

Ultimate Games

2Q21 Results Review

Opinion. Results arrived in line with preliminary data. Norm. net income arrived below our expectations due to higher than estimated operating costs including inventories write-off.

Ultimate Games 2Q21 sales revenues arrived at PLN 7.2m, EBITDA at PLN 2.5m and net profit at PLN 1.9m (all in line with preliminary data).

Revenues. Ultimate Games' revenues arrived at PLN 7.2m, up 30% q/q and 51% y/y. The net revenues from sales of products reached PLN 6.9m (up 40% q/q, up 56% y/y, in line with our forecast), and were driven primarily by console games sales (which arrived at PLN 4.1m, up 6% q/q) and PC games (PLN 2.5m vs. PLN 0.8m in 1Q21). During the quarter, among others, the company sold 14.3k copies of Ultimate Fishing Simulator (down 19% q/q), 24.3k copies of House Flipper on N. Switch (up 18% q/q) and 19.7k copies of Castle Flipper (co-published with Gaming Factory). Change in the balance of products decreased amounted to PLN 0.3m (down 48% q/q).

Operating costs. Operating costs arrived at PLN 4.7m (up 15% q/q), driven by brought-in services at PLN 4.0m (up 8% q/q). The company booked PLN 0.25m of inventories write-off during the quarter, due to the discontinuation of several productions.

EBITDA. EBITDA arrived at PLN 2.5m (up 68% q/q, 23% below our forecast).

Norm. net income. Norm. Net income arrived at PLN 1.9m, up 49% q/q and 33% below our forecast. The company reported immaterial net financial result and net income attributable to minorities, as well as PLN 0.6m of income tax (effective tax rate of 24%).

Cashflow. Net operating cash flow arrived at close to PLN 0m, due to negative impact of change in working capital. Net investing cash flow arrived at PLN 0.5m, driven by sales of stakes in subsidiaries. Net financial cash flow arrived at PLN -9.3m and was primarily driven by PLN 10.5m dividend payment.

Net cash. Net cash at the end of quarter amounted to PLN 16.4m, down 35% q/q (primarily impacted by dividend payment).

TMT | Video Games

Ultimate Games

BUY

FV PLN 35.00

27% upside

Price as of 23 September 2021 PLN 27.60

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Figure 1. Ultimate Games 2Q21 results review

PLNm	2Q20	3Q20	4Q20	1Q21	2Q21	Y/Y	Q/Q	IPOPEMA vs. IPOPEMA	
Sales revenues	4.8	5.0	5.1	5.6	7.2	51%	30%		
Net revenues from sales of products	4.4	4.5	3.8	4.9	6.9	56%	40%	6.7	2%
Change in the balance of products	0.4	0.5	1.3	0.7	0.3	-8%	-48%		
Other revenues	0.0	0.0	0.0	0.0	0.1	na	644%		
Operating costs	-2.1	-2.9	-3.9	-4.1	-4.7	129%	15%		
D&A	0.0	0.0	0.0	0.0	0.0	200%	70%		
Bought-in services	-1.7	-2.5	-3.5	-3.7	-4.0	137%	8%		
Salaries	-0.3	-0.3	-0.3	-0.3	-0.3	-17%	-1%		
Social security and other benefits	0.0	0.0	0.0	0.0	0.0	220%	33%		
Other operating costs	0.0	-0.1	0.0	-0.1	-0.4	4475%	382%		
EBITDA	2.7	2.1	1.2	1.5	2.5	-9%	68%	3.2	-23%
EBIT	2.7	2.1	1.2	1.4	2.5	-6%	77%	3.2	-20%
Net financial result	1.2	0.5	0.0	1.5	-0.1	na	na		
Profit/loss from affiliate companies	0.1	0.2	0.0	0.1	0.0	na	na		
Result on loss of control over subsidiary	0.0	0.0	31.6	0.0	0.0	na	na		
Profit (loss) before tax	4.0	2.7	32.9	3.1	2.4	-40%	-21%		
Income tax	-0.9	-0.6	-6.8	-0.6	-0.6	-36%	-4%		
Minorities	0.0	0.0	0.0	0.0	0.0	1333%	16%		
Net income	3.1	2.2	26.1	2.5	1.9	-40%	-25%	5.2	-64%
Norm. net income*	2.3	1.8	0.5	1.3	1.9	-17%	49%	2.8	-33%
Net operating cash flow	0.3	1.6	-2.5	1.0	0.0	-94%	-98%		
Net investment cash flow	1.2	5.0	2.8	3.1	0.5	-54%	-83%		
Net financial cash flow	0.1	2.5	5.2	0.0	-9.3	na	na		
Net debt	-6.2	-15.4	-21.0	-25.1	-16.4	162%	-35%		

Source: Company, IPOPEMA Research *normalized by non-cash result on loss of control over subsidiaries and deferred tax related (assumed as 19% of the loss of control value).

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The definitions of terms used in the document include:

NI – Net interest income – interest income minus interest expense.

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Net F&C – Net fee and commission income – fee and commission income minus fee and commission expense.

LLP – loan loss provisions – an expense set aside as an allowance for bad loans.

NPL – non-performing loan – loans that are in default or close to be in default.

Cost/Income – operating expenses divided by total banking revenue.

ROE – return on equity – net income (or adjusted net income) divided by the average shareholders' equity.

ROA – return on assets – net income (or adjusted net income) divided by the average assets.

EBIT – earnings before interests and tax.

EBITDA – earnings before interests, tax, depreciation and amortization.

EPS – earnings per share – the net income (or adjusted net income) divided by the number of shares outstanding.

P/E – price to earnings ratio – price divided by earnings per share.

PEG – P/E ratio divided by the annual EPS growth, usually over a certain period of time.

CAGR – compound annual growth rate.

BVPS – book value per share, the book value of the Company's equity divided by the number of shares outstanding.

P/BV – price to book value - price divided by the BVPS.

DPS – dividend per share – dividend of a given year divided by the number of shares outstanding.

DY – dividend yield – dividend of a given year divided by the current price.

DDM – dividend discount model – a fundamental method of valuation based on the assumption that the value of stock equals the sum of all discounted future dividends.

FV – Fair Value, calculated based on valuation methods outlined in the document.

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	Number	%
Buy	19	76%
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Total	25	100%

Rating History – Ultimate Games

Date	Recommendation	Fair Value	Price at recommendation	Author		
07.09.2021	BUY	35.0	28.5	Michał Nowak	Wojciechowski,	Marcin