

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

			2019	2020	2021F	2022F	
Price [PLN]	15,0	P/E	-	21,8	14,9	12,5	Analyst: Krzysztof Tkocz krzysztof.tkocz@bdm.pl tel.: 516 086 705
MC [mln PLN]	178,5	EV/EBITDA MSSF 16	-	10,5	9,4	8,2	
		EV/EBIT MSSF 16	-	17,8	13,4	11,3	
		P/BV	8,4	6,1	4,2	3,1	

Last recommendation BDM: Buy with target price 13,9 PLN/share (19.10.2020)

Q3'20 results [mln PLN]

	Q4'19	Q4'20	Q4'20*	zmiana r/r	Q4'20F BDM	dev.	dev.*	2019	2020	zmiana r/r
Sales	4,5	6,8	6,8	52,5%	6,8	0,0%	0,0%	16,7	25,7	54,5%
Gross profit	2,4	4,5	4,5	86,9%	4,1	8,7%	8,7%	8,4	15,8	88,6%
SG&A	1,0	1,0	1,0	2,9%	1,0	3,7%	3,7%	4,1	3,2	-
Other op.income/expenses	-18,6	-1,7	-0,1	-	0,0	-	-	-18,6	-2,6	-
EBITDA	-14,8	3,1	4,7	-	5,0	-36,5%	-4,2%	-7,4	17,0	-
EBIT	-16,6	1,7	3,3	-	3,1	-44,5%	6,5%	-14,4	10,0	-
Financial income/expense, net	-0,2	0,2	0,2	-	0,0	-	-	-0,1	0,2	-
Profit before tax	-16,9	1,9	3,5	-	3,1	-38,7%	12,2%	-14,4	10,2	-
Net profit	-15,7	1,4	2,7	-	2,5	-43,1%	4,1%	-13,7	8,2	-
Gross margin	53,3%	65,4%	65,4%		60,2%			50,3%	61,4%	
EBITDA margin	-330,7%	46,1%	69,5%		72,6%			-44,5%	65,9%	
EBIT margin	-372,0%	25,5%	48,9%		46,0%			-86,2%	38,9%	
Net margin	-351,5%	21,2%	38,9%		37,4%			-82,3%	32,0%	

Source: BDM S.A., company; *- results adjusted for a PLN 1.6m write-off recognized in Q4'20

