

CI Games

Sector: Gaming

Quality studio positioned for growth

Redeye initiates coverage on CI Games, a global game developer, and self-publisher, specializing in the FPS and RPG games genre. It primarily targets AA & AAA games in the console and PC markets. CI Games consist of two internal studios, one external studio and a publishing entity, United Label containing four independent studios. United Label is separately listed on the Warsaw NewConnect market.

High Quality Studios

CI Games' two key IPs have sold more than 15 million copies and have a truly loyal player base. Its franchise Sniper Ghost Warrior is the best-selling first-person sniping series of all time, ensuring solid back catalog sales. The latest releases have received a strong reception, and we believe CI Games has reached a new, higher standard in its game portfolio that will contribute to earnings growth over time. The upcoming releases from its two key franchises in 2023, could increase revenues by ~230%. In the last twelve months, CI Games had revenues at PLN ~68.2m and reached an EBIT margin of 30.6 percent.

Positioned for further growth

CI Games has a robust net cash position. We estimate healthy earnings growth in the following years, yielding an even higher net cash position. The net cash position could be used for internal investments in its game portfolio, or be allocated towards share buy-backs, dividends, or potential acquisitions, which may lower game portfolio concentration risk.

Attractive valuation

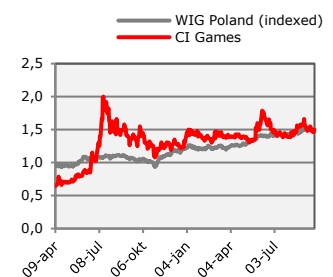
On our estimates, CI Games trades at a significant discount to peers, despite outperforming on growth expectations and profitability metrics. Redeye believes the market underestimates its game portfolio and loyal player base. Thus, we initiate coverage at a fair value of 3.7 PLN / share.

Key Financials (PLNk)	2019	2020	2021E	2022E	2023E
Revenues	47 478	46 010	101 498	71 229	225 250
Revenue growth	116%	-3%	121%	-30%	216%
EBITDA	20 514	27 829	62 760	46 858	109 266
EBITDA Margin (%)	43%	60%	62%	66%	49%
EBIT	1 047	8 729	36 017	25 067	70 027
EBIT Margin (%)	2%	19%	35%	35%	31%
Net Income	-2 877	7 097	29 014	20 061	56 479
EV/Revenue	3,1	4,1	2,5	3,3	0,9
EV/EBITDA	7,2	6,8	4,1	5,0	1,8
EV/EBIT	141,2	21,7	7,2	9,3	2,8

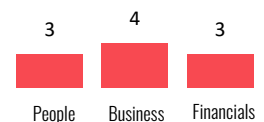
FAIR VALUE RANGE

BEAR	BASE	BULL
2.7	3.7	5.5

CIG VERSUS WIG POLAND



REDEYE RATING



KEY STATS

Ticker	CIG
Market	GPW
Share Price (PLN)	1.61
Market Cap (PLNm)	294.5
Net Debt (PLNm)	-15.2
Free Float (%)	60%
Avg. daily volume (k)	1,249

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Investment Case

Game Quality Shining Through

CI Games' two key IPs have sold more than 15 million copies worldwide and have a stable, engaged player base to capitalize on. The latest releases have received positive receptions in the sector and from player reviews, Sniper Ghost Warrior Contracts 2 received 74/100 from Metacritic and 80/100 on player reviews, and has since June 2021, sold over 500,000 copies.

Redeye believes the massive investments in its game production will pay off and enhance CI Games' IPs even more upon new launches. Further sequels are likely in the future, contributing to revenues and earnings over a long time. Moreover, the loyal user base mitigates the need for marketing expenditures, further strengthening the possibility of a solid return on investments. CI Games primarily targets mid-core and hardcore gamers who invest significant amounts of time and money playing. Well-known IPs could also provide optionalities in terms of licensing, thus yielding stable revenues at a marginal incremental cost.

In addition, the latest releases from its publishing entity, United Label, have had impressive reviews and were fully reimbursed shortly after release. United Label prioritizes quality and mitigates commercial risks for the group. Further releases or platform expansions within the portfolio will contribute to the group while decreasing the game portfolio's concentration risk. All in all, we believe CI Games has reached a new, higher standard in its game portfolio that will contribute to earnings growth over time. Redeye estimates 2020-2024E sales and EBIT CAGR of **~28 percent** and **~51 percent**, respectively.

Enhanced Digitized Monetization Enhance Margins

CI Games has recently invested in its marketing team, a move that directly contributed to enhanced monetizing for the Sniper Ghost Warrior Contracts 2 game. Collaborations with game influencers enable efficient marketing and drive the margin-accretive digital sales. CI Games wholly owns its IPs and needs not to pay any royalties. Consequently, incremental digital sales have very high margins, illustrating the group's strong profitability at scale. Moreover, increased focus on DLCs and expansion packs for current games will create more stable revenues over time, decreasing the volatility between periods and increase visibility.

Positioned For Further Growth

CI Games barely has any interest-bearing debt except for financial lease liabilities, implying a hefty net cash position. We estimate enhanced earnings growth in the following years, yielding an even healthier net cash position. The net cash could be used for further investments in its internal game development, resulting in newly created IPs that could contribute to earnings over a long time. Moreover, the net cash position could also be allocated towards share buy-backs, dividends, or potential acquisitions, even though potential acquisitions are not something management has communicated. Importantly, the creation of new key IPs or potential acquisitions could increase the growth runway, reduce earnings volatility, and lower the concentration risk in its game portfolio, in turn potentially increasing investors' confidence and leaving room for expansion of multiples ahead.

High Quality Studio At Discount

CI Games is a high-quality studio with a loyal player base. It wholly owns its IPs, bringing robust profitability. On our estimates, it trades at a significant discount to peers, despite outperforming on growth expectations and profitability metrics. We believe the market underestimates its game portfolio and loyal player base, and we see this as an attractive buying opportunity at this entry point.

Catalysts

Platform Fees

In 2020, ~75 percent of revenues came from digital sales, while 70 percent of revenues were generated through console platforms. Redeye expects this trend to continue and so potential cuts to platform fees could be a massive catalyst going forward. Should significant platforms, such as PlayStation Store or Microsoft Store, follow the trend on consoles, or Steam (PC) decrease its platform fees from 30 percent to 12 percent, it could increase CI Games' gross margins significantly. More importantly, the drop-through rate from this potential change would be pure profit.

Release for Lords of the Fallen 2 and the next Sniper Ghost Warrior Franchise Sequel

CI Games' concentrated game portfolio brings with it the risk of poor releases (Sniper Ghost Warrior Contracts 1 generated ~68 percent of total revenues in H1 2021). Lords of the Fallen 2 is its biggest investment to date, and a successful release could be a massive trigger for the share. The release of Lords of the Fallen 2, in conjunction with another sequel of Sniper Ghost Warrior, both games expected for release in H1 2023, could contribute sales of at least PLN 210m upon release. Around four times the group's 2020 revenues. For comparison, PLN 210m equals ~ SEK 460m.

Buy-backs/Dividends/Acquisitions

CI Games has a healthy balance sheet with no interest-bearing debt outstanding. Moreover, we believe it is time for it to capitalize on the extensive investments it has already made. Further earnings growth at high cash conversion implies an even stronger balance sheet. We consequently consider share buy-backs, potential dividends, or potential acquisitions highly likely. Moreover, the gaming sector has seen significant activity with the consolidation of smaller players, where major players such as Microsoft and Tencent, have been driving M&A volumes and multiples. We believe CI Games' high-quality IPs and its modest valuation make it an attractive takeover target.

Risks

Game Production Delays

The market for video games is driven by the expectations associated with new games launches. There is a risk that some products are completed later than planned. Production delays may have a negative impact on sales, earnings, and cash flow. Internal factors that could result in launch delays include ensuring that the game production processes meet the quality requirements. CI Games prioritizes quality, planning the time of its release to optimize the returns. It has a proper record in production times.

Concentration Risks

Internal game production requires substantial development and marketing costs, limiting the group's ability to diversify its risk and distribute this across different products. There is a clear risk that such concentration could have a negative financial impact if the estimated sales level falls short of expectations. Sniper Ghost Warrior Contracts 2, released in June 2021, contributed ~69 percent of total revenues for the first half of 2021, illustrating the high concentration risk. However, if a title resonates with gamers, the propensity for additional titles and updates offers future cash flow potential.

Suppliers

CI Games outsources some tasks in the production process, especially the graphics. A potential termination of a contract for these tasks could delay production, increase expenditure, and impact financials. Moreover, the placement of titles on specific console platforms is dependent on the co-operation and the certification requirements that those suppliers demand. A potential failure to obtain this certification may impact the financials. To date, CI Games has met such specifications.

Key Personnel

The success of the group largely depends on its employees and their knowledge and experience. Key personnel is a common risk factor in the video game industry, where intellectual copyright is the key asset. The potential loss of key employees could lead to games delays and harm the financial performance. However, key personnel at CI Games are incentivized to stay for a long duration to deliver high-quality content.

Currency Fluctuations

CI Games bears a part of its operating costs in currencies other than PLN, mainly in USD and EUR. PLN is its accounting currency. Moreover, most of its revenues are settled in USD and EUR. Therefore, unfavorable exchange rate movements may negatively impact selected items in the financial statements, affecting revenues and earnings. Several cost items are also expensed in USD and EUR, creating a natural hedge to FX movements.

Exposure to China

CI Games has a small exposure to the Chinese PC market; we estimate this at less than 10 percent of revenues. Due to the new legislation in the country, those under 18 can only play video games for a limited time on Fridays, weekends, and holidays. However, CI Games' most important franchises attract an older cohort of players. We believe this risk is small at present.

Valuation

Bear Case: PLN 2.7

Sales 2024E: PLN ~123.1m
 Sales CAGR 2025E-2034E: 4 percent
 Average EBIT margin 2025E-2034E: 20 percent.
 Sales CAGR 2035E – 2040E 1.5 percent.
 Average EBIT margin 2035E – 2040E: 22 percent.
 WACC: 11 percent.

Base Case: PLN 3.7

Sales 2024E: PLN ~123.1m
 Sales CAGR 2025E-2034E: 7 percent
 Average EBIT margin 2025E-2034E: 25 percent.
 Sales CAGR 2035E – 2040E 2.0 percent.
 Average EBIT margin 2035E – 2040E: 27 percent.
 WACC: 11 percent.

Bull Case: PLN 5.5

Sales 2024E: PLN ~123.1m
 Sales CAGR 2025E-2034E: 11 percent.
 Average EBIT margin 2025E-2034E: 30 percent.
 Sales CAGR 2035E – 2040E 2.5 percent.
 Average EBIT margin 2035E – 2040E: 32 percent.
 WACC: 11 percent.

Assumptions DCF		Bear	Base	Bull
Momentum	Sales growth	4,0%	7,0%	11,0%
	Ebit margin	20,0%	25,0%	30,0%
Stable period	Sales growth	1,5%	2,0%	2,5%
	Ebit margin	22,0%	27,0%	32,0%
	Wacc	11,0%	11,0%	11,0%
Value / Share		2,70	3,70	5,50

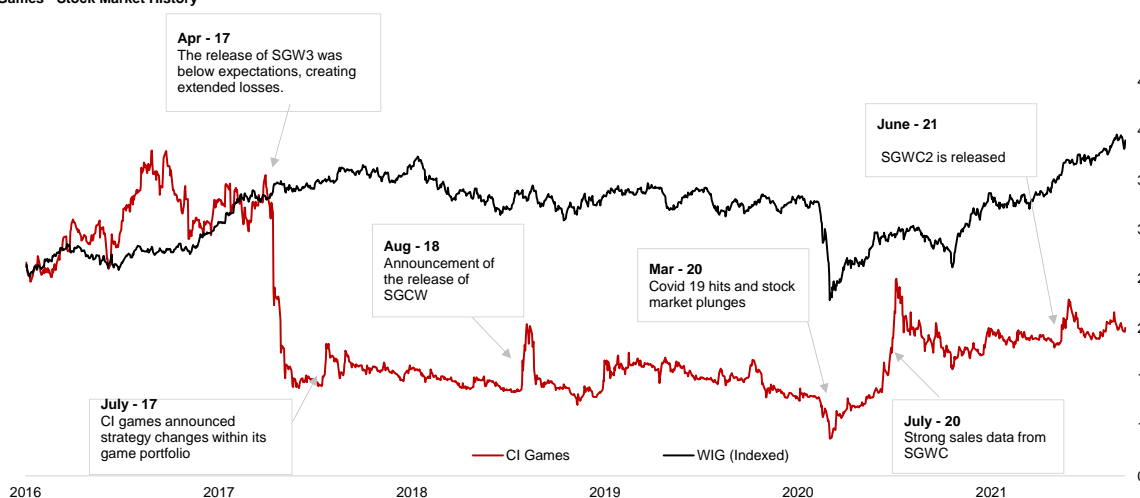
Source: Redeye research

The share

The CI Games share has been volatile in recent years. Its dramatic price decline in 2017 was primarily due to the release of Sniper Ghost Warrior 3, a game that did not live up to players' or management's expectations. Moreover, around the same time, the announced mobile version of Lords of the Fallen was delayed.

A few months after this disappointment, the company announced strategic changes in its game portfolio, focusing on its core niches. CI Games' next sequel in its Sniper Ghost Warrior franchise was announced in 2018 and released in 2019. The release of Sniper Ghost Warrior Contracts restored players' confidence, which in turn supported the share. The share has consolidated during 2021, with the latest release of SGWC2 and the stable earnings pushing the price up. Year-to-date, the share is up ~16 percent.

CI Games - Stock Market History



Source: Refinitiv, Redeye research

Shareholders

Top Shareholders		
Name	# Shares (Thousands)	% of votes
Marek Tyminski	53 084	29%
Rockbridge Towarzystwo Funduszy	15 718	9%
Other Shareholders	114 141	62%
Total	182 943	100%

Source: Redeye reseach

CI Games introduced an incentive program for key employees in June 2021, mitigating the risk that key employees leave and increasing the likelihood of maximum value creation.











Contents

Management and Board of Directors	7
Introduction to CI Games	9
History	10
Studios.....	11
Games Portfolio.....	12
Pipeline of Games – Outlook	16
Strategy	16
Gaming Market.....	17
Financial Review	20
Financial Estimates	30
Valuation	35

Management and Board of Directors

Management

Top management at CI Games consists of CEO Marek Lech Tyminski, Finance Director Katarzyna Sermanowicz-Giza, Saul Gascon, who is executive producer for the Lords of the Fallen franchise, and Tobias Heussner, executive producer for the Sniper Ghost Warrior franchise. All have extensive experience in the video games industry. The management team includes many different nationalities.

Management team	Name	Position	Experience	Ownerships
	Marek Lech Tyminski	CEO	Graduated from University of Virginia. In 1997, he launched his first business enterprise. He has been CEO of CI Games since founding the company in 2002.	53 million shares and 29% of votes
	Saul Gascon	Executive producer (LOTF)	15 years experience in game development, both in the trenches and leadership roles. He previously worked at Smilegate, Starbreeze Studios, Gameloft and Ubisoft. He worked on titles like "Dead by Daylight", "Payday 2" and "Minion Rush".	Part of stock incentive program
	Tobias Heussner	Executive producer (SGW)	20 years experience in different design and leadership roles, joined from Saber Interactive. He has successfully developed and published more than 20 titles, among them "Drakensang" and "NBA Playgrounds".	Part of stock incentive program
	Cezar Virtosu	Creative director (LOTF)	Previous experience as writer, game designer and art director. He joined from Virtuosus. Previously contributed to Ubisoft's titles "Ghost Recon" and "Assassin's Creed". He has also been co-creative director for prestigious IPs like "Tomb Raider" and upcoming "Marvel's Avengers".	Part of stock incentive program
	Kenton Fletcher	Creative director (SGW)	16 years of experience, both in development and publishing groups. He specializes in original concepting and IP creation. Previously, he gained experience at Bandai Namco and Sumo Digital.	Part of stock incentive program
	Ryan Hill	Marketing director	More than 10 years of experience from the marketing segment, across a variety of industries. He has expertise within curating, creative, innovative and holistic marketing executions. He joined CI Games in 2021.	Part of stock incentive program
	Darren Newnham	CEO, United Label	25 years experience from the games industry. He has delivered strategies for Fnatic, Disney Interactive and the first-ever mobile games strategy for SEGA Europe.	Not confirmed by CI Games
	Rhys Twelves	Technical Director (SGW/LOTF)	More than 25 years of experience in video games development. He previously worked at Foundry 42 and Bioware.	Part of stock incentive program
	Monika Rumianek	HR & Admin director	More than 18 years of experience in human resources management, specializing in recruitment. She joined CI Games in 2013 and is part of the management board.	Part of stock incentive program
	Katarzyna Sermanowicz - Giza	Finance director	Previous experience from Deloitte where she advised private equity funds and strategic investors in multiple transactions.	Part of stock incentive program

Source: Redeye research

Board of Directors

In Poland, companies only have a few board members and other external members operating in a supervisory function. CI Games has the advantage of a separate supervisory board of highly experienced individuals from various backgrounds (finance, legal, HR) across the geographies in which the company operates. This board has five external supervisors, while the other two board members are the current CEO, Marek Lech Tyminski, and Monika Rumianek, who is responsible for HR and administration at CI Games.

