

# Remedy Entertainment

Extensive report

4/2021



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# Several playable levels in the growth game

We reiterate our Accumulate recommendation and EUR 50.0 target price for Remedy. In 2019-2020, Remedy's strategy moved to a growth stage thanks to a successful ramp-up of a multi-project model and the Control game launch, and in the new 2021-2025 strategy period the company plans to accelerate. Thanks to a multi-project model that has been built with controlled risks and is well-managed, as well as a strong financial position, Remedy's preconditions for developing successful games are good. In addition, favorable market trends help the company grow into a clearly larger game studio than currently over this decade. Due to the strongly progressing growth story we play the long game when it comes to share valuation.

## Video game company for a long-term portfolio

Today, Remedy is a purebred profitable growth company. In 2017-2018, the company built the basis for its strategy and the successful ramp-up of the multi-project model has been visible in numbers since 2019 as strong earnings growth. In 2020, Remedy's revenue grew by 30% to EUR 41.1 million and the EBIT margin was 32%. In the big picture, Remedy is still in the early stages of its growth path and in coming years, as the number and size of game projects grow, the company's growth and profitability potential will strengthen year by year. Remedy's team has proven time after time its ability to create high-quality games on a highly competed market, which proves the company's competitive advantages are strong. Thanks to its own Northlight game engine and activities being focused in one office, the company can produce games cost effectively, which means even a fair sales performance makes a project very profitable. Thanks to the multi-project model that has been built with controlled risks and is well-managed we also think the likelihood of completely failed projects is low. Thanks to the private placement carried out in February, Remedy's financial position is extremely strong and enables even higher risk taking in financing and self-publishing future game projects. The strong balance sheet also improves the company's already strong position when negotiating publishing contracts.

## Remedy's position in the industry's value chain is attractive

The console market (2020: EUR 51 billion) has grown strongly over the past 5 years (CAGR 10%) and the good growth level is expected to continue (CAGR 20-23: 7%). Market trends (subscription-based models, cloud gaming, digital distribution, and long-term game services) look favorable for game developers. Due to the trends, the operating models of game studios are changing to some degree but their share in the value chain seems to be growing as the need for high-quality gaming content becomes emphasized as the competition between various companies and digital distribution platforms tightens. This enables attractive offers for publishing and exclusive agreements for Remedy. In addition, there is only handful of Remedy-like AAA-studios globally, which emphasizes the company's attractive value chain position.

## Reasonable valuation for those playing the long game

In our estimates, the multi-project model has in 2023 progressed to a stage where Remedy receives income from more than five released games or games under development. At that time, we expect considerable improvements in the company's revenue (EUR 68 million) and operating profit (EUR 24.8 million). That means Remedy's EV/EBIT multiple considering the strong net cash is 19x. In our opinion, the valuation looks reasonable when considering Remedy's strong growth outlook in the long term and the already relatively successful game releases. In addition, the investor gets the option of a hit game that strikes gold.

## Recommendation

**Accumulate**  
(previous Accumulate)

**EUR 50.00**  
(previous EUR 50.00)

**Share price:**  
43.75



## Key indicators

	2020	2021e	2022e	2023e
<b>Revenue</b>	41.1	45.9	48.8	68.0
<b>Growth %</b>	30 %	12 %	6 %	39 %
<b>EBIT adjusted</b>	13.2	15.5	14.8	24.8
<b>EBIT % adjusted</b>	32.2 %	33.8 %	30.3 %	36.5 %
<b>Net profit</b>	10.3	11.1	11.7	19.8
<b>EPS (adjusted)</b>	0.86	0.94	0.90	1.51
<b>P/E (adjusted)</b>	45.5	46.6	48.7	28.9
<b>P/B</b>	13.3	6.7	6.0	5.1
<b>Dividend yield %</b>	0.4 %	0.5 %	0.6 %	0.7 %
<b>EV/EBIT (adjusted)</b>	34.0	32.5	33.8	19.4
<b>EV/EBITDA</b>	31.5	30.4	29.5	14.5
<b>EV/Revenue</b>	11.0	11.0	10.2	7.1

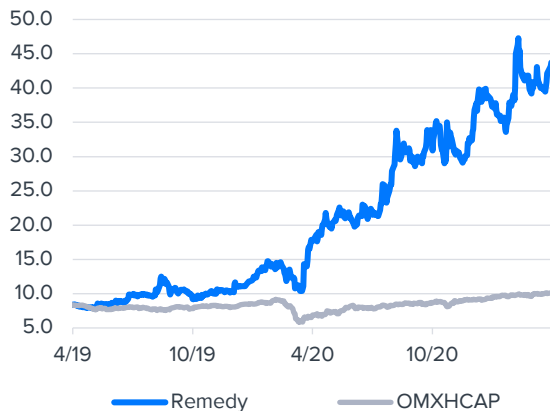
Source: Inderes

## Guidance

(Unchanged)

“Remedy expects its revenue and operating profit to increase during 2021. Majority of the revenue and operating profit is expected to materialize during second half-year period.”

### Share price



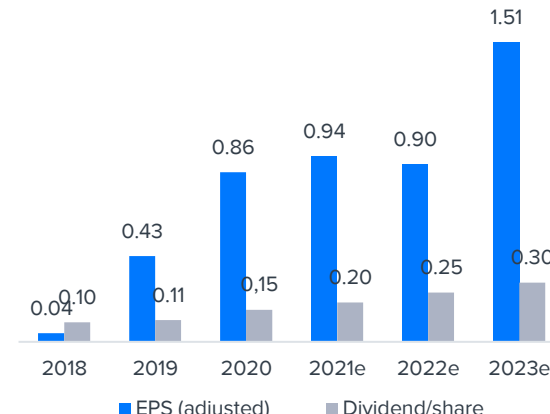
Source: Thomson Reuters

### Revenue and EBIT %



Source: Inderes

### EPS and dividend



Source: Inderes



### Value drivers

- Attractive position in value chain considering industry trends
- Exceptionally good terms of the Epic publishing agreement create visibility into income flow in the next couple of years
- Multi-project model creates continuity and disperses risks
- Strong track record of developing successful games
- Own game engine and game development tools create scalability and a competitive advantage

### Risk factors

- Failure or delays in game projects
- Dependency on publishing partners
- Dependency on the sales of an individual game
- Technology and market trends

### Valuation

- Strong value creation potential in the long term as strategy progresses
- Relative valuation high in the industry
- In the short term, high valuation multiples reflect the earnings growth expectations of the share
- Valuation can be justified considering long-term growth potential

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# Remedy Entertainment in brief

Remedy is an internationally successful game company that is known for story-driven and visually impressive console and computer games like Control, Alan Wake and Max Payne. The company also develops its own Northlight game engine and game development tools.

**1995**

Year of establishment

**2017**

IPO

**EUR 41.1 mil.** (+30% vs. 2019)

Revenue 2020

**EUR 13.2 mil.** (32% of revenue)

Operating profit 2020

**275**

Personnel at the end of 2020

**79/100**

Average Metacritic score of Remedy's games

## Crossfire

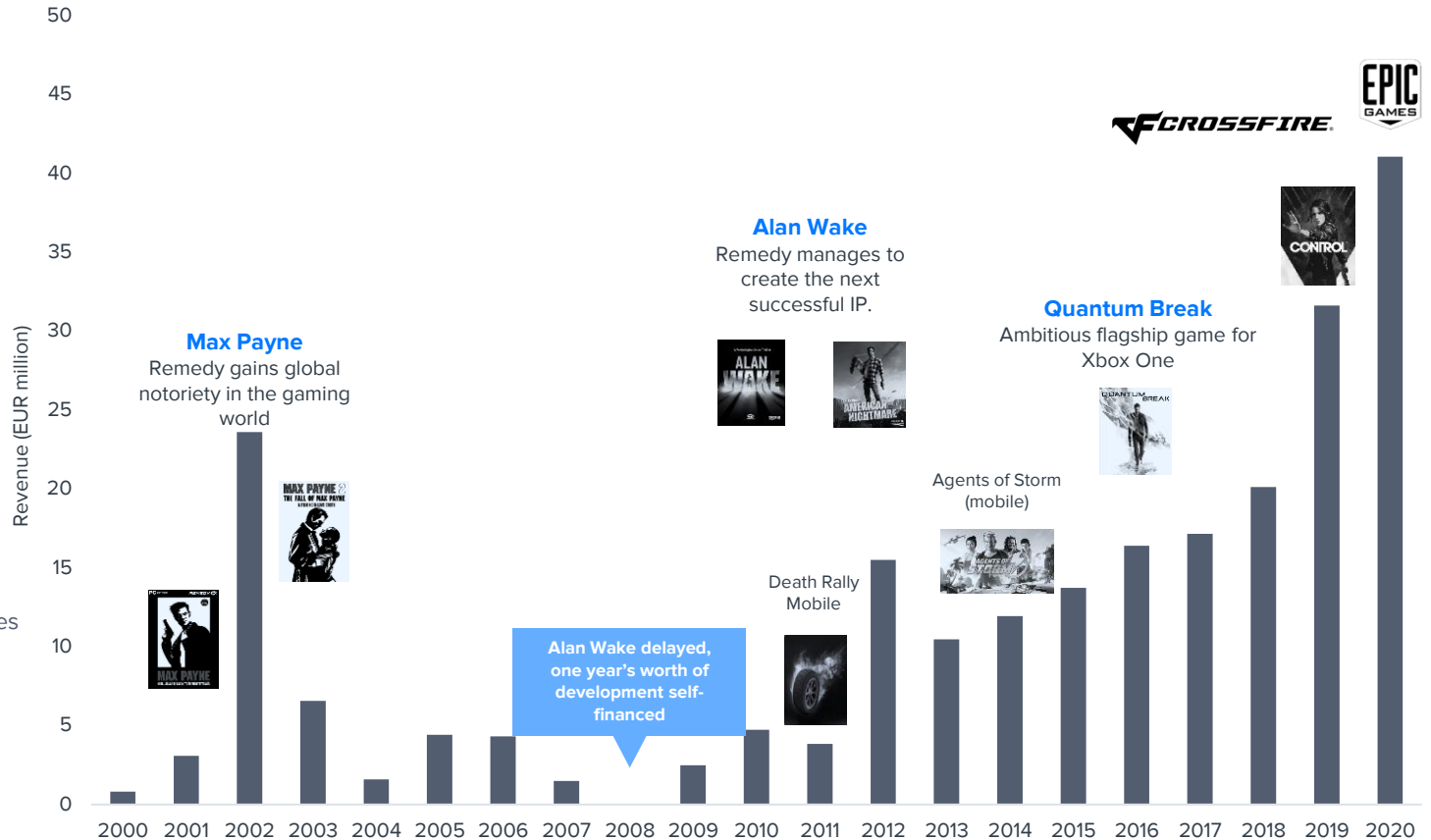
Crossfire projects developed for Smilegate have generated stable cash flow since 2016.

## Control

Control that got good reviews from critics was released in 8/2019. 2020 also proved the commercial success of the game.

## Epic projects

In 3/2020 Remedy made publishing agreements with Epic for the next two projects with exceptionally favorable terms.



Source: Remedy / Inderes

# Company description and business model 1/5

## Company description

### Respected game studio

Remedy Entertainment (Remedy) is a Finnish video game developer founded in 1995. The company is one of Finland's oldest game developers whose best-known games are Max Payne, Alan Wake, Quantum Break and most recently Control released in August 2019. In 2020, Remedy's revenue grew by 30% to EUR 41.1 million. Operating profit in turn grew by 103% to EUR 13.2 million representing 32% of revenue. At the end of 2020, the company employed 275 people.

Remedy is best known globally for its story-driven action games and it is one of the most respected independent AAA game studios in the world. As a testament of this, a Hollywood movie was made based on the Max Payne game series already in 2008, when game-based movies were still a rarity. Now a TV series is planned based on the Alan Wake game. Remedy's internal drive and ambition to develop unique, high-quality story-driven games is reflected in Remedy's Metacritic score (79/100). Metacritic is a website that aggregates scores from both critics and gamers separately to form a single score. Games that receive over 90 points are critically acclaimed and rare. A game with over 80 points is seen as highly successful in critic reviews.

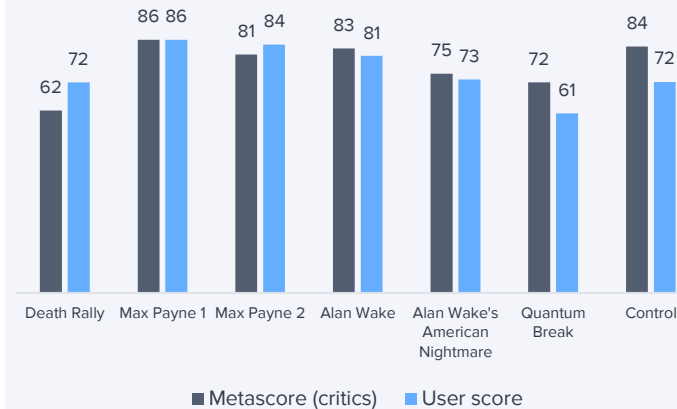
Remedy develops premium games that clearly stand out from game studios' mass games mainly for PC, Xbox and PlayStation. Gamers playing Remedy's games are mostly interested in story-driven action games and are willing to invest over EUR 50 in a single game.

### Long history has reared an experienced game studio

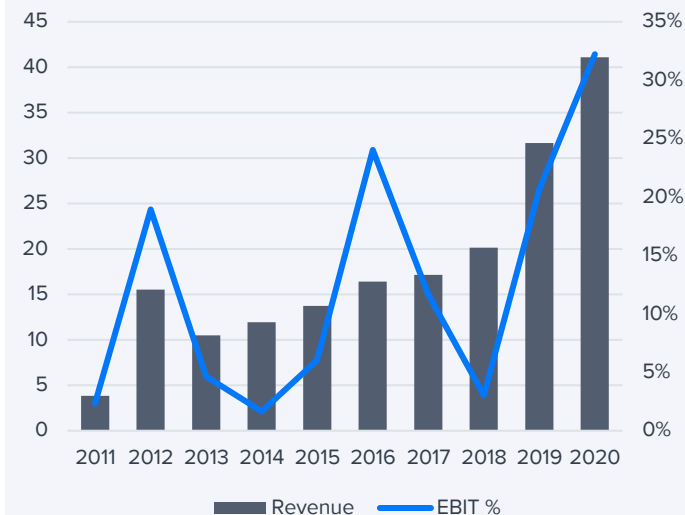
Remedy's first game, Death Rally, was released in 1996. Before the 2001 release on the hit game, Max Payne, Remedy's small team was learning the ins and outs of the gaming market, how differentiation is achieved and building a unique culture. With Max Payne, Remedy learned what it takes to create a story-driven hit game. Building upon this, the company created a culture of game development and creative know-how that is reflected in the company's games even today. Max Payne was a successful game (Metascore 86/100). As a result of the highly successful Max Payne 2 the company also learned the importance of sequels the development which is easier and their success often better and more predictable. Remedy sold the IP of Max Payne in 2002, continuing to develop the game until 2003. Following the divestment of the IP, the company had a strong cash buffer for game development for years to come.

In 2004, Remedy partnered with Microsoft to develop the Alan Wake game. The game proved a more cumbersome project than expected and its release was delayed by one year. Remedy paid for this delay out of its own cash (no revenue in 2008). Alan Wake was released in spring 2010, the same day Rockstar's hit game Red Dead Redemption hit the shelves (Metacritic: 95/100). This partially gnawed Alan Wake's sales, but in addition to positive critic reviews (Metascore 83/100) the game was to our understanding a moderate success financially.

