CI Games

Strategic roadmap to 2028

H124 results and strategic update

Software and comp services

CI Games outlined its updated strategy to 2028 at its H124 results. The strategy focuses on greater efficiencies to produce higher-quality games, while growing its audience base, and includes three major releases, two of which build on existing intellectual property (IP) franchises Lords of the Fallen (LotF) and Sniper Ghost Warrior (SGW). Centralised project management should result in greater efficiencies realised through cross-studio talent sharing and a more player-first focus. The interim results showed the positive contribution from the LotF 2023 release, with 162% revenue growth and a swing back to profitability with an EBITDA margin of 65% (H123: negative 1%). We believe key milestones will be partnership announcements, like the Epic Games deal for Project III, alongside game development updates.

Year end	Revenue (PLNm)	EBITDA* (PLNm)	PBT* (PLNm)	EPS* (PLN)	EV/EBITDA (x)	P/E (x)
12/21	105.5	62.5	44.9	0.16	4.9	9.4
12/22	56.7	16.1	11.4	0.05	19.1	30.0
12/23	245.0	97.6	26.3	0.11	3.2	14.2

Note: *EBITDA, PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Updated strategy should drive efficiencies

CI Games has laid out its strategic roadmap for 2025–28, citing three major releases within the time frame. For the first two releases, the company will leverage its existing IP with the next editions of the LotF and SGW franchises. The 2028 release, Project H, will be a new IP, although focused on CI Games' speciality of action role-playing games (ARPG) in a fantasy genre. Management has hired Tom O'Connor, previously of Tencent Games and PlayStation, as senior vice president of development, to create a new organisational structure that it is confident will bring about efficiencies. In its next releases, CI Games will use a more player-first approach through every stage of development, enabling informed decisions along the way that will minimise the pain points and barriers of entry to the games.

H124 results benefit from LotF release

In H124 revenue grew 162% to PLN58.3m (H123: PLN22.2m), reflecting sales from LotF, released in October 2023, which accounted for 72% of revenues in the period. EBITDA improved significantly to PLN40.0m (H123: PLN0.2m) at a margin of 65.1% (H123: 0.9%) due to higher amortisation and lower marketing costs versus the prior year. Net debt reduced to PLN33.8m (H123: PLN46.3m) following an improvement in operating cash flows and a reduction in total debt as CI Games repaid two bank facilities and drew down on a new PLN15m overdraft facility.

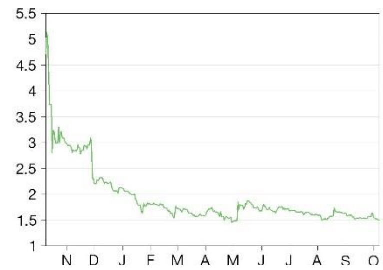
Valuation: Withdrawal of forecasts

Given management's refocus on the medium-term strategy, we have withdrawn our forecasts. We will review these as CI Games makes progress against key milestones, such as product launches or co-publishing and co-distributing deals with partners. In the year-to-date, the share price has fallen 28% in what has been a challenging backdrop for game developers and publishers.

8 October 2024

Price	**PLN1.50**
Market cap	**PLN274m**
	PLN3.93/US$
Net debt (PLNm) at 30 June 2024 (includes financial leases of PLN2.3m)	33.8
Shares in issue	182.9m
Free float	51.0%
Code	CIG
Primary exchange	Warsaw
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(3.02)	(10.7)	(70.8)
Rel (local)	(2.1)	(1.9)	(76.1)
52-week high/low		PLN5.13	PLN1.45

Business description

Founded in 2002, CI Games is a Warsaw-based developer and publisher of AAA multi-platform video games for a global audience. It specialises in first-person shooter and action-driven titles, with IPs including the Sniper Ghost Warrior and Lords of the Fallen franchises. FY23 was a transformational year for the group following the release Lords of the Fallen, the first release of its strategic roadmap.

Next events

Q324 results	29 November 2024

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LotF drives uplift in H124 results

CI Games' H124 results showcased the success of the LotF 2023 release. Net revenues were up 162% to PLN58.3m (H123: PLN22.2m), with LotF accounting for 72% of revenues, SGW Contracts 2 accounting for 14% of revenues, 4% from United Labels and the remaining 10% generated from back catalogue titles. The quality of CI Games' back catalogue (particularly SGW Contracts 2) continues to support sales throughout the long tail. Higher amortisation from both LotF and SGW Contracts 2 resulted in a lower gross margin of 29.3% (H123: 61.1%). However, due to the ramp up in marketing expenses related to the release of LotF in the prior period, selling costs in H124 were substantially lower. Reflecting the higher amortisation charges relating to LotF, EBITDA came in above gross profit at PLN38.0m (H123: loss of PLN0.2m), at a margin of 65.1% (H123: negative 0.9%).

