

CI Games: New Strategy to ensure efficiency and quality

CI Games Research Update 2024-10-09 08:00 Updated 2024-10-09 08:55

On September 27, CI Games published its first-half report for 2024. Somewhat weaker than expected sales were boosted by a distribution deal with Microsoft Game Pass for "Lord of the Fallen". The company communicated it will focus more on its two core IPs in the coming year, which means "Project Survive" will not be released before 2029 at the earliest. The company has recruited a veteran in the industry who will manage and oversee all three projects in its game pipeline with a new "player-first" approach.



Tomas Otterbeck



John Westborg

Veteran to manage its new multi-project model

In 2024, CI Games recruited Tom O'Connor as Senior Vice President of Development. He most recently worked as Senior Director of Production at Tencent Games, managing its western game studios' overall strategy. With this multi-project model, all teams will work more efficiently, sharing both knowledge and talents. The company will embrace a "player-first" approach, where teams work closer with test groups in more frequent iterations to evaluate and validate new content and ideas.

"Project Survive" create short-term volatility

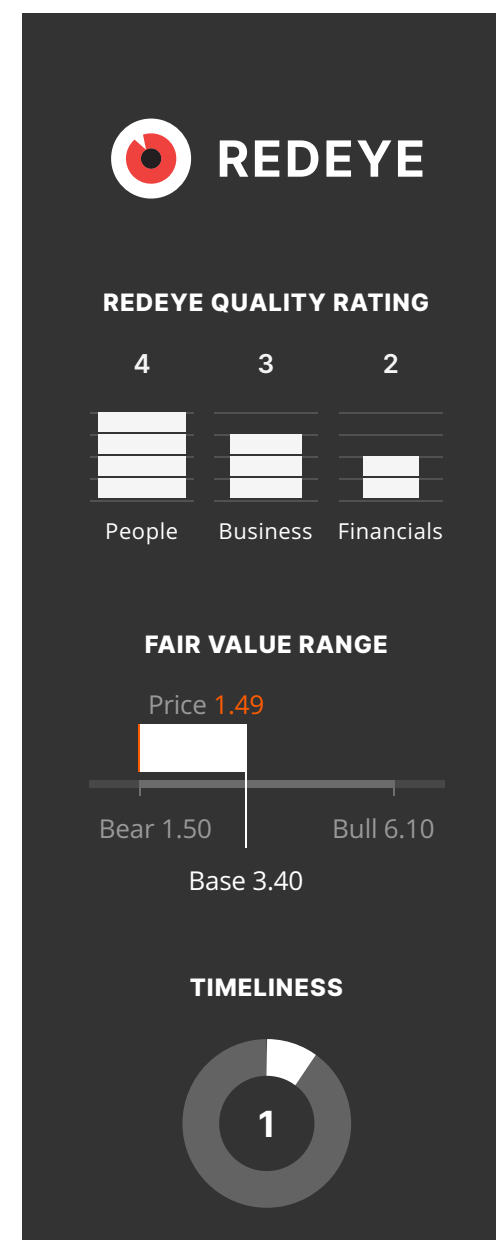
CI Games decision to focus on core IPs until 2028 has resulted in a postponed release of the survival-game that was expected to have its soft-launch (called Early Access) in 2025. This will, however, enable an earlier-than-expected launch of the next "evolved" chapter in the Sniper Ghost Warrior series.

New estimates and valuation

We have updated our estimates for 2024-2028. Our new valuation range is PLN1.5-PLN6.1 per share (PLN2.0-PLN6.8), with a base case of PLN3.4 per share (PLN4.8). At current levels the stock has a negative EV/EBIT multiple in 2025 and 2.6x EV/EBIT in 2026.

Key financials

| | CI Games | | | |
|----------------|----------|--------|--------|-------|
| PLNm | 2023 | 2024e | 2025e | 2026e |
| Revenues | 245.0 | 83.3 | 58.0 | 252.0 |
| Revenue Growth | 332% | -66.0% | -30.4% | 334% |
| EBIT | 31.5 | -5.1 | -14.2 | 161.9 |
| EBIT Margin | 12.9% | -6.1% | -24.5% | 64.2% |
| Net Income | 14.5 | -6.6 | -11.5 | 131.1 |
| EV/Sales | 1.2 | 3.4 | 5.5 | - |
| EV/EBIT | 9.6 | -56.2 | -22.6 | 1.1 |



KEY STATS

| | |
|--------------------|------------|
| Market Cap | 274.4 MPLN |
| Entprs. Value (EV) | 286.2 MPLN |
| Net Debt (2024e) | 11.8 MPLN |
| 30 Day Avg Vol | 181 K |
| Shares Outstanding | 182.9M |
| Price / Earnings | N/A |
| PEG | 0.2x |
| Dividend Yield | N/A |

Data from 2024-10-09 08:55

IMPORTANT INFORMATION

All information regarding limitation of liability and potential conflicts of interest can be found at the end of the report.

