

11 bit Studios - Accumulate

Target Price: PLN 567.51 | Close as of 17/11/2020: PLN 489.50

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3Q'20 earnings without fireworks (NEUTRAL)

11 bit studios published its 3Q'20 earnings with following highlights:

- **Revenues of PLN 18.1mn vs. PLN 18.9mn expected by us**
- Own games revenues of c. PLN 14.2mn vs. PLN 13.7mn expected by us
- Publishing sales of c. PLN 3.9mn vs. PLN 5.2mn in our forecast
- EBIT of PLN 8.7mn vs. PLN 8.8mn expected by us
- **Net income of PLN 7.2mn vs. PLN 8.3mn in our forecast**
- Effective tax rate at 13% vs. 9.0% expected by us
- Capitalized development costs of PLN 18.3mn vs. PLN 18.8mn at the end of the previous quarter
- Off balance sheet liabilities of PLN 23.9mn (EUR 3.6mn & PLN 7.9mn) vs. PLN 22.1mn in the previous quarter
- **OCF of PLN 14.3mn, FCF of PLN 7.5mn**
- **Net cash position of PLN 98.9mn vs. PLN 83.7mn at the end of 2Q'20**

Standalone, IFRS (PLN, mn)	Reported			Expected		Reported	
	3Q20	3Q19	y/y	Erste Group	Consensus	Erste Group	s. Consensus
Revenues	18.1	18.9	-4%	18.9	17.8	-4.3%	1.6%
EBITDA	11.3	6.1	84%	11.3	10.0	-0.2%	12.4%
EBIT	8.7	4.6	91%	8.8	7.6	-0.8%	15.4%
Net income	7.2	3.6	98%	8.3	6.7	-13.7%	7.4%
EBITDA margin	62.3%	32.4%		59.8%	56.4%		
EBIT margin	48.3%	24.3%		46.6%	42.5%		
Net income margin	39.5%	19.1%		43.8%	37.4%		

Source: Company Data, PAP, Erste Group Research

OPINION: NEUTRAL

11 bit studios 3Q'20 results came below our estimates on lower than expected revenues and higher effective tax rate, but in the same time came above market consensus, beating bottom line forecast by 7.4%. The Company posted solid OCF of PLN 14.3mn, which coupled with PLN 7.4mn acquired from the share issue (incentive scheme) translate into highest ever net cash position of PLN 98.9mn. **Taking all of that into account, we expect rather neutral market reaction today.**

Looking forward, we expect solid figures in the 4Q'20, with net income of c. PLN 8-9mn, which suggests 11 bit should be able to deliver our 2020

forecast at PLN 40.6mn. Unusually, 4Q'20 EPS may not be visibly higher vs. the third quarter, as in 3Q'20 11 bit studios recognized c. PLN 5.5mn from the release of the On The Edge DLC (expansion share in the season pass) and such issue would not happen again in 4Q'20.

As usual, Management provided a detailed picture of the situation for the upcoming quarters. Based on the statement, pace of the development process on the new franchises is "satisfactory", but the pandemic does not help with the recruitment, especially in case of foreign candidates. The Company confirmed that "fans must be patient" while waiting for the first premiers from the own portfolio (we suspect Project Eleanor and Dolly may release in 2023e, Project 8 rather in 2024e). This also applies to the publishing franchises (we suspect Foxhole may debut in 2021e, Vitrol in 2022e, Botin and Ava in 2023e). In the coming months, 11 bit studios is planning to start a marketing campaign for new titles, and will focus on the acquisition of new franchises to its publishing portfolio.

Going into details, based on the provided revenues split (28% share of publishing segment in 9M, 22% in 3Q'20 alone based on our calculations) own games sales came in at 14.2mn vs. PLN 13.7mn expected by us, while publishing revenues amounted to PLN 3.9mn vs. PLN 5.2mn in our forecast. Please note, PLN 5.5mn, or 30% of the total 3Q'20 top line (our calculations), came as a result of the On The Edge DLC release, and required recognition of its share in the season pass revenues. We suspect c. PLN 7.6mn of revenues came from Frostpunk and its DLCs, c. PLN 5.5mn from On the Edge DLC settlement, c. PLN 1mn came from TWoM, c. PLN 2.3mn from Children of Morta and PLN 1.6 from Moonlighter. According to MB comment, 20% of Frostpunk owners already purchased dedicated DLCs.