Exhibit 1: H124 results summary

PLNm	H123	H124	y-o-y
Revenue	22.2	58.3	162%
Gross profit	13.6	17.1	26%
Gross margin	*61%*	*29%*	*(32)**
EBITDA	(0.2)	38.0	N/A
EBITDA margin	*(1)%*	*65%*	*66**
EBIT	(4.0)	3.1	N/A
EBIT margin	*(18)%*	*5%*	*23**
PBT	(3.4)	2.8	N/A
Normalised net income	(3.1)	2.7	N/A
Adjusted diluted EPS (PLN)	(0.02)	0.01	N/A
Operating cash flow	17.6	28.7	63%
Net debt	46.3	33.8	(27)%

Source: CI Games. Note: *Percentage point change.

Operating cash flows benefited from the higher profitability in the period, although there was a working capital outflow as the conversion of trade receivables into cash was more than offset by a higher fall in trade payables. Net debt fell from PLN46.3m in H123 to PLN33.8m in the period as CI Games repaid two bank facilities worth PLN30.9m and drew down on a new overdraft facility of PLN15m.

Strategic refocus to drive efficiencies

The focus of the results was on CI Games' updated strategy, which the company outlined for 2025–28, with a major release planned for each year from 2026 to 2028. Management has reorganised its structure to create a more efficient model within its studio teams to generate operational leverage and a greater return on investment, while utilising data-driven insights to ensure its major releases are player-focused. CI Games also outlined how it would finance the roadmap, through co-publishing or co-distributing partnerships, alongside existing operating cash flows and greater efficiencies.

Core IP releases are the focus

CI Games plans three product releases from 2026 to 2028, shifting from its original product timeline of a release of Project Survive in 2025, as the company focuses on its core existing IP and new ARPG. The releases will be put through CI Games' new player-first development approach, whereby the game in development will be tested at every stage for consumer insights and appeal. These data-driven, actionable insights will then be fed back to the development team. This should give rise to games that are more appealing to a wider range of engaged players and that will include additional features, such as difficulty settings.

The new games will utilise Epic's Unreal Engine 5 (UE5), which will enable next-generation graphics and realistic physics simulation. Although LotF sales in 2023 suffered initially from UE5 compatibility issues with legacy hardware, CI Games has been working closely with NVIDIA and Advanced Micro Devices to improve UE5 optimisation. The company should be able to leverage the experience of producing a game on UE5 for these upcoming titles.

Project III

The first product launch, scheduled for 2026, is provisionally named Project III. This is the next iteration of the LotF franchise, CI Games' own IP, which sold 1.3m units at end-FY23 following its major release in the year. The game is in full production through the company's internal studio, Hexworks, which was launched in 2020 to specialise in the soulslike genre. Building on the 2023 LotF, Project III will look to appeal to a broader audience through greater optionality and accessibility. From a game development perspective, the new title will focus on a more commercial style and narrative, as well as elevated production values. The title will also have a full shared progression co-op player campaign alongside a single player campaign, a new feature from the single player-only format of the 2023 LotF.

Importantly, CI Games announced in June that Epic Games, the developer and publisher of Fortnite, had signed a binding term sheet for the global exclusive distribution rights for the PC version of Project III. While no commercial terms have been disclosed, previous exclusivity agreements between developers and Epic would indicate a significant upfront commitment alongside a profit share. The production budget for Remedy Entertainment's Alan Wake II was a reported €50m, following an exclusive agreement with Epic. While we do not believe the commitment from Epic will be this exact figure, there will be a significant upfront investment from Epic, which would help to finance the development of the game. This upfront investment would be recognised in FY26. Aside from financing, the deal with Epic is significant from a technological perspective as Epic owns UE5 and will be able to support the game through its development. This should enable the studio team to leverage the full potential of the engine by working closely with the Epic team.

The 2023 LotF release cost PLN178m (c US$44m) to produce, with an additional PLN81.5m (c US$20m) spent on a marketing a campaign that was 2.7x larger than that of CI Games' previous largest title. The expected marketing spend for Project III will be substantially lower owing to management's more streamlined approach, which is discussed later in this report. Coupled with this, the launch will be the second iteration of the LotF franchise, so CI Games will be marketing to an already engaged fanbase following the successful global awareness created with the 2023 launch.

Project SGW Evolved

CI Games' second launch will be Project SGW Evolved, targeted for release in 2027. The game will be developed by CI Games alongside a partner studio and it is currently in the pre-production phase. Project SGW Evolved is the next release within the SGW franchise and is another example of CI Games leveraging its existing IP. The Project Survive game that was originally scheduled for release in 2025 has been rescheduled for a later date, although many of its components have been utilised within Project SGW Evolved. Management believes this will speed up the development of this project.