Board of Directors Name	Position	Experience
Marek Tyminski	President of the board	Graduated from University of Virginia. In 1997, he launched his first business enterprise. He has been CEO of CI Games since founding the company in 2002.
Monika Rumianek	Member of the board	More than 18 years of experience in human resources management, specializing in recruitment. She joined CI Games in 2013 and is part of the management board.
Ryszard Bartkowiak	Chairman of the Supervisory board (Audit committee)	Graduated from University of Poznan. He has 18 years of experience of legal advisory for listed companies, investment funds and regarding different transactions.
Rafal Berlinski	Member of the supervisory board (Audit committee)	Graduated from Univeristy of Warsaw and holds an MBA from Durham Business School. He has been involved in the capital markets since 1990 and serves as president of the board at various companies in Poland.
Marcin Garlinski	Member of the supervisory board (Audit committee)	Graduated from the University of Warsaw, specialising in banking and finance. Previously, he was president and managing director of MUZA S.A. Currently, he is the president of the supervisory board at Medical finance Group S.A.
Grzegorz Leszczynski	Member of the supervisory board	Graduated from Warsaw School of Economics. For the recent years he hold different positions in administration, management and supervisory for a number of listed companies in Poland.
Krzysztof Kaczmarczyk	Member of the supervisory board	Graduated from University of Warsaw. More than 20 years of experience offering a blend of expertise achieved from global investment banks, TMT sector and the mining industry. Member of board of directors for the past 15 years.

Source: Redeye reseach

Introduction to CI Games

CI Games is a globally renowned independent games developer and publisher, mostly known for its action-driven titles such as the Sniper Ghost Warrior and Lords of the Fallen franchises. As of August 2021, the Sniper Ghost Warrior franchise had sold more than 12.5 million copies and the Lords of the Fallen series more than 3 million copies. The company has established a passionate and committed player base, enabling stable sales from its back catalog, with the potential for updates and follow-on releases.

The company runs two internal development studios, focusing on its key franchises and operating as an independent publisher for all key gaming platforms (PlayStation, Xbox, PC). On the 15th of October 2021, CI Games announced that they had entered into an agreement with the Czech studio BatFields s.r.o., which will be operating as an external studio, developing games within the survival genre, creating a third internal IP of CI Games.

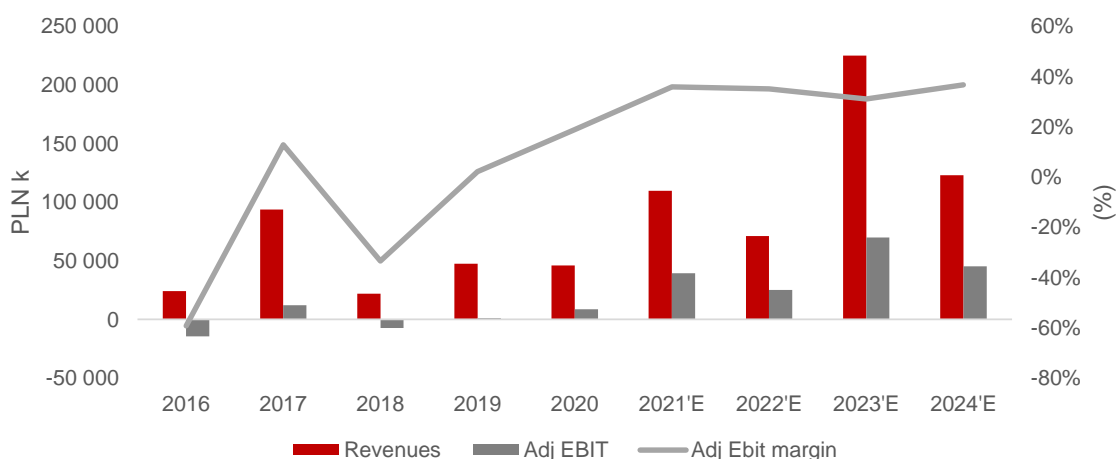
Moreover, in 2018, CI Games founded a new publishing arm called United Label, currently co-operating with four independent studios specializing in smaller but equally ambitious titles, and aiming to increase this number going forward. This simultaneous production enables a dynamic business model with increased opportunities for growth and synergies. For instance, future game development could be developed across the studios where knowledge and experience could increase efficiency and quality, supporting future growth.

Sniper Ghost Warrior Contract	Lords of the Fallen	United Label
		
> 12.5 million units sold	> 3 million units sold	Roki > 75,000 units sold Eldest souls > 44,000 units sold
AA+ FPS game	AAA RPG game	Indie studio

Source: Redeye Research

In 2020, CI Games had revenues of PLN 46m and achieved EBIT of PLN 8.7m, at a margin of 19 percent without any significant releases during that year. In 2020, 70 percent of revenues came from the console segment and the remaining 30 percent from PC, with ~75 percent of revenues generated through digital distribution and the remaining ~25 percent through games sales in physical boxes.

CI Games: Net Sales and Adj EBIT



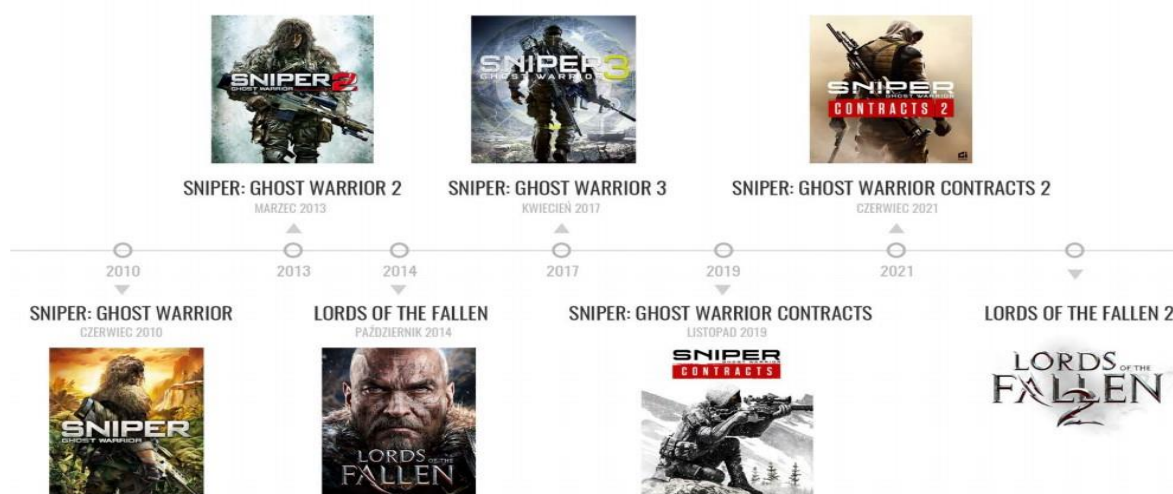
Source: Redeye Research

Currently, CI Games has studios in Poland, Spain, Romania, and the UK. At the end of the second quarter 2021, the company had a total headcount of 153 employees. CI Games primarily focuses on AA+ / AAA projects with a high production value, leveraging the knowledge and co-operation of carefully selected outsourced partners to ensure optimum effectiveness and consistent control of titles sold under its brand. CI Games also has a distributor entity on the US market, ensuring the right distributors and selling channels to optimize sales and profitability.

History

Founded in 2002, CI Games has published more than 100 titles and is the owner of the globally recognized Sniper Ghost Warrior and Lords of the Fallen franchises. The first published title in the Sniper Ghost Warrior series was released in 2010, followed by sequels every three or four years. Lords of the Fallen was released in 2014, and the sequel is expected in 2023. However, earlier versions were co-developed by the studio Deck13.

In 2018, impairments were made for two internal game development projects. Following this, CI Games adopted a new in-house platform to streamline internal developers. It also started to outsource different tasks to third parties by selecting very established partners.



Source: Redeye Research

Shortly after this, CI Games focused on developing Sniper Ghost Warrior Contracts, which restored faith in the franchise after Sniper Ghost Warrior 3 fell short of internal expectations. Sniper Ghost Warrior 3 had issues with bugs on its release, which temporarily impacted the sentiment for the game and franchise.

Moreover, in 2018, CI Games founded United Label, a new publishing arm specializing in smaller indie titles. This broadened the player scope and diversified the group’s revenues. A second internal studio, Hexworks, was established in 2020, its headquarters in Barcelona. Hexworks currently has a total headcount of 61 employees and is fully responsible for developing Lords of the Fallen 2. At the beginning of 2021, CI Games established a new internal marketing division based in the UK to work across its entire game portfolio.

By the 15th of October 2021, CI Games concluded an agreement with the Czech game developer BatFields s.r.o. to develop a new third internal IP within the survival genre. BatFields s.r.o. will be operating as an external studio.

Studios

At present, the group has two independent internal studios running in parallel, and a third external studio that is co-developed by CI Games and BatFields s.r.o.. One of the internal studios is headquartered in Warsaw, has an international presence, and is fully responsible for the Sniper Ghost Warrior franchise. The first release in this series was in 2010, and the fifth sequel, Sniper Ghost Warrior Contracts 2, was released in H1 2021. The primary focus for this studio at present is to develop the next release, a Sniper Ghost Warrior franchise sequel. CI Games wholly owns the IP for this franchise.

The second studio, Hexworks, was founded in 2020. Hexworks boasts a highly experienced team of senior developers from all around the world working to leave their mark on the fantasy action RPG genre. Hexwork has offices in Spain, Romania, the UK, and France. The studio strives to optimize content production through internal and external display and has an analytical approach to game development.

Hexworks is fully responsible for developing Lords of the Fallen 2. Previously, CI Games co-owned the IP for Lords of the Fallen with Deck13, but it has since negotiated a deal for control of this and now wholly owns the franchise IP rights.

The third studio, BatFields s.r.o. is external and will develop games as a work-for-hire structure, led by CI Games senior management team. BatFields s.r.o. consists of experienced developers, located in Brno. This game studio, will focus on the survival genre, with similar strategies as the Sniper Ghost Warrior and Lords of the Fallen franchises. The first game release is expected in 2024.

Group Structure



United Label

Founded in 2018, United Label is a publishing studio focusing on smaller but equally ambitious games and currently collaborating with four different independent studios: Fallen Flag studios, Lunarix Iris, Odd Bug Studios, and Polygon Treehouse. United Label supports the developers in game production, helping across all stages of production with profound milestone reviews and critical support services. It also continuously reviews the game against market trends, using both internal benchmarking and external third-party validation. This setup enables the different development teams to focus on the right features to achieve the highest quality and ensure long-term success.

United Label recently announced Darren Newnham as its new CEO. He has extensive experience in the video game industry, most recently as a senior business development manager, and brings with him 25 years of experience in the games industry from Fnatic, Disney Interactive, and Sega Europe.

The publishing studio strives to develop original IPs in the future and is planning to consistently release three to four titles each year. United Label should not be seen simply as an indie studio, but rather an entertainment studio that produces high-quality games. The specific cohorts engaged in the games published by United Label are often AAA players. This is essential to ensure a game's quality and to analyze the commercial risk upon release. United Labels' strategy is similar to the game studios Remedy and Frontier endeavour.

The average development cost for the studios within United Label is a few hundred thousand euros, while the sales price ranges between EUR 20 and EUR 30. CI Games works closely with United Label and owns ~80 percent of the company. United Label is an excellent way for CI Games to create future content at the right cost base. It has a highly experienced team, and its recent releases illustrated the vital quality of the studios.

Games Portfolio

Sniper Ghost Warrior

The Sniper Ghost Warrior franchise is a first-person shooter (FPS) where the central theme allows players to impersonate a sniper infiltrating enemy territory. The first game debuted in 2010, and by August 2021, the franchise had sold more than 12.5 million copies worldwide. The IP is wholly owned by CI Games and brings a high margin. It is now the best-selling first-person sniping franchise of all time.



Sniper Ghost Warrior 1

The game was released in 2010 on PC, PS3, and Xbox 360 and sold 4.5 million copies. The average selling price on release was USD / EUR 29.90. Average reviews on Metacritic and Steam are 55/100 and 56/100, respectively.

Sniper Ghost Warrior 2

This sequel was released in 2013 on PC, PS3, and Xbox 360 and sold 3.5 million copies. The average selling price on release was USD / EUR 29.90. Average reviews on Metacritic and Steam are 52/100 and 73/100, respectively.

Sniper Ghost Warrior 3

Released in 2017 on PC, PS4, Xbox One, this has sold more than 2.5 million copies in total. The average selling price on release was USD / EUR 29.90. By the end of 2019, the game had sold approximately 1.6 million copies, and by the beginning of 2021, more than 2.5 million copies had been sold, implying that 2020 was a strong year. However, this game had bugs at launch, which harmed the franchise quality to some extent. The game is fully depreciated, and further incremental sales will positively affect earnings. Average reviews on Metacritic and Steam are 59/100 and 63/100, respectively.

Sniper Ghost Warrior Contracts 1

Released in 2019 on PS, PS4, and Xbox One, the game had sold more than 1 million copies in total by the end of 2020, at an average selling price of USD / EUR 39.90. The estimated budget for this game was PLN 35m (including marketing), and the approximate consolidated revenue has been PLN 69m. The game was fully reimbursed two quarters after release (June 2020). The game is almost completely depreciated, and the latest playing numbers, along with the marketing and release of Sniper Ghost Warrior Contracts 2, seem to show an additional boost for the game. Average reviews on Metacritic and Steam are 67/100 and 71/100, respectively.

Sniper Ghost Warrior Contracts 2

Released in June 2021 on PC, PS4, Xbox Series X/S and Xbox One, the game's average selling price on release was USD / EUR 39.90. The estimated budget for this game was approximately PLN 30m (including marketing). The release is off to an impressive start, and according to a press release from the company, digitally distributed sold copies for the first ten days after release were 125% higher than for Sniper Ghost Warrior Contracts 1, while the estimated revenue was approximately 170% higher across all platforms. The enhanced revenue mix is primarily thanks to better monetization, since the game was offered as either a premium or a basic version, the premium version carrying a higher price. Moreover, no additional discount was applied for the debut. The other reason for the enhanced revenue mix is a higher proportion of digital sales. However, it is worth mentioning that the physical distribution of boxes in the largest Western markets was approximately 15% lower than for the release of Sniper Ghost Warrior Contracts 1.

CI Games announced that the game had generated PLN ~36m by the end of July, which implies that the total initial investment for the game was fully reimbursed. Furthermore, at the end of August, the game was released on PlayStation 5, widening the player base and boosting sales further. Average reviews on Metacritic and Steam are 73/100 and 80/100, respectively.

Lords of the Fallen

The Lords of the Fallen franchise is an action-RPG (role-playing game) characterized by engaging gameplay mechanics, an advanced combat system, and various weapons that allow the players to develop an individual combat style embedded in a fantasy world.



Lords of the Fallen 1

Released in 2014 on PC, PS4, and Xbox One, the game's average selling price on release was USD / EUR 49.90. In total, more than 3 million copies have been sold, and the consolidated revenue was approximately PLN 100m, contributing PLN 50m in profit. In total, around 10 million people have enjoyed the game, creating a solid and loyal fanbase for the upcoming release of Lords of the Fallen 2. Average reviews on Metacritic and Steam are 73/100 and 60/100, respectively.

Lords of the Fallen 2

This AAA game is expected for release in 2023. The game has been developed by the internal studio Hexworks and is a wholly owned IP. The game will be released at a full AAA price on PC, PS5, and Xbox Series X/S. The sequel is set in a dark fantasy world and will also increase the degree of challenges in line with the experiences that the previous "souls borne" communities enjoy and praise. The overhauled combat system is paired with enhanced visuals and gameplay, supported by the Unreal Engine as the game targets next-generation platforms and high-end PCs.

The most important features will be the enhanced combat system and the general metastory (fantasy world). This title represents a significant investment for CI Games in establishing the Lords of the Fallen franchise as a serious contender in the semi-open world. The group's financial development in the upcoming years will be highly correlated with the success of this game.

Survival

On the 15th of October, CI Games announced that they concluded an agreement with BatFields s.r.o. to create an external game studio. This studio will develop games within the survival genre, and the first game release is expected in 2024. The co-developed game will focus on AA+ / AAA with a superior focus on game quality. The game will be based on Unreal Engine 5 and will be released on PC platforms and latest generation consoles.

United Label

United Label currently works with four different studios and has released or is soon to release the games shown below.