Critic and consumer reviews of Remedy's games\*



Revenue (EUR million) and profitability



Source: Metacritic, Inderes, \*average of different game platforms' critic and consumer reviews

# Company description and business model 2/5

We also believe the Alan Wake American Nightmare sequel was successful, even though the Metacritic score (75/100) was lower than for the original game. Alan Wake has to this day, a loyal fan base that is patiently waiting for a sequel, with Remedy still holding the IP and publication rights.

While Remedy was preparing its next big project, the company also tried its hand at mobile game development in 2011-2014. The company discovered, however, that competition in mobile games is very tight and the market did not offer a foothold for premium games that are Remedy's core competence as free games dominate that market. In addition, mobile game development was not a part of Remedy's culture and the company wanted to make games for big screens.

Remedy's next project was Quantum Break released in 2016 (Metascore 72/100), which the company developed together with Microsoft. Quantum Break's financial success, however, suffered from the fact that in the fight of the previous console generation Microsoft's Xbox One did not reach as big popularity as PlayStation 4. As Remedy developed Quantum Break for Microsoft as a subcontractor - with the IP rights owned by Microsoft – it is our understanding that Remedy did not profit much from the actual sales.

After the completion of Quantum Break, Remedy started preparing for a shift to a multi-project model in line with its new strategy and moved successfully to simultaneous production of several game projects in 2018. In 2020, the company already simultaneously developed five main games that were divided into 15 separate projects on 10 different platforms. Thanks to expanded income

flow from the multi-project model, Remedy's revenue and result development has been strong in 2019-2020. In the big picture, Remedy is, however, still only at the beginning of its growth path. In coming years, as the number and size of game projects grow, the company's growth potential will strengthen year by year.

## Business model

### Premium game development

Remedy develops games for console and PC platforms. Between Remedy and the end customer there is usually a publisher that funds part of the game development and delivers the game to a distributor/distribution platform that is in charge of game distribution. Distribution of Remedy's games takes place through physical distributors (e.g. Gamestop) and digital distribution platforms (Steam, PS Store, Microsoft Store, Epic Store).

So far, Remedy has developed games essentially with two models: the subcontractor model and the self-owned game brand model (own IP). In the subcontractor model, Remedy does not own the IP of the developed game or owns less than the development partner. Then, the partner finances most or all of the development and gets the majority of sales revenue. In the own IP model, Remedy owns the game brand it is developing, finances more of the development, and also gets a larger share of sales revenue. In terms of future projects, Remedy also wants to finance and release some of the project all by itself.

Games developed by Remedy are classified as AAA games, whose characteristics include a big

production budget (EUR >10 million), high quality level, and extensive marketing efforts. Large production values also mean that the games are aesthetically very pleasing, often utilizing the latest technology for effects and offering dozens of hours of gaming.

Developing AAA games is a high-risk business, with commercial success often requiring high sales volumes (millions of units). Game development cycles are typically 2-5 years. In the hands of consumers, the product life cycle is, however, quite short, and especially in terms of physical game copies a considerable part of sales focuses on the first months after the game is released. Thus, the release time of a game is crucial, because if, for example, a game is released at the same time as a competitor's hit game overall sales can be considerably affected. Post-release, sales is boosted with discounts or campaigns.

With digital distribution and DLCs becoming more common more recurrence can be generated in revenue these days. High-quality games can sell well in digital channels for several years. Digital distribution is also a more profitable option for publishers and game developers as the material and logistics costs of physical copies are left out.

High-quality games are also hot items in game streaming services that have popped up in recent years and in the competition between digital marketplaces. Thus, deals made with these platforms have become a new important income source for game studios that can also be used to balance out the risks related to the number of game copies sold.

# Company description and business model 3/5

## Game development life cycle in Remedy games

Remedy's game development process from the drawing board to the finished product can be divided into five stages. The first stage is conceptualization of the game template, which typically requires the resources of 5-10 people and is carried out internally in the company. Depending on the project, internal/external market research may be carried out at the same time.

The next stage is pre-production that still requires a relatively small core team but that is critical in terms of the next stages of the project. The better the guidelines for the project are defined at this stage, the less surprises and delays are likely in the actual production stage. During the pre-production stage, Remedy typically also seeks for a publishing partner for the project. Nowadays, the company's strong financial resources enable project development in peace with own financing before signing an agreement. Remedy today is also such a desired partner that it can shop around for publishers. The publishing agreement can include a signing bonus, in which case this is the first-time revenue is recognized from the project.

The next stage, production, requires a full team, that can vary from dozens to over a hundred people, depending on the size of the project. During the production stage, revenue is recognized at a steadier pace, for example, in a subcontractor model usually tied to development steps that trigger payments. Post-production is the penultimate stage, mostly having to do with finalizing and polishing the project.

The last stage is releasing the game, where the subcontractor model facilitates a possible

“completion bonus”. In addition, Remedy may be entitled to royalties based on a predetermined proportion of sales. Usually, royalties require that the publisher has first covered its own investments from the sales revenues, i.e., development costs, marketing costs and manufacturing costs of physical copies.

## Game development as subcontracting

Developing games financed by a partner reduces the risk of failure and evens out the game developer's cash flows. The drawback is a smaller portion of sales income for the developer. The partners are usually publishers, who are essential especially in the sales of physical copies. Subcontract development is focused on small game studios who lack the resources to finance development themselves. Thus, the business is similar to tailored software development and scalability is weak.

## Self-financed game development

Game development is very scalable for the party carrying the financial risks. The biggest cost item for the developer is mostly fixed personnel costs and profitability scales heavily with the sales of the game. Therefore, self-financed business is very sensitive to game sales, whose predictability is weak. In digital distribution, a publisher may not be needed at all. In self-financing, the game developer owns the game's IP, which enables sequel development. The development of sequels is easier, and demand is more predictable. Therefore, the best business model scalability can be reached in game development if the game developer manages to create a successful game series.

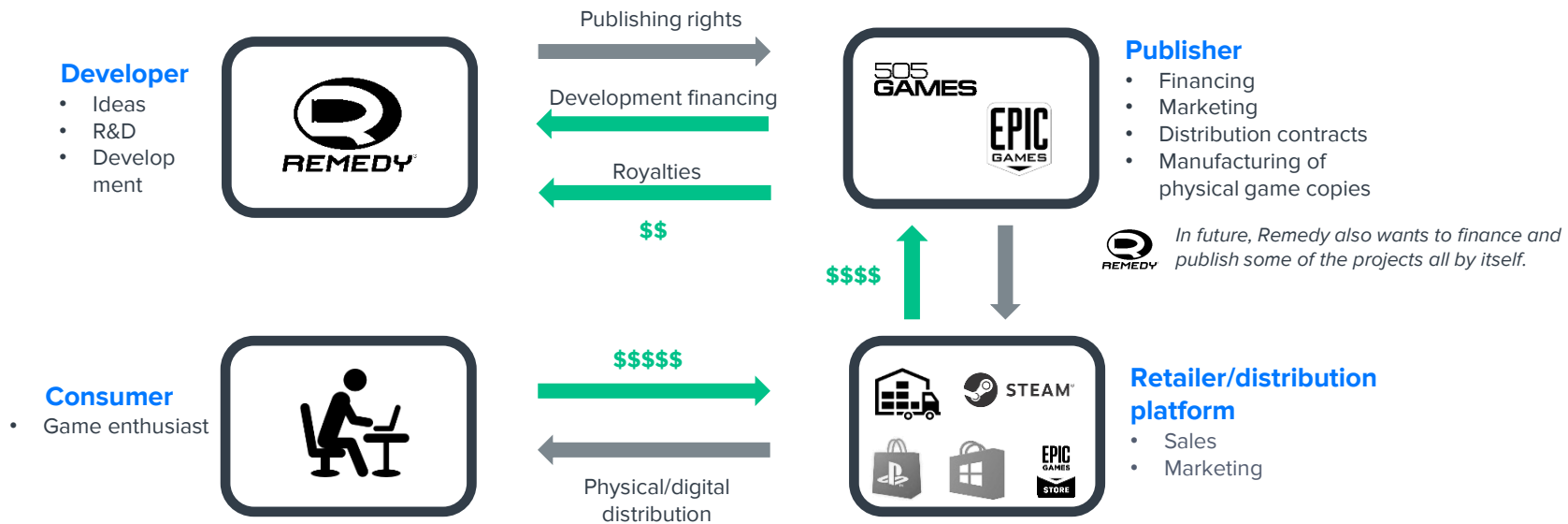
## Pricing and volumes of AAA games

Sales volumes is the most critical driver for the revenue of game brands owned by Remedy. The pricing of games is largely standardized and dictated by the market. So, the price of low- and high-quality games is the same at the beginning, but it is harder to improve sales of a bad game with subsequent discount campaigns. The rule of thumb in AAA game sales is the following volumes during the first years of the game: poorly selling game (1 million copies), reasonably selling game (2 million copies), very well selling game (5 million copies) and a hit game (>10 million copies). The price of high-quality AAA games starts out at EUR 60-70 and in the longer-term prices will vary between EUR 10-50 depending on discount campaigns. Thus, from the revenue viewpoint, the range for a single game varies from a few dozen million to as much as one billion.

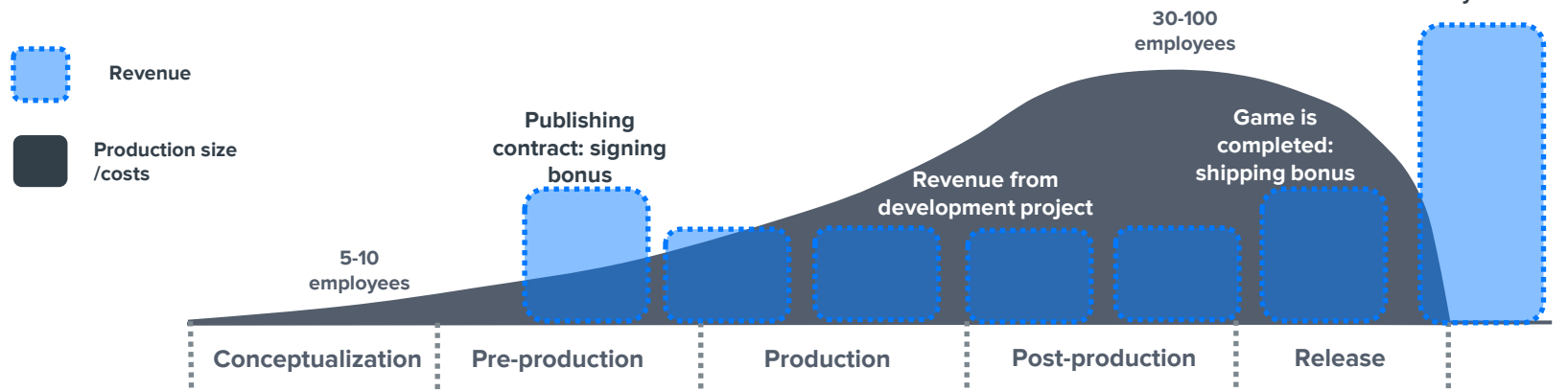
Remedy's competitive advantages stem from the ability to develop high quality games through both efficient production and a high level of technology on a relatively low budget (some tens of millions). This means that the company's games do not need to reach multi-million sales figures to be profitable. Additionally, this enables the company to develop games for defined consumer groups outside of the mainstream games, shielding the company to some extent from direct competition from larger game studios.



# Remedy's value chain and development process



## Illustration of AAA game development when publisher helps finance production



Source: Inderes

# Company description and business model 4/5

## Current game projects

### Control

The first company owned game brand released under the new strategy relying on the multi-project model was Control, released on August 27, 2019. Control is a third person action adventure with a clearly more open game world than in Remedy's previous far more linear games. The game also offers a longer game experience than Remedy's previous games. After the release, new free additional features and two chargeable DLCs that expand the story have been developed for the game. Control's production budget was around EUR 30 million of which we estimate the game publisher 505 Games has financed good one-half. Remedy's share of Control's revenue is 45%.

Control was received very well (Metascore 84/100), and the game has won several critics' awards in the industry. Control has also received a lot of positive feedback from gamers in various channels, but the Metacritic consumer review (72/100) was below the critic's review. We believe the score was lowered by some functionality problems on older console platforms that appeared after the release, for example, in large battle scenes. We believe that some PC gamers were disappointed in the publisher 505 Games' decision to sell the game exclusively at Epic Store for the first year.

After the release, Control's sales developed rather well in the beginning and considering the good critics reviews it could have had potential to sell even better. The game has, however, continued selling well in digital channels since the release and, at this point, the game can be considered a

success also from a commercial viewpoint. By the end of 2020, over 2 million copies of Control had been sold.

Since the original release, Control has been brought to several new platforms and marketplaces, which has prolonged the tail end of the sales and increased the recognition of the game brand. In H2'20, the PC version of the game was published on the Steam platform and a cloud service version on Amazon Luna and on the Nintendo Switch platforms. The game was also added to the Xbox Game Pass subscription service. The game has been temporarily available in the Playstation Now service and available for download with a PS Plus membership. This year, the game has been published for PS5 and Xbox Series X/S consoles.

There are always considerable risks involved in creating a new game brand and its success. Control was again strong proof from Remedy of the company's ability to create a high-quality new game brand with a reasonable budget. From the start, Control has been built as a long-term game brand and Remedy sees business potential in the game for years to come. We believe the company will develop a sequel for the game in coming years and due to the good quality and increased recognition of the game we expect it to succeed well.

### Crossfire

Remedy has since 2016 cooperated with the Korean Smilegate and developed single-player campaigns for Smilegate's upcoming Crossfire games on a subcontracting model. Smilegate's original over 10-year-old Crossfire is an extremely

popular online game especially in China. The game has some 650 million registered users and still some 8 million simultaneous players. In China, the game has generated average annual revenue of nearly EUR 1 billion, which makes it one of the world's most successful games in commercial terms.

Remedy's and Smilegate's first project was completed in October 2018 in connection with which the companies announced a new around 2-year long Crossfire project. So far, Remedy has developed single-player campaigns for Crossfire HD and Crossfire X games. Crossfire HD is remastered version of the original Crossfire game. Crossfire X, in turn, is the first console version of the game that will be published on the Xbox platform. Both games will be published in 2021.

In the subcontracting model, Smilegate pays Remedy development fees in accordance with achieved project milestones, in addition to which Remedy can receive royalties depending on the success of the game. We believe that simply based on development fees the Smilegate subcontracting is very lucrative business for Remedy. Thanks to the cooperation, Remedy is also able to develop some new technological skills, gain experience on the Asian gaming market, and in online game development. It is our understanding that Smilegate is extremely demanding in who they choose to partner with, and only a handful of game studios in the world are able to achieve the quality demanded by Smilegate. Remedy's cooperation with Smilegate has to our understanding progressed very well and we expect it to continue also in coming years.

# Company description and business model 5/5

## Epic projects

In March 2020, Remedy signed publishing agreements with Epic Games for the release of Remedy's two next unpublished games. The first project (previously 3rd project) is Remedy's most ambitious so far, a massive game to be published on console and PC platforms. The other, a smaller size-class game is based on the same game series.

