

Remedy

Company report

4/30/2024



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✓ Inderes corporate customer

This report is a summary translation of the report “Odotamme rauhassa päätöksiä Control-pelien suhteen” published on 4/30/2024 at 7:36 am EEST

**inde
res.**

Patiently waiting for decisions on Control franchise

Remedy's Q1 results were well above our cautious expectations, and the company's game projects are currently progressing as planned. Negotiations to choose a publishing partner or self-publish Condor and Control 2 are ongoing, and decisions on these will determine the direction of the company for the next decade. Given the potential of the Control franchise, we believe that the company will work towards self-publishing both or one of the projects, which will also require additional funding. Remedy's long-term potential is very attractive and we view the forecast risks associated with the ongoing negotiations as positive. Thus, we will stick with the stock to see the outcome of the negotiations, even though in the short term and on current estimates the valuation is already starting to look tight. We reiterate our Accumulate recommendation for Remedy and revise our target price to EUR 20.0 (was 19.0 EUR).

Q1 figures well above our cautious expectations, game projects progressing

Remedy's Q1 revenue grew by 56% to 10.8 MEUR which clearly exceeded our 7.7 MEUR estimate. The earnings beat is explained by development fees (Q1'24: 9.0 MEUR, +39%), which came in well above our expectations from the Max Payne project, which will go into production in Q2 and progressed well at the beginning of the year. Mainly due to higher revenue, the EBIT for the quarter (-2.1 MEUR) was also significantly better than our cautious forecast (-7.9 MEUR). No new information was provided on the sales of Alan Wake 2 (over 1.3 million copies by the beginning of February), but the trend has been in line with the company's expectations. Our forecast expects royalties from the game from Q3'24 onwards. As already anticipated in the Q4 report, the multiplayer project Condor has been in full production for some time now, and due to the different development process compared to a traditional AAA game, we see the game being ready for release in 2025. Control 2 is also still moving towards production readiness stage in Q2. So the staff freed up from AW2 and Kestrel (formerly Vanguard) has clearly given a boost to other projects in the early part of the year, and the wheels of the multi-project model seem to be turning as planned.

Remedy faces a major strategic decision for the Control games brand

In February, Remedy acquired all rights to the Control games brand from 505 Games for a very good price. For Condor and Control 2, the level of development fees over the next few years will be significantly affected by the publishing agreements under negotiation or the decision to self-publish these projects. The more risk Remedy wants to take, the less development fees will be generated. Correspondingly, this translates into higher royalty potential in the long term. Remedy does not have the resources to self-publish both projects on its current balance sheet, so a new partner for one or both projects is one option. Self-publishing both games will require significant additional funding, which we believe is an attractive option given the potential of the Control brand.

We stick with the stock at current valuation to see the decisions on the Control games brand

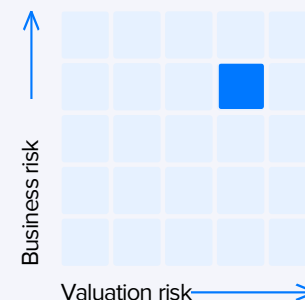
Due to the timing of game releases, Remedy's earnings development, and therefore valuation multiples, will continue to fluctuate on an annual basis for a long time in our estimates, and the more consistent strong earnings performance enabled by the multi-project model will not materialize until the 2030s. Our projections for 2024-2025 still show a loss and high EV/S ratios (5x-4x). The value of our DCF model, which assumes strong long-term earnings growth, is rounded to EUR 20. Naturally, the model is very sensitive to key assumptions, and in Remedy's case, a single game can generate a big surprise either way. The current forecasts will also be revised once the decisions on Condor and Control 2 have been made. Given Remedy's strong position, we consider the associated forecast risk to be on the positive side.

Recommendation

Accumulate
(previous Accumulate)

EUR 20.00
(previous EUR 19.00)

Share price:
19.20



Key figures

	2023	2024e	2025e	2026e
Revenue	33.9	48.6	59.0	67.7
growth-%	-22%	43%	21%	15%
EBIT adj.	-28.6	-8.8	-3.1	1.0
EBIT-% adj.	-84.4 %	-18.0 %	-5.2 %	1.4 %
Net Income	-22.7	-7.1	-2.5	0.8
EPS (adj.)	-1.68	-0.52	-0.18	0.06

P/E (adj.)	neg.	neg.	neg.	>100
P/B	5.1	4.1	4.1	3.9
Dividend yield-%	0.0 %	0.0 %	0.0 %	0.0 %
EV/EBIT (adj.)	neg.	neg.	neg.	>100
EV/EBITDA	neg.	neg.	87.4	32.6
EV/S	9.3	5.2	4.4	3.9

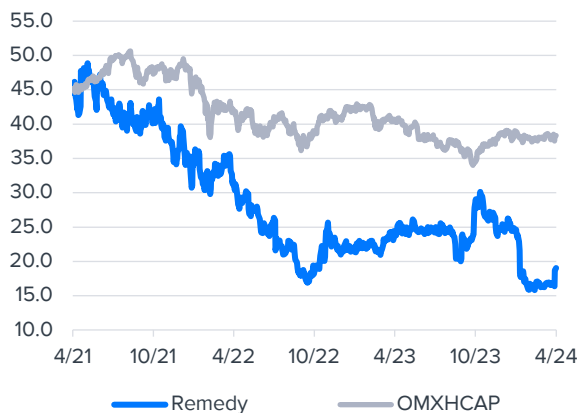
Source: Inderes

Guidance

(Unchanged)

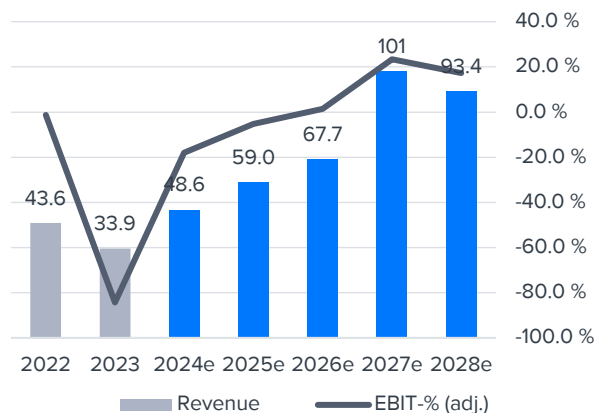
“Remedy expects its revenue to increase from the previous year and operating profit (EBIT) to improve.”