- In Q4'20, the company generated PLN 6.8 million in revenues - of which HOPY PLN 5.1 million, F2P PLN 1.6 million and the premium segment PLN 0.1 million), EBIT amounted to PLN 1.7 million (in other costs 1.6 million write-offs related to the game "Bladebound" were recognized), and on the level of net profit, the company generated PLN 1.4 million.
- In the last quarter, user acquisition campaigns were launched on the "Unsolved" application (initially testing, with a limited scope), which are continued on a larger scale in 2021. They were conducted almost exclusively using Facebook. Expenses for the acquisition of players, incurred in 2020, amounted to nearly PLN 0.5 million, with a total of nearly PLN 2 million for this purpose in January-February 2021, extending the campaign's reach with new channels (Google, Unity, IronSource), as well as further expanding the meta, modifying the monetization model by introducing advertisements or other functionalities.
- "Bladebound" - a number of changes were made to the game throughout 2020. At the turn of Q3/Q4'20, the so-called LiveOps, aimed at increasing player engagement. In Q1'21, testing of player acquisition for this game began. The implemented changes had a positive impact on the KPI of the game, but they were still below the project's business assumptions, hence a decision was made to make a write-off of PLN 2.1 million. At the same time, a decision was made to gradually reduce the investment expenditure on the development of the title and focus on achieving maximum net profits in the commercialization of the game with limited expenditure. The freed resources of the mobile RPG studio developing the game are to be used for the implementation of a new project.
- In 2020, the company generated PLN 25.7 million in revenues, which means an increase by approx. 54.5% y/y, HOPY = PLN 20.8 million (+ 46% y/y), F2P = PLN 4.0 million or + 219% y/y ("Bladebound" = PLN 2.2 million, "Unsolved" = PLN 1.7 million), and the premium segment PLN 0.9 million -18% y/y. The jump in sales was achieved thanks to better monetization of HOPA games, the portfolio of which was expanded to include consoles and the commercialization of F2P games, including "Unsolved". The group's results were also positively influenced (march-may) by the global increase in demand for digital entertainment associated with the pandemic and restrictions. Gross profitability on sales increased to 61.4% from 50.3% a year earlier, which was influenced by, among others mix of sold products.
- Last year, the company launched 5 new HOPA games, the total share of which in sales amounted to 10% of revenues. In turn, the total share of revenues from the commercialization of 8 games (on all platforms), whose versions for PS4, Xbox One and Nintendo Switch were released (and 5 titles released in 2020 only on Switch), amounted to 27% of the group's total revenues.
- During this period, the company recognized PLN 13.1 million of consolidated costs (+ 6% y/y). The royalties amounted to PLN 3.6 million (+ 96.9% y/y), Depreciation of: 1) HOPA games = PLN 3.7 million, 2) F2P = PLN 1.2 million, 3) premium = PLN 0.9 million. Selling costs = PLN 0.6 million (-55.2% y/y), general and administrative costs = PLN 2.6 million (-8.6% y/y), and other costs = PLN 0.6 million.
- At the level of EBIT in this period, the company generated PLN 10.0 million. The increase in the operating result by PLN 24.4 million y/y was due to: significantly lower other operating costs (includes write-offs - PLN 2.5 million in 2020, compared to PLN 17.8 million a year earlier), higher sales, higher sales margin and lower management and sales costs.

- The company's net result for the period amounted to PLN 8.2 million and was PLN 21.9 million higher than the result for 2019.
- In the analyzed period, the value of investments in game production decreased by 35%, to PLN 11.2 million, and the average employment in the group, due to the reorganization, decreased by 40%, to 81 people.
- The company's balance sheet total in 2020 increased by 28% to PLN 35.7 million at the end of December 2020, which was due to, inter alia, increase in cash and trade receivables.
- The sum of capitalized game costs in the previous year increased by 30% to PLN 12.2m (due to write-offs for "Bladebound" in Q4'20, they slightly decreased by PLN 0.1m q/q).
- The value of cash and cash equivalents increased from PLN 4.0 million at the end of 2019 to PLN 11 million at the end of 2020 (of which by PLN 2.1 million in Q4'20).
- In 2020, Artifex recorded nearly PLN 7 million of positive cash flows. Revenues from the sale of games in the analyzed period amounted to PLN 25 million, of which PLN 20.1 million was generated by the sale of HOPA games. Expenses, including investments in game production, amounted to PLN 18.1 million in the analyzed period.

Summary of Q4'20 results:

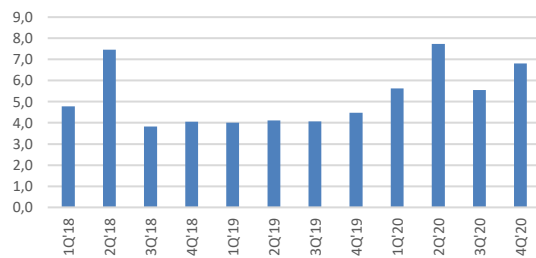
Artifex Mundi's results are in line with earlier estimates published in mid-march. The estimated results for Q4'20, after adjusting for a write-off of approx. PLN 1.6m, turned out to be close to our expectations. In line with the company's announcements and our assumptions from the previous recommendation ([Artifex Mundi Buy PLN 13.9](#)), Artifex decided to made a write-off related to the game "Bladebound". As we indicated earlier, in our opinion, the best thing for the company is to limit the team working on this project, so as to maintain the current level of monetization without major expenditures, while increasing involvement in the new RPG project, which will significantly accelerate its production and potential premiere. The company announces that it is expanding its user acquisition competences and plans to expand its marketing campaigns with new channels (Google, Unity, IronSource), thus we expect further dynamic scaling of the "Unsolved" application in subsequent periods.