This publishing agreement has exceptionally favorable terms for Remedy. Epic finances the project development fully and is committed to invest heavily in marketing. When the development and marketing costs have been covered from game sales, net profits are then divided in half between Epic and Remedy. Remedy also owns the intellectual property rights to the games. If the games are successful, Remedy will receive a considerable share of their revenue but does not have to carry any project cost risk.

The terms of the publishing agreement indicate Remedy's clearly improved position in the value chain of the industry. There is only a few dozen of game studios worldwide that develop AAA games since several studios are now operating under a larger publisher, platform, or game company due to consolidation in the industry. Thus, independent game studios are in a good position when negotiating with publishers on agreements with favorable conditions. Remedy's negotiation position towards publishers has improved further by the good quality of the Control game, its efficient schedule (3 years) and reasonable production budget (EUR ~30 million).

Remedy began preparation for the bigger Epic project already in 2018 and in 2019-2020, the project has been in the conceptualization/pre-production stage. The project will move to full production in spring 2021. The smaller Epic project is already in production. All in all, some 100 people have worked with the Epic projects in early 2021. At this point, we estimate that the smaller project will be published in 2022 and the bigger project in 2023.

## Vanguard

In August 2018, Remedy formed a small internal development team that was to develop multiplayer gaming experiences. The project called Vanguard uses the Unreal game engine developed by Epic Games that is better suited for multiplayer development than Remedy's own Northlight game engine. The Vanguard project is building a multiplayer game as a service experience that combines some of Remedy's strengths in creating game worlds and storytelling.

In recent years, Vanguard's small team has iteratively developed the first playable version of the game, continuously evaluating and learning based on which adjustments and changes have been made both in the game and its developer team. According to Remedy, the development work is only in its initial stages, but the progress and first external tests and research are promising. The game will operate under a "co-op free-to-play" model, which is completely new for Remedy. No decision has yet been made on involving a possible publishing partner in this project.

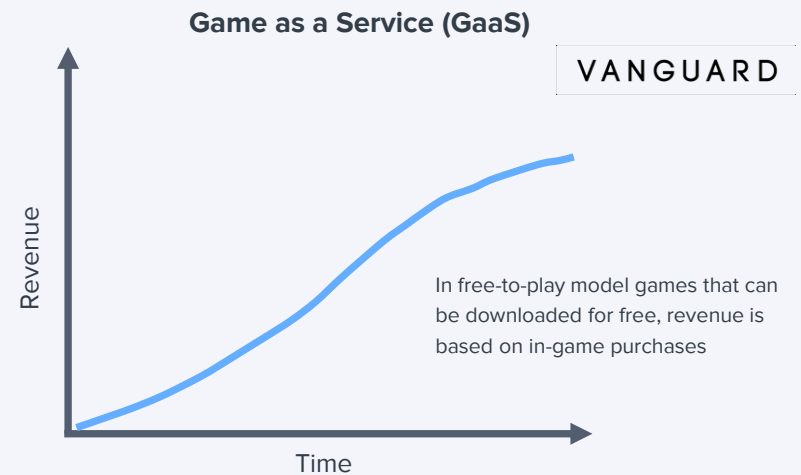
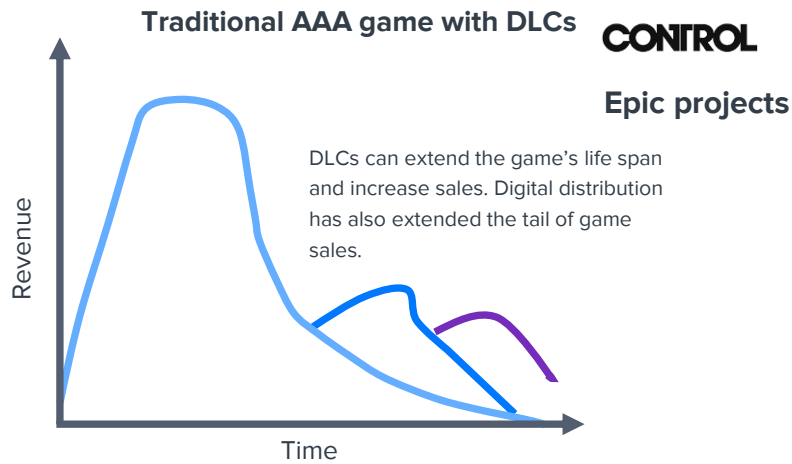
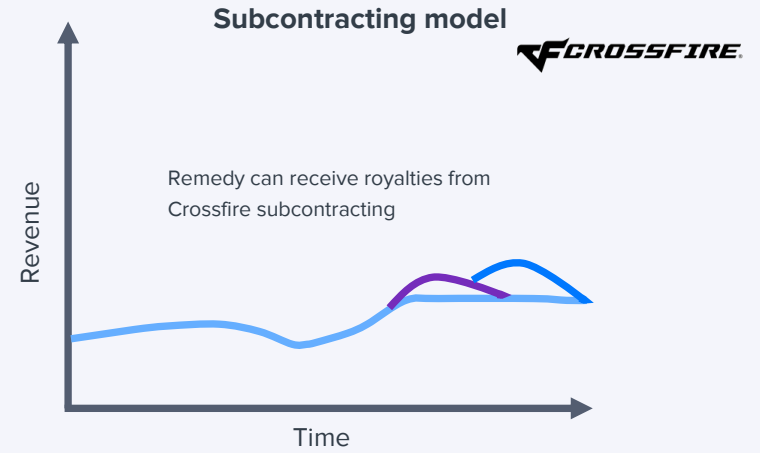
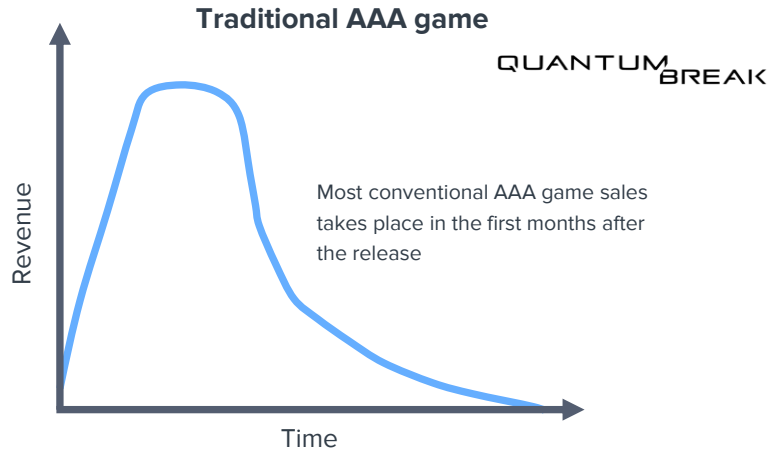
At the end of 2020, a total of 20 people were working with the project and in early 2021 the team has continued growing. We estimate that the game could be released in 2022-2023 but at this stage visibility into the entire project is still very weak.

Today, the most popular games are often multiplayer games played online and available to download for free (Free-to-play, F2P). Here, the so-called GaaS model (Games-as-a-service) comes into its own. Different upgrade packages and additional content after the original release of the game extend the life span of game revenue. There are several multiplayer games on the market that have been built with massive budgets (e.g. Fortnite), and we do not believe Remedy is aiming directly for this market. It will be interesting to see how Remedy succeeds in combining its core competence of storytelling and creating game worlds with the multiplayer experience.

## Next game project

In the 2020 financial statements, Remedy said it had capitalized development costs from a so far unpublished game project. So, the next game project is already bubbling under even though the company is not yet commenting on the project in any way. Remedy's multi-project model has, however, progressed and the number of personnel grown to a point that new game projects can be worked on with a small team.

# Business models of AAA games



# Investment profile

## Video game company for a long-term portfolio

Today, Remedy is a purebred profitable growth company. In 2017-2018, the company built the basis for its strategy and the successful ramp-up of the multi-project model has been visible in numbers since 2019 as strong earnings growth. In the big picture, Remedy is still in the early stages of its growth path and in coming years, as the number and size of game projects grow, the company's growth potential will strengthen year by year.

Remedy combines many characteristics that in our opinion makes it a highly interesting long-term investment case. Firstly, the company operates on a structurally growing, extremely large market whose trends are favorable for the company. Subscription-based models, cloud gaming, digital distribution, and long-term game services support Remedy's outlook as the need for high-quality gaming content only increases in future.

Secondly, Remedy's team has proven time after time its ability to create high-quality games on a highly competed market, which proves the company's competitive advantages are strong. Thanks to its own Northlight game engine and activities being focused in one office, the company can produce games cost effectively, which means even a fair sales performance makes a project very profitable. The scalable nature of the company's business model supports the generally high profitability potential.

Thirdly, Remedy is a very well managed game company that also has an ownership base that emphasizes a long-term approach. Remedy invests heavily in planning and managing game projects, which lowers the risks of project delays during

production. In a multi-project model, delays in a single project can become reflected in other project teams, which emphasizes the importance of good project management. This is not always self-evident in the gaming industry.

Fourthly, a multi-project model that has been built with controlled risks and is well-managed brings attractive optionality from the viewpoint of the return/risk ratio of the company's business model. We believe the likelihood of complete failures in game projects is extremely low but one of future projects can strike gold and become an actual hit game. This means the company's earnings potential is considerable. Even with only relatively well succeeding games, the company's growth outlook is good far into the future.

Fifthly, thanks to the private placement carried out in February, Remedy's financial position is extremely strong. The company can accelerate implementing its strategy with the strong cash position and take more risks in financing and self-releasing of future game projects. The strong balance sheet also improves the company's already strong position when negotiating publishing contracts.

## Strategy has been built with controlled risks

Ever since the IPO, Remedy has implemented its strategy according to plan and the company's transition to a stronger value chain position has been carried out with controlled risks. Thanks to a successful ramp-up of the multi-project model a faster game release rate also gradually lowers Remedy's dependence on the success of a single game release. Due to the business logic of a game company, the risk profile of Remedy's business

model is still higher than for an average company listed on the Helsinki stock exchange even though the company's risk level has been decreasing in recent years.

In our view, the main risks for shareholders in Remedy are:

- Remedy is still dependent on the success of single games, adequate game quality and successful timing of game releases This inevitably raises the risk profile of the company and brings volatility in value creation.
- Remedy is dependent on its publishing partners, their success and the contract terms agreed upon with them. For example, the Smilegate subcontracting can end if future Crossfire games are not successful. In addition, Remedy's visibility into royalty payments agreed upon in contracts may be limited.
- The company's cash flow is cyclical, and dependent on the timing of game releases and their success. Therefore, the company must constantly operate with a strong balance sheet.
- Fast-moving market and technological trends. These relate partly to impulsive consumer behavior and quick development in technology. The risk is highlighted by the long development cycles of game projects.
- The valuation level of the share has risen considerably thanks to the strong performance in recent years and the high valuation does not leave much room for a bigger fracture in the growth story.

# Investment profile

**1.** Attractive position in the value chain

**2.** High profit potential if games are successful

**3.** Strong evidence from quality games

**4.** Growing market with favorable trends for the company

**5.** Several competitive advantages (game quality, positioning, technology)

## Potential



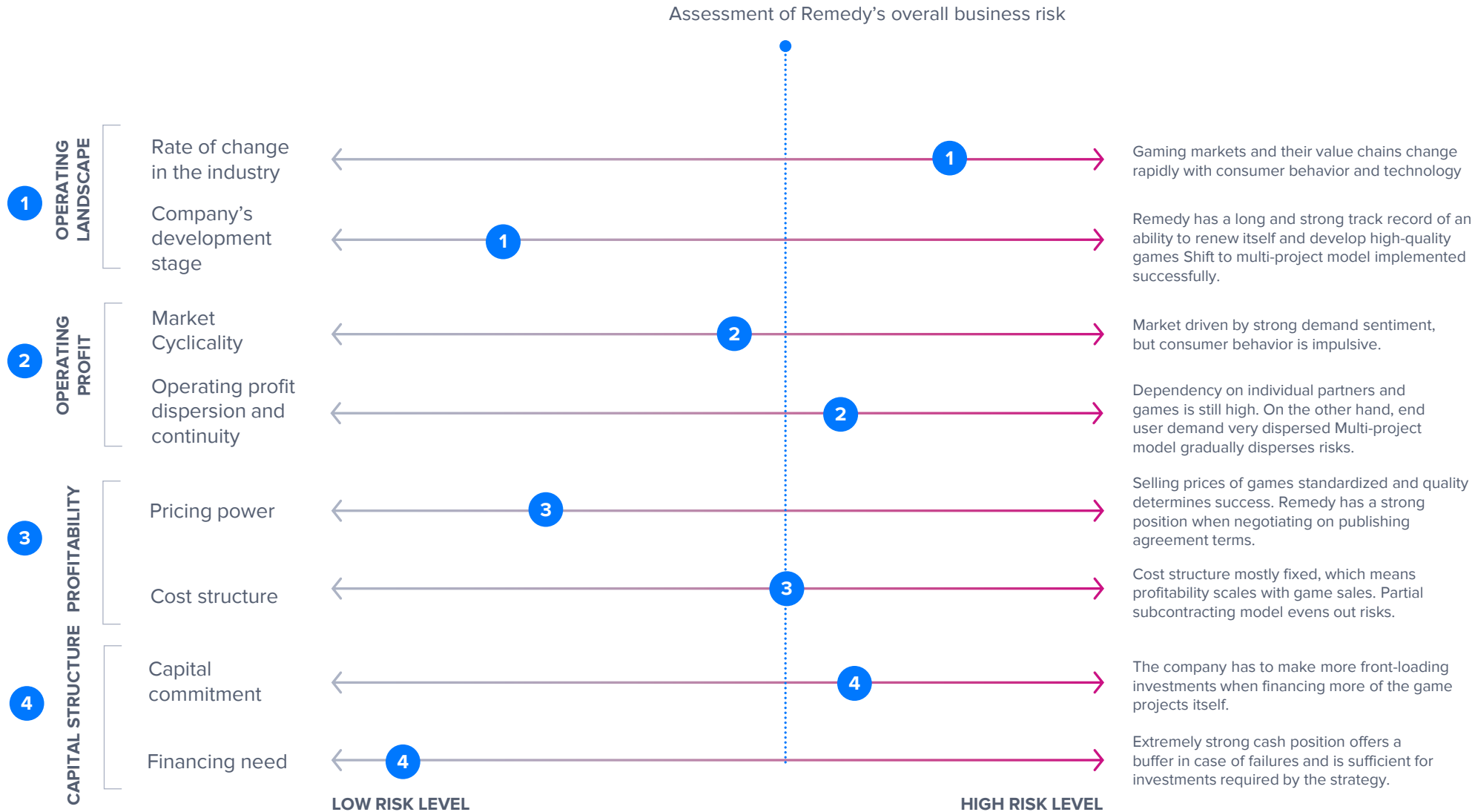
- Development of self-owned game brands and sequels
- Higher portion of revenue from game sales
- Scalable business model enables excellent profitability if games are successful
- Well-managed multi-project model smooths risks and brings benefits of scale
- Reputation and own technologies result in competitive advantage

## Risks



- Dependency on the sales of an individual game
- Dependency on publishing partners
- Long development cycles and possible delays
- Technology and market trends change quickly

# Risk profile of the business model



# Markets 1/2

## The game market is big and global

The popularity of gaming has increased dramatically in the 21st century as the standard of living has grown and today, gaming is by far the most popular form of entertainment in the world. The market research company Newzoo estimates that the global game market has grown by some 20% in 2020 to USD 175 billion. The COVID situation strongly supported growth but the market is expected to continue growing by some 8% in 2021-2023.