Project H

The final product launch CI Games has signposted is Project H, scheduled for release in 2028. Project H will be a new ARPG IP, focused on a commercial fantasy genre, and management believes it could be the largest release for the company. This release will be produced by CI Games' internal studio, Underdog Studio. The project is in the pre-production phase, with a fully qualified vertical slice expected in mid-2026. Management's new cross-studio talent sharing structure will mean that the initial production team will be relatively lean. However, once Project III is released, the team will be bolstered by developers from Hexworks, who will join the project.

Secondary focus areas to support the business

Alongside its main releases, CI Games will continue to be supported by its indie publisher, United Label, as well expanding into new media forms to widen its audience base. These could include licensing its IP in new formats (eg mobile, virtual reality), new media (eg film, TV) and other entertainment products (eg books, table-top games).

United Label

United Label is CI Games' indie publisher. Indie games are lower-budget titles created by small independent development teams. The company has historically focused on a low number of quality indie games, with three previous titles (Röki, Tails of Iron and Eldest Souls) released in FY21. United Label published a new title, Beyond Galaxyland in September and will publish a Tails of Iron 2 sequel in the next six months. CI Games is targeting for United Labels to release one to three high-quality titles a year, with the publisher already signing a third Tails of Iron game and a new IP from an Argentinian studio.

Project Potential

CI Games is exploring the potential to partner with strong IP, bringing its proven development expertise and re-purposing its existing franchise engines and technology to create a game based around the new IP.

Project Expand

Project Expand looks to capitalise on the success of the company's games by licensing its own IP to external partners (eg CD Projekt's The Witcher). Although CI Games has no firm plans, options could include taking existing IP to new formats (eg mobile, VR), as well as potentially to new media (eg film, TV) or into other entertainment products (eg table-top games, books). Companies such as Rebellion have been very successful with such multimedia strategies.

Simplified operating model to drive collaboration and efficiencies

One of management's focus areas is on efficiencies to drive operational leverage with the same cost base. The company has created a Development Management & Support Office, led by Tom O'Connor, senior vice president of development, who was appointed in June. Tom previously worked at Tencent Games and PlayStation on some of their leading franchises. The office will have a centralised team, with all CI Games studios and projects reporting to it (Exhibit 2).

Exhibit 2: Updated operational model

Source: CI Games

The updated model will allow for a greater level of cross-studio talent and knowledge sharing as the studios become more agile in supporting CI Games' various products. For example, management plans to move members of the Hexworks team across to Underdog for the development of Project H once Project III is in the off-ramp phase. Management believes the ability to re-allocate talent will reduce project fatigue as developers move on to fresh projects, while remaining within its core genre of ARPG or first-person shooter games.

CI Games expects the new centralised model to generate efficiencies through improvement in quality, as well as predictability.

Targeted marketing campaigns

CI Games' marketing spend on its 2023 LotF title was PLN81.5m (c US$20m), significantly higher than any previous release. Having driven a large marketing campaign, management believes it can leverage the global awareness of the franchise to deliver more streamlined and efficient marketing. The company will use the lessons taken from this release, coupled with more data-driven advertising, to drive better engagement and more cost-efficient advertising spend.

Funded through efficiencies, cash flows and partnerships

Management expects to fund the strategy through three avenues: operating cash flows, further partnerships (such as the Epic Games exclusive distribution deal) and increasing the level of debt.

With the new organisational structure, there should be an improvement in operating cash flows due to better cost efficiencies.

Potential partnerships, such as the Epic deal for Project III or the Microsoft agreement to have LotF and SGW Contracts 2 on Game Pass, provide capital for the development of future games. Highlighting the potential bridge financing these partnerships can provide, management cited the Epic Games deal as the reason for not continuing with the capital raise announced in March 2024, which would have raised c PLN55m.

Finally, having opened a one-year PLN15m credit facility with Powszechna Kasa Oszczędności Bank Polski in April to provide sufficient liquidity, management believes it has the headroom to raise additional debt. CI Games has previously held a higher level of debt on the balance sheet, including in FY23 when total debt was PLN60.1m, versus PLN45.2m at end-H124.

