Remedy

Extensive report

9/14/2023

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Inderes corporate customer

This report is a summary translation of the report “Vuosien kehitystyön tuloksia tarkastellaan pian” published on 9/14/2023 at 7:40 am EEST.

Results of years of development will be put to test soon

We reiterate our Reduce recommendation for Remedy and revise our target price to EUR 24.0 (was 25.0 EUR). With the release of Alan Wake 2 on October 27, the company's investor story is gradually moving into a phase of profitable growth after years of strong investment. In our view, the valuation of the stock already prices Alan Wake 2 for good success, and the other projects in the pipeline are also expected to create value. We are particularly confident in the success of the traditional AAA game projects under development, whereas the multiplayer projects Condor and especially Vanguard are the biggest question marks at this point. We find Remedy's investment story very interesting looking to the end of this decade, but the current valuation keeps us in a wait-and-see mood.

Long-term work to ramp up the multi-project model will start to bear fruit in the coming years

After the IPO in 2017, Remedy set out to implement its strategy, the cornerstone of which was to move to a better position in the value chain, creating longer-lasting games while managing risk by moving to a multi-project model. Since then, the company's strategy has progressed with determination and the company now has 5 major game projects in development with strong partners. The company has also built up its own capabilities in game publishing and is increasingly involved in the publishing and marketing of its games. At the same time, the company's Northlight game engine has evolved with new projects, and we expect future projects to benefit increasingly from the economies of scale offered by a dedicated game engine and shared technologies. In the 2023-2027 strategy period, the work of the previous 6 years should start to deliver results in terms of profitable growth, with more big game releases on the horizon. This will be kicked off by the imminent release of Alan Wake 2, which is shaping up to be a quality survival horror game based on the game demos we've seen and the very positive initial reactions from players and the gaming media.

A large market whose trends support Remedy's growth prospects

The console market (2023e: 56 BEUR) has taken a 14 billion growth leap compared to 2019, driven not only by the surge in demand from the COVID pandemic but also by the strong popularity of the new generation of game consoles. Despite of this, the market is expected to continue to grow in the future. Market trends (subscription-based models, cloud gaming, digital distribution, and long-term game services) look favorable for game developers. Due to current trends, the operating models of game studios are changing to some degree but their share in the value chain seems to be growing as the need for high-quality gaming content becomes emphasized as the competition between various companies and digital distribution platforms tightens. Furthermore, there are fewer than 40 independent AAA studios in the world, few of which are as capable of producing several major projects simultaneously like Remedy. This makes Remedy a very attractive partner for publishers and a potential acquisition target.

Looking forward to the Alan Wake 2 release

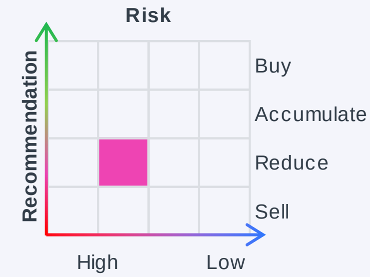
We have updated our assumption about the release of Control 2 to H1'26 (was H2'25) and for Max Payne to H1'27 (was H2'26). As a result, Remedy's royalty income from gaming projects is increasingly weighted towards the years 2026-2027, when we expect a significant level increase in the company's revenue (89.5 and 86.8 MEUR) and earnings (EBIT: 23.0-20.3 MEUR). With our forecasts expecting successful game releases, the EV/EBIT multiples (11x-12x) look reasonable, and the EV/EBITDA multiples (around 7x) look moderate. On top of this, the investor gets an option on hit games that perform better than our estimates, although the uncertainty associated with multiplayer projects partly pushes the risk/return ratio in the other direction. With no material support for Remedy's valuation in the coming years, investors will need to be patient and play the long game.

Recommendation

Reduce
(previous Reduce)

24.00 EUR
(previous EUR 25.0

Share price:
22.50



Key figures

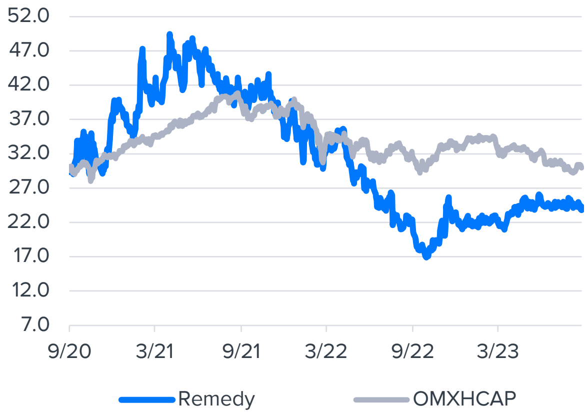
	2022	2023e	2024e	2025e
Revenue	43.6	35.7	55.1	63.1
growth-%	-3%	-18%	54%	14%
EBIT adj.	-0.6	-14.3	2.4	7.1
EBIT-% adj.	-1.3 %	-40.0 %	4.4 %	11.2 %
Net Income	-1.7	-11.5	1.9	5.6
EPS (adj.)	-0.13	-0.85	0.14	0.41
P/E (adj.)	neg.	neg.	>100	55.2
P/B	3.3	4.0	4.0	3.8
Dividend yield-%	0.5 %	0.4 %	0.4 %	0.4 %
EV/EBIT (adj.)	neg.	neg.	>100	39.0
EV/EBITDA	>100	neg.	34.9	19.9
EV/S	5.5	7.7	5.0	4.4

Source: Inderes

Guidance (Unchanged)

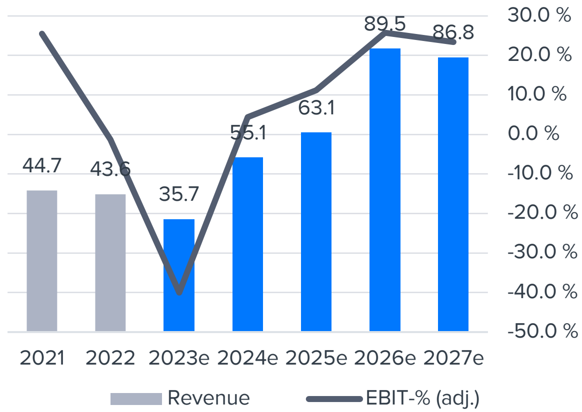
"Remedy expects its revenue to decline from the previous year and its operating result to be negative."

Share price



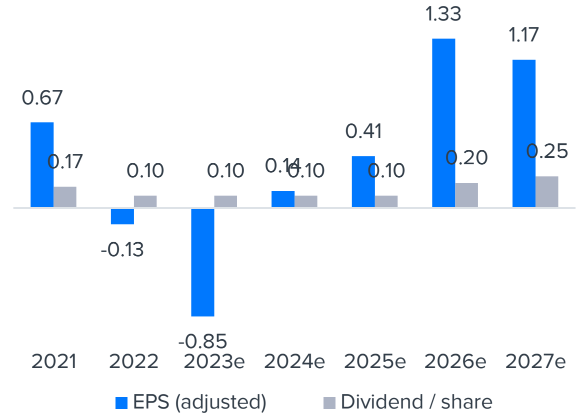
Source: Millistream Market Data AB

Revenue and EBIT-%



Source: Inderes

EPS and dividend



Source: Inderes

Value drivers

- Attractive position in value chain considering industry trends and consolidation
- 5 major game projects are being developed with strong partners
- Multi-project model creates continuity and disperses risks
- Strong track record of developing successful 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 in the gaming industry
- Technology and market trends

Valuation	2023e	2024e	2025e
Share price	22.5	22.5	22.5
Number of shares, millions	13.5	13.6	13.7
Market cap	303	305	307
EV	273	277	275
P/E (adj.)	neg.	>100	55.2
P/E	neg.	>100	55.2
P/B	4.0	4.0	3.8
P/S	8.5	5.5	4.9
EV/Sales	7.7	5.0	4.4
EV/EBITDA	neg.	34.9	19.9
EV/EBIT (adj.)	neg.	>100	39.0
Payout ratio (%)	neg.	73%	24.6 %
Dividend yield-%	0.4 %	0.4 %	0.4 %

Source: Inderes

Contents

Remedy in brief

Remedy is an internationally successful video game company that is known for story-driven and visually impressive console and computer games like Control, Alan Wake and Max Payne. The company also develops its own Northlight game engine and game development tools.

1995
Year of establishment

2017
IPO

43.6 MEUR (-2.5% vs. 2021)
Revenue 2022

-0.6 MEUR (-1.3% of revenue)
EBIT 2022

381
Personnel at the end of Q2'23

79/100
Average Metacritic score for Remedy's games

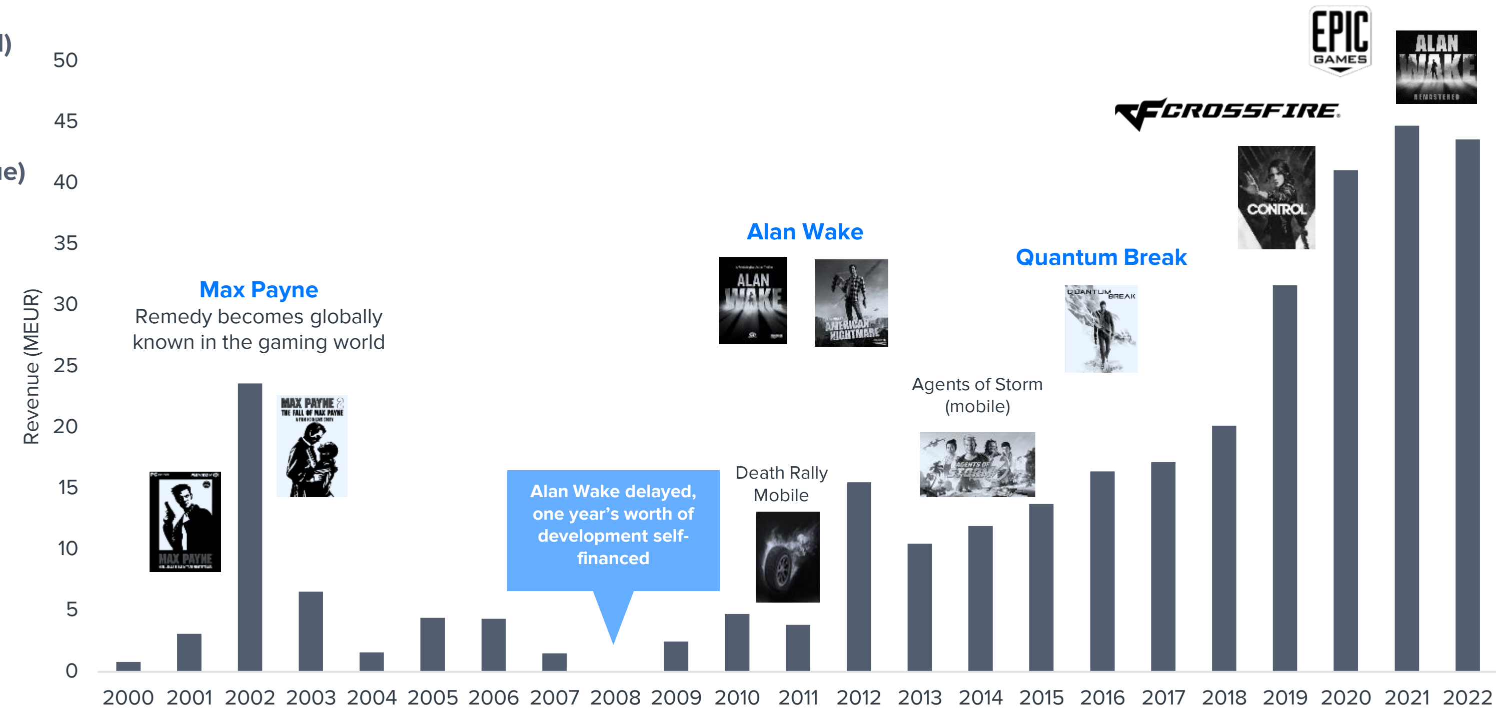
Crossfire
The Crossfire projects subcontracted to Smilegate generated a steady cash flow in the form of development fees, mainly between 2016 and 2021.

Control
Control was released on 8/2019 and has been a commercially successful project with over 3.6 million copies sold by the end of 2022. In 2021, Remedy signed contracts with 505 Games to develop 2 new Control games.

Epic projects
In March 2020 Remedy made publishing agreements with Epic for two game projects. Alan Wake Remastered released on 10/2021 and Alan Wake 2 released on 10/27/2023

Vanguard
In December 2021, Remedy signed a development, licensing and distribution agreement with Tencent for a co-op multiplayer game.

Max Payne 1&2 Remake
In 4/2022, Remedy signed a development agreement with Rockstar Games to develop remake versions of the first Max Payne games under a subcontracting model.



Source: Remedy / Inderes

Company description and business model 1/4

Company description

Respected game studio

Remedy Entertainment (Remedy) is a Finnish video game developer founded in 1995. The company develops high-quality games that stand out from the mass-market games of the big studios, mainly for PC, Xbox and PlayStation. The company is one of Finland's oldest game developers whose best-known games are Max Payne, Alan Wake, Quantum Break and Control. At the end of Q2'23, Remedy employed 381 people, most of whom were working in the company's Espoo studio. In 2022, the company also set up a studio in Stockholm, which already employs just under 30 people.

Remedy is best known for its story-driven action games, and it is one of the most respected independent AAA game studios in the world. Remedy's internal drive and ambition to develop unique, high-quality story-driven games is reflected in Remedy's Metacritic score (79/100). Metacritic is a website that aggregates game reviews and where games receive total score from both critics and gamers. Games that receive over 90 points are critically acclaimed and rare. Over 80 points is already a very good achievement.

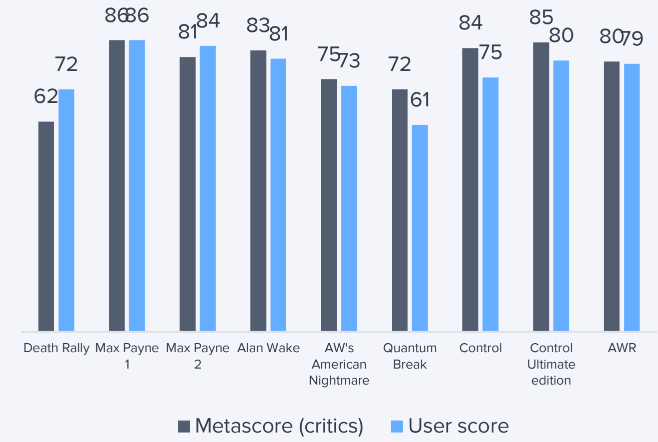
Remedy started the transition to a multi-project model in 2017 and after years of change, the strategy has reached a stage where the company has 5 major game projects in development at the same time. This year, these projects will mainly show up as costs in the income statement but offer significant earnings growth potential in the coming years if the game releases are successful. Remedy's investor story will gradually move into an earnings growth phase after the release of Alan Wake 2 on October 27, 2023.

Long history has created an experienced game studio

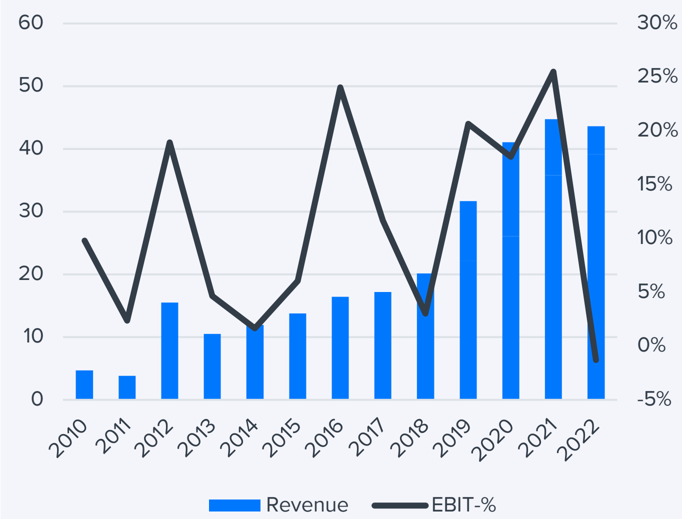
Remedy's first game, Death Rally, was released in 1996. Before the 2001 release on the hit game, Max Payne, Remedy's small team was learning the ins and outs of the gaming market, how to stand out in the market and building a unique culture. With Max Payne, Remedy learned what it takes to create a story-driven hit game. Building upon this, the company created a culture of game development and creative know-how that is reflected in the company's games even today. Max Payne was a successful game (Metascore 86/100). As a result of the highly successful Max Payne 2 the company also learned the importance of sequels the development which is easier and their success often better and more predictable. Remedy sold the IP of Max Payne in 2002, continuing to develop the game until 2003. Following the divestment of the IP, the company had a strong cash buffer for game development for years to come.

In 2004, Remedy partnered with Microsoft to develop the Alan Wake game. The game proved a more cumbersome project than expected and its release was delayed by one year. Remedy paid for this delay from its own coffers. Alan Wake was released in spring 2010, the same day Rockstar's hit game Red Dead Redemption hit the shelves. This partially hurt Alan Wake's sales, but in addition to positive reviews (Metascore 83/100) the game was to our understanding a moderate success financially. The Alan Wake American Nightmare expansion also did reasonably well in our estimation.

User and critic reviews for Remedy's games*



Revenue and EBIT**



Source: Metacritic, Inderes, *average of different game platforms' critic and consumer reviews, ** 2020-2022 IFRS figures

Company description and business model 2/4

While Remedy was preparing its next big project, the company also tried its hand at mobile game development in 2011-2014. However, the company discovered soon that competition in mobile games is very tight, and the market did not offer a foothold for premium games that are Remedy's core competence as free games dominated the market. In addition, mobile game development was not a part of Remedy's culture and the company wanted to make games for big screens.

Remedy's next project was Quantum Break released in 2016 (Metascore 72/100), which the company developed together with Microsoft. Quantum Break's financial success, however, suffered from the fact that in the fight of the previous console generation Microsoft's Xbox One did not reach as big popularity as PlayStation 4. As Remedy developed Quantum Break for Microsoft as a subcontractor - with the IP rights owned by Microsoft – it is our understanding that Remedy did not profit much from the actual sales.

After Quantum Break was finished, Remedy started moving toward a multi-project model in line with its new strategy. The strategy has taken significant leaps forward after this and in 2023, the company is already working on 5 major game projects in addition to the published games (Control 2019, Alan Wake Remastered 2021, Crossfire HD/X 2021/2022).

Business model

Premium game development

Remedy develops games for console and PC platforms. Game distribution takes place through physical distributors (e.g. Gamestop, Amazon) and digital distribution platforms (Steam, PS Store, Microsoft Store, Epic Games Store).

Today, Remedy develops games using three models: the subcontracting model, the self-owned game brand model (own IP) and co-publishing projects. In a subcontracting model (Max Payne), Remedy does not own the IP of the game being developed. In this model, the partner finances most or all of the development and gets the majority of sales revenue. In the own IP model, (Alan Wake 2) Remedy owns the game brand it is developing, finances more of the development, and also gets a larger share of sales revenue. In the co-publishing projects (Condor, Control 2 and Vanguard), Remedy also has responsibility for publishing, distributing and marketing games. In terms of future projects, Remedy might finance and release some of the project all by itself.

