



Dom Maklerski BDM S.A.

CREATIVEFORGE GAMES

ANALYTICAL REPORT - SUMMARY

We are disappointed with the results for 4Q'22, which were below our expectations, and throughout 2022, the company generated a loss again. On the other hand, in March CFG released a prologue for their new game "Beer Factory," which reached a peak of 1.3 thousand, the third-highest among all PLW group games, which fills us with optimism about its monetization and potential improvement in results in future periods. The release of this title is scheduled for 2Q'23, and CFG is entitled to 50% of the profit from each copy sold. Based on the prologues of games already released and their subsequent sales, we predict that this title will sell approximately 67 thousand copies throughout 2023. With this in mind, we maintain our HOLD recommendation for CreativeForge Games, setting a target price of 11,8 PLN per share, which is 5% below the current market price.

Results for 4Q'22 are below our expectations

The company's results for 4Q'22 were below our expectations and we perceived them negatively. At the revenue level, CFG generated PLN 1.2 million in the discussed period (-28.3% y/y, -30.6% q/q). The sales revenue amounted to PLN 0.9 million (+44.8% y/y, +12.4% q/q), which were in line with our expectations. The significant decrease in this position was influenced by the change in the product state, which amounted to only PLN 0.2 million (-75.7% y/y, -72.0% q/q) compared to our forecast of PLN 0.9 million. During the discussed period, operating costs decreased by 32.7% y/y, while q/q they increased by 8.4% to PLN 1.7 million, which was higher than our expectations (PLN 1.5 million). We were negatively surprised by the other operating costs, which amounted to PLN 0.4 million (of which PLN 0.3 million was the update of non-financial assets value). At the EBITDA level, the company generated a loss of PLN 0.8 million in 4Q'22 (compared to a loss of PLN 1.6 million in 4Q'21 and a profit of PLN 0.2 million in 3Q'22), while the EBIT amounted to -0.9 million PLN (compared to -1.6 million PLN in 4Q'21 and a profit of 0.2 million PLN in 3Q'22). If we exclude the change in the product state from the company's results, the EBITDA would amount to -1.1 million PLN, compared to our forecast of -0.7 million PLN. In 4Q'22, CFG generated a negative financial result of 1.0 million PLN. In addition, a significant negative impact on the results of the discussed period was a loss (-0.7 million PLN) related to the sale of all or part of shares of subordinate units. In the last period, the company incurred a gross loss of 2.5 million PLN (compared to -2.0 million PLN in 4Q'22, 1.2 million PLN in 3Q'22). In 4Q'22, the net loss amounted to 2.5 million PLN (compared to -1.7 million PLN in 4Q'21, 1.1 million PLN in 3Q'22), while the minority loss was 0.1 million PLN. As of the end of December'22, the company had 0.5 million PLN in cash, which is 0.3 million PLN less q/q. At the end of 2022, CFG no longer has any subsidiaries, only associated companies.

"Beer Factory" prologue with the third highest peak among the games of the PLW group

In the first half of March, the company released a prologue of the game "Beer Factory", which reached a peak of 1.3 thousand, making it the third highest among all games in the PLW group (preceded only by titles such as "The Tenants" and "Perseus"). Its rating is equally impressive, currently exceeding 90% positive reviews. CFG is entitled to 50% of the profit from each copy sold of this game. We assume the premiere of this production in 2Q'23. Based on the prologues of already released games and their subsequent sales, we predict that this title will sell approximately 67 thousand copies throughout 2023 and will significantly impact the company's results during this period.

Further perspective of this year

This year, in addition to the aforementioned game "Beer Factory," we expect the most from titles such as "Colonize" and "Builders of Greece." For the whole of 2023, we forecast revenue of 9.9 million PLN, EBIT of 3.3 million PLN, and net profit of 3.3 million PLN. We hope that after last year's disappointing release of "ACS" and disturbances related to the game "Stargate: Timekeepers" as well as production teams, the releases planned for 2023 will allow the company to strengthen its balance sheet and create a "safety cushion" for the development of further titles. We do not expect that any of the planned releases for this year to be a game-changer. However we expect, that they will generate a satisfactory stream of revenue.

