



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

			2021	2022	
Price [PLN]	4,70	P/E adj.	81,6	10,7	Analyst: Krzysztof Tkocz krzysztof.tkocz@bdm.pl tel.: (+48) 516 086 705
MC [mln PLN]	127,8	EV/EBITDA adj.	56,0	8,3	
		EV/EBIT adj.	120,0	8,6	
		P/BV	4,0	3,2	

**Last recommendation BDM: BUY with target price 6,8 PLN/share (2023/04/27) [LINK](#)**

### Q1'23 results [mln PLN]

	Q1'22	Q1'23	change y/y	Q1'23 BDM	dev.
Sales	6,0	10,1	68,2%	9,0	12,1%
Net revenues from sales	4,7	7,8	63,7%	7,5	3,7%
Gross profit	-0,2	1,8	-	1,2	42,2%
EBITDA	0,3	1,9	463,6%	1,3	45,4%
EBIT	0,0	1,9	4348,2%	1,2	51,6%
Profit before tax	0,2	1,9	959,9%	1,2	54,8%
Net profit	0,2	1,3	534,3%	1,0	25,1%
Gross margin	-2,9%	17,4%		13,7%	
EBITDA margin	5,8%	19,3%		14,9%	
EBIT margin	0,7%	18,6%		13,7%	
Net margin	3,3%	12,5%		11,2%	

Source: BDM S.A., company

**BDM Comment:** During the discussed quarter, the company generated PLN 10.1 million in revenue (+68.2% y/y), of which PLN 7.8 million was from the sale of product – a 63.7% y/y increase (similar to our expectations), while PLN 2.3 million was from the change in the state of products – an 85.7% y/y increase (vs. PLN 1.5 million BDM), reflecting a high pace of investment in new titles. The largest impact on the company's revenue growth was the sale of remake-type games that premiered in 2022 ("FM1" and "THoTD"). The second significant factor in revenue growth during the period was the recognition of revenue from game production, which reflects the reception of the next stages of their realization. The majority of titles for which FOR is the producer and publisher are listed in the release schedule. In addition to them, the company, together with entities from the group, is also working on titles that have not yet been revealed (according to the table attached in the Q1'23 report, work is ongoing on 16 unrevealed games, of which 2 have great potential). The company's operating expenses in 1Q'23 increased by 35.0% y/y to PLN 8.3 million (vs our assumptions of PLN 7.7 million. In the discussed period, the costs of external services increased by 41.0% y/y to PLN 6.3 million (we would like to remind that in addition to costs related to game development, they also include revenue share costs), while salaries were equal to PLN 1.6 million (+38.8% y/y). The company's EBIT for Q1'23 was PLN 1.9 million (vs -0.0 million PLN in 1Q'22), while EBITDA reached PLN 1.9 million (+463.6% y/y). Net profit for the first quarter of 2023 amounted to PLN 1.3 million (+534,3% y/y). In the Q1'23, the company's operating cash flow amounted to PLN -1.4 million, investment cash flow = PLN -0.9 million, and financing cash flow = PLN -5 thousand. At the end of March'23, the company had PLN 1.3 million in cash and other assets (- PLN 2.3 million q/q). During the discussed period, short-term receivables increased by PLN 1.3 million q/q to the level of PLN 6.9 million, and accruals increased by PLN 2.3 million q/q to PLN 13.9 million. Provisions for liabilities remained unchanged q/q at the level of PLN 2.9 million. Short-term liabilities increased by PLN 0.2 million q/q to PLN 5.8 million. We would like to emphasize that the current portfolio of planned and ongoing productions by the company includes 40 titles, including 24 revealed in the premiere schedule (2 out of 16 undisclosed games stand out with great potential). The company's management expects that the presentation of yet undisclosed significant productions will be positively received by video game players, investors, and industry media worldwide. In summary, Forever Entertainment's 1Q'23 results exceeded our expectations, however, this was achieved through an increase in revenue due to a higher change in the state of products, which we perceive neutrally. However a positive surprise for us is the number of undisclosed productions being developed, including 2 titles with significant monetization potential.