Share price



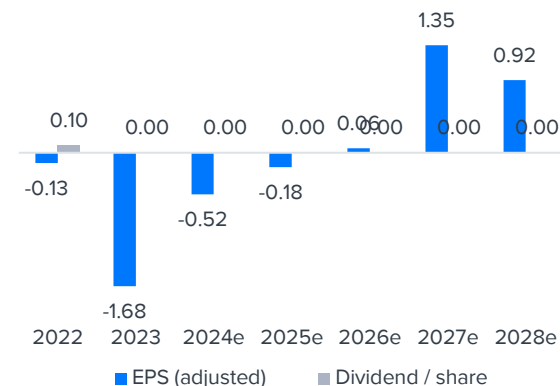
Source: Millistream Market Data AB

Revenue and EBIT-%



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- Alan Wake 2 sales development
- Attractive position in value chain considering industry trends and consolidation
- Self-owned game brands (Alan Wake and Control)
- Multi-project model creates continuity and disperses risks
- Strong track record of developing 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 and players' time and money in the games industry
- Technology and market trends
- Changes in expectations for future games can cause significant volatility in the stock

Valuation	2024e	2025e	2026e
Share price	19.2	19.2	19.2
Number of shares, millions	13.6	13.7	13.8
Market cap	261	263	265
EV	251	261	262
P/E (adj.)	neg.	neg.	>100
P/E	neg.	neg.	>100
P/B	4.1	4.1	3.9
P/S	5.4	4.5	3.9
EV/Sales	5.2	4.4	3.9
EV/EBITDA	neg.	87.4	32.6
EV/EBIT (adj.)	neg.	neg.	>100
Payout ratio (%)	0.0 %	0%	0.0 %
Dividend yield-%	0.0 %	0.0 %	0.0 %

Source: Inderes

Q1 figures well above our cautious expectations

Revenue up significantly from the low comparison period

Remedy's Q1 revenue grew by 56% to 10.8 MEUR which clearly exceeded our 7.7 MEUR estimate. The earnings beat is explained by development fees (Q1'24: 9.0 MEUR, +39%), which came in well above our expectations. The Max Payne subcontracting project, which went into full production in Q2, was the main driver of the increase in development fees, and we believe that our projections were too low in this respect in particular. The staff released from AW2 at the beginning of the year has given a boost to the development of other projects, contributing to the increase in development fees. For Condor and Control 2, development fees were still received from 505 Games at the beginning of the year in accordance with the old contract. They will not accumulate in future quarters unless Remedy signs a new publishing agreement with a new partner following the acquisition of all rights to the Control franchise. Starting Kestrel (formerly Vanguard) at the end of the year with a clean slate means that development fees for this project are currently very low.

Quarterly royalty income (1.8 MEUR) increased significantly from the comparison period (0.5 MEUR) but is still low in absolute terms. As in the previous quarter, the increase reflects the royalties from Alan Wake Remastered. The game recouped its production and marketing budget during Q3, and towards the end of the year the excellent reception and marketing of AW2 also supported AWR sales. In addition, the Game Pass contract for the old Control game supported early-year royalties when the game was available on Microsoft's subscription service.

As for the sales of Alan Wake 2, the company did not reveal anything new at this point but commented that the game has already covered a significant portion (50-80%, as we understand it) of its development and marketing costs. The game had sold more than 1.3 million copies by the beginning of February, and its retail price has remained high.

Result in the red, but far less than we expected

Remedy's Q1 EBITDA was -1.2 MEUR and EBIT -2.1 MEUR, while our expectations were for even steeper losses due to lower revenue. Remedy significantly increased its cost structure during the 2022-2023 investment phase, where the situation is

now starting to calm down. Reported costs were partly reduced by increased capitalization of development expenditure (Q1'24: 2.0 MEUR).

Remedy's operating cash flow in Q1 was 3.3 MEUR, helped by the timing of development fees and royalties. Cash and liquid securities (Q1'24: 27.4 MEUR), however, decreased from the turn of the year (30.4 MEUR) due to the first instalment of the Control rights acquisition (cash flow impact 3.8 MEUR). The maximum purchase price of the transaction is approximately 17 MEUR. Remedy is entitled to set off certain receivables from the purchase price and, therefore, the cash flow effect from the transaction will be clearly less than the purchase price (our assumption is at 12 MEUR).

Given Remedy's current cash position and the Control arrangement, the company's capacity to self-publish both Condor and Control 2 is far from sufficient. However, the company says that additional funding is available and it is weighing its options while negotiating with potential publishing partners. We would not be surprised if Tencent, which has just increased its holding to 14.8%, were willing to provide Remedy with funding for these projects.

Estimates MEUR / EUR	Q1'23	Q1'24	Q1'24e	Q1'24e	Consensus		Difference (%)	2024e
	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. inderes	Inderes
Revenue	6.9	10.8	7.7				40%	48.6
EBITDA	-4.9	-1.2	-6.4				-81%	-3.4
EBIT (adj.)	-5.6	-2.1	-7.9				-74%	-8.8
EPS (reported)	-0.42	-0.15	-0.46				-67%	-0.52
Revenue growth-%	-45.4 %	56.2 %	11.4 %				44.8 pp	43.3 %
EBIT-% (adj.)	-81.0 %	-19.3 %	-102.6 %				83.3 pp	-18.0 %

Source: Inderes

Choice of publishing partner / self-publishing for Control games will change forecasts

Changes to the guidance once decisions on Control games have been made

In its outlook, which remains unchanged as anticipated, Remedy expects its revenue to increase from the previous year and EBIT to improve. Based on the very weak figures for 2023, the guidance does not yet provide much information value. For Condor and Control 2, the level of development charges for the current year and the coming years is uncertain due to the release agreements under negotiation. The more risk Remedy wants to take on these projects, the less development fees will be generated. Correspondingly, this translates into higher royalty potential for Remedy. The company is going to clarify its outlook for 2024 once a decision has been made on the business model and potential arrangements for Control 2 and Condor.

