



# GET EVEN

## The Farm 51 Investment idea

February 2017

Microcap stepping into the big league.

**List:** Warsaw New Connect

**Market cap:** ~110mPLN

**21 / April / 2017**

**Price at time of analysis:** 18.9PLN

### Assumptions:

- The company releases World War 3 in 2018
- The company will release a new FPS in 2019, potentially based on Chernobyl VR
- The company will release a new game in 2020, potentially Get Even 2

**Bear case fair value:** 14 PLN

- Get Even sales: 0.5m copies

**Base case fair value:** 27 PLN

- Get Even sales: 1m copies

**Bull case fair value:** 52 PLN

- Get Even sales: 2m copies

### WHAT IS F51

The Farm 51 is a game studio with background in FPS action games and VR. It was founded in 2005 by three industry veterans and today consists of about 100 in-house professionals. In the past they have developed, contributed to or supported more than 10 shipped projects, mostly smaller games (in the \$20 price range) such as The Witcher I, Painkiller Hell & Damnation and Deadfall Adventures.

In 2015 the company created a separate team that works solely on VR called Reality 51. Reality 51 entails b2b work for the Polish-Japanese Institute of Information Technology and the Polish Academy of Sciences. Reality51 has the most advanced 3D human scanning tools in Central Europe. The company also partners with OBRUM (Polish company with the status of military research and development centre) and PGZ (group of state owned defence industry companies) to provide training simulators for the Polish Army,

Since 2012 the company is listed on NewConnect, an alternative stock exchange run by the Warsaw Stock Exchange similar to AIM in the UK and NasdaqOMX First North.

### PRODUCTS

**Chernobyl VR Project** is a educational virtual tour around the Chernobyl and surrounding area compatible with multiple VR headsets, such as Oculus, PlayStation VR, HTC Vive and Samsung VR.

**Get Even** is the largest production of the company as of yet. It is a FPS psychological thriller with an mature and intriguing story combined with strong shooter elements to be released in May. Bandai Namco is the publisher of the game. Recently PewDiePie played the game on his channel and was positive towards it.

**World War III** is a free-to-play project currently in development planned for 2018. WW3 is developed as AAA mainstream action game based on Unreal 4 engine. It will feature unique gameplay depicting world wide global conflict with real locations like Berlin, London and many more.

**"Chernobyl FPS"**. The company has stated that they are in the early design phase to use environments from the Chernobyl VR Project to develop a FPS taking place in authentic Chernobyl environments.

### INVESTMENT CASE

**Launch of Get Even will revalue the product pipeline:** Get Even will be released for PC, PS4 and XBOX1 on May 26th. Based on our own hands on testing of the game, early reviews and market analysis, we believe the game to be of AAA-quality and with the support of Bandai Namco will be a best seller. It will establish Farm51 as a top studio and thus revalue the existing product pipeline in line with other high quality developers and it will create franchise opportunities for the IP.





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## DISCIPLINED GROWTH

Poland is one of the most vibrant game development countries in the world. Home to at least 11 stock market listed game development studios and CD Projekt Red being one of the countries biggest companies, it is one of the most dense game development clusters in the world. According to the Polish games association there are 150 studios in total in the country. Also, the Polish National Center for Research and Developments supports a 55mEUR R&D grant/subsidy budget called GameINN supporting the industry. In this supportive environment The Farm51 is able to attract top talent and at the same time, being located 300km from Warsaw in Gliwice, it can keep a lower cost-base.

The Farm51 started out as a small developer for Microsoft, Sony, Nintendo and Apple iOS devices. Not unlike UK's Frontier Developments the company has grown its ambitions with every project. They are not yet at the stage of self-publishing, but in our view they are at the cusp of releasing their first game of AAA-quality with a AAA-publisher.

We like the companies' disciplined approach towards investments and growth, probably being one of the few companies actually having a small but sensible VR-business.

## PROSPECTS OF GET EVEN

The company has used its accumulated knowledge of past FPS shooters, 3D scanning and military simulation work to create Get Even. Get Even is a single player cross over between FPS shooter, detective/mystery, puzzle and horror with strong graphics, sound and story. The game is being released on the 26th of May on PC, PS4 and Xbox1.

We visited the company in Gliwice to have a hands on experience with the game. Our impressions where very positive. The game introduces several innovative mechanics such as the use of a smart phone as an integral part of the game. The graphics and sound is absolutely at a AAA-standard and after having played for 1 hour we definitely wanted more. This view has been echoed in several of the early reviews, amongst them PewDiePie who played and enjoyed the game on his channel.

There is no getting around the fact that the prospects of the company from a medium term investment stand-point are depended on the success of Get Even.