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Investment thesis

Case

High quality game developer/publisher at discount

CI Games two internal IPs are highly popular and have sold over 20 million copies to date. Both Sniper Ghost Warrior (SGW) and Lords of the Fallen (LoF) have a stable, engaged player base to capitalize on. CI Games targets mid- and hardcore gamers who are less price-sensitive, which should support pricing power over time. Its game portfolio has an average Metacritic score of 75/100, indicating its development quality. Between 2026 and 2028, the company plan to release one new internally developed game each year. During 2026 and 2027 the company will focus on its two already proven franchises. In 2026, we estimate that the sequel to “Lords of the Fallen” will be released. EPIC agreed to make a major investment in the game for PC exclusivity. The next game within the “Sniper Ghost Warrior” series is currently called “Evolve,” signaling it will add a new focus element borrowing key mechanics from the survival genre. With a planned release in 2028, CI Games is working on a new IP set in Action-RPG fantasy genre. All three games will be built on the Unreal 5 engine, leveraging the know-how the company has established. The company will of course seek and negotiate with potential distribution partners on all games. CI Games have a score of 4 out of 5 in Redeyes Rating regarding “People”. CEO and founder Marek Tyminski has served at the company since 2002 and owns more than 25% of the company together with his wife. The remaining senior management, all having more than 20 years of experience in the industry worldwide. Furthermore, key personnel among the senior management are incentivized to stay for a long time with different option-based programs. All studios are decentralized, keeping an entrepreneurial mindset. One important thing for CI Games succeeding to attract industry veterans is its 100% remote policy, meaning no obligatory office time for employees.

Evidence

Sequels generate stable ROI

In 2021, CI Games released a sequel game on its beloved franchise SGW. The new game came with improved gameplay based on player feedback from previous games. The game has outperformed the latest game and was recouped after 2 months. According to our estimates, the game has generated sales that are 3 times its budget. We estimate that LoF recouped more than its development budget in 2023. However, with a very large marketing budget, we expect the game to be profitable in late 2023.

Challenge

Oversupply of games

The market for video games has been more crowded than ever. Most of all mid-budget games have underperformed in 2022-2023. As a result, many smaller game studios have been struggling to reach profitability in new and small IPs.

Challenge

Concentration risks

Given CI Games' small game portfolio, further earnings growth is strongly correlated with the success of coming game releases. However, should those releases fail to meet market expectations, there are clear risks of steep drops in share price.

Valuation

Room for multiple expansion

We expect CI Games to deliver solid earnings growth in the coming years (2026-2028) on the back of a strong pipeline of games, which likely also will lower the concentration risk in its game portfolio.

Strategy update: Player-first approach and efficiency

In 2024, CI Games recruited Tom O'Connor as Senior Vice President of Development. He most recently worked as Senior Director of Production at Tencent Games, managing its western game studios' overall strategy. Before that, he spent 15 years in a similar role at PlayStation. O'Connor will lead and oversee game production across all projects to secure CI Games' newly established multi-project model. Both studio heads and the quality assurance team will now report to O'Connor. With this multi-project model, all teams will work more efficiently, sharing both knowledge and talents.

During the CI Games earnings call on September 27, O'Connor explained in detail its "player-first" approach, where the teams work closer with test groups in more frequent iterations to evaluate and validate new content and ideas. Similar to Remedy, for example, pre-production will probably take longer than usual, but these "preparation stages" will also cost less because they will occupy smaller teams. When the project has finished its last phase in pre-production, called "production readiness," it reaches full production with much larger development teams.

CI Games also made it clear that the company has learned some lessons from its major marketing campaign with its latest game, Lords of the Fallen (LOTF). To summarize, the company will work smarter and more data-driven targeted marketing campaigns.

Game pipeline

This report will focus on the game pipeline until 2028. During this period, CI Games plans to release three games, one each year from 2026 to 2028. The big difference between our last research update is that "Project Survive" has been postponed to an unenforceable future, most likely with a release in 2029 at the earliest. CI Games will focus on its two well-known IPs until 2028, which is a good thing from a risk perspective.



