

Remedy

Company report

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✓ Inderes corporate customer

This report is a summary translation of the report "Pitkän aikavälin potentiaali rakentuu" published on 11/4/2024 at 8:05 am EET.

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Long-term potential is building

The company's Q3 results were well above expectations and the game projects in development are progressing well. However, the sales performance of Alan Wake 2 has been disappointing compared to our expectations, and the company now has something to prove during the crucial sales months at the end of the year. With these recent decisions, Remedy's current game projects are now on track and funding for their development has been secured. The self-publishing of future games will significantly increase Remedy's long-term royalty potential, making the current valuation of the stock look attractive. In the short term, however, the weaker sales performance of AW2 and uncertainty about the success of FBC: Firebreak may keep the stock under pressure and do not support a stronger view. Therefore, we reiterate our Accumulate recommendation and revise our target price to EUR 19.0 (was 21.0 EUR).

Q3 figures well above expectations, disappointing AW2 sales performance

Remedy's Q3 revenue grew by 129% to 17.9 MEUR which clearly exceeded our 14.2 MEUR estimate. This growth was driven by the expected retroactive development payments for Control 2 under the [Annapurna agreement](#), which nevertheless came in above our expectations. Due to Remedy's fixed cost structure, the revenue beat was also directly reflected in the bottom line and Q3 EBITDA (6.6 MEUR) was well above our forecast of 1.2 MEUR. However, contrary to our expectations, Alan Wake 2 had not yet recouped its production and marketing budget, and the comment about covering more than 80% of the costs was repeated. We lowered our royalty expectations for the game quite a bit, but we still expect the game to recoup in Q4, when the second DLC, the release of the physical game version, the planned discount campaigns and an otherwise strong sales season (Halloween and Christmas) will support sales.

The next few years' milestones for game projects in development are starting to become clear

Remedy's strategic decision to self-publish Control 2 and FBC: Firebreak will require more investment from the company in the coming years but will increase long-term royalty potential. Remedy's current cash position (Q3'24: 31.2 MEUR) and the 15 MEUR raised from Tencent through [a convertible bond](#) provide, in our view, sufficient headroom. Meanwhile, for [FBC: Firebreak](#), the agreements with Sony and Microsoft to bring the game to subscription services on these platforms immediately upon release next year limits the financial risks associated with the game (we assume 10 MEUR of revenue from these) and provides a potentially flying start to the game's player numbers. Control 2 is also on track for full production next year, according to the company, and our 2027 release date estimate looks realistic. The Max Payne subcontracting project in production is also progressing well and will provide Remedy with good cash flow from the post-release royalty option (we estimate 2026). The big picture of our forecasts remains unchanged, and we see the potential for the company to deliver significant long-term earnings growth through the development of new Alan Wake and Control games.

The long game is tempting, even with cross-drive in short-term drivers

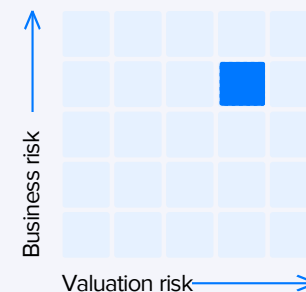
We believe in Remedy's ability to create more quality and successful games in the long term, which makes the current valuation of the stock attractive. However, in the short term, the valuation (EV/S 4x) is elevated and a key driver (AW2 royalties) is below expectations, which could keep the stock under pressure. The general sentiment in the gaming sector also remains rather gloomy. However, the release of FBC: Firebreak is approaching, and this will be a clear driver for the stock over the next year. However, the success of Remedy's first multiplayer project remains to be seen. Thus, before seeing the success of FBC: Firebreak, it is worth proceeding with caution with further purchases while the release of Control 2, which is the key to value creation, is still several years away.

Recommendation

Accumulate
(was Accumulate)

EUR 19.00
(was EUR 21.00)

Share price:
15.32



Key figures

	2023	2024e	2025e	2026e
Revenue	33.9	48.6	57.3	58.7
growth-%	-22%	43%	18%	2%
EBIT adj.	-28.6	-7.1	-2.0	-6.9
EBIT-% adj.	-84.4 %	-14.7 %	-3.5 %	-11.7 %
Net Income	-22.7	-5.6	-1.6	-5.5
EPS (adj.)	-1.68	-0.41	-0.12	-0.40

P/E (adj.)	neg.	neg.	neg.	neg.
P/B	5.1	3.4	3.5	3.8
Dividend yield-%	0.0 %	0.0 %	0.0 %	0.0 %
EV/EBIT (adj.)	neg.	neg.	neg.	neg.
EV/EBITDA	neg.	neg.	47.2	66.7
EV/S	9.3	4.2	3.7	3.7

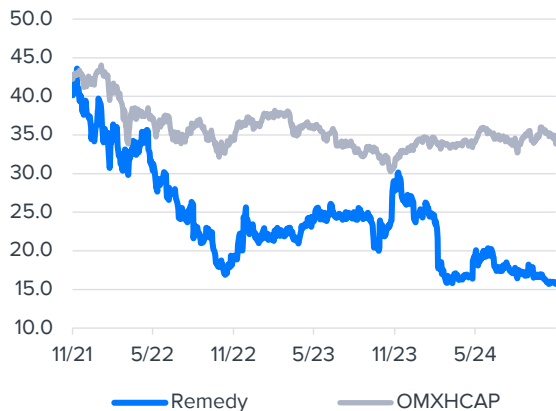
Source: Inderes

Guidance

(Adjusted)

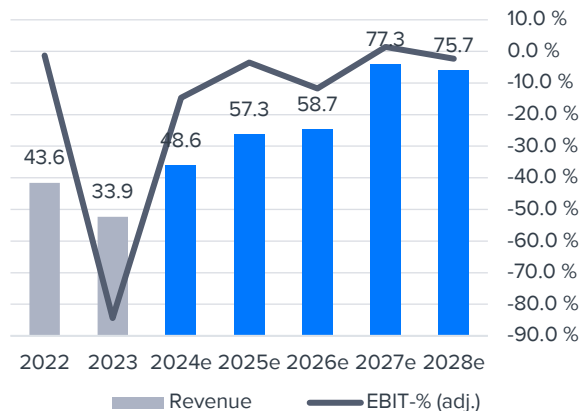
"Remedy expects its revenue to increase from the previous year and operating profit (EBIT) to improve but remains negative."

