



Dom Maklerski BDM S.A.

# FOREVER ENTERTAINMENT

## ANALYTICAL REPORT - SUMMARY

We maintain a positive attitude to values of Forever Entertainment and we issue a BUY recommendation, setting our target price at PLN 7,2/share (the decrease in valuation is related to an increase in the risk-free rate). In the latest record results for Q2'22, which the company owes to the premiere of the game "The House of The Dead: Remake", the biggest positive surprise was the division of revenues with the game developer and the owner of this IP. Our calculations indicate a level of approx. 35-40% (vs. 67% our assumptions from the last recommendation). However, please note that it may be higher in the following quarters, due to the priority of the production and release cost recovery for this game in that quarter. We expect it to be lower than our earlier assumptions, which translates into higher profitability. The most important premiere from the current (revealed) portfolio of titles - "Front Mission 1st: Remake" is ahead of us. We forecast that in Q4'22 this title will sell approx. 120 thousand copies., which will generate revenues of PLN 9.9 million in revenues. Throughout 2022. we estimate the company's net profit at PLN 15.4m, which will translate into an attractive P/E ratio of 9x. Moreover, we expect that the year 2023. will be "packed" with strong premieres of remakes, incl. such titles as "FM2", "FM3", "THoTD 2" or "PD 2" which will bring further dynamic result progression.

### Record results for Q2'22 generated thanks to the game "THoTD"

In our previous report, we forecasted lower results, assuming other important debuts in Q2'22, which, however, did not take place in this period. Hence, we are positively surprised by the results of the game "The House of The Dead: Remake", which, according to our estimates, sold around 130,000 copies in the discussed period (vs our assumptions of 240 thousand throughout 2022). In addition, we were positively surprised by the division of revenues with the game developer and the owner of IP, according to our estimates, in Q2'22 it is at the level of approx. 35-40% (vs 67% of our assumptions from the last recommendation). However, please note that it may be higher in the following quarters, due to the priority reimbursement of production and release costs for this game (Q2'22). Nevertheless, we expect that it be lower than our previous assumptions, currently we assume the level of 60% for this IP. In addition, we would like to draw your attention to the information from the MegaPixel Studio report on research on "light-gun", the addition of which may have an impact on a significant increase in sales of „THoTD” in the following periods.

### The premiere of the largest IP in the portfolio of the company "FM 1st: Remake"

We are waiting for the premiere of the most important (in terms of monetization potential) production from the company's game portfolio, ie "Front Mission 1st: Remake". According to the company's announcements, the title will appear in November '22. Due to the fact that this production will provide a much more hours of play (approx. 35-40 hours) compared to the previous remakes, we expect a higher price, at 35 USD. In addition, we assume that the internal FOR team is responsible for the development of this IP, hence the division of revenues from each copy with the IP owner may be approx. 50%/50%. We assume that in Q4'22 this title will sell in 120 thousand. copies, which will translate into PLN 9,9 million in revenues

### Further perspective of 2022

We expect that in Q3'22 FOR sold 35-40 thousand copies of the game "THoTD", and in the entire last quarter the company generated PLN 10.7 million in revenues (+ 40% y/y). Due to the further intensive expansion of teams and wage pressure, we expect a significant increase in salaries. We forecast PLN 1.6m at the EBIT level. Due to the fact that MegaPixel is very involved in other projects, we are moving "PD2" in our model to the beginning of 2023. Moreover, considering the latest information on the progress of work on "Fear Effect Reinvented", we expect the game to debut in Q1'23. Despite these shifts, we forecast that FOR throughout 2022 will generate a net profit of PLN 15.4m, which will translate into an attractive P/E ratio of 9x.

### Vision of intense 2023

Due to the work on "FM2" and "FM3", which has been going on for about a year, we expect that a game publisher may attempt a new type of sales campaign for this IP. In our opinion, there is a big chance that the premieres of these three titles will take place every six months. The increase in our forecasts versus our last recommendation is due to the inclusion of "FM3" in our model. However, we assume that FM2 and 3 will have lower profitability than FM 1, due to the share in production of FOR group companies (Storm Trident, MegaPixel). Additionally, in 2023 we expect the premieres of such remakes as "THoTD 2", "Fear Effect Reinvented" or "Panzer Dragon 2".

### Further development plans of the company

In addition, we would like to point out that Forever Entertainment is in advanced talks on obtaining new licenses for the release of remakes of classic games, much larger than before. Additionally, FOR hopes that with the release of the game "Fear Effect Reinvented" it will show potential partners that apart from working on remakes, it can also create game from scratch based on licenses (eg in the same way as in the case of "Resident Evil 2").