We will also revisit our estimates once the decisions on these games have been made. We stress that projections could change significantly depending on the outcome of the negotiations. At this stage, we have made only minor revisions to our forecasts for the coming years based on the cost structure and

capitalization levels in the Q1 report. In addition, for future quarters this year we have removed our previous assumptions for Control 2 and Condor development fees this year, as without a publishing partner there will be no future development fees. Again, this can change quickly as decisions are made on the games. Our assumptions regarding the release schedules of the games remain unchanged.

Estimates for 2024

Based on AW2's strong critical reception and sales, we believe the game is poised for strong commercial success in the coming years. Our expectations for the game are unchanged and we expect royalties to start accruing from Q3'24. Driven by Alan Wake 2, we forecast revenue growth of 43% to 48.6 MEUR in 2024, but EBITDA will still be 3.4 MEUR in the red.

Medium-term assumptions

We have outlined Remedy's revenue drivers and game-specific assumptions on the following pages. Overall, our forecasts expect good success for upcoming games, but there is also potential for a much better performance. All in all, the range of final

outcomes at project level is wide. The decision on Control games will also have a significant impact on the long-term royalty potential of these projects.

In 2025, in addition to AW2, our estimates expect royalties from Condor, which will be released in Q2/Q3, but for which the royalty assumptions are significantly lower than for AW2.

In 2026, we expect a successful release of Max Payne in H1, but due to the work-for-hire model, it will bring more limited royalties to Remedy. At that time, we estimate that the company may also launch new game projects that could generate revenue in the form of publishing contracts and development fees.

In 2027, we expect Control 2 to be released on H1, which we expect to be a very successful game. Furthermore, all previously released projects will be generating a royalty stream and new projects are likely to be in development. Control 2 royalties are also a significant contributor to our 2028 revenue forecast.

Estimate revisions	2024e	2024e	Change	2025e	2025e	Change	2026e	2026e	Change		
	MEUR / EUR	Old		New	%		Old	New		%	Old
Revenue		50.4		48.6	-4%	59.5	59.0	-1%	68.2	67.7	-1%
EBITDA		-6.6		-3.4	-49%	1.3	3.0	132%	7.0	8.0	14%
EBIT (exc. NRIs)		-12.6		-8.8	-30%	-4.3	-3.1	-29%	0.6	1.0	49%
EBIT		-12.6		-8.8	-30%	-4.3	-3.1	-29%	0.6	1.0	49%
PTP		-12.2		-8.4	-31%	-4.3	-3.1	-29%	0.6	1.0	49%
EPS (excl. NRIs)		-0.72		-0.52	-27%	-0.25	-0.18	-29%	0.04	0.06	49%
DPS		0.00		0.00		0.00	0.00		0.00	0.00	

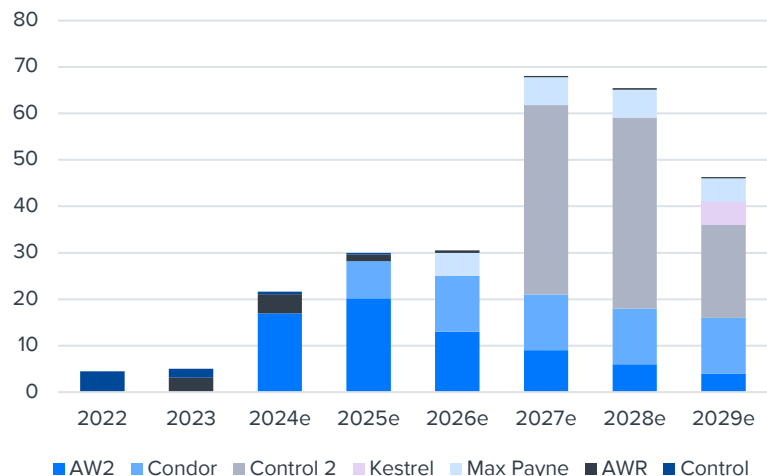
Strategy in light of game projects

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

	2022	2023	2024	2025	2026	2027	2028
Control	Royalties \$\$	Royalties \$	Royalties \$	Royalties \$			
Epic projects	Development fees \$\$\$	Alan wake 2 release Little royalties from AWR \$\$\$	Royalties \$\$\$	Royalties \$\$\$	Royalties \$\$\$	Royalties \$\$/\$\$\$	Royalties \$\$/\$\$\$
Condor	Development fees \$\$	Development fees \$/\$\$	Development fees or self-publishing ?/\$\$	Release in Q2/Q3 \$\$\$	Royalties \$\$\$	Royalties \$\$\$	Royalties \$\$\$
Control 2	Release contract \$\$	Development fees \$\$	Development fees or self-publishing ?/\$\$\$	Development fees or self-publishing ?/\$\$\$	Development fees or self-publishing ?/\$\$\$	Release in H1 \$\$\$	Royalties \$\$\$
Max Payne	Release contract \$\$	Development fees \$\$	Development fees \$\$\$	Development fees \$\$\$	Release in H1 \$\$\$	Royalties \$\$/\$\$\$	Royalties \$\$/\$\$\$
Kestrel	Development fees \$\$	Development fees \$\$	Development fees \$	Development fees \$\$	Development fees \$\$/\$\$\$	Development fees \$\$/\$\$\$	Development fees \$\$/\$\$\$
Next game projects					Development fees or self-publishing ?/\$\$\$	Development fees or self-publishing ?/\$\$\$	Development fees or self-publishing ?/\$\$\$

Underlying assumptions for revenue estimates

Roalty assumptions per game (MEUR)



Revenue and profitability



AW2 assumptions in the estimate model

	Q3'23	Q4'23	Q1'24	Q2'24	Q3'24	Q4'24	Q1'25	Q2'25	Q3'25	Q4'25
Average price (€)	60	55	55	55	50	45	45	45	45	40
Sales volume (millions of copies)	0.30	0.70	0.50	0.50	0.50	0.65	0.43	0.35	0.30	0.40
Project income (MEUR)	11	24	17	17	16	18	12	10	8	10
Remedy's royalties (MEUR)	0	0	0	0	7.8	9.1	6.0	4.9	4.2	5.0
Cumulative copies sold (million)	0.3	1.0	1.5	2.0	2.5	3.2	3.6	3.9	4.2	4.6
Cumulative project income (MEUR)	11	35	53	70	86	104	116	126	134	144
Remedy's cumulative royalties (MEUR)		0	0	0	7.8	16.9	23.0	27.9	32.1	37.1

Underlying assumptions for the calculation

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

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

Remedy's game projects and partners



Control

Released
Q3'19

Budget
~30 MEUR

Remedy's share
of the budget:

45 %⁴

Remedy's share
of revenue:

45%⁴

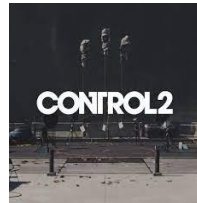
Recoup² before
the royalties to
Remedy?



