



Dom Maklerski BDM S.A.

# CREATIVEFORGE GAMES

## ANALYTICAL REPORT - SUMMARY

Decisions regarding the game "Stargate: Timekeepers", which have recently been made on the line Slitherine Software (publisher) - CFG (producer) and the company's communication about the ongoing optimization activities of production / teams, which, in addition to the lack of potential profits from the sale of the game, in our opinion imply significant changes in the functioning of the developer. Bearing the above information in mind, we think that the company intends to deviate from cooperation with publishers in its strategy and limit the number of simultaneous projects. We think that CFG will focus on fewer projects than before, which is implied in our model and which has a large impact on lowering our valuation. Moreover, we are disappointed with the premiere of the game "Aircraft Carrier Survival", which, despite the promising start (return of costs in 24 hours, sale of 20 thousand pieces in 72 hours), significantly differs from our expectations. Additionally, due to the expected significant changes in the operation of the group, we assume that most of the production has been delayed. Having regard to the above-mentioned arguments we are downgrading our recommendation from BUY to HOLD, setting our target price at PLN 9.1/share, which is 0,3% below the current market price.

### Loss of „Stargate: Timekeepers”, ...

At the beginning of September '22, CFG announced plans to establish a new company, Slitherine Poland (in which both parties will have shares), with Slitherine Software. New company will be responsible for the titles "Stargate: Timekeepers" and "Ancient Arenas: Chariots" on which CreativeForge has worked. Planned actions are to be taken by the end of 2022. We think that this means lack of proceeds from advance payments for the production and sales of the most important game in the CFG group. The direct financial benefit in this case may only be the payment of dividends by the established company or the sale of shares. On the other hand, we do not expect the advance payments received by CFG for the production of this game to be returned.

### ...and its impact on the company's business model

We think that the above decisions made by Slitherine Software (publisher) - CFG (producer) may result from "undelivered" expectations regarding the quality of the game and the optimization of the cost of further production. In addition, in the last report, the company communicated about ongoing activities aimed at maximizing the efficiency of production teams, optimizing production and team management. With the above information in mind, we think that the company intends to leave in its strategy of cooperation with publishers and limit the number of simultaneous projects. We think that CFG will focus on a smaller number of projects than before, which is implied in our model and which has a large impact on lowering our valuation (we describe more in the chapter ("change of assumptions").

### The premiere of "Aircraft Carrier Survival" leaves much to be desired

The game debuted on April 20, 2022 and it was the first self-premiere of the company's new team, after CFG in 2019 has undergone thorough transformation. The first hours of "ACS" looked promising, the game reached a 24h peak of 2.3 thousand. people and climbed to the third best-selling games on Steam (with ratings at 77% positive). A few days later, the company announced the return of production, testing, location and marketing costs within 24 hours of the debut (they did not exceed PLN 0.4 million) and the sale of 20 thousand. copies in 72h. Unfortunately, the drop in ratings and mixed opinions from players (currently only 62% of positives, [link](#)) translated into a slump in the sales of "ACS". We estimate that approx. 40,000 copies was sold, and a year from the premiere, we forecast 48 thousand. units, which is far from our previous expectations (99 thousand). In addition, the game, less than 6 months after the premiere, is sold at a discount of 55%.

### Further perspective of this year

Due to the expected significant changes in the functioning of the group, we assume that most of the production has been delayed, thus we shift most of the games forecast for this year to 2023. In addition, given the reduction in employment, we assume that some of the ongoing projects will be suspended. On the other hand, we are counting on large related savings with the running of these projects. Throughout 2022, we forecast PLN 4.4m in revenues, PLN 0.5m in EBIT and PLN 0.4m in net profit.

### The perspective of 2023.

We expect that at the beginning of 2023 there will be premiers of games such as "Handyman Corporation", "Colonize", "My Hotel", and later next year we are counting on such titles as: "Builders of Greece", "House Flipper City", "Black Gold" or "Monsters Domain".

