

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]	24,9	P/E skoryg..	22,7	23,8	12,7	Analyst: Krzysztof Tkocz krzysztof.tkocz@bdm.pl tel.: (+48) 516 086 705
MC [mln PLN]	296,2	EV/EBITDA skoryg.	14,3	18,5	10,0	
		P/BV	7,5	5,9	4,0	

Last recommendation BDM: HOLD with target price 26,0 PLN/share (2024/05/08) [LINK](#)

BDM Comment:

The company's final results for Q1'24 were consistent with the estimated data presented at the end of April, which we perceive neutrally. In the period under review the level of game depreciation turned out to be lower than our forecasts, which amounted to PLN 1,1 million (-8% q/q), simultaneously we were negatively surprised by cost for games updates (HOPA) = 0,2 million PLN. The royalty level amounted to PLN 1,9 million and turned out to be in line with our estimates, and the ratio of royalties from F2P games to revenues from this segment less UA decreased from 12,8% in Q4'23 to 12,7% in Q1'24. The total cost of sales amounted to PLN 3,2 million (-10% q/q) and was slightly lower than our assumptions. On the other hand, SG&A costs (PLN 16,1 million; +33% q/q) deviated negatively from our assumptions. As a result, the adjusted EBITDA result amounted to 9,6 million PLN (+67,4% y/y) and was close to our expectations. In the area of financial activities, the interest income was compensated by exchange rate differences. The final adjusted net profit in Q1'24 amounted to 7,6 million PLN (+72,5% y/y) and was in line with the previously presented estimates.

During Q1'24, expenditure on game production decreased q/q to PLN 6.3 million (-8% q/q), which is slightly above our assumptions. We would like to note that over the period under review, the employment level increased by 7% q/q to 110. The company also indexed remuneration by approximately 5-7%. At the end of March 2024, Artifex had PLN 32,9 million in cash and financial assets (excluding FX transactions = PLN 2,0 million; +PLN 7,7 million q/q). We would like to point out that this level is PLN 3,5 million higher than that presented in the estimated results.

For the first time in its history, the company will share its profits with shareholders in the form of share buy back, which is in line with the CEO's recent announcements. Although the amount allocated for this purpose = PLN 4 million (payout ratio = 16%; DY = 1.4%) is lower than our expectations from the last recommendations (PLN 7,5 million; this is probably related to will to maintain a larger financial safety, and which is related to, among others, recent anomalies regarding the CPIs) we appreciate the company's decision.

Today's conference will start at 2:00 p.m.

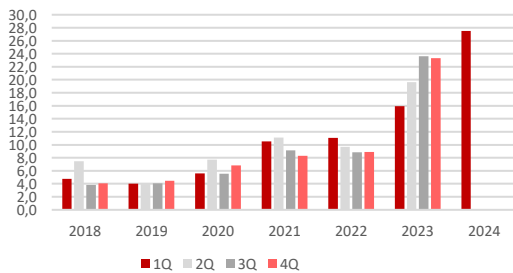
Q1'24 results [mln PLN]

	Q1'23	Q1'24	change y/y	Q1'24E	dev.	Q1'24F BDM	dev.	Q1'24F cons.	dev.
Sales	15,9	27,5	72,7%	27,5	0,0%	27,5	0,0%	27,5	0,0%
F2P Games	12,8	25,0	95,1%	-	-	25,0	0,0%	-	-
HOPA Games	3,0	2,5	-18,2%	-	-	2,5	0,0%	-	-
Premium Games	0,1	0,1	-36,0%	-	-	0,1	0,0%	-	-
Gross profit	13,7	24,3	77,2%	-	-	24,2	0,4%	-	-
EBITDA	5,3	9,4	76,6%	-	-	9,5	-1,0%	9,2	2,2%
EBITDA adj.*	5,7	9,6	67,4%	-	-	9,7	-1,1%	-	-
EBIT	4,1	8,2	97,4%	-	-	8,1	0,8%	7,8	4,7%
EBIT adj.*	4,5	8,3	84,0%	8,3	0,0%	8,3	0,6%	-	-
Net profit	4,0	7,4	85,3%	-	-	7,0	5,8%	7,0	5,8%
Net profit adj.*	4,4	7,6	72,5%	7,6	0,0%	7,2	5,4%	-	-
Gross margin	86,1%	88,4%	-	-	-	87,9%	-	-	-
EBITDA margin	33,4%	34,2%	-	-	-	34,7%	-	33,5%	-
Adj. EBITDA margin*	36,0%	34,9%	-	-	-	35,4%	-	-	-
EBIT margin	26,0%	29,7%	-	-	-	29,3%	-	28,4%	-
Net margin	25,1%	26,9%	-	-	-	25,6%	-	25,5%	-
Adj. net margin*	27,6%	27,6%	-	27,6%	-	26,3%	-	-	-

