



Dom Maklerski BDM S.A.

FOREVER ENTERTAINMENT

ANALYTICAL REPORT - SUMMARY

Forever Entertainment's results for 4Q'22, at the level of adjusted EBITDA and net profit, turned out to be significantly better than our expectations, and the company achieved record figures throughout 2022 (adjusted EBITDA of PLN 15.0 million, which is +582% y/y, and net profit of PLN 11.9 million, which is +659% y/y). The company enters the current year with advanced productions of many remakes. In 2023, we expect debuts of titles such as "FM2", "PD2", "Shadowgate 2" and "Fear Effect: Reinvented." Considering the high density of significant premieres, we expect FOR to significantly scale its results. We forecast that the company will achieve a net profit of PLN 19,3 million (+62% y/y) throughout 2023, which translates into an attractive P/E ratio of 7x. With this in mind, we maintain our BUY recommendation for Forever Entertainment, setting a target price of 6,8 PLN per share, which is 41% above the current market price.

Good results for 4Q'22

Forever Entertainment's results for 4Q'22 at a adjusted EBITDA and net profit level turned out to be significantly better than our expectations. Throughout the discussed quarter, the company generated PLN 9.5 million in revenue (+82.3% y/y), of which PLN 8.9 million was from the sale of product (an increase of 92.6% y/y), which was close to our forecasts. The biggest impact on the company's revenue growth in 4Q'22 was the release of the game "FRONT MISSION 1st: Remake" (according to our estimates, it sold about 50,000 copies exclusively on NS in the quarter) and the sales of "THE HOUSE OF THE DEAD: Remake" released during 2022 (on all major platforms). We were positively surprised by the operating expenses (PLN 7.0 million), especially the cost of external services (PLN 4.7 million), which were lower than our forecasts. The company's EBIT for 4Q'22 was PLN 2.5 million (compared to a loss of PLN 1.7 million in 4Q'21), while the adjusted EBIT was PLN 5.2 million. The company's EBITDA for the period was PLN 2.6 million (compared to a loss of PLN 1.4 million in 4Q'21), with adjusted EBITDA reaching PLN 5.3 million. The net profit for the last quarter of 2022 amounted to PLN 1.6 million (compared to a net loss of PLN 1.6 million in 4Q'21), while the adjusted net profit was PLN 3.8 million.

A vision of an intense 2023 and further scaling of the business

The company entered 2023 year without major premieres, but from this perspective, 2Q23 looks much more interesting. Magical Drop 6 was released on April 25th and in a few weeks Front Mission 2: Remake will hit the market (as we indicated in our last recommendation, the publisher ventured into a new type of sales campaign for this IP by releasing subsequent parts in intervals of only six months). Considering the information included in the annual report and statements from the management regarding the progress of individual productions, we expect that the company will release 5 more remakes this year, including "Panzer Dragoon 2", "The House of The Dead 2", "Fear Effect: Reinvented", "Night Slashers: Remake" and "Shadowgate 2". Given such a dense schedule of important premieres, we expect that FOR will significantly scale up its results. We forecast that in whole 2023 the company will generate PLN 76.6 million in revenue (+70% y/y), PLN 23.7 million in EBIT (+64% y/y), and PLN 19.3 million in net profit (+62% y/y).

Continuation of sharing profits with shareholders

After publishing the annual results, the company announced its intention to recommend a payment of 0.1 PLN dividend per share from the 2022 profit. For this purpose, 2.7 million PLN from last year's profit of 9.7 million PLN will be used (DY = 2.1%). This will be the second time in the history of Forever Entertainment that the company will pay a dividend. We expect the company to continue sharing its profits with shareholders in the coming years. With the expected progression of results in 2023, we anticipate an increase in DPS to 0.2 PLN.

Further development plans of the company

We would like to point out that Forever Entertainment is preparing to develop further projects and obtain new IPs that, in the company's assessment, significantly exceed the sales potential of the titles disclosed so far. In addition, 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").

	2019	2020	2021	2022	2023F	2024F	2025F	2026F
Revenues [mln PLN]	13,7	27,3	25,8	45,1	76,6	92,0	81,0	75,7
EBITDA [mln PLN]	5,6	9,2	2,2	15,0	24,1	29,7	25,7	23,3
EBIT [mln PLN]	3,5	8,0	1,0	14,4	23,7	29,3	25,4	23,1
Gross income [mln PLN]	7,1	18,1	2,3	12,1	23,7	29,3	25,4	23,1
Net income [mln PLN]	6,4	14,3	1,6	11,9	19,3	23,9	20,7	18,8
P/BV	7,9	4,3	4,1	3,3	2,3	1,7	1,4	1,3
P/E	20,3	9,1	83,3	11,0	6,8	5,5	6,3	7,0
EV/EBITDA	23,3	13,8	57,2	8,5	4,6	3,1	3,0	3,0
EV/EBIT	37,4	15,8	122,6	8,8	4,7	3,1	3,1	3,0
DPS	0	0	0	0,0	0,1	0,2	0,2	0,4
DY	0,0%	0,0%	0,0%	0,6%	2,1%	3,7%	4,6%	7,9%