Games developed by Remedy are classified as AAA games, whose characteristics include a big production budget, high level of quality, and extensive marketing efforts. Large production values also mean that the games are aesthetically very pleasing, often utilizing the latest technology for effects and offering dozens of hours of gaming. The production budget for Remedy's AAA games is currently around EUR 30-60 million. As a rule of thumb, the marketing budget for AAA games is usually around 15-30% of the production budget, and sometimes considerably more.

Developing traditional AAA games is a high-risk business, with commercial success often requiring high sales volumes (millions of units). Game development cycles are typically 3-5 years. A significant proportion of sales, especially sales of physical copies, will take place in the first few months after release. Thus, the release time of a game is crucial, because if, for example, a game is released at the same time as a competitor's hit game overall sales can be considerably affected. Today, with digital distribution and DLCs becoming more common, the revenue of traditional AAA games can also be made much more recurring. High-quality games can sell well in digital channels for several years (e.g. Control). Digital distribution is also a more profitable option for publishers and game developers as the material and logistics costs of physical copies are left out.

Post-release, sales is boosted with discounts and campaigns. However, the same principles don't apply to the long-running service-based multiplayer games under development by Remedy (Condor and Vanguard), whose earning logic is discussed in the section "Game projects".

High quality games are also in demand in video game subscription services (e.g. Xbox Game pass) that have become popular in recent years and in the competition between digital marketplaces. Thus, deals made with these platforms have become a new important income source for game studios that can also be used to balance out the risks related to the number of game copies sold.

Company description and business model 3/4

Game development life cycle of Remedy games

Remedy's game development process from the drawing board to the finished product can be divided into six phases. Remedy has estimated the development process of a classic AAA game takes about 3-5 years, depending on the game.

A game project starts from the mandate phase, where high-level goals, a preliminary budget and timeline are set for it. Typically, only the studio management and the leading producer of the project are involved in this phase. The phase lasts from a few days to weeks.

Next, in the high-level conceptualization phase the general idea, gameplay mechanics and visual appearance of the game are defined. This phase typically involves 3-10 people and lasts 1 to 3 months. The game then goes into the conceptualization, where the vision, themes, characters and visual identity of the game are defined in more detail. A preliminary prototype of the game is made at this phase. This phase typically involves 20-30 people and lasts 3 to 6 months.

Next, the project goes into the proof-of-concept phase, in which a proper demo version is made to test the game concept in practice. Team size is 30-50 people, and the indicative duration of this phase is 3 to 6 months. However, practice has shown that the POC phase typically takes longer than this, as careful work at this point reduces the risk of delays in the production phase and can even speed it up. At this point, a project plan is made about how the game will be developed (own staff and subcontracting), what components are needed. Furthermore, risks and major bottlenecks are identified. It is also important to prove that the game is fun and functional at this phase to ensure that it makes sense to move the project forward the production phase. The better the guidelines for the project are defined at this phase, the less surprises and delays are likely in the actual production phase. Additionally, negotiations with potential publishing partners often take place at this phase. Typically, revenue is recorded from the project for the first time, when the publishing contract is signed. After this, Remedy will receive development fees in proportion to the personnel committed by the project and progress.

The next step in the pre-production phase is to assemble the project team for full production and finalize the production plan. This usually involves 50-70 people and lasts 3-6 months. After this, in the production phase, a full team works on the project, which in the most intensive phase will commit up to 200+ people, including subcontracting partners in addition to the ca. 100 employees at Remedy. In the alpha phase of production, the previously drawn up project plan is implemented, and the actual game is developed. Depending on the project, this phase lasts approximately 1 to 2 years. After that, in the beta phase, which lasts about 3 to 6 months, the game is finetuned to its final release form.

The last step is the release of the game, after which Remedy will start to receive royalties from the sale of the game according to the agreed split. Depending on the publishing agreement, receiving royalties may require that the publisher has first recouped its own investments - development costs, marketing costs and the cost of making physical copies - with sales revenues. In the subcontractor model, there can also be a possible "completion bonus". The development of the game doesn't immediately stop at release, but a live team (10-20 people) attempts to analyze players' behavior and publishes updates and bug fixes to improve the gaming experience. In addition, Remedy aims to bring 1-3 additional DLCs (downloadable content) to the games it has released within about 1-2 years of the game's launch to extend the commitment and life cycle of the game. Typically, a team of about 20-30 people works on a DLC.

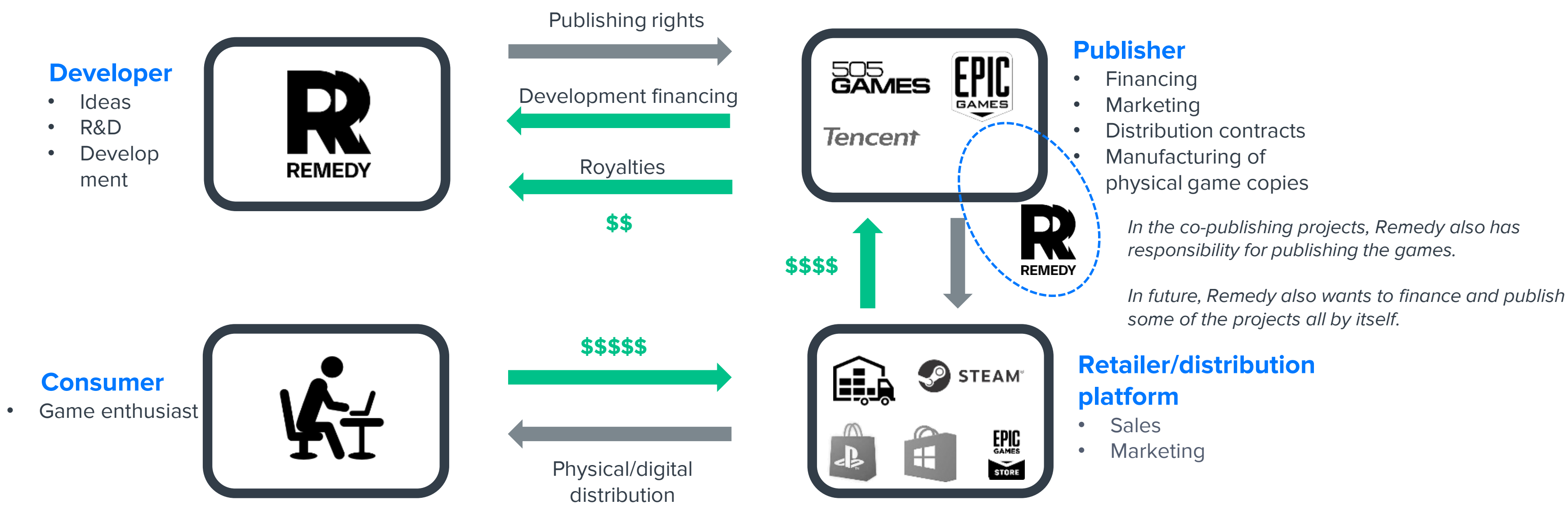
Life cycle of development varies slightly in service-model games

For service-model games (Condor and Vanguard), the phases of development are somewhat different from a traditional AAA game. For example, the F2P-like Vanguard may see a kind of closed beta phase before launch, where the game is tested and optimized before the actual release, somewhat in the same way as a soft launch for mobile games. Moreover, in Vanguard and Condor, the importance of the live design phase is already highlighted in the concept and proof-of-concept phases, which is why these phases take longer. In return, the actual production phase can go faster. The POC phase also aims to keep teams of moderate size for longer periods of time to allow for large-scale conceptualization and to plan live operations as much as possible in advance.

Developing a game from own game brand

Game development is very scalable for the party carrying the financial risks. The biggest cost item for the developer is mostly fixed personnel costs and profitability scales heavily with the sales of the game. Therefore, the self-financed business is very sensitive to hard-to-predict game sales.

Remedy's value chain and development process



The phases and duration of Remedy's game development process – on average, the development of an AAA game takes at least 3-4 years

Project phase:	Mandate	High concept	Concept	Proof-of-concept	Production readiness	Full production	Live stage
Team size:	Studio management + key project personnel	3-10 employees	20-30 employees	30-50 employees	50-70 employees	+100 and up to 200 with outsourcing	10-20 people for updates 20-30 people for add-ons
Duration:	Days to weeks	1-3 months	3-6 months	3-6 months	3-6 months	1-2 years (Alpha) 3-6 months (Beta)	1-2 years (with 1-3 DLCs)

Source: Inderes, Remedy

Company description and business model 4/4

To date, Remedy has shared this risk by including a publishing partner in its projects to finance a part or most of the project. In future, the company can also finance and publish some of the projects all by itself.

From the developer's point of view, developing your own game brands is an attractive option, as they allow for the development of add-ons and full sequels, among other things. Developing a sequel is easier, because you don't need to create a game world or characters from scratch. Moreover, demand predictability is better thanks to the pre-existing player base. Therefore, the best business model scalability can be reached in game development if the game developer manages to create a successful game series.

Game development as subcontracting

Developing games that are financed by a partner reduces the risk of failure and evens out the game developer's cash flows through steady royalty income. However, it reduces the share of the revenue the developer receives, although subcontracting contracts typically include a royalty component linked to the sales of the game. Especially small game studios who lack the resources to finance development themselves develop games with the subcontracting model. Thus, the business model is broadly in line with customized software development and scalability is poor.

Pricing and volumes of AAA games

Sales volumes is the most critical driver for the revenue of game brands owned by Remedy. The pricing of games is largely standardized and dictated by the market. So, the price of low- and high-quality games is the same at the beginning, but it is harder to improve sales of a bad game with subsequent discount campaigns. The rule of thumb in AAA game sales is the following volumes during the first years of the game: poorly selling game (1 million copies), reasonably selling game (2 million copies), very well selling game (5-10 million copies) and a hit game (>10 million copies). The price of high-quality AAA games starts out at EUR 60-80 and in the longer-term prices will vary between EUR 10-50 depending on discount campaigns. Thus, from the revenue viewpoint, the range for a single game varies from a few dozen million to as much as one billion. The table below shows in a simplified way how the sales price of a single game is distributed in the value chain between different players.

Remedy's competitive advantages stem from the ability to develop high quality games through both efficient production and a high level of technology on a relatively low budget. In this way, the company's games are profitable with sales of just a few million copies. This also allows the company to develop games that are clearly differentiated from the mainstream for a specific target group, so that the company does not face such direct competition from the major game studios.

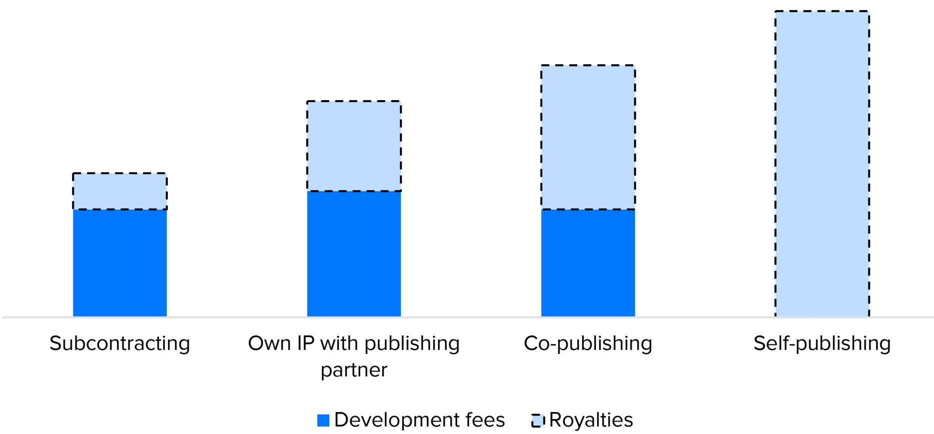
Illustration of Remedy's revenue from the sale of a single game

Price of the game	~€20-70	
VAT-%	~0-27%	Varies by country
Distribution cost	~12-35%	Varies by platform (e.g. Epic Games Store 12%, Steam 30%)
QA, localization, physical distribution	~1-8%	Varies by game
Marketing	~1-20%	Marketing is done in a front-loaded manner, particularly around the release
Remedy's share of net sales	e.g. 45%	The split depends on the terms of the publishing agreement. Control is used as an example.
Remedy's share of a single game	~€3-27	

Source: Remedy, Inderes

Remedy's income streams during the game development process

Example of revenue formation over the life cycle of different publishing methods*



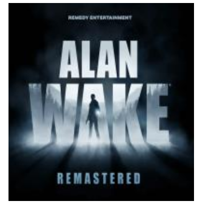
- The production budget for Remedy's AAA games is around EUR 30-60 million
- Development fees are linked to the project's production budget and are a fairly predictable revenue stream
- Royalty income is tied to how well a game sells, hard-to-predict, but highly scalable and high-margin revenue.
- The more responsibility (risk) Remedy takes in terms of financing the production and the release, the greater the return potential of the game.

An illustration of the impact of different publishing models on the results during the development and publication phase

Source: Inderes, *NB: The columns are illustrative and not in the correct proportions

Remedy's game projects and partners






	Control	Condor	Control 2	Alan Wake Remastered	Alan Wake II	Vanguard	Max Payne 1&2 remake
	Released Q3'19	Proof-of-concept	Proof-of-concept	Released Q4'21	Release 10/27/2023	Proof-of-concept	Proof-of-concept
	Budget ~30 MEUR	Budget ~25 MEUR	Budget ~50 MEUR	Budget[1] ~7 MEUR	Budget[1] ~50 MEUR	Budget[1] ~45 MEUR	Budget[1] ~45 MEUR
Remedy's share of the budget:	45%	50%	50%	0% [3]		30% [1]	0%
Remedy's share of net sales:	45%	50%	50%	50%		>50% [1] (Western market)	20-30% [1]
Recoup [2] before the royalties to Remedy?				✓	✓	✓	✓
Partner	505 GAMES			EPIC GAMES		Tencent	Rockstar Games

Source: Inderes, [1] Inderes' rough estimates of project production budgets and allocation ratios
[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.

Game projects 1/4

Control

The first Remedy-owned game brand released under the new strategy relying on the multi-project model was Control, released in August 2019. Control is a third person action adventure with a clearly more open game world than in Remedy's previous far more linear games. The game also offers a longer game experience than Remedy's previous games. Control had a production budget of around EUR 30 million, of which publisher 505 Games contributed 55%. Remedy's share of Control's net sales is 45%.

Control was received very well (Metascore 84/100), and the game has won several critics' awards in the industry. Control has also received a lot of positive feedback from gamers in various channels, but the Metacritic consumer review (75/100) was below the critic's review. We believe that early-stage reviews were hurt by functionality problems on older console platforms that appeared after the release, for example, in large battle scenes. We believe that some PC gamers were disappointed in the publisher 505 Games' decision to sell the game exclusively at Epic Store for the first year. The later Control Ultimate Edition, which includes both DLCs, has higher player ratings (80/100).

After the release, Control's sales developed rather well in the beginning and considering the good critics reviews it could have had potential to sell even better. However, the game continued to sell well on digital channels after release and has also been a success from a commercial perspective. By the end of 2022, over 3.6 million copies of Control had been sold and an estimated 16.5 million players had played the game. Most of Remedy's royalty income for 2019-2022 (37.9 MEUR) came from Control.

Condor

From the very beginning, Remedy has developed Control into a long-term game brand, with a story and world that can be expanded with new games and add-ons. In June 2021, the company announced a co-publishing and development agreement with 505 Games, giving Control a sequel with a four-player PvE multiplayer game set in the same world (codenamed Condor). The game has an initial development budget of EUR 25 million and its development and marketing investments and future net revenues will be split equally between 505 Games and Remedy.

Condor's business model will be a blend of AAA and service-based fixed price. The game will cost a fixed sum, but at a price point below traditional AAA games. Later on, various paid expansions will be introduced, and we expect that players will also be able to make in-game purchases. Depending on the success of the service component, the game has the potential to generate revenue for years after its release.

At the time of the Q2 report (8/11/2023), Condor was still in the proof-of-concept phase but will soon enter the production readiness phase. We are currently expecting the game to be released during H1'25. In multiplayer games, the POC phase is typically longer than a typical AAA game due to, e.g., the need to plan post-launch live operations in advance. Game testing and proof of concept also requires more holistic game development already at the POC phase. Thus, in the end, the actual production phase can even proceed quite quickly.

As Remedy has focused on single-player games in the past, it doesn't yet have a track-record of multiplayer titles. Thus, in our view, there is still more uncertainty about Condor's success than a typical AAA game at this stage, even though the game's team is made up of professionals with experience in service-based games.

Control 2

In June 2021, Remedy and 505 Games also agreed preliminary terms for a second, bigger-budget Control game, which was confirmed as a sequel to the original game when the development and publishing agreement was signed (11/2022).

Control 2 has an initial development budget of EUR 50 million and investments for development, marketing and post-launch expansions will be split equally between 505 Games and Remedy. The net proceeds of the game will also be shared equally between the companies. Control 2 will be available for PC, PlayStation 5 and Xbox Series X|S platforms, with Remedy handling the release for PC and 505 Games for consoles.

The development of Control 2 is well underway, and the game is currently at the proof-of-concept phase. In our assumptions, the game could be released in H1'26. We see the game as an attractive project in terms of return/risk ratio, as the significantly increased awareness and player base of the Control brand in recent years reduces the risks associated with the release, while increasing the game's sales potential.

Game projects 2/4

Alan Wake Remastered and Alan Wake 2

In March 2020, Remedy signed a publishing agreement with Epic Games for two game projects. The smaller of these was Alan Wake Remastered (AWR) released in 10/201. The bigger project is Alan Wake 2, which will be released on October 27, 2023. The games are released on PC in the Epic Games Store and on PlayStation 5 and Xbox X|S platforms.

The initial publishing agreement with Epic had very favorable terms for Remedy. Epic finances the project development fully and is committed to invest heavily in marketing. In the final stages of Alan Wake 2’s production, Remedy has also invested some of its own money in game development to ensure the project is of the highest quality. When the development and marketing costs have been covered from game sales, net profits are then divided in half between Epic and Remedy. Remedy also owns the intellectual property rights to the games. Thus, if the games are successful, Remedy will receive a significant share of their revenues, but will not bear a substantial risk in the cost of the projects.

Alan Wake Remastered

Remedy hasn’t disclosed the exact budgets of the projects, but we estimate the development budget for Alan Wake Remastered to be around EUR 7 million, reflecting the much lighter and shorter development cycle of remastering projects. At the same time, the release sales price of the game (€30) was also significantly lower than a traditional AAA game. Since its release, AWR has been well received by both critics (Metascore: 80/100) and players, according to Remedy. However, sales have been slower than originally expected, and the game had not yet generated royalties for Remedy by Q2'23. In July 2023, however, the game reached a break-even in terms of sales and in the coming quarters the game can be expected to generate small royalties for Remedy, while the marketing of AW2 will bring a boost around the game brand. AWR has also played its part in raising the profile of the Alan Wake brand, with the game now being released for the first time on PlayStation and Nintendo Switch, for example.