Geographically, the biggest market is formed by Asia-Pacific that covers some 48% of the market of which China forms around one-half. The second and third largest geographical areas are North America (26%) and Europe (19%). Big screen PC and console gaming that is key for Remedy is still mainly focused on developed markets. The popularity of console gaming is, however, quickly growing on emerging markets as the income level increases. Thanks to the Smilegate cooperation, Remedy also gains foothold and experience on the Asian market, which typically is a challenging market for western game developers.

## Remedy operates on PC and console platforms

Divided by platform, PC and console platforms that are key for Remedy together (USD 89 billion) form around one-half of the entire game market. Mobile gaming stands for the second half.

The size of the console market in 2020 was around USD 51 billion. The console market has grown strongly in recent years (CAGR 15-20: 11%) and the growth is expected to continue at 7% level in 2021-2023. The growth drivers are the next generation

Playstation and Xbox consoles and new versions of Nintendo Switch that have entered the market. In addition, the very strong equipment base and extensive game selection of the current consoles support the sales development of console games. PS4 has sold over 112 million units and Xbox One an estimated over 48 million units. On the console side, the role of physical distribution is still important, but the role of digital distribution has increased considerably and the COVID situation has accelerated the trend. According to Sony's Q1'20 report published in August 2020 already 74% (Q1'19: 53%) of PS4's game sales was digital.

The size of the PC game market in 2020 was USD 37 billion. The market has grown at a stable rate (CAGR 15-20: 3.4%) and stable growth is also expected to continue (CAGR 21-23: 2.4%). The distribution of PC games is basically fully digital. The PC game marketplace Steam had around 120 million active monthly users in 2020 (2019: 95 million). Epic Games Store that has risen to challenge Steam in recent years had 56 million active monthly users in December 2020 (2019: 32 million).

Over the past 10 years, mobile gaming has grown exponentially as smart phones have become common and the most popular gaming platform. The market size (mobile and tablet) in 2020 was USD 86 billion and it is expected to grow by 10% in coming years. The increase in the popularity of mobile gaming has not taken away from PC and console gaming. Mobile gaming has brought about a completely new "casual gaming" genre, reaching completely new gamer target groups. This has not had a noticeable effect on the consumer behavior

of game enthusiast that are important for Remedy.

We estimate that the big screen focused console and PC-gaming markets, which Remedy relies on, are currently very stable and have healthy growth drivers. At the same time, industry trends (subscription-based models, cloud gaming, digital distribution, and long-term game services) support Remedy's outlook when the need for high-quality gaming content increases in future.

## Business models are developing in the industry

In AAA games, the conventional business model has been that the game is sold both as physical and digital copies as one-time purchases costing around EUR 60 apiece. The commercial success of a game is largely determined by how many copies are sold during the release year. Thanks to digital distribution, the life span of games has grown considerably. Additional sales is increasingly sought through DLCs developed after the original game release. DLCs can also support the original game's sales price that is likely to have dropped at that point and to attract completely new buyers for the game. So, games are increasingly seen as a long-term service (GaaS, Games as a Service). Remedy is also trying to create more long-term experiences out of its games. For example, two chargeable DLCs have been released for Control with which the world and story of the game was expanded. Now the game is sold together with the DLCs as an "Ultimate Edition" package for new consoles. Remedy's Vanguard project will be the company's first true long-term game service that is built on an F2P business model.



# Markets 2/2

The free-to-play business model (F2P) typical for mobile games has increased its popularity in PC and console games pushed by recent hit games (e.g. Fortnite). In the F2P model players can get the game for free and the revenue is based on in-game purchases and advertisements. The challenge for the F2P model on consoles is achieving sufficient scale, as usually only a small share of players spend money in the game. The clearly lower number of consoles (PS4 and Xbox One ~160 million units) compared to the number of active smart phones (Newzoo: 3.6 billion units) limits the size of the potential group of players. Thus, a F2P game developed for a console usually also requires a PC version. In addition, development of console games is usually more expensive than that of mobile games, which also limits the developers' willingness to switch to a F2P model.

In recent years, subscription-based business models have also been introduced in gaming as already has happened in terms of music (Spotify) and movies (Netflix). For example, Sony and Microsoft have launched their own service where a monthly fee gives access to play the games in the selection. A natural continuum on the subscription-based models is streaming console and PC games directly from the cloud and the fight for the "Netflix of games" position has already started. Google made an opening in this field when launching the Stadia service in November 2019. Microsoft is building game streaming around the Xbox Game Pass and Sony around the Playstation Now service. In addition, Amazon with its strong cloud services is entering the market as a challenger with its Luna service. Cloud gaming requires a seamless and fast Internet connection and we estimate its popularity

will increase gradually over the next 5 years as, e.g., 5G and fiber connections increase. If cloud gaming really breaks through, it is likely to happen towards the end of the life cycle of next generation game consoles (PS5 and Xbox Series X/S) at some time towards the end of the 2020s. When becoming more common, game streaming can increase the potential group of players of AA games when the need to buy a physical console for playing disappears.

## Competition among distribution platforms for PCs tightens

Steam that has long dominated the PC game market has in recent years been challenged by Epic Games' EGS marketplace. Thanks to the success of Fortnite, Epic also has the financial muscles to challenge Steam. According to Epic, the 30% (25% after EUR 10 million and 20% after EUR 50 million sales) distribution fee charged by Steam is not reasonable in the world of digital distribution. Epic only charges a 12% distribution fee.

In order to grow its platform, Epic Games has actively signed time-based exclusive distribution agreements with game developers in recent years. For example, Remedy's Control game was published on PC exclusively in the Epic Games Store for the first year. Epic Games paid Remedy and the publisher of the game 505 Games in total some EUR 9.5 million for this exclusive right. The sum is considerable as it covered an estimated one-third of Control's production budget of EUR 30 million.

## Developers' role in the value chain is growing

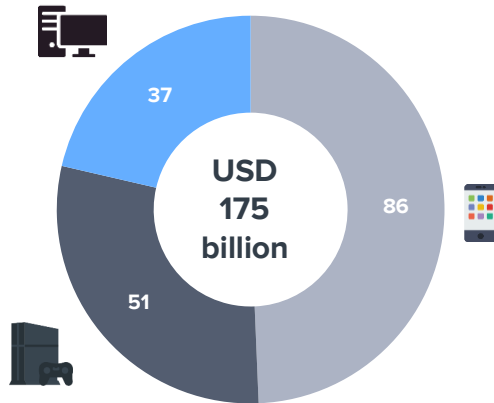
Game publishers have traditionally had a strong

position in the value chain, as they have acted as gatekeepers between game developers and distributors. Console manufacturers have also always been strong in their own closed platforms. The situation has, however, changed and is constantly changing as digital distribution, subscription-based business models, cloud gaming and the F2P model shape the market. The biggest value shift in the market in recent years has taken place from the physical distributors of games towards publishers and game developers as digital distribution has grown considerably. For example, as recently as 5 years ago physical distributors (e.g. Gamestop) had a lot of power over publishers but today the company is in a lot of trouble.

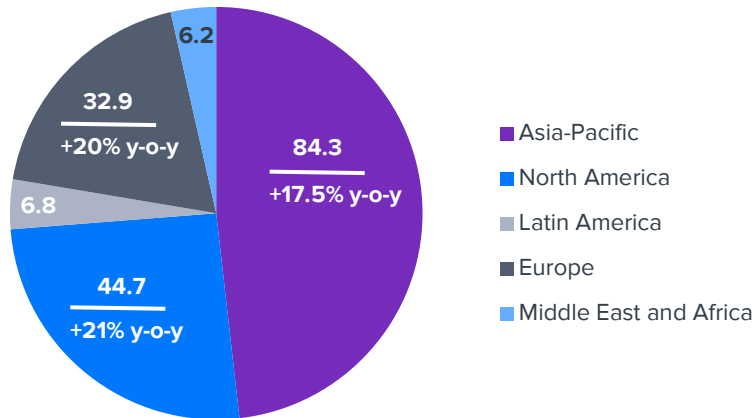
The role of game studios in the value chain is not disappearing, which is good for Remedy. The business models of game developers may change, but their place in the value chain is only likely to grow in the future. Need for high-quality game content becomes emphasized as the competition between players and digital platforms tightens. This enables attractive offers for publishing and exclusive agreements for Remedy. In addition, there is only handful of Remedy-like independent AAA studios globally, which also makes the company an attractive acquisition target for several players.

# Market

Game markets by platform 2020 (USD billion)

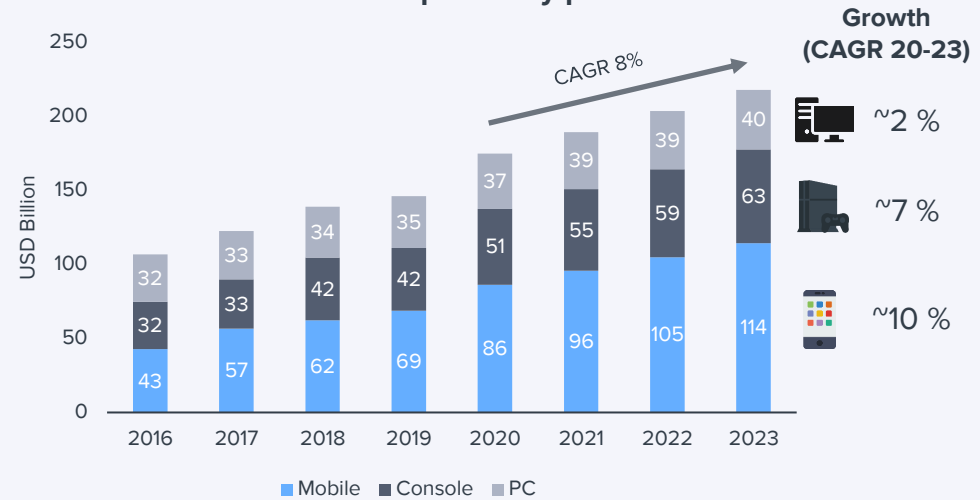


Game markets geographically 2020 (USD billion)



Source: Newzoo, Inderes

Game market development by platform



## Key market trends for Remedy

### Digital distribution and longer-term game services (GaaS)

- Life span and sales potential of games increases

### Subscription-based business models and game streaming services

- Need for high-quality gaming content increases

### Competition between digital distribution platforms and game subscription services

- Profitability potential of game developers improves as distribution costs decrease
- Game developers can make financially valuable agreements with platforms

### Market consolidation accelerates

- There is only a few dozen of Remedy-like independent AAA game studios in the world

# Competition 1/2

## Nature of the competition in the gaming industry

Regardless of the market, game genre or platform, game companies ultimately compete for the time and money of consumers. Entertainment is the most important competitive edge of the sector.

Competition in the gaming industry is global and geographical factors play a minor role in the era of digital distribution. Competition is instead defined by the release platform, game genre, and production size. In Remedy's premium game category competition is, for example, very different than in mobile games. The entry barrier is clearly higher in AAA games, there is only a handful of competitors globally, and production sizes are significantly greater.

Measured by revenue, Remedy is a relatively small player in the industry, but within its category it faces the biggest companies like Ubisoft and Take-Two Interactive in competition. AAA games are, however, also divided into their own sub-categories and game developers have focused on developing games in a particular genre based on their strengths (e.g. action, adventure, role play, driving games). Remedy specializes in story-driven action games.

The competition for consumers' attention is tight across the world and consumers pay attention to game reviews and discussions concerning the games. Especially in pricey AAA games, consumers follow reviews closely to be able to assess the entertainment value and quality of the game before making a purchase decision. One of the biggest risks of Remedy's market is the quality of the competition, not so much the quantity. Remedy

must be able to produce very high-quality content that stands out from the bigger competitors in order to succeed in the competition.

## Remedy's competition

Defining Remedy's competitive field is not clear cut. On one hand, the company competes for the best publishing contracts with other game studios as there is only a few dozen of potential publishing partners globally. On the other hand, the company competes for the end users' money and time. Here the competitors are other action games, completely alternative game categories, and, in the bigger picture, also other forms of entertainment apart from gaming.

There is only a few Remedy-like independent AAA game studios in the world as most have ended up as acquisition targets. For example, Sony, Microsoft, and Embracer have been active on the acquisition front. Out of the independent game studios, an ever-smaller group is formed by studios developing story-driven action games similar to Remedy. New competitors are not easily born in this category due to the high entry barrier. For example, it is very difficult for a studio specialized in driving games to switch to action games, as developing them requires notably different technology and knowhow. When publishers are vetting out game developers to partner with, experienced teams, high technological competence, and track record are key. Remedy's position among publishers is currently extremely strong, evidence of which is the exceptionally favorable conditions of the Epic agreement.

## Remedy's competitive advantages

Over the years, Remedy has been able to successfully create several world-class games on a highly competed market. This proves the company's strong competitive advantages considering the general perception that games are a hit business. Remedy's key competitive advantages are:

- Remedy can develop very liked and high-quality games. The company has strong know-how in challenging and long-term game production. The good reputation offers leverage when negotiating with publishers and attracts the best talents in the business to join Remedy.
- Remedy's game development is built on games that stand out from mainstream games and have unique stories. Unlike the large competitors, the company is not seeking "the masses", which means they can introduce more unique features into their games. A game created for a more focused group that clearly stands out from other games has a good chance to hit some 2-5 million units in sales.
- Remedy's Northlight game engine enables benefits of scale in the multi-project model, which means games can be developed faster and more cost effectively. Own technology also offers important continuity as previously developed code and elements can be utilized in other projects.

# Competition 2/2

- Remedy invests heavily in planning and managing game projects. Especially the early-stage core project planning team plays a critical role, as it can help minimize the number of big problems occurring in production. Commonly, the big challenges of game development are the project being delayed due to problems occurring during production that could have been avoided with better planning.
- Due to its own technology platform and centralized functions in Espoo, the company can produce high-quality games at a much lower cost than most of its AAA rivals. This means that unit sales does not need to be as high to cover development costs.
- Remedy has established a strong brand among gamers. Gamers do not only buy games based on the game-specific brand, but also based on the Remedy brand. For example, Alan Wake fans are eagerly awaiting for Remedy to develop a sequel for the game.

