

CI Games

Sector: Gaming

Solid pipeline from 2025 and beyond

Redeye updates its view on CI Games post its release of Lords of the Fallen. Its next major release will reach PC (so called Early Access) in 2025. In 2026 and beyond the company plan to release at least one game every year developed by its internal studios Hexworks and Underdog. Next year CI Games will try its wings in the highly lucrative Survival-genre while we expect a sequel to Lords of the Fallen in 2026.

Lords of the Fallen will be the major contributor in 2024 as well

The highly awaited game, Lords of the Fallen (LoF), was finally released in October 2023 and is CI Games' largest game project to date. The initial reception from critics was solid (Metascore of 70-77), while the reception from players was more mixed (user score on Metacritic of 67. Several patches have already been made, optimizing the game's performance and stabilizing its difficulty. We expect the game reached sales of PLN200m in 2023.

Higher frequency of game releases will reduce earnings volatility

CI Games' new long-term strategy will focus on more frequent game releases, reducing the earnings volatility. Something we believe investors would appreciate as it also mitigates the risks on specific projects. During the next-coming three years period, we expect two internally major games and at least three publishing titles being released.

New base case of PLN 4.8(6.5)

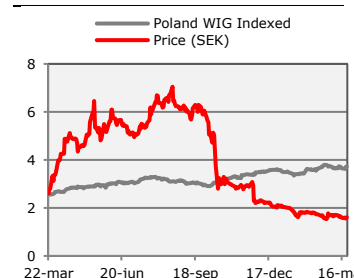
We have updated our estimates for 2024-2026. Our new valuation range is PLN2.0-PLN6.8, with a base case of PLN4.8. At our base case, CI Games would trade at 15x EV/EBIT in 2024 and less than 7x EV/EBIT in 2025.

Key Financials (PLN)	2022	2023e	2024e	2025e	2026e
Net sales	57	225	92	165	393
Sales growth	-46%	297%	-59%	79%	0%
EBITDA	16	91	69	89	201
EBIT	8	24	20	42	145
EBIT Margin (%)	14%	10%	22%	25%	37%
Net Income	9	15	15	32	116
EV/sales	9,3	1,8	3,3	1,7	0,0
EV/EBIT	66,6	16,9	15,3	6,7	1,4
P/E	45,8	26,5	27,5	12,6	3,5

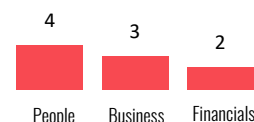
FAIR VALUE RANGE

BEAR	BASE	BULL
2.0	4.8	6.8

CI Games VERSUS Poland WIG



REDEYE RATING



KEY STATS

Ticker	CIG
Market	WA
Share Price (PLN)	1.6
Market Cap (PLNm)	290
Net Debt 2023e (PLNm)	10
Free Float (%)	50%

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Investment Thesis

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.

CI Games has expanded its game portfolio to seven different pillars, reducing earnings volatility in the coming years. From 2025, the company will release at least one new internally developed game each year. In 2025 the game studio Underdog (Sniper Ghost Warrior) will release a sandbox survival-horror game in so called "Early Access" on PC. In 2026, we expect exceptional growth when we estimate the sequel to "Lords of the Fallen" will be released combined with the full launch of its survival game. The company has managed to create cost-efficient premium products over the years with a solid return on investments (ROI). Historic EBIT margins of 20% on average between 2021-2023.

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.

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. This also mitigates the development costs and improves the ROI. 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. With an expected sequel in 2026 we estimate much better profitability in the project.

Challenges

Oversupply of games

The market for video games has been more crowded than ever. Games' investments reached unsustainable levels as an effect of the "COVID19-boost" in gaming. 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.

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.

Room for multiple expansion

We expect CI Games to deliver solid earnings growth in the coming years on the back of a strong pipeline of games, which hopefully also, should lower the concentration risk in its game portfolio. At our base case, CI Games would trade at 15x EV/EBIT in 2024 and less than 7x EV/EBIT in 2025.

Lords of the Fallen

The franchise's first game was released in 2014 and attracted more than 10 million players worldwide, with over 3 million sold units. On 13th October 2023e, Lords of the Fallen (Reboot) was finally released. The reboot is set in a dark fantasy world similar to famous games like Dark Souls and Elden Ring. Compared to the previous release back in 2014, the new game will include a much bigger "world" (c5x bigger) and an online version with two-player co-op and PVP. Enabling a higher potential and longer lifetime for the game.

Lords of the Fallen is a AAA game developed by the internal studio Hexworks and is a wholly owned IP. The game was released at a full AAA price (USD59.9 on PC and USD69.9 on console) and includes several editions to optimize correct pricing levels. The game was released on PC (Steam and Epic), PS5, and Xbox Series X/S.

For more information (marketing, reception etcetera) about Lords of the Fallen (LoF) look at our appendix at the end of this research update.

