



Dom Maklerski BDM S.A.

SIMFABRIC

ANALYTICAL REPORT - SUMMARY

SimFabric's results for Q4'22 turned out to be below our expectations and the outlook for the results of Q1'23 do not inspire us with optimism. Additionally, due to the company's poor communication with the market and recent write-offs of receivables, there is significant uncertainty regarding its future releases, particularly the contracted publishing projects. Moreover, the fact that the company's account is blocked on the Steam platform does not help. SimFabric is trying to amortize it by expanding the distribution channels for its games to other platforms. We would also like to draw attention to the scenario in which the company fails to secure the planned shares issue or alternative financing, which could result in a failure to obtain funding of PLN 11.8 million for the construction of CBR (Space Engine Lab). However, taking into account the cash position at the end of 4Q'22, financial assets, and the significant depreciation of SimFabric's value due to the exit of the largest shareholder (PLW), we are raising our recommendation from SELL to HOLD, setting a target price at PLN 4.0 per share, which is 3% above the current market price.

We anticipate that, similar to the trend in Q4'22, the company's results in Q1'23 will significantly decline due to the expected lack of advances for external projects (Koch Media/Plaion, Nacon). One of the factors contributing to this decline is the ongoing company's account suspension on the Steam platform since November '22. We expect that a significant portion of the revenue was generated from e-learning materials and other development services and the total of this position in the mentioned period amounted to 0.9 million PLN (-61.9% y/y). Considering the likely completion of publishing projects, our analysis suggests a year-on-year reduction in the company's workforce, leading to a decrease in external services. Consequently, we estimate that SimFabric achieved an EBITDA of 0.4 million PLN (-76.6% y/y) and a net profit of 0.1 million PLN (-89.4% y/y) in the discussed period.

SimFabric's results for Q4'22 were worse than our expectations, which we perceive negatively. In the mentioned quarter, the company generated 0.9 million PLN in revenues (-68.4% y/y, +143.2% q/q). Such a significant decline in revenue y/y is a result of the lack of payments for the production of publishing games. In the discussed quarter, operating expenses amounted to PLN 6.7 million, of which PLN 5.2 million was related to write-offs updating the value of trade receivables. Depreciation in Q4'22 was 0.2 million PLN (+3.6% q/q, -10.2% y/y), while external services reached 1.3 million PLN (+32.3% y/y, mainly contains development services) and were significantly higher than our expectations. In the final quarter of 2022, the company generated a negative EBITDA of 5.5 million PLN (compared to 1.9 million PLN in 4Q'21). Adjusted EBITDA for the amount of 5.2 million PLN related to updating the value of trade receivables amounted to -0.4 million PLN. In Q4'22, SimFabric generated a net loss of PLN 6.4 million, of which PLN 6.3 million was attributable to the parent company.

Q2'22 was the last quarter in which the company recognized revenue from game production for publishers, which at that time could indicate that we are close to the release of contracted titles. After many months since then, no new information has emerged from either the company or the publishers, indicating what is happening with those projects. Additionally, the amount of receivables increased from quarter to quarter, reaching 13.2 million PLN at the end of Q3'22. We expected these receivables to be settled upon the release of the aforementioned games. However, in Q4'22, a write-off of 5.4 million PLN was made, which puts these projects in a different light. Considering the above, if the releases of the contracted titles do not occur in the near future, there is a risk of further write-offs (the company had 7.8 million PLN in receivables at the end of Q4'22). Another scenario could involve the acquisition of rights to the aforementioned titles by another entity/publisher (in recent statements, company authorities mentioned a potential agreement with a Chinese distributor).

Since the end of November '22, SimFabric's account on Steam has remained blocked by the Valve platform (allegation of fabricating reviews) which prevents the company from selling and promoting its current and upcoming titles. The company denies the accusations made against it. Currently, discussions are underway to clarify the matter and restore the company's games to the store. According to company representatives, this process may turn out to be lengthy. This situation has forced the company to expand the distribution channels for its games to other platforms (such as Epic, Nuuvem, or Green Man Gaming).

In order to activate the grant of 11.8 million PLN for the construction of CBR (Space Engine Lab), the company needs to raise 13.3 million PLN from its own funds. To achieve this, SimFabric plans to issue up to 3 million series C shares through a private subscription at a price of 6.5 PLN per share. The company is expected to enter into agreements for the subscription of Series C Shares by May 25, 2023. It should be noted that if the company fails to secure the planned shares issue or alternative financing, it may result in the inability to obtain the aforementioned co-financing.