Project III (planned release 2026)

Project III, with a planned release in 2026, will be the next game in the "Lords of the Fallen" (LOTF) series. The game is developed in the Unreal 5 engine by its internally owned studio Hexworks yet again, which saves both time and money in many ways, as CI Games already has lots of code and graphical models from the latest game in the series. The game is already in full-production. With a growing install base after the recent LOTF game, the company plans to embrace a more cinematic style and optionality regarding difficulty levels.

CI Games has also likely secured a significant portion of the development budget after signing a PC-exclusive deal with Epic Games. Considering comments in the media from Epic Games CEO and founder Tim Sweeney, who openly said that the company's investments in exclusives have often been bad investments, we will stay on the conservative side in our assumptions. The size of the development budget is PLN115m (USD30m), which is a relatively small budget from Epic's perspective, which makes us believe that Epic could invest a significant proportion of the budget, meaning PLN55-100m (USD15-25m). Furthermore, we estimate that the EPIC Mega Grant will be portioned out at different milestones during 2026, with the majority received in H2 2026.

Sales estimates

We have decided to take a more conservative stance regarding Project III's game sales, with lower sales on PC due to no release on Steam during the first year. Our new estimate is c1.4m

(1.6m) units sold, with gross sales of PLN286m (USD72.7m), estimating an average price per unit of USD52. Furthermore, as Project III is an EPIC-exclusive game on PC, we estimate that the platform fees will be significantly lower for PC than they were for its predecessor. This results in net sales of PLN215m (USD54m) after distribution fees of around 25%.

LOTF generated net sales of PLN200m during its first three months. However, the game had a development cost of 50% more than its potential successor. Therefore, we expect a much better return on investment in "Project III". We expect the developer can reuse much knowledge, data code and art from LOTF and therefore be more cost efficient the second time.

Sniper Ghost Warrior Evolved (planned release 2027)

Sniper Ghost Warrior (SGW) is its evergreen title, having sold more than 13 million units worldwide across its five games. SGW Contracts 2 has been the company's strongest revenue contributor in 2021 and 2022. The game will be developed by CI Games' core development team, together with external co-development studios. Like all games in the pipeline, it will be developed in Unreal 5. The project is named "Evolved" due to the fact that it will include a new component in its gameplay, namely survival. With "Project Survive" postponed many years in the future, the company will integrate some of the ideas and assets from that project into this game instead. The games industry often combines different genres, often with surprisingly good results, and we believe a sniper game combined with survival elements sounds like a sound and interesting blend.

We believe CI Games is targeting a development budget of approximately PLN40-60m (USD10-15m) for the upcoming SGW game.

Project H (planned release 2028)

The first new IP created by CI Games is planned to be released in 2028. The game will be developed by the internal studio Underdog Studio, which is the same studio that worked on Project Survive. The game will be an Action-RPG, similar to the LotF. However, it will be within the fantasy genre, meaning a brighter tone than LOTF, which appeals to a larger target audience. The company will build upon the "know-how" established from the previous games created in Unreal 5, using the same systems and architecture. To be as cost-effective as possible, the project is planned to be in pre-production until late 2025. This will be a cross-studio production, where the team working on LOTF will move to this project as soon as possible when full production is finished on LOTF.

Financial projections

LOTF: Sales estimates for 2024 and 2025

CI Games will not release any paid DLCs during 2024. The company believes it will get a better return on investments (ROI) to allocate resources to "Project III". Lords of the Fallen is also a better game today than it was at the release in October 2023. CI Games has optimized the game, running at a smooth frame rate of 60fps on consoles. The company has also listened to the feedback from players and balanced the difficulty level better in the game.

We are adjusting our sales estimate for the game from PLN75m to PLN63m for the full year 2024. During the first half, it was announced that CI Games had signed a deal with Microsoft Game Pass. We expect that LOTF generated net sales of approximately PLN43m in H1 2024. For 2025, we pencil out sales of approximately PLN35m from LOTF.

Estimate changes

2024

We expect LOTF to be the strongest revenue contributor in 2024, representing approximately 76% of sales. We estimate that the other 24% was generated from a strong back catalog of other released games. We estimate total net sales of PLN25m in H2 2024, which in total for the full year means sales of PLN83m (previous PLN92m). With a normal sales cycle, LOTF should generate less money in H2 than in H1. If we assume the Game Pass deal generated at least PLN20m initially, revenue from direct game sales was around PLN20m in H1 for LOTF. During H2 we expect around PLN14m in game sales from LOTF.