This title represents a significant investment for CI Games and is the group's largest game project to date. CI Games announced that the development budget for the game was cPLN180m (excluding licensing) and that the related marketing expenditures were cPLN80m. In addition, physical production costs of cPLN20m also materialized. The game will be amortized over five years.

CI Games also partnered with external partners regarding physical distribution, securing a minimum guarantee of sold copies and mitigating the financial risk for the project to some extent. Plaion will act as a distributor regarding physical sales of the game in Europe, while U&I Entertainment will act as a physical distributor across North and South America. These two partners will pre-pay CI Games for the physical game production as well as cover a high part of the marketing costs. The prepayment of the physical production was collected up until Q3 2023 and saw a positive contribution. The marketing efforts will be collected in Q4 2023e. Thus, these initiatives mitigate some of the financial risks while leaving some margin on the table.

Given the initial reception for the game and the minimum guarantee from distributors, while also considering some of the performance issues during the launch weekend, we expect that the game sold c1.2-1.3m copies in 2023.

The release window during the fall/winter of 2023 was fiercer than ever, and even if the Souls RPG genre is a niche, attracting a high amount of players, we expect this to have some kind of negative impact on sales during 2023. In total, we expect the release of LoF generated PLN200m in sales in 2023., with digital sales around 75%. The higher share of physical sales than usual holds back some of the average selling price and gross margin.

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". We pencil in net sales at PLN75m, boosted by aggressive discounts and a risk-adjusted platform deal. Lord 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.

In 2025, we estimate the game to generate sales of approximately PLN40m. Given the solid release of LoF, we expect further sequels based on the IP in the coming years.

Game pipeline: More frequent launches ahead

CI Games long-term strategy now consists of many different growth pillars to spur future growth. The franchises Lords of the Fallen and Sniper Ghost Warrior are both known and proven IPs. However, the strategy going forward also consists of up to four new IPs: Project Survive, Project Scorpio, and Project Potential. In addition, another potential revenue stream in the coming years, Project Expand, focuses on transmedia opportunities for its proven IPs, which indicates that CI Games will have many different revenue pillars to lean on in the coming years.

The recent release of Lords of The Fallen was the starting point of harvesting from the recent high investment phase. 2024 will be an investment year for CI Games, with no major releases. However, CI Games plans to release at least one game every year starting in 2025. The picture below summarizes its game pipeline from 2025 and the years ahead.

Upcoming game release pipeline



Source: Redeye research, CI Games

Project Survive (release 2025 and 2026)

Project Survive is currently under development by the internal studio Underdog. This IP will capitalize on the growing survival genre, be based on Unreal Engine 5, and be released on PC platforms and the latest generation consoles.

The survival genre has recently grown steadily, with a 48% increase in players in the last 18 months, according to Newzoo. In addition, successful titles in the genre, such as Valheim, achieved five million units sold in one month after release in early access mode. There is vast potential within the AAA survival genre, as well as for premium and free post-launch content and expansion updates. Other comparable AAA games in the niche, such as Green Hell (from Creepy Jar), have sold c5m units since release, while Sons of the Forest sold +2m units in the first 24 hours, yet in early access mode.

The game's development was previously outsourced using an external development studio. However, this relationship was terminated in August 2023. From now on, the project will be a fully internal project, developed by the studio Underdog, and is expected to be an even larger project and potential revenue source upon release. The expected budget for the game is PLN86m (EUR20m) before its full launch in 2026. According to our sources, it will be a supernatural monster, horror survival sandbox game.

Project Survive is expected to reach "Early Access" on the digital PC store Steam during the summer of 2025 at a price point of USD30.

Approximately one year later the game is planned to have its full launch on consoles and PC. This will be on a higher price point at USD40-50. These price points that we estimate are standard for these type of games in the industry.

For 2025e, we pencil in c1.5m units to a price of USD30, yielding gross sales of USD40m (PLN160m) during its first six months. We calculate a lower average price point than USD30 due to price differences between countries and potential discounts. We estimate net sales to be USD28m after distribution fees. (PLN115m)

In 2026e we expect the game to sell another 1.5m copies, boosted by its full launch and release on consoles. These types of games stay relevant and potentially commercially successful through regular content releases. In 2026, we estimate gross sales of USD52m for Project Survive (PLN208m). We estimate net sales to be USD36m after distribution fees (PLN142m).

Project Survival: estimated peers

Game	Genre	Release date	Estimated copies sold on Steam	Average price on steam (EUR)
 ENSHROUDED	Survival RPG	jan-24	1.2-2.8m	27
 SONS OF THE FOREST	Survival Horror	feb-23	5-8m	25
 GREEN HELL	Survival Adventure	aug-18	1.9-3m	16
 GROUNDED	Survival Adventure	jul-20	2-3.9m	25
 VALHEIM	Survival Adventure	feb-21	11-25m	17
 THE OUTLAST TRIALS	Survival Horror	mar-24	0.8-2m	29
 PALWORLD	Survival Adventure	jan-24	25-50m	29

Source: Company websites, SteamDB, SteamSpy, Redeye research

Project III (release 2026)

The studio behind Lords of the Fallen, Hexworks, intends to capitalize on the recognition and success within the Action-RPG genre. The coming title targets more ambitious gameplay options to ensure a wider audience appeal. We expect that "Project III" is the sequel to "Lord of the Fallen (2023)". The number 3 in the project name also indicate that it is the third instalment in the "Lord of the Fallen-series".

