



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

			2020	2021
Price [PLN]	5,96	P/E	11,4	103,4
MC [mln PLN]	162,1	EV/EBITDA	17,3	71,6
		EV/EBIT	19,7	153,4
		P/BV	5,3	5,1

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Last recommendation BDM: BUY with target price 7,2 PLN/share (2022/10/12) [LINK](#)

Q3'22 results [mln PLN]

	Q3'21	Q3'22	change y/y	Q3'22E	Dev.	Q3'22 BDM	dev.
Sales	7,7	11,8	54,3%	11,7	1,3%	10,7	10,2%
Gross profit	1,6	2,3	39,4%	-	-	1,6	40,8%
EBITDA	2,1	2,4	19,0%	-	-	1,7	42,4%
EBITDA adj.*	2,1	3,0	48,2%	-	-	2,3	31,4%
EBIT	1,8	2,4	34,1%	2,2	7,0%	1,6	46,4%
Profit before tax	2,0	2,7	36,2%	-	-	1,6	64,5%
Net profit	1,6	1,8	15,8%	1,7	7,5%	1,3	39,1%
Net profit adj*	1,6	2,3	46,3%	2,2	5,5%	1,7	34,7%
Gross margin	21,3%	19,2%		-		15,0%	
EBITDA margin	26,8%	20,7%		-		16,0%	
EBITDA margin adj.*	26,8%	25,7%		-		21,6%	
EBIT margin	23,0%	20,0%		18,9%		15,0%	
Net margin	20,6%	15,5%		14,6%		12,3%	
Net margin adj.*	20,6%	19,5%		18,8%		16,0%	

Source: BDM S.A., company ;* adj. - by PLN 0,6 million, ie by the value of the provision for future liabilities

BDM Comment: The final results of Forever Entertainment for Q3'22 turned out to be slightly higher than the previously presented estimates. As indicated in our recent comments, we are positively surprised by the company's results for the past quarter. In our last report ([Forever Entertainment Buy 7,2 PLN](#)), we forecast lower results. Over the discussed quarter, the company generated PLN 11.8 million in revenues (+ 54.3% y/y) - of which PLN 9.8 million relates to revenues from the sale of products - an increase by 45.9% y/y, and the rest that is PLN 2.0 million until the change in the state of products - an increase by 114.0% y/y. The premiere of the game "THE HOUSE OF THE DEAD: Remake", which generated the highest sales revenues in the company's history so far, had the greatest impact on the increase in the company's revenues in Q3'22. Another significant factor in the increase in revenues in the periods discussed was the settlement of advances for the production of games, which reflects the acceptance of subsequent stages of their implementation. We estimate that in the discussed period, sales of the above-mentioned title were at the level of approx. 35-40 thousand. copies. The company's operating expenses in Q3'22 increased by PLN 3.5m, i.e. by 58.3% y/y, to PLN 9.6m. The increase in the value of the company's operating costs was mainly related to the increase in the costs of external services by PLN 3.0 million, i.e. by 74.5% y/y to the amount of PLN 7.0 million for 3Q'22. The amount of external services includes the value of the provision in the amount of (PLN 0.6 million for 3Q'22), created for future costs of settlements with contractors due to their share in profits from the sale of games ("revenue share"). The second significant operating cost was the cost of salaries and social security, for Q3'22 they totaled PLN 2.3 million and were 41.2% higher y/y compared to Q3'21. Employment increase over the year in the group at the level of 35%. The company's EBIT in 3Q'22 amounted to PLN 2.4 million (+ 34.1% y/y), while the company's EBITDA for the period in question was PLN 2.4 million (+ 19.0% y/y). In terms of financial activity, the company generated PLN 0.2m. The net profit for the period in question amounted to PLN 2.3 million and was higher by 46.3% compared to Q3'21. Without the RS provision, FOR's net profit would have been PLN 2.3m for Q3'22. At the end of Q3'22, the company had PLN 2.6m in cash and other assets (PLN - 0.3m q/q). Receivables from other entities decreased q/q by PLN 2.2m to PLN 6.1m. Provisions for liabilities increased by PLN 0.6m q/q to PLN 4.5m. Short-term liabilities fell by PLN 2.9m q/q to PLN 4.5m. The operating CF amounted to -11 thousand. PLN, CF investment = -0.2 million PLN, CF financial = -4.9 thousand. PLN. Most of the titles for which he is the producer and publisher are listed in the release schedule. In addition to them, the company together with entities from the group also realizes the titles not yet disclosed. **We would like to remind you that the premiere of the most important production of FOR now, ie "FRONT MISSION 1st: Remake" will take place on November 30, 2022 (presale will start on November 16, 2022).**



