

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

			2020	2021	2022F	2023F	
Price [PLN]	4,0	P/E	5,6	7,8	-	-	Analyst: Krzysztof Tkocz krzysztof.tkocz@bdm.pl tel.: (+48) 516 086 705
MC [mln PLN]	25,3	EV/EBITDA	3,3	3,4	-	-	
		EV/EBIT	3,7	4,3	-	-	
		P/BV	1,8	1,4	-	-	

Last recommendation BDM: SELL with target price 7,5 PLN/share (2022/10/07) [LINK](#)

BDM Comment: SimFabric's results for Q3'22 in terms of revenues and EBIT are significantly below our expectations, which is why we perceive them **negatively**. In the quarter under review, the company generated only PLN 0.4m in **revenues from sales of products** (-74.4% y/y, -84.4% q/q). SIM did not present the revenue structure as it was done in previous reports. However, we believe that such a large decrease in revenues is the result of the lack of or insignificant impact of the recognition of e-learning materials and payments on the production of publishing games. In our last recommendation, we indicated that the company had booked a total of PLN 14.9m/EUR 3.3m in revenues from three games developed under contract publishing agreements vs. EUR 3.6m contracted. The above result may be related to the use of the aforementioned pool of funds. Assuming that the created projects are ready/nearing completion, this may indicate the upcoming premieres of these games. However, bearing in mind the release of only one demo for one of the three games ("ElectriX") and the lack of marketing campaigns, the rest of the projects may need additional funds to complete them. **Moving on to the costs.** The large drop in revenues resulted in a proportionally large drop in operating expenses, which amounted to just PLN 0.2m (-87.7% y/y, -89.6% q/q). The majority of this item was depreciation (PLN 0.2 million), external services related to the production of games amounted to PLN -0.1 million (vs. PLN 1.3 million in Q2'22), and salaries PLN 11 thousand. PLN (-98.3% y/y and -31.3% q/q). In the last quarter, the company generated PLN 0.4 million **EBITDA** (-35.9% y/y, -62.2% y/y). In Q3'22, the company recognized PLN 1.6m in **financial revenue**, which boosted its net profit for the period to PLN 1.5m. Net profit of parent company amounted to PLN 1.0 million. **Cash flows** from operating activities in Q3'22 amounted to PLN -3.8 million, cash flows from investing activities amounted to PLN -1.4 million, and cash flows from financial activities amounted to PLN +4.0 million (PLN 4.0 million from the net effect of the capital increase). At the end of September 2022, the company had **PLN 5.9m in cash and cash equivalents (PLN -1.2m q/q)**. The company's intangible assets increased from PLN 5.6m at the end of Q2'22 to PLN 6.9m at the end of Q3'22 (of which PLN 5.3m was costs of games in progress = PLN +1.0m q/q, PLN 1.1 million costs of completed games = PLN -0.3 million q/q, and PLN 0.5 million acquired rights to games). Trade and other receivables increased from PLN 12.8 million at the end of Q2'22 to PLN 13.2 million at the end of September'22 (PLN +0.4 million).

In addition, on November 29, 2022, the company received information from Valve (owner of the Steam store), on the basis of which the company's account this store has been blocked. Thus, at the moment, SIM cannot sell or promote its projects on this platform, which we perceive negatively. SimFabric has contacted STEAM and the matter is currently being investigated in detail by STEAM in cooperation with the company. In the announcement, the company's management board informed that it will make every effort to clarify the matter as soon as possible and restore the operation of the STEAM account in the shortest possible time.

Q3'22 results [mln PLN]

	Q3'21	Q3'22	change y/y	Q3'212 BDM	dev.
Sales	1,5	0,4	-74,4%	2,5	-84,7%
Gross profit	0,4	0,2	-51,8%	0,6	-68,2%
Other op.income/expenses	0,0	0,0	-	0,0	-
EBITDA	0,6	0,4	-35,9%	1,1	-63,4%
EBIT	0,4	0,2	-	0,6	-68,2%
Financial income/expense, net	-0,1	1,6	-	0,0	-
Profit before tax	0,5	1,8	-	0,6	208,3%
Net profit	0,3	1,5	-	0,5	189,2%
Net profit of parent company	0,3	1,0	-	0,5	93,7%
Gross margin	25,8%	48,4%		23,3%	
EBITDA margin	42,6%	106,6%		44,5%	
EBIT margin	25,8%	48,4%		23,3%	
Net margin	20,5%	396,8%		21,0%	
Net margin of parent company	23,1%	265,8%		21,0%	

Source: BDM S.A., company

- In Q3'22, the company generated only PLN 0.4m in revenues from product sales (-74.4% y/y, -84.4% q/q). The company did not present the revenue structure as it was done in previous reports. We think that such a large decrease in revenues

is the result of the lack of or insignificant impact of the recognition of e-learning materials and payments on the production of publishing games.