From the cost side perspective, employee benefits came in at PLN 1.3mn, i.e. slight below our forecast of PLN 1.5mn. External services amounted to PLN 5.3mn vs. PLN 5.5mn expected by us, which is linked directly to lower than anticipated publishing segment sales. Royalties paid to external developers came in PLN 3.8mn in 3Q'20 and PLN 12.9mn in the 9M'20 vs. publishing revenues of c. PLN 19.1mn in the same period.

Capitalized costs of development works came in at PLN 18.3mn vs. PLN 18.8mn in the previous quarter. Decrease in the value of this position is directly linked to the release of the On the Edge DLC and shift of the game engine to the completed development works position.

Cash flow came without major surprises. OCF came in at PLN 14.3mn on favourable working capital change, FCF amounted to PLN 7.5mn. Following that and a PLN 7.4mn cash inflow from the share issue (incentive scheme), the Company end a quarter with a highest ever net cash position of PLN 98.9mn vs. PLN 83.7mn in 2Q'20.

P & L (PLN m)	3Q19	4Q19	1Q20	3Q20	3Q20	YoY	QoQ	9M'19	9M'20	YoY
Revenues	18.9	22.0	30.5	19.7	18.1	-4%	-8%	49.7	68.3	38%
Am&Dep	1.5	1.8	2.4	2.5	2.5	65%	3%	4.6	7.4	61%
Raw materials	0.1	0.1	0.1	0.1	0.1	-19%	-4%	0.3	0.3	-20%
Services	9.2	5.2	7.0	6.6	5.3	-43%	-21%	21.2	18.9	-11%
Employee benefits	3.2	2.9	3.5	0.3	1.3	-58%	319%	9.3	5.1	-45%
Taxes & charges	0.1	0.1	0.1	0.1	0.1	-1%	-21%	0.2	0.2	23%
Other expenses	0.2	1.1	0.4	1.0	0.1	-75%	-94%	0.9	1.4	51%
Operating profit (loss)	4.6	10.7	17.2	9.1	8.7	91%	-4%	13.2	35.0	166%
Financial revenues	0.4	0.4	1.4	-0.5	0.8	82%	-267%	0.9	1.7	83%
Financial expenses	0.1	-0.1	0.8	-0.2	1.3	1391%	-793%	0.3	1.9	550%
Extraordinary gains/loss	0.0	0.0	0.0	0.0	0.0			0.0	0.0	
Profit (loss) before tax	4.9	11.2	17.8	8.8	8.3	67%	-6%	13.8	34.9	152%
Income tax	1.3	-0.6	3.3	-1.7	1.1	-16%	-167%	3.9	2.8	-28%
Net profit (loss)	3.6	11.8	14.4	10.5	7.2	98%	-32%	9.9	32.1	223%
Am&Dep	1.5	1.8	2.4	2.5	2.5	65%	3%	4.6	7.4	61%
EBITDA	6.1	12.5	19.5	11.6	11.3	84%	-3%	17.8	42.4	139%
Tax rate	27.0%	-5.1%	18.8%	-19.0%	13.5%			28%	8%	
EBITDA margin	32.4%	57.0%	64.0%	58.8%	62.3%			36%	62%	
EBIT margin	24.3%	48.7%	56.3%	46.3%	48.3%			27%	51%	
Net profit margin	19.1%	53.6%	47.3%	53.2%	39.5%			20%	47%	
Main BS & CF items	3Q19	4Q19	1Q20	3Q20	3Q20	YoY	QoQ	9M'19	9M'20	YoY
OCF	16.7	5.0	24.3	4.6	14.3	-14%	211%	36.6	43.2	18%
FCF	13.1	-0.6	12.6	1.3	7.5	-43%	494%	27.8	21.4	-23%
Total Assets	138.8	155.7	171.2	176.4	187.6					
Net debt (cash)	-70.9	-70.5	-83.0	-83.7	-98.9					
Equity	0.0	119.7	0.0	0.0	0.0					

Source: Company Data, Erste Group Research

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