Source: Redeye research

Röki

Developed by the internal studio Polygon Treehouse and published by United Label, Röki was released on PC in July 2020 and on Nintendo Switch in October 2020, priced at USD / EUR 21.90. The game is a modernized version of the adventure genre inspired by Nordic folklore. It was nominated in the Best Indie Game Debut category at both the Game Awards 2020 and Baftas 2021. Moreover, the game received a Metacritic score of 79/100, along with 89/100 on Steam reviews. As of March 2021, the game had reached breakeven, reimbursing all expenses for development and marketing. It generated approximately PLN 1m in 2020. By the end of August 2021, more than 75,000 copies had been sold. An additional growth driver for Röki will be further releases on other consoles, with a next generation release on PlayStation 5 and Xbox Series X/S at the end of October 2021.

Eldest Souls

Eldest Souls is a challenging pixel art boss-rush adventure game developed by Fallen Flag studio and released in July 2021 on PC, PS5, PS4, Nintendo Switch, Xbox Series X/S and Xbox One. So far, the Metacritic score is 79/100, and the average Steam review is 78/100. The budget for this game is estimated to be a few hundred thousand euros, at an average selling price of USD / EUR 19.90. The game broke even in two weeks thanks to a highly successful influencer-led campaign and strong reviews. By the end of August, more than 44,000 copies had been sold.

Tails of Iron

Tails of Iron is an RPG adventure game, released in September 2021 on all platforms. The game was developed by Odd Bug Studio. The average selling price is estimated at USD / EUR 21.90. So far, the Metacritic score is 80/100 and average Steam reviews are 87/100. The game sold more than 45,000 copies the first ten days after release.

Horae

Horae is an RPG game set in a post-apocalyptic world, developed by Lunarix Iris. The game's release date is to be confirmed. It will be available solely on PC.

Pipeline of Games – Outlook

We estimate that Lords of the Fallen 2 will be released in 2023. This game is CI Games' most prominent investment yet and could be a massive sales driver. The other internal studio is already working on a sequel in the Sniper Ghost Warrior Contract franchise, and this could be released as early as 2023. We estimate that the development budget for this sequel will be approximately 30% higher than for Sniper Ghost Warrior Contracts 2. The previous version's budget was PLN ~30m, including marketing expenses. Moreover, the plan is to expand the publishing entity United Label with more releases and studios while also focusing on a third-key IP. Further releases from its internal development studios and the publishing studios could thus offer optionality to the games pipeline.

Studio	Games Portfolio		Release		Category	Platforms	Own IP	Metacritic	Steam reviews
	Title	Year	Quarter						
CI Games	Sniper ghost warrior	2010	Q2		Shooter	PC / PS3 / Xbox 360	Yes	55	56
CI Games	Sniper ghost warrior 2	2013	Q1		Shooter	PC / PS3 / Xbox 360	Yes	52	73
CI Games	Lord of the fallen	2014	Q4		RPG	PC / PS4 / Xbox one	No	73	60
CI Games	Sniper ghost warrior 3	2017	Q2		Shooter	PC / PS4 / Xbox one	Yes	59	63
CI Games	Sniper ghost warrior contracts	2019	Q4		Shooter	PC / PS4 / Xbox one	Yes	71	72
United Label	Röki	2020	Q3		Adventure	PC / NS	No	76	89
CI Games	Sniper ghost warrior contracts 2	2021	Q2		Shooter	PC / PS4 / Xbox one / PS5	Yes	72	80
United Label	Eldest souls	2021	Q2		RPG	PC / NS / PS5 / PS4 / Xbox xs / Xbox one	No	77	78
United Label	Tails of iron	2021	Q3		RPG	PC / NS / PS5 / PS4 / Xbox xs / Xbox one	No	80	87
United Label	Horae	2022	-		RPG	PC	No	-	-
CI Games	Lord of the fallen 2	2023	Q1		RPG	PC / Xbox xs / PS5	Yes	-	-
CI Games	Sniper Ghost Warrior sequel	2023	Q2		Shooter	PC / Xbox xs / PS5	Yes	-	-
CI Games	TBC	2024	-		Survival	PC / Xbox xs / PS5	Yes	-	-

Source: Redeye research

Strategy

CI Games primarily focuses on AA+ / AAA game projects with a higher production value and significantly greater revenue potential. The company has expertise in shooter, action, RPG, and survival games and will keep these as its central focus. Part of the current and future marketing activities is investing in and strengthening the brand for the key franchises and creating an even more loyal user base. CI Games continuously attracts global industry talent to its development team to enhance the production timeline, contributing to more regular releases of highly successful games.

United Label is an excellent complement to the current game portfolio and diversifies the player base. United Label will be more open and flexible than CI Games and can expand into new genres and products. CI Games aims to expand United Label's game portfolio further with its own developed IPs. The most crucial aspect when evaluating potential new studios is the quality of the games, so as to mitigate the commercial risk.

CI Games also has a robust presence in the publishing segment, backed by its in-house marketing team. In general, the publisher's role involves financing the development project, either in full or part, and keeping control of the development process, content, and quality. Moreover, the publisher markets the game and ensures the proper channels and distributors. The enhanced marketing strategy through digital platforms, such as Twitch and YouTube, led to massive monetization improvements with the release of Sniper Ghost Warrior Contracts 2. This was its best marketing campaign yet, and further progress is likely with the release of Lords of the Fallen 2.

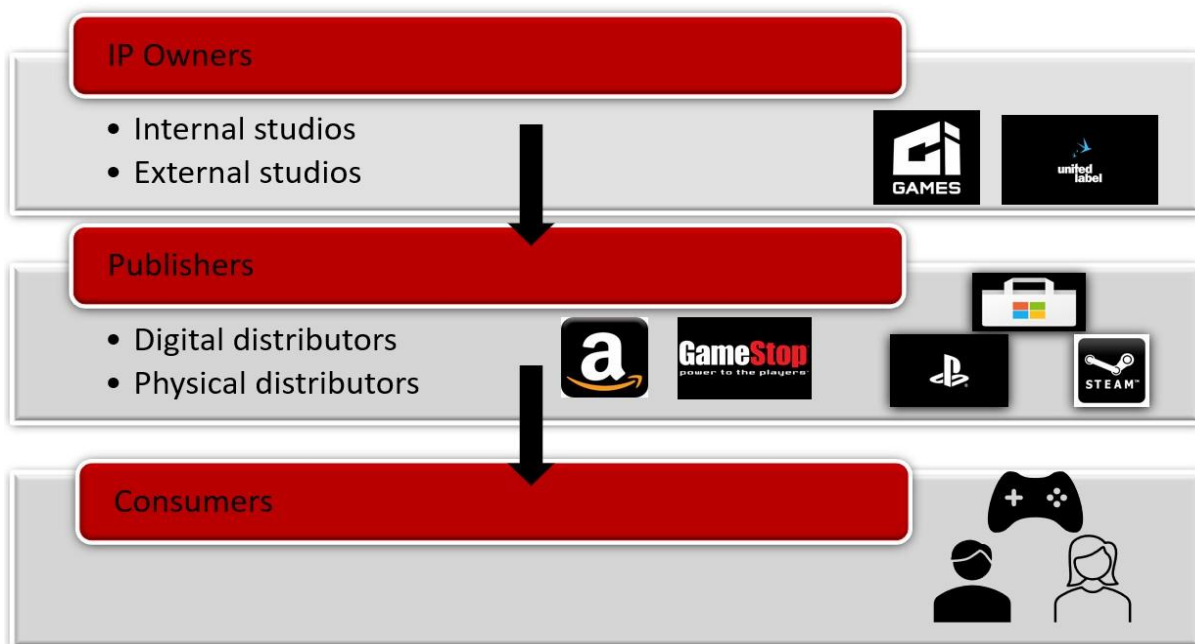
As mentioned, CI Games currently conducts internal development but outsources some tasks to external partners, mainly on the art side. For instance, Hexworks has almost 60 developers, but the majority of the art production is outsourced to third-party suppliers. CI Games' latest releases have used Cryengine as the gaming engine. Outsourcing the gaming engine is a common practice in the industry and enables flexibility and potential first-mover advantage. CI Games will stick to this strategy in the future.

CI Games will increase its IP awareness by expanding United Label's game on additional platforms and follow-up DLCs, which tend to be very profitable as incremental sales for in-game purchases have limited marketing and development costs. Moreover, CI Games is already working on a sequel in the Sniper Ghost Warrior Contracts franchise to monetize on the already loyal user base. It also aims to achieve synergies between the different

studios. At present, both internal studios are working on the same engine, Unreal Engine, to share knowledge and equalize pipelines, among other things.

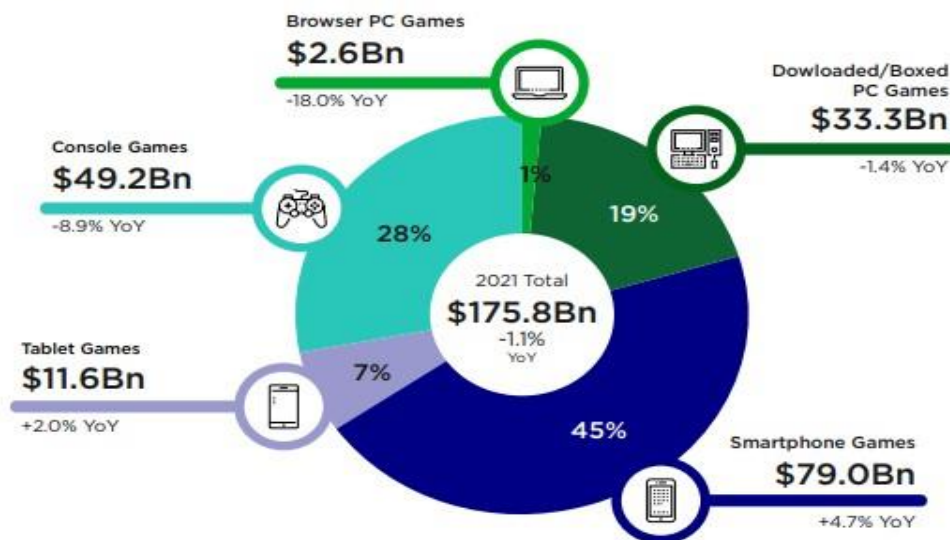
CI Games in the Value Chain

GI Games fully owns the IPs for its internal studios and co-owns the IPs in its external studios and publishing entity, United Label. It primarily sells the games through digital distribution channels (Steam, PlayStation Store, Microsoft Store, for example) but also via external publishers in physical stores (Amazon, GameStop, etc.).



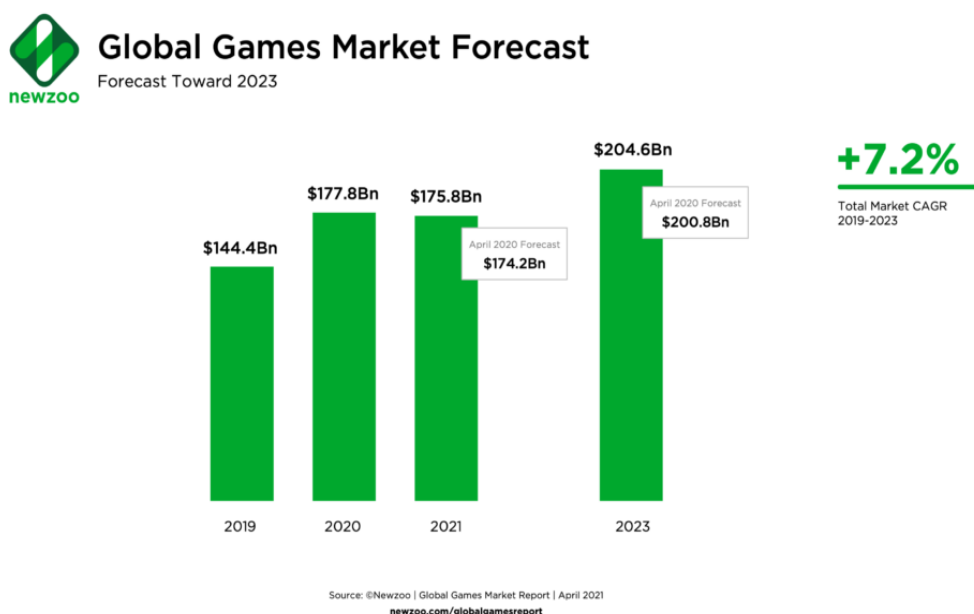
Gaming Market

2021 Global Games Market
Per Segment



Source: Newzoo

The global games market is valued at USD ~176bn according to Newzoo and is the world's most extensive entertainment market. According to Newzoo Research, 2021 will be the first year in history when the gaming market does not grow year-on-year. Note, however, that 2020 was an exceptional year, with Covid-19 lockdowns attracting new players and cohorts across all platforms. Moreover, the next-generation consoles, such as PlayStation 5 and Xbox XIS, saw an impact from component shortages, which caused delays. According to Newzoo, the global games market is expected to grow by a CAGR of 7.2% until 2023 to reach USD ~205bn.



Source: Newzoo

CI Games focuses on console and PC games, with both physical boxes and downloaded games. Newzoo expects that console gaming will be the fastest-growing segment in 2022, primarily owing to the solid pipeline, as many games have been pushed back owing to the shortage of next-generation consoles and because of production delays.

The gaming market is moving further away from physical boxes and towards digital distribution. Another critical component will be the increase in in-game transactions, affecting the monetization of console games, especially since publishers and developers will look for alternative revenue streams when subscription revenues replace complete game sales. Newzoo expects that subscription services will account for 13 percent of the console market in 2021. However, subscription revenues depend heavily on the availability of certain services for specific needs, which creates differences in income.

In general, subscription services tend to be available in regions where the biggest spenders are, meaning the share of subscription revenues is higher in more mature markets. For instance, Sony's subscription (PlayStation Plus) and Microsoft's (Xbox live) online console services have been available in most countries and have seen steady increases since launch.

Gaming as a Service

The gaming industry is moving away from the traditional hit-driven, pay-to-play, and cyclical business model where the engagement level is low. The central focus is on individual consoles rather than multi-platforms and the number of units sold. By contrast, the obsession with live services is on user engagement and is very player-centric. It is more recurring than cyclical, and the lifetime value of games is prioritized over the number of sold units. Gaming-as-a-service is being adopted by a growing number of gaming companies as they strive to attain a higher degree of

recurring revenues by extending the lifetime of games. Video games are no longer defined as static products. Instead, they could be seen as a continuously evaluated and developed service trying to attract and engage as many players as possible. This higher degree of service adoption could potentially be made through:

- Microtransactions: In-game purchases to buy items, in-game currency, or other things
- Expansion packs: Paid additional content
- DLCs: Smaller paid expansion packs
- Subscription: A monthly fee.

All these different services tend to be highly profitable as the additional development costs are usually meager. The incremental revenue on each expansion thus tends to be generated at a high drop-through rate.



Source: AppSamurai

Demographics

Newzoo estimates there are approximately 2.7 billion gamers worldwide today and expects this to increase to 3 billion by the end of 2023, representing ~38 percent of the world's population. A common misconception is that the vast majority of gamers are teenagers. This is not the case: the most significant cohort, ~35 percent of the total player base, is people aged 21-35. Moreover, Newzoo also suggests that more than half of gaming enthusiasts are aged above 30 and are medium to high earners with full-time jobs.

Platform Fees

Currently, there are extensive discussions at the major institutions about platform fees. This August, Microsoft decreased the share it charges game developers who publish PC games on its online store, cutting this to 12 percent from 30 percent and thus significantly boosting PC game developers' gross margin. However, no formal decision regarding consoles has yet been released. And then, at the beginning of September, Apple lost a court case against Epic Games regarding external payment methods. This could potentially mitigate the platform fees for game developers. This is a favorable trend for game developers and could add significant profits and improve margins.