The game is expected to have a budget of around PLN120m (USD30m). The game will not be an "open-world" game like the hugely successful "Elden Ring". Due to its relatively small budget, we think that is a wise decision. Instead, we assume that the company wants to appeal to a wider audience with a better multiplayer component and a more dynamic difficulty level.

We expect c1.6m units sold, with gross sales of PLN308m (USD77m) estimating an average price per unit of USD48. This results in net sales of PLN215m (USD54m) after distribution fees around 30%.

LoF generated net sales of PLN200m during its first three months. However, the game had a development cost of 50% more than its potential predecessor. 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 LoR and therefore be more cost efficient the second time.

Project Scorpio (release 2027)

Project Scorpio is an upcoming new IP developed by the internal studio Underdog. The game will be a premium co-op tactical shooter game expected to be released in 2027 and will follow a Games as a Service (GaaS) model. A game with a GaaS model typically has recurring revenue for many years with new content released on a regular basis. A GaaS game monetize through in-game purchases, events, and lifecycle management. The internal studio Underdog has strengthened the team recently with many new key employees with solid experience from live service games.

Live service games have been one of the major growth drivers in the industry in the recent years, particularly premium AAA games, where recent multiplayer tactical shooter games have performed well, suggesting there is an underlying trend and demand regarding this sort of titles.

Sniper Ghost Warrior (release 2027-2028)

Sniper Ghost Warrior is its evergreen title and has sold more than 13 million units worldwide across its five games. Its internal studio, Underdog, and an external studio (still under review) will develop the next Sniper Ghost Warrior game, which is expected to be released in 2027 at the earliest. The new game will include co-op to further widen the player base while applying a premium post-content model to extend the game's lifetime.

Sniper Ghost Warrior Contracts 2 (SGWC2) has been the company's strongest revenue contributor in the past two years and accounted for 52% of sales in FY 2022, and 24% of sales during the first nine months in 2023e. The game has held up well since its release, supported by ongoing marketing initiatives and content updates. We estimate that the game has contributed with revenues of cPLN135m on a cumulative basis since release in June 2021. Thus, we estimate that it has generated an ROI of ~3.0x, indicating a healthy investment return. Thus, CI Games could further capitalize on an existing player base while also attracting new ones when introducing co-op. In addition, releasing new games on a proven IP mitigates the project risk, which is positive.

We believe the development budget for the upcoming SGWC game to be PLN30-45m, with a marketing budget of cPLN20m, indicating a total investment of PLN50-65m. Approximately an increase of 30% versus the previous game, SGWC2. Regarding the next Sniper Ghost Warrior game, we do not incorporate any type of platform deal in our estimates but would not rule out this in the future as it is a growing trend across the industry.

Project Potential (release 2028-2029)

Another strategic pillar of CI Games is leveraging its expertise by creating games on established external IPs. Most likely, this project is expected to be within the Dark Souls/fantasy genre. We believe there are clear opportunities to cross-sell from its Lords of the Fallen user base, which should mitigate the risk. We expect the game to be released in 2028-2029.

Publishing and other optionality

Project Expand

Project Expand aims to capitalize on its strong internal IPs and indicates that the company licenses its IPs, such as Lords of The Fallen and Sniper Ghost Warrior, to external parties. Such partnerships could include other gaming formats such as VR and mobile, transmedia segments such as movie film and TV, and other entertainment products. Licensed revenues come with low marginal costs and are thus margin accretive, even if sales are lower than own-produced games.

United Label

Founded in 2018, United Label is a publishing studio focusing on smaller but equally ambitious games and collaborating with several independent studios. The studio is partly owned by CI Games (80%), which diversifies revenue streams.

So far, the studio has released Röki, Tails of Iron, and Eldest Souls. All titles achieved critical and commercial success, with Tails of Iron being the strongest revenue contributor. The publishing studio strives to develop original IPs in the future and is planning to release three to four titles each year consistently. United Label should not be seen simply as an indie studio but as an entertainment studio that produces high-quality games. The specific cohorts engaged in the games published by United Label are often AAA players. This is essential to ensure a game's quality and to analyze the commercial risk upon release. United Label has shipped c575k units on a cumulative basis and generated lifetime sales of cPLN20m (cUSD5m). United Label aims to release one to three new titles per year. However, 2022 and 2023 have seen limited releases, but we expect a higher frequency of released games from United Label in 2024-2025e. So far, two games (Tails of Iron 2 and Beyond Galaxy Land) will hit the market in 2024e.