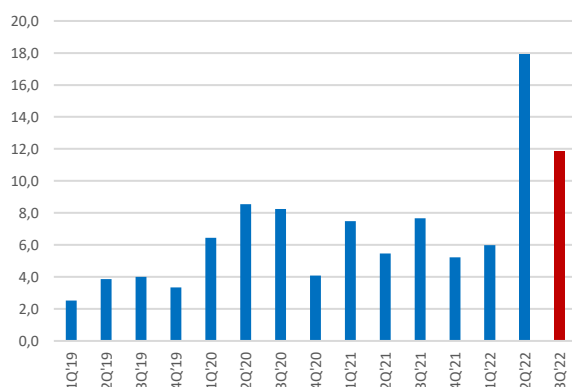
- The company's revenues for Q3'22 amounted to PLN 11.8 million and were higher by 54.3% y/y (of which PLN 9.8 million relates to revenues from sales of products - an increase by 45.9% y/y, and the rest, i.e. PLN 2.0 million, until the change in the state of products - an increase by 114.0% y/y).
- The premiere of the game "THE HOUSE OF THE DEAD: Remake", which generated the highest sales revenues in the company's history so far, had the greatest impact on the increase in the company's revenues in 3Q'22. Another significant factor in the increase in revenues in the periods discussed was the settlement of advances for the production of games, which reflects the acceptance of subsequent stages of their implementation.
- Currently, Forever Entertainment implements independently or finances or contracts the implementation of several remake games to development studios in which it has shares. Most of the titles for which it is the producer and publisher are listed on the schedule of prime ministers. In addition to them, the company, together with entities from the group, also realizes the titles not yet disclosed. **The budgets of currently produced games are much higher than the ones made in previous years. The increase in gaming budgets may be confirmed by the increase in employment (excluding company governing bodies) at the end of September 2022 in FE and the FE Group by 35% y/y.**
- The company's operating expenses increased by PLN 3.5m, i.e. by 58.3% y/y to PLN 9.6m in Q3'22.
- The increase in the value of the company's operating expenses was mainly related to the increase in the costs of external services by PLN 3.0 million, i.e. by 74.5% y/y to PLN 7.0 million for 3Q'22. The amount of external services includes the value of the provision in the amount of (PLN 0.6 million for Q3'22) created for future costs of settlements with contractors due to their share in the profits from the sale of games ("revenue share"). Without the RS provision, FE's net profit would have been PLN 2.3m for Q3'22.
- The second significant operating cost was payroll and social security costs for Q3'22, totaling PLN 2.3m, and were 41.2% higher y/y compared to Q3'21.
- EBIT for 3Q'22 amounted to PLN 2.4 million (+ 34.1% y/y), while the value of the company's EBITDA profit for the discussed period was PLN 2.4 million (+ 19.0% y/y).
- On the financial activity level, the company generated PLN 0.2 million.
- Net profit for Q3'22 amounted to PLN 2.3 million and was higher by 46.3% compared to Q3'21.
- Operating profitability EBITDA decreased to 20.7% for Q3'22 from 26.8% for Q3'22, with operating profit margin falling to 20.0% from 23.0% in the compared quarters. In the discussed period, FOR's net profitability fell to 15.5% compared to 20.6% in Q3'21.
- At the end of Q3'22, the company had PLN 2.6m in cash and other assets (-PLN 0.3m q/q). Receivables from other entities decreased q/q by PLN 2.2m to PLN 6.1m. Provisions for liabilities increased by PLN 0.6m q/q to PLN 4.5m. Short-term liabilities fell by PLN 2.9m q/q to PLN 4.5m. The operating CF amounted to -11 thousand. PLN, CF investment = -0.2 million PLN, CF financial = -4.9 thousand. PLN.
- At the end of Q3'22, inventories decreased by PLN 0.5 million: finished products increased by PLN 0.2 million, advance payments for deliveries decreased and services by PLN 0.6 million, a decrease in semi-finished products by PLN 0.1 million.
- The most important event in Q3'22 was the presentation at the Nintendo Direct conference of another film material (gameplay) of the game FRONT MISSION 1st: Remake (preorders: 16/11/2022, premiere: 30/11/2022).
- At the same global event, the first footage of the upcoming FE Group production: FRONT MISSION 2: Remake was presented. In the case of this title, it will be the first official release of this game outside of the Japanese market. The new version of the game will be characterized by completely new graphics and a few gameplay modifications, thanks to which the game will become more attractive to modern players, while remaining faithful to the original in terms of plot. The premiere of FRONT MISSION 2: Remake is scheduled for 2023.
- Moreover, the third major title from the Company's portfolio has been announced at Nintendo Direct: FRONT MISSION 3: Remake. This event strengthened the promotion of the aforementioned titles, and significantly contributed to the recognition of the Company in the world, and this will translate into obtaining attractive licenses.
- Magical Drop VI - the premiere of the game is scheduled for the winter of 2022/2023.
- In Q3'22, the company continued work on creating tools enabling the transfer of mechanics and the implementation of code fragments of titles from (consoles) older generations in order to accelerate the implementation of game remakes implemented by the company. In addition, the implementation of a tool facilitating prototyping of the mechanics of new titles was started.
- UF GAMES - works related to the introduction of all UF GAMES shares to trading in the ASO on NewConnect are in progress. Two titles achieved record sales on the Nintendo Switch console. Exceeding the number of 1,400,000 units sold is a huge success. pieces and 938 thousand. pieces by Thief Simulator and Cooking Simulator respectively. These two titles have been at the top of Nintendo Switch sales lists on various continents for many quarters. On November 2, 2022. Management Board of the Warsaw Stock Exchange S.A. adopted a resolution on introducing series A, B and C ordinary bearer shares to the alternative trading system on the NewConnect market.
- As of September 30'22, the company employed a total of 69 people, including 37 people under a contract of employment (32 full-time people) and 32 people on the basis of civil law and B2B contracts.
- The current schedule of premieres: <https://forever-entertainment.com/premiery,4,pl>.