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 6,8 PLN

27 APRIL 2023, 09:40 CEST

Target price [PLN]	6,8
Price upside/downside	41%
Cost of capital	16,8%
Price [PLN]	4,80
Market cap [mln PLN]	130,6
Shares mln. szt.]	27,2
Max. price 6M [PLN]	6,1
Min. price 6m [PLN]	4,7
Rate of return 3M	-9,6%
Rate of return 6M	-17,8%
Rate of return 9M	-0,3%

Shareholders (% of votes):

Marek Bednarski with related persons	24,7%
Grzegorz Maciag	9,7%
Zbigniew Dębicki	8,0%
Others	62,4%

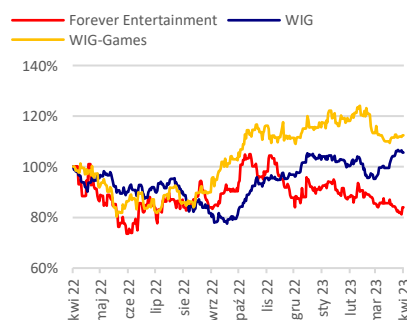
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Valuation summary

	Share	Valuation
DCF valuation	70%	6,3
Peer valuation	30%	7,8
Target price [PLN]		6,8

Source: BDM S.A.

DCF valuation

	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F
Revenues [mln PLN]	76,6	92,0	81,0	75,7	81,5	86,0	95,8	91,3	100,5	104,3
EBIT [mln PLN]	23,7	29,3	25,4	23,1	25,0	26,3	29,7	27,5	30,2	31,1
Tax rate	18,0%	18,0%	18,0%	18,0%	18,0%	18,0%	18,0%	18,0%	18,0%	18,0%
Tax on EBIT [mln PLN]	4,3	5,3	4,6	4,2	4,5	4,7	5,3	5,0	5,4	5,6
NOPLAT [mln PLN]	19,4	24,0	20,8	18,9	20,5	21,6	24,3	22,6	24,8	25,5
Amortization [mln PLN]	0,4	0,3	0,3	0,3	0,3	0,3	0,3	0,3	0,3	0,3
CAPEX [mln PLN]	0,2	0,1	0,1	0,1	0,3	0,3	0,3	0,3	0,3	0,3
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]	-0,3	-0,1	-1,4	-0,4	-0,8	-0,8	-1,0	-0,8	-1,1	-0,1
FCF [mln PLN]	19,7	24,4	19,8	18,9	20,2	21,3	23,9	22,3	24,3	26,0
DFCF [mln PLN]	18,7	19,8	13,8	11,3	10,3	9,3	8,9	7,1	6,7	6,1
Total DFCF [mln PLN]	112,0									
Terminal value [mln PLN]	174,1									
Discounted terminal value [mln PLN]	40,8									
Enterprise value [mln PLN]	152,9									
Net debt 2022 [mln PLN]	-3,5									
Other financial assets [mln PLN]	15,8									
Equity value [mln PLN]	172,2									
Number of shares [mln]	27,2									
Value per share [PLN]	6,3									

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	1,2	1,2	1,2	1,2	1,2	1,2	1,2	1,2	1,2	1,2
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	6,2%	6,2%	6,2%	6,2%	6,2%	6,2%	6,2%	6,2%	6,2%	6,2%
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	6,5	6,6	6,6	6,6	5,5%	6,7	6,8	6,9	6,9	5,5%	6,9	6,8	6,7
1,2	6,3	6,3	6,4	6,4	6,5%	6,3	6,3	6,4	6,4	6,5%	6,4	6,3	6,3
1,3	6,1	6,1	6,2	6,2	7,5%	5,9	5,9	6,0	6,0	7,5%	6,0	5,9	5,9

Source: BDM S.A.

Peer valuation

	P/E			EV/EBITDA		
	2023F	2024F	2025F	2023F	2024F	2025F
11 bit studios	26,4	8,7	9,4	24,0	5,5	6,3
Artufex Mundi	8,2	7,0	5,8	5,1	3,7	2,6
Big Cheese Studio	10,8	7,4	-	8,6	5,5	-
BoomBit	10,6	8,0	7,8	4,5	3,2	2,7
CD Projekt	27,5	44,6	54,9	17,9	26,9	26,8
Creepy Jar	21,1	8,2	9,1	16,3	6,0	5,8
Huuuge Games	10,3	10,9	11,0	3,5	3,1	3,0
PCF Group	34,8	20,2	5,6	20,9	10,5	-
PlayWay	14,9	14,9	11,4	10,4	10,2	8,4
Ten Square Games	7,1	7,4	8,1	4,2	4,2	4,0
Median	12,9	8,4	9,2	9,5	5,5	4,9
Forever Entertainment	6,9	5,5	6,4	4,7	3,2	3,1
Premium/discount	-46,6%	-34,2%	-30,5%	-50,5%	-42,5%	-36,3%
Valuation [PLN/share]	9,1	7,4	7,0	9,1	7,4	6,5
Year's contribution	33%	33%	33%	33%	33%	33%
Average valuation [PLN/share]		7,8			7,7	
Multiple's contribution		50%			50%	
Value per share [PLN]		7,8				

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
Buy	6,8	Buy	7,2	27.04.2023*	09:40 CEST	4,80	62 224
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 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.
 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	3 60%	0	0%
Accumulate	0 0%	0	0%
Hold	2 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.

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/gpwpa>). 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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For the first time this report has been made available to the public on 27.04.2023 (09:40 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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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 27.04.2023:

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- 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,
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