

Remedy

Extensive report

06/02/2022 07:45



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This report is a summary translation of the report “Seuraava tasoloikka vaatii vielä kärsivällistä pelaamista” published on 06/02/2022 at 07:45 am.

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Leveling up requires more patient play

Remedy is now building the next growth leap of its strategy with the 5 major gaming projects under development. This will be reflected in rising costs between 2022 and 2023, but enable significant earnings growth particularly in 2025-2026, driven by increasing royalty income. In terms of long-term growth potential, we see the share's risk/return ratio as attractive, but with our lowered forecasts, this will take longer to materialize than previously expected. Thus, in the short term, the attractiveness of the stock has weakened compared to our previous estimates. We lower our recommendation to Accumulate (was Buy) with a new target price of EUR 34 (was EUR 42.0).

Video game company for a long-term portfolio

For the past 5 years, Remedy's strategy and the ramp-up of the multi-project model have made impressive progress. In 2022, the company is already working on 5 major game projects in addition to the published games (Control 2019, Alan Wake Remastered 2021, Crossfire HD/X 2021/2022). Thanks to expanded income flow from the multi-project model, Remedy's revenue and result development has been strong also in 2019-2021. In the big picture, Remedy is still at the beginning of its growth path, and we consider the company's growth outlook attractive long until the end of this decade.

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

The console market (2021: EUR 50 billion) has grown strongly over the past 5 years (CAGR 9%) and growth is expected to continue (CAGR 22-24: 8%). Market trends (subscription-based models, cloud gaming, digital distribution, and long-term game services) look favorable for game developers. Due to current 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. Furthermore, there are less than 40 independent AAA studios worldwide, of which only a handful can simultaneously run several major projects, like Remedy can.

Materializing the growth potential requires patient development in the next few years

In 2022-2023, the progress of Remedy's games in the production pipeline will require increased investment in recruitment and external development, which will weigh down the company's profitability significantly. In our estimates, with the releases of Alan Wake 2 (2023), Condor (2024), Vanguard (2026), and Heron (2025), and Max Payne Remake (2026), Remedy's earnings growth will be strong in the medium term, supported by growing royalty revenue. With this report, we have reviewed our royalty assumptions for the coming years and found our previous estimates of the timing of royalties to be too optimistic. As a result, our earnings estimates for the coming years were significantly lowered and Remedy's true earnings potential can't be properly examined before 2025-2026.

The return/risk ratio is attractive for investors playing the long game

In our estimates, royalties from Remedy's ongoing game projects take largely place in 2025-2026, when we expect the company's revenue (90.4 and 87.5 MEUR) and earnings (EBIT: 23.2 and 21.4 MEUR) take a significant step upward. With our estimates, the share's EV/EBIT ratios (2025e-2026e: 14-15x) go down to an attractive level even with moderately successful game releases. In addition, the investor gets the option of a hit game that strikes gold. With our 2022-2024 estimates, the valuation of Remedy looks tight, and the investors' patience is put to test with the significantly weakened stock market sentiment this year.

Recommendation

Accumulate

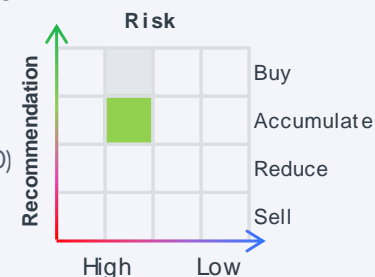
(previous Buy)

34.00 EUR

(previous EUR 42.00)

Share price:

29.85



Key figures

	2021	2022e	2023e	2024e
Revenue	44.7	48.1	46.6	61.7
growth-%	9%	7%	-3%	32%
EBIT adj.	11.4	6.7	0.6	8.8
EBIT-% adj.	25.5 %	13.9 %	1.4 %	14.3 %
Net Income	8.8	5.2	0.4	7.0
EPS (adj.)	0.67	0.39	0.03	0.51
P/E (adj.)	59.0	76.9	>100	58.3
P/B	6.0	4.4	4.5	4.3
Dividend yield-%	0.4 %	0.6 %	0.6 %	0.6 %
EV/EBIT (adj.)	41.8	52.5	>100	40.9
EV/EBITDA	33.0	40.2	>100	22.3
EV/S	10.6	7.3	7.7	5.8

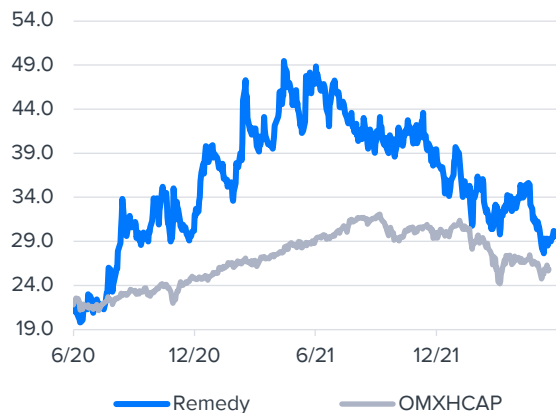
Source: Inderes

Guidance

(Unchanged)

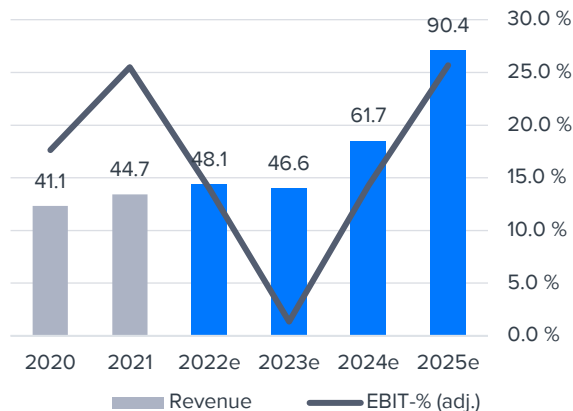
“Remedy expects its revenue to grow and operating profit to be on a lower level than in 2021.”

Share price



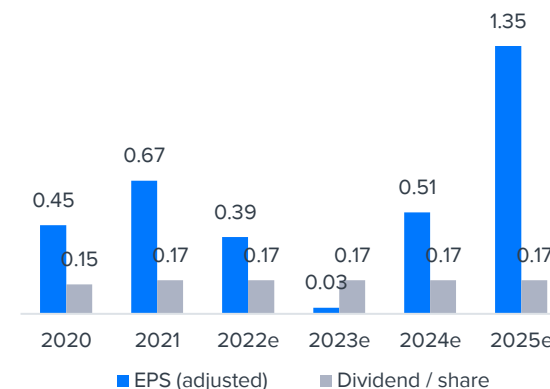
Source: Thomson Reuters

Revenue and EBIT %



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- Attractive position in value chain considering industry trends and consolidation
- 5 major game projects are being developed with strong partners
- 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

- Commercial failure of upcoming games
- Game projects being delayed
- Dependency on publishing partners
- Fierce competition for top talent in the gaming industry
- Technology and market trends

Valuation	2022e	2023e	2024e
Share price	29.9	29.9	29.9
Number of shares, million:	13.4	13.5	13.6
Market cap	400	400	400
EV	352	361	360
P/E (adj.)	76.9	>100	58.3
P/E	76.9	>100	58.3
P/FCF	neg.	neg.	>100
P/B	4.4	4.5	4.3
P/S	8.3	8.6	6.5
EV/Sales	7.3	7.7	5.8
EV/EBITDA	40.2	>100	22.3
EV/EBIT (adj.)	52.5	>100	40.9
Payout ratio (%)	43.8 %	536%	33.2 %
Dividend yield-%	0.6 %	0.6 %	0.6 %

Source: Inderes

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Remedy in brief

Remedy is an internationally successful video 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 44.7 million (+9 % vs. 2020)

Revenue 2021

EUR 11.4 million (25.5% of REV)

Operating profit 2021 (IFRS)

320

Personnel at the end of 2021

78/100

Average Metacritic score of Remedy's games

Crossfire

Crossfire projects developed for Smilegate have generated stable cash flow of development fees since 2016. The projects were completed in 2021 and in the future, Remedy is eligible for certain royalty income.

