

11 bit Studios - Hold

Target Price: PLN 356.02 | Close as of 20/03/2020: PLN 346.50

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Q4'19 earnings 64% above consensus

11 bit studios posted its Q4'19 figures with following highlights:

- Revenues of PLN 22mn vs. PLN 20.3mn expected by us
- Net income of PLN 11.8mn vs. PLN 7.2mn in our forecast
- IP Box impact on full year result of PLN 2.7mn, in line with expectations
- OCF of PLN 5mn vs. PLN 4.3mn year ago
- Development expenditures of c. PLN 5.6mn
- Capitalized costs incurred on games development of PLN 12.7mn vs. PLN 9.8 in Q3'19
- Capitalized costs incurred on completed games development of PLN 11.4mn vs. PLN 10.2 in Q3'19

Standalone, IFRS (PLN, mn)	Reported			Expected		Reported	
	4Q19	4Q18	y/y	Erste Group	Consensus	Erste Group	vs. Consensus
Revenues	22.0	22.6	-3%	20.3	20.4	8.3%	7.6%
EBITDA	12.5	13.3	-6%	7.7	8.0	62.6%	57.4%
EBIT	10.7	11.7	-9%	5.9	6.2	80.9%	72.3%
Net income	11.8	9.0	30%	7.2	7.1	63.6%	65.2%
EBITDA margin	57.0%	59.0%		38.0%	39.0%		
EBIT margin	48.7%	52.0%		29.1%	30.4%		
Net income margin	53.6%	40.0%		35.5%	34.9%		

OPINION: POSITIVE

11 bit studios posted very strong figures with 64% outperformance of our net income forecast. That came as a result of lower than expected payments to developers of external games sold in the publishing segment which came in at PLN 3.7mn vs. PLN 6.8mn expected by us. That is linked to different than expected sales structure with higher than expected share of Frostpunk and Frostpunk season pass and lower unit sales of Moonlighter and Children of Morta.

Moreover, at the beginning of the year company has signed an agreement with online distributors (Microsoft, EA, Epic Games and Humble Store) worth USD 3mn – we were looking for c.a. PLN 2.3mn to be recognize in Q4'19, and that amount was probably higher which also change a sales structure and support margins.

Outperformance is also linked to lower than expected employee benefits costs which came in at PLN 2.9mn vs. PLN 3.7mn expected, primarily due

to significantly lower bonuses paid to employees.

OCF came in at PLN 5mn vs. PLN 4.3mn year ago. Net cash position amounted to PLN 70.5mn.

IP Box impact on net income came in at PLN 2.7mn which translate into full year effective tax rate of 13.3% (only own games are eligible for 5% tax rate). Company has also recognizes PLN 0.2mn tax relief linked to R&D expenses.

Capitalized development work increased to PLN 12.7mn vs. PLN 9.8mn in Q3'19 and 5.1mn year ago which is linked to development of Project 8 and financial contribution to new projects from the publishing segment. Commitments not recognize in balance sheet amounted to EUR 2.8mn and PLN 7.2mn (EUR 2.6mn and PLN 0.02mn after Q3'19). That is linked to required contribution to projects from the publishing segment.

Summarizing, we are looking for the clearly positive market reaction today.

P & L (PLN m)	4Q18	1Q19	2Q19	3Q19	4Q19	YoY	QoQ	9M'18	9M'19	YoY
Revenues	22.6	14.2	16.6	18.9	22.0	-3%	16%	82.8	71.7	-13%
Am&Dep	1.6	1.6	1.5	1.5	1.8	16%	20%	4.5	6.4	43%
Rawmaterials	0.1	0.1	0.1	0.1	0.1	64%	24%	0.2	0.4	88%
Services	4.8	3.4	8.6	9.2	5.2	8%	-43%	16.5	26.4	60%
Employee benefits	4.0	3.3	2.9	3.2	2.9	-27%	-7%	13.0	12.3	-5%
Taxes & charges	0.1	0.1	0.1	0.1	0.1	-26%	-9%	0.2	0.2	1%
Other expenses	0.2	0.1	0.6	0.2	1.1	358%	404%	1.4	2.0	45%
Operating profit (loss)	11.7	5.7	2.9	4.6	10.7	-9%	134%	46.9	23.9	-49%
Financial revenues	0.2	0.3	0.1	0.4	0.4	111%	-7%	1.4	1.4	1%
Financial expenses	0.2	0.1	0.1	0.1	-0.1	-144%	-200%	0.2	0.2	n/a
Extraordinary gains/loss	0.0	0.0	0.0	0.0	0.0			0.0	0.0	
Profit (loss) before tax	11.7	5.9	3.0	4.9	11.2	-4%	127%	48.1	25.0	-48%
Income tax	2.7	1.5	1.0	1.3	-0.6	-121%	-143%	10.6	3.3	
Net profit (loss)	9.0	4.3	2.0	3.6	11.8	30%	226%	37.5	21.7	-42%
Am&Dep	1.6	1.6	1.5	1.5	1.8	16%	20%	4.5	6.4	43%
EBITDA	13.3	7.2	4.4	6.1	12.5	-6%	105%	51.4	30.3	-41%
Tax rate	23.0%	26.0%	34.2%	27.0%	-5.1%			22%	13%	
EBITDA margin	59.0%	50.9%	26.5%	32.4%	57.0%			62%	42%	
EBIT margin	52.0%	39.9%	17.7%	24.3%	48.7%			57%	33%	
Net profit margin	40.0%	30.7%	11.9%	19.1%	53.6%			45%	30%	
Main BS & CF items	4Q18	1Q19	2Q19	3Q19	4Q19	YoY	QoQ	9M'18	9M'19	YoY
OCF	4.3	15.6	4.3	16.7	5.0	58%	287%	34.7	36.6	5%
FCF	-15.9	12.9	1.7	13.1	-0.6	58%	673%	28.4	27.8	-2%
Total Assets	109.3	115.5	126.6	138.8	155.7					
Net debt (cash)	-43.6	-56.4	-58.0	-70.9	-70.5					
Equity	89.9	96.4	0.0	0.0	119.7					

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