	2018	2019	2020	2021	2022F	2023F	2024F	2025F
Revenues [mln PLN]	3,7	1,6	2,8	5,3	4,4	8,8	12,7	9,5
EBITDA [mln PLN]	-0,6	-0,1	-1,2	-2,7	0,6	3,7	5,6	4,3
EBIT [mln PLN]	-0,7	-0,2	-1,2	-2,7	0,5	3,7	5,5	4,2
Gross income [mln PLN]	-0,9	-0,2	0,0	-2,5	0,4	3,7	5,5	4,2
Net income [mln PLN]	-0,9	-0,2	0,1	-1,9	0,4	3,3	5,0	3,8
P/BV	3,3	3,4	3,4	2,6	2,8	2,0	1,7	1,7
P/E	-	-	-	-	57,2	7,3	4,9	6,5
EV/EBITDA	-	-	-	-	39,2	5,5	2,8	3,8
EV/EBIT	-	-	-	-	42,7	5,6	2,8	3,9
DPS	0	0	0	0	0	0	0,9	1,4
DY	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	10,2%	15,3%

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.

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# HOLD

(PREVIOUS: BUY)

## TARGET PRICE 9,1 PLN

28 OCTOBER 2022, 11:30 CEST

Target price [PLN]	9,1
Price upside/downside	0,3%
Cost of capital	15,0%
Price [PLN]	9,2
Market cap [mln PLN]	24,5
Shares [mln.]	2,7
Max. price 6M [PLN]	25,0
Min. price 6m [PLN]	8,5
Rate of return 3M	-49,5%
Rate of return 6M	-63,7%
Rate of return 9M	-65,1%
Shareholders (% of votes):	
PlayWay	47,8%
Andrzej Goczoł	10,5%
Capeman Investments Limited	8,4%
Jarosław Dąbrowski	7,3%
Others	26,0%

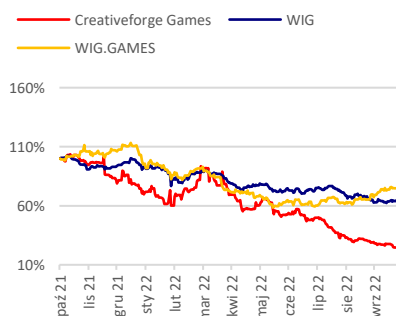
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**Valuation summary**

	Share	Valuation
DCF valuation	70%	9,1
Peer valuation	30%	9,3
<b>Target price [PLN]</b>		<b>9,1</b>

Source: BDM S.A.

**DCF valuation**

	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F
Revenues [mln PLN]	4,4	8,8	12,7	9,5	7,6	8,0	11,9	9,3	8,7	12,9
EBIT [mln PLN]	0,5	3,7	5,5	4,2	2,0	2,6	5,0	3,5	1,4	5,8
Tax rate	15,2%	10,0%	10,0%	10,0%	10,0%	10,0%	10,0%	10,0%	10,0%	10,0%
Tax on EBIT [mln PLN]	0,1	0,4	0,6	0,4	0,2	0,3	0,5	0,3	0,1	0,6
NOPLAT [mln PLN]	0,4	3,3	5,0	3,8	1,8	2,3	4,5	3,1	1,2	5,2
Amortization [mln PLN]	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
CAPEX [mln PLN]	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Purchase of investment [mln PLN]	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Working capital movement [mln PLN]	0,7	-1,8	2,8	-0,9	0,2	-0,5	-0,3	-1,8	1,8	-2,1
FCF [mln PLN]	1,2	1,5	7,8	2,9	2,0	1,8	4,2	1,3	3,0	3,1
DFCF [mln PLN]	1,2	1,3	5,8	1,8	1,1	0,9	1,8	0,5	1,0	0,9
Total DFCF [mln PLN]	16,1									
Terminal value [mln PLN]	18,6									
Discounted terminal value [mln PLN]	5,2									
Enterprise value [mln PLN]	21,3									
Net debt 2021 [mln PLN]	-3,0									
<b>Equity value [mln PLN]</b>	<b>24,2</b>									
Number of shares [mln]	2,7									
<b>Value per share [PLN]</b>	<b>9,1</b>									

Terminal growth rate: 3,0%

**WACC calculation**

	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F
Risk-free rate	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%
Risk premium	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%
Beta	1,40	1,40	1,40	1,40	1,40	1,40	1,40	1,40	1,40	1,40
Credit premium	1,5%	1,5%	1,5%	1,5%	1,5%	1,5%	1,5%	1,5%	1,5%	1,5%
Cost of equity	15,0%	15,0%	15,0%	15,0%	15,0%	15,0%	15,0%	15,0%	15,0%	15,0%
Contribution of equity	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%
Cost of debt after tax	8,1%	8,6%	8,6%	8,6%	8,6%	8,6%	8,6%	8,6%	8,6%	8,6%
Contribution of debt	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
<b>WACC</b>	<b>15,0%</b>	<b>15,0%</b>	<b>15,0%</b>	<b>15,0%</b>	<b>15,0%</b>	<b>15,0%</b>	<b>15,0%</b>	<b>15,0%</b>	<b>15,0%</b>	<b>15,0%</b>

Source: BDM S.A.