Alan Wake 2

Alan Wake 2 is Remedy's biggest and most ambitious game project to date, and the long-awaited sequel to the original Alan Wake. We estimate the production budget of the game to be around EUR 50 million. The game is in the survival horror genre, so the action will be even more chilling than the original game. In addition to Alan Wake, the game features a new main character, FBI agent Saga Anderson. Players will also have much more freedom to explore the game's setting of Bright Falls and other environments at their leisure.

The Alan Wake 2 marketing campaign kicked off during Q2 with the release of a trailer for the game at PlayStation Showcase and a demo of the game at Summer Games Fest Play Days. A longer demo was also presented to the media at Gamescom in August. According to Remedy, the reception to the game has been very positive and the game is moving towards release in a positive frame of mind. The reception from players on the various social media channels is also predominantly very enthusiastic.

Official trailer for Alan Wake 2

Alan Wake 2 gameplay video (Saga Anderson)

Longer Alan Wake 2 gameplay video

Game projects 3/4

We also got to see the gameplay demo of AW2 in June, which shows that the game is shaping up to be a quality survival horror game with a Remedy feel.

Alan Wake 2 will only be released as a digital version. This allows the initial selling price of the game to be kept a notch lower than many other games developed for the new generation of consoles, as the cost of producing and distributing physical copies of the game is eliminated. On the Epic Store, for example, the price of the standard version of the game appears to be roughly 50 euros. On the PlayStation Store, the prices for the standard version and the deluxe version, which includes future expansions, are roughly 60 euros and 80 euros, respectively. The lack of physical copies has been a source of annoyance for game enthusiasts who collect game boxes and may influence the decision to buy for some. In the big picture, the importance of physical copies for game sales has declined dramatically over the last 5 years. Given this trend and the cost savings to be made, the decision is understandable.

We see clear potential for AW2 to outsell the original Alan Wake today with a wider target audience. Based on estimates from different sources, the original Alan Wake and its American Nightmare spin-off have sold over 6 million copies. In addition, Control's large player base also provides a good platform for game sales.

Max Payne Remake

In April 2022, Remedy announced that it has signed a new development agreement with Rockstar Games to develop remakes of Max Payne and Max Payne 2: The Fall of Max Payne games. Under the development agreement, Remedy will develop games as a single product for PC, PlayStation 5 and Xbox Series X|S platforms using its own Northlight game engine. Rockstar Games finances the game development, and the budget is equivalent to Remedy's normal AAA game production (our estimate: 45 MEUR). The agreement allows Remedy to receive royalties after Rockstar Games has recouped the development and marketing costs of the game, as well as other publishing and distribution costs. The project is well underway and entered the proof-of-concept phase in early 2023.

The business model of the project is low-risk subcontracting for Remedy, where the development fees provide the company with a certain margin and the royalty component provides earnings potential after the release of the game. There is no visibility on royalties at this point, but we expect the terms of the deal to be better than, e.g., the Smilegate subcontracting due to Remedy's improved value chain position. As this is a remake version, we estimate that development will take several years, as the original games will be virtually fully rebuilt using today's technologies. We currently expect the game to be released in H2'26.

Vanguard

In 2018, Remedy set up a small internal development team to develop multiplayer gaming experiences. Since then, the Vanguard project has evolved iteratively, with many changes along the way. At the end of 2021, the project had progressed to the stage where Remedy signed a development, license and distribution agreement with Tencent. According to Remedy, Vanguard is a co-operative PvE (player versus environment) shooter that combines Remedy's storytelling expertise and action gameplay into an immersive multiplayer experience.

The game is being developed on the Unreal Engine for PC and console platforms. The game will be Remedy's first fully service-based, free-to-play (F2P) game with revenue streams based entirely on players' in-game purchases. According to Remedy, the game's development budget is the size of the company's typical AAA game budget (our assumption: 45 MEUR). Remedy and Tencent finance the development together, but the exact split hasn't been disclosed. Tencent localizes the game for select Asian markets and covers the costs related to that. Typically, the Asian market is very challenging for Western developers, so the partnership with Tencent gives Remedy the opportunity to reach completely new audiences.

Remedy and Tencent bear the game's development and operating costs in their respective geographical areas, sharing part of the income with each other after the development costs have been recouped. This means that Remedy will be responsible for, among other things, marketing and user acquisition for the game in the Western market.

The revenue split for the game is not known, but presumably Remedy, as the publisher of the game, will collect a larger share from the Western market. In turn, Tencent's share is higher in Asia and China. This is partly influenced by how big proportion the companies financed of the development (we assume Tencent finances 70%).

Game projects 4/4

In the agreement, Remedy has also licensed Tencent to global rights for developing and publishing a mobile version of the game. Tencent bears the development and publishing costs of the mobile version. For the mobile version, the companies have agreed upon a separate revenue split model. To our understanding, the development of the mobile version depends on Vanguard's reception on consoles and PC. Thus, the mobile version is a risk-free and positive option for Remedy, which will be realized if Vanguard succeeds.

The development of Vanguard has taken longer than expected and in August 2022 Remedy decided to extend the proof-of-concept phase of the game. According to the company, the recruitment of new key personnel at the end of 2022 has boosted the project in early 2023. However, developing the core gameplay loop and testing the meta-game elements still take time. Remedy aims to complete the POC phase of the game by the end of the year.

Overall, the slow development of the game has increased uncertainty about the success of the project. However, once the POC phase has been successfully completed, the actual production phase can proceed quite quickly if the pieces finally fall into place. A service-based game doesn't need to be as polished and refined as a traditional AAA game, as development and new content continues in the live phase based on data and player feedback. At this point, however, Remedy's first multiplayer projects are the biggest question mark in the company's investment story, although their potential is significant even in a good scenario. We are currently expecting Vanguard to be released during H2'26.

Crossfire

In 2016-2022, Remedy partnered with Korean company Smilegate to develop single-player portions of Smilegate's Crossfire games on a subcontracting model. Smilegate's original over 10-year-old Crossfire is an extremely popular online game especially in China. The game has some 650 million registered users and still some 8 million daily players. In China, the game has generated average annual revenue of nearly EUR 1 billion, which makes it one of the world's most successful games.

Remedy and Smilegate's first project was completed in October 2018 in connection with which the companies announced a new Crossfire project. Here, Remedy developed single player content for Crossfire HD and Crossfire X games. Crossfire HD is the remastered version of the original Crossfire game and was released in November 2021. Crossfire X was a console version of the game, and it was released in February 2022 on Xbox.

Crossfire X was poorly received by both players and critics (Metascore: 38/100). Particular criticism was aimed at the game's multiplayer mode, which was not developed by Remedy. In early 2023, Smilegate announced the closure of Crossfire X and the game is now discontinued. This is an apt reminder that a game originally aimed at an Asian audience doesn't easily appeal to Western players and vice versa.

The failure of the release was disappointing for Remedy, and the company does not expect royalties from these projects in the coming years, although Crossfire HD could still theoretically generate them at some point. However, we estimate that the Smilegate subcontracting was a very profitable business for Remedy, thanks to the development fees alone, and the steady cash flows it generated helped to offset the risks associated with the ramp-up of the multi-project model. The collaboration also allowed Remedy to develop certain new technological competencies and experience in the Asian games market and FPS game development.

Business models for Remedy games

Traditional AAA game with DLCs

CONTROL

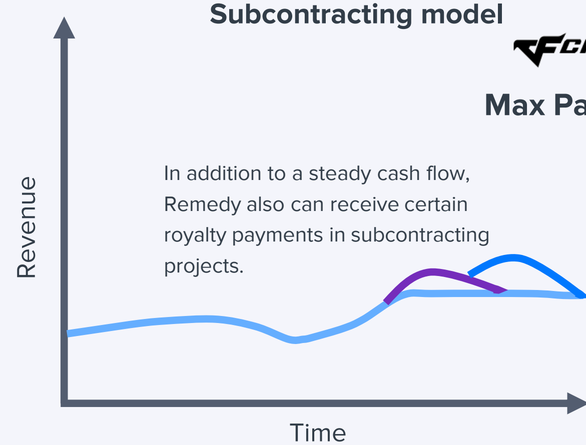
ALAN WAKE II

DLCs can extend the game's life span and increase sales. Digital distribution has also extended the tail of game sales.

Subcontracting model

CROSSFIRE

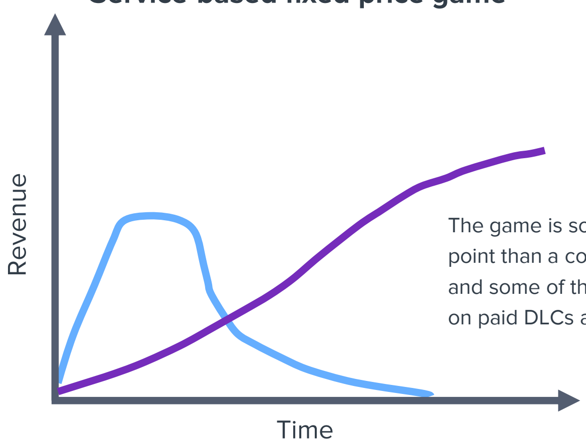
Max Payne Remake



In addition to a steady cash flow, Remedy also can receive certain royalty payments in subcontracting projects.

Service-based fixed price game

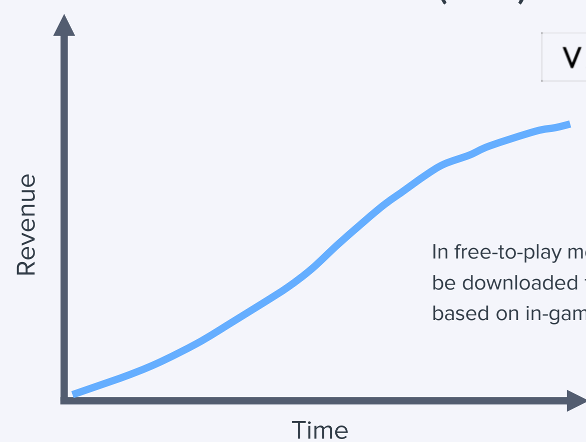
Condor



The game is sold at a lower price point than a conventional AAA game, and some of the earnings are based on paid DLCs and in-game purchases.

Game as a Service (GaaS)

VANGUARD



In free-to-play model games that can be downloaded for free, revenue is based on in-game purchases

Source: Inderes

Investment profile

Video game company for a long-term portfolio

With the release of Alan Wake 2, Remedy's investor story is gradually moving into a phase of profitable growth after years of heavy investment. We estimate that the royalty income from the 5 game projects under development will start to be reflected in earnings growth between 2024 and 2027. In the big picture, Remedy is still at the early stage of its growth trajectory, and we estimate that the true potential of the multi-project model will only be seen closer to 2030. At that point, the company is likely to have several old games generating royalty streams, with new game releases and additional content being produced at a much higher rate than today.

Remedy combines many characteristics that in our opinion makes it a highly interesting long-term investment case. Firstly, the company operates on a structurally growing, extremely large market whose trends are favorable for the company. Subscription-based models, cloud gaming, digital distribution, and long-term game services support Remedy's outlook as the need for high-quality gaming content only increases in future.

Secondly, Remedy's team has proven time after time its ability to create high-quality games on a highly competed market, which proves the company's competitive advantages are strong. Thanks to its own Northlight game engine and efficient operating model, the company can develop games cost-efficiently, which means even a fair sales performance makes a project profitable. The scalable nature of the company's business model supports the generally high profitability potential.

Thirdly, Remedy is a very well-managed game company that also has an ownership base that emphasizes a long-term approach. Remedy invests heavily in planning and managing game projects, which lowers the risks of project delays during production. In a multi-project model, delays in a single project can become reflected in other project teams, which emphasizes the importance of good project management. This is not always self-evident in the gaming industry.

Fourthly, a multi-project model that has been built with controlled risks and is well-managed brings attractive optionality from the viewpoint of the risk/return 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. This means the company's earnings potential is considerable. Even with only relatively well succeeding games, the company's growth outlook is good far into the future.

Fifthly, thanks to the private placement carried out in 2021, Remedy's financial position is extremely strong. The company can accelerate implementing its strategy with the solid cash position and take more risks in financing and self-releasing of future game projects. Thanks to its strong balance sheet, the company is also well placed to negotiate publishing contracts.

Strategy has been built with controlled risks

Ever since the IPO, Remedy has implemented its strategy according to plan and the company's transition to a stronger value chain position has been carried out with controlled risks. Thanks to a successful ramp-up of the multi-project model a faster game release rate also gradually lowers Remedy's dependence on the success of a single game release. Due to the business logic of a game company, the risk profile of Remedy's business model is still higher than for an average company listed on the Helsinki stock exchange even though the company's risk level has been decreasing in recent years.

In our view, the main risks for shareholders in Remedy are:

- Remedy is still dependent on the success of individual games and on the quality and timing of game projects. This inevitably raises the company's risk profile and brings volatility to value creation.
- Remedy is dependent on its publishing partners, their success and the contract terms agreed upon with them.
- The company's cash flow is cyclical, and dependent on the timing of game releases and their success. Therefore, the company must constantly operate with a strong balance sheet.
- Fast-moving market and technological trends. These relate partly to impulsive consumer behavior and quick development in technology.

Investment profile

1. **Attractive position in the value chain**
2. **High profit potential if games are successful**
3. **Strong track-record of quality games**
4. **Growing market with favorable trends for the company**
5. **Several competitive advantages (game quality, positioning, technology)**

Potential

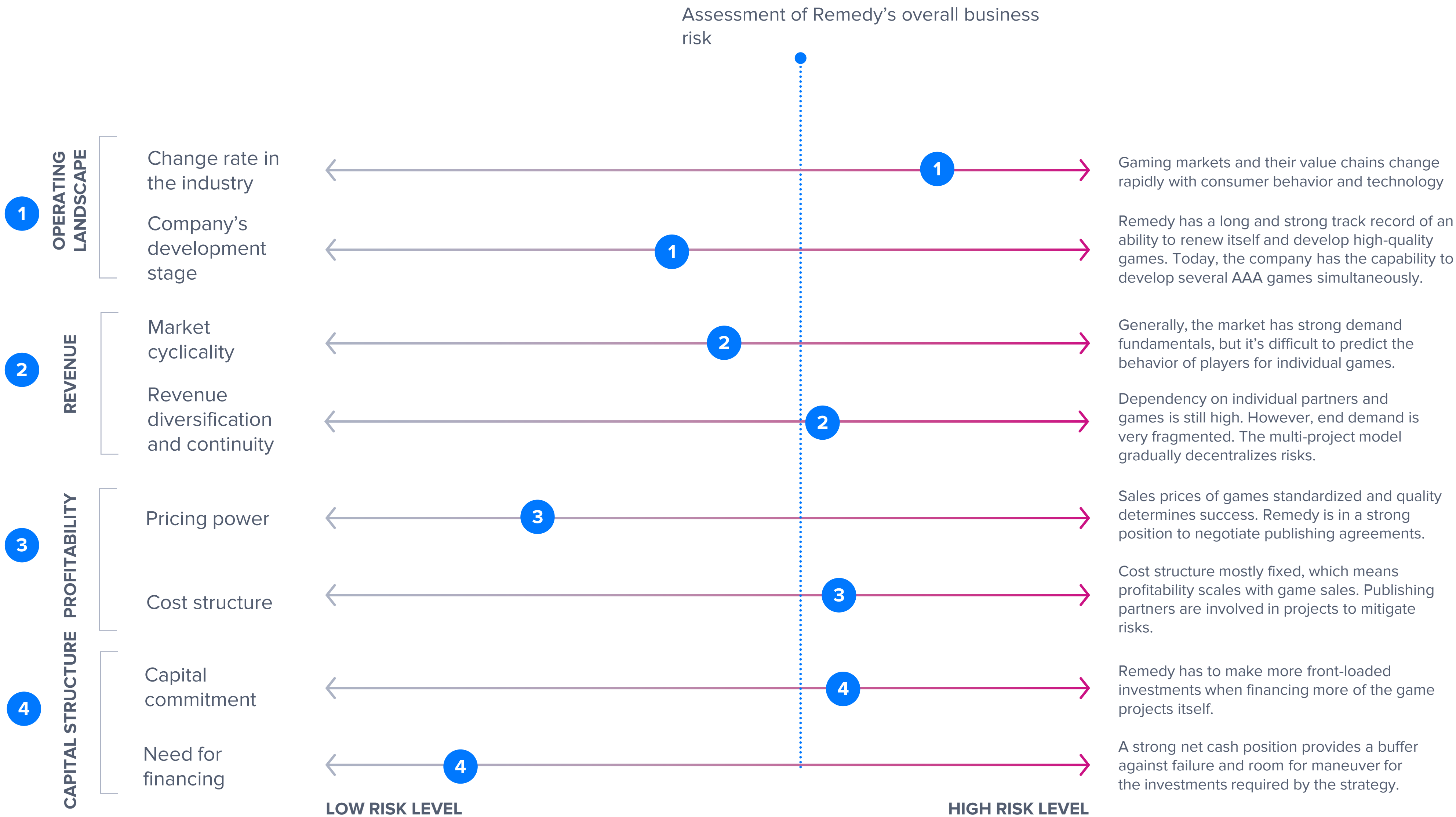
- Development of own game brands and sequels
- Higher portion of revenue from game sales
- Scalable business model enables excellent profitability if games are successful
- Well-managed multi-project model smooths risks and brings economies of scale
- Reputation and own technologies result in competitive advantage

Risks

- Risks associated with the success of individual games
- Dependency on publishing partners
- In the multi-project model, long development cycles and potential project challenges can cause multiple projects to be delayed at once
- Fierce competition for top talent in the gaming industry
- Technology and market trends change quickly

Source: Inderes

Risk profile of the business model



Source: Inderes

Markets 1/3

The gaming market is big and global

The popularity of gaming has increased dramatically in the 2000s as the standard of living has risen. Today, almost 3.4 billion people play games and gaming is by far the most popular form of entertainment in the world. Market research company Newzoo estimates that the global games market will be worth around USD 183 billion in 2022, which means a year-on-year decline of 5%. The decline is due to the background of the COVID years 2020-2021, when the market grew very strongly by more than 33% in two years and almost USD 50 billion in absolute terms, driven by the pandemic. This year, the market is forecast to grow by 2.6% to USD 188 billion, and for 2023-2026, Newzoo predicts average growth of around 4%.

Geographically, the biggest market is formed by Asia-Pacific that covers some 46% of the market of which China forms around one-half. The second and third largest geographical areas are North America (27%) and Europe (18%). Big screen PC and console gaming that is key for Remedy is still mainly focused on developed markets. The popularity of console gaming is, however, quickly growing on emerging markets as the income level increases.

Remedy operates on PC and console platforms

Divided by platform, PC and console platforms that are key for Remedy together (USD 95 billion) form around one-half of the entire game market. Mobile gaming stands for the second half.