Net sales 2024e: PLN83m (PLN92m)

EBIT 2024e: PLN-5m (PLN20m)

2025

With "Project Survive" postponed to an unforeseeable future, the major revenue driver for 2025 has disappeared. We expect CI Games will go back to more normal sales volumes generated by its back catalog. We lower our sales estimate to PLN58m (previous PLN165m).

Net sales 2025e: PLN58m (PLN165m)

EBIT 2025e: PLN-14m (PLN42m)

2026

With an unchanged development budget for Project III, we reiterate our sales projection for the game. CI Games is planning to make its sequel more cinematic than its predecessor from 2023 to attract larger audiences. However, this is not enough new information to make any positive adjustments to our sales estimate for this game at the moment. In our previous sales forecast, we expected a full release of Project Survive to PC and console, a game that is set on hold

Furthermore, we expect the PC Exclusive deal with Epic Games to contribute approximately PLN75m (USD17m) in 2026. The payment from Epic is attributable to "other revenues" in our financial model and is, therefore, not included in our net sales forecast.

Net sales 2026e: PLN252m (PLN393m)

EBIT 2026e: PLN162m (PLN145m)

On the positive side, the postponed "Project Survive" means that the next Sniper Ghost Warrior will be released earlier than previously expected. In 2027, we estimate sales of PLN160m with an EBIT of PLN48m. We expect that this game will follow the historical pattern and have a lot smaller budget than LOTF. We, however, assume that CI Games will have stronger back catalog sales than usual, boosted by the LOTF game released in 2026.

Our estimates are based on assumptions about when the coming games will be released. Given CI Games' rather small game portfolio, potential delays, calendar effects, and the performance of

individual releases could greatly impact our estimates.

Game development studios tend to have high fixed costs and operate with high margins in case of successful games. Selling expenses tend to vary in accordance with game releases, which is why we expect an uptick in selling expenses during the period 2026-2028. In addition, as the company expands its game portfolio, new employees are required to scale up the organization.

| CI Games: Redeye estimates | | | | | | | | |
|----------------------------|-------------|-------------|-------------|-------------|--------------|--------------|--------------|--------------|
| | Q1 2024 | Q2 2024 | Q3 2024e | Q4 2024e | 2024e | 2025e | 2026e | 2027e |
| Net sales | 21.8 | 36.5 | 10.0 | 15.0 | 83.3 | 58.0 | 252.0 | 160.0 |
| COGS | -14.7 | -26.5 | -9.8 | -10.2 | -61.3 | -38.3 | -98.3 | -62.4 |
| Gross profit | 7.1 | 10.0 | 0.2 | 4.8 | 22.1 | 19.7 | 153.7 | 97.6 |
| <i>Gross margin %</i> | 32% | 27% | 2% | 32% | 26% | 34% | 61% | 61% |
| Other operating revenues | 0.0 | 1.3 | 0.0 | 0.0 | 1.3 | 0.0 | 75.0 | 0.0 |
| Selling costs | -2.7 | -2.8 | -2.5 | -2.3 | -10.3 | -14.0 | -43.0 | -24.0 |
| General & admin costs | -4.7 | -4.0 | -4.2 | -4.0 | -16.8 | -18.7 | -21.2 | -22.5 |
| Total OPEX | -7.3 | -6.6 | -6.8 | -6.4 | -27.2 | -33.5 | 8.8 | -48.5 |
| EBIT | -0.3 | 3.4 | -6.6 | -1.6 | -5.1 | -14.2 | 161.9 | 48.4 |
| <i>EBIT margin %</i> | -1% | 9% | -66% | -11% | -6% | -24% | 64% | 30% |
| EBT | -0.3 | 3.1 | -7.1 | -2.1 | -6.4 | -14.2 | 161.9 | 48.4 |
| Income tax expenses | 0.3 | -0.5 | 0.0 | 0.0 | -0.2 | 2.7 | -30.8 | -9.2 |
| Net income | 0.0 | 2.6 | -7.1 | -2.1 | -6.6 | -11.5 | 131.1 | 39.2 |
| Basic EPS | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -0.1 | 0.7 | 0.2 |

Source: CI Games (historical data), Redeye research (estimates)

Peer Valuation

Currently, with no game releases until 2026, CI Games' peer valuation is not that interesting. The stock has a valuation above peers in 2024 and 2025. In 2026, however, the stock looks very cheap, with an EV/EBIT multiple of 2.6x.