Results in previous quarters [mln PLN]

Results Q [mln PLN]	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20	Q2'20	Q3'20	Q4'20	2017	2018	2019	2020
Sales	4,8	7,5	3,8	4,1	4,0	4,1	4,1	4,5	5,6	7,7	5,5	6,8	20,5	20,1	16,7	25,7
Gross profit	2,6	2,2	1,2	2,0	2,1	1,9	1,9	2,4	3,3	4,8	3,2	4,5	8,2	8,0	8,4	15,8
SG&A	2,8	6,0	3,6	3,0	2,8	3,1	3,4	3,1	3,0	3,5	3,2	1,0	15,2	15,4	12,4	3,2
Other op.income/expenses	-0,2	0,0	-0,1	-17,7	-0,6	0,0	0,0	-18,0	-0,7	0,2	-0,1	-1,7	-10,1	-17,6	-18,6	-2,6
EBITDA	3,5	6,0	2,6	-14,6	2,0	2,9	2,5	-15,6	3,5	6,1	4,1	3,1	-4,3	-12,4	-8,2	17,0
EBIT	1,8	1,6	0,4	-16,6	0,6	1,0	0,7	-16,6	1,8	4,0	2,4	1,7	-4,8	-12,9	-14,4	10,0
Profit before tax	1,8	1,4	0,3	-16,7	0,6	0,9	0,9	-16,9	1,7	4,1	2,4	1,9	-4,3	-13,2	-14,4	10,2
Net profit	1,4	1,2	0,3	-13,4	0,3	0,9	0,8	-15,7	1,4	3,4	2,0	1,4	-3,6	-10,5	-13,7	8,2
Sales change y/y	17,5%	49,9%	-9,7%	-26,5%	-16,3%	44,9%	6,5%	10,1%	40,4%	88,2%	36,3%	52,5%	-9,6%	-2,0%	17,2%	54,5%
Net profit change y/y	30,0%	49,4%	-38,2%	94,9%	-80,4%	26,4%	163,1%	17,4%	431,1%	273,5%	135,5%	-	164,2%	191,9%	30,8%	-
Gross margin	54,8%	29,4%	30,2%	50,1%	53,5%	46,7%	47,4%	53,3%	59,0%	62,2%	57,8%	65,4%	39,9%	39,8%	50,3%	61,4%
EBITDA margin	73,3%	80,5%	67,3%	-360,8%	50,6%	70,1%	60,6%	-347,9%	63,1%	79,2%	74,7%	46,1%	-20,9%	-61,6%	-49,1%	65,9%
EBIT margin	37,3%	21,2%	9,9%	-409,7%	14,1%	25,0%	16,8%	-372,0%	32,6%	51,9%	43,7%	25,5%	-23,4%	-64,1%	-86,2%	38,9%
Net margin	28,3%	16,6%	8,4%	-329,6%	6,6%	22,2%	20,7%	-351,5%	25,0%	44,0%	35,8%	21,2%	-17,5%	-52,1%	-82,3%	32,0%

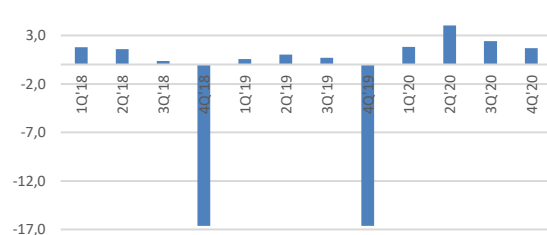
Źródło: BDM S.A., company

Sales [mln PLN]