Financial Review

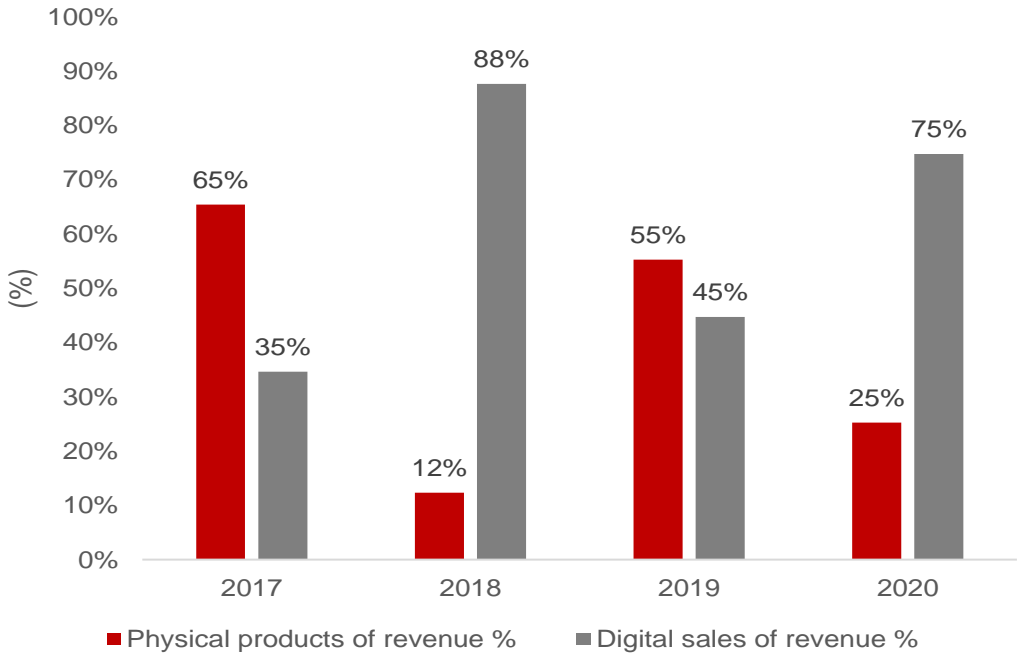
Revenue Model

CI Games’ revenues stem primarily from digital distribution channels and through the sale of physical boxes in-store. Distributors mainly sell physical boxes on specific markets and other large retail channels such as Amazon and GameStop. For the release of Sniper Ghost Warrior Contracts 2, more than eight different distributors earned the rights to sell the game on specific markets, Koch Media, PAN Vision, and Excel Games Interactive among them. CI Games also has its distribution entity on the North American market. In recent years, the video games industry has made a significant shift towards digital distribution, such as Steam, Microsoft Store, and PlayStation Store.

Typically, the sale of physical boxes is higher when games are released and steadily decreases over time, in line with the cycle of the game. Naturally, sales of new games peak after release but may continue to perform over time as new content and different expansion packs are released. Moreover, expansion packs tend to be more profitable as they are cheaper to develop than the initial game. CI Games may also earn revenues through licensing when third-party publishers license CI Games’ IPs and create games or content based on them. However, this is a minimal source of revenue for CI Games.

CI Games’ latest major releases, Sniper Ghost Warrior 3 and Sniper Ghost Warrior Contracts 1, were in 2017 and 2019, meaning higher physical sale of boxes in those years than one year after release. Physical products generated 65 percent and 55 percent of the revenues, respectively, during 2017 and 2019. However, digital sales tend to generate most of the revenues in years without significant releases.

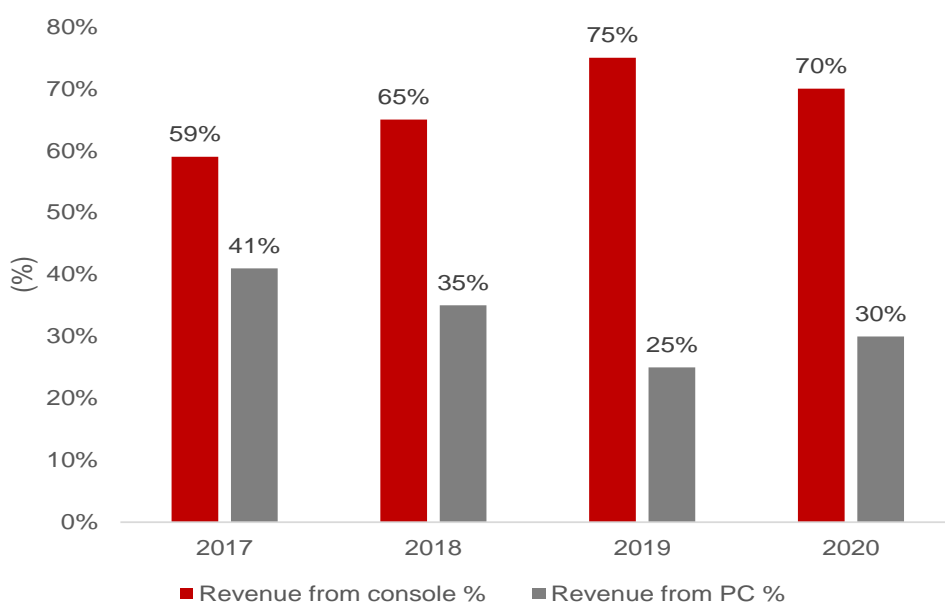
CI Games: Physical vs Digital sales



Source: Redeye Research

CI Games’ most comprehensive source of revenues is from the console segment, primarily PlayStation and Xbox. In 2020, 70 percent of revenues were generated from consoles and the remaining 30 percent from PC. During 2020, approximately 26 percent of revenues stemmed from Sony PlayStation Store, 17 percent from Microsoft Store, and 27 percent from Valve (Steam).

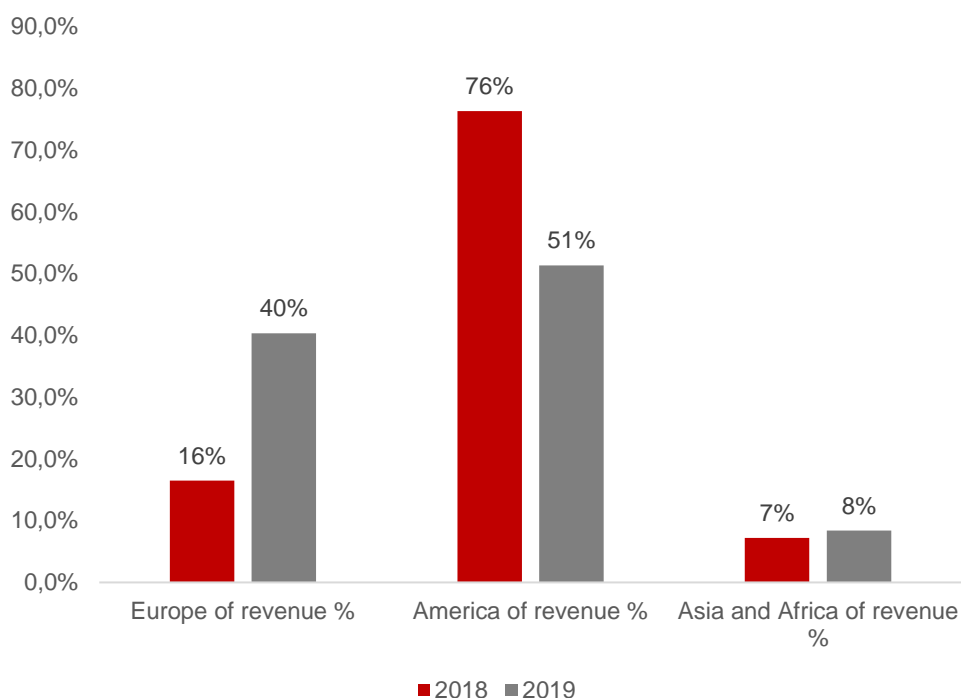
CI Games: Console vs PC



Source: Redeye Research

The most important geographical markets for CI Games by sales are North America, followed by Europe and Asia. China accounts for most of the Asian market (PC), followed by Australia. Note that the exact distribution for 2020 is not available, but we estimate that the geographical distribution in 2020 was in line with that in 2019.

CI Games: Physical vs digital



Source: Redeye Research

Looking at CI Games' business model, we can see it is heavily dependent on successful new releases. Moreover, due to the cyclicality of the business model, revenues fluctuate in conjunction with the release of new games. The regular time spent developing a new game is 12-36 months. CI Games' two key franchises enable stable sales from its back catalog, yet not at the same magnitude as new launches. Revenues from the back catalog tend to be very profitable though, as the incremental sale does not necessarily correlate with the game's production. Hence, its high degree of operating leverage offers a high margin at scale. However, this works both ways and comes with risk.

An illustration of how CI Games generates revenues and profits is shown below, offering brief assumptions to illustrate the business model for video games in general, which is characterized as a fixed costs industry. If a newly launched game succeeds, it could provide strong profitability.

As seen, the volume of sold copies is the major component in profitability. Another critical component is the enhanced mix effect, driven by digital distribution, as the gross margin is higher on those platforms. Typically, Steam takes a 30 percent platform fee on each sold unit. However, if a single game generates more than USD 10m in revenues on Steam, the platform fees decrease to 25 percent, and then further to 20 percent if the game surpasses USD 50m in revenues. Moreover, many game developers license the game engine – a cut of some 4-5 percent of revenues.

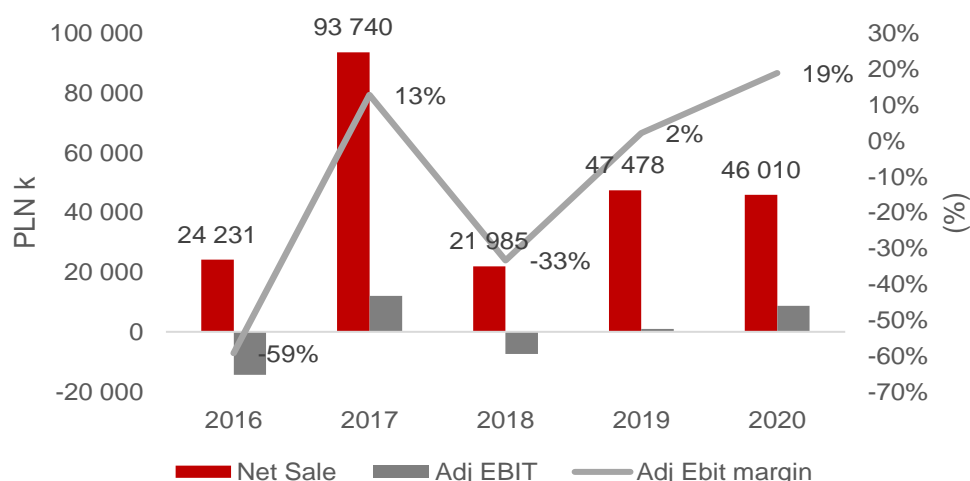
In general, the physical distributors play a larger part in terms of total sales close to release and then decrease over time. We thus show distributors taking a larger cut directly after release, which decreases over time, and so the ratio of digital sales increases, enhancing the gross margin. Note that this is solely an illustration. Also, as CI Games wholly owns its IPs, it pays no royalties. In this illustration, the initial investment comprises the budget for game development and marketing expenses, and so the D&A only includes the internal game development since the marketing activities are already expensed.

SGWC 1 Sensitivity	200	300	400	500	600	700	800	900	1 000	1 100	1 200	1 300
Units sold '000	200	300	400	500	600	700	800	900	1 000	1 100	1 200	1 300
ASP EUR/USD	39.9	39.9	39.9	39.9	39.9	39.9	39.9	39.9	39.9	39.9	39.9	39.9
Average ASP PLN	152	152	152	152	152	152	152	152	152	152	152	152
Revenue (m PLN)	30	46	61	76	91	106	122	137	152	167	182	198
Platform fee	30%	30%	30%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Unreal engine	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%
Distributors	25%	25%	20%	15%	15%	10%	10%	5%	5%	5%	3%	3%
Gross profit after platform fee	21	32	43	57	68	80	91	103	114	125	137	148
Gross profit after unreal engine fee	20	30	40	54	65	76	87	97	108	119	130	141
Gross profit	15	23	32	46	55	68	78	93	103	113	127	137
Gross margin	50%	50%	53%	61%	61%	64%	64%	68%	68%	68%	69%	69%
Initial investment (m PLN)	30	30	30	30	30	30	30	30	30	30	30	30
Contribution profit	-15	-7	2	16	25	38	48	63	73	83	97	107
ROI	-0,5x	-0,2x	0,1x	0,5x	0,8x	1,3x	1,6x	2,1x	2,4x	2,8x	3,2x	3,6x
D&A accumulated	22	22	22	22	22	22	22	22	22	22	22	22
Ebit contribution	-37	-29	-20	-6	3	16	26	41	51	61	75	85

Source: Redeye research

During 2020, CI Games saw PLN 46.0m in revenues, achieving a sales CAGR of 17.4 percent for 2016-2020. As the gaming industry is a business with a high degree of fixed costs, earnings tend to be more volatile. This volatility is shown in the graph below, which illustrates the company's sales, EBIT, and EBIT margin. In 2018, two large impairments for future game development of PLN ~15m harmed the result.

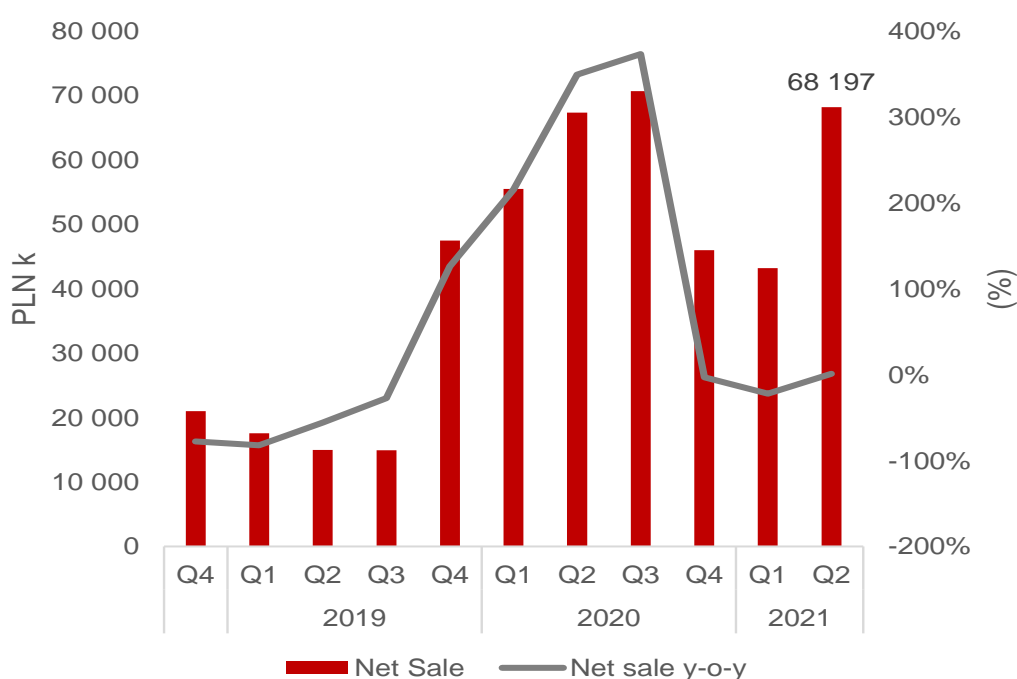
CI Games: Net Sales and Adj EBIT



Source: Redeye Research

Due to the small number of games in its portfolio, CI Games is particularly dependent on the success of upcoming releases. We believe it is essential to focus on the financial performance over the longer term since the company prioritizes game quality over short-term profit. Net sales on a last-12-month basis illustrate this.

CI Games: Net sales and growth LTM (%)



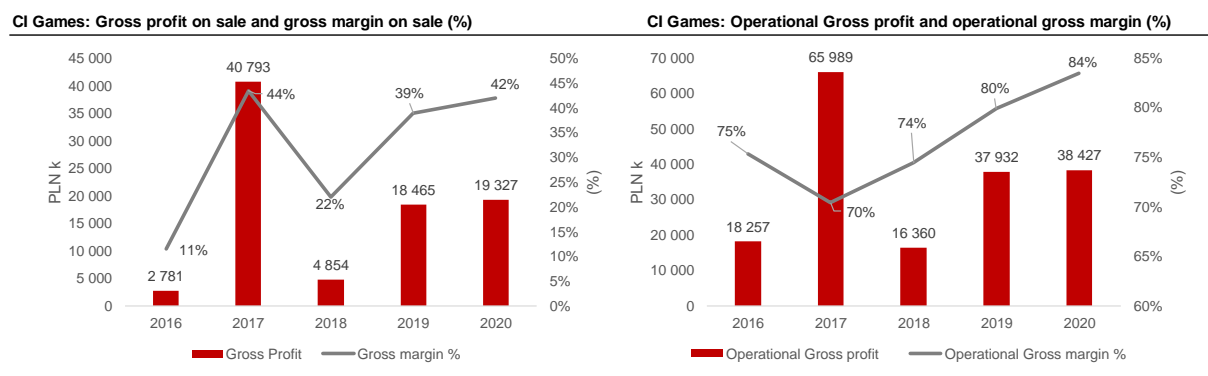
Source: Redeye Research' estimates

Cost Structure

The most significant cost item for CI Games is the cost of goods sold. This cost item consists of manufacturing physical products, royalties for the game engine, other direct costs for sale, and, most importantly, amortization of game development. Manufacturing of physical boxes tends to be highest at the release date since most physical sales are generated at this point.

CI Games' accounting standards differ from other Nordic listed gaming companies since all amortization of game development is incorporated in this cost item. The reported gross profit and gross margin thus underestimate the "true" gross profit. This standard differs from its Nordic peers' and is critical to bear this in mind when analyzing this metric.