| CI Games: peer table | | | | | | | | | | |
|------------------------------|---------------|-------------|-------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Company name | EV PLNm | EV/sales | | | EV/EBITDA | | | EV/EBIT | | |
| | | 2024 | 2025 | 2026 | 2024 | 2025 | 2026 | 2024 | 2025 | 2026 |
| Polish | | | | | | | | | | |
| CD projekt | 16,332 | 19.6x | 24.2x | 11.3x | 43.4x | 65.3x | 19.4x | 63.7x | 111.6x | 26.2x |
| Ten Square | 414 | 1.3x | 1.3x | 1.3x | 5.2x | 5.6x | 6.0x | 6.0x | 6.6x | 7.8x |
| Play Way | 1,498 | 5.4x | 6.0x | 0.0x | 11.3x | 15.2x | 0.0x | 11.4x | 15.2x | 0.0x |
| 11 bit studios | 657 | 2.8x | 2.7x | 2.9x | 4.1x | 3.8x | 4.1x | 5.2x | 5.2x | 6.2x |
| Median Polish | 1,078 | 4.1x | 4.3x | 2.1x | 8.2x | 10.4x | 5.0x | 8.7x | 10.9x | 7.0x |
| Average Polish | 4,725 | 7.3x | 8.5x | 3.9x | 16.0x | 22.5x | 7.4x | 21.6x | 34.7x | 10.1x |
| Nordics | | | | | | | | | | |
| Embracer | 20,362 | 1.4x | 1.3x | 1.3x | 5.3x | 4.7x | 4.4x | 8.2x | 7.5x | 6.9x |
| Paradox | 6,986 | 8.6x | 6.8x | 6.5x | 13.7x | 10.0x | 9.7x | 30.1x | 20.7x | 15.8x |
| EG7 | 362 | 0.6x | 0.5x | 0.4x | 3.3x | 2.2x | 1.6x | 7.2x | 4.4x | 3.0x |
| Remedy | 864 | 3.5x | 3.0x | 2.9x | 34.2x | 16.5x | 14.0x | 134.7x | 42.2x | 32.6x |
| Stillfront | 2,980 | 1.1x | 1.1x | 1.1x | 3.3x | 3.0x | 3.0x | 5.1x | 4.5x | 4.3x |
| G5 Entertainment | 223 | 0.4x | 0.4x | 0.4x | 2.0x | 2.1x | 1.9x | 4.6x | 4.4x | 4.0x |
| MTG | 2,060 | 1.2x | 1.2x | 1.2x | 4.5x | 4.5x | 4.3x | 7.0x | 7.1x | 6.8x |
| Median Nordics | 2,060 | 1.2x | 1.2x | 1.2x | 4.5x | 4.5x | 4.3x | 7.2x | 7.1x | 6.8x |
| Average Nordics | 4,834 | 2.4x | 2.1x | 2.0x | 9.5x | 6.2x | 5.6x | 28.1x | 12.9x | 10.5x |
| International | | | | | | | | | | |
| Playtika | 16,813 | 1.7x | 1.6x | 1.6x | 5.7x | 5.5x | 5.3x | 8.8x | 8.5x | 8.3x |
| KeyWord Studios | 11,236 | 2.7x | 2.5x | 2.3x | 14.4x | 12.9x | 11.2x | 18.6x | 16.4x | 14.7x |
| Frontier Developments | 321 | 0.9x | 0.8x | 0.8x | 484.0x | 28.2x | 5.3x | 0.0x | 0.0x | 0.0x |
| EA | 151,151 | 5.0x | 4.7x | 4.4x | 13.8x | 13.1x | 12.0x | 15.6x | 14.3x | 12.9x |
| Take Two | 119,955 | 5.1x | 3.5x | 3.5x | 36.9x | 14.5x | 13.2x | 44.8x | 16.9x | 14.1x |
| Bandai Namnco | 52,049 | 1.7x | 1.7x | 1.6x | 11.0x | 10.8x | 9.8x | 13.8x | 13.6x | 12.8x |
| Ubisoft | 12,290 | 1.6x | 1.5x | 1.4x | 4.2x | 3.3x | 3.2x | 374.9x | 11.8x | 9.5x |
| Nintendo | 196,494 | 5.3x | 3.9x | 3.5x | 18.4x | 15.3x | 13.0x | 18.6x | 14.9x | 12.4x |
| Median International | 34,431 | 2.2x | 2.1x | 1.9x | 14.1x | 13.0x | 10.5x | 17.1x | 13.9x | 12.6x |
| Average International | 70,039 | 3.0x | 2.5x | 2.4x | 73.5x | 12.9x | 9.1x | 61.9x | 12.0x | 10.6x |
| Median Group | 6,986 | 1.7x | 1.7x | 1.6x | 11.0x | 10.0x | 5.3x | 11.4x | 11.8x | 8.3x |
| Average Group | 32,266 | 3.7x | 3.6x | 2.5x | 37.8x | 12.5x | 7.4x | 41.0x | 17.1x | 10.4x |
| CI Games | 425 | 5.1x | 7.3x | 1.7x | 6.5x | 16.2x | 1.8x | neg | neg | 2.6x |