Control

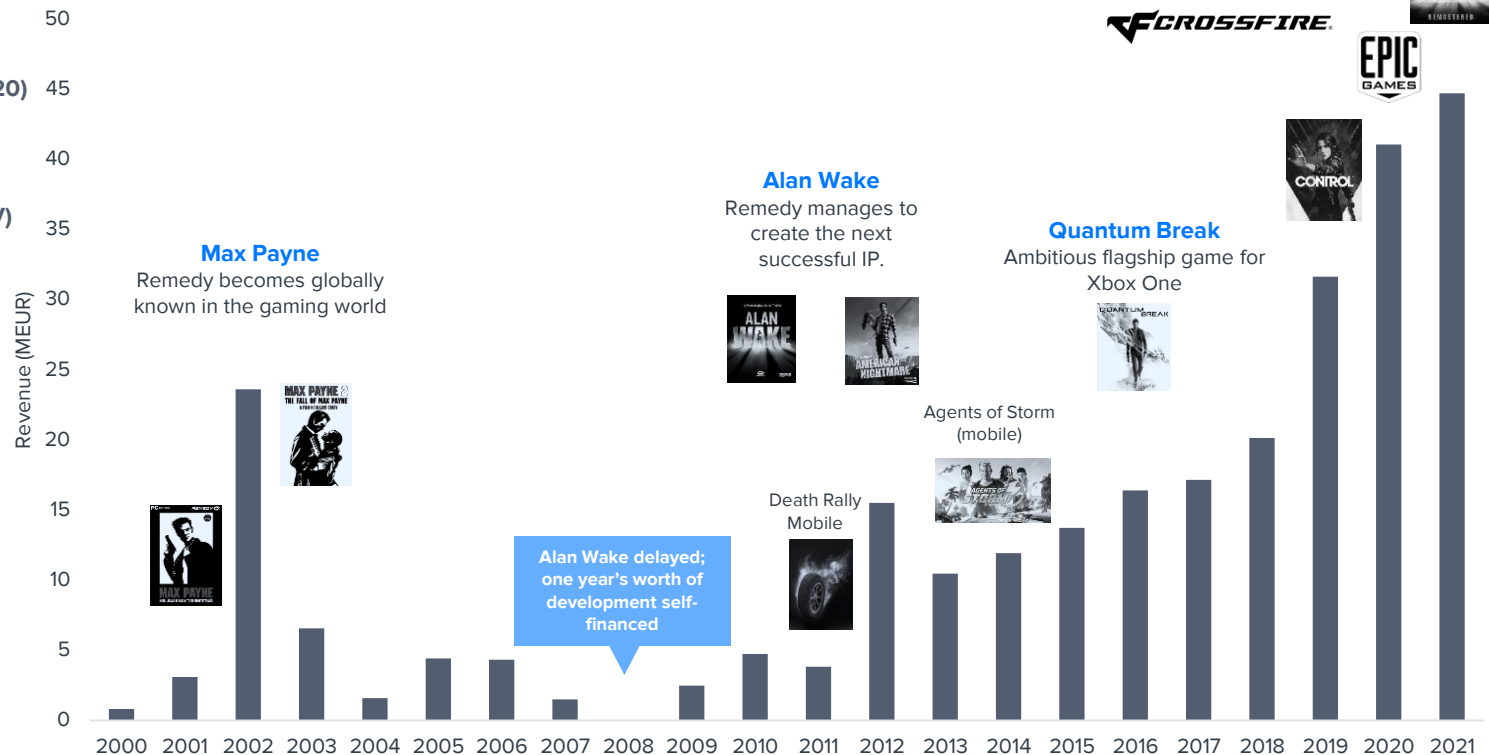
Control that received good reviews from critics was released in August 2019. 2020 also proved the commercial success of the game. In 2021, Remedy signed contracts with 505 Games to develop 2 new Control games.

Epic projects

In March 2020 Remedy made publishing agreements with Epic for two game projects. Alan Wake Remastered was released in October 2021 and Alan Wake 2 will be released in 2023.

Vanguard project

In December 2021, Remedy signed a development, licensing and distribution agreement with Tencent for a co-op multiplayer game.



Source: Remedy / Inderes

Company description and business model 1/4

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 Control. At the end of 2021, Remedy employed 320 people, most of whom were working in the company’s Espoo studio. In 2022, Remedy also founded a studio in Stockholm, where the company seeks to recruit over 25 employees by the end of the year. Remedy’s revenue in 2021 was EUR 44.7 million and operating profit (IFRS) was EUR 11.4 million (25.5% of revenue).

Remedy is best known 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. In addition, the rights to an Alan Wake TV series were sold to AMC in 2022. Remedy’s internal drive and ambition to develop unique, high-quality story-driven games is reflected in Remedy’s Metacritic score (78/100). Metacritic is a website that aggregates game reviews and where games receive total score from both critics and gamers. Games that receive over 90 points are critically acclaimed and rare. Over 80 points is already a very good achievement.

Remedy develops premium games that clearly stand out from game studios’ mass games mainly for PC, Xbox and PlayStation. The core target group of the games are players that are mostly

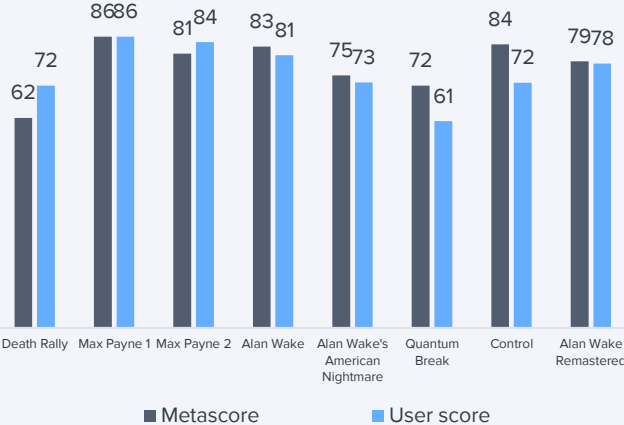
interested in story-driven action games and are willing to pay over EUR 50 for a single game.

Long history has created an experienced game studio

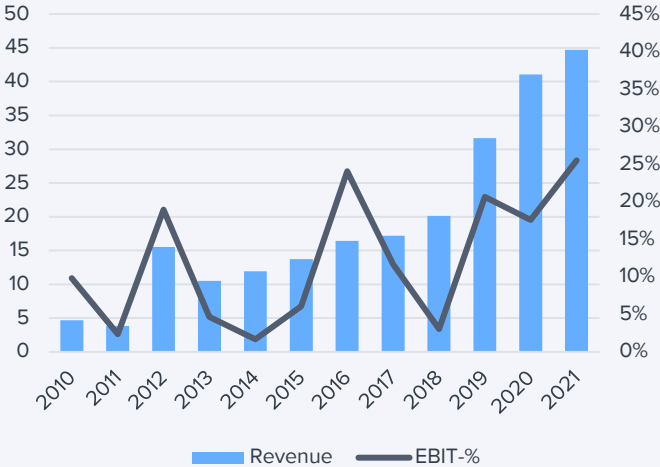
Remedy’s first game, Death Rally, was released in 1996. Before the 2001 release on the hit game, Max Payne, Remedy’s small team was learning the ins and outs of the gaming market, how to stand out in the market and building a unique culture. With Max Payne, Remedy learned what it takes to create a story-driven 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 from its own coffers. Alan Wake was released in spring 2010, the same day Rockstar’s hit game Red Dead Redemption hit the shelves (Metascore: 95/100). This partially hurt Alan Wake’s sales, but in addition to positive critic reviews (Metascore 83/100) the game was to our understanding a moderate success financially.

Metacritic score of Remedy’s games*



Revenue and ja profitability**



Source: Metacritic, Inderes, *average of different game platforms’ critic and consumer reviews, ** 2020-2021 IFRS figures

Company description and business model 2/4

We also believe the Alan Wake American Nightmare sequel was a success, even though the Metacritic score (75/100) was lower than for the original game.

While Remedy was preparing its next big project, the company also tried its hand at mobile game development in 2011-2014. However, the company discovered soon 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 dominated the 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 Quantum Break was finished, Remedy started moving toward a multi-project model in line with its new strategy. The strategy has been progressing well and in 2022, the company is already working on 5 major game projects in addition to the published games (Control 2019, Alan Wake Remastered 2021, Crossfire HD/X 2021/2022). Thanks to expanded income flow from the multi-project model, Remedy's revenue and result development has been strong also in 2019-2021. In the big picture, Remedy still remains at the

beginning of its growth path, and we consider the company's growth outlook attractive long until the end of this decade.

Business model

Premium game development

Remedy develops games for console and PC platforms. Game distribution takes place through physical distributors (e.g. GameStop, Amazon) and digital distribution platforms (Steam, PS Store, Microsoft Store, Epic Games Store).

Today, Remedy develops games using three models: the subcontracting model, the self-owned game brand model (own IP) and co-publishing projects. In the subcontracting model, Remedy does not own the IP of the game that is being developed. In this model, the partner finances most or all 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 the co-publishing projects (Condor and Vanguard), Remedy also has responsibility for publishing, distributing and marketing games. In terms of future projects, Remedy might 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, high level of quality, 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. The production budget for Remedy's AAA games is currently around EUR 30-60 million.

Developing traditional AAA games is a high-risk business, with commercial success often requiring high sales volumes (millions of units). Game development cycles are typically 2-4 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 and campaigns. However, the same principles don't apply to the long-running service-based multiplayer games under development by Remedy (Condor and Vanguard), whose earning logic is discussed in the section "Current game projects".

Today, with digital distribution and DLCs becoming more common, the revenue of traditional AAA games can also be made much more recurring. 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 in demand in video game subscription services (e.g. Xbox Game pass) that have become popular 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 3/4

Game development life cycle of Remedy games

Remedy's game development process from the drawing board to the finished product can be divided into six stages. Remedy has estimated the development process of a classic AAA game takes about 2-4 years, depending on the game.

A game project starts from the mandate stage, where high-level goals, a preliminary budget and timeline are set for it. Typically, only the studio management and the leading producer of the project are involved in this stage. The stage lasts from a few days to weeks.