In early February, the company received a judgment from the District Court in Warsaw regarding the invalidity of the resolution dated February 11, 2019, concerning the increase of share capital through the issuance of shares (625,000 series B shares issued at an issue price of 0.96 PLN). In April '23, the company filed an appeal against the non-final judgment issued on February 9, 2023.

	2019	2020	2021	2022	2023F	2024F	2025F	2026F
Revenues [mIn PLN]	1,6	10,6	9,0	6,2	4,1	5,6	5,5	6,7
EBITDA [mIn PLN]	0,6	5,2	4,5	-2,3	2,0	2,7	2,5	3,1
EBIT [mIn PLN]	0,6	4,6	3,5	-3,6	0,9	1,2	1,1	1,6
Gross income [mIn PLN]	0,6	4,7	3,5	-2,4	0,9	1,2	1,1	1,6
Net income [mIn PLN]	0,5	4,5	3,2	-2,9	0,8	1,1	1,0	1,4
P/BV	10,3	1,7	1,3	1,0	0,9	0,9	0,9	0,8
P/E	49,0	5,4	7,5	-	31,2	22,1	23,6	17,3
EV/EBITDA	40,4	3,1	3,1	-	6,4	4,8	5,2	3,7
EV/EBIT	42,4	3,5	4,0	-	14,6	10,4	11,3	7,4
DPS	0	0	0,2	0,0	0,0	0,0	0,0	0,0
DY	0,0%	0,0%	6,2%	0,0%	0,0%	0,0%	0,0%	0,0%

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

HOLD

(PREVIOUS: SELL)

TARGET PRICE 4,0 PLN

23 MAY 2023, 14:40 CEST

Target price [PLN]	4,0
Price upside/downside	3%
Cost of capital	18,1%
Price [PLN]	3,87
Market cap [mIn PLN]	24,2
Shares [mIn szt.]	6,3
Max. price 6M [PLN]	5,4
Min. price 6m [PLN]	3,3
Rate of return 3M	9,9%
Rate of return 6M	4,0%
Rate of return 9M	-62,8%
Shareholders (% of votes):	
Emil Leszczyński	17,0%
Julia Leszczyńska	12,8%
Others	70,2%

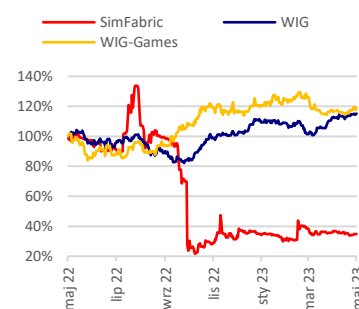
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Valuation summary

	Share	Valuation
DCF valuation	70%	4,5
Peer valuation	30%	2,8
Target price [PLN]		4,0

Source: BDM S.A.

DCF valuation

	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F
Revenues [mln PLN]	4,1	5,6	5,5	6,7	6,4	6,9	7,6	7,8	7,3	9,2
EBIT [mln PLN]	0,9	1,2	1,1	1,6	1,4	1,3	1,1	1,8	1,0	1,6
Tax rate	10,0%	10,0%	10,0%	10,0%	10,0%	10,0%	10,0%	10,0%	10,0%	10,0%
Tax on EBIT [mln PLN]	0,1	0,1	0,1	0,2	0,1	0,1	0,1	0,2	0,1	0,2
NOPLAT [mln PLN]	0,8	1,1	1,0	1,4	1,3	1,1	1,0	1,6	0,9	1,4
Amortization [mln PLN]	1,1	1,4	1,3	1,6	1,4	1,8	2,3	1,7	2,0	2,4
CAPEX [mln PLN]	-1,1	-3,1	-2,1	-1,7	-1,5	-1,2	-2,1	-1,9	-1,7	-1,7
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]	0,0	5,7	0,6	-0,5	0,1	-0,1	0,1	-0,1	0,1	0,1
FCF [mln PLN]	0,8	5,1	0,8	0,8	1,2	1,7	1,3	1,4	1,3	2,2
DFCF [mln PLN]	0,8	4,2	0,6	0,5	0,6	0,7	0,5	0,4	0,3	0,5
Total DFCF [mln PLN]	9,0									
Terminal value [mln PLN]	31,6									
Discounted terminal value [mln PLN]	6,8									
Enterprise value [mln PLN]	15,7									
Net debt 2022 [mln PLN]	-5,0									
Other financial assets [mln PLN]	7,3									
Equity value [mln PLN]	28,1									
Number of shares [mln]	6,3									
Value per share [PLN]	4,5									

