

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	2022F	2023F	
Price [PLN]	5,41	P/E	10,3	93,9	8,8	9,0	Analyst: Krzysztof Tkocz krzysztof.tkocz@bdm.pl tel.: (+48) 516 086 705
MC [mln PLN]	147,2	EV/EBITDA	15,7	64,8	6,0	5,8	
		EV/EBIT	17,8	138,8	6,3	6,1	
		P/BV	4,8	4,6	3,1	2,8	

**Last recommendation BDM: BUY with target price 8,0 PLN/share (2022/03/24) [LINK](#)**

#### Q1'22 results [mln PLN]

	Q1'21	Q1'22	change y/y	Q1'22 BDM	dev.
Sales	7,5	6,0	-20,1%	5,3	12,8%
Gross profit	2,4	-0,2	-	-1,0	-
EBITDA	2,8	0,3	-87,9%	-0,7	-
EBIT	2,6	0,0	-98,4%	-1,0	-
Profit before tax	2,6	0,2	-93,1%	-1,0	-
Net profit	2,1	0,2	-90,6%	-1,2	-
Gross margin	31,6%	-2,9%		-19,5%	
EBITDA margin	37,8%	5,8%		-14,0%	
EBIT margin	34,1%	0,7%		-19,5%	
Net margin	28,2%	3,3%		-21,7%	

Source: BDM S.A., company

- In 1Q'22, the company generated revenues of PLN 6.0 million (-20.1% y/y). The decrease in revenues in the discussed period was a derivative of the decrease revenues from the current game portfolio by 29.9% y/y to the amount of PLN 4.7 million. The premieres of the titles from the end of Q4'21 and 2021 and Q1'22 had no significant positive impact on the company's revenues.
- It should be noted that, in line with the policy, the company did not reflect in the profit and loss account revenues from prepayments received from contractors for various game titles before their premieres, which were booked as advances received for supplies and services in the company's short-term liabilities. The value of advances received at the end of March '22 amounted to over PLN 7.2 million, and some of them also included prepayments for games offered by the company's online store under the link [www.forever-limited.com](http://www.forever-limited.com).
- The company produces titles listed in the release schedule, including several remake games, as well as unannounced titles. The budgets of currently produced games are much higher than in previous years. In the opinion of the management board, the premieres of these games will have a significant impact on the company's results from Q2'22.
- The company's operating expenses increased by 20.2% y/y and amounted to PLN 6.1m in Q1'22. The increase in the company's operating costs was related to the increase in costs in remuneration and social security (in total by 58.9% y/y to the amount of PLN 1.3 million), as a result of an increase in the number of employees. The increase in operating costs in Q1'22 was also due to the increase in the costs of external services (increase by 11.5% y/y to PLN 4.4 million), which was due to the increase in expenditure on game production.
- The company maintains a high pace of investment in new titles, the premieres of which are scheduled for the current year. Related to this fact is the increase in the value of products by 70.7% y/y to the amount of PLN 1.2 million for Q1'22.
- The company's EBIT was PLN 0.04m for Q1'22, compared to an operating profit of PLN 2.6m in Q1'21, while EBITDA was lower by 87.9% y/y and amounted to PLN 0.3m.
- Net profit for Q1'22 amounted to PLN 0.2 million and was lower by 90.6% compared to the net profit for Q1'21.
- After a significant increase in operating costs in the compared periods, operating profitability EBITDA decreased to 5.8% for Q1'22 from 37.8% for Q1'21. Similarly, the company's net profitability fell to 3.3% for Q1'22 from 28.2% for Q1'21.
- In Q1'22, the company continued work in the area of research and development in the field of improving tools that automate the transfer of user interfaces and rendering graphics in appropriate quality between gaming platforms of different manufacturers and generations. In addition, an original framework for creating role-playing games based on movie sequences was developed television.
- At the end of Q1'22, the company employed a total of 59 people, including 35 people under an employment contract, 20 under civil law contracts and 4 people for B2B.
- The company, due to the increase in expenditure on new titles with larger budgets, recorded PLN -2.9 million of cash flows from operating activities in the discussed period, and its cash balance at the end of March '22 amounted to PLN 1.8 million (-PLN 3 million q/q).