	2019	2020	2021	2022	2023F	2024F	2025F	2026F
Revenues [mln PLN]	1,6	2,8	5,3	4,9	9,9	10,5	10,3	9,5
EBITDA [mln PLN]	-0,1	-1,2	-2,7	-0,9	3,3	2,9	3,7	2,7
EBIT [mln PLN]	-0,2	-1,2	-2,7	-1,0	3,3	2,8	3,7	2,7
Gross income [mln PLN]	-0,2	0,0	-2,5	-1,8	3,3	2,8	3,7	2,7
Net income [mln PLN]	-0,2	0,1	-1,9	-1,8	3,3	2,6	3,3	2,5
P/BV	4,7	4,6	3,6	5,9	3,7	2,9	2,2	2,1
P/E	-	-	-	-	10,0	12,6	10,0	13,6
EV/EBITDA	-	-	-	-	8,7	9,2	6,4	8,3
EV/EBIT	-	-	-	-	8,8	9,2	6,4	8,4
DPS	0,0	0,0	0,0	0,0	0	0,0	0,0	0,6
DY	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	5,0%

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

HOLD

(PREVIOUS: HOLD)

TARGET PRICE 11,8 PLN

13 APRIL 2023, 08:00 CEST

Target price [PLN]	11,8
Price upside/downside	5%
Cost of capital	16,8%
Price [PLN]	12,5
Market cap [mln PLN]	33,3
Shares [mln.]	2,7
Max. price 6M [PLN]	13,8
Min. price 6m [PLN]	8,5
Rate of return 3M	20,8%
Rate of return 6M	26,5%
Rate of return 9M	-33,0%
Shareholders (% of votes):	
PlayWay	47,8%
Andrzej Goczoł	10,5%
Capeman Investments Limited	8,4%
Jarosław Dąbrowski	7,3%
Others	26,0%

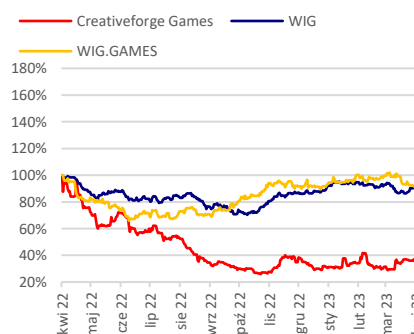
Krzysztof Tkocz

krzysztof.tkocz@bdm.com.pl

tel. (+48) 516 086 705

Dom Maklerski BDM S.A.

ul. 3-go Maja 23, 40-096 Katowice



Valuation summary

	Share	Valuation
DCF valuation	70%	11,9
Peer valuation	30%	11,8
Target price [PLN]		11,8

Source: BDM S.A.

DCF valuation

	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F
Revenues [mln PLN]	9,9	10,5	10,3	9,5	11,0	15,7	12,4	13,6	16,6	14,5
EBIT [mln PLN]	3,3	2,8	3,7	2,7	4,4	7,7	5,5	5,4	8,2	6,7
Tax rate	0,0%	7,1%	10,0%	10,0%	10,0%	10,0%	10,0%	10,0%	10,0%	10,0%
Tax on EBIT [mln PLN]	0,0	0,2	0,4	0,3	0,4	0,8	0,5	0,5	0,8	0,7
NOPLAT [mln PLN]	3,3	2,6	3,3	2,5	3,9	6,9	4,9	4,9	7,4	6,0
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]	0,4	0,3	-0,8	0,1	-0,4	-0,3	-1,1	0,9	-0,7	-0,4
FCF [mln PLN]	3,8	3,0	2,5	2,5	3,5	6,6	3,8	5,8	6,6	5,6
DFCF [mln PLN]	3,6	2,4	1,7	1,5	1,8	2,9	1,4	1,8	1,8	1,3
Total DFCF [mln PLN]	20,3									
Terminal value [mln PLN]	40,3									
Discounted terminal value [mln PLN]	9,4									
Enterprise value [mln PLN]	29,8									
Net debt 2022 [mln PLN]	-0,5									
Other financial assets [mln PLN]	1,3									
Equity value [mln PLN]	31,6									
Number of shares [mln]	2,7									
Value per share [PLN]	11,9									