- A large decrease in revenues was followed by a proportionally large decrease in operating costs, which amounted to only PLN 0.2 million (-87.7% y/y, -89.6% q/q). The majority of this item was depreciation (PLN 0.2 million), and external services related to the production of games amounted to PLN -0.1 million (vs. PLN 1.3 million in Q2'22).
- In the last quarter, the company generated PLN 0.4 million EBITDA (-35.9% y/y, -62.2% q/q).
- In Q3'22, the company recognized PLN 1.6 million in financial revenues, which increased its net profit for the period, which amounted to PLN 1.5 million. Net profit of parent company amounted to PLN 1.0 million.
- Cash flows from operating activities in Q3'22 amounted to PLN -3.8 million, cash flows from investing activities amounted to PLN -1.4 million, and cash flows from financial activities amounted to PLN +4.0 million (PLN 4.0 million from the net impact of the capital increase). At the end of September 2022, the company had PLN 5.9m in cash and cash equivalents (PLN -1.2m q/q).
- The company's intangible assets increased from PLN 5.6m at the end of Q2'22 to PLN 6.9m at the end of Q3'22 (of which PLN 5.3m was costs of games in progress = PLN +1.0m q/q, PLN 1.1 million costs of completed games = PLN -0.3 million q/q, and PLN 0.5 million acquired rights to games).
- Trade and other receivables increased from PLN 12.8 million at the end of Q2'22 to PLN 13.2 million at the end of September'22 (PLN +0.4 million).
- In Q3'22, the company successfully completed the first stage of production of the first game based on the "Play to Earn" model and blockchain technology. The first game project in this model is implemented as part of the 6th pillar of the Company's Sustainable Development Strategy and is financed from a grant for the development of blockchain technology, awarded to the company by the Swiss DFINITY Foundation. Currently, work is underway on the next stage of the game's development, consisting in the issue of NFT tokens.
- During the festival, the Mushrooms: Forest Walker PC demo was downloaded by over 7,000 players worldwide. The full game is currently being finalized.
- During the festival, the demo game "My Demon Wife" was downloaded by over 5,000 players worldwide. The full game is currently being finalized.
- On October 28, Gardenia's own game was released on PlayStation Store for PS4/PS5. Within 72 hours from the premiere, the game's costs were recouped in 100% and the game currently makes money with every copy sold. Currently, work on the next versions of the game for consoles, mobile devices and VR is being finalized.
- On November 18, the company's own game Quantum Storm was released on Nintendo Switch consoles in the Nintendo eShop. Within 72 hours of its release, the game's costs were recouped in 100% and the game currently makes money with every copy sold. Currently, work on the next versions of the game for consoles, mobile devices and VR is being finalized.
- On November 18, the prologue of the Company's own game - Cthulhu: Books of Ancients - premiered in the Steam store for PCs. Within 48 hours of its release, the game was downloaded by over 10,000 players around the world. The full game is currently being finalized.
- The SimFabric Capital Group continues its development and is currently entering the last phase of preparations for going public with the first subsidiary VRFabric S.A. The debut of the second subsidiary MobileFabric S.A. on the NewConnect market is planned for 2023. GR Games S.A. as the third subsidiary is also planning a stock exchange debut. However, launching the procedure for this subsidiary's listing on the main floor of the Warsaw Stock Exchange will be possible only after the release of the first GR Games S.A. game. – Gumball 3000 in 2024.



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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.

Recommendations made by BDM are binding for 12 months from the issue date or until the target level is reached, unless they are updated during this period of time.

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Ratings and price targets history:

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

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

Distribution of BDM's recommendations in Q4'22*:

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

	number	%	number	%
Buy	9	64%	1	100%
Accumulate	2	14%	0	0%
Hold	2	14%	0	0%
Reduce	0	0%	0	0%
Sell	1	7%	0	0%

* detailed list of all analytical reports (recommendations) published by BDM during the last 12 months is included at <https://www.bdm.pl/analizy-i-informacje/analizy/historia-rekomendacji>

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

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