Share price



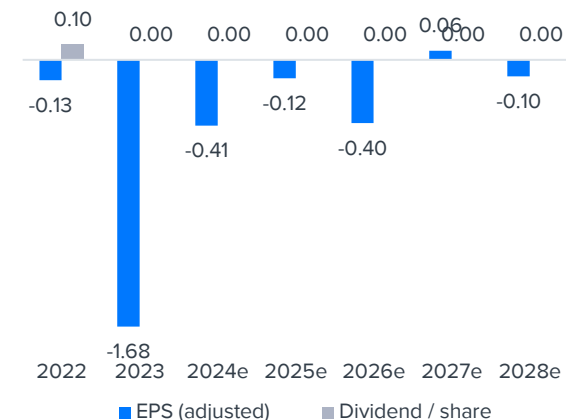
Source: Millstream Market Data AB

Revenue and EBIT-%



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- Alan Wake 2 sales performance and the successful launch of FBC: Firebreak
- Attractive position in value chain considering industry trends and consolidation
- Self-owned game brands (Alan Wake and Control)
- Multi-project model creates continuity and disperses risks
- Strong track record of developing high-quality games
- Own game engine and game development tools create scalability and a competitive advantage



Risk factors

- Commercial failure of upcoming games
- Game projects being delayed
- Dependency on publishing partners
- Fierce competition for top talent and players' time and money in the games industry
- Technology and market trends
- Changes in expectations for future games can cause significant volatility in the stock

Valuation	2024e	2025e	2026e
Share price	15.3	15.3	15.3
Number of shares, millions	13.6	13.7	13.8
Market cap	208	210	211
EV	202	213	219
P/E (adj.)	neg.	neg.	neg.
P/E	neg.	neg.	neg.
P/B	3.4	3.5	3.8
P/S	4.3	3.7	3.6
EV/Sales	4.2	3.7	3.7
EV/EBITDA	neg.	47.2	66.7
EV/EBIT (adj.)	neg.	neg.	neg.
Payout ratio (%)	0.0 %	0%	0.0 %
Dividend yield-%	0.0 %	0.0 %	0.0 %

Source: Inderes

Q3 figures clearly stronger than expected

Revenue boosted by Control 2 development fees

Remedy's Q3 revenue grew by 129% to 17.9 MEUR which clearly exceeded our 14.2 MEUR estimate. This growth was driven by the expected retroactive development payments for Control 2 under the Annapurna agreement (Annapurna is funding 50% of the game's development budget), which nevertheless exceeded our expectations. Otherwise, as expected, the quarter saw significant development fees from the Max Payne subcontracting project, which is now in full production.

Royalty income for the quarter (0.8 MEUR) decreased slightly from the comparison period (1.1 MEUR) and were below our forecast (1.2 MEUR). In the third quarter, Alan Wake 2 did not generate any royalties. Remedy commented, as in the Q2 report, that the game has recouped the majority of its development and marketing costs, suggesting over 80% of the total. Thus, sales of the game seem to have been rather sluggish in recent months, and we expect a recoup announcement in the report. However, the company said Q3 sales were better than Q2, so the summer season was particularly quiet. We believe that our assumption of a development and marketing budget of around 70 MEUR is still in the correct ballpark.

Stronger top line also strongly reflected in earnings

Remedy's Q3 EBIT was 2.4 MEUR, compared to our forecast of 0.2 MEUR. EBITDA (6.6 MEUR) was even more clearly above our forecast (1.2 MEUR). Due to Remedy's fixed cost structure, the revenue outperformance also directly translated into a better earnings performance compared to our forecast.

Quarterly depreciation was higher than expected. In Q3, Remedy made a write-off (which we estimate to be 3.3 MEUR) related to the Control game brand rights acquired earlier in the year, whose balance sheet value was 16.9 MEUR at the end of H1. The remainder of this intangible item will be eliminated upon the release of FBC: Firebreak and Control 2. According to the company, the capitalized costs of Alan Wake Remastered have now been removed from the balance sheet.

Cash flow from operating activities in Q3 was a strong 6.6 MEUR, supported by development fees received. Cash and liquid securities amounted to 31.2 MEUR at the end of the quarter. Add to this a 15 MEUR convertible bond with Tencent, and Remedy is in a good financial position to execute its strategy and self-publish its next game projects.

With the self-publishing of Control games, the result is still negative this year, as expected

Remedy had previously stated that it would clarify its outlook once decisions regarding Control games had been made. However, the company has now reaffirmed its guidance and continues to expect year-over-year revenue growth (2023: 33.9 MEUR) and EBIT (2023: -28.6 MEUR) to improve. However, the outlook has been revised to show that the EBIT will remain negative this year. As we noted in our earnings preview, our 2024 earnings forecast included an outdated assumption for Q4 of 10 MEUR in development payments related to FBC: Firebreak, which of course won't come when Remedy self-releases the game. Adjusted for this, the outlook is in line with our expectations.

The revision of the outlook did not provide any material new information, and we believe that the main reason for this is the uncertainty surrounding the sales performance of Alan Wake 2. The next 2 months are very important sales months for the game, and with the release of the second expansion pack and the physical copy, marketing activities and discount campaigns will increase significantly towards the end of the year. Their effectiveness will have a major impact on the royalties the game can generate at the end of the year.

Estimates	Q3'23	Q3'24	Q3'24e	Q3'24e	Consensus		Difference (%)	2024e
MEUR / EUR	Comparator	Actualized	Inderes	Consensus	Low	High	Act. vs. Inderes	Inderes
Revenue	7.8	17.9	14.2				26%	48.6
EBITDA	-4.2	6.6	1.2				440%	-0.1
EBIT (adj.)	-5.5	2.4	0.2				981%	-7.1
EPS (reported)	-0.33	0.14	0.02				634%	-0.41
Revenue growth-%	-1.1 %	128.5 %	81.9 %				46.6 pp	43.2 %
EBIT-% (adj.)	-70.5 %	13.4 %	1.6 %				11.8 pp	-14.7 %

Source: Inderes

Big picture of forecasts unchanged; small revisions

Key forecast changes

- We lowered our assumptions for AW2 royalties. We now assume that the game will sell 3.2 million copies (was 4.1 million) by the end of 2025 at a slightly lower average price than previously assumed. We expect the game to recoup in Q4 and for Remedy to receive 1.9 MEUR in royalties.
- FBC: Firebreak We removed our previously outdated assumption of 10 MEUR in development fees in Q4. We now expect the agreements with Sony and Microsoft to add the game to Game Pass and Playstation Plus to generate 10 MEUR at launch (Q3'25). There is little visibility on the amount of this fee at this time. The visibility of the game's success is also low, and we expect the game to return approximately 1.5 times the invested capital by 2028. Remedy's goal for each game is at least 2x the return.
- We have added Tencent's 15 MEUR convertible bond to our forecasts. We treat it in the model as interest-bearing debt that converts to equity in 5 years.
- We have lowered some of the sales assumptions for Alan Wake 3 that we used in the model. However, due to a formula error in our model, the previous profitability forecasts for 2031-2032 were too low compared to previous assumptions, and now the earnings forecasts for these years have increased. Of course, there are a number of uncertain positive and negative drivers of long-term assumptions.
- Remedy's cost structure has recently evolved more moderately than expected, and we have lowered our cost assumptions for the coming years to reflect this to some extent.

