

2021-12-02 10:00

Key data

Final price [PLN]	1,23
DCF Valuation [PLN]	1,34
Comparative Valuation [PLN]	1,08
Market price [PLN]	1,34
Growth/decrease potential [%]	-8,2%
Market cap [mln PLN]	43,3
Free float	50,2%
Industry	gaming
Kod GPW	VVD
Bloomberg	VVD PW

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Company profile

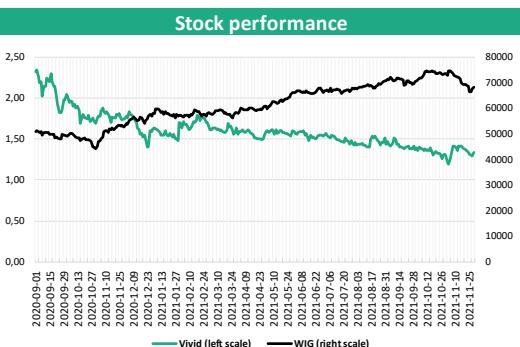
A modern gaming studio that designs, produces and publishes games for portable and stationary consoles, PC and Mac computers, and smartphones - which are the most dynamically developing sector of the

Source: www.gpw.pl

Shareholders

	[%]
Kościelny Remigiusz	22,23%
Wojczakowski Jarosław	22,23%
Sominka Paweł	5,32%
Vivid Games SA	0,34%

Growth factors	Risk factors
strong global gaming market	low sales of newly-released titles
ARPU increase of main games	high amortization
data analytics investment	increasing costs of UA



Vivid Games SA

Analysis of the results after Q3 2021

- In the third quarter, Vivid Games SA generated **revenues** of PLN 7.015 million (**increase of 38.9% qoq and decrease of 9.8% yoy**). From the beginning of the year, revenues amounted to PLN 17.776 million, which is a decrease by 26.6% compared to the record year 2020. Constantly, the dominant share in revenues has the flagship title Real Boxing 2 (PLN 3.9 million).
- We see a **positive trend in the monetization of some titles**. In the third quarter, the average revenue per player (ARPU) increased in relation to the first half of the year for Real Boxing 2 (from PLN 3.99 to PLN 5.6) and Eroblast (from PLN 2.05 to PLN 4.56). In turn, ARPU for Knights Fight 2 fell from PLN 5.65 to PLN 5.02 in the second quarter in comparison to the first half of the year.
- At the **EBITDA level, we notice an almost threefold increase qoq to PLN 1.394 million**. From the beginning of the year, EBITDA amounted to PLN 2.958 million. As in the previous quarters, the Company's profitability is significantly shaped by **amortization**, the level of which has remained stable since the beginning of the year (on average PLN 1.5 million).
- The Company generated in Q3 a **significantly lower operating loss than in the Q2** (minus PLN 63 thousand as compared to minus PLN 1.232 million). Similarly, **the net loss in the Q3 was lower than in the Q2** (minus PLN 87 thousand as compared to minus PLN 1.492 million).
- As a result, the Company **improved profitability** at all levels. The gross margin fell to minus 5.8 percent, EBIT margin to minus 0.9 percent, and the net profit margin to minus 1.2 percent. However, **Vivid Games SA does not generate positive net income**.