Next, in the high-level conceptualization phase the general idea, gameplay mechanics and visual appearance of the game are defined. This stage typically involves 3-10 people and lasts 1 to 3 months. The game then goes into the conceptualization stage, where the vision, themes, characters and visual identity of the game are defined in more detail. A preliminary prototype of the game is made at this stage. This stage typically involves 20-30 people and lasts 3 to 6 months.

Next, the project goes into the proof-of-concept stage, in which a proper demo version is made to test the game concept in practice. Team size is 30-50 people and the stage lasts 3 to 6 months. At this stage, a project plan is made about how the game will be developed (own staff and subcontracting), what components are needed. Furthermore, risks and major bottlenecks are identified. It is also important to prove that the game is fun and functional at this stage to ensure that it makes sense to move the project forward the production stage. The better the guidelines for the project are defined at this stage, the less surprises and delays

are likely in the actual production stage. Additionally, negotiations with potential publishing partners often take place at this stage. Typically, revenue is recorded from the project for the first time, when the publishing contract is signed. After this, Remedy will receive development fees in proportion to the personnel committed by the project and progress.

Next, the game goes into pre-production, where the project team is assembled for full production and the production plan is finalized. The pre-production stage typically involves 50-70 people and lasts 3 to 6 months. After this, in the production phase, a full team works on the project, which in the most intensive phase will commit up to 200+ people, including subcontracting partners in addition to the ca. 100 employees at Remedy. In the alpha stage of production, the previously drawn up project plan is implemented, and the actual game is developed. Depending on the project, this stage lasts approximately 1 to 2 years. After that, in the beta phase, which lasts about 3 to 6 months, the game is finetuned to its final release form.

The last step is the release of the game, after which Remedy will start to receive royalties from the sale of the game according to the agreed split. Usually, royalties require that the publisher has first recouped its own investments from the sales revenues, i.e., development costs, marketing costs and manufacturing costs of physical copies. In the subcontractor model, there can also be a possible "completion bonus". The development of the game doesn't immediately stop at release, but a live team (10-20 people) attempts to analyze players' behavior and publishes updates and bug fixes to improve the gaming experience. In addition,

Remedy aims to bring 1-3 additional DLCs (downloadable content) to the games it has released within about 1-2 years of the game's launch to extend the commitment and life cycle of the game. Typically, a team of about 20-30 people works on a DLC.

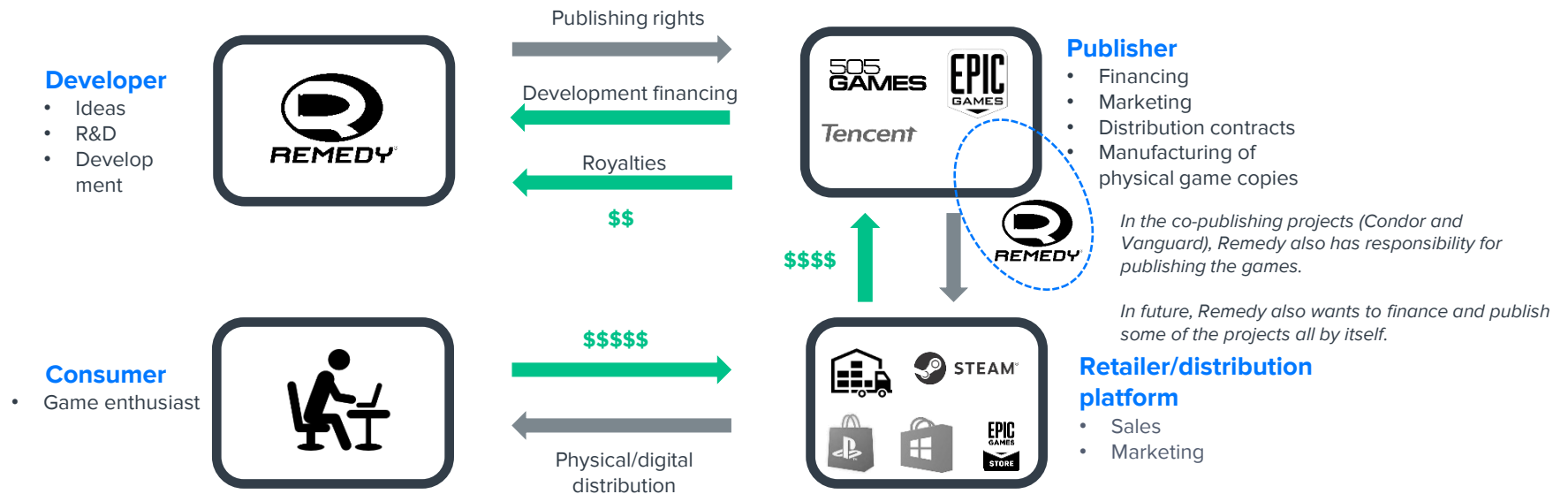
Life cycle of development may vary slightly in service-model games

In service-model games (Condor and Vanguard), the game development stages may differ slightly from traditional AAA games. For example, the F2P-like Vanguard may see a kind of closed beta phase before launch, where the game is tested and optimized before the actual release, somewhat in the same way as a soft launch for mobile games. In addition, in Vanguard and Condor, the importance of live stage planning is already highlighted in the concept and proof-of-concept stage, which can extend the duration of these stages compared to standard AAA games. In these, Remedy also aims to keep the team at a moderate size for longer periods of time to allow for large-scale conceptualization and to support live operations as much as possible.

Developing a game from own game brand

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, the self-financed business is very sensitive to hard-to-predict game sales. To date, Remedy has shared this risk by including a publishing partner in its projects to finance a part or most of the project.

Remedy's value chain and development process



The stages and duration of Remedy's game development process – on average, developing an AAA game takes at least 3 years

Project stage:	Mandate	High-level concept	Concept	Proof-of-concept	Pre-production	Production	Live stage
Team size:	Studio management and key project personnel	3-10 employees	20-30 employees	30-50 employees	50-70 employees	+100 and up to 200 with outsourcing	10-20 people for updates 20-30 people for add-ons
Stage duration:	Days to weeks	1-3 months	3-6 months	3-6 months	3-6 months	1-2 years (Alpha) 3-6 months (Beta)	1-2 years (with 1-3 DLCs)

Company description and business model 4/4

In the future, the company might also be able to finance and publish part of its projects entirely on its own, which is made possible by the company's strong financial position.

From the developer's point of view, developing your own game brands is an attractive option, as they allow for the development of add-ons and full sequels, among other things. Developing a sequel is easier, because you don't need to create a game world or characters from scratch. Moreover, demand predictability is better thanks to the pre-existing player base. Therefore, the best business model scalability can be reached in game development if the game developer manages to create a successful game series.

Game development as subcontracting

Developing games that are financed by a partner reduces the risk of failure and evens out the game developer's cash flows through steady royalty income. However, it reduces the share of the

revenue the developer receives, although subcontracting contracts typically include a royalty component linked to the sales of the game. Especially small game studios who lack the resources to finance development themselves develop games with the subcontracting model. Thus, the business model is broadly in line with customized software development and scalability is poor.

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 (5-10 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. The table below shows in a simplified way how the sales price of a single game is distributed in the value chain between different players.

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. In this way, the company's games are profitable with sales of just a few million copies. 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.

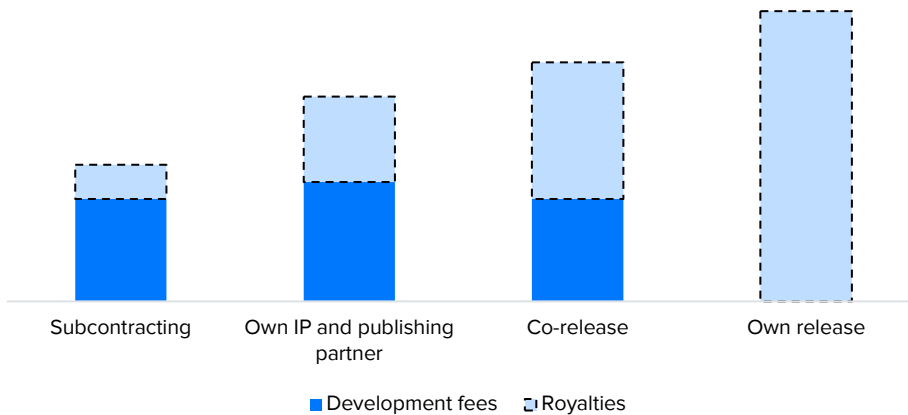
Illustration of Remedy's revenue from the sale of a single game

Price of the game	~€20-70	
VAT-%	~0-27%	Varies by country
Distribution cost	~12-35%	Varies by platform (e.g. Epic Games Store 12%, Steam 30%)
QA, localization, physical distribution	~1-8%	Varies by game
Marketing	~1-20%	Marketing is done in a front-loaded manner, particularly around the release
Remedy's share of net sales	e.g. 45%	The split depends on the terms of the publishing agreement. Control is used as an example.
Remedy's share of a single game	~€3-27	