Condor

Production

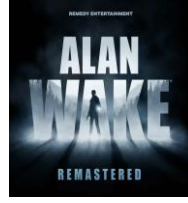
Budget
~ 25 MEUR⁴



Control 2

Proof-of-
concept

Budget
~ 50 MEUR⁴



**Alan Wake
Remastered**

Released
Q4'21

Budget
~ 8 MEUR¹



Alan Wake 2

Released
October 27, 2023

Budget
~ 50-60 MEUR¹

0%³

50%



**Max Payne
1&2 remake**

Production
readiness

Budget
~ 50-60 MEUR¹

0%

20-30%¹



Kestrel

Conceptualization

Budget
~ 40-50 MEUR¹

30-50%¹

30-50%¹



Remedy acquired all rights to the Control franchise from 505 Games on 2/2/2024 and is currently negotiating with new partners for Condor and Control 2. Self-publishing games is also an option on the table.



Rockstar Games

Tencent

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

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

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

⁴Old publishing agreement and budgets with 505 Games

Valuation

Long-term potential is attractive

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

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

We stick with the stock at current valuation to see the decisions on the Control games brand

Due to the timing of game releases, Remedy's earnings development, and therefore valuation multiples, will continue to fluctuate on an annual basis for a long time in our estimates, and the more consistent strong earnings performance enabled by the multi-project model will not materialize until the 2030s. Our projections for 2024-2025 still show a loss and high EV/S ratios (5x-4x). Averaged over 2026-2030, our projected EV/EBIT would be 25x and EV/EBITDA would be 10x, indicating that the stock is loaded with clear earnings growth expectations.

The value of our DCF model, which assumes strong long-term earnings growth, is rounded to EUR 20. Naturally, the model is very sensitive to key assumptions, and in Remedy's case, a single game can generate a big surprise in both directions. The current forecasts will also be revised once the decisions on Condor and Control 2 have been made. Given Remedy's strong negotiating position, we consider the forecast risk associated with the negotiations to be on the positive side.

We believe in Remedy's ability to create even more high-quality and successful games in the long term. Although in the short term the valuation of the stock is tight, we see no reason to rush until the situation with Control games becomes clearer. We'd like to remind that investors should continue to be prepared to tolerate large price swings, which changes in expectations for future games can cause.

Remedy would also be a very attractive acquisition target for many parties, and the significant increase in Tencent's stake in the company increased speculation in this regard. However, we do not believe a takeover bid is likely in the near term given the company's independent strategy and ownership structure.

Valuation	2024e	2025e	2026e
Share price	19.2	19.2	19.2
Number of shares, millions	13.6	13.7	13.8
Market cap	261	263	265
EV	251	261	262
P/E (adj.)	neg.	neg.	>100
P/E	neg.	neg.	>100
P/B	4.1	4.1	3.9
P/S	5.4	4.5	3.9
EV/Sales	5.2	4.4	3.9
EV/EBITDA	neg.	87.4	32.6
EV/EBIT (adj.)	neg.	neg.	>100
Payout ratio (%)	0.0 %	0%	0.0 %
Dividend yield-%	0.0 %	0.0 %	0.0 %

Source: Inderes

Gauging Remedy's long-term potential

Share price in different scenarios

Annual return 2028

Annual return 2030

EV/EBIT 12x

Revenue (MEUR)

EBIT-%	100	125	150	175	200
25%	23.6	28.9	34.3	39.6	45.0
30%	27.9	34.3	40.7	47.1	53.6
35%	32.1	39.6	47.1	54.6	62.1
40%	36.4	45.0	53.6	62.1	70.7

EV/EBIT 12x

Revenue (MEUR)

EBIT-%	100	125	150	175	200
25%	4%	9%	13%	17%	20%
30%	8%	13%	17%	21%	25%
35%	12%	17%	21%	25%	29%
40%	15%	20%	25%	29%	32%

EV/EBIT 12x

Revenue (MEUR)

EBIT-%	100	125	150	175	200
25%	3%	6%	9%	11%	14%
30%	6%	9%	12%	14%	17%
35%	8%	11%	14%	17%	19%
40%	10%	14%	17%	19%	22%

EV/EBIT 16x

Revenue (MEUR)

EBIT-%	100	125	150	175	200
25%	30.7	37.9	45.0	52.1	59.3
30%	36.4	45.0	53.6	62.1	70.7
35%	42.1	52.1	62.1	72.1	82.1
40%	47.9	59.3	70.7	82.1	93.6

EV/EBIT 16x

Revenue (MEUR)

EBIT-%	100	125	150	175	200
25%	14%	20%	26%	31%	36%
30%	19%	26%	32%	38%	43%
35%	24%	31%	38%	43%	49%
40%	28%	36%	43%	49%	54%

EV/EBIT 16x

Revenue (MEUR)

EBIT-%	100	125	150	175	200
25%	7%	11%	14%	16%	18%
30%	10%	14%	17%	19%	22%
35%	13%	16%	19%	22%	24%
40%	15%	18%	22%	24%	27%

EV/EBIT 20x

Revenue (MEUR)

EBIT-%	100	125	150	175	200
25%	37.9	46.8	55.7	64.6	73.6
30%	45.0	55.7	66.4	77.1	87.9
35%	52.1	64.6	77.1	89.6	102.1
40%	59.3	73.6	87.9	102.1	116.4

EV/EBIT 20x

Revenue (MEUR)