Terminal growth rate: 3,0%

WACC calculation

	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F
Risk-free rate	6,0%	6,0%	6,0%	6,0%	6,0%	6,0%	6,0%	6,0%	6,0%	6,0%
Risk premium	6,5%	6,5%	6,5%	6,5%	6,5%	6,5%	6,5%	6,5%	6,5%	6,5%
Beta	1,20	1,20	1,20	1,20	1,20	1,20	1,20	1,20	1,20	1,20
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	16,8%	16,8%	16,8%	16,8%	16,8%	16,8%	16,8%	16,8%	16,8%	16,8%
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	7,5%	7,0%	6,8%	6,8%	6,8%	6,8%	6,8%	6,8%	6,8%	6,8%
Contribution of debt	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
WACC	16,8%	16,8%	16,8%	16,8%	16,8%	16,8%	16,8%	16,8%	16,8%	16,8%

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%			1,1	1,2	1,3
1,1	12,3	12,4	12,6		5,5%	12,7	12,9	13,1		5,5%	13,1	12,9	12,8
1,2	11,7	11,9	12,0		6,5%	11,7	11,9	12,0		6,5%	12,0	11,9	11,7
1,3	11,2	11,3	11,5		7,5%	10,8	11,0	11,1		7,5%	11,1	11,0	10,8

Source: BDM S.A.

Peer valuation

	P/E			EV/EBITDA		
	2023F	2024F	2025F	2023F	2024F	2025F
11 bit studios	29,2	8,1	7,9	20,0	5,0	5,1
Artufex Mundi	13,9	13,0	-	7,1	5,2	-
Big Cheese Studio	11,3	7,7	-	8,9	5,7	-
BoomBit	13,5	9,0	-	5,0	3,5	-
CD Projekt	25,9	42,1	66,8	16,6	25,0	26,8
Creepy Jar	21,0	8,6	7,5	16,1	5,4	4,4
Huuuge Games	10,2	10,7	10,9	3,4	2,9	3,1
PCF Group	44,5	20,6	5,9	21,3	10,7	-
PlayWay	16,0	16,1	11,5	11,1	11,0	7,8
Ten Square Games	6,5	7,0	7,5	3,8	4,1	3,7
Median	14,9	9,8	7,9	10,0	5,3	4,8
CreativeForge Games	10,0	12,6	10,0	8,7	9,2	6,4
Premium/discount	-33,1%	28,2%	27,9%	-12,8%	72,5%	33,8%
Valuation [PLN/share]	18,7	9,8	9,8	14,1	8,4	10,3
Year's contribution	33%	33%	33%	33%	33%	33%
Average valuation [PLN/share]		12,7			10,9	
Multiple's contribution		50%			50%	
Value per share [PLN]		11,8				

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

RESEARCH DEPARTMENT:

Maciej Bobrowski
 Director
 tel. (032) 208 14 12
 e-mail: maciej.bobrowski@bdm.pl
[strategy, industry, media/entertainment, TMT](#)

Krzysztof Pado
 Deputy Director
 Investment Adviser
 tel. (032) 208 14 35
 e-mail: krzysztof.pado@bdm.pl
[oil&gas, construction, building materials, real estate](#)

Krzysztof Tkocz
 Analyst
 tel. (032) 208 14 38
 e-mail: krzysztof.tkocz@bdm.pl
[gaming](#)

Anna Tobiasz
 Junior analyst
 Investment Adviser
 tel. (032) 208 14 35
 e-mail: anna.tobiasz@bdm.pl

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

Piotr Komorowski
 tel. (022) 62-20-851
 e-mail: piotr.komorowski@bdm.pl

Ratings and price targets history:

rating	price target	previous rating	previous target price	report date	report date (hour)	price	WIG
Hold	11,8	Hold	9,1	13.04.2023*	08:00 CEST	12,5	60 263
Hold	9,1	Buy	33,7	28.10.2022*	11:30 CEST	9,18	48 970
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.
 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.

The strengths and weaknesses of the valuation methods used in the report:

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 2Q'23*:		, distribution of BDM's recommendations for the companies which BDM has supplied with investment banking services within the last 12 months		
	numbers	%	numbers	%
Buy	1	50%	0	0%
Accumulate	0	0%	0	0%
Hold	1	50%	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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For the first time this report has been made available to the public on 13.04.2023 (08:00 CEST). Date of preparing the report is the date of making it accessible. Before the recommendation was made accessible, information included in it had been confidential.

The prices of the financial instruments listed in the document have been taken from the real-time pricing as provided by Bloomberg. Data concerning financial instrument prices used in the report could be loaded to 24 hours before the moment of completing the report.

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- 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,
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- 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 25th 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 25th July 2005.

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 a party to the “ANALYTICAL REPORT PREPARATION AGREEMENT” concluded with the WSE.

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

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