CI Games amortizes games in line with sold volumes, meaning this item tends to be high upon release and decreases over time, when fewer units are sold. This is similar to the degressive amortization method frequently used by Nordic gaming companies. CI Games reported gross margin on sales of ~42 percent in 2020, a stable increase on 2019. Note that impairments harmed profitability in 2018. However, excluding the amortization of internal game development, we estimate that the "operational" gross margin in 2020 was ~83 percent, positively impacted by no major release and digital sales from fully owned IPs. The significant shift towards digital distribution channels has positively contributed to the improved "operational" gross margin.

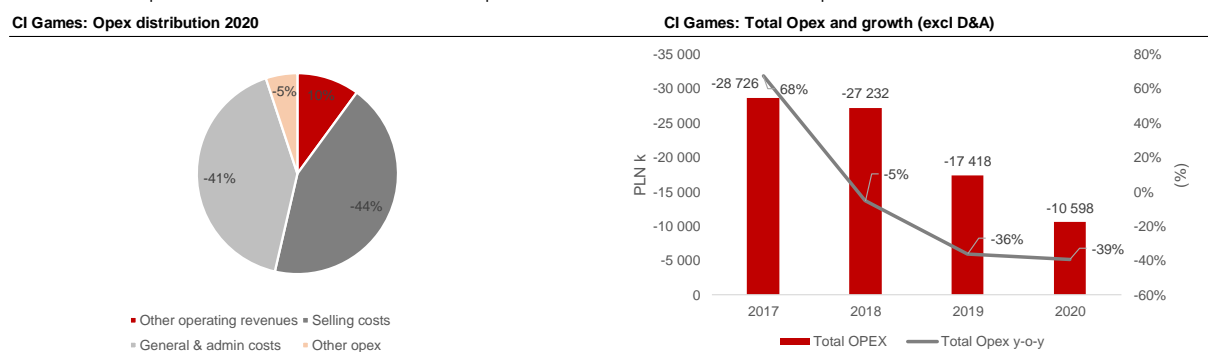


Source: Redeye Research

Source: Redeye Research 'estimated

CI Games reports the depreciation in its cash flow statement. However, the disclosure between amortization of game development and depreciation of PPE is immaterial. Yet, as the tangible assets are only a fraction of the intangible assets on the balance sheet, we assume that almost all the reported depreciation is determined as amortization of game development. Thus, the "true" operational gross margin has, on average, been ~76 percent for the last 17 quarters.

Its operating costs consist of selling costs, general and admin costs, plus other operating costs and revenues. Other operating costs and revenues primarily consists of impairment/reversal of impairment and other one-off items. Selling costs is also very volatile and increases massively ahead of a new game released. Thus, selling costs have a substantial impact on the total operating expenses and are one reason why it has decreased over the last years. Strict cost implementation is also a crucial aspect of the slimmed cost development.



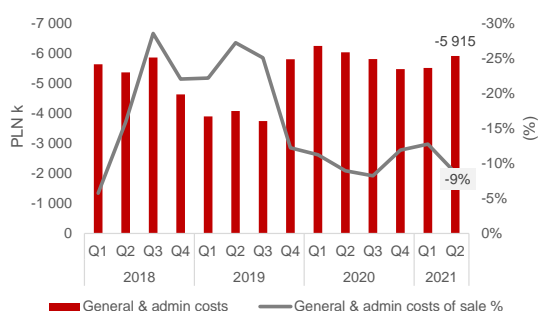
Source: Redeye Research

Source: Redeye Research

General and administration costs are primarily classified as a fixed cost base, predominantly personnel expenses, IT support, and other necessary costs required to keep the business running. This cost item has remained stable in recent years, as the company has focused on its cost control. At the end of Q2 2021, CI Games had a total headcount of more than 153 employees.

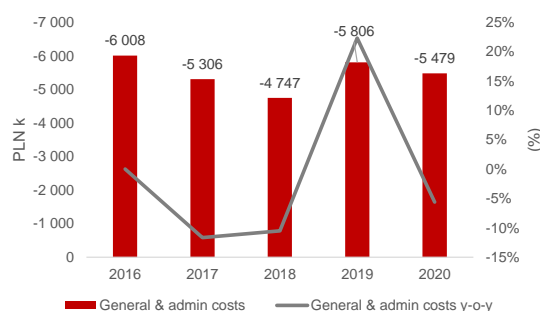
For full-year 2020, the headcount was 100, which was up ~60 percent on 2019. We believe CI Games will continue to hire more employees but not to the same high degree as in the last two years, when it was building a completely new studio (Hexworks), and as utilization among game developers is high enough.

CI Games: General & Admin cost LTM and as of sale %



Source: Redeye Research' estimated

CI Games: General and Admin costs & y-o-y growth



Source: Redeye Research

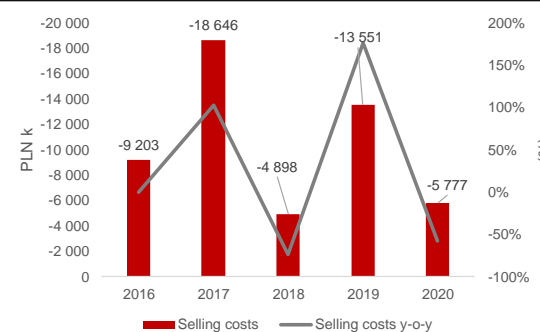
Selling expenses are among the largest of the variable cost items and highly correlate with upcoming releases and further in-game expansions. Selling expenses are primarily sales, marketing, and publishing costs. Marketing budgets for specific games depend on the expected selling price and the overall sales potential, often considered in the company's total initial investment for the particular game. Also, the substantial part of the marketing expenditure for the respective game is taken in the first quarter that the game is released. For the previous significant releases, Sniper Ghost Warrior 3 in 2017 and Sniper Ghost Warrior Contracts 1 in 2019, selling expenses increased by ~100 percent and ~400 percent, respectively, as seen in the graph below.

CI Games: Selling cost LTM and as of sale %



Source: Redeye Research' estimated

CI Games: Selling Cost and y-o-y growth

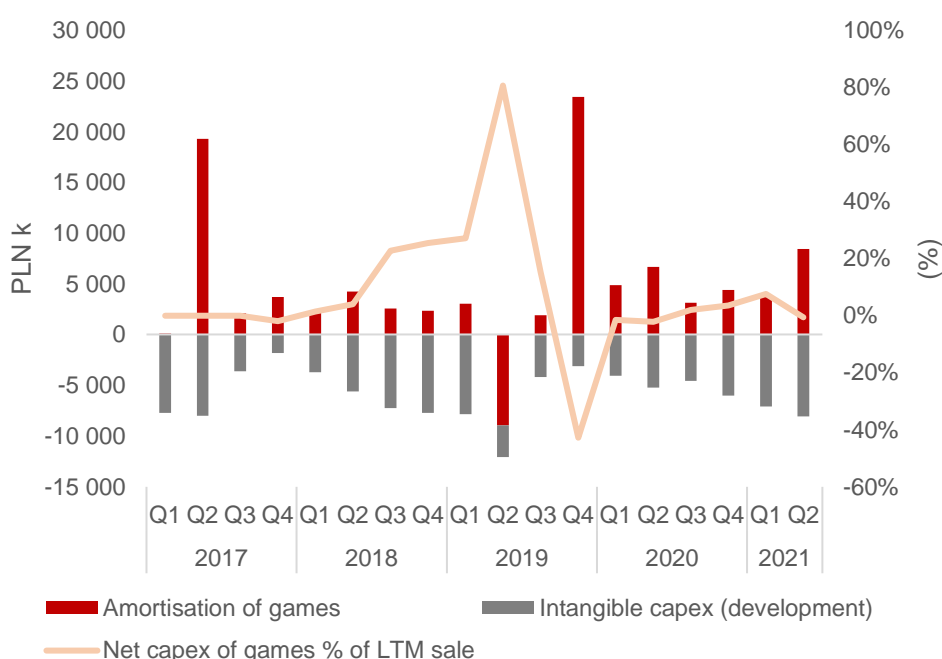


Source: Redeye Research

Net Capitalized Development

CI Games invests heavily in its game development portfolio. Capitalized development implies long-term investments in game development, which hopefully will contribute to sales and profitability in the long term. In order to match revenues and costs over a life cycle, it is common for gaming companies to capitalize on internal development and pursue this as an asset on the balance sheet. When a game is finalized, a specific proportion is then amortized over a scheduled timeline, incurring a cost. Higher net capitalized development indicates that large investments are made, as seen in the graph below. Before the release of Sniper Ghost Warrior Contracts 1, net capitalized development was high but decreased rapidly after launch because amortization of the finalized game (assets) started. In the past, CI Games has made writedowns related to a mobile game project and the outsourced development for Lords of the Fallen.

CI Games: Net Capitalized development and of LTM sale %

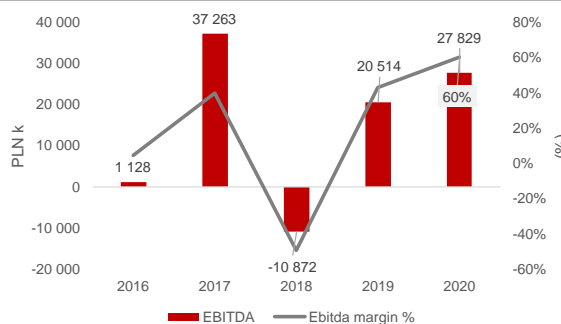


Source: Redeye Research' estimates

EBITDA

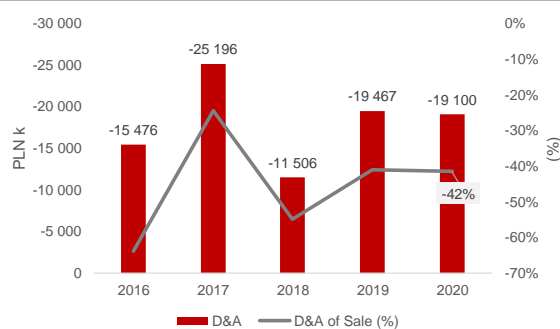
CI Games' EBITDA fluctuates along with new launches of games and thus also in line with the amortization of the finalized value of the game project. In 2020, EBITDA reached PLN ~27.8m, at an EBITDA margin of 60.5 percent. The large discrepancies between EBITDA and the operating result are the result of the high amortization of internal game development. Depreciation and amortization were PLN ~-19.1m in 2020, and as high as ~41 percent in terms of sales. As seen, depreciation and amortization have been a massive cost item for CI Games over the past five years, largely due to its sizable internal game development investments.

CI Games: EBITDA and margin (%)



Source: Redeye Research

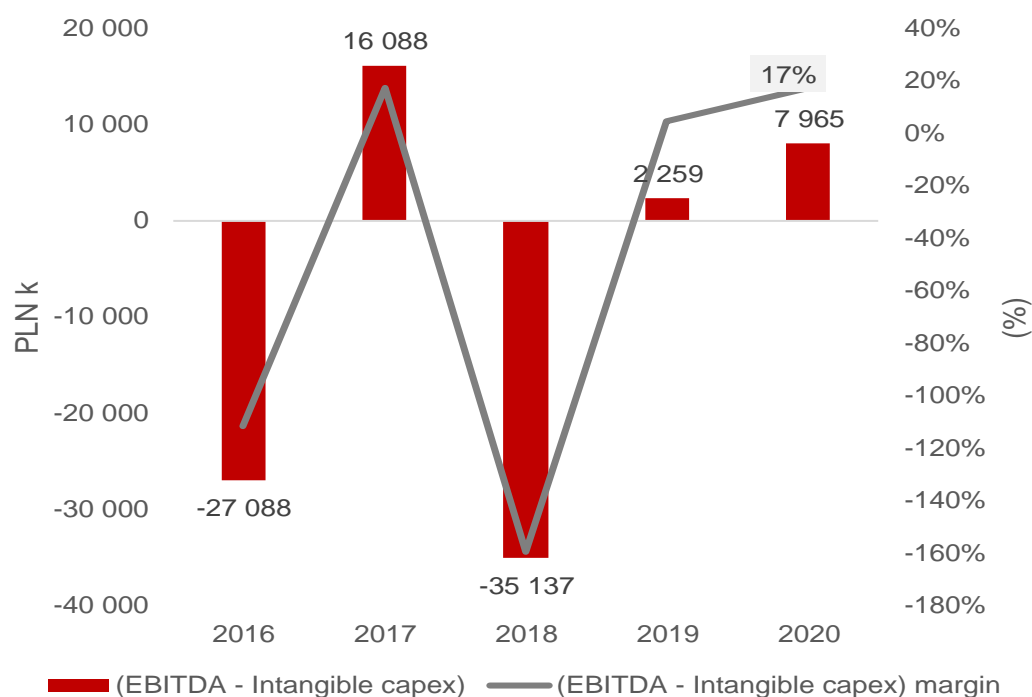
CI Games: D&A and as of Sales (%)



Source: Redeye Research

Given the high capitalized development, especially compared with peers, CI Games' EBITDA translates into a pretty poor ratio. Instead, we believe (EBITDA – Capex), and EBIT are more appropriate ratios. (EBITDA – Capex) is especially relevant owing to the high investments in net game development, which yields uncertain returns. Since CI Games has a relatively small game portfolio, this will be crucial for future growth. As seen, previous performance is very volatile, but in the last two years this has yielded a positive development, and in 2020, (EBITDA – Capex) reached PLN ~8m at an (EBITDA – Capex) margin of 17.3 percent. However, intangible capex increased in absolute terms compared with 2019, illustrating the company's scalability.

CI Games: (EBITDA - Capex) and (EBITDA - Capex) margin (%)

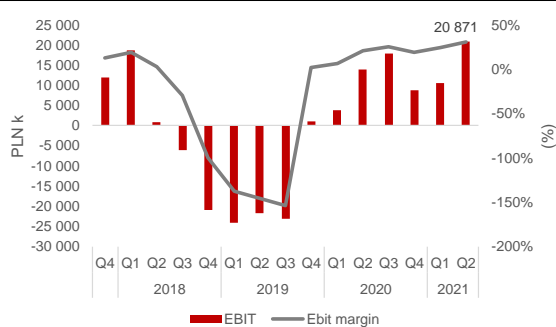


Source: Redeye Research estimates

EBIT

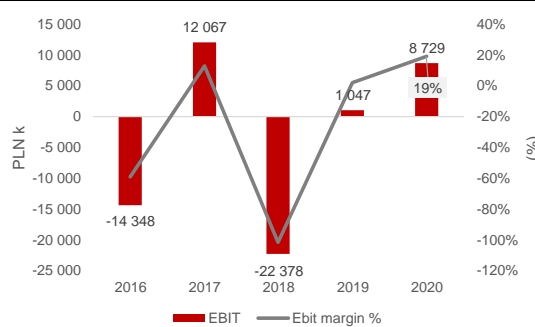
As stated before, CI Games invests heavily in game development and amortizes game development on release. Consequently, the considerable proportion of depreciation, amortization, and impairment has a considerable effect on EBIT. In 2020, its EBIT reached PLN ~8.7m at a margin of 19 percent. It is even volatile on an LTM basis, as illustrated below.

CI Games: LTM EBIT and LTM EBIT margin (%)



Source: Redeye Research estimates

CI Games: EBIT and EBIT margin (%)

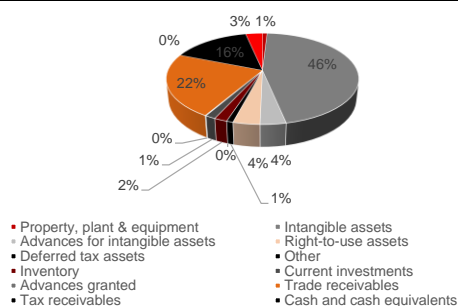


Source: Redeye Research

Balance Sheet

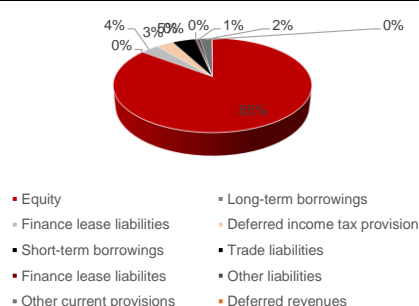
CI Games has a healthy balance sheet, which it can use to deploy capital into its internal game development. As of Q2 2021, its most considerable assets were intangible assets (capitalized development costs), comprising PLN ~59m or ~46 percent of total assets; trade receivables, which represented PLN ~29m or ~22 percent of total assets; and cash, at PLN ~20m or ~16 percent of total assets. Trade receivables increased significantly from Q1 2021, primarily owing to the release of Sniper Ghost Warrior Contracts 2, which was launched at the end of Q2.