EBIT-%	100	125	150	175	200
25%	20%	27%	34%	39%	44%
30%	26%	34%	40%	46%	51%
35%	31%	39%	46%	52%	58%
40%	36%	44%	51%	58%	63%

EV/EBIT 20x

Revenue (MEUR)

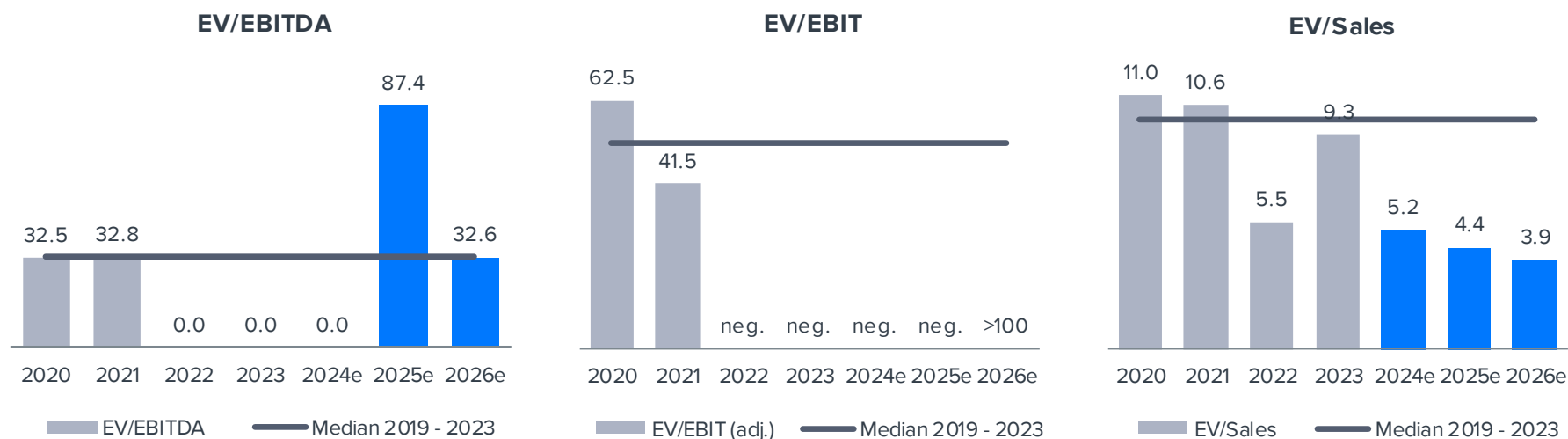
EBIT-%	100	125	150	175	200
25%	11%	14%	17%	20%	22%
30%	14%	17%	20%	23%	26%
35%	16%	20%	23%	26%	28%
40%	18%	22%	26%	28%	31%

- The scenarios aim to illustrate the expected return on Remedy's share if the company achieves a sustainable revenue of 100-200 MEUR with an EBIT margin of 25-40% in 2028 or 2030.
- If the company's current game projects perform very well, we see the revenue and profitability potential to reach these levels.
- The scenarios assume Remedy's net cash to be 30 MEUR 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.

Valuation table

Valuation	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Share price	39.0	39.7	21.9	25.4	19.2	19.2	19.2	19.2
Number of shares, millions	12.1	13.1	13.4	13.5	13.6	13.7	13.8	13.9
Market cap	471	528	294	343	261	263	265	266
EV	453	473	241	316	251	261	262	238
P/E (adj.)	87.0	59.0	neg.	neg.	neg.	neg.	>100	14.2
P/E	87.0	59.0	neg.	neg.	neg.	neg.	>100	14.2
P/B	13.0	6.0	3.3	5.1	4.1	4.1	3.9	3.0
P/S	11.5	11.8	6.7	10.1	5.4	4.5	3.9	2.6
EV/Sales	11.0	10.6	5.5	9.3	5.2	4.4	3.9	2.4
EV/EBITDA	32.5	32.8	>100	neg.	neg.	87.4	32.6	6.0
EV/EBIT (adj.)	62.5	41.5	neg.	neg.	neg.	neg.	>100	10.1
Payout ratio (%)	36.2 %	25.7 %	neg.	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Dividend yield-%	0.4 %	0.4 %	0.5 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %

Source: Inderes



Peer group valuation

Peer group valuation	Market cap	EV	EV/EBIT		EV/EBITDA		EV/S		Lv:n kasvu-%		EBIT-%		
Company	MEUR	MEUR	2024e	2025e	2024e	2025e	2024e	2025e	2024e	2025e	2024e	2025e	
Frontier Developments	96	98					4.1	1.0	0.9	-19%	7%	-32%	-8%
Embracer	2973	4489	7.3	8.1	4.8	4.5	1.2	1.2	16%	2%	17%	15%	
Starbreeze	26	5			1.1	8.0	0.4	1.8	-75%	-22%	-55%	-36%	
CD Projekt	2685	2488	44.9	77.8	29.2	46.7	13.5	16.4	-32%	-17%	30%	21%	
Paradox Interactive	1493	1392	17.4	14.4	8.6	7.9	6.0	5.6	8%	6%	34%	39%	
Team17	463	417	9.7	9.0	8.6	8.1	2.3	2.2	6%	4%	23%	24%	
Playway	453	402	7.6	6.4	7.5	6.3	4.8	4.2	18%	14%	63%	66%	
11 Bit Studios	300	290	6.7	7.3	5.6	5.9	3.8	3.7	438%	1%	56%	52%	
Enad Global 7	103	69	3.4	3.2	2.0	1.5	0.4	0.4	-12%	15%	13%	12%	
Thunderful Group	12	47	8.3	3.7	1.9	1.5	0.2	0.2	-14%	7%	3%	5%	
Tinybuild	24	22			18.0	5.8	0.5	0.5	-4%	7%	-10%	-1%	
Cl Games	66	73	14.3	12.4	4.8	5.2	3.0	2.7	-54%	12%	21%	22%	
Electronic Arts	32017	30871	14.3	13.4	12.8	12.1	4.4	4.3	6%	3%	31%	32%	
Take-Two Interactive	23097	24946	47.4	19.3	39.0	17.9	5.0	3.8	1%	31%	11%	20%	
Ubisoft	2781	3963	11.0	9.3	4.2	3.9	1.8	1.7	11%	7%	16%	18%	
Remedy (Inderes)	261	251	-28.6	-85.0	-74.1	87.4	5.2	4.4	43%	21%	-18%	-5%	
Average			16.0	15.4	10.6	9.3	3.2	3.3	18%	5%	14%	18%	
Median			10.4	9.2	6.6	5.9	2.3	2.2	1%	7%	17%	19%	
Diff-% to median			-	-	-	-	128%	103%					

