

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

			2021	2022	2023	
Price [PLN]	26,0	P/E skoryg..	23,7	24,9	13,3	<b>Analyst:</b> Krzysztof Tkocz krzysztof.tkocz@bdm.pl tel.: (+48) 516 086 705
MC [mln PLN]	309,3	EV/EBITDA skoryg.	15,0	19,4	10,5	
		P/BV	7,8	6,1	4,2	

Last recommendation BDM: BUY with target price 24,8 PLN/share (2023/12/01) [LINK](#)

**BDM Comment:**

The company's final results for Q4'23 were consistent with the estimated data presented at the end of February, which we perceive neutrally. Slightly lower gross profitability and EBITDA profitability compared to our assumptions were mainly due to a higher level of royalties. The ratio of royalties from F2P games to revenues from this segment less UA increased from 10,0% in Q3'23 to 12,6% in Q4'23. In our calculations, we expected to maintain a level similar to that in Q3'23. SG&A costs turned out to be in line with our forecasts. As a result, the adjusted EBITDA result amounted to 9,2 million PLN (+190,1% y/y) and was slightly lower than our expectations. As we indicated in our last comment after the estimated results, we were positively surprised by the result on financial activities, which amounted to PLN 3,6 million (we expected PLN 2,3 million). The difference mainly concerns the valuation of FX transactions. The final adjusted net profit in Q4'23 amounted to PLN 10,8 million (+45,7% y/y) and was in line with the previously presented estimates. We would like to remind you that in Q4'22 the company recognized PLN 2,5 million in dividends from subsidiaries that were liquidated in 2022. Adjusting the result for this one-off event, the y/y progression of adjusted net profit in Q4'23 would be 117,7%.

Throughout 4Q'23, expenditures on game production increased significantly q/q (+46.1%) to PLN 6,9 million, which surprised us negatively. At the same time, we note the slight increase in employment q/q (+2 people), which is why we are surprised by such a high dynamics during this period. We hope that the company will clarify our doubts in this area at the conference scheduled for April 4, 2024. At the end of December 2023, Artifex had PLN 31,2 million in cash and financial assets (+PLN 8,0 million q/q). We would like to point out that this level is PLN 2,5 million higher than that presented in the estimated results. The company announced that it plans to share its profits with its shareholders. In this matter, the management board intends to present a recommendation for share buy-back or dividend payment by the end of April.

Over the course of 2023, the LTV of "Unsolved" increased by over 80%, which created space for scaling this title. The company believes that before adding the metagame, implementing several smaller changes in 2024 and expanding the game with new adventures will translate into an increase in LTV by several dozen percent, which should support further progression of generated revenues. The release of the new RPG game and the start of marketing activities are planned for H2'24.

In summary, the report has a bittersweet tone for us. On one hand, record-breaking results, the prospect of further growth, and the company's readiness to share profits with shareholders fill us with optimism. On the other hand, we are negatively surprised by the q/q growth of expenditure on game production. Taking into account minor personnel changes throughout 4Q'23, we believe that this may partly result from the settlement of GameINN and additional costs related to, for example, outsourcing. Therefore, we would not currently treat this level as a reference level for the following quarters. However, we hope that the company will clarify our doubts in this area at the upcoming conference (April 4, 2024).