The company has a publishing deal with Bandai Namco who paid €3m for the development of the game. About 2/3 of those have been accounted for with the rest being earned in 2017. Moreover, the company will earn 20% of sales once Bandai has recouped its investment, which is at about 250,000 copies.

Bandai retains the IP rights of the game and thus the development of the Get Even has not gone on the companies balance sheet. Even thou the company doesn't retain the IP rights, it has the right of first refusal to produce a sequel.

The company mentioned to us that Bandai is determined to try to create a franchise out of Get Even. Physical copies of the game can be pre-ordered for £29.99 at the moment, no digital pre-order yet.

We believe Bandai will put a lot of effort into making Get Even a success. In January Bandai flew a group of journalist to northern Sweden to an promotion event where the journalist got to drive sportscars in the snow and play Project Cars 2 for one day, and focus on Get Even the second day. We believe such a commitment from a AAA-publisher such as Bandai should help the game sell over 1 million copies during 2017.

Worth mentioning is that Bandai has not let any part of the game to be second rate. As an example the music budget was increased from €10,000 to €50,000 in order to make sure that the sound and soundtrack was first rate.

There is also a DLC plan for Get Even.

It is also worth mentioning that Get Even received the most expected game of 2017 award at a Polish industry award show earlier in the year.

We believe that the game can have a appeal in line with single player experiences such as Firewatch or The Vanishing

of Ethan Carter (another Polish game) which would equal sales above 1 million cross platforms.

## PROSPECTS OF WORLD WAR III

When we met the company we spend some time discussing their latest project, World War 3. The game is being developed as a free-to-play project with monetization from in-game customizing options, although the exact model is not yet set in stone.

Planned for 2018 WW3 is developed as AAA F2P mainstream action game based on the Unreal 4 engine. It will feature unique gameplay depicting world wide global conflict with real locations like modern day Paris, Berlin, London and many more. The company plans to include real army units, like special forces from all around the world (possibly even Sweden). WW3 will feature both foot and vehicle based combat potentially for 32 vs 32 players.

WW3 will have a meta game with the aim to drive user engagement and retention. Before entering the battle, the player chooses the location of the battle and acts as a commander who can expand or lose country territory. Results in each match has significant meaning in expanding or losing the country territory (interactive frontlines).

The monetization will mainly be driven by weapons, clothing-skins and customization, not a pay-to-win model.

The company compares the game-concept to World of Tanks, which has an estimated 1.2 million owners on Steam with about 150,000 weekly players. The company estimates a \$1 per user per month revenue from the game. The recent success of playerunknown's battlegrounds which sold 1m copies in its first two weeks on Steam are also encouraging for this type of games.

The plan is to start showing the game to potential publishers during 2017, but the company might also self-publish.

In the development of World War 3 the company closely cooperates with real military companies and war veterans from special-forces (GROM, KSK, SAS, SEAL's etc.) to deliver a real war and tactics experience in the gameplay. But the game will still be closer to Battlefield than ARMA.

## B2B PROJECTS

The company is an official partner of Polish military industry holdings like Polska Grupa Zbrojeniowa (PGZ) and OBRUM and annually attends MSPO (International Defense Industry Exhibition), an important defense industry event.

PGZ is one of the largest defense corporations in the country and a very important part of the Polish national security system. OBRUM is a research and development organizations in Poland, focusing on products for the Polish armed forces.

The company partners with PGZ and OBRUM to provide training simulators representing equipment of the Polish army, contributing to improvement of soldiers training level and minimizing training costs by eliminating financial expenditures for fuels and vehicles' staff.

Currently this business is estimated to generate less than PLN 1 million for 2017 but has a potential upside. Together with Reality51 we believe the B2B side of the company will generate about PLN 1 million in 2017 but is a "free option" included in The Farm 51 and it lends great credibility to the company as a military combat game producer.

## CAPITAL POSITION

The company has recently secured a bond financing of PLN 4.2 million and raised another PLN 3 million from a share issues which was part of a convertible with one of the seed investors of the company. The company also recently received grants of about PLN 6 million from the GameINN fund. As such we believe the company is well funded for the foreseeable future.



A picture we took at our visit to The Farm51 in Gliwice.



Cave 3D, the virtual military simulations cave in Gliwice developed in cooperation with OBRUM.



Interactive frontlines in WW3 - concept art.



Get Even gameplay - smart-phone puzzle solving mechanic.



Get Even gameplay - classic FPS elements.

# The Farm51

## Investment idea

### COMPARABLE NET PROFIT

The company has booked all development costs for Get Even instantly through the income statement as they have not had ownership of the IP. Studios with their own IP commonly initially book the development cost as an investment on the balance sheet and amortize it on a 1 to 5 year basis. We have modelled a comparable net profit for future earnings where we amortize development cost over 3 years to create a P/E more comparable to the industry. This means development in 2017, mainly related to World War 3, will end up on the balance sheet and amortized over the following 3 years.