Source: Refinitiv / Inderes

Income statement

Income statement	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24	Q2'24e	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
Revenue	43.6	6.9	8.9	7.8	10.3	33.9	10.8	7.5	14.6	15.7	48.6	59.0	67.7	101
Development fees	39.1	6.4	7.9	6.7	7.6	28.8	9.0	6.2	5.9	5.9	27.0	29.0	37.2	33.0
Royalties	4.5	0.5	1.0	1.1	2.7	5.2	1.8	1.3	8.7	9.8	21.6	30.0	30.5	68.1
EBITDA	1.9	-4.9	-4.0	-4.2	-3.9	-17.0	-1.2	-5.3	1.4	1.7	-3.4	3.0	8.0	40.0
Depreciation	-2.5	-0.7	-0.8	-1.3	-8.9	-11.7	-0.9	-1.5	-1.5	-1.5	-5.4	-6.1	-7.1	-16.5
EBIT (excl. NRI)	-0.6	-5.6	-4.8	-5.5	-12.7	-28.6	-2.1	-6.8	-0.1	0.2	-8.8	-3.1	1.0	23.6
EBIT	-0.6	-5.6	-4.8	-5.5	-12.7	-28.6	-2.1	-6.8	-0.1	0.2	-8.8	-3.1	1.0	23.6
Net financial items	-0.6	0.0	0.4	0.0	0.7	1.1	0.1	0.1	0.1	0.1	0.4	0.0	0.0	-0.1
PTP	-1.2	-5.6	-4.4	-5.5	-12.0	-27.5	-2.0	-6.7	0.0	0.3	-8.4	-3.1	1.0	23.5
Taxes	-0.5	0.0	1.7	1.1	2.1	4.9	0.0	1.3	0.0	-0.1	1.3	0.6	-0.2	-4.7
Net earnings	-1.7	-5.6	-2.7	-4.4	-9.9	-22.7	-2.0	-5.4	0.0	0.3	-7.1	-2.5	0.8	18.8
EPS (adj.)	-0.13	-0.42	-0.20	-0.33	-0.74	-1.68	-0.15	-0.39	0.00	0.02	-0.52	-0.18	0.06	1.35
EPS (rep.)	-0.13	-0.42	-0.20	-0.33	-0.74	-1.68	-0.15	-0.39	0.00	0.02	-0.52	-0.18	0.06	1.35
Key figures	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24	Q2'24e	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
Revenue growth-%	-2.5 %	-45.4 %	-5.3 %	-1.1 %	-24.4 %	-22.2 %	56.2 %	-15.8 %	86.4 %	52.9 %	43.3 %	21.4 %	14.8 %	49.3 %
EBITDA-%	4.4 %	-71.6 %	-44.7 %	-53.4 %	-37.4 %	-50.0 %	-11.2 %	-70.7 %	9.4 %	11.1 %	-7.0 %	5.1 %	11.9 %	39.6 %
Adjusted EBIT-%	-1.3 %	-81.0 %	-53.7 %	-70.5 %	-123.6 %	-84.4 %	-19.3 %	-90.7 %	-0.9 %	1.5 %	-18.0 %	-5.2 %	1.4 %	23.3 %
Net earnings-%	-4.0 %	-81.6 %	-30.0 %	-56.7 %	-96.3 %	-66.8 %	-18.5 %	-71.5 %	-0.1 %	1.7 %	-14.6 %	-4.2 %	1.1 %	18.6 %

Source: Inderes

Balance sheet

Assets	2022	2023	2024e	2025e	2026e
Non-current assets	28.4	31.9	46.5	55.4	59.4
Goodwill	0.0	0.0	0.0	0.0	0.0
Intangible assets	23.3	19.3	34.6	44.8	50.0
Tangible assets	4.3	6.5	5.8	4.6	3.3
Associated companies	0.0	0.0	0.0	0.0	0.0
Other investments	0.0	0.0	0.0	0.0	0.0
Other non-current assets	0.8	1.0	1.0	1.0	1.0
Deferred tax assets	0.0	5.0	5.0	5.0	5.0
Current assets	71.2	47.4	27.0	21.2	21.7
Inventories	0.0	0.0	0.0	0.0	0.0
Other current assets	0.0	0.0	0.0	0.0	0.0
Receivables	15.3	17.0	14.6	15.3	14.9
Cash and equivalents	55.9	30.4	12.4	5.9	6.8
Balance sheet total	99.6	79.3	73.5	76.7	81.0

Source: Inderes

Liabilities & equity	2022	2023	2024e	2025e	2026e
Equity	88.4	67.8	63.3	63.6	67.0
Share capital	0.1	0.1	0.1	0.1	0.1
Retained earnings	31.1	9.8	5.4	5.6	9.1
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	0.0	0.0	0.0	0.0	0.0
Other equity	57.1	57.8	57.8	57.8	57.8
Minorities	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	1.1	1.5	2.7	2.0	2.0
Deferred tax liabilities	0.0	0.1	0.0	0.0	0.0
Provisions	0.0	0.0	0.0	0.0	0.0
Interest bearing debt	1.1	1.4	2.7	2.0	2.0
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	0.0	0.0	0.0	0.0	0.0
Current liabilities	10.1	10.0	7.5	11.1	12.0
Interest bearing debt	1.8	2.2	0.2	2.3	2.5
Payables	8.2	7.8	7.3	8.8	9.5
Other current liabilities	0.0	0.0	0.0	0.0	0.0
Balance sheet total	99.6	79.3	73.5	76.7	81.0