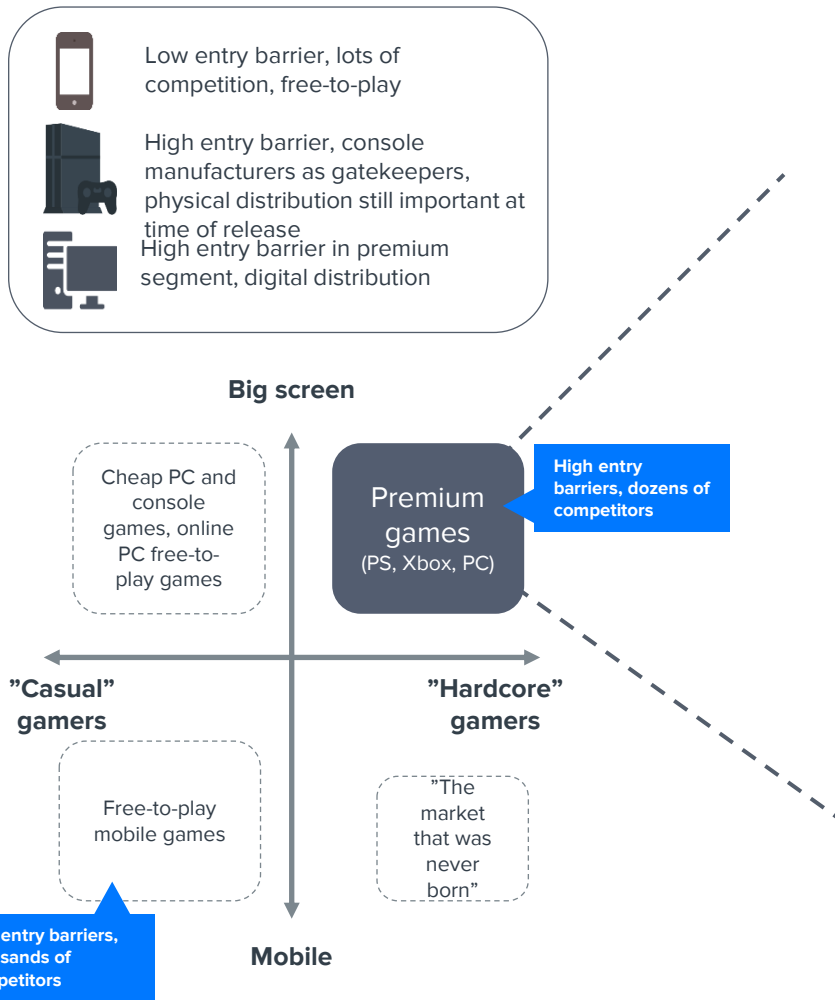
Expected growth and profitability of Remedy and its listed peers



Source: Thomson Reuters, Inderes

# Remedy's positioning on the market

## Game market segments



## Remedy's sub-segments

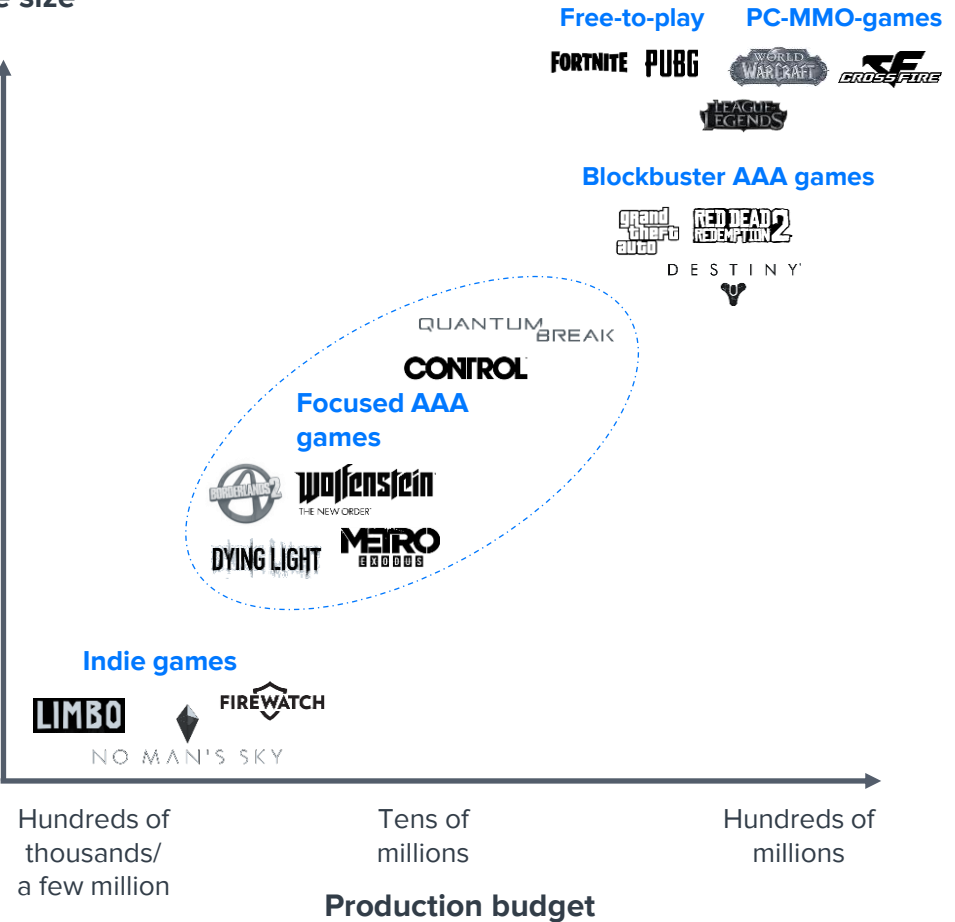
Game size

AAA+

AAA

AA

A



# Strategy 1/2

## Strategy moved to profitable growth stage

After the 2017 IPO, Remedy started implementing its strategy whose cornerstone was to reach a better position in the value chain while managing the risks by moving to a multi-project model. The company's strategy implementation has since then been impressive and by the beginning of 2020 Remedy had achieved all of its key objectives. Due to the expanded income flow from the multi-project model, the strategy also entered a profitable growth stage in 2019-2020. In the new 2021-2025 strategy period, Remedy wants to continue on this path with managed risks.

Remedy's aim is to create several successful games by 2025, of which at least one is hoped to be a clear hit. In addition, the aim is to own at least three successful and growing game brands. The company also still wants to strengthen its position in the value chain and probably will in future act as the sole publisher and financier of some of its new games. Remedy's aim is to also become the most attractive employer in the gaming industry in Europe.

Remedy has no numeric financial targets for the strategy period, but the aim is to continue growing profitably with well-managed risks. So, in practice, the company continues taking familiar strategic steps but as the number and size of game project grows the company's growth potential increases year by year. Simultaneously the risk related to an individual game decreases one step at a time, which lowers the risk profile of Remedy's business.

## Higher share of self-financing and share of game income

Remedy has always developed high-quality games but historically acted in practice as a subcontractor for publishing partners, which left the formation of revenue for the company relatively small. With help of the financial muscles created by the IPO, Remedy has been able to finance a larger share of the projects themselves and negotiate publishing agreements with clearly better terms. This way the company gets a larger share of the sales income from the games but also carries more risks in terms of game sales.

In recent years, Remedy's evidence of moving to a stronger position in the value chain have been convincing. Evidence of this is creating the new successful Control game brand and the exceptionally good terms of the Epic projects' publishing agreement.

In terms of future projects, Remedy has even more leeway in terms of the commercial model of the games as the directed share issue of EUR 41.5 million carried out in February 2021 has made the financial position very stable. Strong balance sheet enables developing and releasing some future game projects all by itself. In addition, Remedy can develop projects in peace with own financing in the beginning, which means they can prolong the selection of a publishing partner. Thus, potential partners can be shown a clearly more complete and well-planned game project, which further improves Remedy's negotiation position.

In addition to its own game projects, Remedy also still develops games with a subcontracting model.

In subcontracting, Remedy focuses on seeking leading actors in the gaming industry as partners for its games and to carry out projects that are very profitable. With the stable cash flow from subcontracting Remedy can lower the risk level of its business but the aim is to include a royalty portion dependent on game sales in these agreements, like with Smilegate.

## Own game brands and sequels

Based on its strategy, Remedy wants to create its own game brands that have long-term growth potential. Own game brands enable sequel development that often sell more and have better profitability than the first part of the game series. This is mainly due to sequels offering better gaming experiences and the game already having an established fan base. This helps predict future demand. In addition, the main challenges related to game development have already been solved in the first part and creating the game world is easier. The development cycle is clearly shorter than the normal 2-3 years. The device stock and technical performance across gaming platforms may also have evolved, further supporting enhancing the gaming experience of the sequel.

In Remedy's strategy, each brand and game are independent but linked to a larger Remedy universe. Thus, if the strategy is successful, games placed in a unified universe in the longer term basically enable unlimited possibilities for expansions, sequels and spin-off products.

# Strategy 2/2

Own game brands can also be cultivated into income opportunities within brand licensing. For example, a TV series is being made of Alan Wake as we speak from which we estimate Remedy will receive licensing income when the series is completed. We, however, see the visibility the TV series brings to the brand as far more valuable than its direct revenue effects.

## Game publishing ability

When the weight of its own game brands grow, Remedy has started expanding its own abilities in commercializing, marketing, and publishing games in recent years. Next to its own publishing ability, the company also wants to be more strongly involved in planning and influencing the commercialization of its own game brands even if a publishing partner is involved.

## Longer gaming experiences

Remedy aims to create longer lasting games that bring together high-quality gameplay and multidimensional story driven gaming experiences. The content and quality in AAA games have both increased contentiously over the years, and nowadays games must be able to offer quality content for dozens of hours.

The longevity is also supported by the GaaS model, which enables the revenue from a single game to be distributed over a longer period by producing additional chargeable content over the years. One must however remain vigilant in terms of additional content, so that players do not feel they are being ripped off. Additional quality content offers added value to players who pay for it but does not limit or discriminate the experience of those players who

choose not to purchase it. We feel Remedy has been successful in this with the two DLC packages for Control.

In the Vanguard project, Remedy is facing a new challenge in terms of monetization as in F2P model games earnings takes place through purchases made within the game. This differs completely from the conventional business model of AAA games. Remedy has recruited a lot of new talent from outside the company to its Vanguard team.

## Multi-project model and technological platforms

Remedy uses its own Northlight game engine from which the company gains benefits of scale in the multi-project model. The game engine and game development tools built around it are developed by the company's own team of some 50 people. Honing proprietary technology and tools is strategically very important for Remedy to maintain its competitive advantages.

With a competent and continuously developing technology team, the company can streamline the game development process by automating manual working stages. A strong technology team also creates a base for all development teams, which enables certain scalability in the development process through shared production and action models. With its own technologies, game development cycles also shorten when certain previously developed elements can be utilized in other projects.

The multi-project model also offers more room for personal improvement and growth paths inside the company and transitioning between projects when possible. We believe that this has increased

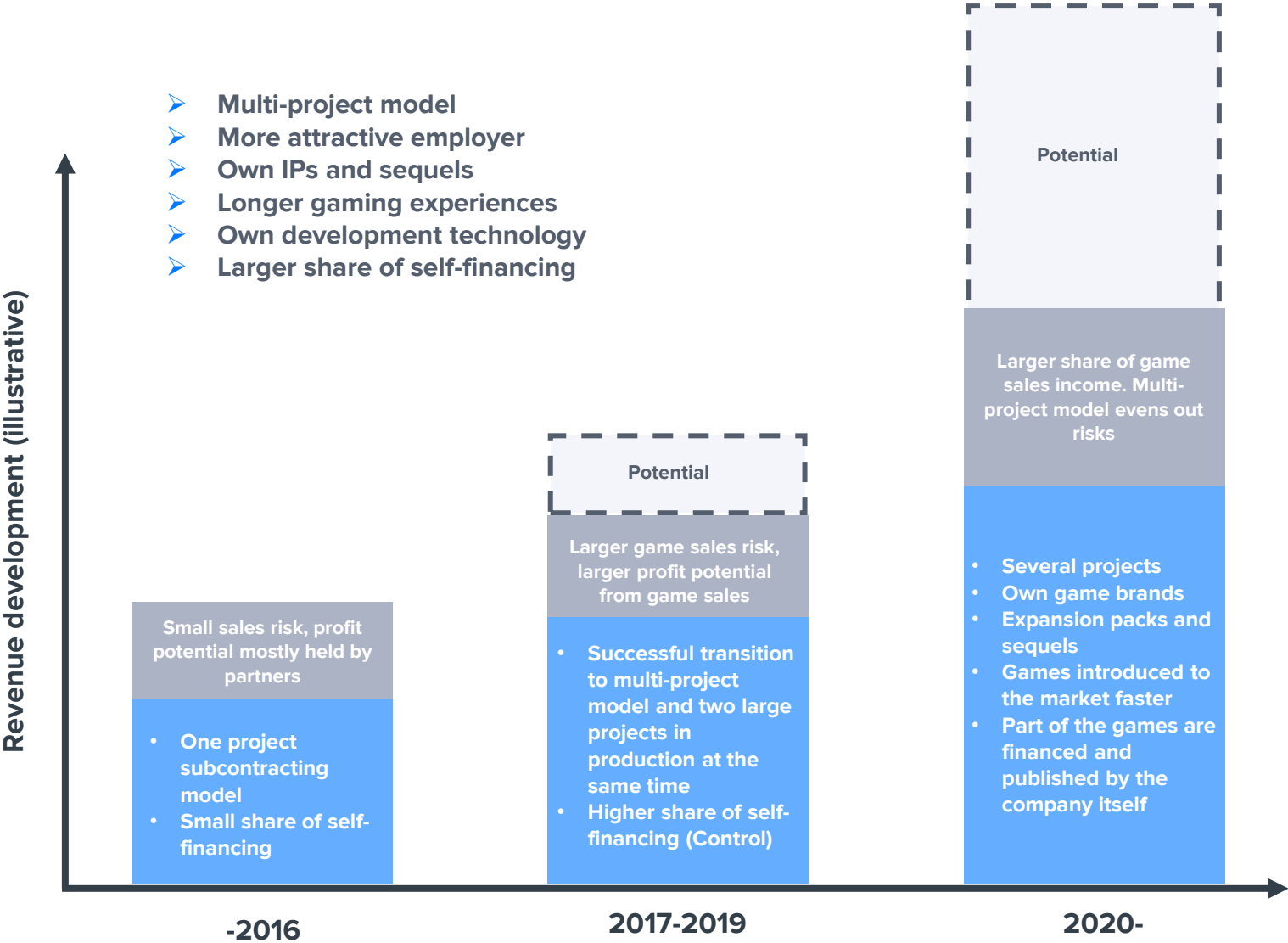
Remedy's attractiveness as an employer and further improving employee commitment.

## External game development

In recent years as the number of game projects has grown, external development has been one of Remedy's focus areas. This enables, e.g., producing certain sound and graphics contents through an external partner. Also, e.g., creating different game versions for various platforms can be outsourced.

In 2020, Remedy was already using 31 external development partners and a total of 370 external game developers worked with Remedy's games. External game development enables Remedy's own personnel focusing increasingly on generating higher added value, i.e., planning the actual game worlds, characters, and stories, as well as developing game mechanics. Stronger utilization of external partners also enables Remedy to develop even more simultaneous games and flexibility in own personnel recruitment needs.