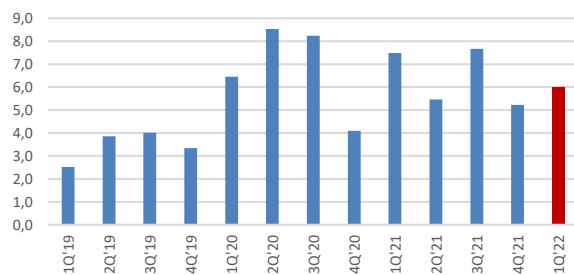
**BDM Comment:** The results of Forever Entertainment are above our expectations, but due to the fact that it was a "transitional" period without important premieres, and the premiere of "The House of the Dead: Remake" will affect the readings in Q2'22, we perceive them slightly positively. In Q1'22, the company's revenues generated PLN 6.0 million (+ 20.1% y/y). 79.2% of this item was due to revenues generated from the sale of products (PLN 4.7 million - in line with our expectations), this result was achieved mainly from games that were released before 2021 ("Cooking Simulator", "Thief Simulator", "Panzer Dragoon" or "Green Hell"). The rest, ie PLN 1.2m, was a change in the balance of products (+ 96.2% q/q vs. PLN 0.6m BDM forecast) - the company maintains a high pace of investments in new titles scheduled for release this year. It should be noted that, in line with the policy, the company did not reflect in the profit and loss account revenues from prepayments received from contractors for various game titles before their premieres, which were booked as advances received for supplies and services in the company's short-term liabilities. The value of advances received at the end of March '22 amounted to over PLN 7.2 million, and some of them also included prepayments for games offered by the company's online store. The budgets of currently produced games are much higher than in previous years. In the opinion of the management board, the premieres of these games will have a significant impact on the company's results from Q2'22. The company's operating expenses increased by 20.2% y/y and amounted to PLN 6.1m in Q1'22 (slightly below our expectations). The increase in the company's operating costs was related to the increase in costs in remuneration and social security (in total by 58.9% y/y to the amount of PLN 1.3 million), as a result of an increase in the number of employees. The increase in operating costs in Q1'22 was also due to the increase in the costs of external services (increase by 11.5% y/y to PLN 4.4 million), which was due to the increase in expenditure on game production. In Q1'22, the company generated PLN 0.3 million EBITDA (-87.9% y/y) and PLN 0.2 million of net profit (-90.6% y/y). Due to an increase in expenditure on new titles with larger budgets, FOR recorded PLN -2.9 million in cash flow from operating activities in the discussed period, and its cash position at the end of March 22 amounted to PLN 1.8 million (-PLN 3 million q/q).

Results in previous quarters [mln PLN]

Results Q [mln 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	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	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	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	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	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	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	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%	-	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%	-	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%	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%	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%	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%	33,5%	46,9%	52,3%	6,1%

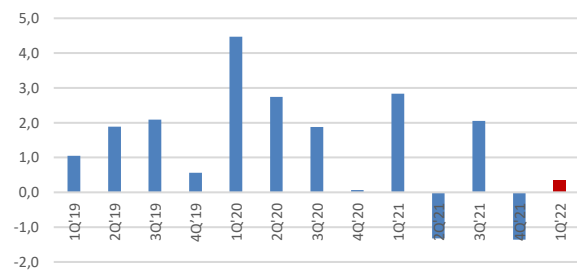
Źródło: BDM S.A., company

Sales [mln PLN]



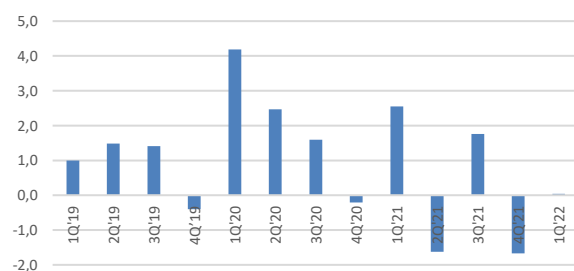
Źródło: Dom Maklerski BDM S.A., company

EBITDA [mln PLN]



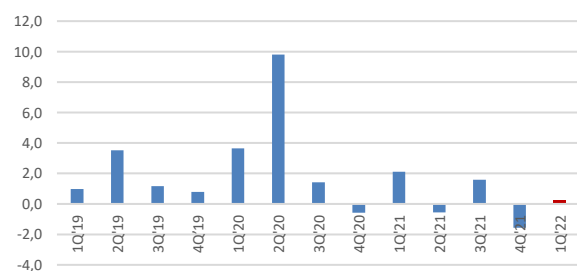
Źródło: Dom Maklerski BDM S.A., company

EBIT [mln PLN]



Źródło: Dom Maklerski BDM S.A., company

Net profit [mln PLN]



Źródło: Dom Maklerski BDM S.A., company

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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	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 Q2'22\*:**

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

	number	%	number	%
Buy	2	100%	2	100%
Accumulate	0	0%	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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