Estimate revisions MEUR / EUR	2024e		Change %	2025e		Change %	2026e		Change %
	Old	New		Old	New		Old	New	
Revenue	60.8	48.6	-20%	57.6	57.3	0%	60.7	58.7	-3%
EBITDA	9.1	-0.1	-101%	1.6	4.5	187%	1.9	3.3	68%
EBIT (excl. NRIs)	5.4	-7.1	-233%	-3.4	-2.0	41%	-5.5	-6.9	-24%
EBIT	5.4	-7.1	-233%	-3.4	-2.0	41%	-5.5	-6.9	-24%
PTP	5.9	-6.7	-212%	-3.4	-2.0	41%	-5.5	-6.9	-24%
EPS (excl. NRIs)	0.33	-0.41	-226%	-0.20	-0.12	41%	-0.32	-0.40	-24%
DPS	0.00	0.00		0.00	0.00		0.00	0.00	

Source: Inderes

Strategy in light of game projects

\$ =low revenue
\$\$ =medium revenue
\$\$\$ =considerable revenue

	2023	2024	2025	2026	2027	2028	2029	2030	2031
Control	Royalties \$	\$	\$	\$					
Alan Wake Remastered	Royalties \$	\$	\$	\$	\$	\$			
Alan Wake 2	Development fees \$\$\$	Royalties \$	Royalties \$\$\$	\$\$\$	\$\$/\$\$\$	\$\$	\$	\$	\$
FBC: Firebreak	Development fees \$/\$\$	Development fees \$	Release in Q3 \$\$\$	Royalties \$\$\$	\$\$\$	\$\$\$	\$\$/\$\$\$	\$/\$\$	\$/\$\$
Control 2	Development fees \$\$	Development fees \$\$\$	Development fees \$\$\$	Development fees \$\$\$	Release in H1 \$\$\$	Royalties \$\$\$	\$\$\$	\$\$/\$\$\$	\$/\$\$
Max Payne	Development fees \$\$	Development fees \$\$\$	Development fees \$\$\$	Release in H1 \$\$\$	Royalties \$\$/\$\$\$	\$\$/\$\$\$	\$\$/\$\$\$	\$/\$\$	\$
Next game projects*					Development fees or self-publishing ?/\$\$\$?/\$\$\$?/\$\$\$	"Alan Wake 3" publication \$\$\$	Royalties \$\$\$
						Development fees or self-publishing ?/\$\$\$?/\$\$\$?/\$\$\$	"Control 3" publication \$\$\$
							Development fees or self-publishing ?/\$\$\$?/\$\$\$?/\$\$\$

Source: Inderes, *Inderes' estimates of future projects

Underlying assumptions for revenue estimates 1/2

AW2 assumptions in the estimate model

	Q3'23	Q4'23	Q1'24	Q2'24	Q3'24	Q4'24	Q1'25	Q2'25	Q3'25	Q4'25
Average price (€)	60	55	55	55	50	45	40	40	40	40
Sales volume (millions of copies)	0.30	0.70	0.40	0.20	0.25	0.35	0.30	0.25	0.15	0.30
Project income (MEUR)	11	24	14	7	8	10	8	6	4	8
Remedy's royalties (MEUR)	0	0	0	0	0.0	1.9	3.8	3.1	1.9	3.8
Cumulative copies sold (million)	0.3	1.0	1.4	1.6	1.9	2.2	2.5	2.8	2.9	3.2
Cumulative project income (MEUR)	11	35	49	56	64	74	81	87	91	99
Remedy's cumulative royalties (MEUR)		0	0	0	0	1.9	5.6	8.7	10.6	14.4

Current projects under development

Control 2 (self-publication, 50% funded by Annapurna)

Marketing budget 15 MEUR
Production budget 50 MEUR

	2027	2028	2029
Sales volume (millions of copies)	1.8	2.2	1.0
Average price (€)	60	50	45

Max Payne 1&2 (subcontracting)

Marketing budget 25 MEUR
Production budget 60 MEUR
Remedy's share of royalties 15%

	26-27	2028	2029
Sales volume (millions of copies)	4.1	1.5	1.2
Average price (€)	60	50	45

FBC: Firebreak (self-publication)

Development + marketing 32 MEUR

Assumption: The game will generate around 1.5x the capital invested in the project by the end of 2028

Source: Inderes

Assumptions of future game projects

"Alan Wake 3" (self-publication)

Marketing budget 25 MEUR

	2030	2031	2032
Sales volume (millions of copies)	1.5	1.8	1.2
Average price (€)	70	60	50

"Control 3" (self-publication)

Marketing budget 25 MEUR

	2031	2032	2033
Sales volume (millions of copies)	1.7	2.2	1.3
Average price (€)	70	60	50

Underlying assumptions for the calculation

- Value added tax 20%
- Distribution cost 25%
- Budget (production+marketing) 70 MEUR

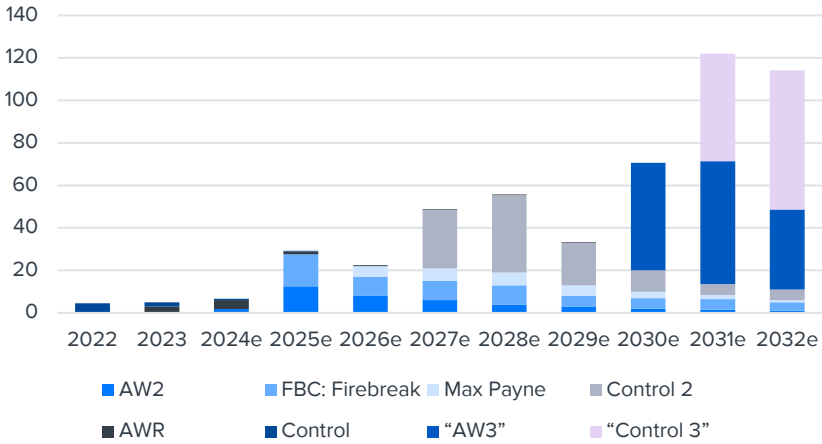
→ AW2 needs to sell around 2 million copies under these assumptions to cover the production and marketing costs funded by Epic and to start generating royalties for Remedy.