Source: Remedy, Inderes

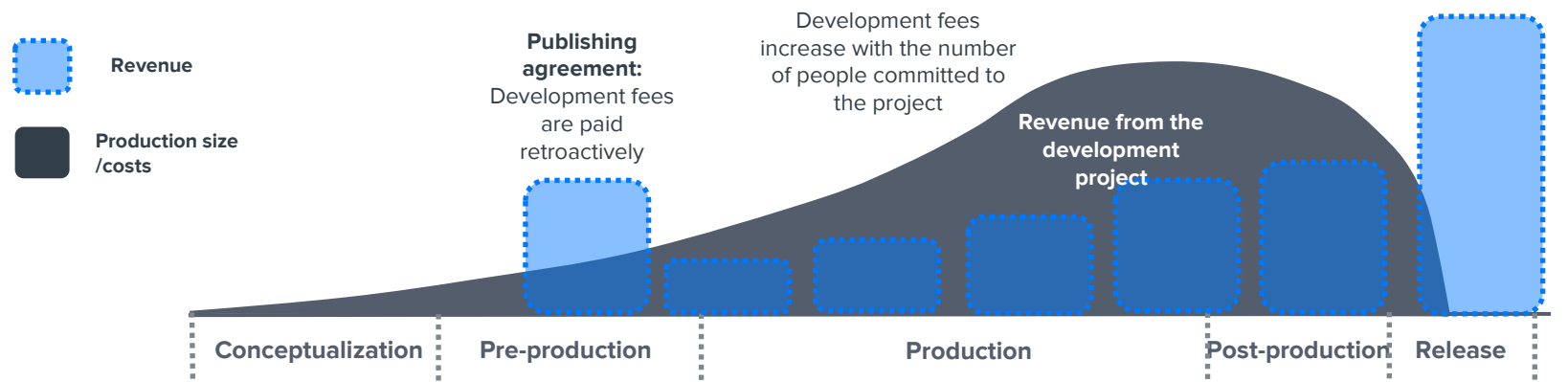
Remedy's income streams during the game development process

Illustration of revenue formation during project life cycle with different publishing models*



- Development fees are tied to the project production budget, reasonably predictable, and reasonably good-margin revenue.
- The production budget for Remedy's AAA games is around EUR 30-60 million.
- Royalty income is tied to how well a game sells, hard-to-predict, but highly scalable and high-margin revenue.
- The more responsibility (risk) Remedy takes in terms of financing the production and the release, the greater the return potential of the game.

Illustration of AAA game development when a publisher helps finance production



Source: Inderes, *NB: The columns are illustrative and not in the correct proportions

Remedy's game projects and partners



Control

Published
Q3'19

Budget
~30 MEUR



Condor

Proof-of-
concept

Budget
~25 MEUR



**Heron
(Control 2*)**

Concept

Budget
~40 MEUR

Remedy's share of
the budget: 45%
Remedy's share
of net sales: 45%



**Crossfire HD
Crossfire X**

Published
Q4'21/ Q1'22

Budget
~30 MEUR

0%
5-10%**



**Alan Wake
Remastered**

Published
Q4'21

Budget
~7 MEUR

0 %
50 %



Alan Wake II

Production

Budget
~ 50 MEUR



Vanguard

Proof-of-
concept

Budget
~45 MEUR

40%**
>60%**
(Western market)



**Max Payne
Remake**

Concept

Budget
~45 MEUR

0%
20-30%**



Rockstar Games

Current game projects 1/3

Control

The first company owned game brand released under the new strategy relying on the multi-project model was Control, released in August 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, half of which was financed by the game publisher 505 Games. Remedy's share of Control's net sales 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. However, the game has continued to sell well in digital channels since the release, and the game can be considered a success also from a commercial viewpoint. By the end of 2021, over 3 million copies of Control had been sold. Most of

Remedy's royalty income for 2019-2021 (33.4 MEUR) came from Control.

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. In 2021, Control Ultimate Edition, which combines the original game with add-ons, was released on the new PS5 and Xbox Series X/S consoles. All in all, over 15 million players have played Control, which provides a very good basis for the upcoming games in the series.

Condor and Heron

From the very beginning, Remedy has developed Control into a long-term game brand, with a story and world that can be expanded with new games and add-ons. In June 2021, the company announced a co-publishing and development agreement with 505 Games, giving Control a sequel with a four-player PvE multiplayer game set in the same world (codenamed Condor). The initial development budget for the game is EUR 25 million. The development and marketing investments and net earnings will be evenly split between 505 Games and Remedy. Condor will be available for PC, PS5 and Xbox Series X/S.

Condor's business model will be a blend of AAA and service-based fixed price. The game will cost a fixed sum, but at a price point below traditional AAA games. Later on, various paid expansions will be introduced, and we expect that players will also be able to make in-game purchases. Depending on the success of the service component, the game has the potential to generate revenue for years after its release.

Condor is currently in the proof-of-concept stage, and we estimate that it could be released in 2024. As Remedy has focused on single-player games in the past, it doesn't yet have a track-record of multiplayer titles. In our view, Condor's success at this stage is even more uncertain than Remedy's typical AAA game, although the team is built from professionals that have experience from service-based games.

In June 2021, Remedy and 505 Games also agreed on initial top-level terms for another higher-budget Control game (codenamed Heron). According to our estimates, Heron will be a sequel to the original Control (= Control 2) and we expect the production budget for the game to be about EUR 40 million. We expect the agreed terms for the game to be in the same ballpark as the Condor project. The game was in conceptualization stage in early 2022, and we estimate that the game could be released in 2025. We expect that Heron will be a classic AAA game with add-ons. We see Heron's return/risk ratio as an attractive project, as the Control brand's increased recognition in recent years significantly reduces the risks associated with the release, while increasing its sales potential.

Current game projects 2/3

Crossfire

Remedy has since 2016 cooperated with the Korean Smilegate and developed single-player campaigns for Smilegate's 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 daily 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.

Remedy and Smilegate's first project was completed in October 2018 in connection with which the companies announced a new Crossfire project. Here, Remedy developed single player content for Crossfire HD and Crossfire X games. Crossfire HD is the remastered version of the original Crossfire game and was released in November 2021. Crossfire X is a console version of the game, and it was released in February 2022 on Xbox.

The reception of Crossfire X among players and critics has been very poor (Metascore: 39/100). A special criticism has been made of the game's multiplayer mode, which Remedy didn't develop. In part, Crossfire X is a reminder that a game originally aimed at the Asian target audience doesn't necessarily interest Western players and vice versa.

A failed release is certainly disappointing for Remedy, but as Crossfire X is a subcontracting project, its limited success will only have a very small impact on Remedy's cash flows in the coming years. Moreover, the success of Crossfire HD in Asia, where the situation appears to be much better, is much more relevant to the game's royalty

potential. We don't expect the royalties from the Crossfire projects to be very relevant to Remedy in the coming years. We believe that simply based on development fees the Smilegate subcontracting has still been very lucrative business for Remedy. The collaboration has also enabled Remedy to develop certain new technological skills and to gain experience in the Asian games market and in the development of FPS games.

Alan Wake Remastered and Alan Wake 2

In March 2020, Remedy signed a publishing agreement with Epic Games for two game projects. The smaller of these was Alan Wake Remastered (AWR) released in October 2021. The larger project is Alan Wake 2, which will be released in 2023, according to Remedy. The games are released on PC in the Epic Games Store and on PlayStation 5 and Xbox XIS platforms.

The publishing agreement with Epic has very 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. Due to industry consolidation, there are less than 40 independent gaming studios worldwide that develop AAA-level games. Thus, game studios known for their quality games are in a good

position to negotiate publishing agreements.

Remedy hasn't disclosed the exact budgets of the projects, but we estimate the development budget for Alan Wake Remastered to be around EUR 7 million, reflecting the much lighter and shorter development cycle of remastering projects. At the same time, the release sales price of the game (€30) was also significantly lower than a traditional AAA game. According to Remedy, AWR has been received well among both game critics (Metascore: 79/100) and players and its sales have developed largely in line with the company's moderate expectations. As of Q1'22, however, the game had yet to generate royalties for Remedy, so we estimate that sales of the game to date have been less than 0.5 million copies. We expect AWR to start producing a bit of royalty revenue for Remedy later this year already. In addition to royalties, AWR plays a strategic role in raising the awareness of the Alan Wake brand. For example, the game was now released for the first time on PlayStation, which will expand the potential player community with about 100 million players.

Remedy announced in connection with its Q4'21 report that it has reached an agreement with Epic to expand the budget for Alan Wake 2. Remedy had previously announced that the project would be the company's largest to date and as such we expect the production budget to be around EUR 50 million. The game will be in the survival/horror genre, so the action will be even more chilling than in the original Alan Wake.

Current game projects 3/3

At the moment, we estimate that the game could be released in Q3 next year. We believe that the game has a clear potential to achieve significantly better sales figures today than the original Alan Wake, thanks to a wider target audience. Based on estimates from different sources, the original Alan Wake and its American Nightmare spin-off have sold over 6 million copies.

Vanguard

In 2018, Remedy set up a small internal development team to develop multiplayer gaming experiences. The Vanguard project has since been developed in an iterative manner. At the end of 2021, the project had progressed to the stage where Remedy signed a development, license and distribution agreement with Tencent. According to Remedy, Vanguard is a co-operative PvE (player versus environment) shooter that combines Remedy's storytelling expertise and action gameplay into an immersive multiplayer experience.