CI Games: Assets



Source: Redeye Research

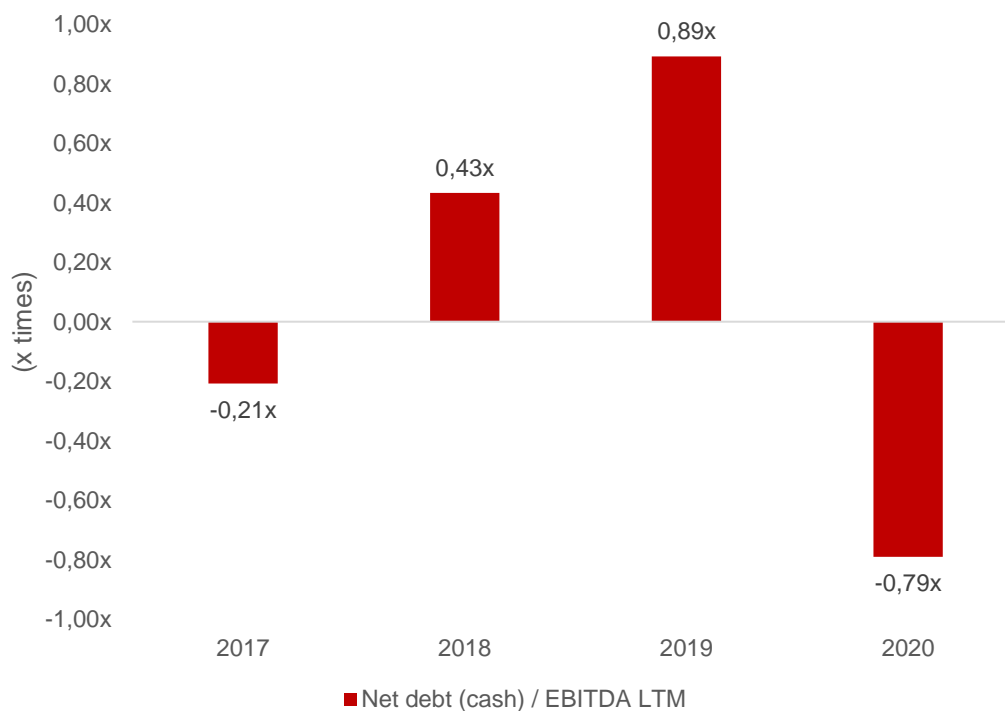
CI Games: Equity and Liabilities



Source: Redeye Research

In September 2020, CI Games raised equity that it mainly used to repay its outstanding interest-bearing debt. As of Q2 2021, the company has no outstanding interest-bearing debt except for long-term office leases in accordance with IFRS. Its equity ratio is at ~85 percent. Moreover, CI Games currently holds a net cash position of PLN ~15.2m, which is equivalent to -0.37x LTM EBITDA. However, excluding office lease liabilities, the net cash position is equal to ~-0.5x of LTM EBITDA. CI Games has no official target for this debt ratio, allowing it to offer financial flexibility if opportunities occur.

CI Games: Net Debt / EBITDA

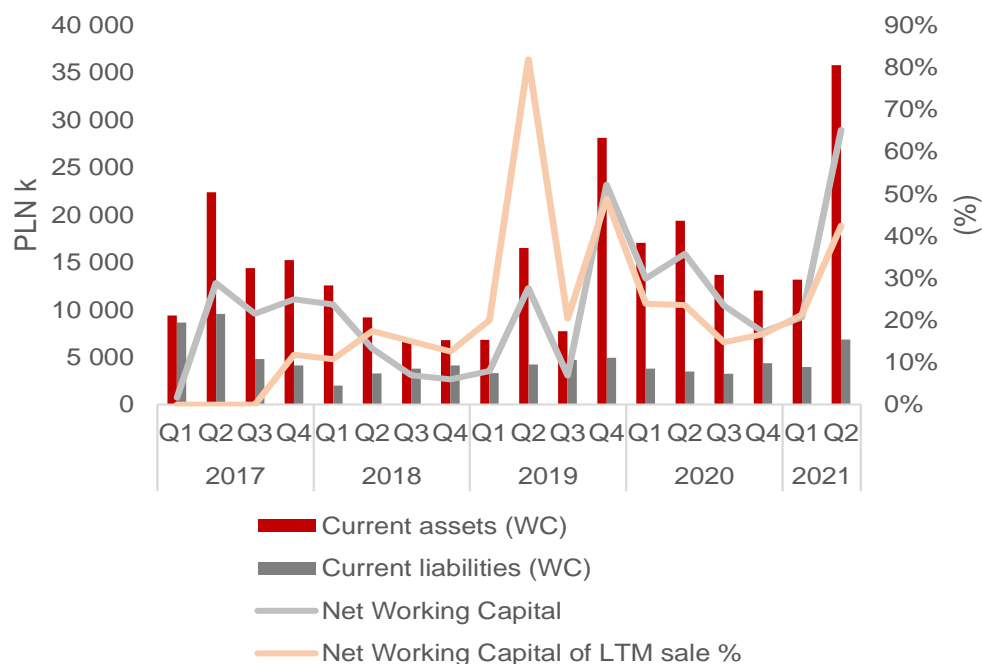


Source: Redeye Research

Working Capital

CI Games' working capital is primarily inventory, trade receivables, and trade liabilities. Working capital fluctuates in conjunction with significant releases, especially the inventory level, as the publishing entity in CI Games tries to capitalize on new launches. Moreover, Q4 is typically a seasonally strong quarter owing to holidays, while receivables tend to increase during this period. As of Q2 2021, working capital was ~42 percent of LTM sales. However, this is partly a direct effect of the recent launch of Sniper Ghost Warrior Contracts 2 since trade receivables spiked at the end of the quarter. For the past 15 quarters, working capital has been at ~22 percent of LTM sales on average.

CI Games: Net Working Capital



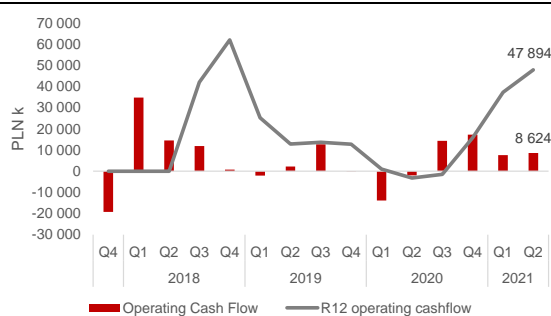
Source: Redeye Research' estimates

Cash Flow

CI Games' operating cash flow correlates with its sales and earnings, fluctuating between quarters and especially with game releases. Notably, the positive trend from 2020 enables the company to re-invest cash. Free cash flow has also improved recently thanks to the release of Sniper Ghost Warrior 1 and the robust back catalog.

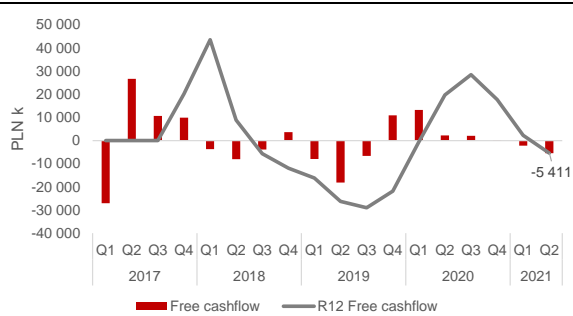
In 2020, operating cash flow after changes in working capital was PLN ~40.6m, boosted by working capital changes. In the same period, free cash flow was PLN ~17.7m.

CI Games: Operating cashflow



Source: Redeye Research' estimates

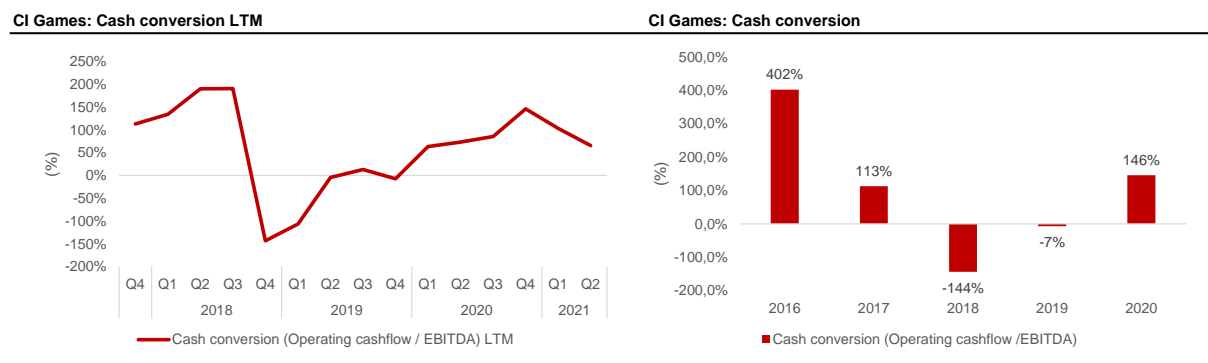
CI Games: Free cashflow



Source: Redeye Research' estimates

Cash Conversion

Along with new game launches and different seasonality effects, cash conversion tends to diverge. As seen below, it is volatile on a quarterly and an annual basis due to game releases and working capital build-up.



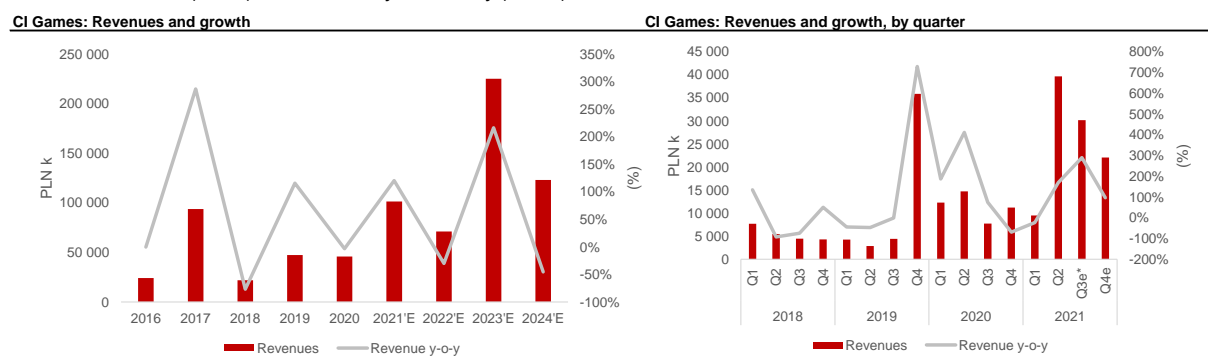
Source: Redeye Research *estimates

Source: Redeye Research

Financial Estimates

Sales

We estimate a **2020-2024 sales CAGR of ~28 percent**, driven in particular by the release of Lords of the Fallen 2 and the Sniper Ghost Warrior sequel, expected for release in the first half of 2023. Moreover, in 2022, we believe the primary revenue driver will be back catalog sales from Sniper Ghost Warrior Contracts 2, for which we pencil in ~800,000 sold copies, predominantly driven by price promotions and further DLCs.



Source: Redeye Research

Source: Redeye Research

The largest investment yet for CI Games has been Lords of the Fallen 2. We expect the release in the first quarter of 2023 and believe the game can sell ~900,000 copies during the year, generating PLN ~140m in sales. Moreover, we estimate that the next Sniper Ghost Warrior sequel will be released in Q2 2023, and for this we pencil in 700,000 copies sold during 2023, generating PLN ~80m in sales. The key franchises of Lords of the Fallen and the next Sniper Ghost Warrior sequel will contribute strongly through their back catalogs in 2024, driven by price promotions and updates.

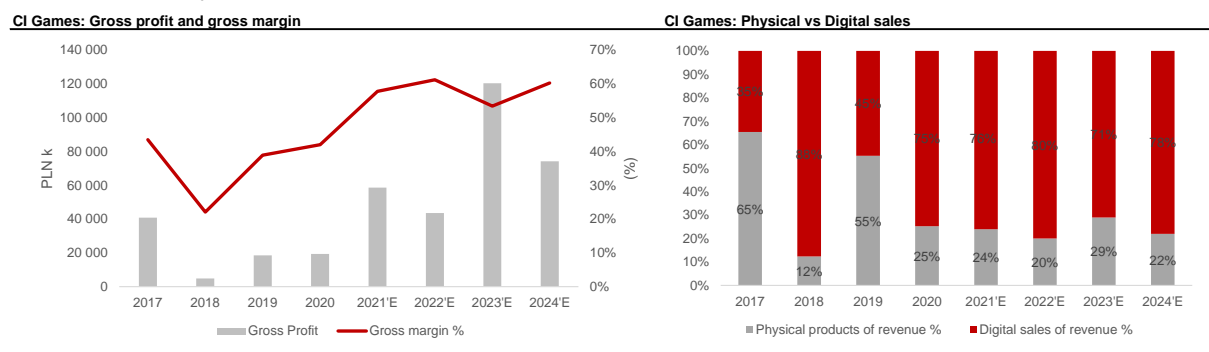
We do not incorporate any major release from the publishing entity United Label or potential new key IPs from the internal/external studios since the available information at present is vague. Suggesting upside to estimates should any arise.

On the 19th of October, CI Games released preliminary financials for its third quarter regarding revenues and Net income. Revenues reached PLN ~30.2m, and Net income was PLN ~9.8 PLN, however, note that the operating costs are not disclosed in the press release. The massive year-over-year growth rate was predominantly driven by the release of Sniper Ghost Warrior Contracts 2. The game was released on PlayStation 5 at the end of August, broadening the player base further. United Label released two games during Q3, Eldest Souls and Tails of Iron. Both were released on all available platforms, and their reception has been impressive.

Average reviews for Eldest Souls are at 78/100, while Tails of Iron received reviews at 84/100. The fourth quarter is a seasonally strong quarter thanks to the holidays. We expect the back catalog to perform well, and we do not rule out any price promotions during this period, which would positively affect sold volumes. Moreover, United Label's game, Roki will be released on next-generation consoles in the quarter.

Gross Margin

We believe the digital sales trend will continue. However, to our knowledge, the sale of physical boxes will remain the key pillar for larger releases, especially in 2023 and perhaps also in 2024. We thus believe the gross margin on sales will be enhanced in 2022 by back catalog sales. However, we estimate that the gross margin will fall back in 2023 owing to the major releases of Lords of the Fallen and Sniper Ghost Warrior Contracts 2. Sales of physical boxes are generally higher upon release, impacting the gross margin in 2023.



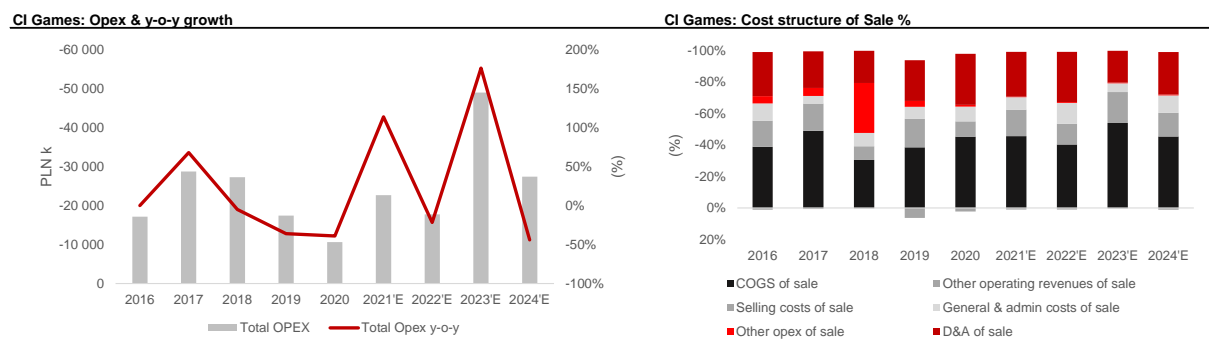
Source: Redeye Research

Source: Redeye Research

Currently, there are extensive discussions at the major institutions about platform fees. This August, Microsoft decreased the share it charges game developers who publish PC games on its online store to 12 percent from 30 percent, significantly boosting PC game developers' gross margins. However, no formal decision regarding consoles has been released yet. CI Games' primary sales channel on the Microsoft Store's platform is in consoles. A platform cut on console games would indicate a positive gross margin effect that could provide upside to our estimates since the drop-through rate on this is ~100 percent.

Operating Expenses

We anticipate operating expenses to fluctuate along with releases of new games, especially in terms of marketing expenses. We do not expect the same increase in the number of employees as seen over the past two years, which was mostly due to Hexworks studios. A potential development in new key IPs could increase the number of employees, but we do not factor this into our estimates. Moreover, the general and admin cost function is mostly fixed. We estimate a slight increase over the years owing to the general expansion of the group but with good cost control. We forecast a **2020-2024 opex CAGR of ~27 percent**, the largest contributor being marketing expenses.