Results in previous quarters [mIn PLN]

Results Q [mIn PLN]	1Q'19	2Q'19	3Q'19	4Q'19	1Q'20	2Q'20	3Q'20	4Q'20	1Q'21	2Q'21	3Q'21	4Q'21	1Q'22	2Q'22	3Q'22	2018	2019	2020	2021
Sales	2,5	3,9	4,0	3,3	6,5	8,5	8,2	4,1	7,5	5,5	7,7	5,2	6,0	17,9	11,8	9,8	13,7	27,3	25,8
Gross profit	0,9	1,3	1,2	-0,6	4,2	2,2	1,5	-0,3	2,4	-1,8	1,6	-1,5	-0,2	6,7	2,3	3,0	2,9	7,5	0,8
EBITDA	1,1	1,9	2,1	0,6	4,5	2,7	1,9	0,1	2,8	-1,3	2,1	-1,4	0,3	6,9	2,4	3,9	5,6	9,2	2,2
EBIT	1,0	1,5	1,4	-0,4	4,2	2,5	1,6	-0,2	2,6	-1,6	1,8	-1,7	0,0	6,8	2,4	3,4	3,5	8,0	1,0
Profit before tax	1,0	3,7	1,4	1,0	4,2	12,4	1,7	-0,3	2,6	-0,6	2,0	-1,7	0,2	7,3	2,7	3,3	7,1	18,1	2,3
Net profit	1,0	3,5	1,2	0,8	3,6	9,8	1,4	-0,6	2,1	-0,6	1,6	-1,6	0,2	6,0	1,8	3,3	6,4	14,3	1,6
Sales change y/y	122,3%	79,3%	3,8%	26,2%	156,5%	121,2%	105,6%	22,3%	15,9%	-36,0%	-7,0%	27,9%	-20,1%	227,8%	54,3%	-	40,1%	99,0%	-5,4%
Net profit change y/y	145,5%	397,0%	-13,6%	-5,5%	276,1%	178,7%	21,0%	-	-42,0%	-	11,6%	170,4%	-90,6%	-	46,3%	-	95,9%	121,7%	-89,0%
Gross margin	37,6%	35,0%	29,3%	-16,9%	64,9%	25,6%	17,7%	-7,7%	31,6%	-32,3%	21,3%	-28,1%	-2,9%	37,4%	19,2%	30,7%	21,2%	27,5%	3,0%
EBITDA margin	41,9%	48,9%	52,1%	16,9%	69,2%	32,1%	22,8%	1,5%	37,8%	-24,2%	26,8%	-26,1%	5,8%	38,1%	20,7%	40,2%	40,8%	33,5%	8,5%
EBIT margin	39,6%	38,5%	35,1%	-12,0%	64,9%	28,9%	19,4%	-5,2%	34,1%	-29,7%	23,0%	-31,9%	0,7%	33,6%	20,0%	34,2%	25,4%	29,4%	4,0%
Net margin	38,5%	91,1%	29,2%	23,5%	56,4%	114,8%	17,2%	-14,2%	28,2%	-10,2%	20,6%	-29,9%	3,3%	17,9	15,5%	33,5%	46,9%	52,3%	6,1%