The development of Vanguard is currently in the proof-of-concept stage. The game is being developed on the Unreal Engine for PC and console platforms. The game will be Remedy's first fully service-based, free-to-play (F2P) game with revenue streams based entirely on players' in-game purchases.

According to Remedy, the game's development budget is the size of the company's typical AAA game budget (our assumption: 45 MEUR). Remedy and Tencent finance the development together, but the exact split hasn't been disclosed. Tencent localizes the game for select Asian markets and covers the costs related to that. Typically, the Asian

market is very challenging for Western developers, so the partnership with Tencent gives Remedy the opportunity to reach completely new audiences.

Remedy and Tencent bear the game's development and operating costs in their respective geographical areas, sharing part of the income with each other after the development costs have been recouped. This means that for the first time in its history, Remedy acts as the publisher of its game and is responsible for, e.g., marketing and player acquisition in the Western market. The revenue split for the game is not known, but presumably Remedy, as the publisher of the game, will collect a larger share from the Western market. In turn, Tencent's share is higher in Asia and China. This is partly influenced by how big proportion the companies financed of the development (we assume Tencent finances 60%).

In the agreement, Remedy has also licensed Tencent to global rights for developing and publishing a mobile version of the game. Tencent bears the development and publishing costs of the mobile version. For the mobile version, the companies have agreed upon a separate revenue split model. To our understanding, the development of the mobile version depends on Vanguard's reception on consoles and PC. Thus, the mobile version is a risk-free and positive option for Remedy, which will be realized if Vanguard succeeds.

Today, most popular games are often multiplayer games played online F2P (free-to-play) games. Here, the so-called GaaS model (Games-as-a-service) comes into its own. Different upgrade packages and additional content after the release of the game extend the life span of revenue. It will

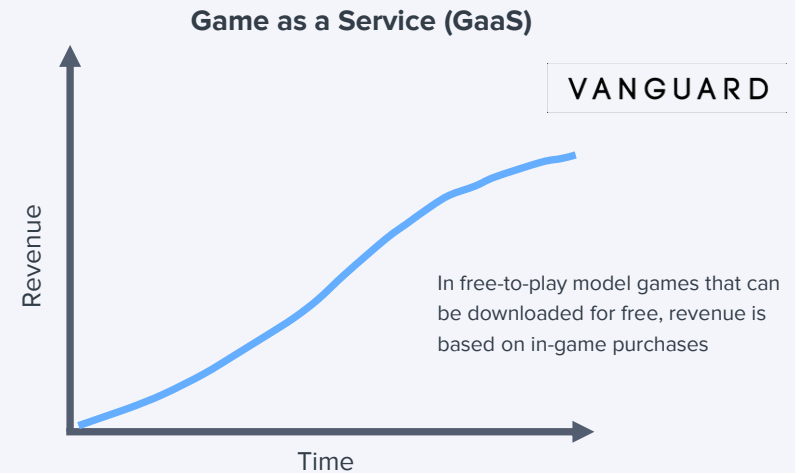
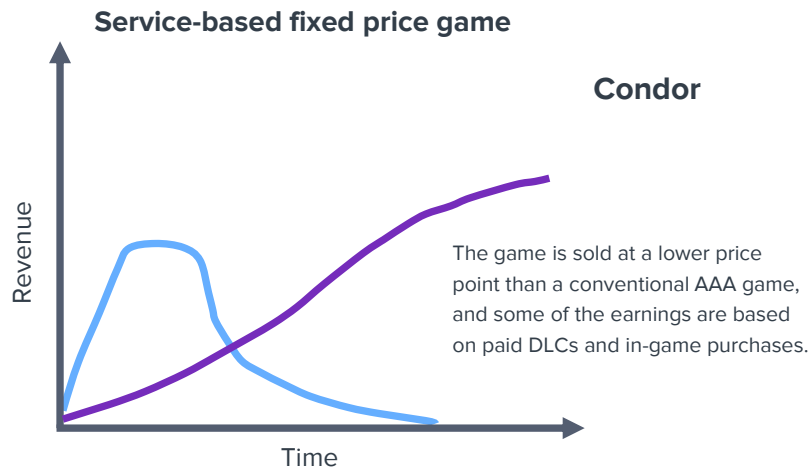
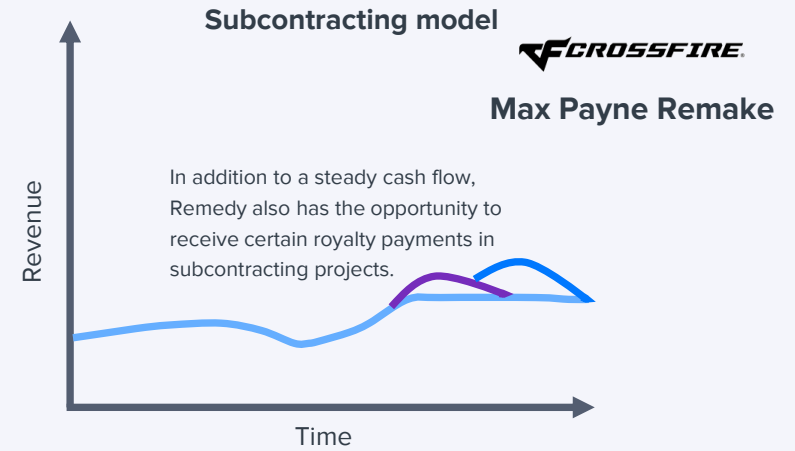
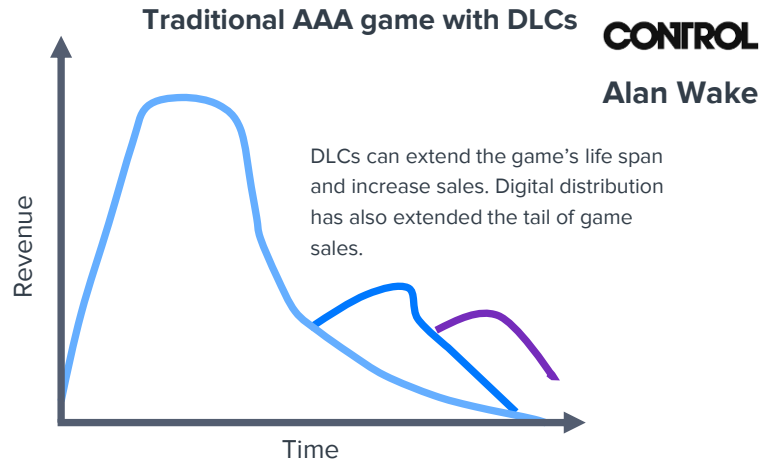
be interesting to see how Remedy succeeds in combining its core competence of storytelling and creating game worlds with the F2P multiplayer experience.

Max Payne Remake

In April 2022, Remedy announced that it has signed a new development agreement with Rockstar Games to develop remakes of Max Payne and Max Payne 2: The Fall of Max Payne games. Under the development agreement, Remedy will develop games as a single product for PC, PlayStation 5 and Xbox Series X|S platforms using its own Northlight game engine. Rockstar Games finances the game development, and the budget is equivalent to Remedy's normal AAA game production (our estimate: 45 MEUR). The agreement allows Remedy to receive royalties from the game after Rockstar Games has covered the development and marketing costs of the game, as well as other publishing and distribution costs. The project is currently in the concept development stage.

In other words, the business model of the project is low-risk subcontracting for Remedy, where the development fees provide the company with a certain margin and the royalty component provides earnings potential after the release of the game. here is no visibility to royalties at this point, but we expect that the terms of the deal are better than, for example, the Smilegate deal, thanks to Remedy's improved value chain position. As this is a remake version, we estimate that development will take several years, as the original games will be virtually fully rebuilt using today's technologies.

Business models for Remedy games



Investment profile

Video game company for a long-term portfolio

Remedy has a profile of a 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 enabled the first growth leap of the strategy in 2019-2020. The company is now building the next growth leap of its strategy with the 5 major gaming projects under development. This will be reflected in rising costs between 2022 and 2023, but will allow for significant earnings growth from 2024 onwards, driven by increasing royalty income. 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 efficient operating model, the company can develop games cost-efficiently, which means even a fair sales performance makes a project 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 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 2021, Remedy's financial position is extremely strong. The company can accelerate implementing its strategy with the solid 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 good 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 individual games and on the quality and timing of game projects. This inevitably raises the company's risk profile and brings volatility to value creation.
- Remedy is dependent on its publishing partners, their success and the contract terms agreed upon with them.
- 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.