- PLN 7.8 million relates to revenues from sales of products an increase by 63.7% y/y and a decrease of 12.4% q/q, while PLN 2.3 million relates to the change in the state of products - an increase by 85.7% y/y and 238.8% q/q), reflecting the high pace of investment in new titles.
- The biggest impact on the company's revenue growth was the sales of remake games that premiered in 2022. The second significant factor in the revenue growth in the discussed period was the recognition of revenue from game production, which reflects the reception of subsequent stages of their implementation. FOR independently produces or finances or commissions the production of remake games to development studios, in which it has stakes. Most of the titles for which it is a producer and publisher are listed in the release schedule. In addition to them, the company, together with its subsidiaries, is also developing titles that have not yet been disclosed.
- The company's operating expenses increased by 35.0% y/y and 18.0% q/q to PLN 8.3 million in Q1'23.
- The value of external services costs for the first 3 months of 2023 includes costs of settlements with counterparties for their share in sales profits ("revenue share"), along with reserves for future costs, which are presented in the balance sheet as a liability for supplies and services. The costs of producing titles carried out by external development studios are also included in the external services costs.
- During the discussed period, the costs of external services increased by 41.0% y/y and 33.7% q/q to the level of PLN 6.3 million, while salaries amounted to PLN 1.6 million (+38.8% y/y, -4.2% q/q).
- EBIT for Q1'23 was PLN 1.9 million (vs 0.0 million in 1Q'22), while the company's EBITDA reached PLN 1.9 million (+463.6% y/y).
- At the level of financial activities, the company generated PLN 38.8 thousand.
- Net profit for the first quarter of 2023 amounted to PLN 1.3 million (+534,3% y/y).
- In the Q1'23, the company's operating cash flow amounted to PLN -1.4 million, investment cash flow = PLN -0.9 million, and financing cash flow = PLN -5 thousand. At the end of March'23, the company had PLN 1.3 million in cash and other assets (- PLN 2.3 million q/q).
- During the discussed period, short-term receivables increased by PLN 1.3 million q/q to the level of PLN 6.9 million, and accruals increased by PLN 2.3 million q/q to PLN 13.9 million. Provisions for liabilities remained unchanged q/q at the level of PLN 2.9 million. Short-term liabilities increased by PLN 0.2 million q/q to PLN 5.8 million.
- At the end of 1Q'23, inventories decreased by PLN 0.7 million q/q to PLN 5.2 million, with advances for deliveries and services falling by PLN 0.7 million.
- In the company's opinion, the premieres of produced game titles will have a significant impact on its results in the coming quarters. The company includes among them: Magical Drop VI (premiere took place on April 25, 2023, on Nintendo Switch and PC) and the premiere of the title FRONT MISSION 2: Remake announced for June 12, 2023, on Nintendo Switch.
- In 1Q'23, Forever Seed Fund continued to search for developers who have or currently developing or planning to create high-quality games. As part of this activity, Forever Seed Fund participated in several conferences and trade fairs, both in Poland and abroad. As a result, advanced talks regarding the acquisition of several games for distribution by Forever Entertainment have taken place.
- An important event in the life of Forever Seed Fund was its role as a sponsor (along with its Strategic Partner – Forever Entertainment) at the Hackerspace Game Jam event, which took place in February 2023. The event involved young talents working on game prototypes, which later were presented to a jury. Forever Seed Fund recognized 8 teams, awarded them special prizes and proposed further cooperation in the development of their games.
- In 1Q'23, the company continued work on introducing tools that automate the process of porting games to older generation devices (consoles) in order to enable the transfer of functionality of remakes of games ported by the company.
- As of March 31, 2023, the company employed a total of 75 people, including 42 employees on employment contracts and 33 individuals on the basis of civil law contracts and B2B.
- In our portfolio of planned and ongoing 40 productions, we have titles being developed for various platforms. So far, we have revealed 24 productions in our published release plan. I assume that the presentation of yet-to-be-revealed significant titles will be positively received by both video game players and investors, and will certainly generate buzz in industry media worldwide." - Zbigniew Dębicki, CEO.
- In the 1Q'23 report, the company included the following table, which shows how many undisclosed titles they are currently working on.

**Liczba produkcji realizowanych lub do realizacji przez Forever Entertainment S.A.**

Gra	Tytuły istotne	Tytuły pozostałe	Razem
Liczba produkcji z tytułami ujawnionymi w Harmonogramie Premier	16	8	24
Liczba produkcji z tytułami nieujawnionymi* w Harmonogramie Premier	2	14	16
<b>Razem</b>	<b>18</b>	<b>22</b>	<b>40</b>

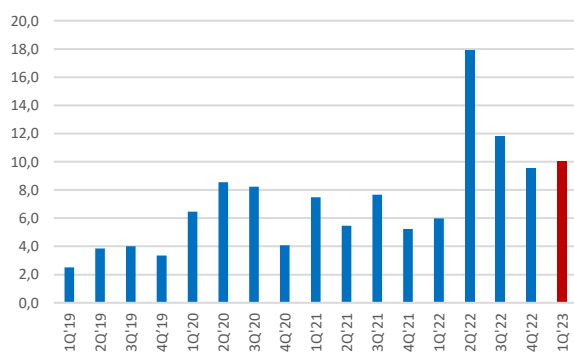
\* zgodnie z przyjętą polityką informacyjną

Results in previous quarters [mln PLN]

