



Dom Maklerski BDM S.A.

SIMFABRIC

ANALYTICAL REPORT - SUMMARY

SimFabric is a company that has raised a lot of controversy recently. Despite numerous announcements about own productions in progress, none of them has not yet seen the light of day, and the company's revenues and profits are generated from the portfolio of ported and published games, e-learning services and, most importantly, advances for the creation of external projects (Koch Media, Nacon) - which, according to our estimates, account for almost 2/3 of the revenues. Nevertheless works in the company are progressing, and some of the implemented projects are on the last straight. We expect that this year we will see 3 own premieres, including one of the most important ones - "Farm & Fix" and 4 porting ones, which will translate into a net profit of PLN 6,4 million. We assume two of the three the most interesting productions (EletriX and Architect Life) will appear on the market in 2022 and will debut simultaneously on all platforms with the support of a global publisher. In addition, it is worth noting that the SimFabric "breaks away" from the standard path of PlayWay group companies, going towards cooperation with global publishers who provide it with funds for the production of their projects, which on the one hand minimizes the risk of an unsuccessful premiere, and on the other hand limits the scale of benefits obtained from the created titles. Bearing the above in mind, we begin issuing recommendations for SimFabric with the recommendation to BUY with the target price of PLN 24,1/ share, i.e. 19% above the current market price.

SimFabric is active in the video game market, specializing in porting games for Nintendo Switch, PS4 consoles and PC as well as productions of own games. The company is currently working, among others over such titles as: "Farm & Fix", "EletriX" or "Architect Life".

The company's pipeline includes approx. 12 own productions and 4 porting ones. The most promising games include the aforementioned "Farm & Fix", whose wishlist exceeds 100 thousand subscriptions, "EletriX" (wishlist - over 70 thousand) and "Architect Life" (WH - approx. 50 thousand) - we expect that they will be available simultaneously on all platforms with the participation of global publishers.

The group develops its competences not only in the field of console and PC, but also works on mobile and VR projects. As for mobile - there are, among others work on the game "Thief Stories". Due to the lack of the company's track record in this area, we do not currently take it into account in the SIM results.

Blind Warrior - the company was established as a research and development company to implement a grant for the SAR project (simulator for the visually impaired and the blind) - the originators hope that they will be able to create a new type of entertainment in which the sense of sight will not be needed.

	2018	2019	2020	2021P	2022P	2023P	2024P	2025P
Revenues [mln PLN]	0,8	2,7	9,5	14,2	21,4	24,3	20,7	28,1
EBITDA [mln PLN]	0,1	0,5	3,5	6,6	12,4	14,8	11,0	17,7
EBIT [mln PLN]	0,0	0,5	3,5	6,6	12,3	14,7	11,0	17,0
Gross income [mln PLN]	0,0	0,5	3,6	7,4	16,0	18,4	14,6	17,0
Net income [mln PLN]	0,0	0,4	3,5	6,4	14,4	16,5	13,1	15,3
P/BV	104,0	55,7	9,6	6,9	4,1	2,9	2,9	2,6
P/E	9682,6	280,6	36,1	19,6	8,8	7,6	9,6	8,3
EV/EBITDA	2419,7	238,8	33,8	17,0	8,6	7,1	10,0	6,0
EV/EBIT	3053,2	239,6	33,9	17,0	8,6	7,1	10,0	6,3
DPS	0,0	0	0	0,2	0,3	0,7	2,0	1,6
DY	0,0%	0,0%	0,0%	1,2%	1,5%	3,4%	9,8%	7,8%

This report has been prepared in compliance with Regulation (EU) No. 596/2014 of the European Parliament and of the Council of 16 April 2014 (on market abuse), Commission Delegated Regulation (EU) 2016/958 and Commission Delegated Regulation (EU) 2017/565. Detailed contents of legal notes is located on the last page of this report. The report has been prepared and made available for distribution by BDM. GPW shall be a copyright holder to this report from the date of its publication. The report can be published and made available without limitation by GPW through any mass communication media as decided by GPW.