DCF calculation

DCF model	2023	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	2034e	2035e
Revenue growth-%	-22.2 %	43.3 %	21.4 %	14.8 %	49.3 %	-7.6 %	-18.3 %	27.4 %	23.1 %	-5.0 %	9.0 %	5.0 %	3.0 %
EBIT-%	-84.4 %	-18.0 %	-5.2 %	1.4 %	23.3 %	17.3 %	-6.1 %	13.9 %	27.3 %	24.0 %	27.5 %	28.7 %	29.0 %
EBIT (operating profit)	-28.6	-8.8	-3.1	1.0	23.6	16.1	-4.6	13.5	32.7	27.3	34.1	37.3	38.9
+ Depreciation	11.7	5.4	6.1	7.1	16.5	14.2	14.8	15.4	14.2	13.6	13.3	13.2	13.1
- Paid taxes	0.0	1.2	0.6	-0.2	-4.7	-3.2	0.9	-2.7	-6.5	-5.4	-6.8	-7.4	-7.8
- Tax, financial expenses	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Tax, financial income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
- Change in working capital	-2.1	1.9	0.8	1.1	-1.2	1.0	1.4	-0.7	-1.1	0.3	-0.5	-0.3	-0.2
Operating cash flow	-18.9	-0.2	4.4	8.9	34.2	28.1	12.5	25.6	39.2	35.7	40.1	42.7	44.0
+ Change in other long-term liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
- Gross CAPEX	-10.1	-20.0	-15.0	-11.0	-11.0	-12.0	-13.0	-13.0	-13.0	-13.0	-13.0	-13.0	-13.0
Free operating cash flow	-29.0	-20.2	-10.6	-2.1	23.2	16.1	-0.5	12.6	26.2	22.7	27.1	29.7	31.0
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCFF	-29.0	-20.2	-10.6	-2.1	23.2	16.1	-0.5	12.6	26.2	22.7	27.1	29.7	31.0
Discounted FCFF		-19.1	-9.1	-1.6	16.7	10.6	-0.3	6.9	13.2	10.5	11.4	11.4	10.9
Sum of FCFF present value		241	261	270	271	255	244	244	237	224	214	202	191
Enterprise value DCF		241											
- Interest bearing debt		-3.7											
+ Cash and cash equivalents		30.4											
- Minorities		0.0											
- Dividend/capital return		0.0											
Equity value DCF		268											
Equity value DCF per share		19.7											

Cash flow distribution

2024e-2028e

-1%

2029e-2036e

31%

TERM

70%

■ 2024e-2028e ■ 2029e-2036e ■ TERM

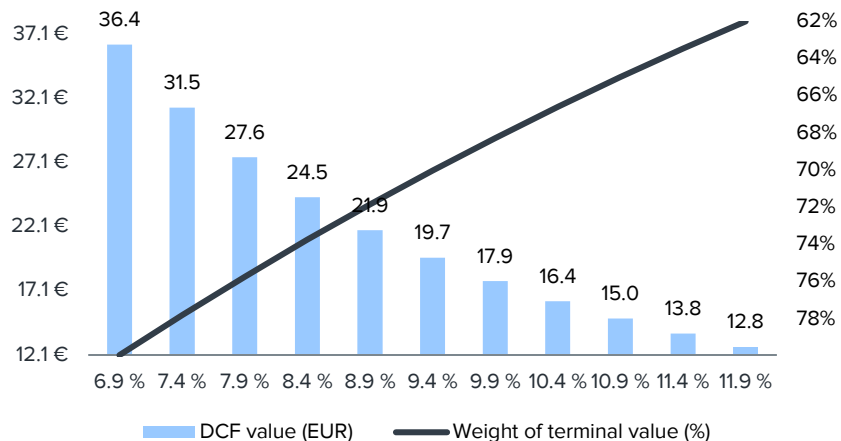
WACC

Tax-% (WACC)	20.0 %
Target debt ratio (D/(D+E))	0.0 %
Cost of debt	5.0 %
Equity Beta	1.15
Market risk premium	4.75%
Liquidity premium	1.40%
Risk free interest rate	2.5 %
Cost of equity	9.4 %
Weighted average cost of capital (WACC)	9.4 %

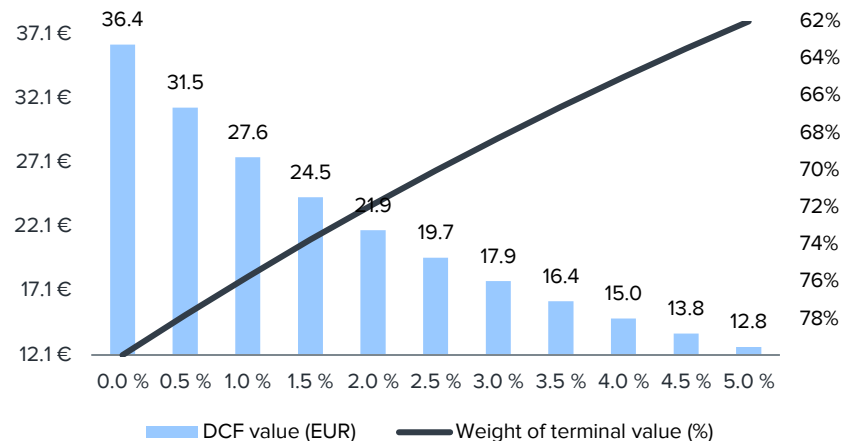
Source: Inderes

DCF sensitivity calculations and key assumptions in graphs

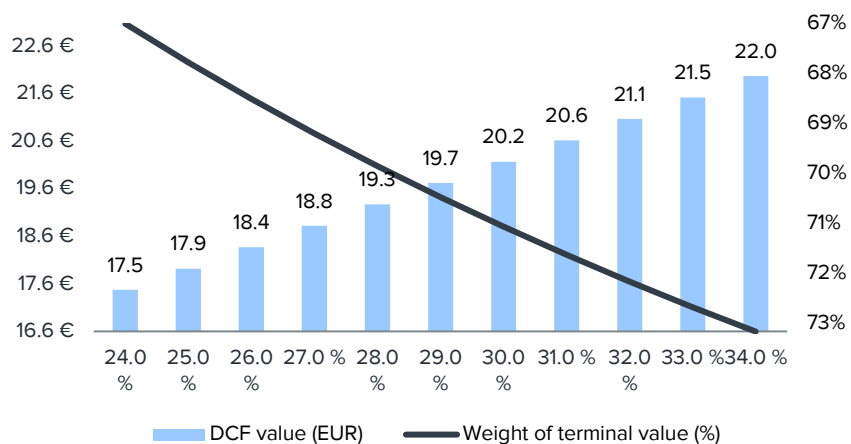
Sensitivity of DCF to changes in the WACC-%