Underlying assumptions for the calculation

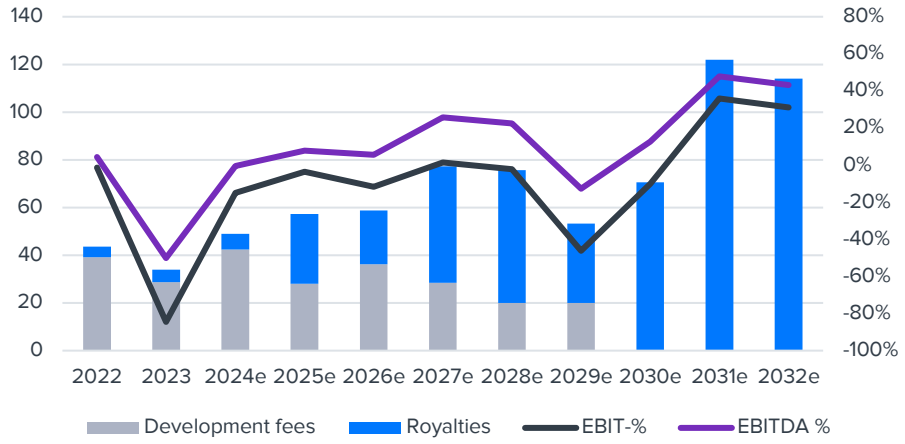
- Value added tax 20%
- Distribution cost 25%
- Marketing costs deducted from the sales of the game before calculating royalties
- We expect Remedy to be able with its current organization (with assumed increase in costs) to start and self-publish the next game projects

Underlying assumptions for revenue estimates 2/2

Assumptions on royalties per game (EUR)



Revenue and profitability



Source: Inderes

Remedy's game projects and partners



Control

Released
Q3'19

Budget
~30 MEUR

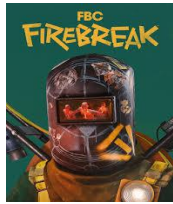
Remedy's share of
the production budget:

45%⁴

Remedy's share
of revenue:

45%⁴

Recoup² before
the royalties to
Remedy?



FBC: Firebreak

Production

Budget
~25 MEUR

100%

100%



Control 2

Production
readiness

Budget
~50 MEUR

50%

60-75%⁵



**Alan Wake
Remastered**

Released
Q4'21

Budget
~ 8 MEUR¹

0%³



Alan Wake 2

Released
Q3'23

Budget
~ 60 MEUR¹

50%



**Max Payne
1&2 remake**

Production

Budget
~60 MEUR¹

0%

10-30%¹



Source: Inderes, ¹ Inderes' rough estimates of the production budgets and profit splits.

² The production and marketing budget financed by the distributor must be recouped in whole or in part before royalties accrue to Remedy.

³ Remedy also provided some funding for Alan Wake 2 towards the end of production to ensure the game's high quality.

⁴ Old publishing agreement with 505 Games.

⁵ Remedy will be the publisher of the game and will be responsible for marketing costs, thus getting a bigger share of the game sales. The game's revenue will be split equally until the game's production budget is recouped.

Valuation

Plenty of long-term potential

In the long term, the ability of Remedy's team to launch high-quality games efficiently, favorable market trends and an attractive position in the value chain offer the company extremely good preconditions to grow into a significantly larger game developer than currently. A multi-project model that has been built with controlled risks and is well-managed also bring attractive optionality from the viewpoint of the risk/reward ratio of the company's business model. We believe the likelihood of complete failures in game projects is low but a future project can become an actual hit game. The royalty potential of a single game from Remedy's perspective ranges from tens of millions to hundreds of millions of euros, depending on the publishing or self-publication, so the range of possible outcomes is wide. With the successful ramp-up of the multi-project model, the pace of game releases will quicken and the number of "success options" will rise in the future. We estimate that even with only relatively well succeeding games, Remedy's growth outlook is good far into the future.

Remedy now has two well-established game brands (Control and Alan Wake) on which to build long-term growth. The company is currently in the process of updating its strategy, in which the expansion and development of these two game brands will play a key role. Remedy currently estimates the revenue potential of games like Control and Alan Wake 2 at around 100-200 MEUR over a 3-year period. Successfully expanding the target audience and better exploiting technology synergies to release more games in a faster cycle could even double or triple the revenue potential of a single game brand. Remedy's minimum target for each gaming project is at least 100% return on invested capital.

The next bigger driver is FBC: Firebreak release

Due to the timing of game releases, Remedy's earnings development, and therefore valuation multiples, will continue to fluctuate on an annual basis for a long time in our estimates, and the more consistent strong earnings performance enabled by the multi-project model will not materialize until the 2030s. Based on our projections, earnings multiples for the coming years do not support the valuation and EV/S multiples (2024e-2025e ~4x) are quite high.

The value of our DCF model, which assumes strong long-term earnings growth, is now EUR 20.6. Naturally, the model is very sensitive to key assumptions, and in Remedy's case, a single game can generate a big surprise in both directions.

We believe in Remedy's ability to create more quality and successful games in the long term, which makes the current valuation of the stock attractive. However, in the short term, the valuation is elevated and a key driver (AW2 royalties) is below expectations, which could keep the stock under pressure. The general sentiment in the gaming sector also remains rather gloomy. However, the release of FBC: Firebreak is approaching, and this will be a clear driver for the stock over the next year. Be that as it may, the success of Remedy's first multiplayer project remains to be seen. Thus, before seeing the success of FBC: Firebreak, it is worth proceeding with caution with further purchases while the release of Control 2, which is the key to value creation, is still several years away. We'd like to remind that investors should continue to be prepared to tolerate large price swings, which changes in expectations for future games can cause.

Valuation	2024e	2025e	2026e
Share price	15.3	15.3	15.3
Number of shares, millions	13.6	13.7	13.8
Market cap	208	210	211
EV	202	213	219
P/E (adj.)	neg.	neg.	neg.
P/E	neg.	neg.	neg.
P/B	3.4	3.5	3.8
P/S	4.3	3.7	3.6
EV/Sales	4.2	3.7	3.7
EV/EBITDA	neg.	47.2	66.7
EV/EBIT (adj.)	neg.	neg.	neg.
Payout ratio (%)	0.0 %	0%	0.0 %
Dividend yield-%	0.0 %	0.0 %	0.0 %

Source: Inderes

Gauging Remedy's long-term potential

Share price in different scenarios

		EV/EBIT 12x				
		Revenue (MEUR)				
EBIT-%		100	125	150	175	200
25%		21.3	26.3	31.3	36.3	41.3
30%		25.3	31.3	37.3	43.3	49.3
35%		29.3	36.3	43.3	50.3	57.3
40%		33.3	41.3	49.3	57.3	65.3

		EV/EBIT 16x				
		Revenue (MEUR)				
EBIT-%		100	125	150	175	200
25%		28.0	34.7	41.3	48.0	54.7
30%		33.3	41.3	49.3	57.3	65.3
35%		38.7	48.0	57.3	66.7	76.0
40%		44.0	54.7	65.3	76.0	86.7

		EV/EBIT 20x				
		Revenue (MEUR)				
EBIT-%		100	125	150	175	200
25%		34.7	43.0	51.3	59.7	68.0
30%		41.3	51.3	61.3	71.3	81.3
35%		48.0	59.7	71.3	83.0	94.7
40%		54.7	68.0	81.3	94.7	108.0

Annual expected return 2030

		EV/EBIT 12x				
		Revenue (MEUR)				
EBIT-%		100	125	150	175	200
25%		6%	9%	12%	15%	17%
30%		9%	12%	16%	18%	21%
35%		11%	15%	18%	21%	24%
40%		13%	17%	21%	24%	27%