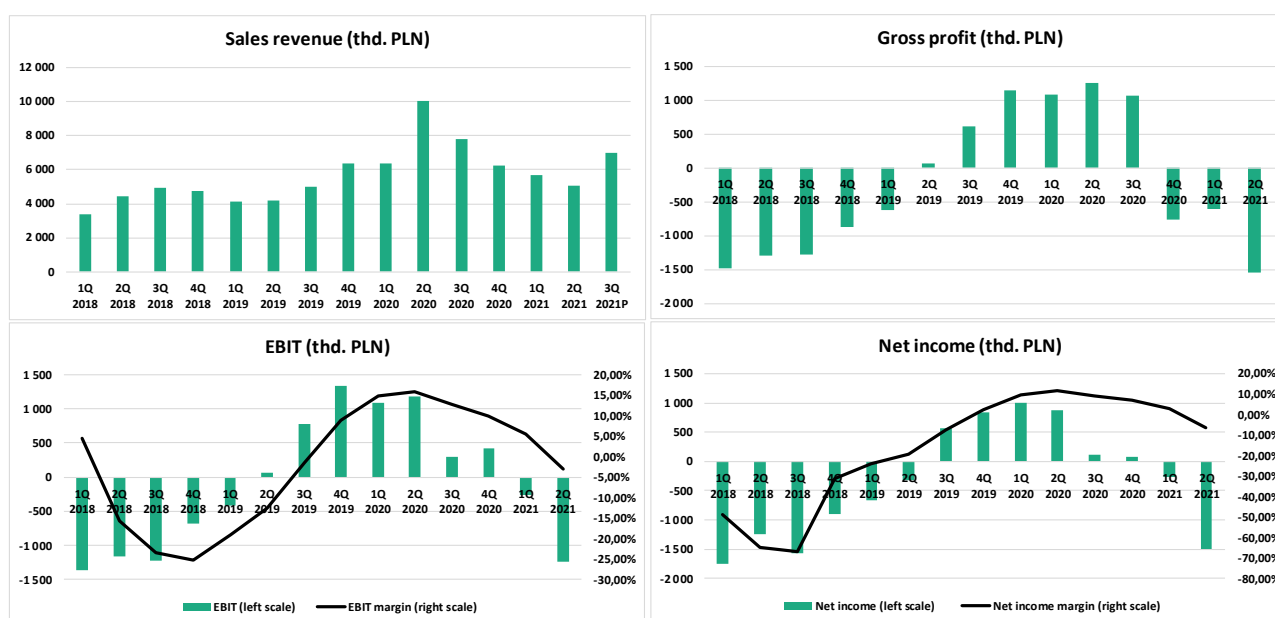
	thd PLN	2020	2021E	2022E	2023E	2024E	2025E
Revenue		30 458	24 107	24 696	25 337	27 334	28 588
EBITDA		7 389	4 800	4 303	4 179	5 161	5 333
	EBITDA margin	24,3%	19,9%	17,4%	16,5%	18,9%	18,7%
EBIT		2 993	-700	-867	-681	593	1 039
Net income		2 094	-1 623	-1 250	-900	481	841
Equity		21 480	19 810	18 560	17 660	18 140	18 982
Debt		4 110	681	-3 066	-4 689	-8 442	-12 326
P/E		22,3	-28,7	-37,3	-51,8	97,0	55,4
P/BV		2,2	2,4	2,5	2,6	2,6	2,5
EV/EBITDA		5,8	9,6	11,5	12,3	10,7	11,1

Source: DM Banku BPS SA calculations, E - estimates

Financial results for Q3 2021 against the DM Banku BPS forecasts

thd. PLN	3Q 2021	DM BPS forecasts	Comparison to the DM BPS forecasts	2Q 2021	1Q 2021	Change qoq
Revenue	7 015	5 669	23,7%	5 048	5 713	-11,6%
Profit on sales	- 410	- 618	-33,6%	- 1 544	- 601	157,0%
Sales margin	-5,8%	-10,9%	-46,4%	-30,6%	-10,5%	190,9%
EBITDA	1 394	1 186	17,5%	362	1 202	-69,9%
EBITDA margin	19,9%	20,9%	-5,0%	7,2%	21,0%	-65,9%
EBIT	- 63	- 271	-76,8%	- 1 232	- 255	383,5%
EBIT margin	-0,9%	-4,8%	-81,2%	-24,4%	-4,5%	447,2%
Gross profit	- 87	- 85	2,2%	- 1 492	- 273	446,2%
Gross profit margin	-1,2%	-1,5%	-17,4%	-29,6%	-4,8%	518,2%
Net income	- 87	- 85	2,2%	- 1 492	- 273	446,2%
Net income margin	-1,2%	-1,5%	-17,4%	-29,6%	-4,8%	518,2%

Source: DM Banku BPS SA, Company



Source: DM Banku BPS SA calculations, Company

Expected impact: In line with our expectations, Vivid Games SA improved results for the third quarter in comparison to the second quarter. The company surprised us positively in terms of revenues (plus 23.7%), whereas the value of net profit was in line with our estimates (plus 2.2%). Investments in data analytics made it possible to deepen the monetization of the offered games, which had a noticeable positive impact on the Company's results at all levels. The Company revenue were fostered by the increase in ARPU of Real Boxing 2 and the appreciation of the US dollar against the zloty (Real Boxing 2 is mostly monetized on US market). However, **Vivid Games is still not profitable** (despite a significant reduction in the net loss in the third quarter). We expect the continuous improvement of the Company's financial condition in the fourth quarter.

At the end of November, the Company presented its **updated development strategy for 2022-2025**. It shows that Vivid Games wants to take advantage of the strong growth of the global mobile games

market, hence the future activity of the Company is based on the three pillars: (1) the development of titles from the current portfolio, (2) the creation of a new game based on Real Boxing 2 and (3) cooperation with external developers in the field of publishing new titles. The company, among others plans to achieve USD 1 million in revenue per month from Real Boxing 2 by 2023 and USD 1 million in revenue per month from one of the existing games by 2025 (Knights Fight 2, Eroblast or Gravity Rider). In addition, Vivid Games SA wants to position itself as a game publisher in the categories of combat simulators and sports games and thus acquire one title, which by 2025 will reach a level of over USD 1 million in revenue per month. **The assumed goals are ambitious and long-term, and their partial verification will take place no earlier than in 2023.**

We keep our October valuation at PLN 1.23 per share, but at the same time we consider its future increase in the event of continued performance improvement and in response to the financial materialization of the Company's goals.

