

Warsaw, April 14, 2022

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Haitong Bank in a report from April 13 (08:30) keeps Ten Square Games at BUY (FV PLN 327).

Valuation Methodology

We value TSG using three valuation methods: DCF, EV/EBIT and P/E where each method has an equal weight. Using DCF, we value TSG at PLN 302/share, P/E at PLN 369/share and using EV/EBIT at PLN 309/share. Our final fair value is PLN 327/share and implies 106% upside.

Risks to Fair Value

Macro risks: TSG produces and sells entertainment goods whose consumption is related to the economic strength of households or individuals. Changes in macroeconomic factors in the global market, such as the GDP growth rate, household income and expenditure levels and remuneration levels can have an impact on TSG's revenues.

FX risks: TSG incurs significant personnel costs and expenses related to the production of games in PLN, while a significant part of revenues is generated in foreign currencies.

Competition risk: Free-to-Play (F2P) and the mobile game market have relatively low entry barriers for new entities and easy access to global distribution of new products which results in considerable competition in the market.

Dependence on key distributors: Over 50% of TSG's revenue is generated by games that are distributed by Google, Facebook and Apple through their digital distribution platforms or online portals. A possible change in Google, Facebook and Apple policies regarding the acceptance of products for distribution would require TSG to adapt existing or future products, which may be difficult to achieve in the short term and generate additional high costs. The reliability of the IT systems of distributors, which allows effective sales of TSG products, is also important as failure can lead to disadvantageous situations like: (1) lack of access to the game for existing players; (2) lack of micropayments by players using a given game; (3) inability of potential new players to download the game.

Workforce risk: Personnel are TSG's key asset. The lack of a qualified workforce and higher-than-expected salary pressure may negatively affect the achievement of TSG's strategic goals and its financial results.

Key personnel risk: The competence and know-how of key employees, in particular those who form the management team, as well as management and game designers, are very important for TSG's operations. The departure of people from these groups may result in TSG losing knowledge and experience in the field of professional game design. **Technology risks:** (1) TSG uses the Unity 3D engine in the process of game production, periodically purchasing a subscription with access to this technology. There is a risk that fees may increase to a level negatively affecting the profitability of produced games. (2) There is a risk that new technology appears to which TSG will not be able to adapt quickly, thus it may negatively impact its competitive market position. A new technology risk occurs mostly in Evergreen and Legacy types, characterized by a longer and demanding process of game production.

Delays in game production: Game production is a complex and multistage process, dependent not only on the human factor and the implementation of the next stages of work on the game, but also on technical factors. Failure to meet the planned production schedule may delay the game's release, which in turn may have a negative impact on the sales level of the product and prevent TSG from achieving the expected financial results.



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