	2018	2019	2020	2021	2022F	2023F	2024F	2025F
Revenues [mIn PLN]	9,8	13,7	27,3	25,8	58,5	100,0	95,2	85,1
EBITDA [mIn PLN]	3,9	5,6	9,2	2,2	18,7	30,0	30,8	26,2
EBIT [mIn PLN]	3,4	3,5	8,0	1,0	18,1	29,6	30,4	25,7
Gross income [mIn PLN]	3,3	7,1	18,1	2,3	18,7	29,6	30,4	25,7
Net income [mIn PLN]	3,3	6,4	14,3	1,6	15,4	24,2	24,9	21,1
P/BV	13,8	8,6	4,7	4,5	3,1	2,2	2,0	1,9
P/E	43,6	22,3	10,0	91,4	9,3	5,9	5,8	6,8
EV/EBITDA	36,4	25,6	15,2	63,1	7,3	3,9	3,7	4,3
EV/EBIT	42,8	41,1	17,4	135,1	7,5	4,0	3,7	4,4
DPS	0	0	0	0	0,0	0,2	0,7	0,7
DY	0,0%	0,0%	0,0%	0,0%	0,6%	3,8%	12,7%	13,0%

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. 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.

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

# BUY

(PREVIOUS: BUY)

## TARGET PRICE 7,2 PLN

12 OCTOBER 2022, 11:30 CET

Target price [PLN]	7,2
Price upside/downside	36%
Cost of capital	14,5%
Price [PLN]	5,27
Market cap [mIn PLN]	143,3
Shares mln. szt.]	27,2
Max. price 6M [PLN]	6,7
Min. price 6m [PLN]	4,3
Rate of return 3M	+10,6%
Rate of return 6M	-19,3%
Rate of return 9M	-18,3%
Shareholders (% of votes):	
Marek Bednarski with related persons	24,7%
Grzegorz Maciag	9,7%
Zbigniew Dębicki	8,0%
Others	62,4%

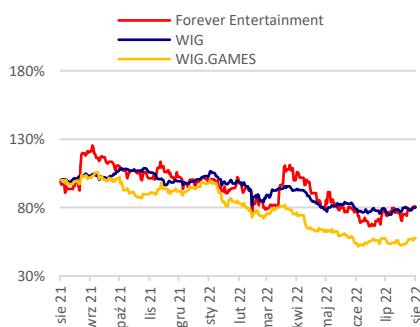
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**Valuation summary**

	Share	Valuation
DCF valuation	70%	7,2
Peer valuation	30%	7,1
<b>Target price [PLN]</b>		<b>7,2</b>

Source: BDM S.A.

**DCF valuation**

	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F
Revenues [mln PLN]	58,5	100,0	95,2	85,1	79,0	85,1	88,7	98,2	95,7	103,6
EBIT [mln PLN]	18,1	29,6	30,4	25,7	22,4	24,0	24,8	28,0	26,9	28,6
Tax rate	17,8%	18,0%	18,0%	18,0%	18,0%	18,0%	18,0%	18,0%	18,0%	18,0%
Tax on EBIT [mln PLN]	3,2	5,3	5,5	4,6	4,0	4,3	4,5	5,0	4,8	5,2
NOPLAT [mln PLN]	14,9	24,2	24,9	21,1	18,3	19,7	20,3	23,0	22,0	23,5
Amortization [mln PLN]	0,6	0,4	0,4	0,4	0,4	0,4	0,4	0,5	0,5	0,5
CAPEX [mln PLN]	0,3	0,4	0,4	0,4	0,4	0,5	0,5	0,5	0,6	0,6
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]	-9,4	0,2	-3,3	-1,2	-1,3	-1,2	-1,3	-1,3	-1,3	-1,6
FCF [mln PLN]	6,4	25,3	22,5	20,7	17,9	19,4	19,9	22,6	21,8	23,0
DFCF [mln PLN]	6,2	21,5	16,6	13,4	10,1	9,5	8,6	8,5	7,2	6,6
Total DFCF [mln PLN]	108,2									
Terminal value [mln PLN]	189,6									
Discounted terminal value [mln PLN]	54,4									
Enterprise value [mln PLN]	162,6									
Net debt 2021 [mln PLN]	-4,7									
Dividend [mln PLN]	0,8									
Other financial assets [mln PLN]	28,2									
<b>Equity value [mln PLN]</b>	<b>194,7</b>									
Number of shares [mln]	27,2									
<b>Value per share [PLN]</b>	<b>7,2</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	1,3	1,3	1,3	1,3	1,3	1,3	1,3	1,3	1,3	1,3
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	14,5%	14,5%	14,5%	14,5%	14,5%	14,5%	14,5%	14,5%	14,5%	14,5%
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	7,8%	7,8%	7,8%	7,8%	7,8%	7,8%	7,8%	7,8%	7,8%	7,8%
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>14,5%</b>	<b>14,5%</b>	<b>14,5%</b>	<b>14,5%</b>	<b>14,5%</b>	<b>14,5%</b>	<b>14,5%</b>	<b>14,5%</b>	<b>14,5%</b>	<b>14,5%</b>

Source: BDM S.A.