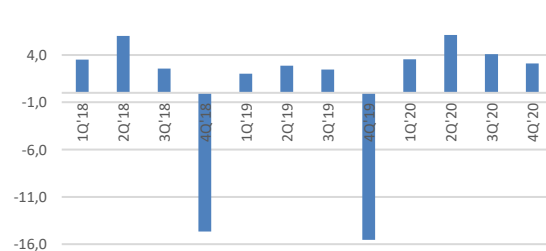
Source: Dom Maklerski BDM S.A., company

EBIT [mln PLN]



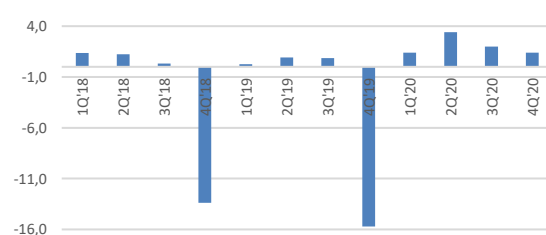
Source: Dom Maklerski BDM S.A., company

EBITDA [mln PLN]



Source: Dom Maklerski BDM S.A., company

Net profit [mln PLN]



Source: Dom Maklerski BDM S.A., company

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Explanations of terminology:

EBIT - earnings before interest and tax

EBITDA - earnings before interest, taxes, depreciation, and amortization

Net debt - interest bearing debt minus cash and equivalents

WACC - weighted average cost of capital

CAGR - cumulative average annual growth

EPS - earnings per share

DPS - dividend per share

CEPS - net profit plus depreciation per share

EV - market capitalization plus interest bearing debt minus cash and equivalents

EV/S - market capitalization / sales

EV/EBITDA - EV / sales

P/EBIT - market capitalization / EBIT

MC/S - market capitalization / sales

P/E - market capitalization / net profit

P/BV - market capitalization / book value

P/CE - market capitalization / net profit plus depreciation

ROE - net profit / equity

ROA - net income / assets

Gross margin - gross profit on sales / sales

EBITDA margin - EBITDA / sales

EBIT margin - EBIT / sales

Net margin - net profit / sales

Explanation of ratings:

Buy - we believe that the security will reach the target price in the recommended period, which significantly exceeds the current market price (at least + 15%);

Accumulate - we believe that the security will reach the target price in the recommended period, which exceeds the current market price (in the range of +5 to + 14.99%);

Hold - we believe that a security in the recommended period will fluctuate around the target price, which is close to the current market price (in the range from -4.99% to + 4.99%);

Reduce - we believe that the security will reach the target price in the recommended period, which is lower than the market price (range of decline from 5% to 14.99%);

Sell - we believe that a security in the recommended period will reach the target price, which is significantly lower than the market price (suggested erosion of the value exceeds 15%).

Target price - the theoretical price which, in our opinion, should reach a security in the recommended period; This price is the result of the company's value (eg based on DCF, comparative and other valuations), market conditions and the industry as well as other factors subjectively considered by the analyst.

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Ratings and price targets history:

rating	price target	previous rating	previous target price	report date	report date (hour)	price	WIG
Buy	13,9	Buy	13,6	19.10.2020*	07:00 CEST	9,00	48 210
Buy	13,6	-	-	10.08.2020*	07:00 CEST	9,12	51 732

Distribution of BDM's recommendations in Q2'21*:

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

	number	%	number	%
Buy	0	0%	0	0%
Accumulate	0	0%	0	0%
Hold	0	0%	0	0%
Reduce	0	0%	0	0%
Sell	0	0%	0	0%

* detailed list of all analytical reports (recommendations) published by BDM during the last 12 months and information on the numbers of issuers to which BDM has supplied services of investment firms set out in Sections A and B of Annex I to Directive 2014/65/EU is included in a cyclical "Monthly Report" or at www.bdm.pl

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The report constitutes an investment research within the meaning of art. 36 §1 of Commission Delegated Regulation (EU) 2017/565.

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