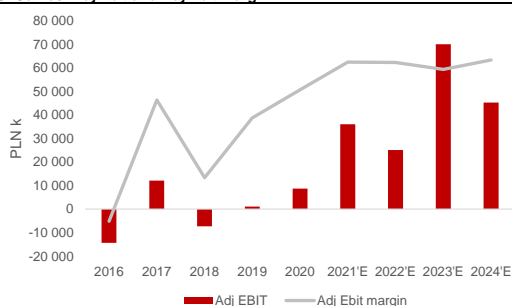
Source: Redeye Research

Source: Redeye Research

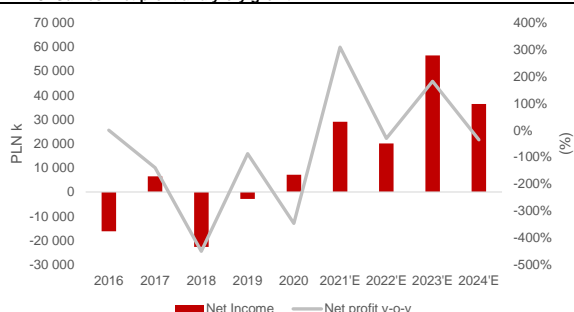
Earnings

We forecast a **2020-2024 EBIT CAGR of ~51 percent**, boosted by solid sales from its high-profitability back catalog. Moreover, the key components will be the releases of Lords of the Fallen 2 and the next Sniper Ghost Warrior sequel, with enhanced mix effects from digital sales and increased volumes with high drop-through rates illustrating the scalable business model. Moreover, CI Games has an impressive balance sheet with no interest-bearing debt outstanding. We thus forecast a **2020-2024 EPS CAGR of ~46 percent**.

CI Games: Adj Ebit and Adj Ebit margin



CI Games: Net profit and y-o-y growth



Source: Redeye Research

Source: Redeye Research

P&L Statement

PLN k	2020 Q1	2020 Q2	2020 Q3	2020 Q4	2021 Q1	2021 Q2	2021 Q3e*	2021 Q4e	2016 FY	2017 FY	2018 FY	2019 FY	2020 FY	2021'e FY	2022'e FY	2023'e FY	2024'e FY
Revenues	12 304	14 733	7 744	11 229	9 521	39 703	30 194	22 080	24 231	93 740	21 985	47 478	46 010	101 498	71 229	225 250	123 148
COGS	-6 994	-8 247	-4 539	-6 903	-4 884	-15 484	-13 179	-9 296	-21 450	-52 947	-17 131	-29 013	-26 683	-42 843	-27 622	-104 839	-48 921
Gross Profit	5 310	6 486	3 205	4 326	4 637	24 219	17 015	12 784	2 781	40 793	4 854	18 465	19 327	58 655	43 607	120 411	74 227
Gross margin %	43.2%	44.0%	41.4%	38.5%	48.7%	61.0%	56.4%	57.9%	11.5%	43.5%	22.1%	38.9%	42.0%	57.8%	61.2%	53.5%	60.3%
Other operating revenues	47	84	82	1 119	874	16	20	20	626	649	166	4 729	1 332	930	712	676	1 231
Selling costs	-2 289	-1 084	-1 041	-1 363	-1 412	-7 651	-2 900	-3 900	-9 203	-18 646	-4 898	-13 551	-5 777	-15 863	-8 960	-38 000	-16 200
General & admin costs	-1 534	-1 348	-1 203	-1 394	-1 572	-1 746	-2 023	-2 053	-6 008	-5 306	-4 747	-5 806	-5 479	-7 394	-9 117	-10 699	-11 822
Other opex	-806	308	-35	-141	-22	-27	-151	-110	-2 544	-5 423	-17 753	-2 790	-674	-310	-356	-901	-616
Total OPEX	-4 582	-2 040	-2 197	-1 779	-2 132	-9 408	-5 054	-6 044	-17 129	-28 726	-27 232	-17 418	-10 598	-22 638	-17 721	-48 925	-27 406
EBITDA	5 593	11 111	4 165	6 960	6 296	23 263	20 461	12 740	1 128	37 263	-10 872	20 514	27 829	62 760	46 858	109 266	74 331
Ebitda margin %	45.5%	75.4%	53.8%	62.0%	66.1%	58.6%	67.8%	57.7%	4.7%	39.8%	-49.5%	43.2%	60.5%	61.8%	65.8%	48.5%	60.4%
Depreciation	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	-819	-1 459	-1 556
EBITA	5 593	11 111	4 165	6 960	6 296	23 263	20 461	12 740	1 128	37 263	-10 872	20 514	27 829	62 760	46 039	107 807	72 775
Amortization	-4 865	-6 665	-3 157	-4 413	-3 791	-8 452	-8 500	-6 000	-15 476	-25 196	-11 506	-19 467	-19 100	-26 743	-20 972	-37 780	-27 510
EBIT	728	4 446	1 008	2 547	2 505	14 811	11 961	6 740	-14 348	12 067	-22 378	1 047	8 729	36 017	25 067	70 027	45 265
Ebit margin %	5.9%	30.2%	13.0%	22.7%	26.3%	37.3%	39.6%	30.5%	-59.2%	12.9%	-101.8%	2.2%	19.0%	35.5%	35.2%	31.1%	36.8%
Interest Income	1 584	-699	-488	-256	1 020	-626	250	250	743	1 897	820	10	141	894	750	750	750
Interest Expenses	-61	-206	-53	-18	-48	-24	-75	-75	-230	-2 066	-389	-838	-338	-222	-1 050	-1 050	-1 050
EBT	2 251	3 541	467	2 273	3 477	14 161	12 136	6 915	-13 835	11 898	-21 947	219	8 532	36 689	24 767	69 727	44 965
Income Tax Expenses	-752	-300	-127	-256	-744	-3 312	-2 306	-1 314	-2 405	-5 421	-746	-3 096	-1 435	-7 676	-4 706	-13 248	-8 543
Net Income	1 499	3 241	340	2 017	2 733	10 849	9 830	5 602	-16 240	6 477	-22 693	-2 877	7 097	29 014	20 061	56 479	36 421
Basic EPS	0.01	0.02	0.00	0.01	0.01	0.06	0.05	0.03	-1.07	0.04	-0.15	-0.02	0.04	0.16	0.11	0.31	0.20
Basic Weighted Average S/O	161 943	161 943	164 226	167 754	182 943	182 943	182 943	182 943	15 015	151 070	151 110	155 414	167 754	182 943	182 943	182 943	182 943
Effective Tax Rate (%)	-33%	-8%	-27%	-11%	-21%	-23%	-19%	-19%	17%	-46%	3%	-1414%	-17%	-21%	-19%	-19%	-19%

*Based on released preliminary figures

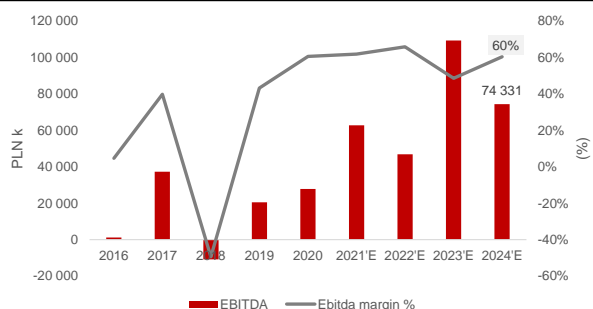
Margins and Cost Structure

PLN k	2020 Q1	2020 Q2	2020 Q3	2020 Q4	2021 Q1	2021 Q2	2021 Q3e*	2021 Q4e	2016 FY	2017 FY	2018 FY	2019 FY	2020 FY	2021'e FY	2022'e FY	2023'e FY	2024'e FY
Margins (%)																	
Gross margin	43.2%	44.0%	41.4%	38.5%	48.7%	61.0%	56.4%	57.9%	11.5%	43.5%	22.1%	38.9%	42.0%	57.8%	61.2%	53.5%	60.3%
Ebitda margin	45.5%	75.4%	53.8%	62.0%	66.1%	58.6%	67.8%	57.7%	4.7%	39.8%	-49.5%	43.2%	60.5%	61.8%	65.8%	48.5%	60.4%
Ebit margin	5.9%	30.2%	13.0%	22.7%	26.3%	37.3%	39.6%	30.5%	-59.2%	12.9%	-101.8%	2.2%	19.0%	35.5%	35.2%	31.1%	36.8%
Net margin	12.2%	22.0%	4.4%	18.0%	28.7%	27.3%	32.6%	25.4%	-67.0%	6.9%	-103.2%	-6.1%	15.4%	28.6%	28.2%	25.1%	29.6%
Adj Ebit margin	5.9%	30.2%	13.0%	22.7%	26.3%	37.3%	39.6%	30.5%	-59.2%	12.9%	-33.4%	2.2%	19.0%	35.5%	35.2%	31.1%	36.8%
Cost structure of sale (%)																	
COGS of sale	-56.8%	-56.0%	-58.6%	-61.5%	-51.3%	-39.0%	-43.6%	-42.1%	-88.5%	-56.5%	-77.9%	-61.1%	-58.0%	-42.2%	-38.8%	-46.5%	-39.7%
Other operating revenues of sale	0.4%	0.6%	1.1%	10.0%	9.2%	0.0%	0.1%	0.1%	2.6%	0.7%	0.8%	10.0%	2.9%	0.9%	1.0%	0.3%	1.0%
Selling costs of sale	-18.6%	-7.4%	-13.4%	-12.1%	-14.8%	-19.3%	-9.6%	-17.7%	-38.0%	-19.9%	-22.3%	-28.5%	-12.6%	-15.6%	-12.6%	-16.9%	-13.2%
General & admin costs of sale	-12.5%	-9.1%	-15.5%	-12.4%	-16.5%	-4.4%	-6.7%	-9.3%	-24.8%	-5.7%	-21.6%	-12.2%	-11.9%	-7.3%	-12.8%	-4.8%	-9.6%
Other opex of sale	-6.6%	2.1%	-0.5%	-1.3%	-0.2%	-0.1%	-0.5%	-0.5%	-10.5%	-5.8%	-80.8%	-5.9%	-1.5%	-0.3%	-0.5%	-0.4%	-0.5%
D&A of sale	-39.5%	-45.2%	-40.8%	-39.3%	-39.8%	-21.3%	-28.2%	-27.2%	-63.9%	-26.9%	-52.3%	-41.0%	-41.5%	-26.3%	-30.6%	-17.4%	-23.6%

*Based on released preliminary figures

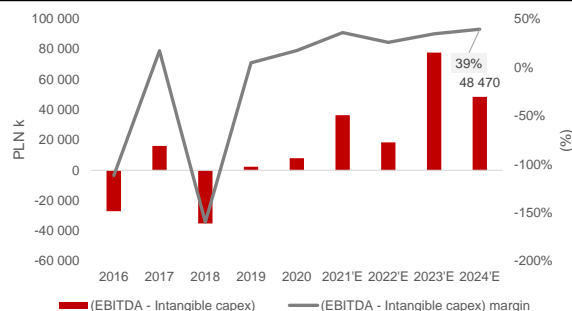
CI Games will continue to invest in its internal game development, mostly in its key franchises, and so we believe the amortization of game development will increase, especially in 2023 and 2024 with the releases in the two key franchises. We estimate that (EBITDA – Capex) will reach a more stable level in the coming years and grow strongly, positively impacted by economies of scale. We estimate a slight increase in capex until the release of Lords of the Fallen 2 and the next Sniper Ghost Warrior sequel, but in terms of revenue, its ratio will decrease quickly, illustrating the critical importance of reaching a larger scale. Thus, the (EBITDA – Capex) margin will improve, which could be used to reinvest in CI Games' own business or be allocated to shareholders.

CI Games: EBITDA and EBITDA margin



Source: Redeye Research

CI Games: (EBITDA - Capex) and margin

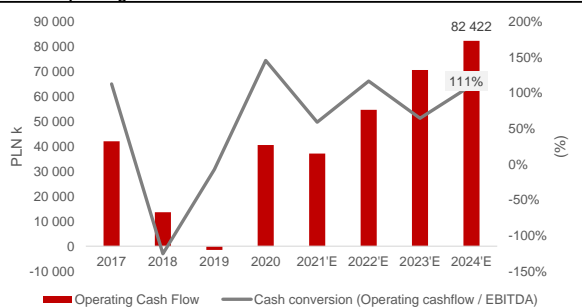


Source: Redeye Research

Cash Flow

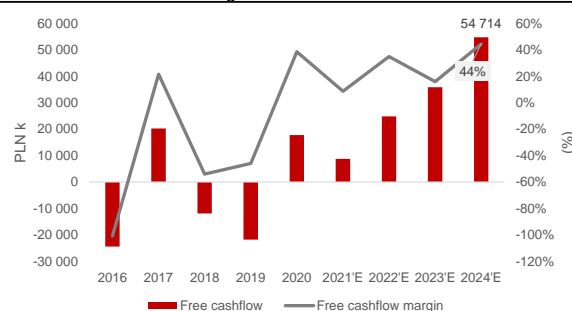
We forecast healthy operating cash flow in the coming years, but we still believe cash conversion will fluctuate along with new releases and seasonal holidays. However, we expect this to be smoothed out as a negative working capital build-up near release is mostly followed by a positive effect after releases.

CI Games: Operating cash flow and cash conversion



Source: Redeye Research

CI Games: FCF and FCF margin



Source: Redeye Research

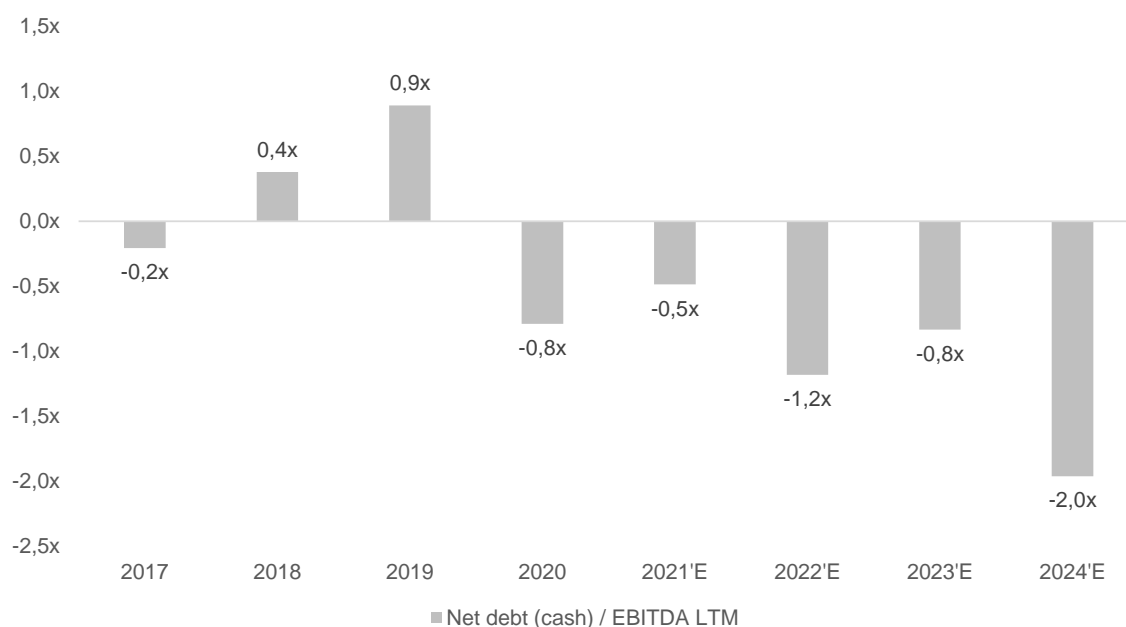
CI Games will continue to invest in its game production, and we believe this ratio will continue as is until 2023, with free cash flow thus impacted by internal investments.

	2018	2019	2020	2021 ^e	2022 ^e	2023 ^e	2024 ^e
PLN k	FY	FY	FY	FY	FY	FY	FY
EBT	-20 563	219	8 532	36 689	24 767	69 727	44 965
Depreciation	11 506	19 467	19 100	0	-819	-1 459	-1 556
Revaluation of write-offs	15 231	-978	393	0	0	0	0
FX	8	-13	28	-47	0	0	0
Interest	33	476	114	0	-300	-300	-300
Other adjustments	7 088	46	-2	0	0	0	0
Tax paid	97	-136	-1 547	-7 676	-4 706	-13 248	-8 543
Operating cashflow before change in Working Capital	12 191	19 171	27 124	56 332	41 189	97 266	63 963
Total change in Working Capital	1 465	-20 665	13 485	-19 169	13 554	-26 536	18 459
Operating Cash Flow	13 656	-1 494	40 609	37 162	54 742	70 730	82 422
Capital Expenditures	-1 107	-2 100	-2 597	-2 030	-1 425	-3 379	-1 847
Investment in Intangible Assets	-24 265	-18 255	-19 864	-26 389	-28 492	-31 535	-25 861
Acquisitions	0	0	0	0	0	0	0
Cash outflows on loans granted	-173	41	-431	0	0	0	0
Investing Cash Flow	-25 545	-20 314	-22 892	-28 419	-29 916	-34 914	-27 708
Financing Cash Flow	15 739	15 855	3 847	-778	-650	-650	-650
Total cash flow for the period	3 850	-5 953	21 564	7 965	24 176	35 167	54 064

Financial Position

In 2020, CI Games had a net cash position of PLN ~22m, which is equivalent to -0.8x EBITDA. We forecast that the net cash position will grow towards PLN ~146m, which equals ~ -2.0x EBITDA. This provides possibilities to deploy the capital in its own business or to allocate this to shareholders or for potential acquisitions.