Investment profile

1. Attractive position in the value chain

2. High profit potential if games are successful

3. Strong track-record of quality games

4. Growing market with favorable trends for the company

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

Potential



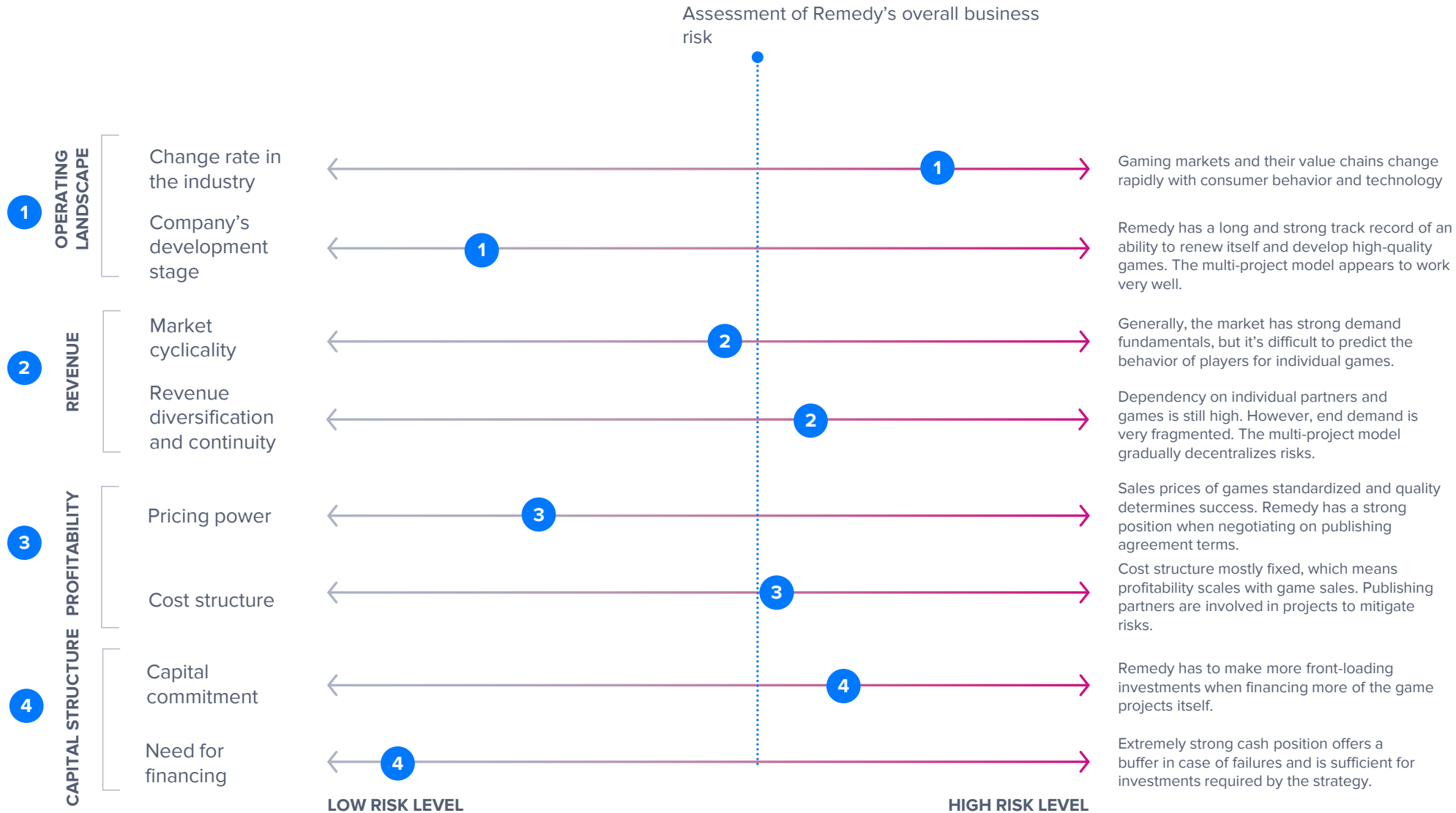
- Development of own game brands and sequels
- Higher portion of revenue from game sales
- Scalable business model enables excellent profitability if games are successful
- Well-managed multi-project model smooths risks and brings economies of scale
- Reputation and own technologies result in competitive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

Risks



- Risks associated with the success of individual games
- Dependency on publishing partners
- In the multi-project model, long development cycles and potential project challenges can cause multiple projects to be delayed at once
- Fierce competition for top talent in the gaming industry
- Technology and market trends change quickly

Risk profile of Remedy's business model



Markets 1/2

The gaming market is big and global

The popularity of gaming has increased dramatically in the 2000s as the standard of living has risen. Today, around 3 billion people play games and 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 ca. 1% in 2021 to USD 180 billion. Stable development is good considering the very strong comparison period that was boosted by COVID, when the market grew by 20%. The market is expected to return to its longer-term trend this year and grow at around 7% between 2022 and 2024.

Geographically, the biggest market is formed by Asia-Pacific that covers some 50% of the market of which China forms around one-half. The second and third largest geographical areas are North America (24%) and Europe (18%). 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.

Remedy operates on PC and console platforms

Divided by platform, PC and console platforms that are key for Remedy together (USD 87 billion) constitute just below 50% of the entire gaming market. Mobile gaming is responsible for the other half.

The size of the console market in 2021 was around USD 50 billion. The market declined by around 7% from 2020, driven by low availability of new generation game consoles due to component

shortages and an exceptionally strong comparison period due to the COVID pandemic. In the long term, the market has grown strongly (CAGR 16-21: 9%) and the growth is expected to continue at 8% level in 2022-2024. The growth drivers are the new 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 older consoles support the sales development of console games. Over 117 million PS4s and over 19 million PS5s have been sold. It's estimated that over 51 million Xbox One units and over 12 million new Xboxes have been sold. On the console side, the role of physical distribution is still important, but the role of digital distribution has increased considerably as the COVID situation further accelerated the trend. According to Sony's Q4'21 report released in May 2022, 71% of PlayStation's game sales were digital.

The size of the PC game market in 2021 was USD 37 billion. The market has grown at a stable rate (CAGR 16-21: 2.5%) and stable growth is also expected to continue (CAGR 22-24: 2.2%). The distribution of PC games is basically fully digital. The PC game marketplace Steam had around 132 million active monthly users in 2021 (2020: 120 million). Epic Games Store that has risen to challenge Steam in recent years had 62 million active monthly users in December 2021 (2020: 56 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 2021 was

USD 93 billion and it is expected to grow by 8% 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. A mobile version of Remedy's Vanguard project may also be released, so the market may be more relevant to the company in the future.

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. Thus, games are increasingly considered to be long-term services (GaaS, Games as a Service).

Markets 2/2

Remedy is also working to create longer-lasting experiences in its games. The Control add-ons and the "Ultimate Edition" pack for new consoles were first steps in this direction. Condor and Vanguard projects will be the first truly service-based games.

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 significantly lower number of consoles compared to the number of active smartphones (Newzoo: 3.6 billion units) limits the size of the potential group of players. Thus, a F2P game developed for a console virtually also requires a PC version. In addition, console games tend to be significantly more expensive to develop than mobile games, which contributes to increasing the risks of F2P game projects on consoles.

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, subscription services from Sony and Microsoft allow you to play games from their selection for a monthly fee. 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 are becoming more common. 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.

On PC, competition between distribution platforms intensifies

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

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 a one-third of Control's production budget of EUR 30 million.

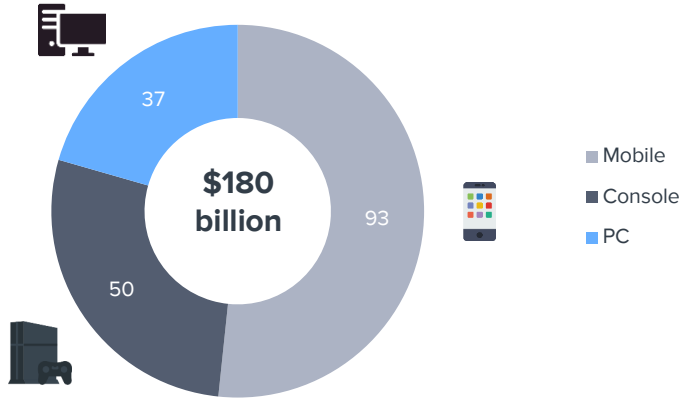
Developers' role in the value chain is growing

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.

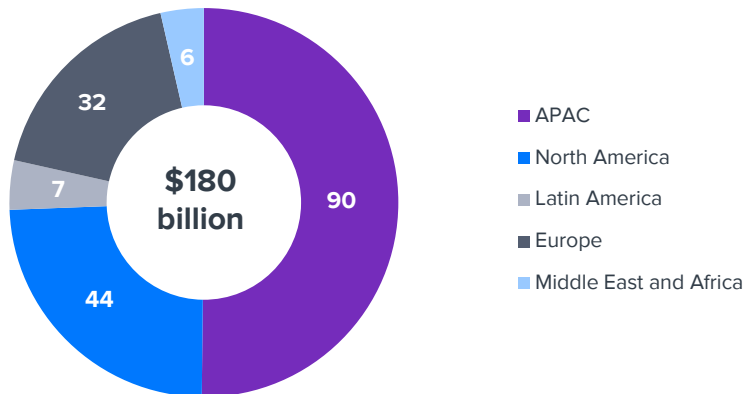
The role of game studios in the value chain is not disappearing, which is good for Remedy. The business models of game developers may change, but their place in the value chain is only likely to grow in the future. Need for high-quality game content becomes emphasized as the competition between players 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 interesting acquisition target for several players.