Source: Factset, Redeye

DCF Valuation

Base case

We value CI Games through a discounted cash flow (DCF) model using a weighted average cost of capital of 12%, based on our Redeye Rating model, using a risk-free rate of 3%, a terminal growth rate of 2% and a terminal EBIT of 22%. We argue that the projected pipeline and the subsequent release of new game titles will be the critical catalysts to close the valuation gap. In our base case, we assume a sales CAGR of 42% during 2024e-2028e, followed by 6% during 2029e-2038e. Toward the end of our forecast, we assume a terminal EBITDA of 43%.

| CI Games: Base case valuation | | | | |
|--|-----|------------------|------|------------|
| Assumptions | | DCF | PLNm | Per share |
| Tax rate | 20% | 2024e-2028e | 184 | 1.0 |
| WACC | 12% | 2029e-2038e | 276 | 1.5 |
| CAGR, 2024e-2028e | 27% | Terminal | 197 | 1.1 |
| CAGR, 2029e-2038e | 10% | Net debt | 32 | 0.2 |
| Shares outstanding | 183 | | | |
| Terminal value assumptions, 2039e | | Base case | | 3.4 |
| Terminal growth | 2% | Upside potential | | 111% |
| EBITDA Margin | 43% | | | |

Source: Redeye research

Bull case

In our bull case, we envision a more successful release of the company's current pipeline. We assume a sales CAGR of 36% during 2024e-2028e, followed by 8% during 2029e-2038e. Toward the end of our forecast, we assume a terminal EBITDA of 50%.

| CI Games: Bull case valuation | | | | |
|--|-----|------------------|------|------------|
| Assumptions | | DCF | PLNm | Per share |
| Tax rate | 20% | 2024e-2028e | 260 | 1.4 |
| WACC | 12% | 2029e-2038e | 486 | 2.7 |
| CAGR, 2024e-2028e | 36% | Terminal | 350 | 1.9 |
| CAGR, 2029e-2038e | 8% | Net debt | 32 | 0.2 |
| Shares outstanding | 183 | | | |
| Terminal value assumptions, 2039e | | Bull case | | 6.1 |
| Terminal growth | 2% | Upside potential | | 285% |
| EBITDA Margin | 50% | | | |

Source: Redeye research

Bear case

Our bear case envisions a less successful release of the company's current pipeline and a shorter lifetime of each game. We assume a sales CAGR of 26% during 2024e-2028e, followed by 8% during 2029e-2038e. Toward the end of our forecast, we assume a terminal EBITDA of 38%.

| CI Games: Bear case valuation | | | | |
|--|-----|--------------------|------|------------|
| Assumptions | | DCF | PLNm | Per share |
| Tax rate | 20% | 2024e-2028e | 104 | 0.6 |
| WACC | 12% | 2029e-2038e | 135 | 0.7 |
| CAGR, 2024e-2028e | 26% | Terminal | 74 | 0.4 |
| CAGR, 2029e-2038e | 8% | Net debt | 32 | 0.2 |
| Shares outstanding | 183 | | | |
| Terminal value assumptions, 2039e | | Bear Case | | 1.5 |
| Terminal growth | 2% | Potential downside | | -3% |
| EBITDA Margin | 38% | | | |

Source: Redeye research

Quality Rating

People: 4

CEO and founder Marek Tyminski has served at the company since 2002. Together with the remaining senior management, all having more than 20 years of experience in the industry worldwide. The CEO and founder still own ~29% of the outstanding shares. Furthermore, key personnel among the senior management are incentivized to stay for a long time with different option-based programs. The company has also made further strides to centralize its studios and, in June 2024, hired Tom O'Connor as Senior VP of Development, who is now in charge of everyday work within CI Games studios. Furthermore, the company has seen an increase in job applications of experienced talents which speaks for the attractiveness of working at CI Games.

