

FOREVER ENTERTAINMENT

ANALYTICAL REPORT - SUMMARY

We are starting our recommendation for Forever Entertainment with a BUY rating and a target price of PLN 9,4 per share, that is 58% above the current market price. In addition to the important role of self-produced games and porting, the company is developing more and more rapidly in the remake segment, as evidenced by recently signed contracts (Square Enix). We expect two games of this type to be released this year e.g. "The House of the Dead" (more than 5 times more interest in the game after the trailer was published vs "Panzer Dragoon") and "Fear Effect Reinvented", which will translate into a significant increase in results for 2021 and further periods.

Forever Entertainment is a producer and publisher of games for all available platforms (in particular Nintendo Switch - the leading publisher), since 2011 it has been listed on the New Connect market. In 2019, the studio expanded its business with remakes of iconic productions from the 1990s.

In total, the company's portfolio includes over 150 published titles, about 37 own productions on various platforms and over 134 from porting. Last year, FE had 64 editions (including 44 new titles). We expect a slight increase in this number in the coming years, with a greater emphasis on more demanding productions and with greater sales potential than the titles offered so far.

The first title which was released from the newly created remake segment was "Panzer Dragoon: Remake", and since its premiere in 2020, a total of over 100,000 copies have been sold (on all available platforms). Company currently is working underway on new games, including: Fear Effect: Reinvented, Panzer Dragoon II Zwei: Remake and The House of the Dead: Remake. We expect the company to release 3-4 games of this type in the coming years, which will translate into a significant increase in results.

The company recently announced an agreement with Square Enix to create and release several game remakes based on one IP from the giant's portfolio. Some time later, it was announced about another, this time with Nintendo itself, thanks to which FE will receive significant financial support for the implementation of the publishing agreement, the purpose of which will be to release several titles on NS from the company's publishing plan. In addition, for some time FE has been developing a new entity with Bloor Team - Fearful Entertainment, which is working on a remake of the cult horror film. We hope that in the coming months the company will begin to gradually reveal contracted productions.

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

(INITIAL REPORT)

TARGET PRICE 9,4 PLN

1st SEPTEMBER 2021, 07:00 CEST

Target price [PLN]	9,4
Price upside/downside	58%
Cost of capital	9,5%
Price [PLN]	5,92
Market cap [PLNm]	161,0
Shares [mn]	27,2
Max. price 6M [PLN]	8,7
Min. price 6m [PLN]	5,8
Rate of return 3M	-8,9%
Rate of return 6M	-30,7%
Rate of return 9M	-27,8%
Shareholders (% of votes):	
Marek Bednarski	26,8%
Grzegorz Maciąg	9,7%
Zbigniew Dębicki	5,5%
Remainder	58,1%

Krzysztof Tkocz

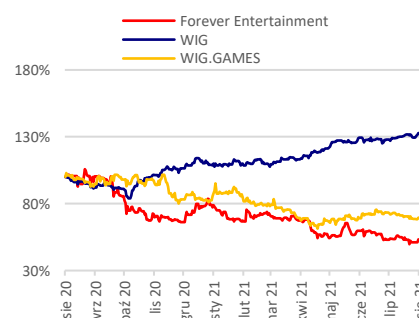
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Dom Maklerski BDM S.A.

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	2018	2019	2020	2021F	2022F	2023F	2024F	2025F
Revenues [PLNm]	9,8	13,7	27,3	38,7	54,1	54,8	52,2	57,5
EBITDA [PLNm]	3,9	5,6	9,2	12,6	19,3	18,7	16,2	17,3
EBIT [PLNm]	3,4	3,5	8,0	11,4	18,1	17,5	15,0	16,1
Gross income [PLNm]	3,3	7,1	18,1	12,5	18,1	17,5	15,0	16,1
Net income [PLNm]	3,3	6,4	14,3	9,3	15,8	15,2	13,0	14,0
P/BV	15,5	9,7	5,3	4,1	3,2	3,0	2,9	2,7
P/E	49,0	25,0	11,3	17,4	10,2	10,6	12,4	11,5
EV/EBITDA	40,9	28,8	17,2	11,5	6,9	7,0	8,1	7,3
EV/EBIT	48,1	46,1	19,5	12,7	7,3	7,5	8,7	7,9
DPS	0	0	0	0	0,2	0,4	0,4	0,4
DY	0,0%	0,0%	0,0%	0,0%	2,9%	7,3%	7,1%	6,1%





Valuation summary

	Share	Valuation
DCF valuation	100%	9,4
Peer valuation	0%	9,0
Target price [PLN]		9,4

Source: BDM S.A.