Using this alternative net profit figure, at 1 million sales of Get Even, we get a 2016 P/E of 36x and 2017E P/E of 30x. We estimate a comparable P/E for the industry is around 23, but a lot higher for smaller companies with strong growth such as The Farm51. The main investment case is that Get Even will put the company on the path of becoming a self-publishing AAA-studio which will revalue its product pipeline.

### VALUATION

In our view The Farm51 is at the cusp of releasing their first game of AAA-quality with a AAA-publisher and thus ready for a revaluation of their product pipeline and future prospects. The company can therefore not be valued on past earnings but rather on 2018 earnings and forward.

We are seeing many companies being valued at P/S multiples of 10x or higher. Should Get Even sell 1 million copies, which is our base case scenario, the company will be trading at around 2017E P/S of 10x. If Get Even would sell 2 million copies, which is not unlikely, the company will reach sales of about 30mPLN and thus a 2017E P/S of 10x would be 50PLN.

Valuing WW3 is of course very difficult, but it alone could be valued at several hundred million PLN. For example Norwegian Funcom, which has 1 big mmo title, Conan Exiles, which has sold about 540,000 copies on Steam, is valued at 330mPLN.

Our base case DCF analysis of the company using an estimated 1 million sales of Get Even, we find the value of the company to be 27PLN/share.

Our bull case DCF analysis of the company using an estimated 2 million sales of Get Even, we find the value of the company to be 52PLN/share.

In the unlikely scenario that Bandai Namco would fail as a publisher and that Get Even only sells in 500,000 copies, we believe the short term fair value of the company to be 14PLN.

### OWNERSHIP AND THE SHARES

The company has a one share one vote governance structure with the 3 founders maintaining 8% ownership each. As such the company has a very large free-float and is very actively traded with about PLN1-2 million in daily turnover.

The company is currently listed at NewConnect, an alternative stock exchange run by the Warsaw Stock Exchange similar to AIM in the UK and NasdaqOMX First North. The company has stated that it will move to the main list during 2017, the same marketplace as CD Projekt Red and CI Games.

### RISKS

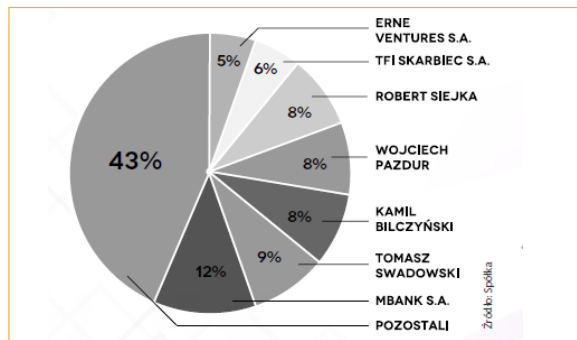
The main risks is that Get Even is a huge bust. Of course this is a risk inherent when investing in a small game developer. Bandai of course has done their homework and we trust that they wouldn't plow marketing money into a game which had not performed very well in their evaluation.

We have assumed that Get Even is released at a price point around €39.90. There is a trade-off between price and sales, so a slightly lower or higher price will not effect our overall view significantly.

The company has been criticized for having overpromised the features of Get Even. One of the main features presented in the early description of Get Even was a blurring of single and multiplayer, with other players being able to take over NPC's. We discussed this with the company and they explained that they did try it out but that they were not able to make the feature work in an interesting way and therefore scrapped it. To us this is normal in any game development process and nothing that raises red flags for us.

The development process of Get Even also ended up being longer than initially communicated. This is of course not ideal but more or less standard in game development. Recently released and praised game The Last Guardian was planned for release in 2011 and was released late 2016, for example. Now that the release date has been set in stone as the game is fully finished, we see it as positive that the game was not rushed out but that the company had time to perfect it.

One risk to the case is of course the quality of the product pipeline. This is a risk inherent in game studio investing. As we have explained above, we believe The Farm51 has shown a steady game-by-game, step-by-step, evolution becoming a studio that is now on the cusp of releasing a first class FPS with a first rate publisher.



The Farm51 ownership structure early 2017. mBank has reduced stake since.

Company name	Market cap
CD Projekt Red	6 224
11Bit	430
CI Games	430
Playway	380
Blooper Team	199
Artifex Mundi	189
Vivid Games	147
The Farm51	116
Jujubee	70
Forever Entertainment	43
Qubic Games	27

Listed game studios in Poland.