Markets

Game market by platform 2021

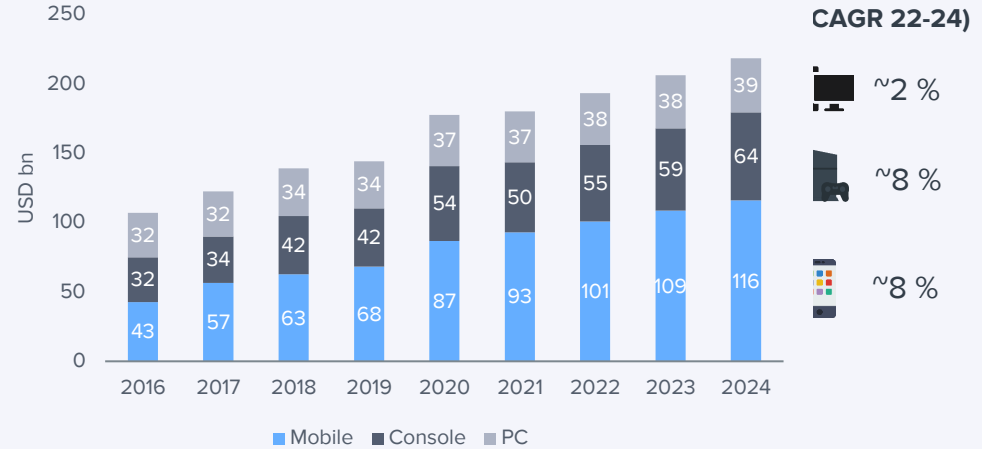


Game market geographically 2021



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 are less than 40 independent AAA game studios like Remedy 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 or Take-Two Interactive in competition. However, AAA games are 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 on, e.g., social media. Especially for AAA games in the higher price range, players follow reviews and comments closely 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 landscape is complicated. 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 are just a few independent AAA game studios like Remedy in the world as most have ended up being acquired. For example, Sony, Microsoft, and Embracer have been active on the acquisition front. Early 2022 saw the biggest acquisition in gaming history when Microsoft announced it would buy Activision Blizzard for USD 68.7 billion. The transaction is subject to approval of the competition authorities.

Out of the independent game studios, an ever-smaller group is formed by studios developing story-driven action games like 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 looking for game developers to partner with, the selection process emphasizes an experienced team, high technological expertise and a track record. 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

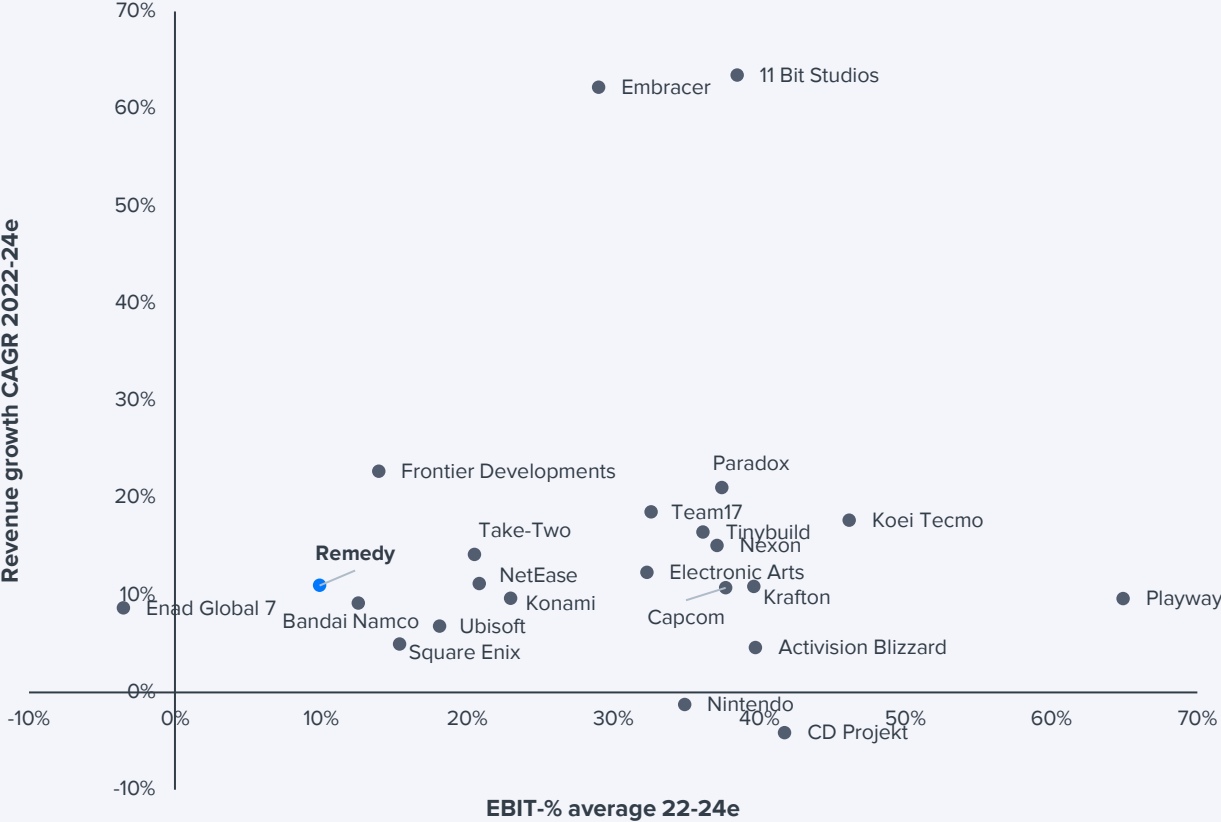
Over the years, Remedy has been able to successfully create several world-class games on a highly competed market. This proves the company's strong competitive advantages considering the general perception that games are a hit business. In our view, Remedy's key competitive advantages are:

- Remedy can develop very well received and high-quality games. The company has strong expertise in challenging and long-term game productions. 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. With the growth of the games market, a distinctly different game created for a slightly narrower audience has the potential to sell well.
- Remedy's Northlight game engine enables economies 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 largely 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, fans of Alan Wake waited nearly 10 years for a sequel to the classic game before the Alan Wake 2 project was finally confirmed.

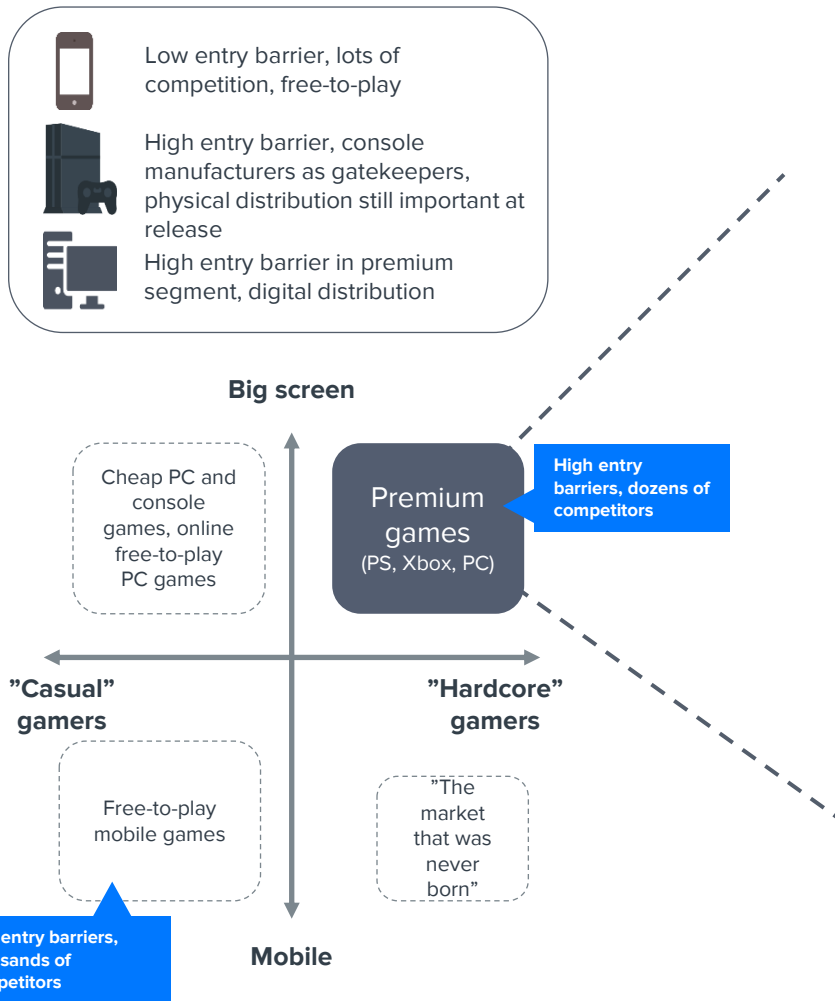
Projected growth and profitability development of listed game companies