The console market is expected to grow by around 7% this year to USD 56 billion, driven by several major game releases in the latter part of the year. Compared to 2019, the market size has grown by around USD 14 billion, reflecting the increased demand for console gaming brought about by the pandemic, as well as the well-received latest generation of game consoles, for which players seem eager to buy new games. In addition, the strong equipment base and extensive game selection of the older consoles support the sales development of console games. Over 117 million PS4s and over 36 million PS5s have been sold. It's estimated that over 51 million Xbox One units and over 20 million new Xboxes have been sold. On the console side, the role of digital distribution has increased significantly in recent years, further accelerating the trend set by the COVID pandemic. According to Sony's Q4'22 report, 70% of PlayStation game sales were digital.

The size of the PC game market in 2023 is around USD 39 billion. The market has grown at a stable rate (CAGR 15-22: 3.0%) and steady growth is expected to continue. The distribution of PC games is basically fully digital. The PC game marketplace Steam had around 132 million active monthly users in 2021 (2020: 120 million) and according to the company, user numbers were growing in 2022 too. Epic Games Store that has risen to challenge Steam had 68 million active monthly users in December 2022 (2021: 62 million).

Over the past 10 years, mobile gaming has grown exponentially as smart phones have become common and the most popular gaming platform. The market size in 2023 will be around USD 93 billion and is expected to grow by around 2% in the coming years. The growth of mobile gaming has not eaten into the popularity from PC and console gaming, but rather mobile has brought a whole new category of casual games that have reached entirely new audiences. A mobile version of Remedy's Vanguard may also be released, so the market may be more relevant to the company in the future.

We estimate that the big screen focused console and PC-gaming markets, which Remedy relies on, are currently very stable and have healthy growth drivers. At the same time, industry trends (subscription-based models, cloud gaming, digital distribution, and long-term game services) support Remedy’s outlook when the need for high-quality gaming content increases in future.

Business models are developing in the industry

In AAA games, the conventional business model has been that the game is sold both as physical and digital copies as one-time purchases costing around EUR 60 apiece. The commercial success of a game is largely determined by how many copies are sold during the release year. Thanks to digital distribution, the life span of games has grown considerably. Additional sales is increasingly sought through DLCs developed after the original game release. DLCs can also support the original game’s sales price that is likely to have dropped at that point and to attract completely new buyers for the game. Thus, games are increasingly considered to be long-term services (GaaS, Games as a Service).

Markets 2/3

The free-to-play business model (F2P) typical for mobile games has increased its popularity in PC and console games pushed by recent hit games (e.g. Fortnite). In the F2P model players can get the game for free and the revenue is based on in-game purchases and advertisements. The challenge for the F2P model on consoles is achieving sufficient scale, as usually only a small share of players spend money in the game. The significantly lower number of console gamers compared to the number of active smartphones (Newzoo: 3.6 billion units) limits the size of the potential group of players. Thus, a F2P game developed for a console virtually always requires a PC version. In addition, console games tend to be significantly more expensive to develop than mobile games, which contributes to increasing the risks of F2P game projects on consoles.

In recent years, the subscription-based business model has been rapidly introduced to gaming, as has already been done with, e.g., music (Spotify) and movies (Netflix). For example, subscription services from Sony and Microsoft allow you to play games from their selection for a monthly fee. A continuum on the subscription-based models is streaming console and PC games directly from the cloud and the fight for the "Netflix of games" position has already started. Google broke new ground in this area with the launch of its Stadia service in November 2019, which ended up being closed in 2022. Microsoft is building game streaming around the Xbox Game Pass and Sony around the PlayStation Plus service. In addition, Amazon with its strong cloud services is on the market as a challenger with its Luna service. Cloud gaming requires a seamless and fast Internet connection and we estimate its popularity will increase gradually over this decade as, e.g., 5G and fiber connections are becoming more common. If cloud gaming really breaks through, it is likely to happen towards the end of the life cycle of next generation game consoles (PS5 and Xbox Series X|S) at some time towards the end of the 2020s. If streaming games became more mainstream, it could significantly increase the potential player base for AAA games in the long term by removing the need to buy a physical console to play them.

On PC, competition between distribution platforms intensifies

Steam that has long dominated the PC game market has in recent years been properly challenged by Epic Games' EGS marketplace. Thanks to the success of Fortnite, Epic also has the financial resources to challenge Steam. According to Epic, the 30% (25% after 10 MEUR and 20% after 50 MEUR sales) distribution fee charged by Steam is not reasonable in the world of digital distribution. Epic only charges a distribution fee of 12%.

In order to grow its platform, Epic Games has actively signed time-based exclusive distribution agreements with game developers in recent years. For example, Remedy's Control game was published on PC exclusively in the Epic Games Store for the first year. Epic Games paid Remedy and the publisher of the game 505 Games in total some EUR 9.5 million for this exclusive right. The sum is considerable as it covered a one-third of Control's production budget of EUR 30 million.

Developers' role in the value chain is growing

Game publishers have traditionally had a strong position in the value chain, as they have acted as gatekeepers between game developers and distributors. Console manufacturers have also always been strong in their own closed platforms. The situation has, however, changed and is constantly changing as digital distribution, subscription-based business models, cloud gaming and the F2P model shape the market. The biggest value shift in the market in recent years has taken place from the physical distributors of games towards publishers and game developers as digital distribution has grown considerably. For example, as recently as 5 years ago physical distributors (e.g. Gamestop) had a lot of power over publishers but today the company is in a lot of trouble.

The role of game studios in the value chain is not disappearing, which is good for Remedy. The business models of game developers may change, but their place in the value chain is only likely to grow in the future. Need for high-quality game content becomes emphasized as the competition between players and digital platforms tightens. This enables attractive offers for publishing and exclusive agreements for Remedy. Digital distribution also allows smaller game studios to self-publish games, and Remedy is constantly building its capabilities in this area. In addition, there is only handful of Remedy-like independent AAA studios globally, which also makes the company an interesting acquisition target for several players.

One of the long-term threats to independent game studios can be seen in the significant strengthening of subscription-based services.

Markets 3/3

If the majority of quality game content were available for a reasonable monthly fee, the incentives for players to buy AAA games costing EUR 60-70 would probably decrease. In this case, independent game developers could be partly forced to choose sides and join these service providers (e.g. Sony and Microsoft) through an acquisition. This would probably also mean that subscription service providers would be prepared to make long-term sacrifices in the revenues of their games business. This is because, from a business model perspective, it would not be economically viable to develop all existing AAA games and put them directly into a subscription service. At worst, the rise of subscription-based services could mean a decline in the quality of games compared to today, if production budgets were to be compromised in order to optimize the profitability of subscription services.

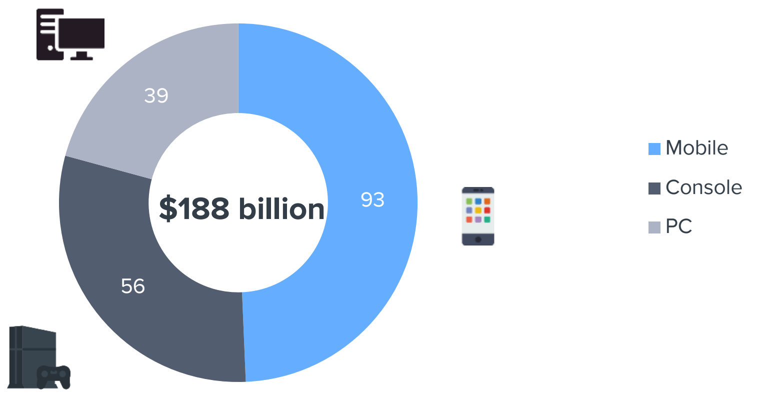
Generative AI likely to boost game development in the future

With the launch of ChatGPT at the end of 2022, the excitement and debate about the potential of AI has also accelerated in the gaming industry. At this point, it is of course impossible to assess the final impact, but we believe that AI tools will enhance game development in many areas and provide new tools to support creative design, among other things. This can bring relief to game developers struggling with ballooning production budgets. Similarly, the same development budget can be used to produce even bigger and better-looking games in the future. At the same time, smaller indie game developers are able to create more impressive games with fewer resources. In the long run, the ability for players to create their own content (UCG - User Generated Content) is also likely to evolve significantly with AI solutions.

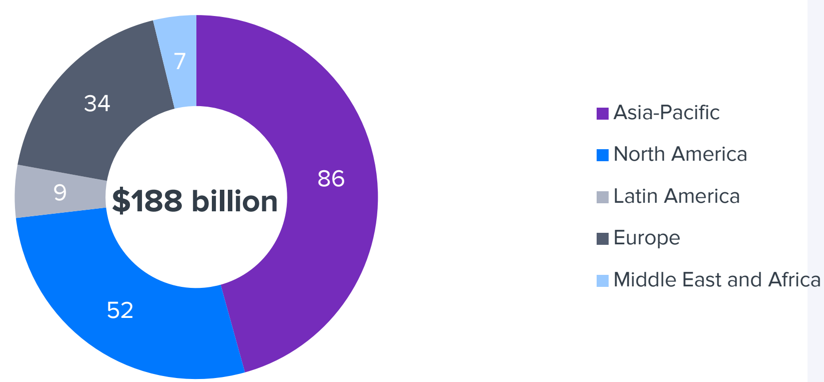
In the short term, one of the challenges of using AI is the potential risks of copyright infringement. AI-generated worlds and characters can inadvertently infringe copyright, and this could lead to unpleasant surprises for game developers.

Markets

Games market breakdown

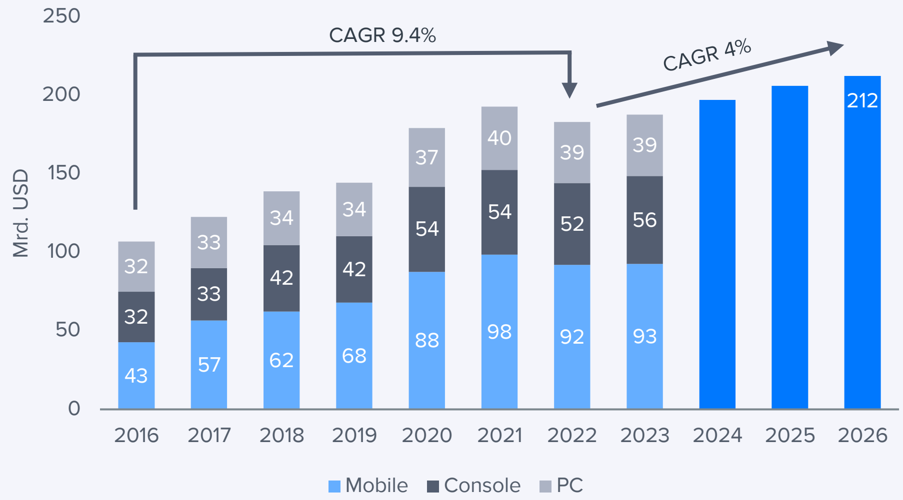


Geographic breakdown of the games market



Source: Newzoo, Inderes

Development of the games market



Key market trends for Remedy

Digital distribution and longer-term game services (GaaS)

- Life span and sales potential of games increases

Subscription-based business models and game streaming services

- Need for high-quality gaming content increases

Competition between digital distribution platforms and game subscription services

- Profitability potential of game developers improves as distribution costs decrease
- Game developers can make financially valuable agreements with platforms

Market consolidation accelerates

- It's estimated that there are less than 40 independent AAA game studios like Remedy in the world

Competition 1/2

Nature of the competition in the gaming industry

Regardless of the market, game genre or platform, game companies ultimately compete for the time and money of consumers. Entertainment is the most important competitive edge of the sector.

Competition in the gaming industry is global and geographical factors play a minor role in the era of digital distribution. Competition is instead defined by the release platform, game genre, and production size. In Remedy's premium game category competition is, for example, very different than in mobile games. The entry barrier is clearly higher in AAA games, there is only a handful of competitors globally, and production sizes are significantly greater.

Remedy is a relatively small player in terms of revenue, but its games compete alongside those of the biggest players in the sector. However, AAA games are divided into their own sub-categories and game developers have focused on developing games in a particular genre based on their strengths (e.g. action, adventure, role play, driving games). Remedy specializes in story-driven action games.

The competition for consumers' attention is tight across the world and consumers pay attention to game reviews and discussions concerning the games on, e.g., social media. Especially for AAA games in the higher price range, players follow reviews and comments closely to assess the entertainment value and quality of the game before making a purchase decision. One of the biggest risks of Remedy's market is the quality of the competition, not so much the quantity. To compete, Remedy must be able to produce content that is of a very high quality, but at the same time partially differentiated from the larger players.

Remedy's competition

Defining Remedy's competitive landscape is complicated. On one hand, the company competes for the best publishing contracts with other game studios as there is only a few dozen of potential publishing partners globally. On the other hand, the company competes for the end users' money and time. Here the competitors are other action games, completely alternative game categories, and, in the bigger picture, also other forms of entertainment apart from gaming.

There are just a few independent AAA game studios like Remedy in the world as most have ended up being acquired. For example, Sony, Microsoft, and Embracer have been active on the acquisition front. Early 2022 saw the biggest acquisition in gaming history when Microsoft announced it would buy Activision Blizzard for USD 68.7 billion. The arrangement has long been in the teeth of the competition authorities, but now seems to be finally going through.

Out of the independent game studios, an ever-smaller group is formed by studios developing story-driven action games similar to Remedy. New competitors are not easily born in this category due to the high entry barrier. For example, it is very difficult for a studio specialized in driving games to switch to action games, as developing them requires notably different technology and knowhow. When publishers are looking for game developers to partner with, the selection process emphasizes an experienced team, high technological expertise and a track record.

Remedy's competitive advantages

Over the years, Remedy has been able to successfully create several world-class games on a highly competed market. This proves the company's strong competitive advantages considering the general perception that games are a hit business. In our view, Remedy's key strengths are:

- Remedy can develop very well received and high-quality games. The company has strong expertise in challenging and long-term game productions. Good reputation offers leverage when negotiating with publishers and attracts the best talents in the business to join Remedy.
- Remedy's game development is built on games that stand out from mainstream games and have unique stories. Unlike the large competitors, the company is not seeking "the masses", which means they can introduce more unique features into their games. With the growth of the games market, a distinctly different game created for a slightly narrower audience has the potential to sell well.
- Remedy's Northlight game engine enables economies of scale in the multi-project model, which means games can be developed faster and more cost effectively. Own technology also offers important continuity as previously developed code and elements can be utilized in other projects.

Competition 2/2

- Remedy invests heavily in planning and managing game projects. Especially the early-stage core project planning team plays a critical role, as it can help minimize the number of big problems occurring in production. Commonly, the big challenges of game development are the project being delayed due to problems occurring during production that could have been avoided with better planning.
- Due to its own technology platform and largely centralized functions in Espoo, the company can produce high-quality games at a much lower cost than most of its AAA rivals. This means that unit sales does not need to be quite as high to cover development costs.
- Remedy has established a strong brand among gamers. Gamers do not only buy games based on the game-specific brand, but also based on the Remedy brand. For example, fans of Alan Wake waited nearly 10 years for a sequel to the classic game before the Alan Wake 2 was finally confirmed.

Projected growth and profitability of listed Western games companies

	Revenue (MEUR)	Revenue growth-%			EBIT-%		
Console and PC companies	**2022***	**2023e**	**2024e**	**2025e**	**2023e**	**2024e**	**2025e**
Frontier Developments	142	-9 %	4 %	8 %	-5 %	-1 %	3 %
Starbreeze	11	424 %	-45 %	-8 %	68 %	38 %	54 %
CD Projekt	212	19 %	-28 %	0 %	39 %	32 %	24 %
Paradox Interactive	169	31 %	14 %	7 %	40 %	39 %	42 %
Team 17	160	6 %	7 %	6 %	31 %	31 %	30 %
Playway	57	33 %	15 %	20 %	62 %	62 %	63 %
11 Bit Studios	16	49 %	194 %	7 %	20 %	59 %	50 %
Enad Global 7	161	19 %	1 %	3 %	18 %	17 %	17 %
Tinybuild	59	-23 %	7 %	9 %	10 %	10 %	14 %
CI Games	13	354 %	-55 %	-	48 %	37 %	-
Remedy (Inderes)	44	-18 %	54 %	14 %	-40 %	4 %	11 %

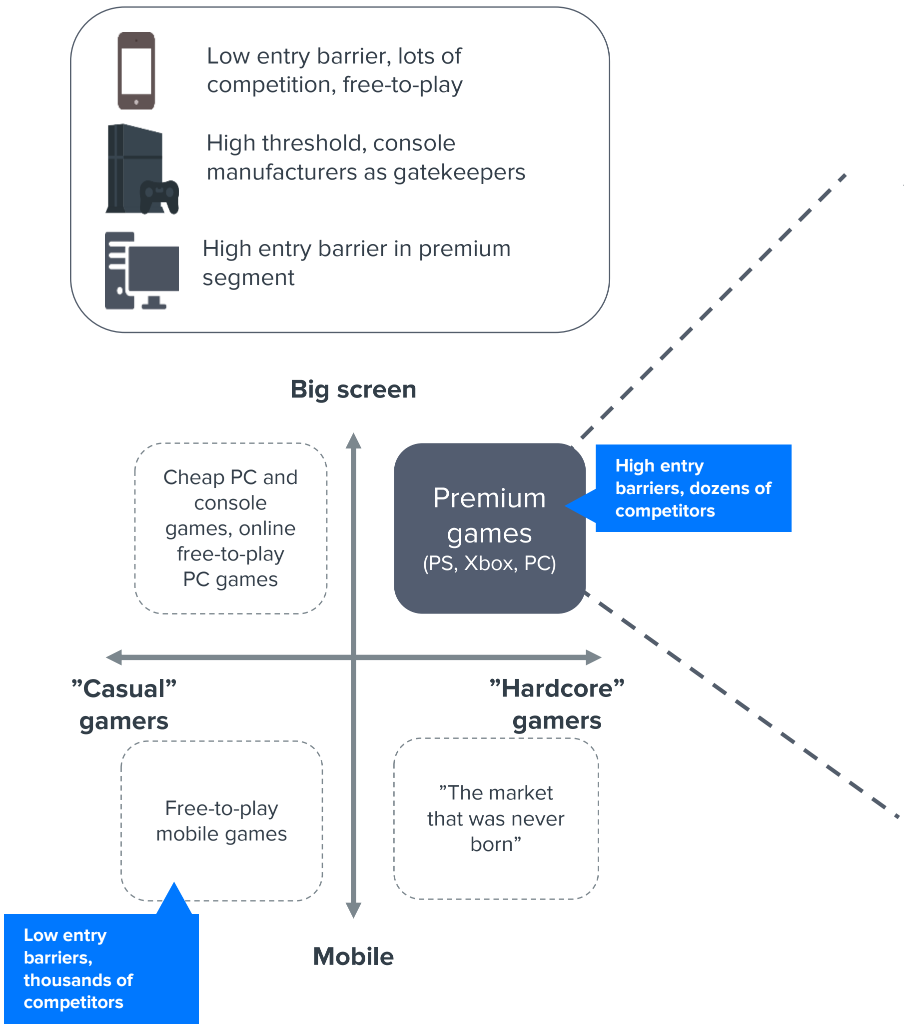
		Revenue growth-%			EBIT-%		
Multi-platform companies		**2023e**	**2024e**	**2025e**	**2023e**	**2024e**	**2025e**
Electronic Arts	6530	-5 %	6 %	7 %	29 %	29 %	30 %
Activision Blizzard	7032	19 %	1 %	4 %	37 %	40 %	41 %
Ubisoft	1814	-9 %	8 %	8 %	-21 %	16 %	17 %
Take-Two Interactive	4997	52 %	6 %	45 %	16 %	14 %	22 %
Embracer	3232	129 %	15 %	7 %	15 %	15 %	17 %
Median (all)		**19 %**	**7 %**	**7 %**	**25 %**	**30 %**	**24 %**