CI Games: Net Debt / EBITDA



Source: Redeye Research

Valuation

CI Games' most relevant peers are, in our view, Paradox Interactive, Remedy Entertainment, 11 bit studios, Frontier Developments, and Team 17. Each has a strong and loyal player base. Paradox Interactive is a developer and publisher with five key IPs, most of which it owns. However, its game portfolio is much more extensive than CI Games'. Remedy Entertainment is a high-quality, independent game developer with few key IPs. It has previously financed games by signing collaborations with robust partners, which differs slightly to CI Games' approach. 11 bit studios is a high-quality Polish indie game and AA developer, also publicly traded on the Warsaw Stock Exchange. Most of its revenues are generated through a few games and the Frostpunk franchise. Frontier Development and team 17 are British developers focused on AA and indie games, similar to CI Games.

Further similarities between the key peers are that all are proactively working on sequels and in-game expansions, which generate revenues for a long time.

Peers

Peer valuation																
Company	EV (MSEK)	EV/Sales			EV/EBITDA			EV/EBIT			Sales CAGR		EBIT CAGR		EBIT margin	
		2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E	20-23E	20-23E	2021E	2022E	2023E	
Polish peers																
CD projekt	43 869	14.8x	15.6x	16.1x	25.7x	24.7x	26.9x	31.1x	33.6x	34.9x	-18%	-22%	48%	46%	46%	
Ten Square	5 628	3.7x	3.3x	2.7x	12.5x	10.4x	9.3x	11.7x	9.7x	7.9x	16%	22%	31%	34%	35%	
Play Way	6 414	10.4x	8.9x	N/A	14.1x	12.3x	N/A	14.2x	12.3x	N/A	24%	24%	73%	72%	N/A	
11 bit studios	1 986	14.8x	11.5x	3.6x	32.6x	32.0x	5.7x	61.7x	58.3x	5.8x	39%	49%	24%	20%	61%	
Median	6 121	12.6x	10.2x	3.6x	19.9x	18.5x	9.3x	22.6x	23.0x	7.9x	20%	23%	40%	40%	46%	
Discount / Premium to Polish peers (-) / (+)																
		-79%	-67%	-75%	-79%	-72%	-80%	-68%	-58%	-63%						
Nordic peers																
Embracer	69 583	3.7x	3.1x	2.8x	7.9x	6.7x	5.9x	10.7x	9.0x	8.4x	35%	407%	34%	34%	34%	
Paradox Interactive	13 181	7.6x	5.9x	5.3x	12.9x	9.4x	8.4x	22.9x	16.3x	14.5x	12%	8%	33%	36%	37%	
Thunderful	4 147	1.2x	1.2x	1.2x	9.7x	8.4x	7.4x	13.2x	11.1x	9.8x	4%	24%	9%	11%	12%	
Remedy Entertainment	5 031	10.7x	10.1x	7.3x	29.5x	29.1x	14.4x	31.6x	33.7x	19.9x	17%	22%	34%	30%	36%	
Enad Global 7	2 033	1.3x	1.2x	1.1x	5.4x	4.2x	3.2x	13.8x	9.6x	5.8x	50%	N/A	9%	12%	18%	
Stillfront	21 143	3.9x	3.4x	3.1x	10.9x	8.7x	7.8x	14.5x	11.3x	10.2x	19%	24%	27%	30%	30%	
Median	9 106	3.8x	3.3x	3.0x	10.3x	8.5x	7.6x	14.2x	11.2x	10.0x	18%	24%	30%	30%	32%	
Discount / Premium to Nordic peers (-) / (+)																
		-31%	3%	-70%	-59%	-40%	-75%	-48%	-15%	-71%						
International peers																
Activision	462 741	6.0x	5.4x	5.0x	14.0x	12.1x	11.4x	14.5x	12.4x	11.4x	7%	16%	42%	43%	44%	
EA	331 121	5.1x	4.8x	4.4x	14.5x	13.3x	12.0x	16.0x	14.5x	12.9x	15%	39%	32%	33%	34%	
Take-Two	150 372	5.0x	4.2x	3.5x	23.5x	16.8x	13.8x	26.5x	18.0x	14.3x	13%	20%	19%	23%	24%	
Keyword Studios	27 715	5.6x	4.9x	4.4x	28.8x	26.1x	23.9x	37.6x	34.0x	30.0x	17%	36%	15%	14%	15%	
Frontier Developments	11 898	7.3x	6.0x	5.7x	19.4x	15.5x	14.3x	32.5x	27.0x	26.2x	27%	28%	22%	22%	22%	
Team 17 Group	10 891	10.4x	9.3x	8.6x	28.2x	25.3x	23.6x	31.6x	28.6x	27.0x	10%	10%	33%	33%	32%	
Median	89 044	5.8x	5.1x	4.7x	21.4x	16.1x	14.1x	29.1x	22.5x	20.3x	14%	24%	27%	28%	28%	
Discount / Premium to International peers (-) / (+)																
		-55%	-35%	-81%	-80%	-68%	-87%	-75%	-58%	-86%						
Peer Group median																
	9 106	5.8x	5.1x	3.6x	19.9x	16.1x	9.3x	22.6x	22.5x	10.0x	18%	24%	30%	30%	32%	
Discount / Premium to total peer group (-) / (+)																
		-55%	-35%	-75%	-79%	-68%	-80%	-68%	-58%	-71%						
CI Games																
	586	2.6x	3.4x	0.9x	4.2x	5.1x	1.9x	7.3x	9.5x	2.9x	70%	100%	35%	35%	31%	

Source: Factset *Redeye Research

CI Games trades at a clear discount to all relevant peers, despite its higher estimated sales and EBIT CAGR. We expect 2023 to be a very strong year for CI Games with the releases of Lords of the Fallen 2 and the Sniper Ghost Warrior sequel, bringing exceptionally growth rates in this period. However, we estimate that CI Games will reach **2020-2024 sales and EBIT CAGRs of ~28 percent and ~51 percent**, respectively, still outperforming the peer group.

When benchmarking against the most relevant peers, we see that CI Games still trades at a massive discount on EV/EBIT despite stronger growth expectations and similar margins. We believe a discount to the most relevant peers is justified because of the higher concentration risks in its game portfolio and some financial risks at the development stage. We see a 25% discount as reasonable, which would imply an EV/EBIT multiple of 15x on our estimates, leaving room for multiples expansion ahead.

Applying an EV/EBIT multiple of 15x on our estimates for the initial periods, discounted at 11 percent, yields a present value of **3.50 PLN / share**.

DCF Model

We have applied different sales growths and EBIT margins on each of the scenarios to consider the increased/decreased risk. The scenarios only consider current operations and organic growth.

Bear Case: PLN 2.7

Sales 2024E: PLN ~123.1m
 Sales CAGR 2025E-2034E: 4 percent
 Average EBIT margin 2025E-2034E: 20 percent.
 Sales CAGR 2035E – 2040E: 1.5 percent.
 Average EBIT margin 2035E -2040E: 22 percent
 WACC: 11 percent.

Base Case: PLN 3.7

Sales 2024E: PLN ~123.1m
 Sales CAGR 2025E-2034E: 7 percent
 Average EBIT margin 2025E-2034E: 25 percent.
 Sales CAGR 2035E – 2040E: 2.0 percent.
 Average EBIT margin 2035E -2040E: 27 percent
 WACC: 11 percent.

Bull Case: PLN 5.5

Sales 2024E: PLN ~123.1m
 Sales CAGR 2025E-2034E: 11 percent.
 Average EBIT margin 2025E-2034E: 30 percent.
 Sales CAGR 2035E – 2040E: 2.5 percent.
 Average EBIT margin 2035E -2040E: 32 percent
 WACC: 11 percent.

Assumptions DCF		Bear	Base	Bull
Momentum	Sales growth	4,0%	7,0%	11,0%
	Ebit margin	20,0%	25,0%	30,0%
Stable period	Sales growth	1,5%	2,0%	2,5%
	Ebit margin	22,0%	27,0%	32,0%
	Wacc	11,0%	11,0%	11,0%
Value / Share		2,70	3,70	5,50

Source: Redeye research

We derive our valuation from a DCF model while cross-checking this with an earnings multiple approach. Our DCF base case scenario implies a value of **3.7** PLN / share, which we find support from our earnings multiple valuation method, which implies a value of **3.5** PLN / share.

Summary Redeye Rating

The rating consists of three valuation keys, each constituting an overall assessment of several factors that are rated on a scale of 0 to 1 points. The maximum score for a valuation key is 5 points.

Rating changes in the report

People: 3

CEO and founder Marek Tyminski has served at the company since 2002. Together with the remaining senior management, all having more than 20 years of experience in the industry worldwide. The CEO and founder still own ~29% of the outstanding shares. Furthermore, key personnel among the senior management are incentivized to stay for a long time with different option-based programs. All studios are decentralized, keeping an entrepreneurial mindset.

Business: 4

CI Games operate in a global digital industry that enables strong profitability. Moreover, it is a defensible business that can stay competitive even under recessions. The company is entrepreneur-driven and closely connected with customers to ensure that the games meet high-quality demands. CI Games wholly owns its IPs and needs not to pay any royalties. Consequently, incremental digital sales have very high margins, illustrating the group's healthy profitability.

Financials: 3

CI Games financials correlates with releases of new games. Hence, past years' financials have been volatile. However, periods with strong releases result in impressive financials.

	2020	2021E	2022E	2023E
INCOME STATEMENT				
Revenues	46 010	101 498	71 229	225 250
Cost of Revenues	-26 683	-42 843	-27 622	-104 839
Gross Profit	19 327	58 655	43 607	120 411
Operating Expenses	-8 502	-22 638	-18 540	-50 383
EBITDA	27 829	62 760	46 858	109 266
Depreciation & Amortization	-19 100	-26 743	-21 791	-39 239
EBIT	8 729	36 017	25 067	70 027
Net Financial Items	-197	672	-300	-300
EBT	8 532	36 689	24 767	69 727
Income Tax Expenses	1 435	-7 676	-4 706	-13 248
Non-Controlling Interest	0	0	0	0
Net Income	7 097	29 014	20 061	56 479

BALANCE SHEET				
Assets				
Current assets				
Cash & Equivalents	28 207	36 172	60 348	95 514
Inventories	1 576	4 161	3 277	10 136
Accounts Receivable	6 833	25 374	12 251	34 238
Other Current Assets	4 534	9 479	7 108	16 721
Total Current Assets	41 150	75 187	82 984	156 610
Non-current assets				
Property, Plant & Equipment, Net	437	1 850	2 456	4 376
Goodwill	0	0	0	0
Intangible Assets	55 749	55 395	62 915	56 670
Right-of-Use Assets	6 484	4 888	4 888	4 888
Shares in Associates	0	0	0	0
Other Long-Term Assets	6 467	8 394	8 394	8 394
Total Non-Current Assets	69 137	70 528	78 654	74 328
Total Assets	110 287	145 715	161 639	230 939
Liabilities				
Current liabilities				
Short-Term Debt	33	3	3	3
Short-Term Lease Liabilities	324	405	405	405
Accounts Payable	3 169	8 120	4 630	14 641
Other Current Liabilities	2 044	3 596	3 598	7 058
Total Current Liabilities	5 570	12 124	8 636	22 107
Non-current liabilities				
Long-Term Debt	0	0	0	0
Long-Term Lease Liabilities	5 867	5 217	4 567	3 917
Other Long-Term Liabilities	2 306	2 863	2 863	2 863
Total Non-current Liabilities	8 173	8 080	7 430	6 780
Non-Controlling Interest	0	0	0	0
Shareholder's Equity	96 544	125 511	145 572	202 051
Total Liabilities & Equity	110 287	145 715	161 639	230 939

CASH FLOW				
NOPAT	7 261	43 552	29 830	83 332
Change in Working Capital	14 481	-19 488	12 891	-24 988
Operating Cash Flow	40 609	37 162	54 742	70 730
Capital Expenditures	-2 597	-2 030	-1 425	-3 379
Investment in Intangible Assets	-19 864	-26 389	-28 492	-31 535
Investing Cash Flow	-22 892	-28 419	-29 916	-34 914
Financing Cash Flow	3 847	-778	-650	-650
Free Cash Flow	18 148	8 743	24 826	35 817

DCF Valuation Metrics		Sum FCF (PLN k)
Initial Period (2021–2024)		125 033
Momentum Period (2025–2034)		218 826
Stable Period (2035–)		320 190
Firm Value		664 049
Net Debt		-15 215
Equity Value		679 264
Fair Value per Share		3,7

	2020	2021E	2022E	2023E
CAPITAL STRUCTURE				
Equity Ratio	88%	86%	90%	87%
Debt to equity	0%	0%	0%	0%
Net Debt	-28 174	-36 169	-60 345	-95 511
Capital Employed	104 717	133 591	153 002	208 831
Working Capital Turnover	6	4	5	6

GROWTH				
Revenue Growth	-3%	121%	-30%	216%
Basic EPS Growth	-329%	274%	-31%	182%
Adjusted Basic EPS Growth	-329%	274%	-31%	182%

PROFITABILITY				
ROE	9%	26%	15%	32%
ROCE	8%	27%	16%	34%
ROIC	18%	110%	73%	227%
EBITDA Margin (%)	60%	62%	66%	49%
EBIT Margin (%)	19%	35%	35%	31%
Net income margin(%)	15%	29%	28%	25%

VALUATION				
Basic EPS	0,04	0,16	0,11	0,31
Adjusted Basic EPS	0,04	0,16	0,11	0,31
P/E	30,6	10,2	14,7	5,2
EV/Revenue	4,1	2,5	3,3	0,9
EV/EBITDA	6,8	4,1	5,0	1,8
EV/EBIT	21,7	7,2	9,3	2,8
P/B	2,3	2,3	2,0	1,5

SHAREHOLDER STRUCTURE	CAPITAL %	VOTES %
Marek Tyminski	29,0%	29,0%
Rockbridge	8,6%	8,6%
Minority Shareholders	62,4%	62,4%

SHARE INFORMATION	
Reuters code	CIG
List	WIG
Share price	1,61
Total shares, million	183

MANAGEMENT & BOARD	
CEO	Marek Tyminski
CFO	Katarzyna Sermanowicz- Giza
Chairman	Marek Tyminski

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Redeye Rating and Background Definitions

Company Quality

Company Quality is based on a set of quality checks across three categories; PEOPLE, BUSINESS, FINANCE. These are the building blocks that enable a company to deliver sustained operational outperformance and attractive long-term earnings growth.

Each category is grouped into multiple sub-categories assessed by five checks. These are based on widely accepted and tested investment criteria and used by demonstrably successful investors and investment firms. Each sub-category may also include a complementary check that provides additional information to assist with investment decision-making.

If a check is successful, it is assigned a score of one point; the total successful checks are added to give a score for each sub-category. The overall score for a category is the average of all sub-category scores, based on a scale that ranges from 0 to 5 rounded up to the nearest whole number. The overall score for each category is then used to generate the size of the bar in the Company Quality graphic.

People

At the end of the day, people drive profits. Not numbers. Understanding the motivations of people behind a business is a significant part of understanding the long-term drive of the company. It all comes down to doing business with people you trust, or at least avoiding dealing with people of questionable character.

The People rating is based on quantitative scores in seven categories:

- Passion, Execution, Capital Allocation, Communication, Compensation, Ownership, and Board.

Business

If you don't understand the competitive environment and don't have a clear sense of how the business will engage customers, create value and consistently deliver that value at a profit, you won't succeed as an investor. Knowing the business model inside out will provide you some level of certainty and reduce the risk when you buy a stock.

The Business rating is based on quantitative scores grouped into five sub-categories:

- Business Scalability, Market Structure, Value Proposition, Economic Moat, and Operational Risks.

Financials

Investing is part art, part science. Financial ratios make up most of the science. Ratios are used to evaluate the financial soundness of a business. Also, these ratios are key factors that will impact a company's financial performance and valuation. However, you only need a few to determine whether a company is financially strong or weak.

The Financial rating is based on quantitative scores that are grouped into five separate categories:

- Earnings Power, Profit Margin, Growth Rate, Financial Health, and Earnings Quality.

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Redeye Rating (2021-10-20)

Rating	People	Business	Financials
5p	33	14	4
3p - 4p	133	120	41
0p - 2p	5	37	126
Total	171	171	171

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Viktor Lindström. owns shares in the company : No

Tomas Otterbeck.. owns shares in the company : No

Redeye performs/have performed services for the Company and receives/have received compensation from the Company in connection with this.