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

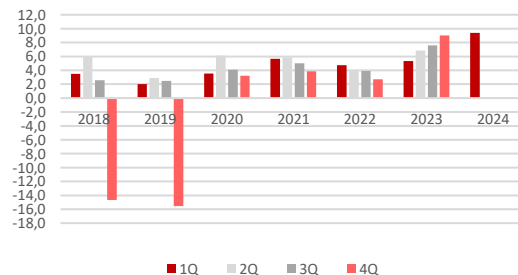
- In Q1'24, the company generated PLN 27,5 million in revenue (+72,7% y/y), of which HOPY accounted for PLN 2,5 million (-18,2% y/y), F2P for PLN 25,0 million (+95,1% y/y) - including 'Bladebound' at PLN 0,2 million (-60% y/y), 'Unsolved' at PLN 24,7 million (+101,6% y/y; PLN 4,6 million from advertising), and the remaining PLN 0,1 million from premium games (-360% y/y).
- In Q1'24, the cost of services amounted to PLN 3,2 million (+44,4% y/y, -10,3% q/q), including royalties of PLN 1,9 million (+91,0% y/y, -2,1% q/q) and depreciation of PLN 1,1 million (-0,5% y/y, -8,4% q/q).
- In the mentioned period, the group recognized PLN 1,9 million in general administrative costs (+36,0% y/y, -18,4% q/q - of which PLN 0,2 million were non-cash costs of the incentive programme) and PLN 14,2 million in selling expenses (+74,2% y/y, +46,0% q/q) – of which PLN 13,9 million pertains to User Acquisition (+74,2% y/y, +47,0% q/q).
- In Q1'24, EBITDA amounted to PLN 9,4 million (+76,6% y/y), adjusted EBITDA reached PLN 9,6 million (+67,4% y/y; PLN 0,2 million costs related to the incentive programme).
- Financial revenues amounted to PLN 0,4 million (the entire amount concerns interest on bond deposits). Financial costs were PLN 0,5million (PLN 0,4 million related to the revaluation of investments - valuation of FX transactions).
- In the reported period, the company generated adj. net profit of PLN 7,6 million (+72,5% y/y).
- In Q1'24, operating cash flow was PLN 1,1 million, investment cash flow was PLN -4,3 million, and financing cash flow was PLN -0,3 million. As of the end of March'24, the company had PLN 32,9 million in cash and financial assets (without FX transactions; PLN +7,7 million q/q).
- At the end of March'24, capitalized game development costs amounted to PLN 54,4 million (PLN +5,2 mln PLN q/q vs 5,7 mln PLN w Q4'23), of which PLN 54,2 million pertained to the F2P game in production (PLN +6,3 mln PLN q/q vs +5,7 mln PLN w Q4'23) – PLN 12,3 million for 'Unsolved' (PLN +1,9 mln PLN q/q vs +2,4 mln PLN w Q4'23), PLN 22,6 million for the New RPG game (PLN +3,6 mln PLN q/q vs +3,6 mln PLN w Q4'23), and PLN 17,1 million for research and development projects (PLN +0,1 million q/q).
- Investment outlays for game production = PLN 6,3 million (+40,1% y/y, -7,9% q/q).
- Increase in the number of employees q/q by 7% to 110 in Q1'24 (vs. 103 in Q4'23).
- **“Unsolved”** – in Q1'24, work continued on the development of the current version of the game, including: increasing the number of titles available in the application to 45, from 43 at the end of 2023, implementing and optimizing mechanics and functionalities. At the same time, work continues on expanding Unsolved with a metagame, i.e. a layer that adds additional gameplay mechanics to involved players, increasing the game's monetization potential.
- **New RPG game** - in the past quarter, the project was implemented according to schedule. The work focused on expanding the content and game mechanics. The game development schedule assumes further tests with players in mid-2024. Assuming positive verification of the project, the reveal games and the start of marketing activities are planned for H2'24.
- **Share buy back** – the company will allocate 4 million PLN from the net profit for 2023 to share buy back.
- **HOPA games** – at the end of March 2024, 54 games from the entire Artifex Mundi portfolio were available on at least two console platforms (+2 q/q).

Sales [mln PLN]



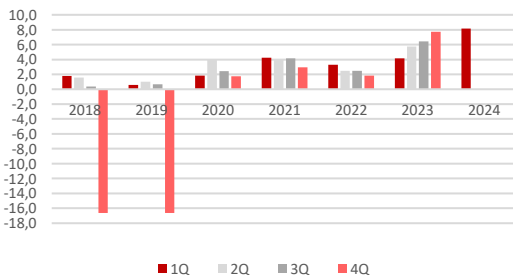
Source: Dom Maklerski BDM S.A., company

EBITDA [mln PLN]



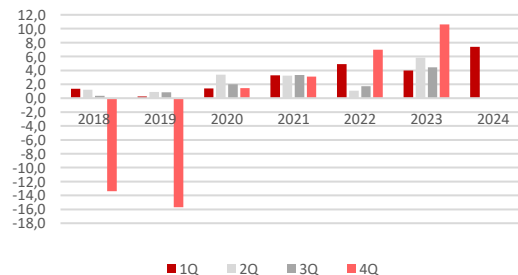
Source: Dom Maklerski BDM S.A., company

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
hold*	26,0	buy*	24,8	08.05.2024	08:20 CEST	26,5	86 484
buy*	24,8	buy	22,8	01.12.2023	11:40 CEST	16,7	75 195
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 Q2'24*:

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

	number	%	number	%
Buy	6	60%	0	0%
Accumulate	2	20%	0	0%
Hold	2	20%	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/analiza-i-informacje/analiza/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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- The issuer does not hold shares exceeding 5 % of the BDM issued share capital,
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