*Some of the companies have an abnormal fiscal year

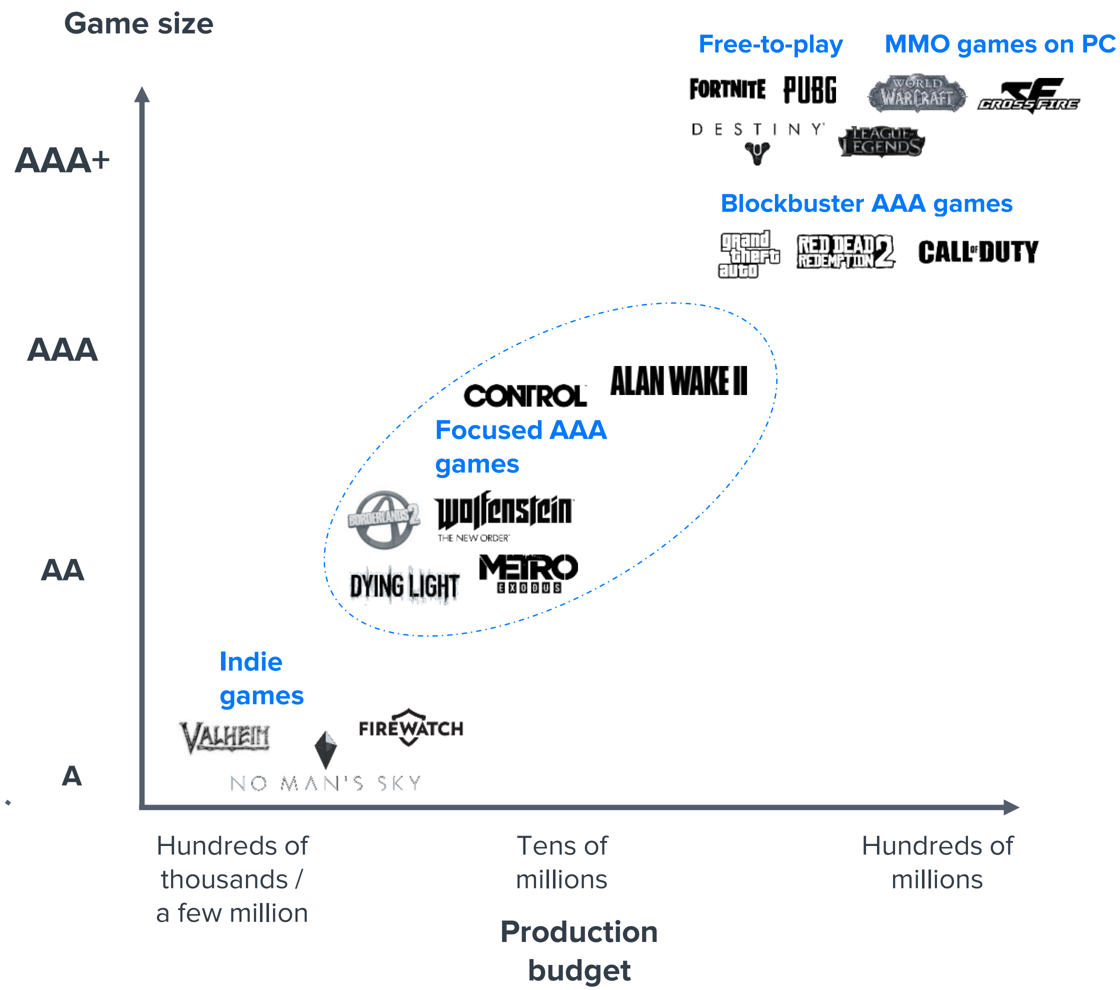
Source: Refinitv, Inderes

Remedy’s positioning on the market

Gaming market segments



Remedy’s sub-segments



Source: Inderes

Strategy 1/2

Strategy is moving from investment phase to profitable growth phase

After the IPO in 2017, Remedy set out to implement its strategy, the cornerstone of which was to move to a better position in the value chain, creating longer-lasting games while managing risk by moving to a multi-project model. Since then, the company's strategy has progressed with determination and the company now has 5 major game projects in development with strong partners. The company has also built up its own capabilities in game publishing and is increasingly involved in the publishing and marketing of its games. In the 2023-2027 strategy period, the work of the previous 6 years should start to deliver results in terms of profitable growth, with more big game releases on the horizon.

Remedy's long-term goal is to create several successful games, at least one of which is expected to be a major hit. In addition, the aim is to own at least three successful and growing game brands. The company also wants to further strengthen its position in the value chain. Remedy's aim is to also become the most attractive employer in the gaming industry in Europe.

Remedy has no numeric financial targets for the strategy period, but the aim is to continue growing profitably with well-managed risks. So, in practice, the company continues taking familiar strategic steps but as the number and size of game project grows the company's growth potential increases year by year. At the same time, the risks associated with single games are reduced step by step.

Higher share of self-financing and share of game income

Remedy has always developed high-quality games but has historically been in practice a subcontractor to publishing partners, leaving little revenue generation for the company. With help of the financial muscles created by the IPO, Remedy was able to start to finance a larger share of the projects themselves and negotiate publishing agreements with clearly better terms. This way the company gets a larger share of the sales income from the games but also carries more game sales risk.

In recent years, Remedy's evidence of moving to a stronger position in the value chain have been convincing. This is demonstrated by the creation of a successful new Control games brand and new publishing deals with world-class partners (Epic Games, Tencent, Rockstar Games). Based on what we've seen so far, Alan Wake 2 is also shaping up to be a very high-quality game.

As for future projects, Remedy will have more and more choice in the commercial model of its games, as the company's strong balance sheet will allow it to develop and publish some future game projects entirely in-house. In addition, Remedy can develop projects in peace with own financing in the beginning, which means they can prolong the selection of a publishing partner. This ultimately allows potential partners to see a much more finished and planned game project, which improves Remedy's negotiating position. An example of this is the Vanguard project, which Remedy worked on independently from 2018 before signing a contract with Tencent at the end of 2021. It is noteworthy that the creation of the Vanguard game concept required a lot of iterative development during the first years with a small project team that also experienced changes.

In addition to its own game projects, Remedy also still develops games with a subcontracting model. In subcontracting, Remedy focuses on seeking leading actors in the gaming industry as partners for its games and to carry out projects that are very profitable. With the stable cash flow from subcontracting Remedy can lower the risk level of its business but the aim is to include a royalty portion dependent on game sales in these agreements.

Own game brands and sequels

Based on its strategy, Remedy wants to create its own game brands that have long-term growth potential. Own game brands enable sequel development that often sell more and have better profitability than the first part of the game series. This is mainly due to sequels offering better gaming experiences and the game already having an established fan base. This helps predict future demand. In addition, the main challenges related to game development have already been solved in the first part and creating the game world is easier. The development cycle can then be shorter than the normal 3-4 years, or an even broader gaming experience can be created in a similar timeframe. The device stock and technical performance across gaming platforms may also have evolved, further supporting enhancing the gaming experience of the sequel.

Strategy 2/2

In Remedy's strategy, each brand and game are independent but linked to a larger Remedy universe. Thus, if the strategy is successful, games placed in a unified universe in the longer term basically enable unlimited possibilities for expansions, sequels and spin-off products. Own game brands can also be cultivated into income opportunities within brand licensing. For example, the rights to an Alan Wake TV series have been sold to AMC Networks, from which we estimate that Remedy could receive some licensing revenue if the series eventually makes it to production and release. However, we see the visibility that the TV series brings to the brand as significantly greater than its direct revenue impact.

Game publishing capabilities

When the weight of its own game brands grow, Remedy has started expanding its own abilities in commercializing, marketing, and publishing games in recent years. Next to its own publishing ability, the company also wants to be more strongly involved in planning and influencing the commercialization of its own game brands even if a publishing partner is involved. A concrete example of this is the Vanguard deal with Tencent, where Remedy will be the publisher of the game itself and will be responsible for marketing and user acquisition in the Western market. For Condor and Control 2, Remedy will also assume responsibility for publishing operations under co-publishing agreements with 505 Games.

Longer-lasting gaming experiences

Remedy aims to create longer-lasting games that bring together high-quality gameplay and multidimensional story-driven gaming experiences. The content and quality in AAA games have both increased continuously over the years, and nowadays games must be able to offer quality content for dozens of hours.

The longevity is also supported by the GaaS model, which enables the revenue from a single game to be distributed over a longer period by producing additional chargeable content over the years. However, care must be taken with the additional content so that players don't feel they are just being ripped off. Additional quality content offers added value to players who pay for it but does not limit or discriminate the experience of those players who choose not to purchase it. In the Vanguard project, Remedy is facing a new challenge in terms of monetization as in F2P model games earnings come through in-game purchases. This differs completely from the conventional business model of AAA games. Remedy has recruited a lot of new talent to the Vanguard team from outside the company, with Tencent also having extensive experience in operating F2P games.

Multi-project model and technological platforms

Remedy uses its own Northlight game engine from which the company gains economies of scale in the multi-project model. The game engine and the game development tools built around it are developed by the company's own team of more than 60 people. Honing proprietary technology and tools is strategically very important for Remedy to maintain its competitive advantages.

With a competent and continuously developing technology team, the company can streamline the game development process by automating manual working stages. A strong technology team also creates a base for all development teams, which enables certain scalability in the development process through shared production and action models. With its own technologies, game development cycles also shorten when certain previously developed elements can be utilized in other projects.

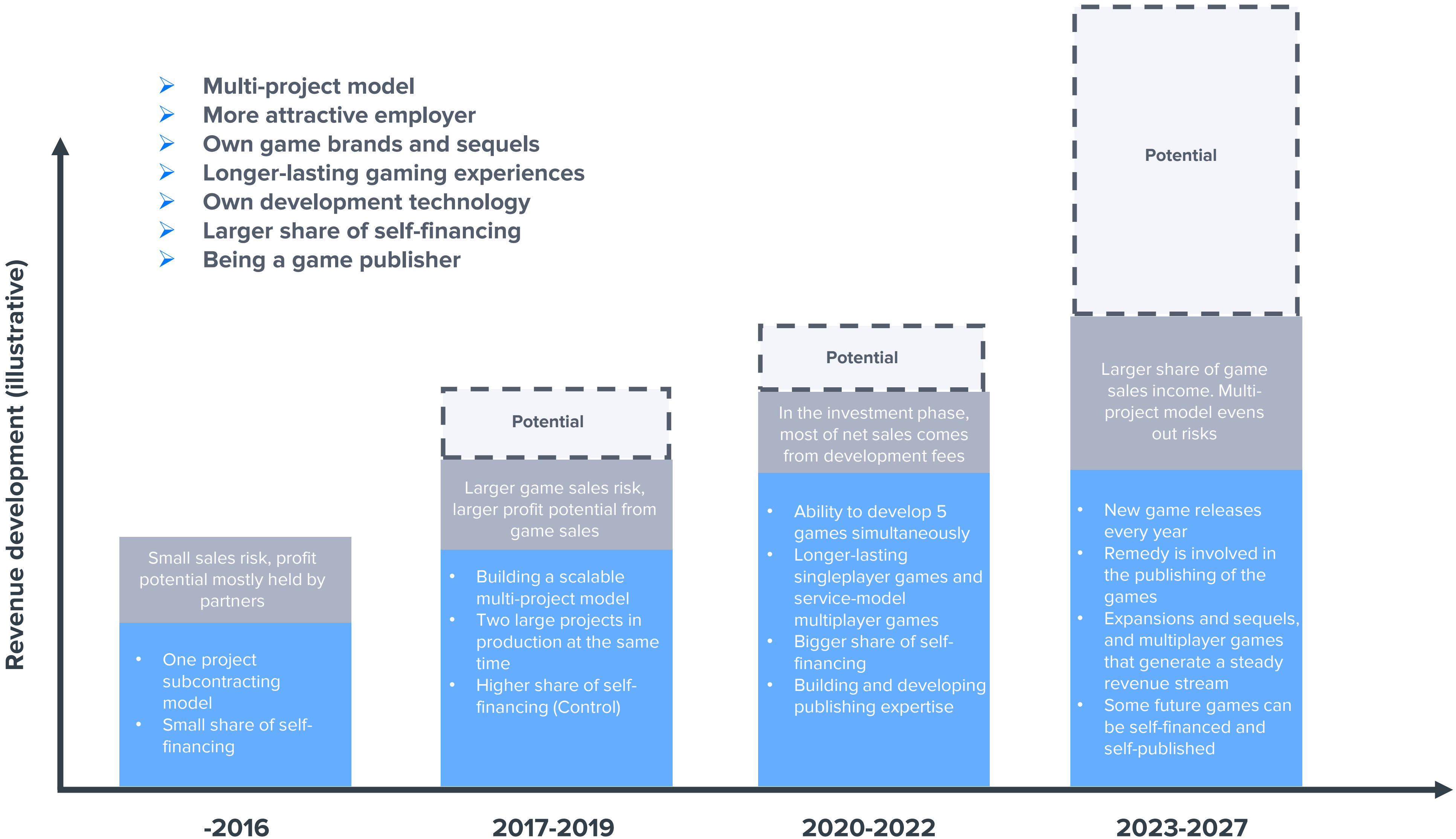
The multi-project model also offers more room for personal improvement and growth paths inside the company and transitioning between projects when possible. We believe that this has increased Remedy's attractiveness as an employer and further improving employee commitment.

External game development

In recent years as the number of game projects has grown, external development has been one of Remedy's focus areas. This enables, e.g., producing certain sound and graphics contents through external partners. Furthermore, creating different game versions for various platforms can be outsourced.

External game development enables Remedy's own personnel focusing increasingly on generating higher added value, i.e., planning the actual game worlds, characters, and stories, as well as developing game mechanics. Stronger utilization of external partners also enables Remedy to develop even more simultaneous games and flexibility in own personnel recruitment needs.

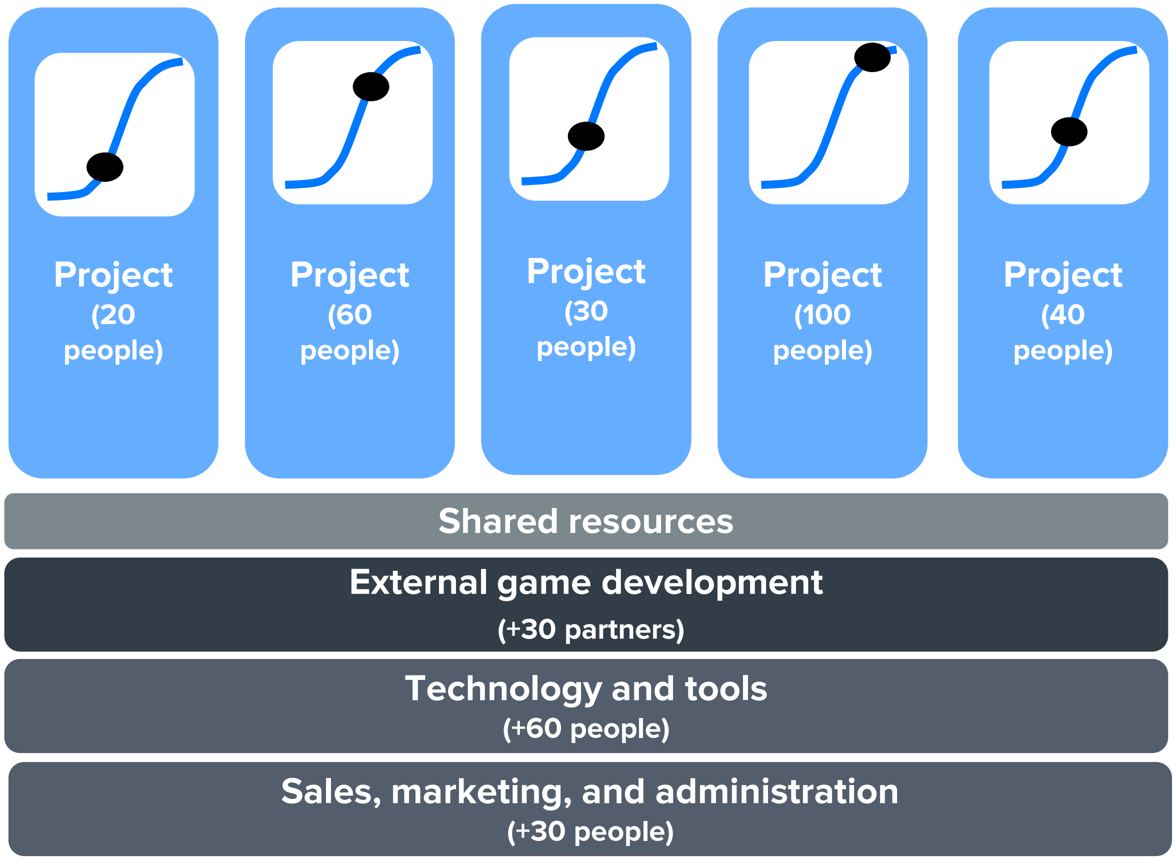
Transition process of Remedy's strategy



Source: Inderes

Multi-project model provides scalability for game development

Multi-project model



- The multi-project model provides scalability as the same technologies and tools can be shared between projects
- With its own game brands and self-publishing, Remedy is investing more in its own sales, marketing and publishing capabilities
- Well planned and managed projects enable outsourcing of certain development stages

Source: Inderes

Financial position 1/2

The last few years have been a period of heavy investment

Historically, Remedy's growth and profitability was tightly defined by the project driven business model and the terms of publishing contracts that defined it. In 2011-2018, Remedy's revenue varied between EUR 4 and 20 million and the company was profitable every year.

The strategy leaning on the multi-project model started to become reflected in the figures for the first time in 2019 when, as result of the Control release, the revenue grew by 57% to EUR 31.6 million and the operating profit was EUR 6.5 million. With development fees from an increasing number of projects and Control's royalty income, revenue grew by 30% and 9% in 2020-2021. The EBIT margin at the time was between 17.6% and 25.5%.