Tails of Iron



Source: CI Games

Financials

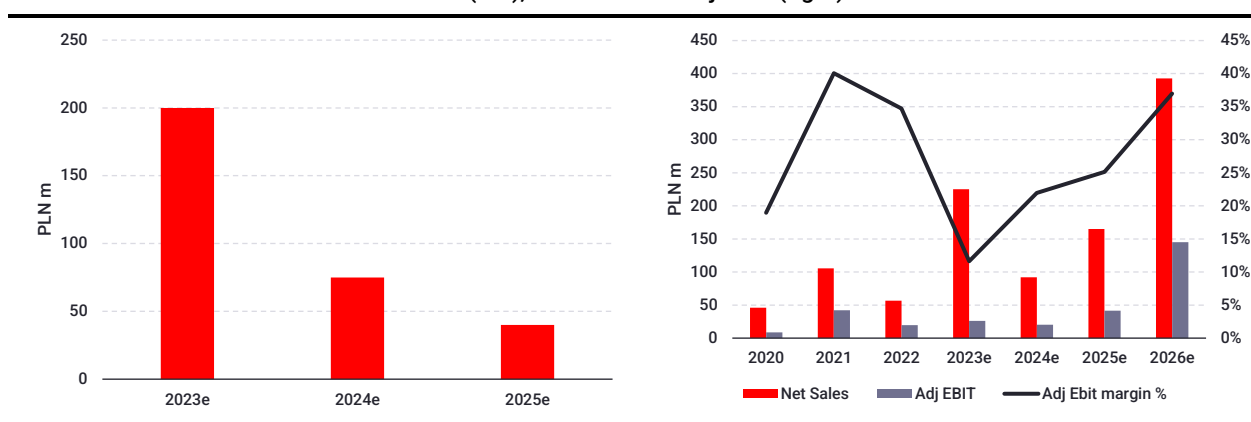
In 2023, we expect The Lords of the Fallen (LoF) to yield sales of cPLN200m, with back catalog sales of cPLN20m. In total, we expect sales of PLN225m in 2023e with an EBIT of PLN24m.

We forecast sales of PLN92m in 2024, PLN165m in 2025 and PLN392m in 2026. We expect LoF to be the strongest revenue contributor in 2023 and 2024, representing approximately 90- and 80% of sales in the respective years. For 2025e and 2026e, we expect a more diversified revenue base, driven by the release of Project Survive, Project III and stronger back catalog sales, primarily from The Lords of the Fallen.

Our estimates are based on assumptions of when the coming games are released. As such, potential delays, calendar effects, and the performance of individual releases could greatly impact our estimates, given CI Games' rather small game portfolio.

Game development studios tend to have high fixed costs and operate with high margins in case of successful games. For instance, Adj EBIT margin in 2021 reached 40%. Selling expenses tend to vary in accordance with game releases, which is why we expect an uptick in selling expenses for the coming years. In addition, as the company expands its game portfolio, new employees are required to scale up the organization. In total, we estimate EBIT margins of 20-35% in 2023-2026, dependent on gross margin mix, performance of its back catalog, and coming selling and marketing expenses regarding future game releases.

Estimated net sales from LoF 2023-2025e (left), Net sales and adj EBIT (right)



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

In January, CI Games announced a cost-cutting initiative where approximately 10% of its workforce was laid off. The marketing team was especially affected. This will increase personnel costs in Q1 and dampen the costs in Q2. Overall, the net effect will be minor overall in H1 2024. However, to deliver on its game pipeline, we expect the headcount will be slightly higher at the end of the year 2024 compared to the end of 2023.

Financing

The company has recently issued a convertible bond and raised loans to fulfill its growth agenda. However, it should be noted that the external funding has mostly been used to finance the release of LoF in 2023.

Issuance of bond

On June 29, 2023, CI Games issued a convertible bond of PLN24m (EUR6m) bearing a fixed annual interest of 8%. Bondholders have the right to receive interest payments, redeem the bonds, and acquire ordinary shares. In converting the bond into shares, the bondholders have the right to acquire up to 9m shares at a price of at least PLN5.5 per share.

Credit facilities

The PLN20m credit facility was repaid in January 2024. This credit was mostly related to the funding of LoF. Currently, the only significant debt in the company is the bond of PLN24m.

Capital raise

We have included a directed share issue of 36.6M shares times PLN 1.61 (current share price) in our financial model, which gives a dilution of 20% for existing shareholders.