# Transition of Remedy's strategy

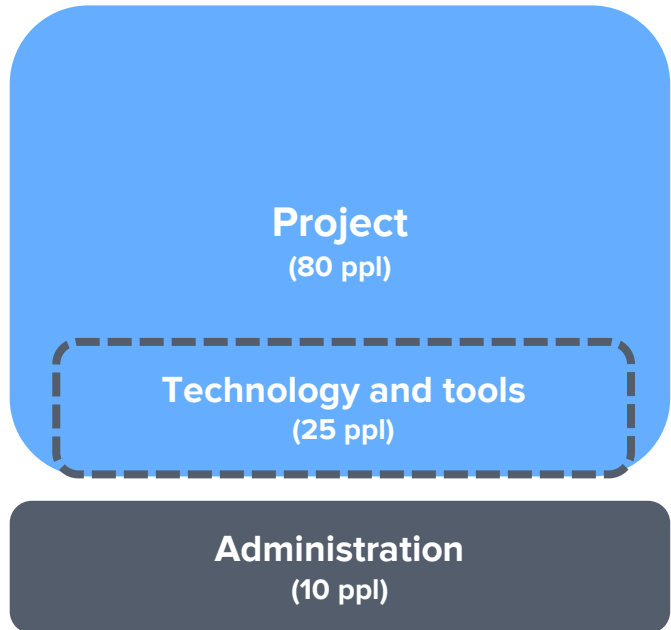


Source: Inderes



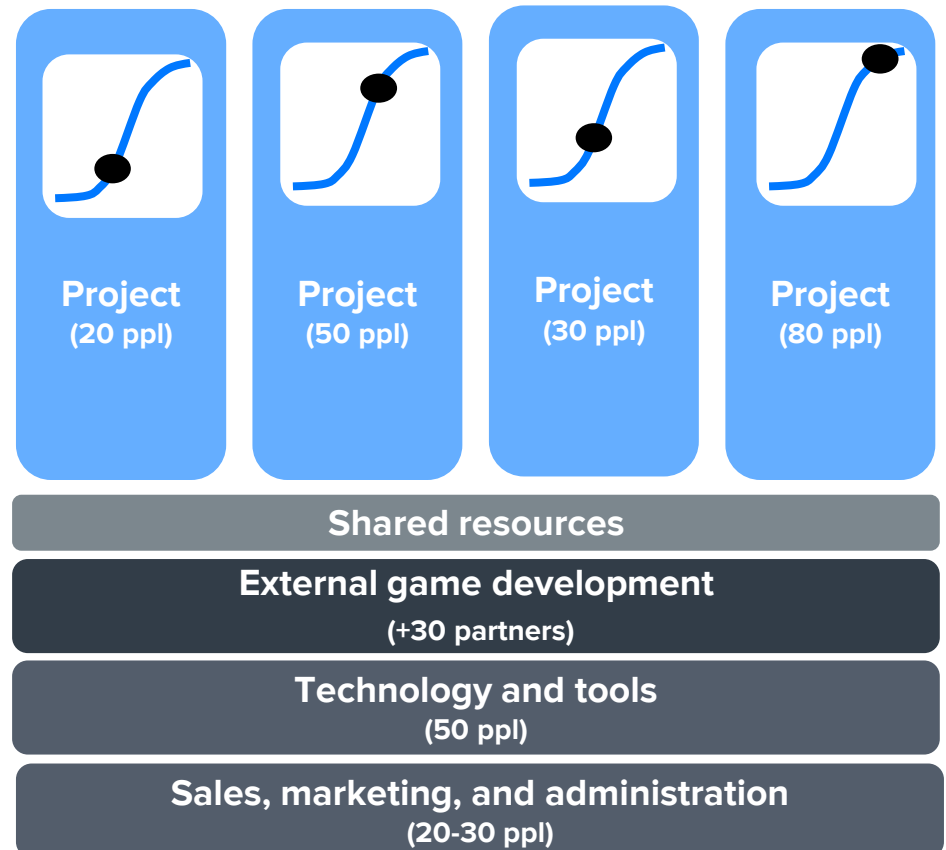
# Advantages of the multi-project model

## Previously



Before, Remedy's game development tied up more people per project with the technology team supporting only one team.

## Multi-project model



- The multi-project model enables scalability as the same technologies and tools can be shared between projects
- With its own game brands and self-publishing Remedy also invests more in sales and marketing
- Well planned and managed projects also enable outsourcing of certain development stages

# Financial position

## Strong earnings growth in 2019-2020

Historically, Remedy's growth and profitability was tightly defined by the project driven business model and the terms of publishing contracts that defined it. In 2011-2018, Remedy's revenue varied between EUR 4 and 20 million and the company was profitable every year.

The strategy leaning on the multi-project model started to become reflected in the figures for the first time in 2019 when, as result of the Control release, the revenue grew by 57% to EUR 31.6 million and the operating profit was EUR 6.5 million (2018: EUR 0.6 million). In 2020, the strong performance continued without new game releases as both the revenue (EUR 41.1 million, +30%) and operating profit (EUR 13.2 million, +32%) jumped to a new level. The 2020 revenue mainly comprised sales income from Control and development fees received from publishers of games under development.

Remedy's 2020 EBIT margin was 32% and provides the first glimpse into the company's earnings potential. In light of the further expanding income flows from the multi-project model and the company's highly scalable business model we estimate that profitability has the potential of rising further as new games are successful. Guidelines for the profitability potential (EBIT-%) in a optimistic scenario can in our view be sought from the middle ground between the Swedish peer Paradox (~40%) and the Polish peer CD Projekt (~60%).

## Cost structure mainly fixed

Remedy's cost structure primarily consists of fixed personnel costs (2020: 49% of revenue) and other operating costs (11%), as well as variable purchases

of external services (16%). Last year, these costs amounted to some EUR 32 million.

From the beginning of 2019, Remedy has capitalized development costs related to its own game brands, which stabilizes the company's reported earnings development in the long run. In 2019-2020, EUR 1.5 and 5.1 million in costs were capitalized. According to our estimate, capitalization will improve the result in the next few years as the related depreciation only start after the game is released when they will correspondingly decrease the result.

For Control, no development costs have yet been capitalized. Vanguard's development costs have been capitalized in full and the project is fully financed by Remedy. Capitalization of Epic projects have been made based on future earnings expectations. The amount of capitalization has been calculated based on the project's overall cost considering the percentage share that corresponds with the share of expected earnings after the game is released. The definition itself shows that visibility into capitalization levels is very weak. In the end this is, however, only an accounting measure and the result and cash flow from an individual project are as large throughout the life span of the project.

## Extremely strong balance sheet

Remedy's balance sheet was strong at the end of 2020 (equity ratio 73% and net gearing -56%). As a result of the EUR 41.5 million directed share issue carried out in February 2021, the company's financial muscles grew clearly. The subscription price of the share issue was EUR 41.5 per share and thus Remedy received a considerable amount of capital with a relatively low dilution (~8%). The company can accelerate implementing its strategy and take more

risks in financing of future game projects with the strong cash position.

The liabilities side of Remedy's balance sheet consisted at the end of 2020 primarily of equity (EUR 35.4 million) and non-interest-bearing debt (EUR 9.3 million). The company has EUR 3.7 million in interest-bearing debt (Business Finland loan). The assets in the balance sheet in turn consisted primarily of cash and cash equivalents (EUR 23.7 million) and current receivables (EUR 14.2 million). EUR 6.6 million of development costs were capitalized in the balance sheet.

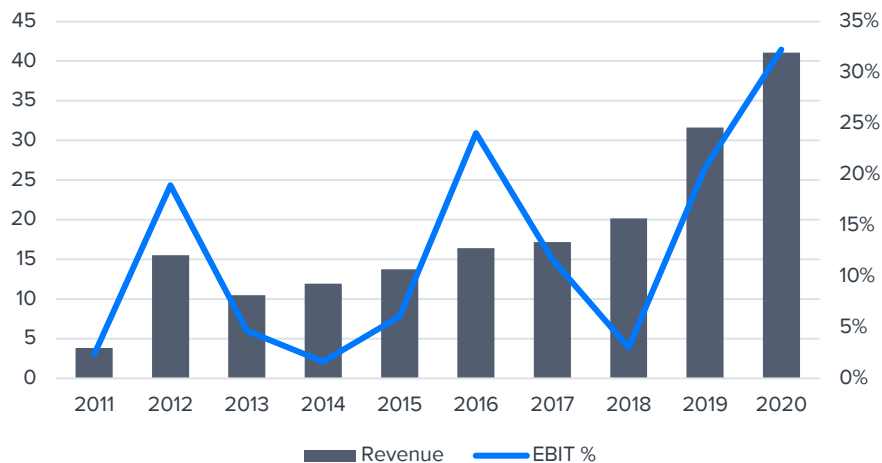
Remedy's business model requires a strong cash position as the business needs a buffer in case of game development projects being delayed or failing. The company needs a strong enough cash position after each game project to continue on with the development of subsequent games regardless of the success of the previous release. The current cash position provides a good backbone for risk taking in this respect. A strong balance sheet position also offers a clearly better negotiation position with publishing partners as Remedy is not dependent on the financing of publishers.

## Cash flow

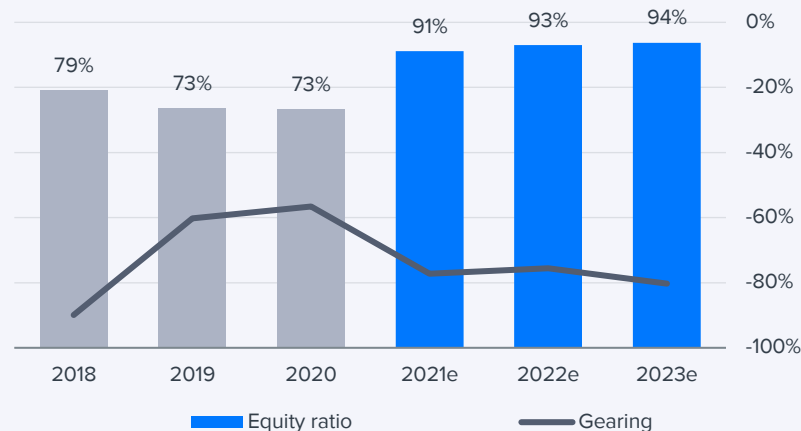
Due to capitalization of product development costs, Remedy's result and cash flow will deviate increasingly from one another over the next few years. Earnings development is more stable due to capitalization and the related depreciation, but cash flow focuses on the time of the game release. Projects carried out as subcontracting and game projects that are partially financed by publishing partners do, however, generate cash flow for Remedy also during the game development stage.

# Financial position

## Revenue and profitability

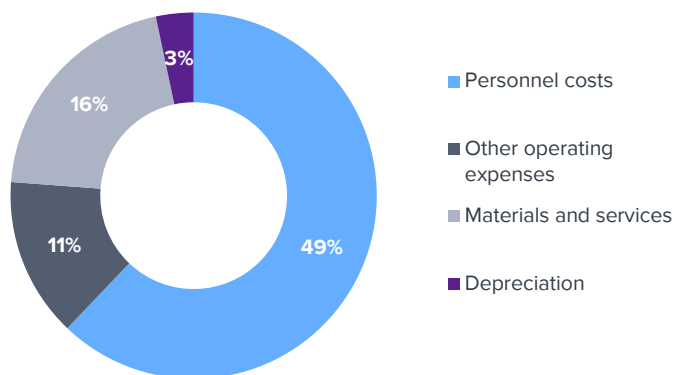


## Balance sheet key figures\*



In February 2021, Remedy collected EUR 41.5 million in gross assets from a directed share issue

## Cost structure 2020, % of revenue



## Balance sheet at the end of 2020



Source: Inderes

# Estimates and value determination 1/5

## Estimates

### Basis for the estimates

Precise prediction of Remedy's earnings development in coming years is challenging due to the nature of the company's business model. The level of capitalization/depreciation of development costs brings its own variable to estimating earnings development. We expect capitalization to amount to some EUR 6 million per year in the next few years.

2020 already offered a small sample of the earnings potential of the company's strategy, even though there were no fully new game launches during the year and the multi-project model was still being ramped up. We outline Remedy's revenue drivers for the next few years on the following page. We expect the company's next significant growth leap to take place in 2023 when we expect the large Epic project will be released. According to our estimates, Remedy's earnings growth outlook is strong also after 2023 as the strategy progresses and the company's income flow expands year by year.

### Estimates for 2021

Remedy's guidance is that its revenue (2020: EUR 41.1 million) and operating profit (2020: EUR 13.2 million) will grow during 2021. Most of the growth is expected to take place during the second half of the year.

We estimate Remedy's revenue will grow by 12% in 2021 and operating profit to improve to EUR 15.5 million. Growth is supported by Epic projects' development fees as both projects will be in full production in H2. We also estimate that Crossfire subcontracting will, in addition to development fees, generate royalties as CrossfireX and Crossfire HD games are published. We expect Control sales to

continue at a good level in digital channels and with new consoles.

We expect some EUR 1.5 million financial costs in Q1 from the directed share issue. Thus, our estimate for the reported EPS (2021e: EUR 0.85) remains on last year's level despite the growing operating profit. Adjusted for the issue costs, we expect the EPS to grow to EUR 0.94.

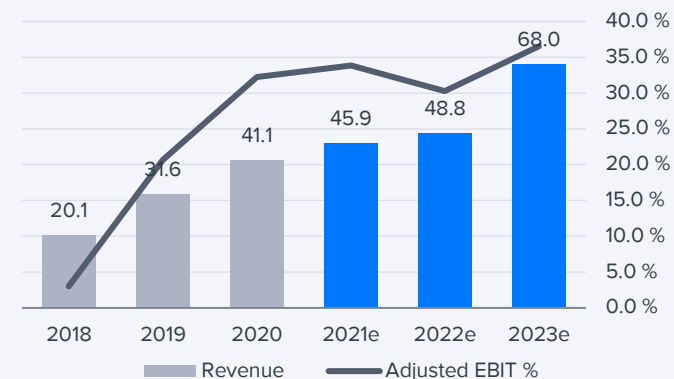
### Estimates for 2022–2023

We expect the smaller Epic project to be published in 2022 and otherwise revenue will come from the same sources as in 2021. Due to increasing costs from upcoming projects, we expect operating profit (2022e: EUR 14.8 million) to remain stable despite small revenue growth (6%).

In 2023, we expect considerable improvements in Remedy's revenue (EUR 68 million) and operating profit (EUR 24.8 million) as a result of the large Epic project release. At that time, we also already expect more income flow from Vanguard, as we believe the game will be published during 2022 to 2023. We also assume that the Crossfire subcontracting, or similar subcontracting will continue. In addition, Control and its DLCs, as well as earlier Crossfire projects, generate royalty flow for the company as the games continue selling.

We also believe that in 2022 to 2023 the company will launch one or two new larger game projects that can generate revenue in form of publishing agreements and development fees. Based on the 2020 financial statement, one of these projects is already at the beginning of the development pipeline.

## Revenue and profitability development



## EPS and dividend



# Strategy in light of game projects

\$ =low revenue  
 \$\$ =medium revenue  
 \$\$\$ =considerable revenue



Source: Inderes, \*Inderes' estimates

# Estimates and value determination 2/5

## Long term estimates

The long-term outlook of Remedy's business is very attractive considering the multi-project model and favorable market trends. Long-term visibility for revenue and earnings development is very weak, requiring trust in the successful implementation of Remedy's current strategy. Remedy's convincing track record in implementing the strategy in recent years make it easier to rely on long-term potential.

Our long-term estimates assume relatively successful game releases annually, which enable company growth and good profitability. With our estimates, Remedy's revenue grows by an average of 10% p.a. in 2024-2030 and reaches EUR 133 million by 2030. In the optimistic scenario, we estimate that Remedy has the preconditions to reach this revenue level already earlier in this decade. At the same time, with several highly successful game brands the company's long-term growth potential could be several hundreds of millions.

With our estimates, Remedy's EBIT margin will be 30 to 37% in coming years (2020: 32%). Our long-term profitability assumption is 38%. In the optimistic scenario, Remedy has preconditions for better profitability levels than we estimate as EBIT margins of 40-60% are not unheard of for a high-quality console and PC game studio.