Exhibit 3: Financial summary

PLN000s	2019	2020	2021	2022	2023
Year end 31 December	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT					
Revenue	47,478	46,010	105,528	56,694	244,983
COGS	(29,013)	(26,683)	(39,602)	(15,949)	(108,558)
Gross Profit	18,465	19,327	65,926	40,745	136,425
Adjusted EBITDA	20,514	27,829	62,486	16,076	97,600
Depreciation and amortisation	(19,467)	(19,100)	(20,179)	(8,257)	(66,111)
Normalised operating profit	1,047	8,729	42,307	7,819	31,489
Exceptionals	0	0	(2,040)	0	0
Reported operating profit	1,047	8,729	40,267	7,819	31,489
Net Interest	(828)	(197)	2,552	3,567	(5,205)
Profit Before Tax (norm)	219	8,532	44,859	11,386	26,284
Profit Before Tax (reported)	219	8,532	42,819	11,386	26,284
Reported tax	(3,096)	(1,435)	(4,476)	(2,811)	(11,817)
Profit After Tax (norm)	153	5,972	31,401	9,109	21,027
Profit After Tax (reported)	(2,877)	7,097	38,343	8,575	14,467
Minority interests	0	(138)	(1,535)	(379)	(1,420)
Net income (normalised)	153	5,834	29,866	8,730	19,607
Net income (reported)	(2,877)	6,959	36,808	8,196	13,047
Average number of shares outstanding (m)	155	168	183	183	183
EPS - normalised (PLN)	0.00	0.03	0.16	0.05	0.11
EPS - diluted normalised (PLN)	0.00	0.03	0.16	0.05	0.11
EPS - basic reported (PLN)	(0.02)	0.04	0.20	0.04	0.07
Dividend (PLN)	0.00	0.00	0.00	0.00	0.00
Revenue growth (%)	116.0	(3.1)	129.4	(46.3)	332.1
Gross Margin (%)	38.9	42.0	62.5	71.9	55.7
Adj EBITDA Margin (%)	43.2	60.5	59.2	28.4	39.8
Normalised Operating Margin (%)	2.2	19.0	40.1	13.8	12.9
BALANCE SHEET					
Fixed Assets	62,297	69,137	90,767	158,466	187,526
Intangible Assets	54,828	58,987	80,959	152,044	168,707
Tangible Assets	376	437	1,774	1,528	1,367
Right-of-use assets	1,133	6,484	4,391	3,397	2,276
Investments & other	5,960	3,229	3,643	1,497	15,176
Current Assets	34,803	41,150	61,345	20,795	87,468
Stocks	3,118	1,576	2,614	1,171	1,502
Debtors	19,921	6,833	13,144	12,242	52,262
Cash & cash equivalents	6,659	28,207	37,843	6,618	30,233
Other	5,105	4,534	7,744	764	3,471
Current Liabilities	(30,308)	(5,570)	(10,164)	(32,400)	(91,663)
Creditors	(4,675)	(4,351)	(4,972)	(11,641)	(29,640)
Tax and social security	0	0	(41)	(66)	(123)
Short term borrowings	(24,051)	(33)	(13)	(18,575)	(57,750)
Lease liabilities	(634)	(324)	(955)	(1,219)	(1,025)
Other	(948)	(862)	(4,183)	(899)	(3,125)
Long Term Liabilities	(6,474)	(8,173)	(6,839)	(4,644)	(23,053)
Lease liabilities	(269)	(5,867)	(3,925)	(2,783)	(1,359)
Other long term liabilities	(6,205)	(2,306)	(2,914)	(1,861)	(21,694)
Net Assets	60,318	96,544	135,109	142,217	160,278
Minority interests	0	(169)	(1,704)	(1,404)	(2,681)
Shareholders equity	60,318	96,375	133,405	140,813	157,597
CASH FLOW					
Op Cash Flow before WC and tax	19,686	27,632	65,038	19,643	93,809
Working capital	(20,665)	13,991	(6,505)	10,565	(19,167)
Exceptionals & other	(379)	533	350	512	5,065
Tax	(136)	(1,547)	(4,838)	1,018	(8,601)
Operating cash flow	(1,494)	40,609	54,045	31,738	71,106
Capex	(2,059)	(2,597)	(4,761)	(4,434)	(3,152)
Capitalised development costs	(18,255)	(19,864)	(39,648)	(75,740)	(79,842)
Equity financing	9,279	29,124	0	0	0
Change in borrowing	7,703	(24,018)	(20)	18,562	39,051
Other	(1,127)	(1,690)	33	(1,264)	(3,616)
Net Cash Flow	(5,953)	21,564	9,649	(31,138)	23,547
Opening net debt/(cash)	4,127	18,295	(21,983)	(32,950)	15,959
FX	0	(16)	(14)	(87)	68
Other non-cash movements	(8,215)	18,730	1,332	(17,684)	(37,557)
Closing net debt/(cash)	18,295	(21,983)	(32,950)	15,959	29,901
Closing net debt/(cash) ex financial leases	17,392	(28,174)	(37,830)	11,957	27,517

Source: Edison Investment Research, company accounts

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