P&L Estimates

(PLNm)	2022				2023				2021	2022	2023e	2024e	2025e	2026e
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4e	FY	FY	FY	FY	FY	FY
Net Sales	12,9	17,6	10,8	15,4	9,8	12,4	36,9	165,9	105,5	56,7	225,0	92,0	165,1	392,6
COGS	-4,6	-3,3	-3,9	-4,1	-3,3	-5,3	-18,7	-78,8	-39,6	-15,9	-106,2	-34,5	-61,1	-149,2
Gross Profit	8,3	14,2	6,9	11,3	6,5	7,1	18,2	87,1	65,9	40,7	118,8	57,5	104,0	243,4
Gross margin %	64,6%	80,9%	63,9%	73,4%	66,0%	57,2%	49,2%	52,5%	62,5%	71,9%	52,8%	62,5%	63,0%	62,0%
Other revenues	0,0	0,0	0,1	0,0	0,0	0,0	0,9	0,0	1,2	0,1	1,0	0,0	0,0	0,0
Selling costs	-1,8	-2,1	-6,9	-5,2	-3,1	-4,8	-11,2	-58,0	-16,3	-15,9	-77,0	-23,0	-45,0	-60,0
General & admin cost:	-2,4	-5,1	-4,7	-4,2	-4,0	-4,9	-4,8	-3,5	-7,7	-16,4	-17,1	-12,9	-16,0	-35,3
Other opex	0,0	-0,2	-0,1	-0,3	-0,1	-0,8	-0,1	-0,3	-2,8	-0,7	-1,3	-0,8	-0,8	-2,0
Total OPEX	-4,2	-7,4	-11,6	-9,7	-7,1	-10,4	-15,1	-61,8	-25,7	-32,9	-94,5	-36,7	-61,8	-97,3
EBITDA	6,3	9,0	-3,1	3,9	1,2	-1,0	9,6	81,3	60,5	16,1	91,1	68,7	88,8	200,8
Ebitda margin %	48,6%	51,4%	-28,8%	25,3%	12,2%	-8,1%	26,1%	49,0%	57,3%	28,4%	40,5%	74,7%	53,8%	51,1%
D&A	-2,1	-2,2	-1,6	-2,3	-1,8	-2,4	-7,3	-56,0	-20,2	-8,2	-67,5	-48,5	-47,3	-55,6
EBIT	4,2	6,8	-4,7	1,6	-0,6	-3,4	2,3	25,3	40,3	7,9	23,6	20,2	41,5	145,1
Ebit margin %	32,4%	38,9%	-43,9%	10,4%	-6,0%	-27,5%	6,3%	15,2%	38,2%	13,9%	10,5%	21,9%	25,1%	37,0%
Adj EBIT	4,2	7,6	1,5	6,4	0,4	-1,8	2,3	25,3	42,3	19,7	26,2	20,2	41,5	145,1
Adj Ebit margin %	32,4%	43,4%	13,5%	41,6%	4,2%	-14,6%	6,3%	15,2%	40,1%	34,7%	11,6%	21,9%	25,1%	37,0%
EBT	5,0	8,5	-3,9	2,8	-0,8	-2,7	-1,5	24,8	42,8	11,4	19,8	18,1	39,4	143,0
Tax	-0,9	0,7	0,0	-0,5	0,2	0,1	0,3	-5,2	-4,5	-2,8	-4,6	-3,4	-7,5	-27,2
Net Income	4,1	9,2	-3,9	2,3	-0,5	-2,6	-1,2	19,6	38,4	8,6	15,2	14,6	31,9	115,8
Basic EPS	0,02	0,05	-0,02	0,01	0,00	-0,02	-0,01	0,10	0,21	0,06	0,08	0,08	0,17	0,63
EBITDA - Capex	-9,4	-10,0	-26,9	-16,1	-20,7	-27,7	-11,5	66,3	18,0	-61,9	28,1	38,4	45,9	122,2
One-off items	0,0	-0,8	-6,2	-4,8	-1,0	-1,6	0,0	0,0	-2,0	-11,8	-2,6	0,0	0,0	0,0

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

Peer Valuation

On our estimates, CI Games trades at c16.9-6.7x EV/EBIT(23-25e), which is a c50-60% discount versus key Polish PC/console peers, trading at c26-21x EV/EBIT in 2023-2025e. The median EV/EBIT multiple for premium PC/console peers in 2024e is currently at c13.4x.