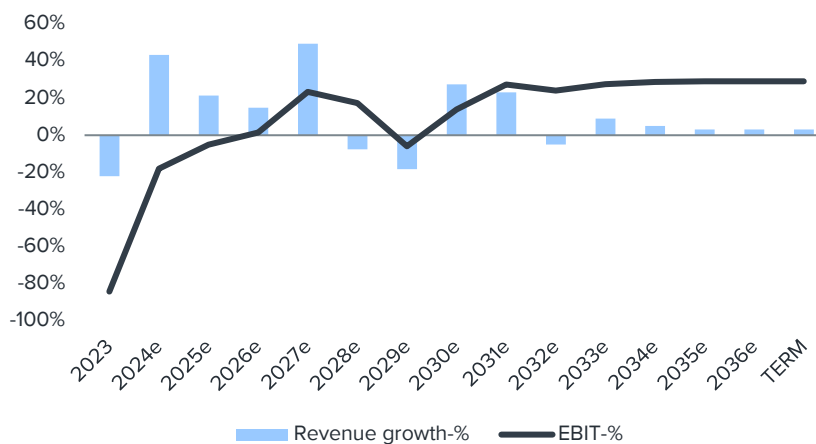
Sensitivity of DCF to changes in the risk-free rate



Sensitivity of DCF to changes in the terminal EBIT margin



Growth and profitability assumptions in the DCF calculation



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

Summary

Income statement	2021	2022	2023	2024e	2025e	Per share data	2021	2022	2023	2024e	2025e
Revenue	44.7	43.6	33.9	48.6	59.0	EPS (reported)	0.67	-0.13	-1.68	-0.52	-0.18
EBITDA	14.5	1.9	-17.0	-3.4	3.0	EPS (adj.)	0.67	-0.13	-1.68	-0.52	-0.18
EBIT	11.4	-0.6	-28.6	-8.8	-3.1	OCF / share	0.30	0.51	-1.40	-0.02	0.32
PTP	11.3	-1.2	-27.5	-8.4	-3.1	FCF / share	-0.44	-0.29	-2.15	-1.49	-0.77
Net Income	8.8	-1.7	-22.7	-7.1	-2.5	Book value / share	6.69	6.57	5.02	4.66	4.65
Extraordinary items	0.0	0.0	0.0	0.0	0.0	Dividend / share	0.17	0.10	0.00	0.00	0.00
Balance sheet	2021	2022	2023	2024e	2025e	Growth and profitability	2021	2022	2023	2024e	2025e
Balance sheet total	101.1	99.6	79.3	73.5	76.7	Revenue growth-%	9%	-3%	-22%	43%	21%
Equity capital	87.4	88.4	67.8	63.3	63.6	EBITDA growth-%	4%	-87%	-990%	-80%	-188%
Goodwill	0.0	0.0	0.0	0.0	0.0	EBIT (adj.) growth-%	57%	-105%	4985%	-69%	-65%
Net debt	-54.7	-52.9	-26.8	-9.5	-1.6	EPS (adj.) growth-%	50%	-119%	1209%	-69%	-66%
Cash flow	2021	2022	2023	2024e	2025e	EBITDA-%	32.3 %	4.4 %	-50.0 %	-7.0 %	5.1 %
EBITDA	14.5	1.9	-17.0	-3.4	3.0	EBIT (adj.)-%	25.5 %	-1.3 %	-84.4 %	-18.0 %	-5.2 %
Change in working capital	-7.7	5.6	-2.1	1.9	0.8	EBIT-%	25.5 %	-1.3 %	-84.4 %	-18.0 %	-5.2 %
Operating cash flow	4.0	6.8	-18.9	-0.2	4.4	ROE-%	14.2 %	-2.0 %	-29.0 %	-10.8 %	-3.9 %
CAPEX	-9.8	-10.8	-10.1	-20.0	-15.0	ROI-%	17.1 %	-0.6 %	-35.2 %	-12.7 %	-4.6 %
Free cash flow	-5.8	-4.0	-29.0	-20.2	-10.6	Equity ratio	86.4 %	88.8 %	85.5 %	86.1 %	82.9 %
						Gearing	-62.5 %	-59.8 %	-39.5 %	-15.1 %	-2.6 %
Valuation multiples	2021	2022	2023	2024e	2025e						
EV/S	10.6	5.5	9.3	5.2	4.4						
EV/EBITDA (adj.)	32.8	>100	neg.	neg.	87.4						
EV/EBIT (adj.)	41.5	neg.	neg.	neg.	neg.						
P/E (adj.)	59.0	neg.	neg.	neg.	neg.						
P/B	6.0	3.3	5.1	4.1	4.1						
Dividend-%	0.4 %	0.5 %	0.0 %	0.0 %	0.0 %						

Source: Inderes

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Accumulate	The 12-month risk-adjusted expected shareholder return of the share is attractive
Reduce	The 12-month risk-adjusted expected shareholder return of the share is weak
Sell	The 12-month risk-adjusted expected shareholder return of the share is very weak

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Recommendation history (>12 mo)

Date	Recommendation	Target	Share price
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 €
10/27/2023	Accumulate	30.00 €	27.00 €
11/1/2023	Accumulate	30.00 €	27.95 €
11/16/2023	Reduce	29.00 €	28.85 €
2/7/2024	Reduce	21.00 €	21.60 €
2/13/2024	Accumulate	21.00 €	17.62 €
2/19/2024	Accumulate	19.00 €	17.02 €
3/21/2024	Accumulate	19.00 €	16.70 €
4/30/2024	Accumulate	20.00 €	19.20 €



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Mikael Rautanen
2014, 2016, 2017, 2019



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



Olli Koponen
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