Results Q [mln PLN]	1Q'20	2Q'20	3Q'20	4Q'20	1Q'21	2Q'21	3Q'21	4Q'21	1Q'22	2Q'22	3Q'22	4Q'22	1Q'23	2018	2019	2020	2021	2022
Sales	6,5	8,5	8,2	4,1	7,5	5,5	7,7	5,2	6,0	17,9	11,8	9,5	10,1	9,8	13,7	27,3	25,8	45,1
Gross profit	4,2	2,2	1,5	-0,3	2,4	-1,8	1,6	-1,5	-0,2	6,7	2,3	2,5	1,8	3,0	2,9	7,5	0,8	11,3
EBITDA	4,5	2,7	1,9	0,1	2,8	-1,3	2,1	-1,4	0,3	6,9	2,4	2,6	1,9	3,9	5,6	9,2	2,2	12,3
EBIT	4,2	2,5	1,6	-0,2	2,6	-1,6	1,8	-1,7	0,0	6,8	2,4	2,5	1,9	3,4	3,5	8,0	1,0	11,7
Profit before tax	4,2	12,4	1,7	-0,3	2,6	-0,6	2,0	-1,7	0,2	7,3	2,7	2,1	1,9	3,3	7,1	18,1	2,3	12,1
Net profit	3,6	9,8	1,4	-0,6	2,1	-0,6	1,6	-1,6	0,2	6,0	1,8	1,6	1,3	3,3	6,4	14,3	1,6	9,7
Sales change y/y	156,5%	121,2%	105,6%	22,3%	15,9%	-36,0%	-7,0%	27,9%	-20,1%	227,8%	54,3%	82,3%	68,2%	-	40,1%	99,0%	-5,4%	74,5%
Net profit change y/y	276,1%	178,7%	21,0%	-	-42,0%	-	11,6%	170,4%	-90,6%	-	46,3%	-	534,3%	-	95,9%	121,7%	-89,0%	518,6%
Gross margin	64,9%	25,6%	17,7%	-7,7%	31,6%	-32,3%	21,3%	-28,1%	-2,9%	37,4%	19,2%	26,2%	17,4%	30,7%	21,2%	27,5%	3,0%	25,1%
EBITDA margin	69,2%	32,1%	22,8%	1,5%	37,8%	-24,2%	26,8%	-26,1%	5,8%	38,1%	20,7%	26,9%	19,3%	40,2%	40,8%	33,5%	8,5%	27,2%
EBIT margin	64,9%	28,9%	19,4%	-5,2%	34,1%	-29,7%	23,0%	-31,9%	0,7%	33,6%	20,0%	25,9%	18,6%	34,2%	25,4%	29,4%	4,0%	26,0%
Net margin	56,4%	114,8%	17,2%	-14,2%	28,2%	-10,2%	20,6%	-29,9%	3,3%	17,9	15,5%	17,2%	12,5%	33,5%	46,9%	52,3%	6,1%	21,5%

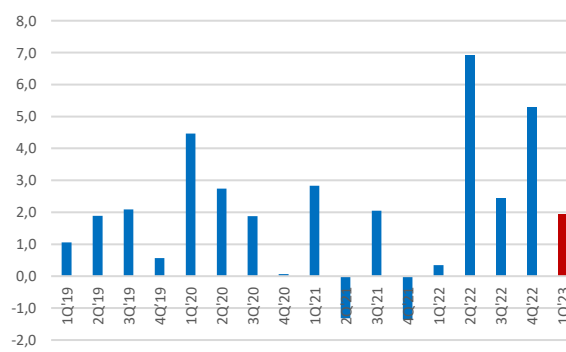
Źródło: BDM S.A., company

Sales [mln PLN]



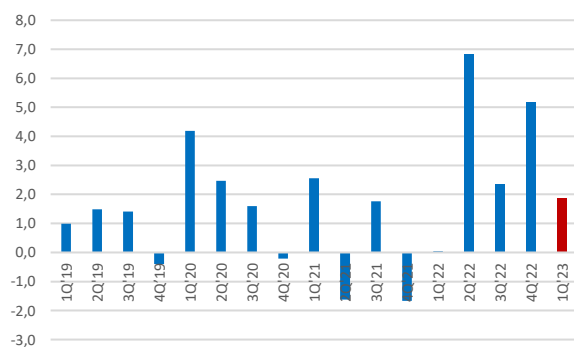
Źródło: Dom Maklerski BDM S.A., company

EBITDA adj. [mln PLN]



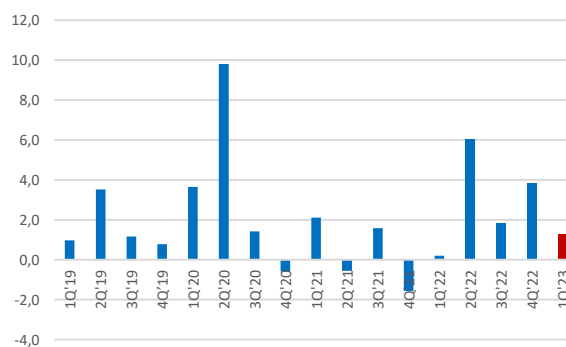
Źródło: Dom Maklerski BDM S.A., company; \*- adj. of a change in accounting method for the "Reserves" and "R&D expenses" positions

EBIT adj. [mln PLN]



Źródło: Dom Maklerski BDM S.A., company; \*- adj. of a change in accounting method for the "Reserves" and "R&D expenses" positions

Net profit adj. [mln PLN]



Źródło: Dom Maklerski BDM S.A., company; \*- adj. of a change in accounting method for the "Reserves" and "R&D expenses" positions

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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.  
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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 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 Q2'23\*:**

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

	number	%	number	%
Buy	4	57%	0	0%
Accumulate	1	14%	0	0%
Hold	2	29%	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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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 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,
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- 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,
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