		EV/EBIT 16x				
		Revenue (MEUR)				
EBIT-%		100	125	150	175	200
25%		10%	14%	17%	20%	23%
30%		13%	17%	21%	24%	27%
35%		16%	20%	24%	27%	30%
40%		19%	23%	27%	30%	32%

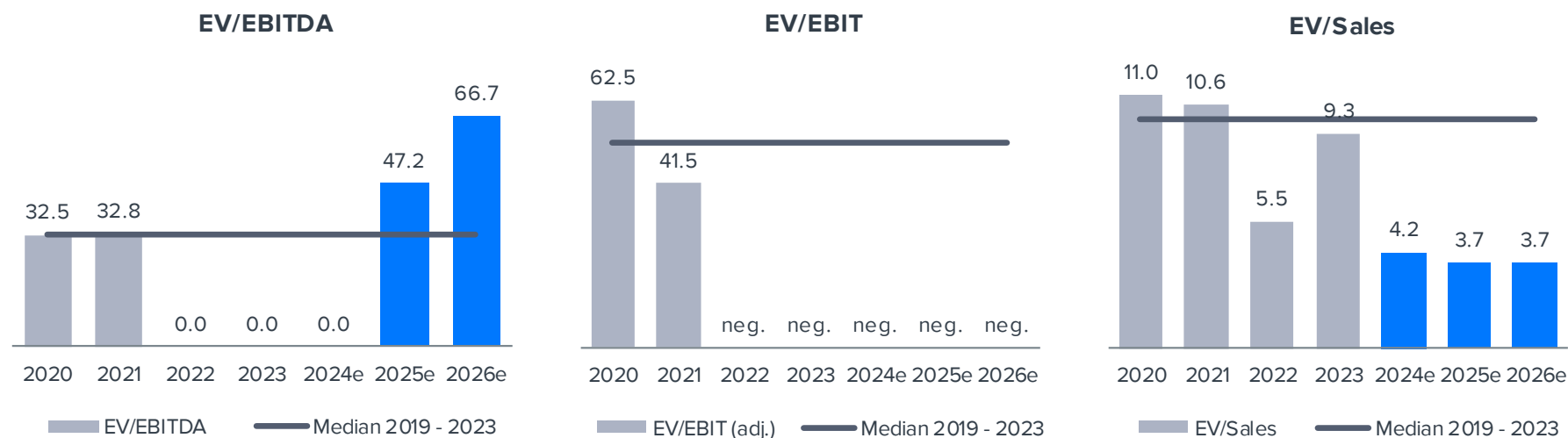
		EV/EBIT 20x				
		Revenue (MEUR)				
EBIT-%		100	125	150	175	200
25%		14%	18%	22%	25%	27%
30%		17%	22%	25%	28%	31%
35%		20%	25%	28%	32%	34%
40%		23%	27%	31%	34%	37%

- The scenarios aim to illustrate the expected return on Remedy's share if the company achieves a revenue of EUR 100-200 million with an EBIT margin of 25-40% by 2030.
- If the company's game projects perform very well, we see the revenue and profitability potential to reach these levels.
- The scenarios assume Remedy's net cash to be 20 MEUR and number of shares to be 15 million (accounting for the dilution of stock option schemes and convertible bond).
- In terms of valuation multiples, we believe that an EV/EBIT multiple of 12x would reflect a scenario where Remedy's future growth outlook would be weak, good at 16x and excellent at 20x.

Valuation table

Valuation	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Share price	39.0	39.7	21.9	25.4	15.3	15.3	15.3	15.3
Number of shares, millions	12.1	13.1	13.4	13.5	13.6	13.7	13.8	13.9
Market cap	471	528	294	343	208	210	211	213
EV	453	473	241	316	202	213	219	212
P/E (adj.)	87.0	59.0	neg.	neg.	neg.	neg.	neg.	>100
P/E	87.0	59.0	neg.	neg.	neg.	neg.	neg.	>100
P/B	13.0	6.0	3.3	5.1	3.4	3.5	3.8	3.8
P/S	11.5	11.8	6.7	10.1	4.3	3.7	3.6	2.8
EV/Sales	11.0	10.6	5.5	9.3	4.2	3.7	3.7	2.7
EV/EBITDA	32.5	32.8	>100	neg.	neg.	47.2	66.7	10.6
EV/EBIT (adj.)	62.5	41.5	neg.	neg.	neg.	neg.	neg.	>100
Payout ratio (%)	36.2 %	25.7 %	neg.	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Dividend yield-%	0.4 %	0.4 %	0.5 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %

Source: Inderes



Peer group valuation

Peer group valuation	Market cap	EV	EV/EBIT		EV/EBITDA		EV/S		Lv:n kasvu-%		EBIT-%	
Company	MEUR	MEUR	2024e	2025e	2024e	2025e	2024e	2025e	2024e	2025e	2024e	2025e
Frontier Developments	124	114			3.8	3.4	1.1	1.1	-14%	0%	-29%	-4%
Embracer	3426	4778	7.7	10.4	5.1	5.3	1.3	1.4	15%	-8%	17%	14%
Starbreeze	32	12			1.8	16.6	0.8	2.0	-71%	-27%	-127%	-58%
CD Projekt	3691	3478	57.2	93.4	39.0	64.5	18.0	22.1	-28%	-19%	31%	24%
Paradox Interactive	1828	1735	31.9	23.6	15.4	10.9	9.5	7.3	-16%	30%	30%	31%
Team17	388	328	7.8	7.3	6.7	6.4	1.7	1.7	9%	3%	22%	23%
Playway	416	361	13.6	12.1	13.4	11.9	5.4	5.0	-5%	7%	40%	42%
11 Bit Studios	143	135	4.3	4.2	3.5	3.3	2.3	2.3	308%	2%	54%	55%
Enad Global 7	104	83	4.8	3.8	2.7	1.9	0.5	0.5	-15%	16%	11%	12%
Thunderful Group	7		0.1	0.3					-90%	12%	-94%	-22%
Tinybuild	26	17				8.6	0.4	0.4	-9%	8%	-15%	-3%
Cl Games	64	73			4.9	12.2	2.0	3.2	-30%	-39%	-3%	-14%
Electronic Arts	36923	36109	16.9	15.9	15.2	14.4	5.2	5.1	6%	2%	31%	32%
Take-Two Interactive	26110	28183	54.5	51.1	44.7	39.0	5.8	5.5	1%	6%	11%	11%
Ubisoft	1782	3193	8.9	57.1	3.6	4.0	1.5	1.6	11%	-7%	16%	3%
Remedy (Inderes)	208	202	-28.3	-106.3	-1486.1	47.2	4.2	3.7	43%	18%	-15%	-3%
Average			18.9	25.4	12.3	14.5	4.0	4.2	5%	-1%	0%	9%
Median			8.9	12.1	5.1	9.8	1.8	2.2	-7%	2%	14%	12%
Diff-% to median			-	-	-	385%	126%	71%				