**Q4'23 results [mln PLN]**

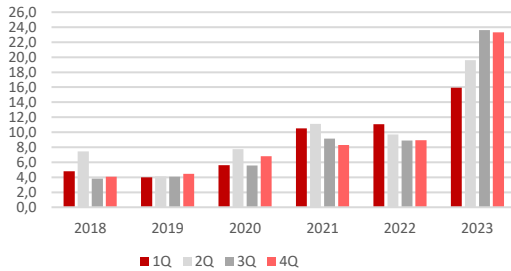
	Q4'22	Q4'23	change y/y	Q4'23E	dev.	Q4'23F BDM	dev.	Q4'23F cons.	dev.	2022	2023	change y/y
Sales	8,9	23,3	161,8%	23,3	0,0%	23,3	0,0%	24,2	-3,5%	38,5	82,5	114,0%
F2P Games	6,1	20,9	243,3%	-	-	20,9	0,0%	-	-	25,1	72,1	187,7%
HOPA Games	2,7	2,4	-12,2%	-	-	2,4	0,0%	-	-	13,0	10,1	-22,5%
Premium Games	0,1	0,1	-35,6%	-	-	0,1	0,0%	-	-	0,5	0,3	-37,8%
Gross profit	6,7	19,8	195,8%	-	-	20,3	-2,8%	-	-	29,4	72,0	144,6%
EBITDA	2,7	9,0	230,2%	-	-	9,5	-5,3%	-	-	14,9	28,8	93,2%
EBITDA adj.*	3,2	9,2	190,1%	-	-	9,7	-5,2%	-	-	16,4	29,4	78,8%
EBIT	1,8	7,7	321,5%	-	-	8,3	-7,1%	-	-	9,9	24,0	142,0%
EBIT adj.*	2,3	7,9	247,7%	7,9	0,0%	8,5	-7,0%	8,5	-6,5%	11,4	24,5	114,8%
Net profit	7,0	10,6	52,2%	-	-	9,4	12,9%	-	-	12,1	24,9	106,5%
Net profit adj.*	7,4	10,8	45,7%	10,8	0,0%	9,6	12,7%	8,7	24,9%	13,6	25,5	87,6%
Gross margin	75,0%	84,7%		-	-	87,1%		-		76,3%	87,2%	
EBITDA margin	30,6%	38,6%		-	-	40,8%		-		38,7%	34,9%	
Adj. EBITDA margin*	35,5%	39,4%		-	-	41,5%		-		42,6%	35,6%	
EBIT margin	20,5%	33,0%		-	-	35,5%		-		25,7%	29,1%	
Net margin	78,3%	45,5%		-	-	40,3%		-		31,3%	30,2%	
Adj. net margin*	83,2%	46,3%		46,3%		41,1%		36,0%		35,2%	30,9%	

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

This report has been prepared in compliance with Regulation (EU) No. 596/2014 of the European Parliament and of the Council of 16 April 2014 (on market abuse), Commission Delegated Regulation (EU) 2016/958 and Commission Delegated Regulation (EU) 2017/565. Detailed contents of legal notes is located on the last page of this report. The report has been prepared and made available for distribution by BDM. GPW shall be a copyright holder to this report from the date of its publication. The report can be published and made available without limitation by GPW through any mass communication media as decided by GPW. This document is a summary of a full version of the report prepared in Polish. In case of any disputes the Polish version shall prevail.