Terminal growth rate: 1,0%

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	1,4	1,4	1,4	1,4	1,4	1,4	1,4	1,4	1,4	1,4
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	18,1%	18,1%	18,1%	18,1%	18,1%	18,1%	18,1%	18,1%	18,1%	18,1%
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	6,8%	6,8%	6,8%	6,8%	6,8%	6,8%	6,8%	6,8%	6,8%	6,8%
Contribution of debt	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
WACC	18,1%	18,1%	18,1%	18,1%	18,1%	18,1%	18,1%	18,1%	18,1%	18,1%

Source: BDM S.A.

Sensitivity analysis

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

Source: BDM S.A.

Peer valuation

	P/E			EV/EBITDA		
	2023F	2024F	2025F	2023F	2024F	2025F
11 bit studios	27,1	8,9	9,7	24,7	5,7	6,5
Artufex Mundi	7,5	6,3	5,3	4,6	3,3	2,3
Big Cheese Studio	10,1	6,9	-	7,9	5,0	-
BoomBit	10,3	7,8	7,6	4,3	3,1	2,6
CD Projekt	29,2	50,0	69,9	19,1	29,4	31,7
Creepy Jar	20,6	8,0	8,8	15,8	5,8	5,6
Huuuge Games	9,2	10,1	11,0	3,5	3,5	3,5
PCF Group	37,3	21,7	6,0	22,5	11,3	-
PlayWay	14,9	14,9	11,4	10,4	10,2	8,4
Ten Square Games	9,4	7,9	8,4	5,1	4,3	4,1
Mediana grupy	12,6	8,5	8,8	9,1	5,3	4,9
SimFabric*	32,2	22,8	24,4	6,8	5,1	5,6
Premium/discount	155,4%	169,8%	176,0%	-25,0%	-5,0%	14,6%
Valuation [PLN/share]	31,2	22,1	23,6	6,4	4,8	5,2
Year's contribution	147,1%	161,1%	167,0%	-29,5%	-10,7%	7,8%
Average valuation [PLN/share]		1,5			4,2	
Multiple's contribution		50%			50%	
Value per share [PLN]		2,8				

Source: BDM S.A., Bloomberg

Main risks: 1) The risk of diversified and unforeseen demand for different products 2) The risk related to possible delays in game production 3) Risk related to the loss of key employees 4) Risk related to difficulties in acquiring experienced employees 5) The risk related to the possible failure of IT systems, telecommunications infrastructure and servers 6) The risk related to the competitive environment 7) Risk related to the development of new technologies and industry 8) Risk of volatility of foreign exchange rates 9) Risk of additional issue of shares 10) Risk related to the IP BOX relief 11) Risk of non-placement of the issue of Series C Shares 12) The risk of not obtaining funding for the construction of the CBR 13) Risk of further write-downs of receivables (at the end of Q4'22, the company had PLN 7.8 million in receivables) 14) Risk of lack of premieres of publishing games 15) Risk of lack of new contracts for e-learning services and other development services 16) Risk of invalidity of the resolution of February 11, 2019 on increasing the share capital by issuing shares 17) The risk of not restoring the company's Steam account

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Ratings and price targets history:

rating	price target	previous rating	previous target price	report date	report date (hour)	price	WIG
Hold	4,0	Sell	7,5	23.05.2023*	14:40 CEST	3,87	65 477
Sell	7,5	Hold	11,5	07.10.2022*	12:50 CEST	9,70	47 191
Hold	11,5	Buy	24,1	20.05.2022*	07:00 CEST	11,3	55 555
Buy	24,1	-	-	20.08.2021*	07:00 CEST	20,2	68 036

* 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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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	7 54%	0	0%
Accumulate	2 15%	0	0%
Hold	4 31%	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/gpwp2a>). 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 23.05.2023 (14:40 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.

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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 23.05.2023:

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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,
- 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 not a party to an agreement with the issuer relating to the production of the recommendation,
- There is other significant financial interest that BDM or its related affiliates have in relation to the issuer of financial instruments*
- There are no 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.

*BDM is a party to the “ANALYTICAL REPORT PREPARATION SERVICES AGREEMENT” concluded with the WSE.

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 subject to supervision by the Polish Financial Supervision Commission.

This document is a summary of a full version of the report prepared in Polish. In case of any disputes the Polish version shall prevail.