1.1 million to the revaluation of investments, i.e. the valuation of FX transactions concluded), with which we were negatively surprised.
- In the reported period, the company generated a net profit of PLN 4,5 million (+161,5% y/y).
- In Q3'23, operating cash flow was PLN 0,9 million, investment cash flow was PLN 0,3 million, and financing cash flow was - PLN 0,2 million. As of the end of September'23, the company had PLN 23,3 million in cash and financial assets (+ PLN 0,1 million q/q).
- At the end of September'23, capitalized game development costs amounted to PLN 43,5 million (+ PLN 3,6 million q/q, + PLN 15,8 million y/y), of which PLN 43,2 million pertained to the F2P game in production (+ PLN 3,6 million q/q, + PLN 15,9 million y/y) – PLN 7,9 million for 'Unsolved' (+ PLN 0,9 million q/q), PLN 15,4 million for the New RPG game (+ PLN 2,0 million q/q), and PLN 16,7 million for research and development projects (+ PLN 1,1 million q/q).
- Investment outlays for game production = PLN 4,7 million (+24,6% y/y, -9,6% q/q).
- Slightly increase of employment = 98 in Q3'23 (vs. 95 in Q2'23).
- **Unsolved** – in the past quarter, work continued on the development of the current version of the game, including increasing the number of titles available in the app, implementing new mechanics and functionalities, giving a significant increase in LTV, creating space for multiplying player acquisition spending. At the same time, work continued on the game engine, enabling Unsolved to be expanded with metagame, a layer that adds additional gameplay mechanics to the players involved, increasing the game's monetisation potential.
- **New RPG Game** - during the past period, work proceeded according to the schedule. Tests of the game with players (the so-called technical soft-launch) conducted in Q2'23, aimed at verifying the key assumptions and indicators of the project, confirmed the strengths of the game (unique selling points) in the form of, among others, a high level of content quality, a unique art style or gameplay. Taking into account the conclusions from the analysis of the data collected during and after the Q3'23 tests, up to the date of the report, the project has been working on, among other things. In the area of game modes and content. The timetable for further work on the project is to carry out further tests with players in 1H'24, followed by the reveal of the game and the start of marketing activities in 2H'24.
- **HOPA Games** – at the end of the September'23, a total of 50 games from Artifex Mundi's entire portfolio were available on at least two console platforms (+1 q/q).

Sales [mln PLN]



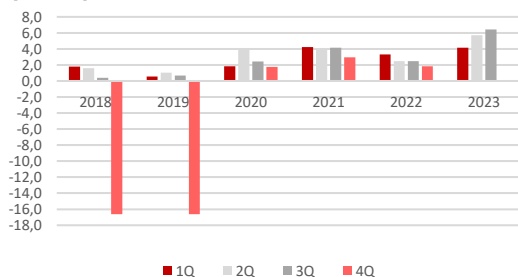
Source: Dom Maklerski BDM S.A., company

EBITDA [mln PLN]



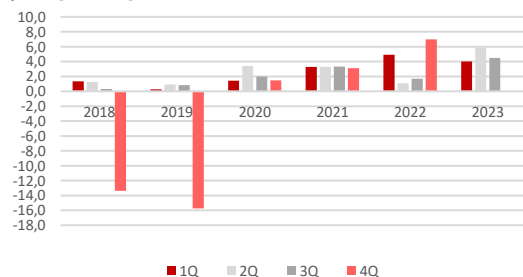
Source: Dom Maklerski BDM S.A., company

EBIT [mln PLN]



Source: Dom Maklerski BDM S.A., company

Net profit [mln PLN]



Source: Dom Maklerski BDM S.A., company

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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.

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Ratings and price targets history:

rating	price target	previous rating	previous target price	report date	report date (hour)	price	WIG
buy *	22,8	buy	14,1	30.08.2023	08:50 CEST	17,6	68 795
buy	14,1	buy	18,0	13.03.2023	12:40 CET	10,4	58 050
buy	18,0	buy	22,5	18.01.2022	07:00 CEST	9,94	72 250
Buy*	22,5	buy	13,9	16.04.2021	07:00 CEST	17,8	60 280
Buy*	13,9	buy	13,6	19.10.2021	07:00 CEST	9,00	48 210
Buy*	13,6	-	-	10.08.2021	07:00 CEST	9,12	51 732

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

Distribution of BDM's recommendations in Q4'23*:

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

	number	%	number	%
Buy	2	100%	0	0%
Accumulate	0	0%	0	0%
Hold	0	0%	0	0%
Reduce	0	0%	0	0%
Sell	0	0%	0	0%

* detailed list of all analytical reports (recommendations) published by BDM during the last 12 months is included at <https://www.bdm.pl/analizy-i-informacje/analizy/historia-rekomendacji>

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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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