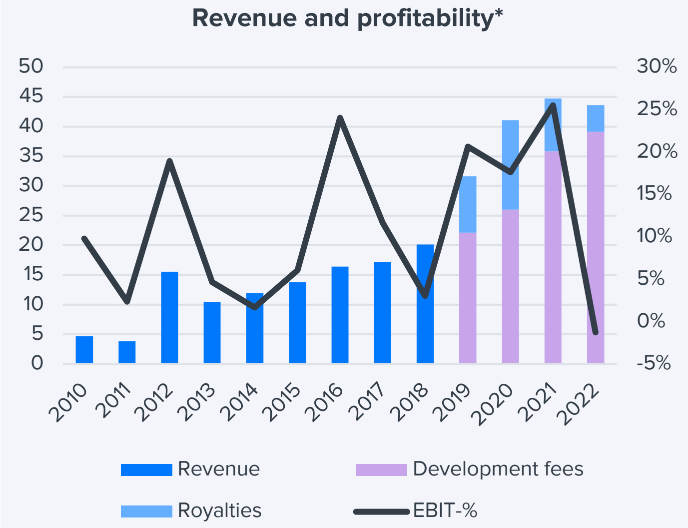
The years 2022-2023 have been clear investment years for Remedy, with the company developing 5 major game projects and no major new game releases (AW2 is unlikely to generate royalties until 2024). Thus, with low royalty income, increasing recruitment, external game development and rising other costs, the result for these years is a loss.

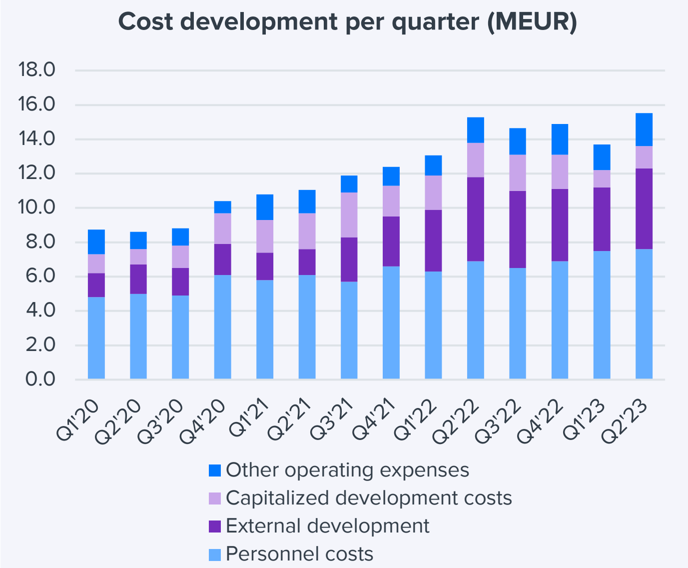
In 2023, Remedy has continued targeted recruitment, but the pace of recruitment is expected to slow down in the future as AW2 frees up resources for other projects. The level of external development expenditure may also decrease temporarily, as most of it has been allocated to the production phase of AW2. Depending on the success of the games, we estimate Remedy's long-term profitability potential (EBIT-%) to be in the range of 25-50%, which is also achieved by peers (Paradox, CD Projekt).

Cost structure mainly fixed

Remedy's costs are mostly related to the development of games, so a significant part of the cost structure is fixed personnel costs (2022: 55% of revenue) and external game development (materials and services 27% of revenue) that varies according to the stage of the project. Other operating expenses were 14% last year, and depreciation consisting mainly of capitalized development expenses was 6% of revenue.

Remedy capitalizes development costs related to its own game brands, which stabilizes the company's reported earnings development in the long run. In 2021-2022, EUR 8.2-8.5 million in costs were capitalized. Depreciation start at the point when the game projects in question are published. The company has capitalized expenses for AWR, AW2, Vanguard, Condor and Control 2. For game projects, Remedy capitalizes an amount of costs corresponding to the share of the expected sales revenues/royalties after the release of the game in the total expected revenues of the game. If the game project does not involve a publishing partner, the development costs are capitalized in full. However, capitalizations are only an accounting measure and the result and cash flow from an individual project are as large throughout the life span of the project.





Source: Inderes *from 2020 onwards IFRS

Financial position 2/2

Strong balance sheet

Remedy has a very strong balance sheet, which allows it to invest well in the promotion of gaming projects. Cash and financial securities totaled around EUR 39 million at the end of Q2'23, and the company has virtually no interest-bearing debt, excluding the small Business Finland product development loan and IFRS16 lease liabilities. The equity ratio stood at 87%.

In addition to liquid financial assets, the balance sheet assets mainly consisted of receivables of EUR 18.8 million and capitalized development costs (25.5 MEUR).

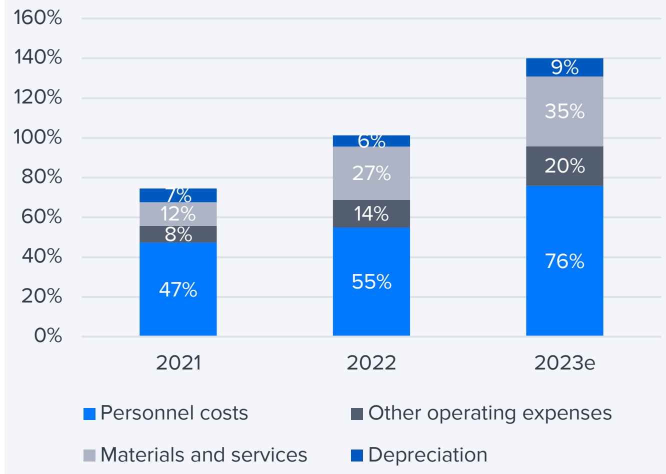
The liabilities side of the balance sheet mainly consisted of equity (80.5 MEUR) and non-interest-bearing liabilities (7.9 MEUR). Interest-bearing liabilities totaled EUR 4.3 million, of which EUR 1.8 million was a loan granted by Business Finland and the remaining EUR 2.5 million are related to IFRS16 lease liabilities.

Remedy's business model requires a strong cash position as the business needs a buffer in case of game development projects being delayed of failing. The company needs a strong enough cash position after each game project to continue on with the development of subsequent games regardless of the success of the previous release. The current cash position provides a good backbone for risk taking in this respect. A strong balance sheet position also offers a clearly better negotiation position with publishing partners as Remedy is not dependent on the financing of publishers.

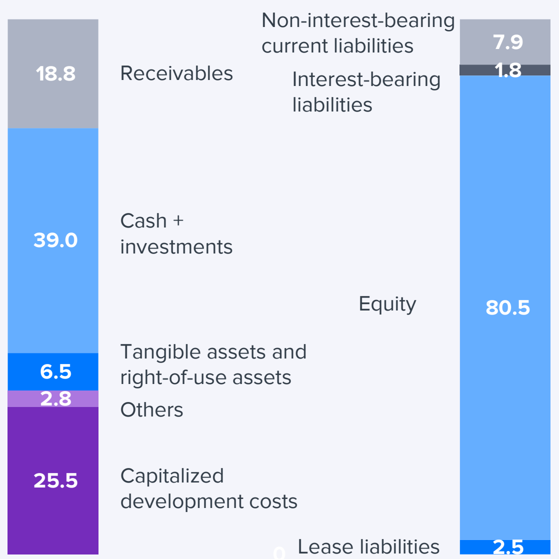
Cash flow

Due to capitalization of product development costs, Remedy's result and cash flow will deviate from one another over the next few years. Earnings development is more stable due to capitalization and the related depreciation, but cash flow focuses on the time of the game release. Projects carried out as subcontracting and game projects that are partially financed by publishing partners do, however, generate cash flow for Remedy also during the game development phase. In 2022-2023, cash flow will naturally be clearly negative due to the company's investment phase, which has been reflected in a decrease in the company's liquid financial assets (Q2'23: 39.0 MEUR vs. Q2'22: 60.4 MEUR).

Cost structure (% of revenue)



Balance sheet Q2'23



Source: Inderes

Estimates 1/3

Basis for the estimates

Precise prediction of Remedy's earnings development in coming years is challenging due to the nature of the company's business model. The start of depreciation of capitalized development costs with new game releases also introduces its own variable into the equation. With this report, we have changed our assumption for the release of Control 2 from H2'25 to H1'26, as the previous assumption started to look too optimistic for the likely duration of the production phase. Reflecting this, we also moved our assumptions about the release of Max Payne to H1'27 (previously H2'26). In particular, the changes to Control 2 had an impact on the assumptions for the timing of development fees in the coming years, and royalty revenues were shifted from 2025 to the following years. We have also fine-tuned the depreciation assumptions for development costs. In cash flow terms, our estimates for 2024-2027 are broadly unchanged, although there have been changes in our annual earnings estimates.

We outline Remedy's revenue drivers for the next few years on the following page. The development fees of the games currently under development create a solid base for revenue estimates, but the visibility to royalty forecasts is weak. Overall, our estimates expect future games to perform well, especially traditional AAA projects. We also see potential for the games to perform significantly better in a good scenario, but overall, the range of final outcomes at project level is wide. The adjacent graph shows our assumptions for royalties per game.

Remedy's earnings potential will be properly examined once the current projects have been published. With royalties now mostly scheduled for 2026-2027 in our estimates, investors will need to be patient while waiting for the results. Of course, the potential of projects can be judged a little faster than that, based on how they are received by players and critics immediately after release.

Estimates for 2023

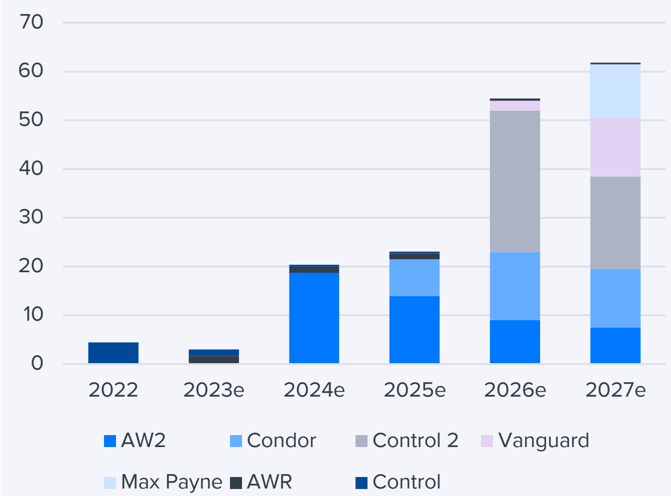
In its outlook, Remedy expects its revenue to decrease in 2023 (2022: EUR 43.6 million) and operating profit (2022: -0.6 MEUR) to be at a loss. After H1, the company has 15.8 MEUR in revenue (-28%) and an operating loss of EUR -10.4 million.

We forecast full-year revenue to decline by 18% to EUR 35.7 million, and with low royalty income, increasing recruitment, external game development and other costs, we expect operating result to be a loss of EUR -14.3 million. We don't expect Alan Wake 2, due for release at the end of the year, to start earning royalties until the end of next year (Q2'24), once the production and marketing budget, funded mainly by Epic, has been recouped.

We expect the staff freed up from AW2 to gradually move to Remedy's other game projects towards the end of the year, at which point the development fees from these projects will also go up. In our view, H2 profitability relative to the first half of the year is supported by lower external development costs, particularly in the production phase of AW2. We expect small royalty revenues from Alan Wake Remastered in H2, but in the big picture these have a limited impact on our estimates.

Revenue and profitability

Assumptions of royalties per game (MEUR)



Source: Inderes

Strategy in light of game projects

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

	2021	2022	2023	2024	2025	2026	2027
Crossfire	Development fees $$$	Development fees $	Possible small royalty stream from Crossfire HD -/$	-/$	-/$		
Control	Royalties $$$	Royalties $$	Royalties $	Royalties $	Royalties $		
Epic projects	Development fees and **AWR release** $$$	Development fees $$$	**Alan Wake 2 release** $$$	Royalties $$$	Royalties $$$	Royalties $$	Royalties $$
Vanguard	Release and development contract with Tencent $$$	Development fees $$	Development fees $$	Development fees $$	Development fees $$/$$$	**Release in H2** $$/$$$	Royalties $$$
Condor	Development fees $	Development fees $$	Development fees $/$$	Development fees $$	**Release in H1** $$$	Royalties $$$	Royalties $$$
Control 2	Conceptualization	Release contract $$	Development fees $$	Development fees $$$	Development fees $$/$$$	**Release in H1** $$$	Royalties $$$
Max Payne		Release contract $$	Development fees $$	Development fees $$$	Development fees $$$	Development fees $$$	**Release in H1** $$$
Next game projects					Development fees $/$$	Development fees $$/$$$	Development fees $$/$$$

Source: Inderes

Estimates 2/3

Estimates for 2024

In 2024, we estimate that Remedy's revenue will grow by 54% to EUR 55.1 million and EBIT to be EUR 2.4 million mainly driven by royalties from Alan Wake 2. At this point, we also estimate that development fees from all projects under development will increase as the projects progress. At the same time, we expect costs to continue to rise moderately, with the exception of a slight decline in external development costs from 2023 onwards. We forecast that Alan Wake 2 would generate around EUR 18.7 million in royalties for Remedy in 2024. We further discuss our assumptions for this on the next page.

Estimates for 2025-2027

In 2025 (revenue 63.1 MEUR and EBIT 7.1 MEUR), in addition to AW2, we expect royalties from Condor, which we estimate to be released in H1. At that time, we also expect the company to launch new game projects, which could start generating revenue in the form of publishing contracts and development fees. The company may also finance some of its future projects entirely itself, which means there are no development fees, but the royalty potential is greater.

In 2026, we expect Control 2 to be released on H1, which we expect to be a very successful game. We also expect Vanguard to be published in H2 and revenue to come from otherwise similar sources as the previous year. In 2027, we expect Max Payne to be released on H1. Furthermore, all previously released projects will be generating a royalty stream and new projects are likely to be in development. In our estimates Remedy's 2026-2027 revenue rises to EUR 89.5-86.8 million and EBIT to EUR 23.0-20.3 million, corresponding to EBIT margins of 26 % and 23 %.

With our estimates, Remedy's financial situation remains strong thanks to successful game releases. As such, we expect the company to continue to pay a small dividend each year.

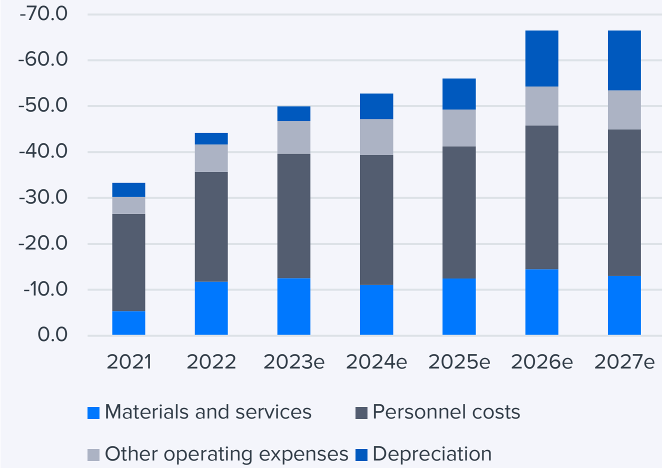
Long-term estimates

The long-term outlook of Remedy's business is attractive considering the multi-project model and favorable market trends. Long-term visibility for revenue and earnings development is very weak, requiring trust in the successful implementation of Remedy's current strategy.

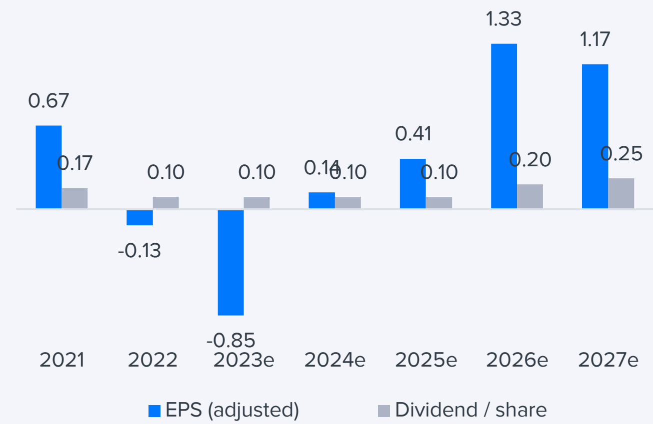
Our long-term estimates assume successful game releases from Remedy, which enable growth and good profitability. However, the growth is unlikely to be steady, but the timing of the game releases will continue to swing the annual figures. With our estimates, Remedy's revenue grows by an average of 4% p.a. in 2028-2032 and reaches EUR 105 million by 2032. In a good scenario, we believe Remedy has the potential to achieve this level of revenue earlier this decade. At the same time, with more highly successful game brands, the company's long-term revenue potential could be significantly better.

In our forecasts, Remedy's operating profit margin is at 25-31% in 2028-2031. Our terminal profitability assumption is set at 31%. In a good scenario, Remedy has preconditions for better profitability levels than we estimate as EBIT margins of 40-60% are not unheard of for a high-quality console and PC game studio.

Cost development (MEUR)



EPS and dividend



Source: Inderes

Estimates 3/3

Royalty assumptions for Alan Wake 2

In the adjacent calculations, we have outlined our assumptions for the sales of Alan Wake 2 in the scenario of our estimate model and the sensitivity of royalty revenues to the sales volume of the game. A distribution cost of 20-25% and a VAT rate of 20% have been used in the calculations.

In the calculations, we assume that the total budget (production+marketing) for AW2 is EUR 66 million. Based on these assumptions, the game would need to sell between 1.8 and 2.6 million copies at an average price of around EUR 40-60 to recoup the full cost of the project. After this, Epic Games and Remedy divide the proceeds of the game equally.

The calculations show that Alan Wake 2 will be a lucrative project for Remedy when sales exceed 3 million copies. We also consider this to be a very realistic level for the game to reach in the first two years. From the royalty perspective, it would of course be important that as many sales as possible take place within a year of release, when the average price of the game is presumably not yet under significant pressure. There is also clearly potential for better, as the original Alan Wake has sold 6 million copies, according to estimates from various sources, and the game has been distributed for free on various platforms from time to time. Therefore, we estimate that well over 10 million players have played the game. At the same time, the more than 16.5 million players who have played Control are a potential target audience (partial overlap with players of Alan Wake). At some point, AW2 may also generate revenue through B2B contracts with different subscription services or platforms.