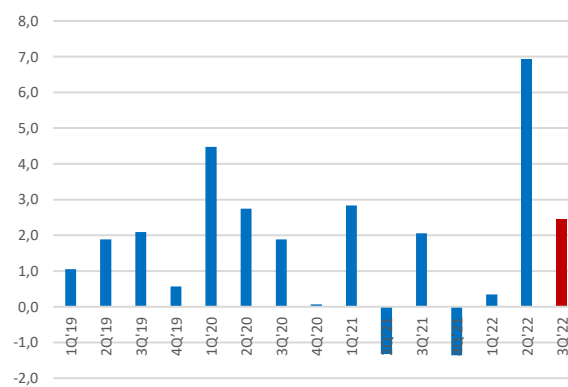
Źródło: BDM S.A., company

Sales [mIn PLN]



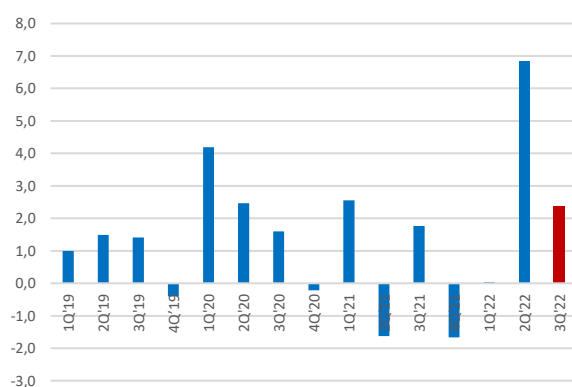
Źródło: Dom Maklerski BDM S.A., company

EBITDA [mIn PLN]



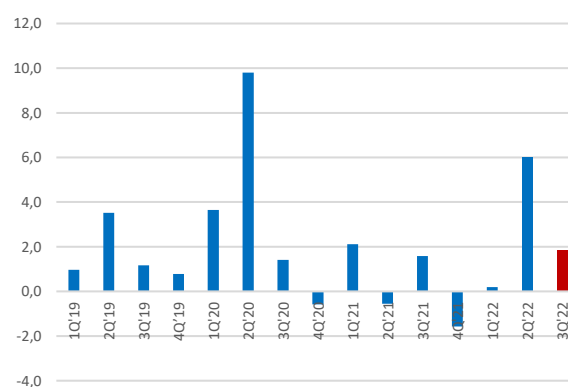
Źródło: Dom Maklerski BDM S.A., company

EBIT [mIn PLN]



Źródło: Dom Maklerski BDM S.A., company

Net profit [mIn PLN]



Źródło: Dom Maklerski BDM S.A., company



Dom Maklerski BDM S.A.

ANALYST COMMENT – FOREVER
ENTERTAINMENT

Q3'22 RESULTS

2022/11/04, 9:15 CEST

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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
Buy	7,2	Buy	8,0	12.10.2022*	11:30 CET	5,27	46 169
Buy	8,0	buy	9,4	24.03.2022*	08:00 CEST	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 Support Programme.

Distribution of BDM's recommendations in Q4'22*:

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

	number	%	number	%
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

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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.

Detailed list of all analytical reports (recommendations) published by BDM during the last 12 months is included in a cyclical “Monthly Report”.

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- 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 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 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 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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