Source: Refinitiv / Inderes

Income statement

Income statement	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24	Q2'24	Q3'24	Q4'24e	2024e	2025e	2026e	2027e
Revenue	43.6	6.9	8.9	7.8	10.3	33.9	10.8	10.3	17.9	9.6	48.6	57.3	58.7	77.3
Development fees	39.1	6.4	7.9	6.7	7.6	28.8	9.0	9.4	17.0	7.0	42.4	28.0	36.2	28.5
Royalties	4.5	0.5	1.0	1.1	2.7	5.2	1.8	0.9	0.8	2.6	6.2	29.3	22.5	48.8
EBITDA	1.9	-4.9	-4.0	-4.2	-3.9	-17.0	-1.2	-2.4	6.7	-3.2	-0.1	4.5	3.3	20.0
Depreciation	-2.5	-0.7	-0.8	-1.3	-8.9	-11.7	-0.9	-0.9	-4.3	-1.0	-7.0	-6.5	-10.1	-18.9
EBIT (excl. NRI)	-0.6	-5.6	-4.8	-5.5	-12.7	-28.6	-2.1	-3.2	2.4	-4.2	-7.1	-2.0	-6.9	1.1
EBIT	-0.6	-5.6	-4.8	-5.5	-12.7	-28.6	-2.1	-3.2	2.4	-4.2	-7.1	-2.0	-6.9	1.1
Net financial items	-0.6	0.0	0.4	0.0	0.7	1.1	0.1	0.3	0.0	0.1	0.5	0.0	0.0	-0.1
PTP	-1.2	-5.6	-4.4	-5.5	-12.0	-27.5	-2.0	-2.9	2.4	-4.1	-6.7	-2.0	-6.9	1.0
Taxes	-0.5	0.0	1.7	1.1	2.1	4.9	0.0	0.7	-0.5	0.8	1.0	0.4	1.4	-0.2
Net earnings	-1.7	-5.6	-2.7	-4.4	-9.9	-22.7	-2.0	-2.2	1.9	-3.3	-5.6	-1.6	-5.5	0.8
EPS (adj.)	-0.13	-0.42	-0.20	-0.33	-0.74	-1.68	-0.15	-0.16	0.14	-0.24	-0.41	-0.12	-0.40	0.06
EPS (rep.)	-0.13	-0.42	-0.20	-0.33	-0.74	-1.68	-0.15	-0.16	0.14	-0.24	-0.41	-0.12	-0.40	0.06
Key figures	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24	Q2'24	Q3'24	Q4'24e	2024e	2025e	2026e	2027e
Revenue growth-%	-2.5 %	-45.4 %	-5.3 %	-1.1 %	-24.4 %	-22.2 %	56.2 %	16.2 %	128.5 %	-7.1 %	43.2 %	18.0 %	2.4 %	31.7 %
EBITDA-%	4.4 %	-71.6 %	-44.7 %	-53.4 %	-37.4 %	-50.0 %	-11.2 %	-22.7 %	37.3 %	-33.8 %	-0.3 %	7.9 %	5.6 %	25.8 %
Adjusted EBIT-%	-1.3 %	-81.0 %	-53.7 %	-70.5 %	-123.6 %	-84.4 %	-19.3 %	-31.0 %	13.4 %	-44.3 %	-14.7 %	-3.5 %	-11.7 %	1.4 %
Net earnings-%	-4.0 %	-81.6 %	-30.0 %	-56.7 %	-96.3 %	-66.8 %	-18.5 %	-21.4 %	10.6 %	-34.6 %	-11.6 %	-2.8 %	-9.3 %	1.0 %

Source: Inderes

Balance sheet

Assets	2022	2023	2024e	2025e	2026e
Non-current assets	28.4	31.9	52.8	57.3	58.1
Goodwill	0.0	0.0	0.0	0.0	0.0
Intangible assets	23.3	19.3	41.0	46.5	48.2
Tangible assets	4.3	6.5	5.8	4.8	3.9
Associated companies	0.0	0.0	0.0	0.0	0.0
Other investments	0.0	0.0	0.0	0.0	0.0
Other non-current assets	0.8	1.0	1.0	1.0	1.0
Deferred tax assets	0.0	5.0	5.0	5.0	5.0
Current assets	71.2	47.4	38.5	29.0	22.6
Inventories	0.0	0.0	0.0	0.0	0.0
Other current assets	0.0	0.0	0.0	0.0	0.0
Receivables	15.3	17.0	14.6	14.9	12.9
Cash and equivalents	55.9	30.4	24.0	14.1	9.7
Balance sheet total	99.6	79.3	91.3	86.3	80.7

Source: Inderes

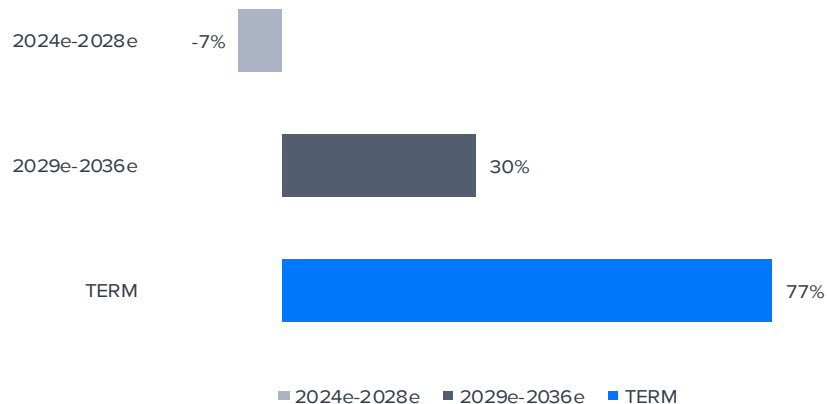
Liabilities & equity	2022	2023	2024e	2025e	2026e
Equity	88.4	67.8	62.1	60.5	55.0
Share capital	0.1	0.1	0.1	0.1	0.1
Retained earnings	31.1	9.8	4.2	2.6	-2.9
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	0.0	0.0	0.0	0.0	0.0
Other equity	57.1	57.8	57.8	57.8	57.8
Minorities	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	1.1	1.5	17.7	17.0	17.0
Deferred tax liabilities	0.0	0.1	0.0	0.0	0.0
Provisions	0.0	0.0	0.0	0.0	0.0
Interest bearing debt	1.1	1.4	17.7	17.0	17.0
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	0.0	0.0	0.0	0.0	0.0
Current liabilities	10.1	10.0	11.5	8.8	8.7
Interest bearing debt	1.8	2.2	0.2	0.2	0.2
Payables	8.2	7.8	7.3	8.6	8.5
Other current liabilities	0.0	0.0	4.0	0.0	0.0
Balance sheet total	99.6	79.3	91.3	86.3	80.7