Company name	EV PLNm	2023	EV/S 2024	2025	2023	EV/EBITDA 2024	2025	2023	EV/EBIT 2024	2025
Polish										
11 Bit Studios	534	1,2x	1,2x	1,2x	4,7x	4,8x	5,4x	15,8x	5,9x	6,6x
Ten Square	1 192	24,3x	3,8x	3,5x	39,7x	5,4x	4,9x	neg	6,6x	6,1x
CD Project	11 031	9,5x	13,9x	17,1x	20,9x	29,9x	45,2x	25,2x	47,5x	85,2x
Creepy Jar	320	8,5x	12,4x	3,2x	na	31,0x	3,9x	15,7x	35,5x	4,5x
People Can Fly	622	3,7x	3,3x	1,2x	12,8x	neg	neg	77,3x	neg	6,7x
Median Polish	622	8,5x	3,8x	3,2x	16,8x	17,7x	5,1x	20,5x	21,0x	6,6x
Average Polish	2 740	9,4x	6,9x	5,2x	15,6x	14,2x	11,9x	26,8x	19,1x	21,8x
Nordics										
Embracer	16 452	1,0x	1,0x	0,9x	4,2x	3,7x	3,4x	6,1x	5,6x	5,1x
Paradox	6 987	6,9x	6,6x	6,2x	12,0x	9,5x	9,0x	27,6x	19,4x	15,4x
EG7	329	0,4x	0,5x	0,4x	1,7x	1,9x	1,6x	2,2x	3,3x	3,1x
Remedy	885	5,5x	4,1x	3,1x	>100	neg	18,4x	neg	neg	50,3x
Stillfront	3 393	1,3x	1,3x	1,2x	3,7x	3,6x	3,4x	5,2x	5,2x	4,8x
G5 Entertainment	306	0,6x	0,6x	0,6x	5,0x	3,1x	2,9x	6,5x	6,7x	5,8x
MTG	2 783	1,2x	1,2x	1,1x	5,1x	4,8x	4,6x	8,0x	8,0x	7,5x
Thunderful	263	0,2x	0,3x	0,3x	1,7x	2,5x	2,0x	neg	14,2x	5,6x
Median Nordics	1 834	1,1x	1,1x	1,0x	4,2x	3,6x	3,4x	6,3x	6,7x	5,7x
Average Nordics	3 925	2,1x	1,9x	1,7x	4,2x	3,6x	5,7x	6,9x	7,8x	12,2x
International										
Playtika	16 197	1,6x	1,6x	1,5x	5,3x	5,5x	5,2x	8,0x	8,7x	8,2x
Team 17	1 453	2,0x	1,9x	1,8x	4,9x	6,7x	6,4x	12,4x	7,9x	7,4x
Keyword Studios	5 801	1,7x	1,5x	1,4x	9,6x	7,7x	7,0x	11,1x	10,0x	9,1x
Frontier Developments	269	0,6x	0,6x	0,6x	1,6x	neg	>100	neg	neg	neg
EA	137 761	4,6x	4,5x	4,2x	17,0x	12,6x	11,6x	15,0x	14,0x	12,8x
Take Two	112 220	5,4x	4,0x	3,5x	17,6x	18,2x	14,0x	50,1x	20,3x	14,3x
Bandai Namco	44 644	1,7x	1,6x	1,5x	9,1x	10,1x	9,5x	17,3x	12,4x	11,5x
Ubisoft	15 618	1,7x	1,6x	1,5x	4,5x	3,2x	2,9x	10,0x	8,4x	7,1x
Nintendo	203 563	4,7x	4,8x	4,3x	11,8x	17,4x	15,5x	14,5x	16,5x	15,0x
Median International	16 197	1,7x	1,6x	1,5x	9,1x	8,9x	8,2x	13,4x	11,2x	10,3x
Average International	59 725	2,7x	2,4x	2,3x	9,0x	9,0x	8,0x	15,4x	10,9x	9,5x
Median Group	1 834	1,7x	1,6x	1,5x	9,1x	8,9x	5,1x	13,4x	11,2x	6,6x
Average Group	22 130	4,7x	3,8x	3,1x	9,6x	9,0x	8,5x	16,4x	12,6x	14,5x
CI Games	353	1,8x	3,3x	1,7x	4,4x	4,5x	3,1x	16,9x	15,2x	6,7x

Source: Factset, Redeye research

DCF valuation

Base case

We value CI Games through a discounted cash flow (DCF) model using a weighted average cost of capital of 11%, 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 43% during 2024e-2028e, followed by 7% during 2029e-2038e. Toward the end of our forecast, we assume a terminal EBITDA of 42%

Discounted cash flow model – base case

CI Games: Base case valuation				
Assumptions		DCF	PLNm	Per share
Tax rate	20%	2024e-2028e	271,5	1,2
WACC	12%	2029e-2038e	476,9	2,2
CAGR, 2024e-2028e	42%	Terminal	268,5	1,2
CAGR, 2029e-2038e	6%	Net debt*	-49	-0,2
Shares outstanding (Diluted)	219,6			
Terminal value assumptions, 2039e		Base case		4,8
Terminal growth	2%	Upside potential		302%
EBITDA Margin	42%			

*Net debt includes proceeds from share issue

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 45% during 2024e-2028e, followed by 6% during 2029e-2038e. Toward the end of our forecast, we assume a terminal EBITDA of 47%

Discounted cash flow model – bull case

CI Games: Bull case valuation				
Assumptions		DCF	PLNm	Per share
Tax rate	20%	2024e-2028e	383,3	1,7
WACC	12%	2029e-2038e	689,9	3,1
CAGR, 2024e-2028e	44%	Terminal	380,4	1,7
CAGR, 2029e-2038e	5%	Net debt*	-49	-0,2
Shares outstanding (Diluted)	219,6			
Terminal value assumptions, 2039e		Bull case		
Terminal growth	2%	Upside potential		431%
EBITDA Margin	47%			