## Dividend estimates

With our estimates, Remedy's financial situation remains strong thanks to successful game releases. For 2018-2019, the company has paid small dividends of EUR 0.10-0.11 per share and the dividend proposal for 2020 is EUR 0.15 per share. Most of Remedy's employees are company owners, and we believe the company will continue to pay a small, gradually growing dividend also in coming years.

In the big picture, we believe the company should invest its capital in new game projects and maintain strong net cash in order to maintain its good negotiation position towards publishing partners. We expect the company's dividend payout ratio in 2021-2023 to be some 20-28% and the dividend will play a very small role in terms of the share's return.

# Estimates

Income statement	2018	2019	H1'20	H2'20	2020	Q1'21e	Q2'21e	Q3'21e	Q4'21e	2021e	2022e	2023e	2024e
Revenue	20.1	31.6	17.0	24.1	41.1	8.5	9.0	12.9	15.5	45.9	48.8	68.0	77.8
EBITDA	1.1	7.4	3.7	10.7	14.3	1.7	2.0	5.3	7.6	16.7	17.0	33.2	37.6
Depreciation	-0.5	-0.8	-0.5	-0.6	-1.1	-0.3	-0.3	-0.3	-0.3	-1.1	-2.2	-8.3	-8.9
EBIT (excl. NRI)	0.6	6.5	3.2	10.1	13.2	1.4	1.7	5.1	7.3	15.5	14.8	24.8	28.7
EBIT	0.6	6.5	3.2	10.1	13.2	1.4	1.7	5.1	7.3	15.5	14.8	24.8	28.7
Net financial items	0.1	0.0	0.0	-0.3	-0.3	-1.6	-0.1	-0.1	-0.1	-1.7	-0.1	-0.1	0.0
PTP	0.7	6.6	3.1	9.8	12.9	-0.1	1.7	5.0	7.3	13.8	14.7	24.7	28.7
Taxes	-0.1	-1.3	-0.6	-2.0	-2.6	0.0	-0.3	-1.0	-1.5	-2.8	-2.9	-4.9	-5.7
Net earnings	0.5	5.2	2.5	7.8	10.3	-0.1	1.4	4.0	5.8	11.1	11.7	19.8	23.0
EPS (adj.)	0.04	0.43	0.21	0.65	0.86	0.08	0.10	0.31	0.44	0.94	0.90	1.51	1.76
EPS (rep.)	0.04	0.43	0.21	0.65	0.86	-0.01	0.10	0.31	0.44	0.85	0.90	1.51	1.76

Key figures	2018	2019	H1'20	H2'20	2020	Q1'21e	Q2'21e	Q3'21e	Q4'21e	2021e	2022e	2023e	2024e
Revenue growth-%	17.3 %	57.1 %	23.0 %	35.1 %	29.8 %					11.7 %	6.3 %	39.3 %	14.4 %
Adjusted EBIT growth-%	-49%	973%	116%	99%	103%					17.3 %	-4.8 %	68.0 %	15.6 %
EBITDA-%	5.5 %	23.2 %	21.6 %	44.2 %	34.8 %	19.9 %	22.4 %	41.4 %	49.0 %	36.3 %	34.7 %	48.8 %	48.3 %
Adjusted EBIT-%	3.0 %	20.6 %	18.6 %	41.8 %	32.2 %	16.6 %	19.3 %	39.2 %	47.2 %	33.8 %	30.3 %	36.5 %	36.9 %
Net earnings-%	2.6 %	16.6 %	14.7 %	32.5 %	25.2 %	-1.3 %	15.0 %	31.1 %	37.5 %	24.1 %	24.1 %	29.1 %	29.5 %

Source: Inderes

# Estimates and value determination 3/5

## Value determination

### Investment view

Since 2019, Remedy has lived its strong growth story also through its figures, which has been heavily and, in our opinion, also justifiably reflected in the share's valuation level. Stronger position in the value chain, larger and more dispersed income flow thanks to the multi-project model, and the visibility for the next few years from the Epic contract, and, thus, the lower risk level has increased Remedy's value. At the same time, industry trends have developed favorably for Remedy, which has strengthened the company's long-term growth outlook. In addition, we have seen the first signs of the profitability potential of the company's scalable business model.

The ability of Remedy's team to launch high-quality games efficiently, favorable market trends and an attractive position in the value chain offer the company extremely good preconditions to grow into a clearly larger game house than currently during this decade. A multi-project model that has been built with controlled risks and is well-managed also bring attractive optionality from the viewpoint of the return/risk ratio of the company's business model. We believe the likelihood of complete failures in game projects is extremely low but one of future projects can strike gold and become an actual hit game. With the ramp-up of the multi-project model, the release rate of games also quickens and the number of "success options" increases. Even with only relatively well succeeding games, the company's growth outlook is, in our opinion, good far into the future.

Considering the tightened valuation, there is naturally clear downside in the share in a pessimistic scenario but subcontracting projects and projects that are partially financed by the publisher even out the business risks considerably. In a game company, investors must, however, be ready to tolerate higher than average price fluctuation as changes related to expected games can cause considerable volatility in the share in the short term. As long as Remedy's strategy moves in the right direction, we consider price fluctuations more of a buying opportunity.

As a whole, we consider the return/risk ratio of Remedy's share attractive with the current valuation in light of the highly interesting long term investor story. We reiterate our Accumulate recommendation and EUR 50.0 target price for the share. Our target price corresponds to 23x EV/EBIT and 8x EV/Revenue multiples with our 2023 estimates.

### Valuation multiples

Remedy's P/E multiples for 2021-2022 are 47x-49x and EV/EBIT multiples that take into consideration the strong net cash is 33x-34x. The multiples are high and reflect the considerable earnings growth expectations loaded into the share. However, Remedy is still only at the beginning of its growth path and the earnings level of the next few years does not provide the full picture of the company's potential. Thus, we feel the valuation should be examined in light of the company's long-term growth outlook. However, we point out that the tight valuation in the short term does not leave much room for a bigger fracture in the growth story.

Valuation	2021e	2022e	2023e
Share price	43.8	43.8	43.8
Number of shares, million	13.1	13.1	13.1
Market value	572	572	572
EV	506	500	482
P/E (adjusted)	46.6	48.7	28.9
P/E	51.7	48.7	28.9
P/Cash flow	11.5	70.2	27.1
P/B	6.7	6.0	5.1
P/S	12.5	11.7	8.4
EV/Revenue	11.0	10.2	7.1
EV/EBITDA (adjusted)	30.4	29.5	14.5
EV/EBIT (adjusted)	32.5	33.8	19.4
Dividend/earnings (%)	23.6 %	27.8 %	19.8 %
Dividend yield %	0.5 %	0.6 %	0.7 %

Source: Inderes



# Estimates and value determination 4/5

According to our estimate, the multi-project model has in 2023 progressed to a stage where Remedy receives income from more than five published games or games under development. At that time, we expect considerable improvements in the company's revenue (EUR 68 million) and operating profit (EUR 24.8 million). With our estimates the share's P/E will be 29x and the corresponding EV/EBIT 19x at that time. We feel the multiples look reasonable when considering Remedy's strong growth outlook in the long term.

Revenue-based pricing of Remedy for 2021-2022 is 11x-10x with EV/Revenue multiples. Like the earnings multiple the revenue multiples have risen clearly over the past few years while investors' confidence in the company's growth strategy has strengthened. The rise in valuation multiples has also been supported by the clearly risen valuation levels of the entire gaming sector. In absolute terms, Remedy's revenue multiples are already high and reflect the growth expectations loaded into the share.

## Peer group

We have compiled Remedy's peer group mainly of companies that focus on console and PC games. The peer group consists mainly of companies that are larger than Remedy and have more extensive game portfolios which lowers their risk level and supports a certain discount in Remedy's valuation. Measured by game quality, Remedy is, in our opinion, positioned at the top range of the group, which in turn supports premium pricing. Thus, the average valuation level of the peers works in our opinion as a pretty good yardstick to which Remedy's valuation can be compared.

The COVID durability of game companies has been reflected heavily in the valuation levels of the entire sector and the median revenue ratio of Remedy's peer group has risen by some 60% over the year. The peer group median is for 2021-2022 is currently 11x-9x for the EV/S multiple, 33x-26x for EV/EBIT multiple, and 40x-33x for P/E multiple. The multiples are high in absolute terms and reflect the considerable earnings growth expectations loaded into the companies. One risk we see is that such high multiples will not be accepted for the companies in future especially if the earnings growth expectations do not materialize in coming years. The multiples can, however, normalize gradually with earnings growth over the next few years, which would mean the high valuations would not be a problem. Considering the strong growth outlook of the gaming industry there are no factors in sight that would surprisingly change the pricing dynamics of the shares in the sector dramatically.

Remedy's 2021 EV/EBIT multiple is on the level of the peers and the 2022 multiple is 29% above the peers. Measured by EV/Revenue Remedy's valuation is in line with the peers in 2021. As a whole, Remedy's relative valuation for the upcoming years seems quite neutral compared to the peers, even though the company is still far from its full potential. As a result of the earnings leap we expect in 2023, Remedy's valuation (2023e EV/EBIT 19x) starts to look modest compared to its peers assuming that the current valuation levels of the gaming sector remain at least at somewhat of a level also in coming years.

## DCF model

The DCF value for equity for Remedy is EUR 658 million, which corresponds with an EUR 50.3 per share value. The estimates used in the model are presented in the Estimate section and our terminal assumption is 3% growth and 38% EBIT. In Remedy's case, future cash flows are sensitive to the success of the games and the value indicated by our DCF model fluctuates heavily with this. The cost of capital (WACC) in the DCF model is 7.8%. In our opinion, the level is quite low for a game company but justified considering the low interest environment, Remedy's strong financial situation, strong growth outlook, and convincing strategy implementation.

# Estimates and value determination 5/5

## Scenario analysis of valuation

Remedy's long-term growth outlook is strong but clear visibility into business development is very limited. To support the valuation, we have tried to perceive the share's expected returns in three scenarios based on various assumptions on the revenue and profitability level the company achieves by 2025.

Considering our current estimates, we expect Remedy's revenue to reach around EUR 93 million by 2025. We expect profitability (EBIT %) to rise to 37% and we assume that the company would be priced at a 20x EV/EBIT multiple. According to our estimates, Remedy's growth outlook is good also after 2025 when relatively high valuation multiples are still justifiable. With these assumptions Remedy's EV would be EUR 685 million in 2025. By adding the estimated 2025 net cash to this, as well as the 2021-2025 dividends, the value of the entire stock is some

EUR 832 million or EUR 64 per share. This would mean some 8% annual expected earnings with the current share price. In our opinion, the expected earning is attractive when considering that in the optimistic scenario Remedy has preconditions to reach clearly better growth and profitability than we estimate.

In the pessimistic scenario we expect the revenue to be some 30% lower and be EUR 65 million. We expect the EBIT margin to be close to the current level at 30%. In this scenario the value of the entire stock with the assumed 17x EV/EBIT multiple is EUR 434 million or EUR 33 per share, which would mean annual expected earnings of some -6%. The pessimistic scenario shows the expectations loaded into the share as even in this scenario growth is relatively good and the accepted valuation quite high but even despite this the earnings expectation is clearly negative.

In the optimistic scenario we expect revenue to be 30% higher in 2025 than our estimate boosted by the success of new game releases. In this scenario we assume the EBIT margin to rise to 48% and considering the stronger growth and profitability profile we apply a 23x EV/EBIT multiple. With these assumptions the value of the entire stock is EUR 1,520 million or EUR 116 per share, which would mean annual expected earnings of 23%. The scenario illustrates that there is still considerable upside in Remedy's share if the company is successful in creating highly successful games in coming years.

Scenarios by 2025	Pessimistic	Current estimates	Optimistic
Revenue 2025	64.8	92.6	120.3
EBIT %	30 %	37 %	48 %
Operating profit	19.4	34.3	57.8
x valuation multiple (EV/EBIT)	17.0	20.0	23.0
<b>EV</b>	<b>330</b>	<b>685</b>	<b>1,329</b>
+ Net cash & dividends 2021-2025	103	147	192
<b>Value of equity</b>	<b>434</b>	<b>832</b>	<b>1,520</b>
<i>Per share (EUR)</i>	33	64	116
Potential	-24%	46%	166%
Annual return (5 years)	-6%	8%	23%

# Peer group valuation

Peer group valuation Company	Share price	Market cap MEUR	EV MEUR	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%	
				2021e	2022e	2021e	2022e	2021e	2022e	2021e	2022e	2021e	2022e
Frontier Developments PLC	2930.0	1316	1295	55.8	32.2	29.4	19.0	11.9	7.5	63.1	37.2		
Embracer Group	248.5	9257	8679	371.2	376.3	24.0	13.9	9.2	5.8				
CD Projekt SA	191.8	4309	4185	19.5	23.3	16.1	20.1	11.1	13.1	22.7	24.3	4.0	3.4
Paradox Interactive AB (publ)	208.0	2136	2102	29.8	25.1	18.2	14.6	11.4	8.7	41.8	33.9	0.5	0.5
Koei Tecmo Holdings Co Ltd	5050.0	6512	6471	33.8	30.2	33.0	28.2	14.4	13.6	33.8	32.8	1.5	1.5
Sumo Group PLC	367.0	734	741	32.9	27.4	26.6	22.5	6.2	5.2	40.5	34.6		
Team17 Group PLC	775.0	1185	1115	32.2	28.7	28.8	25.8	10.7	9.6	40.2	36.6		
Playway SA	547.5	784	762	15.0	13.7	14.9	13.7	11.2	10.1	19.2	18.8	3.2	4.1
11 Bit Studios SA	550.0	284	263	61.3	18.5	39.9	16.2	18.8	9.4	71.5	18.9		
Enad Global 7	106.0	806	700	17.9	13.9	13.5	10.4	3.8	3.4	28.5	25.4		
<b>Remedy (Inderes)</b>	<b>43.8</b>	<b>572</b>	<b>506</b>	<b>32.5</b>	<b>33.8</b>	<b>30.4</b>	<b>29.5</b>	<b>11.0</b>	<b>10.2</b>	<b>46.6</b>	<b>48.7</b>	<b>0.5</b>	<b>0.6</b>
<b>Average</b>				<b>66.9</b>	<b>58.9</b>	<b>24.4</b>	<b>18.4</b>	<b>10.9</b>	<b>8.6</b>	<b>40.2</b>	<b>29.2</b>	<b>2.3</b>	<b>2.4</b>
<b>Median</b>				<b>32.5</b>	<b>26.2</b>	<b>25.3</b>	<b>17.6</b>	<b>11.2</b>	<b>9.0</b>	<b>40.2</b>	<b>32.8</b>	<b>2.3</b>	<b>2.5</b>
<b>Diff-% to median</b>				<b>0%</b>	<b>29%</b>	<b>20%</b>	<b>68%</b>	<b>-1%</b>	<b>13%</b>	<b>16%</b>	<b>49%</b>	<b>-81%</b>	<b>-77%</b>