DCF calculation

DCF model	2023	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	2034e	2035e
Revenue growth-%	-22.2 %	43.2 %	18.0 %	2.4 %	31.7 %	-2.1 %	-29.6 %	32.5 %	72.7 %	-6.5 %	3.0 %	15.0 %	3.0 %
EBIT-%	-84.4 %	-14.7 %	-3.5 %	-11.7 %	1.4 %	-2.3 %	-46.2 %	-10.1 %	35.9 %	31.0 %	32.0 %	35.0 %	33.0 %
EBIT (operating profit)	-28.6	-7.1	-2.0	-6.9	1.1	-1.7	-24.6	-7.2	43.8	35.4	37.6	47.3	45.9
+ Depreciation	11.7	7.0	6.5	10.1	18.9	18.7	17.9	16.0	14.5	13.8	13.4	13.2	13.1
- Paid taxes	0.0	0.9	0.4	1.4	-0.2	0.4	4.9	1.5	-8.7	-7.1	-7.5	-9.4	-9.2
- Tax, financial expenses	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Tax, financial income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
- Change in working capital	-2.1	5.9	-3.0	1.9	-0.2	0.9	1.4	-0.4	0.4	0.2	-0.1	-0.4	-0.1
Operating cash flow	-18.9	6.8	1.9	6.5	19.5	18.2	-0.4	9.9	50.0	42.3	43.4	50.7	49.8
+ Change in other long-term liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
- Gross CAPEX	-10.1	-27.9	-11.0	-11.0	-11.0	-12.0	-13.0	-13.0	-13.0	-13.0	-13.0	-13.0	-13.0
Free operating cash flow	-29.0	-21.1	-9.1	-4.5	8.5	6.2	-13.4	-3.1	37.0	29.3	30.4	37.7	36.8
+/- Other	0.0	5.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCFF	-29.0	-16.1	-9.1	-4.5	8.5	6.2	-13.4	-3.1	37.0	29.3	30.4	37.7	36.8
Discounted FCFF		-15.9	-8.2	-3.7	6.4	4.2	-8.4	-1.8	19.2	13.9	13.1	14.9	13.2
Sum of FCFF present value		253	269	277	281	274	270	279	280	261	247	234	219
Enterprise value DCF		253											
- Interest bearing debt		-3.7											
+ Cash and cash equivalents		30.4											
- Minorities		0.0											
- Dividend/capital return		0.0											
Equity value DCF		280											
Equity value DCF per share		20.6											

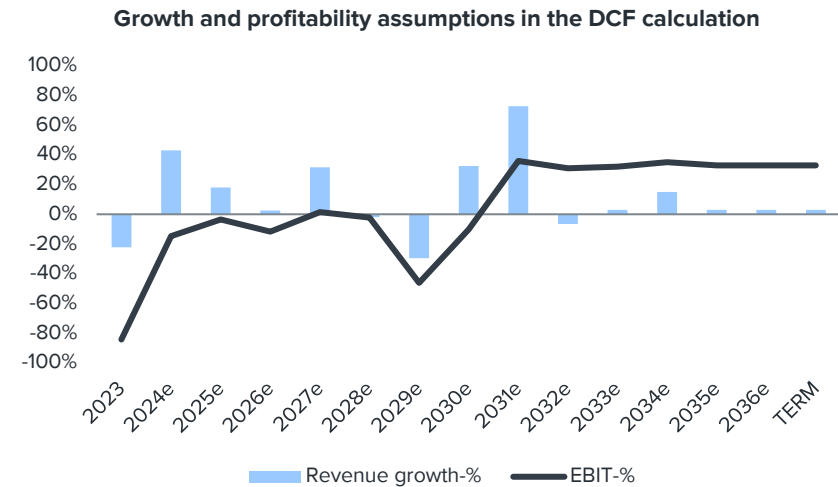
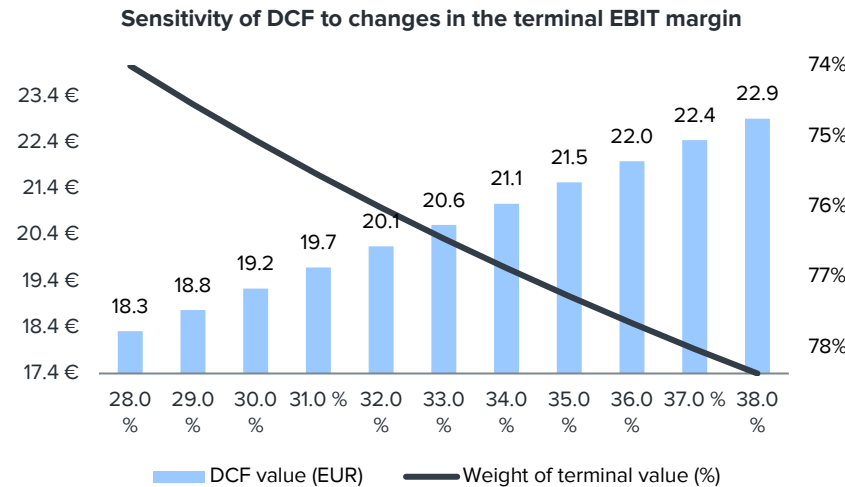
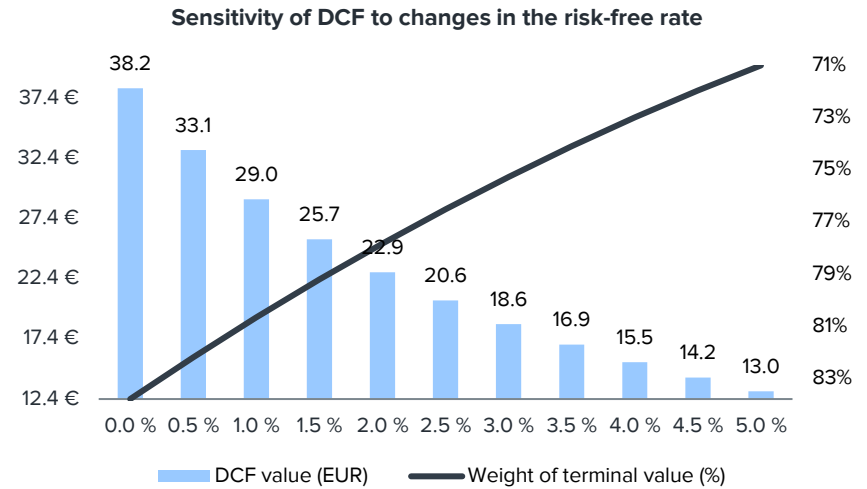
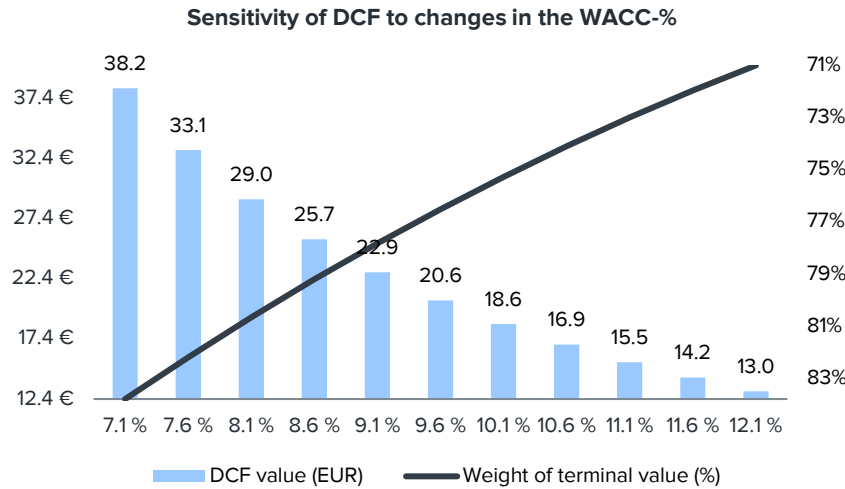
WACC	
Tax-% (WACC)	20.0 %
Target debt ratio (D/(D+E))	0.0 %
Cost of debt	5.0 %
Equity Beta	1.20
Market risk premium	4.75%
Liquidity premium	1.40%
Risk free interest rate	2.5 %
Cost of equity	9.6 %
Weighted average cost of capital (WACC)	9.6 %