Bandai Namco quick facts	
Market Cap:	26 000 mPLN
<b>Games with most owners according to Steamspy i.e. PC only</b>	
Dark Souls	2.6m
Rise of Incarnates	1.7m
Dark Souls III	1.3m
Dark Souls II	1.0m
Project Cars	0.8m
<b>Full games for release in 2017 according to Wikipedia</b>	
Impact Winter	Top-down survival adventure
Little Nightmares	Sidescroller
Get Even	FPS/Mystery/Puzzle
Accel World vs. Sword Art Online	Fighting game
Project Cars 2	Driving sim
Ace Combat 7	Combat flight simulator
Ni No Kun	RPG



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### FINANCIAL MODEL - BASE CASE

	2013	2014	2015	2016	2017E	2018E	2019E	2020E
Release year assumptions					Get Even	WW III	C FPS	Get Even II
Base case	2013 PLN'000	2014 PLN'000	2015 PLN'000	2016 PLN'000	2017E PLN'000	2018E PLN'000	2019E PLN'000	2020E PLN'000
<b>Sales</b>	<b>5,8</b>	<b>6,5</b>	<b>4,9</b>	<b>6,6</b>	<b>11,0</b>	<b>19,7</b>	<b>24,0</b>	<b>44,0</b>
Fixed payment Get Even			2,0	6,0	3,2	0,0	0,0	0,0
Get Even	-	-	-	-	7,0	1,9	0,2	0,0
- Copies sold	-	-	-	-	1 000 000	100 000	10 000	1 000
WW III	-	-	-	-	0	16,8	13,4	10,8
- Active Players	-	-	-	-	-	500 000	400 000	320 000
Chernobyl FPS	-	-	-	-	0	0,0	9,4	0,9
- Copies sold	-	-	-	-	-	-	500 000	50 000
Get Even II	-	-	-	-	0	0,0	0,0	31
- Copies sold	-	-	-	-	-	-	-	1 000 000
- Other VR & military income	-	-	-	-	0,8	1,0	1,0	1,0
- GameInn	-	-	-	-	-	-	-	-
<b>Total Operating Expense</b>	<b>4,2</b>	<b>3,6</b>	<b>7,0</b>	<b>9,0</b>	<b>9</b>	<b>10</b>	<b>12</b>	<b>13</b>
Wages & Salaries	2,4	2,6	5,2	6,2	6	7	8	9
Outsourcing	0,8	0,9	1,9	2,0	2	2	3	3
SG&A	1,0	0,2	-0,2	0,9	1	1	1	1
<b>EBITDA</b>	<b>1,6</b>	<b>2,8</b>	<b>-2,1</b>	<b>-2,4</b>	<b>1,8</b>	<b>9,3</b>	<b>12,2</b>	<b>30,6</b>
- Margin	28%	44%	-42%	-37%	16%	47%	51%	69%
D&A	0,3	0,9	1,2	1,6	1,8	2,0	2,0	2,0
Net Interest expense	0,5	0,8	0,6	0,6	0,8	1,8	2,8	2,8
Tax	0,2	0,2	-0,4	-0,3	0,0	1,1	1,5	5,2
Adjusted EBT				2,3	6,4	13,5	16,3	35,7
Adjusted Tax				0,5	1,3	2,7	3,3	7,1
Balance				5,0	8,3	11,2	14,0	16,9
Adjusted D&A				0,0	1,7	2,8	3,7	4,7
<b>Adjusted Net profit (Industry Comparable)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2</b>	<b>4</b>	<b>8</b>	<b>9</b>	<b>24</b>
<b>Net Profit</b>	<b>0,8</b>	<b>0,9</b>	<b>-3,5</b>	<b>-4,3</b>	<b>-0,8</b>	<b>4,4</b>	<b>5,9</b>	<b>20,6</b>
Diluted number of shares	3,8	3,8	5,5	5,6	5,8	5,8	5,8	5,8
EPS/Share	0,2	0,2	-0,6	-0,8	-0,1	0,8	1,0	3,6
Share price (PLN)	5,3	5,4	13,0	11,8	20,0	20,0	20,0	20,0
Market cap	20	20	71	66	116	116	116	116
P/S	3,4	3,1	14,5	10,0	10,6	5,9	4,8	2,6
P/EBITDA	12,3	7,2	-34,5	-27,0	65,3	12,5	9,5	3,8
Adjusted P/E Comparable	-	-	-	36,0	33,1	14,4	12,4	4,9
P/E	26,2	22,6	-20,5	-15,4	-140,8	26,6	19,6	5,6

#### Note. GameINN Subsidies

The company has been granted two GameINN subsidies of a total of 6,06mPLN. The subsidies are being distributed over a multi-year period. We have not included the GameInn subsidies in our estimates as we are unsure of the exact period that the company will receive them (over the coming 2.5 year period) and to what extent the subsidies will cover existing or new costs. The GameINN funds will benefit earnings and to some extent profits, as such we view them as a potential positive surprise when they are received.