*Net debt includes proceeds from share issue

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 31% during 2024e-2028e, followed by 5% during 2029e-2038e. Toward the end of our forecast, we assume a terminal EBITDA of 35

%

Discounted cash flow model – bear case

CI Games: Bear case valuation				
Assumptions		DCF	PLNm	Per share
Tax rate	-20%	2024e-2028e	150,0	0,7
WACC	12%	2029e-2038e	165,1	0,8
CAGR, 2024e-2028e	30%	Terminal	74,6	0,3
CAGR, 2029e-2038e	5%	Net debt*	-49	-0,2
Shares outstanding (Diluted)	219,6			
Terminal value assumptions, 2039e		Bear case		
Terminal growth	2%	Upside potential		126%
EBITDA Margin	35%			

*Net debt includes proceeds from share issue

Source: Redeye research

Appendix

The Lords of the Fallen, Additional Information

The reboot is set in a dark fantasy world and will also increase the degree of challenges in line with the experiences that the previous "souls borne" communities enjoy and praise. Additionally, the game will feature NPC quests, compelling characters, and full character customization. The overhauled combat system is paired with enhanced visuals and gameplay, supported by the Unreal Engine 5. The game targets next-generation platforms and high-end PCs, which will differentiate the game from others. The most important features will be the enhanced combat system and the general metastory (fantasy world). Compared to the previous release back in 2014, the new game will include a much bigger "world" (c5x bigger) and an online version with two-player co-op and PVP. Enabling a higher potential and longer lifetime for the game.

CI Games: Lords of the Fallen



Source: CI Games

Marketing

The game first showed up at Gamescom in 2022 and has since continuously seen different marketing efforts, trailers, and gameplay to reach as high engagement as possible. The marketing campaign really took off by the end of September 2023 with an eight-minute gameplay overview video, quickly amassing 2.7 million views within two weeks.

By October, this was followed by Out of Home (OOH), cinema marketing elements, and other digital media channels, which achieved a total of 1.1 billion ad impressions until the release. As of the release date 13th of October, Lords of the Fallen saw over 214 million campaign views, 150 million trailer views, 12.7 million articles, and 1.2 million on Steam Wishlist, securing the 10th spot on Steam's Global Wishlist chart. On the launch weekend, the game saw high engagement on Twitch, with over 9 million hours of streaming.

Reviews of the game:

LoF received solid critic scores, delivering an Open Critic of 73/100 (based on 102 reviews) and a Metacritic of 73/100 across all platforms (based on 117 reviews). However, the reviews from players are a bit more mixed.

The average review score from players on Steam currently (4 Dec) stands at 62%, but it is a great improvement versus the release date. However, when sorting on at least 10 hours of gameplay, the reviews on Steam stand at 75%.

It should also be noted that there were some review bombings on the release weekend, especially in some countries such as China, which had a negative initial effect on the review scores and that underlying reviews are at 70-80% in the US and EU.

Comparing Steam user scores to other major AAA game releases since 2022, Lords of The Fallen performs at similar levels across all languages and is somewhat stronger in English-speaking languages.

Positive feedback includes creative and inventive boss battles that require tactical adaption. Its Umbral Lamp mechanic ensures intriguing dual-world gameplay while also creating a unique dual-reality system for seamless world-switching and puzzle-solving.

In addition, the developers have been responsive to players and created a combat system catering to challenging mechanics.

In contrast, some negative stances include inconsistent difficulty levels, contrasting gameplay experiences between boss fights and regular levels, various technical flaws and co-op limitations, and some performance issues. The negative reviews from players are particularly related to performance issues and inconsistent difficulty. This is mostly related to PCs as the performance and hardware requirements vary more than consoles, especially since the game was built on the game engine Unreal 5, which requires the latest generations of computers for full experience.

The developers acted quickly and released several patches after the release, which we believe will remove or minimize the performance issues going forward. By the middle of November, only 1.3% felt performance-related issues.

Launch numbers:

On the day of release, the game entered second place on Steam's global top-seller list and remained on the top six list during its launch weekend on Steam. The CCU (Concurrent players) peaked at c43k and stayed at stable c40k players during the launch weekend. The average number of CCUs in November was at c4,000.

However, the developers are actively working on frequent content updates and DLCs while also applying some discounts to improve the player base on PC.

On Sony PlayStation, the game entered the top five lists on the PlayStation store in the US with its deluxe version, while the regular version stayed in the top ten lists. Positively impacting the average selling price. In October, the game also entered the top list of the most-selling games in the EU and the US. According to GSD, the game was the 6th most sold across the EU and the 20th highest gross game (excluding digital sales) in the US, according to Circana. The game was also included in Joysticks' "Ultimate Game of the Year" alongside several other critically acclaimed games, illustrating the game's quality. The game will further be included in the full PSN support program, which is only available for ten titles, which will have some positive effects from December 2023e.