**Sensitivity analysis**

beta	Terminal growth rate			Risk premium	Terminal growth rate			Risk premium	Beta		
	2,5%	3,0%	3,5%		2,5%	3,0%	3,5%		1,3	1,4	1,5
1,3	9,3	9,3	9,5	4,0%	9,8	9,9	10,0	4,0%	10,0	9,9	9,8
1,4	9,0	9,1	9,2	5,0%	9,0	9,1	9,2	5,0%	9,2	9,1	9,0
1,5	8,8	8,8	8,9	6,0%	8,4	8,4	8,5	6,0%	8,5	8,4	8,4

Source: BDM S.A.

**Peer valuation**

	P/E			EV/EBITDA		
	2022F	2023F	2024F	2022F	2023F	2024F
11 bit studios	67,7	9,5	9,1	43,5	7,6	5,4
Artufex Mundi	8,9	5,8	6,8	3,1	2,5	1,8
Big Cheese Studio	9,4	5,9	5,7	7,4	4,1	3,7
BoomBit	13,9	6,3	5,2	3,8	2,3	2,0
CD Projekt	43,7	35,6	47,2	28,5	23,9	29,9
Creepy Jar	10,9	17,4	6,7	7,9	11,6	3,5
Huuuge Games	11,5	10,6	10,9	4,2	3,3	2,6
PCF Group	23,1	22,6	18,3	19,8	17,6	10,8
PlayWay	13,9	12,1	12,2	10,0	8,3	8,4
Ten Square Games	8,0	8,8	8,5	5,1	4,8	4,7
<b>Median</b>	<b>12,7</b>	<b>10,0</b>	<b>8,8</b>	<b>7,6</b>	<b>6,2</b>	<b>4,2</b>
CreativeForge Games	57,2	7,3	4,9	39,2	5,5	2,8
Premium/discount	451,3%	73,2%	55,8%	513,6%	89,0%	66,0%
<b>Valuation [PLN/share]</b>	<b>2,0</b>	<b>12,5</b>	<b>16,4</b>	<b>2,5</b>	<b>10,1</b>	<b>12,2</b>
Year's contribution	33%	33%	33%	33%	33%	33%
<b>Average valuation [PLN/share]</b>		<b>10,3</b>			<b>8,3</b>	
Multiple's contribution		50%			50%	
<b>Value per share [PLN]</b>		<b>9,3</b>				

Source: BDM S.A., Bloomberg

**Main risks:** 1) The risk of diversified and unforeseen demand for different products 2) The risk related to possible delays in game production 3) Risk related to the loss of key employees 4) Risk related to difficulties in acquiring experienced employees 5) The risk related to the possible failure of IT systems, telecommunications infrastructure and servers 6) The risk related to the competitive environment 7) Risk related to the development of new technologies and industry 8) Risk of volatility of foreign exchange rates 9) Risk of aging wishlists

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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>Hold</b>	<b>9,1</b>	<b>Buy</b>	<b>33,7</b>	<b>28.10.2022*</b>	<b>11:30 CEST</b>	<b>9,18</b>	<b>48 970</b>
Buy	33,7	Buy	39,0	13.04.2022*	07:00 CEST	33,5	63 863
Buy	39,0	-	-	17.08.2021*	08:00 CEST	33,5	68 812

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

**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.  
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DCF – the most popular and the most effective of the valuation methods - it is based on the discounting of future cash flows generated by the company. The disadvantage is the high sensitivity to changes in the basic financial parameters forecast in the model (interest rates, exchange rates, profits, residual value).  
 DDM – the method is based on discounting future cash flows from dividends. The advantage of the valuation is the inclusion of future financial results and cash flows from dividends. The main disadvantages are the high sensitivity to changes in the basic financial parameters forecasted in the model (capital cost, profits, residual value) and the risk of changing the dividend payment policy.  
 Comparative – the method is based on current and forecasted market multipliers of companies from the industry or related industries, which better than DCF shows the current market situation. The main disadvantages are the difficulty in choosing the right companies for comparison, the risk of ineffective valuation of companies compared at a given moment, as well as high volatility (along with price fluctuations).