DCF valuation

	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
Revenues [PLNm]	38,7	54,1	54,8	52,2	57,5	62,3	66,4	68,9	77,0	76,8
EBIT [PLNm]	11,4	18,1	17,5	15,0	16,1	16,6	17,4	17,7	20,4	19,8
Tax rate	13,0%	13,0%	13,0%	13,0%	13,0%	13,0%	13,0%	13,0%	13,0%	13,0%
Tax on EBIT [PLNm]	1,5	2,4	2,3	1,9	2,1	2,2	2,3	2,3	2,7	2,6
NOPLAT [PLNm]	10,0	15,8	15,2	13,0	14,0	14,5	15,1	15,4	17,8	17,3
Amortization [PLNm]	1,2	1,2	1,2	1,2	1,2	1,2	1,2	1,2	1,2	1,2
CAPEX [PLNm]	0,7	1,2	1,2	1,2	1,2	1,2	1,2	1,2	1,2	1,2
Purchase of investmen [PLNm]	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Working capital movement [PLNm]	5,3	1,3	-1,9	-0,8	-0,4	-0,4	-0,5	-0,5	-0,5	-0,6
FCF [PLNm]	17,2	19,5	15,7	14,6	16,0	16,4	17,1	17,3	19,7	19,1
DFCF [PLNm]	16,7	17,3	12,7	10,8	10,8	10,1	9,6	8,9	9,2	8,2
Total DFCF [PLNm]	114,3									
Terminal value [PLNm]	239,7									
Discounted terminal value [PLNm]	102,7									
Enterprise value [PLNm]	217,1									
Net debt 2020 [PLNm]	-3,8									
Dividend 2021 [PLNm]	0,0									
Other financial assets [PLNm]	33,5									
Equity value [PLNm]	254,3									
Number of shares [mn]	27,2									
Value per share [PLN]	9,4									

Terminal growth rate: 3,0%

WACC calculation

	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
Risk-free rate	3,0%	3,0%	3,0%	3,0%	3,0%	3,0%	3,0%	3,0%	3,0%	3,0%
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	9,5%	9,5%	9,5%	9,5%	9,5%	9,5%	9,5%	9,5%	9,5%	9,5%
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	3,9%	3,9%	3,9%	3,9%	3,9%	3,9%	3,9%	3,9%	3,9%	3,9%
Contribution of debt	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
WACC	9,5%	9,5%	9,5%	9,5%	9,5%	9,5%	9,5%	9,5%	9,5%	9,5%

Source: BDM S.A.

Sensitivity analysis

	Terminal growth rate				Risk premium	Terminal growth rate				Risk premium	Beta		
	2,5%	3,0%	3,5%	Risk		2,5%	3,0%	3,5%	Risk		1,2	1,3	1,4
beta	1,2	9,6	9,9	10,3	4,0%	10,6	11,1	11,7	4,0%	11,5	11,1	10,7	
	1,3	9,1	9,4	9,7	5,0%	9,1	9,4	9,7	5,0%	9,7	9,4	9,1	
	1,4	8,6	8,9	9,1	6,0%	8,0	8,2	8,4	6,0%	8,4	8,2	8,0	

Source: BDM S.A.

Peer valuation

	P/E			EV/EBITDA		
	2021F	2022F	2023F	2021F	2022F	2023F
11 bit studios	64,7	66,2	8,9	37,1	35,5	5,5
PlayWay	20,5	17,1	16,3	14,9	12,4	11,8
Ten Square Games	17,9	15,1	13,1	16,2	13,0	11,6
CD Projekt	35,8	29,9	35,4	26,1	19,5	22,3
PCF Group	23,9	18,7	24,7	17,4	13,1	16,2
BoomBit	17,7	15,0	13,2	5,8	3,7	1,8
Median	22,2	17,9	14,7	16,8	13,1	11,7
Forever Entertainment	17,4	10,2	10,6	11,5	6,9	7,0
Premium/discount	78,2%	57,1%	28,3%	68,5%	52,7%	40,0%
Valuation [PLN/share]	7,6	10,4	8,3	8,4	10,3	9,1
Year's contribution	33%	33%	33%	33%	33%	33%
Average valuation [PLN/share]		8,7			9,3	
Multiple's contribution		50%			50%	
Value per share [PLN]		9,0				

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	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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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 3Q'21*:		, distribution of BDM's recommendations for the companies which BDM has supplied with investment banking services within the last 12 months	
numbers	%	numbers	%
Buy	8 89%	0	0%
Accumulate	1 11%	0	0%
Hold	0 0%	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 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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