AW2 assumptions in the estimate model

	Q3'23e	Q4'23e	Q1'24e	Q2'24e	Q3'24e	Q4'24e	Q1'25e	Q2'25e	Q3'25e	Q4'25e
Average price (€)	60	50	50	40	40	40	40	40	40	40
Sales volume (millions of copies)	0.30	0.80	0.70	0.59	0.52	0.60	0.35	0.28	0.23	0.20
Project income (MEUR)	11	25	22	16	14	16	9	7	6	5
Remedy's royalties (MEUR)	**0**	**0**	**0**	**4**	**7**	**8**	**5**	**4**	**3**	**3**
Cumulative copies sold (million)	0.3	1.1	1.8	2.4	2.9	3.5	3.9	4.1	4.4	4.6
Cumulative project income (million EUR)	11	36	58	74	88	103	113	120	126	131
Remedy's cumulative royalties (million EUR)		**0**	**0**	**4**	**11**	**19**	**23**	**27**	**30**	**33**

Alan Wake 2			
Game price (EUR)	40	50	60
VAT-%	*20%*	*20%*	*20%*
Price excl. VAT (EUR)	33.3	41.7	50.0
Distributor's share %	*25%*	*25%*	*25%*
After the distributor's share (EUR)	25.1	31.4	37.7
Budget (production+marketing) MEUR	66.0	66.0	66.0
Unit sales (thousand) needed to recoup costs	2626	2101	1751

Remedy's royalties with a hypothetical budget of EUR 66 million

Sales volume (millions of copies)	AW2 Sales price (€) 40	50	60
1.0	-	-	-
1.5	-	-	-
2.0	-	-	4.7
2.5	-	6.3	14.1
3.0	4.7	14.1	23.6
3.5	11.0	22.0	33.0
4.0	17.3	29.8	42.4
4.5	23.6	37.7	51.8

Source: Inderes

Income statement

Income statement	2021	Q1'22	Q2'22	Q3'22	Q4'22	2022	Q1'23	Q2'23	Q3'23e	Q4'23e	2023e	2024e	2025e	2026e
Revenue	**44.7**	**12.7**	**9.4**	**7.9**	**13.6**	**43.6**	**6.9**	**8.9**	**9.7**	**10.2**	**35.7**	**55.1**	**63.1**	**89.5**
Development fees	35.8	11.6	7.4	7.5	12.6	39.1	6.4	7.9	9.0	8.8	32.2	34.8	40.0	35.0
Royalties	8.9	1.0	2.0	0.4	1.1	4.5	0.5	1.0	0.7	1.4	3.5	20.3	23.1	54.5
EBITDA	**14.5**	**3.3**	**-1.8**	**-2.4**	**2.8**	**1.9**	**-4.9**	**-4.0**	**-1.2**	**-0.9**	**-11.0**	**7.9**	**13.8**	**35.2**
Depreciation	-3.0	-0.6	-0.6	-0.6	-0.7	-2.5	-0.7	-0.8	-0.8	-1.1	-3.3	-5.5	-6.7	-12.2
EBIT (excl. NRI)	**11.4**	**2.8**	**-2.4**	**-3.0**	**2.1**	**-0.6**	**-5.6**	**-4.8**	**-2.0**	**-2.0**	**-14.3**	**2.4**	**7.1**	**23.0**
EBIT	**11.4**	**2.8**	**-2.4**	**-3.0**	**2.1**	**-0.6**	**-5.6**	**-4.8**	**-2.0**	**-2.0**	**-14.3**	**2.4**	**7.1**	**23.0**
Net financial items	-0.1	-0.1	-0.5	-0.1	0.1	-0.6	0.0	0.4	0.0	0.0	0.4	-0.1	-0.1	-0.1
PTP	**11.3**	**2.7**	**-2.9**	**-3.2**	**2.2**	**-1.2**	**-5.6**	**-4.4**	**-2.0**	**-2.0**	**-13.9**	**2.3**	**7.0**	**22.9**
Taxes	-2.5	-0.5	0.2	0.5	-0.7	-0.5	0.0	1.7	0.4	0.4	2.5	-0.5	-1.4	-4.6
Net earnings	**8.8**	**2.2**	**-2.7**	**-2.7**	**1.5**	**-1.7**	**-5.6**	**-2.7**	**-1.6**	**-1.6**	**-11.5**	**1.9**	**5.6**	**18.3**
EPS (adj.)	**0.67**	**0.16**	**-0.20**	**-0.20**	**0.11**	**-0.13**	**-0.42**	**-0.20**	**-0.12**	**-0.12**	**-0.85**	**0.14**	**0.41**	**1.33**
EPS (rep.)	**0.67**	**0.16**	**-0.20**	**-0.20**	**0.11**	**-0.13**	**-0.42**	**-0.20**	**-0.12**	**-0.12**	**-0.85**	**0.14**	**0.41**	**1.33**

Key figures	2021	Q1'22	Q2'22	Q3'22	Q4'22	2022	Q1'23	Q2'23	Q3'23e	Q4'23e	2023e	2024e	2025e	2026e
Revenue growth-%	8.9 %	55.9 %	-0.2 %	6.9 %	-31.2 %	-2.5 %	-45.4 %	-5.3 %	22.6 %	-25.1 %	-18.1 %	54.4 %	14.3 %	41.9 %
Adjusted EBIT growth-%	57%	-1474%	-263%	1329%	-80%	-105%	-303%	-	-	-192%	-	-	191.2 %	226.0 %
EBITDA-%	32.3 %	26.4 %	-19.3 %	-30.4 %	20.4 %	4.4 %	-71.6 %	-44.7 %	-12.4 %	-8.8 %	-30.9 %	14.4 %	21.9 %	39.3 %
Adjusted EBIT-%	25.5 %	21.8 %	-25.6 %	-38.3 %	15.5 %	-1.3 %	-81.0 %	-53.7 %	-20.1 %	-19.1 %	-40.0 %	4.4 %	11.2 %	25.7 %
Net earnings-%	19.7 %	17.1 %	-29.0 %	-33.6 %	10.9 %	-4.0 %	-81.6 %	-30.0 %	-16.3 %	-15.5 %	-32.1 %	3.4 %	8.8 %	20.5 %

Source: Inderes

Estimate revisions	2023e	2023e	Change	2024e	2024e	Change	2025e	2025e	Change
MEUR / EUR	**Old**	**New**	**%**	**Old**	**New**	**%**	**Old**	**New**	**%**
Revenue	36.2	35.7	-1%	60.1	55.1	-8%	66.1	63.1	-5%
EBITDA	-10.5	-11.0	5%	12.9	7.9	-39%	16.8	13.8	-18%
EBIT (exc. NRIs)	-13.8	-14.3	4%	5.1	2.4	-52%	8.8	7.1	-20%
EBIT	-13.8	-14.3	4%	5.1	2.4	-52%	8.8	7.1	-20%
PTP	-13.4	-13.9	4%	5.0	2.3	-54%	8.7	7.0	-20%
EPS (excl. NRIs)	-0.82	-0.85	4%	0.29	0.14	-54%	0.51	0.41	-20%
DPS	0.10	0.10	0%	0.10	0.10	0%	0.17	0.10	-41%

Source: Inderes

Valuation 1/3

Remedy's long-term potential is attractive

Over this decade, 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/return 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 revenue potential of a single game varies from tens of millions to well over hundreds of million euros, so the range of possible outcomes is wide. With successful ramp-up of the multi-project model, the release rate of games also quickens and the number of "success options" increases. We estimate that even with only relatively well succeeding games, Remedy's growth outlook is good far into the future. We have outlined the long-term potential of Remedy in different scenarios on page 42.

Looking forward to the Alan Wake 2 release

We don't expect Remedy's share price to be materially supported by earnings multiples in the coming years, as investments in game projects under development will continue to depress earnings in the coming years, although royalty income from the first new projects will be seen in 2024-2025. In the short term, we believe that the tight valuation currently limits the upside potential of the stock, as the rise in interest rates and the resulting change in the market environment has reduced investors' patience to look several years ahead for story stocks. At the same time, Remedy is an attractive acquisition target for many players in the games industry and we see this option as supporting the valuation of the company to a certain extent.

Overall, we believe that Remedy's share valuation already prices Alan Wake 2 as a good success, and the other projects in the pipeline are also expected to create value. We are particularly confident in the success of the traditional AAA game projects under development, whereas the multiplayer projects Condor and Vanguard are the biggest question marks at this point. We find Remedy's investment story very interesting looking to the end of this decade, but the current valuation keeps us in a wait-and-see mood. We'd like to remind that with Remedy, investors should continue to be prepared to tolerate large price swings, as in the short-term changes in expectations for future games can cause significant volatility in the stock. We reiterate our Reduce recommendation for the share and revise our target price to EUR 24.0 (was 25.0 EUR).

Valuation multiples

In 2023, Remedy's earnings will still be clearly negative, so the only useful valuation factor is EV/S (7.7x), whose high level reflects the growth expectations loaded on Remedy's stock. Estimates for 2024-2025 already allow earnings multiples (EV/EBIT >100x and 39x) to be calculated, but the earnings level for these years does not yet in any way reflect the full royalty potential of Remedy's game projects under development.

Valuation	2023e	2024e	2025e
Share price	22.5	22.5	22.5
Number of shares, millions	13.5	13.6	13.7
Market cap	303	305	307
EV	273	277	275
P/E (adj.)	neg.	>100	55.2
P/E	neg.	>100	55.2
P/B	4.0	4.0	3.8
P/S	8.5	5.5	4.9
EV/Sales	7.7	5.0	4.4
EV/EBITDA	neg.	34.9	19.9
EV/EBIT (adj.)	neg.	>100	39.0
Payout ratio (%)	neg.	73%	24.6 %
Dividend yield-%	0.4 %	0.4 %	0.4 %

Source: Inderes

Valuation 2/3

Therefore, we believe the valuation should be viewed in the light of the company's long-term growth prospects. In the short term, however, the tight valuation leaves no material room for major cracks in the growth story and also contributes to limiting the upside potential of the stock.

In our estimates, royalties from currently ongoing game projects take largely place in 2026-2027, when we expect the company's revenue and earnings go up a significant step. With our estimates, the EV/EBIT multiples (11x-12x) look reasonable, and the EV/EBITDA multiples (around 7x) look moderate. We estimate that if the game releases are successful, Remedy's growth outlook is also good after these years, when the company would probably be priced with relatively high multiples. If our estimate is realized, sales multiples would also fall to a reasonable level (~3x) in 2026-2027, in line with Remedy's growth and profitability profile.

However, due to the timing of the royalties, the performance in 2026-2027 is exceptionally good, especially compared to previous years, which should be considered when looking at the multiples. Thus, balancing between short-term and longer-term multiples, Remedy's valuation looks fairly neutral overall.

Peer group

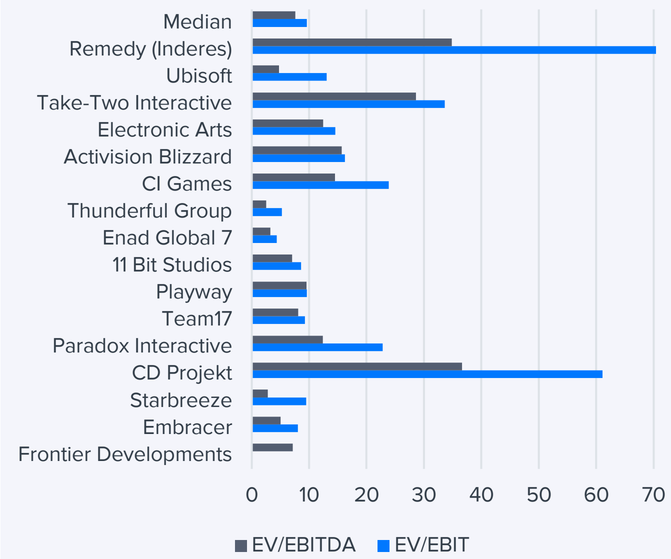
We have compiled Remedy's peer group mainly of companies that focus on console and PC games. The peer group consists mainly of companies that are larger than Remedy and have more extensive game portfolios which lowers their risk level and supports a certain discount in Remedy's valuation. Measured by game quality, Remedy is, in our opinion, positioned at the top range of the group, which in turn supports premium pricing. However, the growth and profitability profiles of the individual peer companies differ considerably, which poses its own challenge when comparing multiples.

Valuations of games companies have seen a strong downward correction in recent years after a sharp rise in demand following the COVID pandemic (2020-2021). Of course, this has also been influenced by the significantly higher required rates of return resulting from the rise in interest rates.

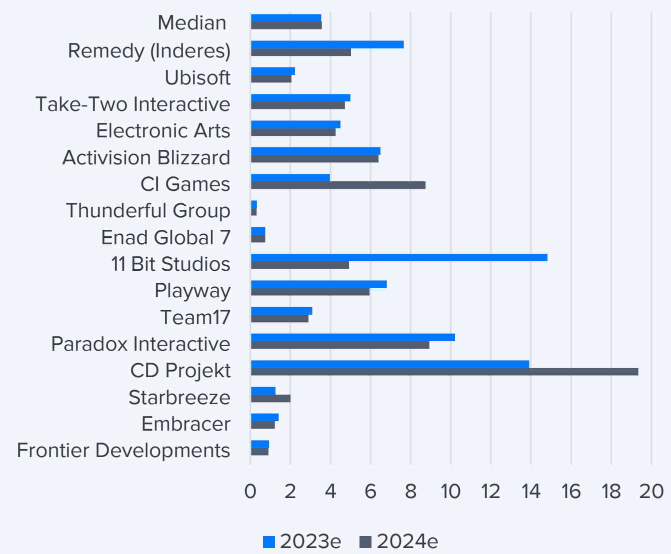
Currently, Remedy's peer group medians for 2023-2024 are 3.5x-3.6x for EV/S, 7.3x-7.6x for EV/EBITDA and 10.5x-9.6x for EV/EBIT. In light of the strong long-term growth prospects for the gaming sector, we believe that valuation levels in the sector currently look quite reasonable.

In our view, as Remedy's strategy progresses and future game projects are successful, the company would position itself among the highest quality game companies among its peer group. Thus, certain guidelines for Remedy's potential acceptable valuation level can be obtained, e.g., from Paradox multiples (2023e-2024e EV/EBIT 26x-23x and EV/EBITDA 15x-12x). Looking at the whole peer group, Remedy's acceptable EV/EBIT ratio could be around 12x-20x in the medium term, depending on the company's growth prospects and stock market sentiment. However, you can't get too locked into the multiples for a single year, as the timing of development fees and royalties, among other things, can have a significant impact on short-term earnings growth.

Remedy and peers' 2024e EV/EBIT and EV/EBITDA



Remedy and peers' EV/S



Source: Inderes, Refinitiv

Valuation 3/3

DCF model

The DCF value for equity for Remedy is EUR 324 million, which corresponds with an EUR 24.1 per share value. The estimates behind the model are presented in the Estimates section and, for the main lines, in the adjacent table. We have used a terminal assumption of 3% growth and an EBIT of 31%. In Remedy's case, future cash flows are sensitive to the success of the games and the value indicated by our DCF model fluctuates heavily with this. The cost of capital (WACC) in the DCF model is 9.1%. Given Remedy's strong financial position, growth prospects and strategic progress, we believe that the required return is justified.

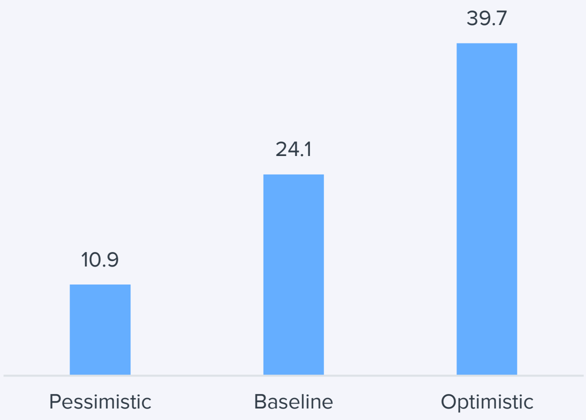
In the adjacent graphs, we have illustrated the sensitivity of the DCF model to changes in the WACC and growth under different scenarios. In the pessimistic scenario, we expect revenue to be around 30-40% lower than in the base scenario, which, largely due to the fixed cost structure, will also hit profit margins. In this scenario, we expect Remedy to continue to achieve good profitability in the long term. Similarly, in the optimistic scenario, the assumptions are about 30-40% higher than in the base scenario.

Base scenario	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	TERM
Revenue	35.7	55.1	63.1	89.5	86.8	83.3	91.7	97.2	102.0	105.1	3.0%
EBIT	-14.3	2.4	7.1	23.0	20.3	20.8	25.7	29.1	30.6	32.6	
EBIT-%	-40%	4%	11%	26%	23%	25%	28%	30%	30%	31%	31%

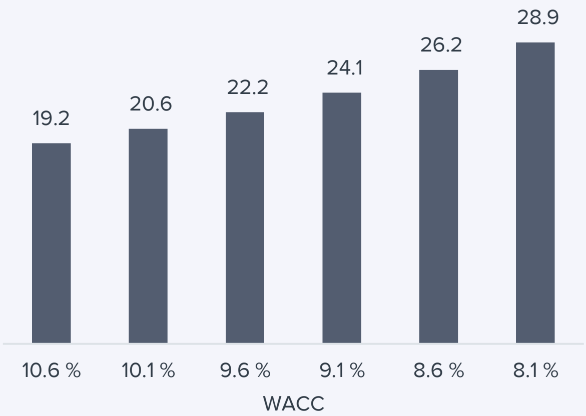
Pessimistic	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	TERM
Revenue	35.7	38.6	44.1	62.7	60.8	58.3	64.2	68.0	71.4	73.2	2.5%
EBIT	-14.3	-14.1	-11.9	-2.6	-4.8	5.2	9.6	17.0	17.9	18.3	
EBIT-%	-40%	-37%	-27%	-4%	-8%	9%	15%	25%	25%	25%	25%

Optimistic	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	TERM
Revenue	35.7	71.7	82.0	116.4	112.8	108.3	119.2	126.3	132.6	136.6	3.0%
EBIT	-14.3	19.0	26.0	49.8	46.3	40.1	45.3	48.0	50.4	51.9	
EBIT-%	-40%	26%	32%	43%	41%	37%	38%	38%	38%	38%	38%

DCF value in different scenarios



Sensitivity of the DCF value in the base scenario



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%	25.0	30.4	35.7	41.1	46.4
30%	29.3	35.7	42.1	48.6	55.0
35%	33.6	41.1	48.6	56.1	63.6
40%	37.9	46.4	55.0	63.6	72.1

EV/EBIT 16x

	Revenue (MEUR)				
EBIT-%	100	125	150	175	200
25%	32.1	39.3	46.4	53.6	60.7
30%	37.9	46.4	55.0	63.6	72.1
35%	43.6	53.6	63.6	73.6	83.6
40%	49.3	60.7	72.1	83.6	95.0

EV/EBIT 20x

	Revenue (MEUR)				
EBIT-%	100	125	150	175	200
25%	39.3	48.2	57.1	66.1	75.0
30%	46.4	57.1	67.9	78.6	89.3
35%	53.6	66.1	78.6	91.1	103.6
40%	60.7	75.0	89.3	103.6	117.9

Annual return 2027

EV/EBIT 12x

	Revenue (MEUR)				
EBIT-%	100	125	150	175	200
25%	2%	7%	11%	15%	18%
30%	6%	11%	16%	20%	23%
35%	10%	15%	20%	24%	27%
40%	13%	18%	23%	27%	31%

EV/EBIT 16x

	Revenue (MEUR)				
EBIT-%	100	125	150	175	200
25%	9%	14%	18%	22%	26%
30%	13%	18%	23%	27%	31%
35%	17%	22%	27%	32%	36%
40%	20%	26%	31%	36%	40%

EV/EBIT 20x

	Revenue (MEUR)				
EBIT-%	100	125	150	175	200
25%	14%	19%	24%	28%	32%
30%	18%	24%	29%	34%	38%
35%	22%	28%	34%	38%	43%
40%	26%	32%	38%	43%	47%

Annual return 2028

EV/EBIT 12x

	Revenue (MEUR)				
EBIT-%	100	125	150	175	200
25%	2%	6%	9%	12%	15%
30%	5%	9%	13%	16%	18%
35%	8%	12%	16%	19%	22%
40%	10%	15%	18%	22%	25%

EV/EBIT 16x

	Revenue (MEUR)				
EBIT-%	100	125	150	175	200
25%	7%	11%	15%	18%	21%
30%	10%	15%	18%	22%	25%
35%	13%	18%	22%	25%	28%
40%	16%	21%	25%	28%	31%

EV/EBIT 20x

	Revenue (MEUR)				
EBIT-%	100	125	150	175	200
25%	11%	15%	19%	23%	25%
30%	15%	19%	23%	27%	30%
35%	18%	23%	27%	30%	33%
40%	21%	25%	30%	33%	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% in 2027-2028.
- With the success of the company's current game projects, we believe revenue and profitability have the potential to reach these levels.
- The scenarios assume Remedy's net cash to be EUR 50 million (not fully accounting for future cash flows) and number of shares to be 14 million (accounting for the dilution of stock option schemes).
- 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.