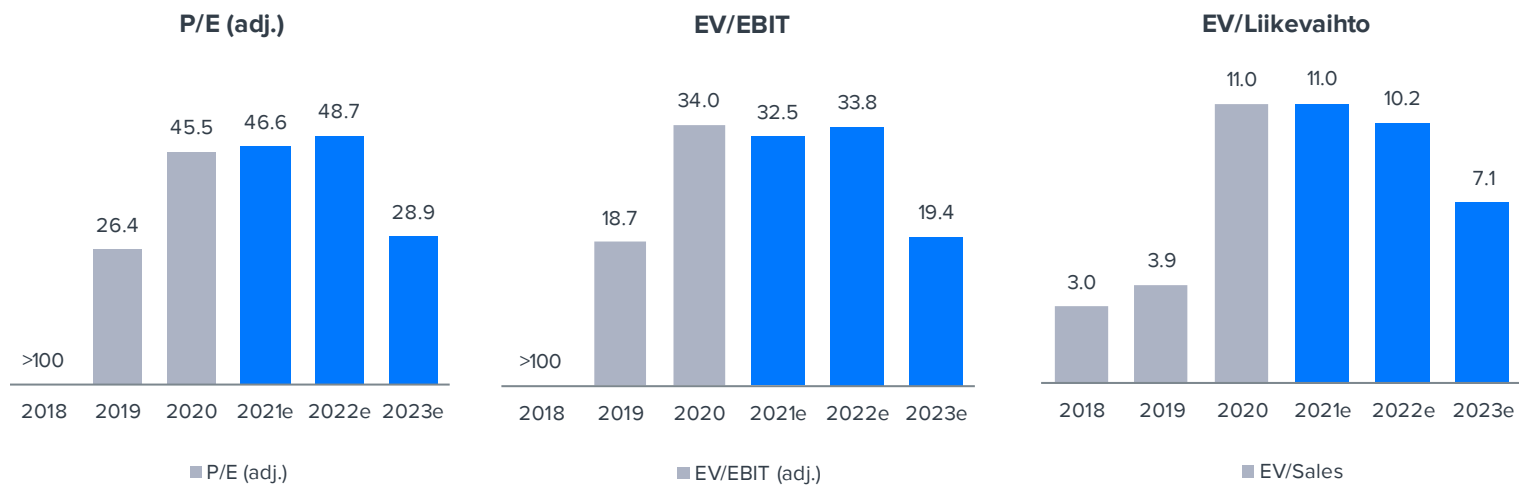
Source: Thomson Reuters / Inderes

NB: The market cap Inderes uses does not consider own shares held by the company

# Valuation table

Valuation	2018	2019	2020	2021e	2022e	2023e	2024e
Share price	6.70	11.5	39.0	43.8	43.8	43.8	43.8
Number of shares, millions	12.1	12.1	12.1	13.1	13.1	13.1	13.1
Market cap	81	138	471	572	572	572	572
EV	61	122	451	506	500	482	462
P/E (adj.)	>100	26.4	45.5	46.6	48.7	28.9	24.9
P/E	>100	26.4	45.5	51.7	48.7	28.9	24.9
P/FCF	neg.	neg.	82.2	11.5	70.2	27.1	23.3
P/B	3.6	5.2	13.3	6.7	6.0	5.1	4.4
P/S	4.0	4.4	11.5	12.5	11.7	8.4	7.4
EV/Sales	3.0	3.9	11.0	11.0	10.2	7.1	5.9
EV/EBITDA	55.2	16.6	31.5	30.4	29.5	14.5	12.3
EV/EBIT (adj.)	>100	18.7	34.0	32.5	33.8	19.4	16.1
Payout ratio (%)	226.8 %	25.4 %	19.0 %	23.6 %	27.8 %	19.8 %	19.9 %
Dividend yield-%	1.5 %	1.0 %	0.4 %	0.5 %	0.6 %	0.7 %	0.8 %

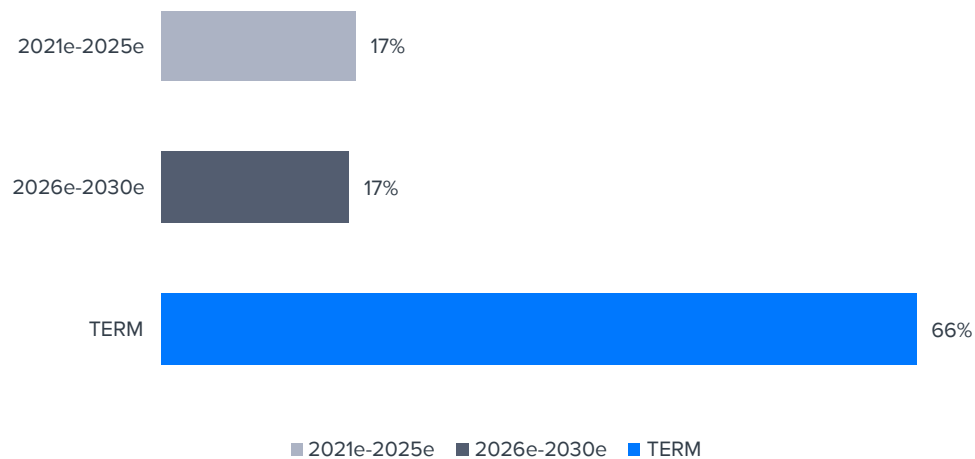
Source: Inderes



# DCF calculation

DCF model	2020	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	TERM
<b>EBIT (operating profit)</b>	<b>13.2</b>	<b>15.5</b>	<b>14.8</b>	<b>24.8</b>	<b>28.7</b>	<b>34.3</b>	<b>40.5</b>	<b>44.5</b>	<b>46.7</b>	<b>49.1</b>	<b>50.5</b>	
+ Depreciation	1.1	1.1	2.2	8.3	8.9	8.2	8.4	8.5	10.1	9.8	9.7	
- Paid taxes	-2.6	-2.8	-2.9	-4.9	-5.7	-6.9	-8.1	-8.9	-9.3	-9.8	-10.1	
- Tax. financial expenses	-0.1	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
+ Tax. financial income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Change in working capital	0.4	1.3	0.7	-0.5	0.3	0.3	0.6	1.0	1.2	0.0	0.0	
<b>Operating cash flow</b>	<b>12.1</b>	<b>14.8</b>	<b>14.7</b>	<b>27.7</b>	<b>32.1</b>	<b>36.0</b>	<b>41.4</b>	<b>45.1</b>	<b>48.7</b>	<b>49.1</b>	<b>50.1</b>	
+ Change in other long-term liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-6.4	-6.6	-6.6	-6.6	-7.6	-8.6	-8.6	-8.6	-9.6	-9.6	-9.7	
<b>Free operating cash flow</b>	<b>5.7</b>	<b>8.2</b>	<b>8.1</b>	<b>21.1</b>	<b>24.5</b>	<b>27.4</b>	<b>32.8</b>	<b>36.5</b>	<b>39.1</b>	<b>39.5</b>	<b>40.4</b>	
+/- Other	0.0	41.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	5.7	49.7	8.1	21.1	24.5	27.4	32.8	36.5	39.1	39.5	40.4	876
<b>Discounted FCFF</b>		<b>47.1</b>	<b>7.2</b>	<b>17.2</b>	<b>18.6</b>	<b>19.2</b>	<b>21.4</b>	<b>22.1</b>	<b>21.9</b>	<b>20.6</b>	<b>19.5</b>	<b>423</b>
Sum of FCFF present value		638	591	584	567	548	529	508	485	464	443	423
<b>Enterprise value DCF</b>		<b>638</b>										
- Interesting bearing debt		-3.7										
+ Cash and cash equivalents		23.7										
-Minorities		0.0										
-Dividend/capital return		0.0										
<b>Equity value DCF</b>		<b>658</b>										
<b>Equity value DCF per share</b>		<b>50.3</b>										

## Cash flow distribution



## Wacc

Tax-% (WACC)	20.0 %
Target debt ratio (D/(D+E))	0.0 %
Cost of debt	5.0 %
Equity Beta	1.00
Market risk premium	4.75 %
Liquidity premium	1.00 %
Risk free interest rate	2.0 %
<b>Cost of equity</b>	<b>7.8 %</b>
<b>Weighted average cost of capital (WACC)</b>	<b>7.8 %</b>

Source: Inderes

# Balance sheet

Assets	2019	2020	2021e	2022e	2023e
<b>Non-current assets</b>	<b>5.1</b>	<b>10.4</b>	<b>15.9</b>	<b>20.4</b>	<b>18.6</b>
Goodwill	0.0	0.0	0.0	0.0	0.0
Intangible assets	2.8	7.7	13.5	18.6	17.3
Tangible assets	1.8	2.2	1.9	1.1	0.8
Associated companies	0.0	0.0	0.0	0.0	0.0
Other investments	0.0	0.0	0.0	0.0	0.0
Other non-current assets	0.5	0.6	0.6	0.6	0.6
Deferred tax assets	0.0	0.0	0.0	0.0	0.0
<b>Current assets</b>	<b>30.8</b>	<b>37.9</b>	<b>78.4</b>	<b>81.9</b>	<b>101</b>
Inventories	0.0	0.0	0.0	0.0	0.0
Other current assets	0.0	0.0	0.0	0.0	0.0
Receivables	11.2	14.2	9.2	8.3	10.9
Cash and equivalents	19.6	23.7	69.2	73.6	89.6
<b>Balance sheet total</b>	<b>35.9</b>	<b>48.4</b>	<b>94.3</b>	<b>102</b>	<b>119</b>

Source: Inderes

Liabilities & equity	2019	2020	2021e	2022e	2023e
<b>Equity</b>	<b>26.4</b>	<b>35.4</b>	<b>86.0</b>	<b>95.1</b>	<b>112</b>
Share capital	0.1	0.1	0.1	0.1	0.1
Retained earnings	12.5	21.5	30.6	39.8	56.3
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	0.0	0.0	0.0	0.0	0.0
Other equity	13.7	13.7	55.2	55.2	55.2
Minorities	0.0	0.0	0.0	0.0	0.0
<b>Non-current liabilities</b>	<b>3.7</b>	<b>2.8</b>	<b>1.9</b>	<b>0.9</b>	<b>0.0</b>
Deferred tax liabilities	0.0	0.0	0.0	0.0	0.0
Provisions	0.0	0.0	0.0	0.0	0.0
Long term debt	3.7	2.8	1.9	0.9	0.0
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	0.0	0.0	0.0	0.0	0.0
<b>Current liabilities</b>	<b>5.8</b>	<b>10.2</b>	<b>6.4</b>	<b>6.3</b>	<b>7.5</b>
Short term debt	0.0	0.9	0.9	0.9	0.0
Payables	5.8	9.3	5.5	5.4	7.5
Other current liabilities	0.0	0.0	0.0	0.0	0.0
<b>Balance sheet total</b>	<b>35.9</b>	<b>48.4</b>	<b>94.3</b>	<b>102</b>	<b>119</b>

# Summary

Income statement	2018	2019	2020	2021e	2022e	Per share data	2018	2019	2020	2021e	2022e
Revenue	20.1	31.6	41.1	45.9	48.8	EPS (reported)	0.04	0.43	0.86	0.85	0.90
EBITDA	1.1	7.4	14.3	16.7	17.0	EPS (adj.)	0.04	0.43	0.86	0.94	0.90
EBIT	0.6	6.5	13.2	15.5	14.8	OCF / share	0.19	-0.04	1.00	1.13	1.13
PTP	0.7	6.6	12.9	13.8	14.7	FCF / share	-0.05	-0.25	0.47	3.80	0.62
Net Income	0.5	5.2	10.3	11.1	11.7	Book value / share	1.85	2.19	2.93	6.58	7.28
Extraordinary items	0.0	0.0	0.0	0.0	0.0	Dividend / share	0.10	0.11	0.15	0.20	0.25
Balance sheet	2018	2019	2020	2021e	2022e	Growth and profitability	2018	2019	2020	2021e	2022e
Balance sheet total	28.3	35.9	48.4	94.3	102.3	Revenue growth-%	17%	57%	30%	12%	6%
Equity capital	22.4	26.4	35.4	86.0	95.1	EBITDA growth-%	-50%	568%	95%	16%	2%
Goodwill	0.0	0.0	0.0	0.0	0.0	EBIT (adj.) growth-%	-76%	973%	103%	17%	-5%
Net debt	-20.1	-15.9	-20.0	-66.4	-71.8	EPS (adj.) growth-%	-72%	884%	97%	10%	-4%
Cash flow	2018	2019	2020	2021e	2022e	EBITDA-%	5.5 %	23.2 %	34.8 %	36.3 %	34.7 %
EBITDA	1.1	7.4	14.3	16.7	17.0	EBIT (adj.)-%	3.0 %	20.6 %	32.2 %	33.8 %	30.3 %
Change in working capital	1.3	-6.5	0.4	1.3	0.7	EBIT-%	3.0 %	20.6 %	32.2 %	33.8 %	30.3 %
Operating cash flow	2.3	-0.5	12.1	14.8	14.7	ROE-%	2.4 %	21.5 %	33.5 %	18.2 %	13.0 %
CAPEX	-2.9	-2.5	-6.4	-6.6	-6.6	ROI-%	2.5 %	23.6 %	38.3 %	24.3 %	15.9 %
Free cash flow	-0.7	-3.0	5.7	49.7	8.1	Equity ratio	79.1 %	73.5 %	73.2 %	91.2 %	93.0 %
						Gearing	-89.9 %	-60.2 %	-56.6 %	-77.2 %	-75.5 %
Largest shareholders	% of shares					Valuation multiples	2018	2019	2020	2021e	2022e
Markus Mäki	25.2 %					EV/S	3.0	3.9	11.0	11.0	10.2
Accendo Capital	19.3 %					EV/EBITDA (adj.)	55.2	16.6	31.5	30.4	29.5
Sami Järvi	4.7 %					EV/EBIT (adj.)	>100	18.7	34.0	32.5	33.8
Working Capital Management	3.4 %					P/E (adj.)	>100	26.4	45.5	46.6	48.7
Tero Virtala	2.7 %					P/E	3.6	5.2	13.3	6.7	6.0
Taalritehdas Mikro Markka	2.1 %					Dividend-%	1.5 %	1.0 %	0.4 %	0.5 %	0.6 %

Source: Inderes

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**Buy** The 12-month risk-adjusted expected shareholder return of the share is very attractive

**Accumulate** The 12-month risk-adjusted expected shareholder return of the share is attractive

**Reduce** The 12-month risk-adjusted expected shareholder return of the share is weak

**Sell** The 12-month risk-adjusted expected shareholder return of the share is very weak

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Inderes' analyst **Atte Riikola** has based on a notification received on July 27, 2020 a holding of over EUR 50,000 in the target company **Remedy Entertainment Plc**.

## Recommendation history (>12 mo)

Date	Recommendation	Target price	Share price
30-05-17	Accumulate	7.40 €	6.69 €
17-08-17	Buy	7.50 €	6.31 €
19-02-17	Buy	7.50 €	5.90 €
04-06-18	Buy	8.50 €	7.30 €
15-08-18	Buy	8.50 €	6.75 €
13-02-19	Accumulate	9.00 €	8.25 €
03-07-19	Accumulate	10.00 €	9.28 €
14-08-19	Accumulate	11.50 €	10.65 €
05-12-19	Accumulate	11.50 €	10.15 €
16-02-20	Accumulate	15.50 €	13.80 €
31-03-20	Buy	18.00 €	14.80 €
21-04-20	Accumulate	20.00 €	18.55 €
16-08-20	Reduce	33.00 €	33.80 €
27-10-20	Accumulate	33.00 €	29.00 €
10-12-20	Accumulate	38.00 €	34.00 €
14-02-21	Accumulate	50.00 €	45.00 €
08-04-21	Accumulate	50.00 €	43.75 €





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