Since its release, 45% of sales have been generated in the US, followed by other countries in the Western world. This is something we expected, given that the majority of marketing was tilted to those countries.

Summary Redeye Rating

The rating consists of three valuation keys, each constituting an overall assessment of several factors that are rated on a scale of 0 to 1 points. The maximum score for a valuation key is 5 points.

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.

Executive producer at the internal studio Hexwork is Saul Gascon, who has had senior director level roles at Ubisoft, Gameloft, Smilegate and Starbreeze. At the other internal studio Underdog, Aitor Roda is executive producer also with 20+ years of experience with senior roles at Konami, Cyanid, TopGolf, Gaming Corps and Starbreeze. All studios are decentralized, keeping an entrepreneurial mindset. 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.

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..

	2022	2023e	2024e	2025e					
INCOME STATEMENT					DCF Valuation Metrics				Sum FCF (PLN m)
					Initial period 2022-25				208
Revenues	57	225	92	165	Momentum period 2026-36				540
Cost of Revenues	-16	-106	-35	-61	Terminal period				268
Gross Profit	41	119	58	104	Firm Value				1017
Operating Expenses	-33	-95	-37	-63	Net Debt				-49
EBITDA	0	91	69	89	Equity Value				1065
Depreciation & Amortization	19	-20	-8	-67	Fair Value per Share				4,8
EBIT	8	24	20	42					
Net Financial Items	4	-4	-2	-2					
EBT	11	20	18	39					
Income Tax Expenses	3	-5	-3	-7	CAPITAL STRUCTURE				
Non-Controlling Interest	0	0	0	0	Equity Ratio				0,8
Net Income	0	15	15	32	Debt to equity				0,1
					Net Debt				-149
					Capital Employed				330
					Working Capital Turnover				24,0
BALANCE SHEET									
Assets									
Current assets					GROWTH				
Cash & Equivalents	7	40	147	176	Revenue Growth				79%
Inventories	1	3	2	3	Basic EPS Growth				118%
Accounts Receivable	12	43	13	23	Adjusted Basic EPS Growth				118%
Other Current Assets	1	34	35	38					
Total Current Assets	21	120	197	240	PROFITABILITY				
Non-current assets					ROE				11%
Property, Plant & Equipment, Net	2	2	2	2	ROCE				13%
Goodwill	0	0	0	0	ROIC				35%
Intangible Assets	152	161	144	140	EBITDA Margin (%)				54%
Right-of-Use Assets	3	3	3	3	EBIT Margin (%)				25%
Shares in Associates	0	0	0	0	Net Income Margin (%)				19%
Other Long-Term Assets	1	1	1	1					
Total Non-Current Assets	158	168	150	147	VALUATION				
Total Assets	179	289	348	387	Basic EPS				0,2
					Adjusted Basic EPS				0,2
					P/E				12,6
					EV/Revenue				1,5
					EV/EBITDA				2,8
					EV/EBIT				6,1
					P/B				1,3
Liabilities									
Current liabilities					SHAREHOLDER STRUCTURE				CAPITAL %VOTES %
Short-Term Debt	19	21	0	0	Marek Tyminski				29,0%
Short-Term Lease Liabilities	1	1	1	1	Rockbridge				8,6%
Accounts Payable	12	38	10	18	Minority Shareholders				62,4%
Other Current Liabilities	1	2	38	38					
Total Current Liabilities	32	63	49	57					
Non-current liabilities									
Long-Term Debt	0	27	27	27					
Long-Term Lease Liabilities	3	2	1	0					
Other Long-Term Liabilities	2	2	2	2					
Total Non-current Liabilities	5	30	29	28					
Non-Controlling Interest	0	0	0	0	SHARE INFORMATION				
Shareholder's Equity	142	196	269	301	Reuters code				CIG
Total Liabilities & Equity	179	289	348	387	List				WIG
					Share price				2,2
					Total shares, million				182,9
CASH FLOW									
NOPAT	0	29	24	49					
Change in Working Capital	0	-38	37	-6	MANAGEMENT & BOARD				
Operating Cash Flow	0	81	65	73	CEO				Marek Tyminski
					Chairman				Marek Tyminski
Capital Expenditures	0	-1	0	-1					
Investment in Intangible Assets	0	-63	-30	-43					
Investing Cash Flow	0	-64	-31	-44					
					ANALYSTS				Redeye AB
Financing Cash Flow	0	27	73	-1	Tomas Otterbeck				Mäster Samuelsgatan 42, 10tr
Free Cash Flow	0	17	34	30	John Westborg				111 57 Stockholm

Redeye Rating and Background 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 long-term 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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Redeye Rating (2022-08-12)

Rating	People	Business	Financials
5p	32	15	4
3p - 4p	157	140	48
0p - 2p	5	39	142
Company N	194	194	194

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Tomas Otterbeck owns shares in the company : Yes

John Westborg owns shares in the company : No

Redeye performs/have performed services for the company and receives/have received compensation from the company in connection with this.