Source: Inderes

Peer group valuation

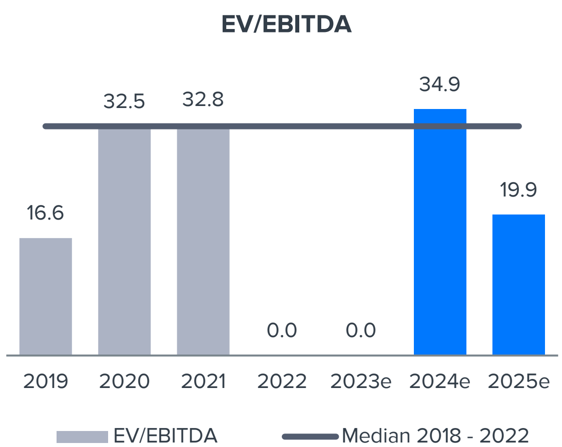
Peer group valuation	Market cap	EV	EV/EBIT		EV/EBITDA		EV/S		Lv:n kasvu-%		EBIT-%	
Company	**MEUR**	**MEUR**	**2023e**	**2024e**	**2023e**	**2024e**	**2023e**	**2024e**	**2023e**	**2024e**	**2023e**	**2024e**
Frontier Developments	141	115			3.8	7.2	1.0	0.9	-9%	4%	-4%	-2%
Embracer	2900	4450	9.4	8.0	5.9	5.1	1.4	1.2	129%	16%	15%	15%
Starbreeze	116	72	2.0	9.5	1.5	2.8	1.3	2.0	432%	-45%	64%	21%
CD Projekt	3382	3234	35.8	61.1	26.0	36.6	13.9	19.4	20%	-28%	39%	32%
Paradox Interactive	2278	2218	25.8	22.8	14.9	12.4	10.2	8.9	31%	14%	40%	39%
Team17	564	508	10.1	9.3	8.7	8.1	3.1	2.9	6%	7%	31%	31%
Playway	582	539	11.0	9.6	10.9	9.5	6.8	6.0	33%	15%	62%	62%
11 Bit Studios	362	350	74.4	8.6	56.4	7.1	14.8	4.9	49%	200%	20%	58%
Enad Global 7	173	139	4.3	4.4	3.0	3.2	0.8	0.8	19%	1%	18%	17%
Thunderful Group	49	91	7.2	5.3	2.9	2.6	0.3	0.3	4%	4%	5%	6%
CI Games	224	230	8.3	23.9	5.2	14.5	4.0	8.8	354%	-55%	48%	37%
Activision Blizzard	67658	58755	17.8	16.2	17.0	15.7	6.5	6.4	19%	1%	37%	40%
Electronic Arts	30702	30047	15.6	14.6	13.5	12.5	4.5	4.3	-5%	6%	29%	29%
Take-Two Interactive	22698	24388	31.9	33.7	28.4	28.6	5.0	4.7	52%	6%	16%	14%
Ubisoft	3441	4414		13.1	5.3	4.8	2.2	2.1	-9%	8%	-21%	16%
Remedy (Inderes)	**303**	**273**	**-19.1**	**114.4**	**-24.8**	**34.9**	**7.7**	**5.0**	**-18%**	**54%**	**-40%**	**4%**
Average			**18.3**	**16.1**	**12.8**	**10.7**	**4.8**	**4.6**	**65%**	**9%**	**24%**	**25%**
Median			**10.5**	**9.6**	**7.3**	**7.6**	**3.5**	**3.6**	**19%**	**6%**	**20%**	**21%**
Diff-% to median			***-***	***1093%***	***-***	***357%***	***116%***	***40%***				

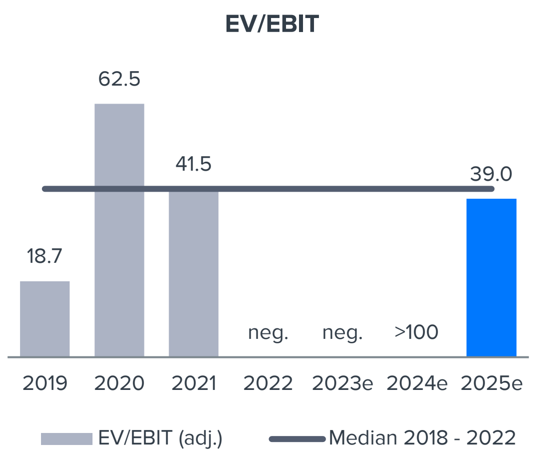
Source: Refinitiv / Inderes

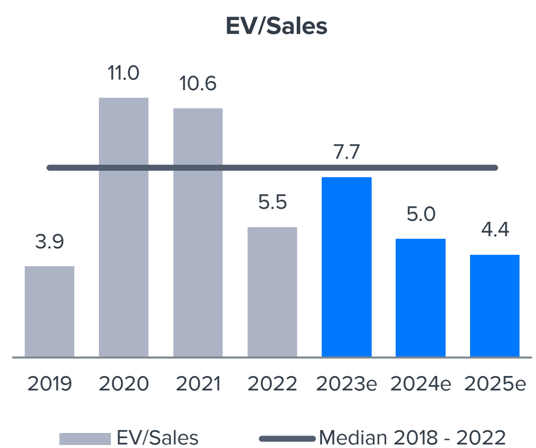
Valuation table

Valuation	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Share price	11.5	39.0	39.7	21.9	**22.5**	**22.5**	**22.5**	**22.5**	**22.5**
Number of shares, millions	12.1	12.1	13.1	13.4	**13.5**	**13.6**	**13.7**	**13.8**	**13.9**
Market cap	138	471	528	294	**303**	**305**	**307**	**310**	**312**
EV	122	453	473	241	**273**	**277**	**275**	**258**	**243**
P/E (adj.)	26.4	87.0	59.0	neg.	**neg.**	**>100**	**55.2**	**16.9**	**19.3**
P/E	26.4	87.0	59.0	neg.	**neg.**	**>100**	**55.2**	**16.9**	**19.3**
P/B	5.2	13.0	6.0	3.3	**4.0**	**4.0**	**3.8**	**3.2**	**2.8**
P/S	4.4	11.5	11.8	6.7	**8.5**	**5.5**	**4.9**	**3.5**	**3.6**
EV/Sales	3.9	11.0	10.6	5.5	**7.7**	**5.0**	**4.4**	**2.9**	**2.8**
EV/EBITDA	16.6	32.5	32.8	>100	**neg.**	**34.9**	**19.9**	**7.3**	**7.3**
EV/EBIT (adj.)	18.7	62.5	41.5	neg.	**neg.**	**>100**	**39.0**	**11.2**	**12.0**
Payout ratio (%)	25.4 %	36.2 %	25.7 %	neg.	**neg.**	**73.0 %**	**24.6 %**	**15.0 %**	**21.4 %**
Dividend yield-%	1.0 %	0.4 %	0.4 %	0.5 %	**0.4 %**	**0.4 %**	**0.4 %**	**0.9 %**	**1.1 %**

Source: Inderes







Balance sheet

Assets	2021	2022	2023e	2024e	2025e
Non-current assets	**12.6**	**20.2**	**31.1**	**34.8**	**38.9**
Goodwill	0.0	0.0	0.0	0.0	0.0
Intangible assets	7.6	15.1	23.3	29.1	34.1
Tangible assets	4.3	4.3	5.2	3.2	2.2
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	0.7	0.8	0.8	0.8	0.8
Deferred tax assets	0.0	0.0	1.7	1.7	1.7
Current assets	**81.1**	**71.2**	**46.8**	**45.8**	**49.3**
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	22.5	15.3	16.1	16.5	15.8
Cash and equivalents	58.5	55.9	30.8	29.2	33.5
Balance sheet total	**101**	**99.6**	**83.7**	**85.7**	**91.1**

Source: Inderes

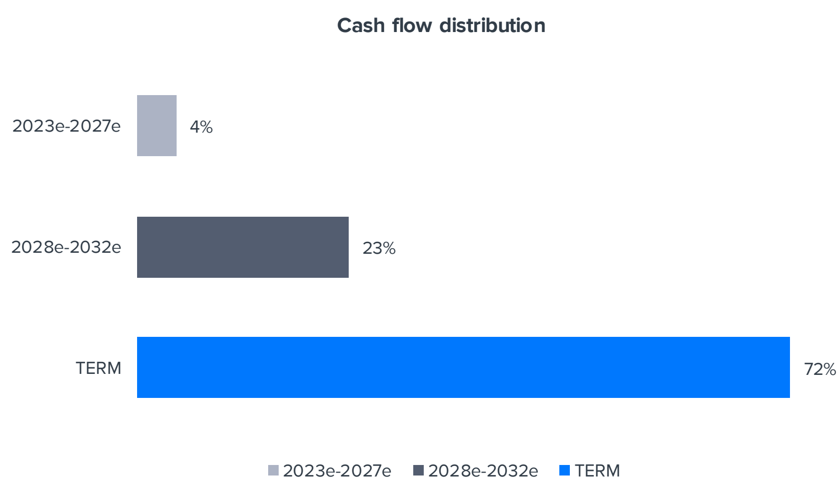
Liabilities & equity	2021	2022	2023e	2024e	2025e
Equity	**87.4**	**88.4**	**75.8**	**76.3**	**80.5**
Share capital	0.1	0.1	0.1	0.1	0.1
Retained earnings	31.5	31.1	18.3	18.8	23.0
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	0.0	0.0	0.0	0.0	0.0
Other equity	55.8	57.1	57.4	57.4	57.4
Minorities	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	**2.1**	**1.1**	**0.9**	**0.9**	**0.9**
Deferred tax liabilities	0.0	0.0	0.0	0.0	0.0
Provisions	0.0	0.0	0.0	0.0	0.0
Long term debt	2.1	1.1	0.9	0.9	0.9
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	**11.7**	**10.1**	**7.0**	**8.5**	**9.7**
Short term debt	1.8	1.8	0.2	0.2	0.2
Payables	9.8	8.2	6.8	8.3	9.5
Other current liabilities	0.0	0.0	0.0	0.0	0.0
Balance sheet total	**101**	**99.6**	**83.7**	**85.7**	**91.1**

DCF calculation

DCF model	2022	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	TERM
Revenue growth-%	-2.5 %	-18.1 %	54.4 %	14.3 %	41.9 %	-3.0 %	-4.0 %	10.0 %	6.0 %	5.0 %	3.0 %	3.0 %
EBIT-%	-1.3 %	-40.0 %	4.4 %	11.2 %	25.7 %	23.4 %	25.0 %	28.0 %	30.0 %	30.0 %	31.0 %	31.0 %
EBIT (operating profit)	**-0.6**	**-14.3**	**2.4**	**7.1**	**23.0**	**20.3**	**20.8**	**25.7**	**29.1**	**30.6**	**32.6**	
+ Depreciation	2.5	3.3	5.5	6.7	12.2	13.1	13.8	14.4	15.1	13.8	13.2	
- Paid taxes	-0.5	0.7	-0.5	-1.4	-4.6	-4.0	-4.1	-5.1	-5.8	-6.1	-6.5	
- Tax, financial expenses	-0.1	0.1	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	
- Change in working capital	5.6	-2.2	1.0	2.0	0.0	0.6	0.6	0.0	0.2	1.3	0.3	
Operating cash flow	**6.8**	**-12.4**	**8.5**	**14.3**	**30.6**	**29.9**	**31.1**	**34.9**	**38.6**	**39.6**	**39.6**	
+ 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	
- Gross CAPEX	-10.8	-10.0	-8.6	-8.6	-9.6	-10.6	-11.6	-12.6	-12.6	-12.6	-13.2	
Free operating cash flow	**-4.0**	**-22.4**	**-0.1**	**5.7**	**21.0**	**19.3**	**19.5**	**22.3**	**26.0**	**27.0**	**26.4**	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	-4.0	-22.4	-0.1	5.7	21.0	19.3	19.5	22.3	26.0	27.0	26.4	444
Discounted FCFF		**-21.8**	**-0.1**	**4.7**	**15.8**	**13.3**	**12.3**	**12.9**	**13.7**	**13.1**	**11.7**	**197**
Sum of FCFF present value		273	294	294	290	274	261	248	236	222	209	197
Enterprise value DCF		**273**										
- Interest bearing debt		-3.0										
+ Cash and cash equivalents		55.9										
-Minorities		0.0										
-Dividend/capital return		-1.3										
Equity value DCF		**324**										
Equity value DCF per share		**24.1**										

WACC	
Tax-% (WACC)	20.0 %
Target debt ratio (D/(D+E)	0.0 %
Cost of debt	5.0 %
Equity Beta	1.10
Market risk premium	4.75%
Liquidity premium	1.40%
Risk free interest rate	2.5 %
Cost of equity	**9.1 %**
Weighted average cost of capital (WACC)	**9.1 %**

Source: Inderes



Summary

Income statement	2020	2021	2022	2023e	2024e
Revenue	41.1	44.7	43.6	**35.7**	**55.1**
EBITDA	14.0	14.5	1.9	**-11.0**	**7.9**
EBIT	7.2	11.4	-0.6	**-14.3**	**2.4**
PTP	7.0	11.3	-1.2	**-13.9**	**2.3**
Net Income	5.4	8.8	-1.7	**-11.5**	**1.9**
Extraordinary items	0.0	0.0	0.0	**0.0**	**0.0**

Balance sheet	2020	2021	2022	2023e	2024e
Balance sheet total	51.3	101.1	99.6	**83.7**	**85.7**
Equity capital	36.1	87.4	88.4	**75.8**	**76.3**
Goodwill	0.0	0.0	0.0	**0.0**	**0.0**
Net debt	-18.0	-54.7	-52.9	**-29.7**	**-28.1**

Cash flow	2020	2021	2022	2023e	2024e
EBITDA	14.0	14.5	1.9	**-11.0**	**7.9**
Change in working capital	0.4	-7.7	5.6	**-2.2**	**1.0**
Operating cash flow	12.9	4.0	6.8	**-12.4**	**8.5**
CAPEX	-14.9	-9.8	-10.8	**-10.0**	**-8.6**
Free cash flow	-2.0	-5.8	-4.0	**-22.4**	**-0.1**

Valuation multiples	2020	2021	2022	2023e	2024e
EV/S	11.0	10.6	5.5	**7.7**	**5.0**
EV/EBITDA (adj.)	32.5	32.8	>100	**neg.**	**34.9**
EV/EBIT (adj.)	62.5	41.5	neg.	**neg.**	**>100**
P/E (adj.)	87.0	59.0	neg.	**neg.**	**>100**
P/B	13.0	6.0	3.3	**4.0**	**4.0**
Dividend-%	0.4 %	0.4 %	0.5 %	**0.4 %**	**0.4 %**

Source: Inderes

Per share data	2020	2021	2022	2023e	2024e
EPS (reported)	0.45	0.67	-0.13	**-0.85**	**0.14**
EPS (adj.)	0.45	0.67	-0.13	**-0.85**	**0.14**
OCF / share	1.07	0.30	0.51	**-0.92**	**0.62**
FCF / share	-0.17	-0.44	-0.29	**-1.66**	**-0.01**
Book value / share	2.99	6.69	6.57	**5.63**	**5.63**
Dividend / share	0.15	0.17	0.10	**0.10**	**0.10**

Growth and profitability	2020	2021	2022	2023e	2024e
Revenue growth-%	30%	9%	-3%	**-18%**	**54%**
EBITDA growth-%	90%	4%	-87%	**-679%**	**-172%**
EBIT (adj.) growth-%	11%	57%	-105%	**2437%**	**-117%**
EPS (adj.) growth-%	3%	50%	-119%	**563%**	**-116%**
EBITDA-%	34.0 %	32.3 %	4.4 %	**-30.9 %**	**14.4 %**
EBIT (adj.)-%	17.6 %	25.5 %	-1.3 %	**-40.0 %**	**4.4 %**
EBIT-%	17.6 %	25.5 %	-1.3 %	**-40.0 %**	**4.4 %**
ROE-%	17.3 %	14.2 %	-2.0 %	**-14.0 %**	**2.4 %**
ROI-%	20.2 %	17.1 %	-0.6 %	**-17.0 %**	**3.1 %**
Equity ratio	70.4 %	86.4 %	88.8 %	**90.6 %**	**89.1 %**
Gearing	-49.8 %	-62.5 %	-59.8 %	**-39.1 %**	**-36.8 %**

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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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According to a notification received on 11/24/2022, Inderes analyst Atte Riikola has a holding of more than EUR 50,000 in the target company Remedy Entertainment Oyj.

Inderes has made an agreement with the issuer and target of this report, which entails compiling a research report.

Recommendation history (>12 mo)

Date	Recommendation	Target	Share price
5/30/2017	Accumulate	7.40 €	6.69 €
8/17/2017	Buy	7.50 €	6.31 €
2/19/2018	Buy	7.50 €	5.90 €
6/4/2018	Buy	8.50 €	7.30 €
8/15/2018	Buy	8.50 €	6.75 €
2/13/2019	Accumulate	9.00 €	8.25 €
7/3/2019	Accumulate	10.00 €	9.28 €
8/14/2019	Accumulate	11.50 €	10.65 €
12/5/2019	Accumulate	11.50 €	10.15 €
2/16/2020	Accumulate	15.50 €	13.80 €
3/31/2020	Buy	18.00 €	14.80 €
4/21/2020	Accumulate	20.00 €	18.55 €
8/16/2020	Reduce	33.00 €	33.80 €
10/27/2020	Accumulate	33.00 €	29.00 €
12/10/2020	Accumulate	38.00 €	34.00 €
2/14/2021	Accumulate	50.00 €	45.00 €
4/8/2021	Accumulate	50.00 €	43.75 €
5/12/2021	Accumulate	50.00 €	41.30 €
8/16/2021	Accumulate	50.00 €	43.00 €
9/14/2021	Buy	50.00 €	40.00 €
11/15/2021	Buy	50.00 €	40.75 €
2/14/2022	Buy	50.00 €	33.50 €
5/16/2022	Buy	42.00 €	29.30 €
6/2/2022	Accumulate	34.00 €	29.85 €
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 €

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