Cash flow distribution



Source: Inderes

DCF sensitivity calculations and key assumptions in graphs



Source: Inderes. Note that the weight of the terminal value (%) is shown on an inverse scale for clarity.

Summary

Income statement	2021	2022	2023	2024e	2025e	Per share data	2021	2022	2023	2024e	2025e
Revenue	44.7	43.6	33.9	48.6	57.3	EPS (reported)	0.67	-0.13	-1.68	-0.41	-0.12
EBITDA	14.5	1.9	-17.0	-0.1	4.5	EPS (adj.)	0.67	-0.13	-1.68	-0.41	-0.12
EBIT	11.4	-0.6	-28.6	-7.1	-2.0	OCF / share	0.30	0.51	-1.40	0.50	0.14
PTP	11.3	-1.2	-27.5	-6.7	-2.0	FCF / share	-0.44	-0.29	-2.15	-1.19	-0.67
Net Income	8.8	-1.7	-22.7	-5.6	-1.6	Book value / share	6.69	6.57	5.02	4.57	4.42
Extraordinary items	0.0	0.0	0.0	0.0	0.0	Dividend / share	0.17	0.10	0.00	0.00	0.00
Balance sheet	2021	2022	2023	2024e	2025e	Growth and profitability	2021	2022	2023	2024e	2025e
Balance sheet total	101.1	99.6	79.3	91.3	86.3	Revenue growth-%	9%	-3%	-22%	43%	18%
Equity capital	87.4	88.4	67.8	62.1	60.5	EBITDA growth-%	4%	-87%	-990%	-99%	-3410%
Goodwill	0.0	0.0	0.0	0.0	0.0	EBIT (adj.) growth-%	57%	-105%	4985%	-75%	-72%
Net debt	-54.7	-52.9	-26.8	-6.1	3.1	EPS (adj.) growth-%	50%	-119%	1209%	-75%	-72%
Cash flow	2021	2022	2023	2024e	2025e	EBITDA-%	32.3 %	4.4 %	-50.0 %	-0.3 %	7.9 %
EBITDA	14.5	1.9	-17.0	-0.1	4.5	EBIT (adj.)-%	25.5 %	-1.3 %	-84.4 %	-14.7 %	-3.5 %
Change in working capital	-7.7	5.6	-2.1	5.9	-3.0	EBIT-%	25.5 %	-1.3 %	-84.4 %	-14.7 %	-3.5 %
Operating cash flow	4.0	6.8	-18.9	6.8	1.9	ROE-%	14.2 %	-2.0 %	-29.0 %	-8.7 %	-2.6 %
CAPEX	-9.8	-10.8	-10.1	-27.9	-11.0	ROI-%	17.1 %	-0.6 %	-35.2 %	-9.4 %	-2.5 %
Free cash flow	-5.8	-4.0	-29.0	-16.1	-9.1	Equity ratio	86.4 %	88.8 %	85.5 %	68.0 %	70.1 %
						Gearing	-62.5 %	-59.8 %	-39.5 %	-9.8 %	5.1 %
Valuation multiples	2021	2022	2023	2024e	2025e						
EV/S	10.6	5.5	9.3	4.2	3.7						
EV/EBITDA	32.8	>100	neg.	neg.	47.2						
EV/EBIT (adj.)	41.5	neg.	neg.	neg.	neg.						
P/E (adj.)	59.0	neg.	neg.	neg.	neg.						
P/B	6.0	3.3	5.1	3.4	3.5						
Dividend-%	0.4 %	0.5 %	0.0 %	0.0 %	0.0 %						

Source: Inderes

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Accumulate	The 12-month risk-adjusted expected shareholder return of the share is attractive
Reduce	The 12-month risk-adjusted expected shareholder return of the share is weak
Sell	The 12-month risk-adjusted expected shareholder return of the share is very weak
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Recommendation history (>12 mo)

Date	Recommendation	Target	Share price
8/15/2022	Accumulate	26.00 €	22.15 €
10/31/2022	Buy	25.00 €	18.14 €
12/27/2022	Accumulate	25.00 €	21.50 €
2/13/2023	Accumulate	25.00 €	22.70 €
4/19/2023	Accumulate	25.00 €	24.20 €
4/27/2023	Accumulate	25.00 €	23.10 €
6/12/2023	Reduce	25.00 €	26.10 €
8/14/2023	Reduce	25.00 €	25.55 €
9/14/2023	Reduce	24.00 €	22.50 €
10/27/2023	Accumulate	30.00 €	27.00 €
11/1/2023	Accumulate	30.00 €	27.95 €
11/16/2023	Reduce	29.00 €	28.85 €
2/7/2024	Reduce	21.00 €	21.60 €
2/13/2024	Accumulate	21.00 €	17.62 €
2/19/2024	Accumulate	19.00 €	17.02 €
3/21/2024	Accumulate	19.00 €	16.70 €
4/30/2024	Accumulate	20.00 €	19.20 €
8/12/2024	Accumulate	20.00 €	17.20 €
9/5/2024	Accumulate	21.00 €	17.50 €
11/4/2024	Accumulate	19.00 €	15.32 €



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Mikael Rautanen
2014, 2016, 2017, 2019



Sauli Vilén
2012, 2016, 2018, 2019, 2020



Antti Viljakainen
2014, 2015, 2016, 2018, 2019, 2020



Olli Koponen
2020



Joni Grönqvist
2019, 2020



Erkki Vesola
2018, 2020



Petri Gostowski
2020



Atte Riikola
2020

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