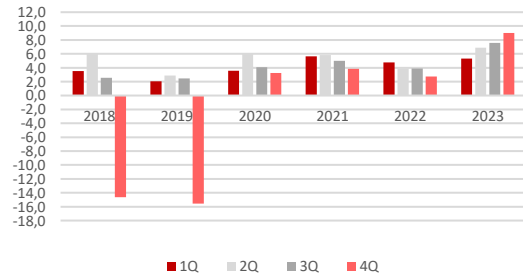
- In Q4'23, the company generated PLN 23,3 million in revenue (+161,8% y/y), of which HOPY accounted for PLN 2,4 million (-12,2% y/y), F2P for PLN 20,9 million (+243,3% y/y) - including 'Bladebound' at PLN 0,2 million (-55,5% y/y), 'Unsolved' at PLN 20,7 million (+266,9% y/y; PLN 4,1 million from advertising), and the remaining PLN 0,1 million from premium games (-35,6% y/y).
- In Q4'23, the cost of services amounted to PLN 3,6 million (+60,2 y/y, +45,9% q/q), including royalties of PLN 1,9 million (+125,4% y/y, +55,7% q/q) and depreciation of PLN 1,2 million (+37,0% y/y, +4,3% q/q).
- In the mentioned period, the group recognized PLN 2,3 million in general administrative costs (+22,4% y/y, +43,6% q/q - of which PLN 0,2 million were non-cash costs of the incentive programme) and PLN 9,7 million in selling expenses (+248,3% y/y, -25,6% q/q) – of which PLN 9,5 million pertains to User Acquisition (+267,2% y/y, -26,4% q/q).
- In Q4'23, EBITDA amounted to PLN 9,0 million (+230,2% y/y), adjusted EBITDA reached PLN 9,2 million (+190,1% y/y; PLN 0.2 million costs related to the incentive programme).
- Financial revenues amounted to PLN 3,3 million (PLN 2,8 million related to the revaluation of investments - valuation of FX transactions, and PLN 0,5 million to interest on bond deposits). Financial costs were PLN -0,2 million (PLN -0,1 million relates to interest).
- In the reported period, the company generated adj. net profit of PLN 10,8 million (+45,7% y/y). We would like to note that in Q4'22 the company recognized PLN 2,5 million in dividends from subsidiaries that were liquidated in 2022. Adjusting the result for this one-off event, the y/y progression adjusted net result in Q4'23 would be 117,7%.
- In Q4'23, operating cash flow was PLN 5,1 million, investment cash flow was PLN -1,8 million, and financing cash flow was PLN -0,2 million. As of the end of December'23, the company had PLN 31,2 million in cash and financial assets (PLN +0,8 million q/q).
- At the end of December'23, capitalized game development costs amounted to PLN 49,2 million (PLN +5,7 million q/q, PLN +16,8 million y/y), of which PLN 49,0 million pertained to the F2P game in production (PLN +5,7 million q/q, PLN +16,9 million y/y) – PLN 10,3 million for 'Unsolved' (PLN +2,4 million q/q), PLN 18,9 million for the New RPG game (PLN +2,4 million q/q), and PLN 17,0 million for research and development projects (PLN +0,2 million q/q).
- Investment outlays for game production = PLN 6,9 million (+13,0% y/y, +46,1% q/q).
- Slightly increase of employment = 103 in Q4'23 (vs. 98 in Q3'23).
- **"Unsolved"** – 12 new adventures were released throughout 2023, bringing the total number to 43 at the end of 2023. The LTV of the average Unsolved player increased by over 80% in the analyzed period, which created space for multiplying marketing investments. The company believes there is still a lot of work to be done in "Unsolved." The main weakness of the application is the lack of an engaging metagame, resulting in a shallow and linear economy, based mainly on the time spent by players completing subsequent adventures. As a result, Unsolved's potential, built on high-quality game content, is only partially exploited today. The company is successively achieving subsequent milestones in the development of the metagame, the implementation of which has the potential to multiply LTV Unsolved and significantly bring it closer to the most profitable titles in the product basket. The first significant effects of enriching Unsolved with the metagame will be visible in the company's results from H1'25. ART expects that through implementation several smaller changes this year, and further systematic enrichment of the game content with new adventures, in 2024 LTV Unsolved will increase by several dozen percent, having a definitely positive impact on the generated revenues.
- **New RPG game** - the game development schedule assumes further tests with players in mid-2024. Assuming positive verification of the project, the game reveal and the start of marketing activities are planned for H2'24.
- **Dividend/share buy back** – the company plans to share the profits generated with its shareholders. In this matter, the management board intends to present a recommendation for share buy-back or dividend payment by the end of April.
- **HOPA games** – at the end of December 2023, 52 games from the entire Artifex Mundi portfolio were available on at least two console platforms (+2 q/q).

Sales [mln PLN]



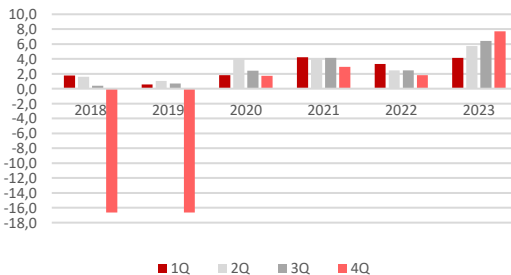
Source: Dom Maklerski BDM S.A., company

EBITDA [mln PLN]



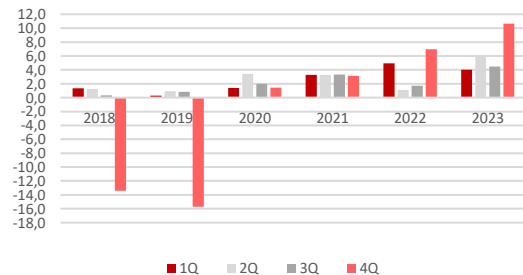
Source: Dom Maklerski BDM S.A., company

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
<b>Buy*</b>	<b>24,8</b>	<b>buy</b>	<b>22,8</b>	<b>01.12.2023</b>	<b>11:40 CEST</b>	<b>16,7</b>	<b>75 195</b>
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 Q1'24\*:**

	number	%	number	%
Buy	8	53%	0	0%
Accumulate	3	20%	0	0%
Hold	2	13%	0	0%
Reduce	2	13%	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 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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