The rest of the Senior management group includes Jon Tibble (VP, Global sales) has over 25 years' experience working within the gaming industry, including senior director level roles at Activision Vivendi, and over ten years at Codemasters. Ryan Hill (SNR. Brand and marketing director) has over 12 years' experience across premium brands, fashion and gaming, including a senior role at Bossa Studios. Samantha Bell is a strategic HR leader with over 16 years' experience. In 2020, she joined Sony Interactive Entertainment as HR Business Partner, before heading up the HR function at PlayStation's Firesprite studio. Finance Director Katarzyna Sermanowicz-Giza, who, prior to joining CI games, worked as a Director at Deloitte for over 19 years.

Business: 3

CI Games operate in a global digital industry that enables strong profitability. The company is entrepreneur-driven and closely connected with customers to ensure that the games meet high-quality demands. CI Games wholly owns its IPs and needs not to pay any royalties. Consequently, incremental digital sales have very high margins, illustrating the group's healthy profitability historically. However, the competition across the industry is fierce and its small game portfolio increases the risk. Due to the competitive landscape in gaming we argue that all mid-sized gaming companies, without recurring revenue and a wide revenue base has an hard time to score more than 3 in our rating model.

Financials: 2

CI Games has an asset-light business model, enabling high margins at scale. However, in recent years financials have been volatile due to its rather small game portfolio. Its small game portfolio also comes with high risks. Should its major coming game releases perform below expectations, there are high risks of a poor ROI on the latest investments. Its coming seven-pillar strategy should increase the frequency of game releases and could, over time, also broaden the game portfolio and lower the concentration risk.

Financials

Income statement

| PLNm | 2023 | 2024e | 2025e | 2026e |
|----------------------|--------|-------|-------|-------|
| Revenues | 245.0 | 83.3 | 58.0 | 252.0 |
| Cost of Revenue | 108.6 | 61.3 | 38.3 | 98.3 |
| Operating Expenses | -104.9 | -27.2 | -33.9 | 8.2 |
| EBITDA | 91.1 | 65.1 | 26.2 | 240.5 |
| Depreciation | 0.0 | 0.0 | -0.41 | -0.62 |
| Amortizations | -67.5 | -70.2 | -40.0 | -78.0 |
| EBIT | 31.5 | -5.1 | -14.2 | 161.9 |
| Shares in Associates | 0.0 | 0.0 | 0.0 | 0.0 |
| Interest Expenses | -5.2 | -2.8 | 0.0 | 0.0 |
| Net Financial Items | -5.2 | -1.3 | 0.0 | 0.0 |
| EBT | 26.3 | -6.4 | -14.2 | 161.9 |
| Income Tax Expenses | -11.8 | -0.16 | 2.7 | -30.8 |
| Net Income | 14.5 | -6.6 | -11.5 | 131.1 |

Balance sheet

Assets

Non-current assets

| PLNm | 2023 | 2024e | 2025e | 2026e |
|-------------------------------------|--------------|--------------|--------------|--------------|
| Property, Plant and Equipment (Net) | 1.4 | 1.3 | 1.2 | 1.9 |
| Goodwill | 0.0 | 0.0 | 0.0 | 0.0 |
| Intangible Assets | 168.7 | 163.5 | 187.3 | 159.7 |
| Right-of-Use Assets | 2.3 | 2.3 | 2.3 | 2.3 |
| Other Non-Current Assets | 15.2 | 15.2 | 15.2 | 15.2 |
| Total Non-Current Assets | 187.5 | 182.3 | 206.0 | 179.0 |

Current assets

| PLNm | 2023 | 2024e | 2025e | 2026e |
|-----------------------------|--------------|--------------|--------------|--------------|
| Inventories | 1.5 | 1.7 | 1.2 | 5.0 |
| Accounts Receivable | 52.3 | 11.7 | 8.1 | 35.3 |
| Other Current Assets | 3.5 | 5.2 | 7.7 | 10.5 |
| Cash Equivalents | 30.2 | 30.9 | 16.1 | 164.1 |
| Total Current Assets | 87.4 | 49.4 | 33.1 | 214.9 |
| Total Assets | 274.9 | 231.7 | 239.1 | 393.9 |

Equity and Liabilities**Equity**

| PLNm | 2023 | 2024e | 2025e | 2026e |
|--------------------------|-------|-------|-------|-------|
| Non Controlling Interest | 0.0 | 0.0 | 0.0 | 0.0 |
| Shareholder's Equity | 160.3 | 153.2 | 144.3 | 276.9 |