Distribution of BDM's recommendations in 4Q'22*:		, distribution of BDM's recommendations for the companies which BDM has supplied with investment banking services within the last 12 months	
numbers	%	numbers	%
Buy	5 50%	1 100%	
Accumulate	2 20%	0 0%	
Hold	2 20%	0 0%	
Reduce	0 0%	0 0%	
Sell	1 10%	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](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.

The report has been prepared by Dom Maklerski BDM S.A. (hereinafter BDM S.A.) within the Exchange Analytical Coverage Support Programme (<https://www.gpw.pl/gpwp2>). BDM S.A. is a party to the „Agreement on the provision of analytical report services” concluded with the Warsaw Stock Exchange Company („GPW”), on the basis of which BDM provides services of analytical coverage of the Issuer for the term of the Agreement. Under the agreement BDM obtains remuneration from GPW. All materials prepared by BDM within the framework of co-operation are available at <https://www.bdm.pl/program-wsparcia-pokrycia-analitycznego-gpw>.

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We have not identified significant conflicts of interest between BDM and persons associated with BDM and the financial instrument issuer. If a conflict of interest arises BDM shall manage it by applying the principles defined in the “Policy of management of conflicts of interest at the BDM S.A.”. We point out that as for 28.10.2022:

- BDM states and assures that BDM is not involved financially in financial instruments of the Issuer.
- BDM is not a holder of net long or short positions exceeding the threshold of 0,5 % of the total issued share capital of the issuer,
- The person that participated in preparing recommendation is not a holder of net long or short positions exceeding the threshold of 0,5 % of the total issued share capital of the issuer,
- The issuer does not hold shares exceeding 5 % of the BDM issued share capital,
- BDM is not a market maker or liquidity provider in the financial instruments of the issuer,
- BDM has not been lead manager or co-lead manager over the previous 12 months of any publicly disclosed offer of financial instruments of the issuer;
- BDM is not a party to an agreement with the issuer relating to the provision of investment banking services pursuant to art. 69 §2 and 4 of the Act on Trading in Financial Instruments dated 25<sup>th</sup> July 2005,
- BDM is not a party to an agreement with the issuer relating to the provision of investment banking services pursuant to section A and B od Annex I to the Directive 2014/65/EU of the European Parliament and of the Council (hereinafter the Directive 2014/65/EU),
- BDM is not a party to an agreement with the issuer relating to the production of the recommendation,
- There is other significant financial interest that BDM or its related affiliates have in relation to the issuer of financial instruments\*
- There are no significant connections between BDM or its related affiliates and the issuer of financial instruments,
- The person affiliated with BDM who was involved in the preparation of recommendations did not receive or purchase the shares of the issuer, to whom the recommendation relates directly or indirectly, prior to public offering of such shares,
- The person affiliated with BDM who was involved in the preparation of recommendations declares that they respect internal regulations and are subject to organizational and technical solutions and information barriers established by BDM to eliminate any conflicts of interest concerning recommendations and to avoid them,
- The person affiliated with BDM who was involved in the preparation of recommendations was not rewarded in any form by the issuer, to whom the recommendation relates directly or indirectly, or was not directly connected with any possible transactions concerning services defined in art. 69 §2 and 4 of the Act on Trading in Financial Instruments dated 25<sup>th</sup> July 2005.

\*BDM is a party to the “ANALYTICAL REPORT PREPARATION SERVICES AGREEMENT” concluded with the WSE.

According to the best knowledge of the party recommending upon the publication of the report there are no other connections between BDM and the company described in this report that the party preparing this report would know of. However, the investor should be aware that the list disclosing conflicts of interest is long and that in the future there may occur situations leading to conflicts of interest which have not been identified or disclosed at the moment of publication of the report concerned. Especially, the investor should assume that BDM may submit an offer for services to a company or other companies mentioned in this report.

BDM is subject to supervision by the Polish Financial Supervision Commission.

**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.**