**Sensitivity analysis**

	Terminal growth rate				Risk premium	Terminal growth rate				Risk premium	Beta		
	1,2	2,5%	3,0%	3,5%		2,5%	3,0%	3,5%	1,2		1,3	1,4	
beta	1,2	7,3	7,4	7,5	4,0%	7,7	7,9	8,0	4,0%	8,0	7,9	7,8	
	1,3	7,1	7,2	7,3	5,0%	7,1	7,2	7,3	5,0%	7,2	7,2	7,1	
	1,4	6,8	6,9	7,0	6,0%	6,5	6,6	6,7	6,0%	6,7	6,6	6,5	

Source: BDM S.A.

**Peer valuation**

	P/E			EV/EBITDA		
	2022F	2023F	2024F	2022F	2023F	2024F
11 bit studios	80,3	9,3	9,0	41,9	7,2	5,9
Artufex Mundi	6,4	3,9	3,9	2,5	1,5	0,8
Big Cheese Studio	10,0	6,3	6,1	7,9	4,4	4,0
BoomBit	8,2	5,7	4,9	3,0	2,4	2,3
CD Projekt	42,5	34,5	45,7	27,1	22,4	27,2
Creepy Jar	12,0	14,8	7,1	9,0	9,3	3,3
Huuuge Games	10,1	9,4	9,5	2,9	2,1	1,4
PCF Group	19,2	16,9	13,8	15,8	13,1	9,7
PlayWay	13,8	12,1	12,0	9,8	8,2	8,2
Ten Square Games	8,7	9,4	8,4	5,6	5,6	5,0
<b>Median</b>	<b>11,0</b>	<b>9,4</b>	<b>8,7</b>	<b>8,4</b>	<b>6,4</b>	<b>4,5</b>
Forever Entertainment	9,3	5,9	5,8	7,3	3,9	3,7
Premium/discount	84,4%	63,1%	66,3%	86,0%	61,1%	81,7%
<b>Valuation [PLN/share]</b>	6,2	8,4	8,0	6,1	8,0	6,2
Year's contribution	33%	33%	33%	33%	33%	33%
<b>Average valuation [PLN/share]</b>		<b>7,5</b>			<b>6,8</b>	
Multiple's contribution		50%			50%	
<b>Value per share [PLN]</b>		<b>7,1</b>				

Source: BDM S.A., Bloomberg;

**Main risks:** 1) Risk related to strategic goals 2) Risk related to the possibility of not obtaining the necessary concessions and licenses 3) The risk related to possible delays in game production 4) Risk related to the loss of key employees 5) Risk related to difficulties in acquiring experienced employees 6) The risk related to the possible failure of IT systems, telecommunications infrastructure and servers 7) The risk related to the competitive environment 8) Risk related to the development of new technologies and industry 9) Risk of volatility of foreign exchange rates

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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>7,2</b>	<b>Buy</b>	<b>8,0</b>	<b>12.10.2022*</b>	<b>11:30 CET</b>	<b>5,27</b>	<b>46 169</b>
Buy	8,0	Buy	9,4	24.03.2022*	08:00 CET	5,23	64 374
Buy	9,4	-	-	01.09.2021*	07:00 CEST	5,92	70 930

\* 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	4	57%	1	100%
Accumulate	2	29%	0	0%
Hold	0	0%	0	0%
Reduce	0	0%	0	0%
Sell	1	14%	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.

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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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The report was not transferred to the issuer prior to its publication.

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BDM is not obliged to take any actions which could cause financial instruments that are the subject of the valuation contained in this document to be valued by the market in accordance with the valuation contained in this document.

The investor should assume that BDM employees or proxies or shareholders may hold long or short positions in the issuer’s shares or other financial instruments related to the issuer’s shares; this particularly concerns the situation of holding not more than 5% of the capital, and they may also carry out transactions on them as proxies.

Each of the above-mentioned persons could carry out transaction relating to the financial instruments concerned prior to this publication. At the same time, however, the instruments concerned are entered in the restrictive list for employees of the Analysis Department immediately at the start of work on the report.

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 12.10.2022:

- BDM states and assures that BDM is 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 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 a party to an agreement with the issuer relating to the production of the recommendation,
- There is no other significant financial interest that BDM or its related affiliates have in relation to the issuer of financial instruments,
- There are 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.

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**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.**