Non-current liabilities

| PLNm | 2023 | 2024e | 2025e | 2026e |
|--------------------------------------|-------------|-------------|-------------|-------------|
| Long Term Debt | 0.0 | 0.0 | 0.0 | 0.0 |
| Long Term Lease Liabilities | 1.4 | 0.36 | -0.54 | -0.54 |
| Other Non-Current Lease Liabilities | 21.7 | 21.7 | 21.7 | 21.7 |
| Total Non-Current Liabilities | 23.1 | 22.1 | 21.2 | 21.2 |

Current liabilities

| PLNm | 2023 | 2024e | 2025e | 2026e |
|-------------------------------------|--------------|--------------|--------------|--------------|
| Short Term Debt | 57.8 | 42.8 | 62.8 | 62.8 |
| Short Term Lease Liabilities | 0.0 | 0.0 | 0.0 | 0.0 |
| Accounts Payable | 29.6 | 9.2 | 6.4 | 27.7 |
| Other Current Liabilities | 4.3 | 4.6 | 4.4 | 5.4 |
| Total Current Liabilities | 91.7 | 56.5 | 73.6 | 95.9 |
| Total Liabilities and Equity | 275.0 | 231.7 | 239.0 | 393.9 |

Cash flow

| PLNm | 2023 | 2024e | 2025e | 2026e |
|---------------------|-------|-------|-------|-------|
| Operating Cash Flow | 71.1 | 82.1 | 30.2 | 199.7 |
| Investing Cash Flow | -83.0 | -65.4 | -64.1 | -51.7 |
| Financing Cash Flow | 35.4 | -16.0 | 19.1 | 0.0 |

Rating definitions

Company Quality

Company Quality is based on a set of quality checks across three categories; PEOPLE, BUSINESS, FINANCE. These are the building blocks that enable a company to deliver sustained operational outperformance and attractive longterm earnings growth.

Each category is grouped into multiple sub-categories assessed by five checks. These are based on widely accepted and tested investment criteria and used by demonstrably successful investors and investment firms. Each sub-category may also include a complementary check that provides additional information to assist with investment decision-making.

If a check is successful, it is assigned a score of one point; the total successful checks are added to give a score for each sub-category. The overall score for a category is the average of all sub-category scores, based on a scale that ranges from 0 to 5 rounded up to the nearest whole number. The overall score for each category is then used to generate the size of the bar in the Company Quality graphic.

People

At the end of the day, people drive profits. Not numbers. Understanding the motivations of people behind a business is a significant part of understanding the long-term drive of the company. It all comes down to doing business with people you trust, or at least avoiding dealing with people of questionable character.

The People rating is based on quantitative scores in seven categories:

- Passion, Execution, Capital Allocation, Communication, Compensation, Ownership, and Board.

Business

If you don't understand the competitive environment and don't have a clear sense of how the business will engage customers, create value and consistently deliver that value at a profit, you won't succeed as an investor. Knowing the business model inside out will provide you some level of certainty and reduce the risk when you buy a stock.

The Business rating is based on quantitative scores grouped into five sub-categories:

- Business Scalability, Market Structure, Value Proposition, Economic Moat, and Operational Risks.

Financials

Investing is part art, part science. Financial ratios make up most of the science. Ratios are used to evaluate the financial soundness of a business. Also, these ratios are key factors that will impact a company's financial performance and valuation. However, you only need a few to determine whether a company is financially strong or weak.

The Financial rating is based on quantitative scores that are grouped into five separate categories:

- Earnings Power, Profit Margin, Growth Rate, Financial Health, and Earnings Quality.

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Disclaimer

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Redeye AB ("Redeye" or "the Company") is a specialist financial advisory boutique that focuses on small and mid-cap growth companies in the Nordic region. We focus on the technology and life science sectors. We provide services within Corporate Broking, Corporate Finance, equity research and investor relations. Our strengths are our award-winning research department, experienced advisers, a unique investor network, and the powerful distribution channel redeye.se. Redeye was founded in 1999 and since 2007 has been subject to the supervision of the Swedish Financial Supervisory Authority.

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CONFLICT OF INTERESTS

Tomas Otterbeck owns shares in CI Games.

John Westborg owns shares in the company : No.

Redeye performs/has performed services for CI Games and receives/has received compensation from these Companies in connection with this.