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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 24,1 PLN

20 AUGUST 2021, 07:00 CEST

Target price [PLN]	24,1
Price upside/downside	19%
Cost of capital	9,5%
Price [PLN]	20,2
Market cap [mln PLN]	125,9
Shares mln. szt.]	6,3
Max. price 6M [PLN]	25,5
Min. price 6m [PLN]	18,9
Rate of return 3M	-6,3%
Rate of return 6M	-14,3%
Rate of return 9M	-22,2%
Shareholders (% of votes):	
PlayWay	45,0%
Emil Leszczyński	16,7%
Julia Leszczyńska	12,8%
Remainder	25,5%

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Valuation summary

	Share	Valuation
DCF valuation	100%	24,1
Peer valuation	0%	31,7
Target price [PLN]		24,1

Source: BDM S.A.

DCF valuation

	2021P	2022P	2023P	2024P	2025P	2026P	2027P	2028P	2029P	2030P
Revenues [mln PLN]	14,2	21,4	24,3	20,7	28,1	22,2	29,1	25,3	33,4	27,6
EBIT [mln PLN]	6,6	12,3	14,7	11,0	17,0	9,7	15,5	11,0	18,4	11,6
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]	0,7	1,2	1,5	1,1	1,7	1,0	1,5	1,1	1,8	1,2
NOPLAT [mln PLN]	5,9	11,1	13,3	9,9	15,3	8,7	13,9	9,9	16,6	10,4
Amortization [mln PLN]	0,0	0,0	0,0	0,0	0,7	0,7	0,7	0,7	0,7	0,6
CAPEX [mln PLN]	-1,0	-4,1	-4,1	-4,1	-0,1	-0,1	-0,1	-0,1	-0,1	-0,1
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]	-2,5	0,9	-2,5	1,0	-2,6	-1,8	0,3	-0,3	-4,2	4,5
FCF [mln PLN]	2,4	8,0	6,7	6,8	13,3	7,6	14,9	10,2	13,0	15,4
DFCF [mln PLN]	2,3	7,0	5,4	5,0	9,0	4,6	8,3	5,2	6,1	6,6
Total DFCF [mln PLN]	59,6									
Terminal value [mln PLN]	196,8									
Discounted terminal value [mln PLN]	84,1									
Enterprise value [mln PLN]	143,7									
Net debt 2020 [mln PLN]	-8,2									
Dividend 2021 [mln PLN]	1,5									
Equity value [mln PLN]	150,4									
Number of shares [mln]	6,3									
Value per share [PLN]	24,1									

Terminal growth rate: 3,0%

WACC calculation

	2021P	2022P	2023P	2024P	2025P	2026P	2027P	2028P	2029P	2030P
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	4,1%	4,1%	4,1%	4,1%	4,1%	4,1%	4,1%	4,1%	4,1%	4,1%
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

beta	Terminal growth rate			Risk premium	Terminal growth rate			Risk premium	Beta		
	2,5%	3,0%	3,5%		2,5%	3,0%	3,5%		1,2	1,3	1,4
1,2	24,8	26,1	27,5	4,0%	28,3	30,0	32,1	4,0%	31,6	30,0	28,7
1,3	23,0	24,1	25,3	5,0%	23,0	24,1	25,3	5,0%	25,2	24,1	23,1
1,4	21,5	22,4	23,3	6,0%	19,4	20,1	20,8	6,0%	20,9	20,1	19,4

Source: BDM S.A.

Peer valuation

	P/E			EV/EBITDA		
	2021P	2022P	2023P	2021P	2022P	2023P
11 bit studios	34,7	29,1	34,5	24,0	19,0	21,7
PlayWay	18,0	15,2	13,1	16,3	13,1	11,7
Ten Square Games	22,2	18,4	17,6	16,2	13,4	12,8
CD Projekt	63,2	64,7	8,7	36,1	34,7	5,3
PCF Group	22,2	18,4	17,6	16,2	13,4	12,8
BoomBit	18,0	15,2	13,1	16,3	13,1	11,7
Median	23,3	18,8	15,4	17,1	13,5	12,2
SimFabric	19,6	8,8	7,6	17,0	8,6	7,1
Premium/discount	83,9%	46,6%	50,4%	99,4%	64,0%	42,1%
Valuation [PLN/share]	24,0	43,2	40,6	20,3	29,7	32,3
Year's contribution	33%	33%	33%	33%	33%	33%
Average valuation [PLN/share]		35,9			27,4	
Multiple's contribution		50%			50%	
Value per share [PLN]		31,7				

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

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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	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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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	3 75%	0	0%
Accumulate	1 25%	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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