Basic definitions

CAPEX (capital expenditures) - investment expenditures on product development, system implementation (including intangible assets) or tangibles assets in the part in which the capital is intended to maintain the company's current ability to generate income.

DCF (discounted cash flows) - discounted cash flows; all future cash flows are estimated and discounted in order to determine their present value. The value of the discount rate used corresponds to the cost of capital and includes an assessment of the risk related to future cash flows.

DFCF - Discounted FCF (Free Cash Flows to Firm).

EBIT (earnings before interest and taxes) - operating income i.e. the income before deduction of taxes and interest.

EBITDA (earnings before interest, taxes, depreciation and amortization) - the company's operating profit before deducting interest on interest-bearing liabilities (loans, bonds), taxes, amortization and depreciation of tangible and intangible assets; here EBITDA = operating income + amortization of tangible fixed assets + depreciation of intangible assets.

EV (Enterprise Value) - total enterprise value; here EV = current stock market capitalization + net debt.

EV / EBITDA - the ratio is calculated by dividing the present value of the enterprise (EV) by the value of EBITDA.

FCFF (Free Cash Flow to Firm) - free cash flows for owners of equity capital and creditors, which can be defined as flows resulting from the company's operating and investment activities, after all financial expectations of capital donors, i.e. all parties financing the company, have been settled.

WSE - Warsaw Stock Exchange.

NOPLAT - net operating result less adjusted taxes; here NOPLAT = EBIT * (1 - tax rate).

P / BV (price / book value) - the ratio is calculated by dividing the current capitalization of a listed company by the book value of its equity, which is provided in the company's balance sheet.

P / E (price earnings ratio) - stock exchange ratio. It is calculated by dividing the market price of one share by the net profit per share.

PV TV - Present Value, ie the residual value (TV) discounted at the present moment.

CR - current report.

SB - Supervisory Board.

TV (Terminal Value) - residual value; enterprise value after the forecast period; here estimated with the help of the Gordon model.

WACC - weighted average cost of capital; financial indicator informing about the average relative cost of capital engaged in financing the enterprise. zaangażowanego w finansowanie przedsiębiorstwa.

Information and legal disclaimer

This analytical report was prepared by Dom Maklerski Banku BPS S.A. at the request of the Warsaw Stock Exchange on the basis of an agreement concluded between Dom Maklerski Banku BPS S.A. and WSE under the "Analytical Coverage Support Program 3.0.". Dom Maklerski Banku BPS S.A. will receive remuneration for the report.

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Distribution of this study: 18 October 2021, 10:05

This report is published on the day of its completion on the publicly available website <https://dmbps.pl/wsparcie-analityczne/program-wsparcia-pokrycia-analitycznego-gpw/vivid-games-s-a>

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List of recommendations issued within the last 12 months as part of the Analytical Coverage Support Program 3.0.

Company	Recommendation	Target price	Market price	Type of recommendation	Date of Issue	Analyst(s)
NTT SYSTEM	nd	8,30	5,98	Initial report	2021-09-01	Łukasz Bryl, Tomasz Czamecki
UNIBEP	nd	17,00	12,90	Initial report	2021-09-07	Artur Wizner
MONNARI TRADE	nd	5,30	2,80	Initial report	2021-09-07	Łukasz Bryl, Tomasz Czamecki
PROTEKTOR	nd	4,60	3,60	Initial report	2021-09-07	Artur Wizner, Tomasz Czamecki
PROCHEM	nd	31,00	25,00	Initial report	2021-10-06	Artur Wizner
NTT SYSTEM	nd	8,30	5,80	Analysis of results	2021-10-01	Łukasz Bryl, Tomasz Czamecki
MONNARI TRADE	nd	5,30	2,90	Analysis of results	2021-10-01	Łukasz Bryl, Tomasz Czamecki
PROTEKTOR	nd	4,60	3,40	Analysis of results	2021-10-08	Artur Wizner, Tomasz Czamecki
VIVID GAMES	nd	1,23	1,39	Analytical report	2021-10-18	Łukasz Bryl, Tomasz Czamecki
PROCHEM	nd	31,00	25,40	Analysis of results	2021-11-17	Artur Wizner
VIVID GAMES	nd	1,23	1,37	Financial forecast	2021-11-24	Łukasz Bryl, Tomasz Czamecki
NTT SYSTEM	nd	8,30	5,04	Financial forecast	2021-11-24	Łukasz Bryl, Tomasz Czamecki
UNIBEP	nd	14,00	10,35	Analytical report	2021-11-24	Artur Wizner
VIVID GAMES	nd	1,23	1,34	Analysis of results	2021-12-02	Łukasz Bryl, Tomasz Czamecki