Source: Refinitiv, Inderes

Remedy's positioning on the market

Gaming market segments



Remedy's sub-segments

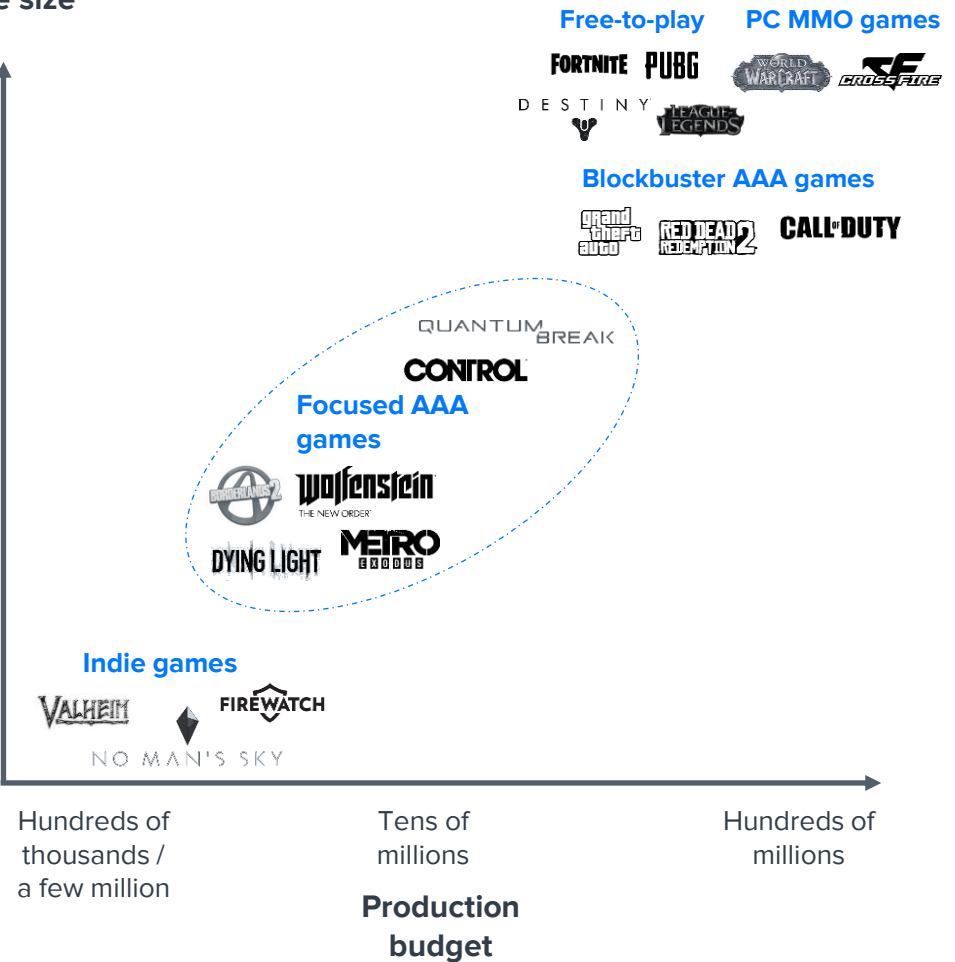
Game size

AAA+

AAA

AA

A



Strategy 1/2

Strategy now in 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 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 wants to further strengthen its position in the value chain. 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 was able to start 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 game sales risk.

In recent years, Remedy's evidence of moving to a stronger position in the value chain have been convincing. This is demonstrated by the creation of a successful new Control games brand and publishing deals with world-class partners (Epic Games, Tencent, Rockstar Games).

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. An example of this is the Vanguard project, which Remedy worked on independently from 2018 before signing a contract with Tencent at the end of 2021. It is noteworthy that the creation of Vanguard's current game concept required a lot of iterative development during the first years with a small and partly changed project team.

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 component dependent on game sales in these agreements, like with Smilegate and most recently Rockstar Games.

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 can then be shorter than the normal 3-5 years, or an even broader gaming experience can be created in a similar timeframe. The device stock and technical performance across gaming platforms may also have evolved, further supporting enhancing the gaming experience of the sequel.

Strategy 2/2

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. Own game brands can also be cultivated into income opportunities within brand licensing. For example, the rights to an Alan Wake TV series have been sold to AMC Networks, from which we estimate that Remedy could receive some licensing revenue if the series eventually makes it to production and release. However, we see the visibility that the TV series brings to the brand as significantly greater than its direct revenue impact.

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. A concrete example of this is the Vanguard deal with Tencent, where for the first time Remedy will be the publisher of the game itself and will be responsible for marketing and user acquisition in the Western market. In the Condor project, Remedy also assumes responsibility for publishing operations in accordance with the joint publishing agreement signed with 505 Games.

Longer-lasting 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 continuously 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. However, care must be taken with the additional content so that players don't feel they are just 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. In the Vanguard project, Remedy is facing a new challenge in terms of monetization as in F2P model games earnings come through in-game purchases. This differs completely from the conventional business model of AAA games. Remedy has recruited a lot of new talent to the Vanguard team from outside the company, with publishing partner Tencent also having extensive experience in operating F2P games.

Multi-project model and technological platforms

Remedy uses its own Northlight game engine from which the company gains economies 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 more than 60 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.

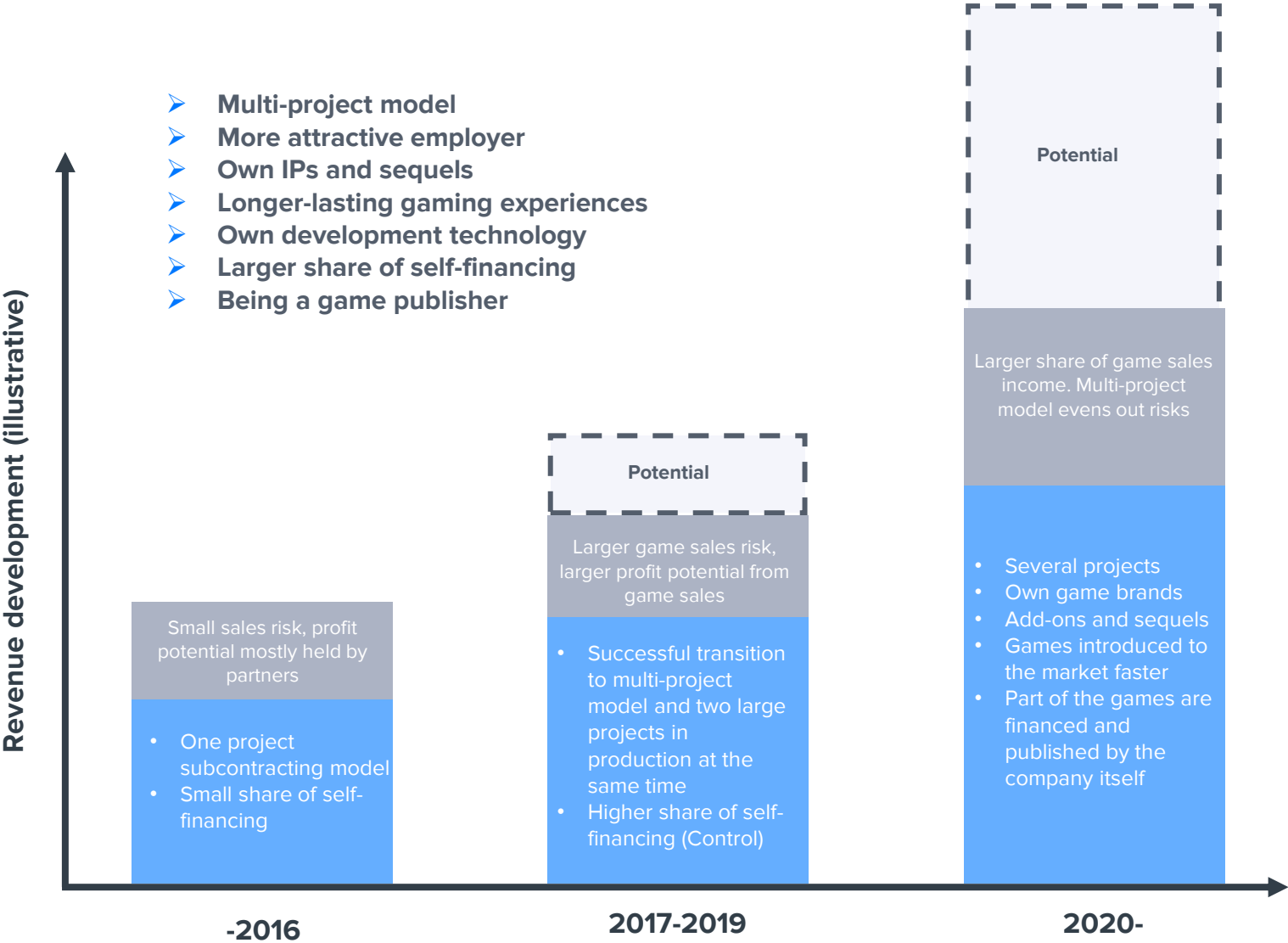
The multi-project model also offers more room for personal improvement and growth paths inside the company and transitioning between projects when possible. We believe that this has increased Remedy's attractiveness as an employer and further improving employee commitment.

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 external partners. Also, e.g., creating different game versions for various platforms can be outsourced.

In 2020, Remedy already had 31 external development partners and 370 game developers working on Remedy games. In 2021, the company did not publish similar figures, but outsourcing costs increased by 29% year-on-year. 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.

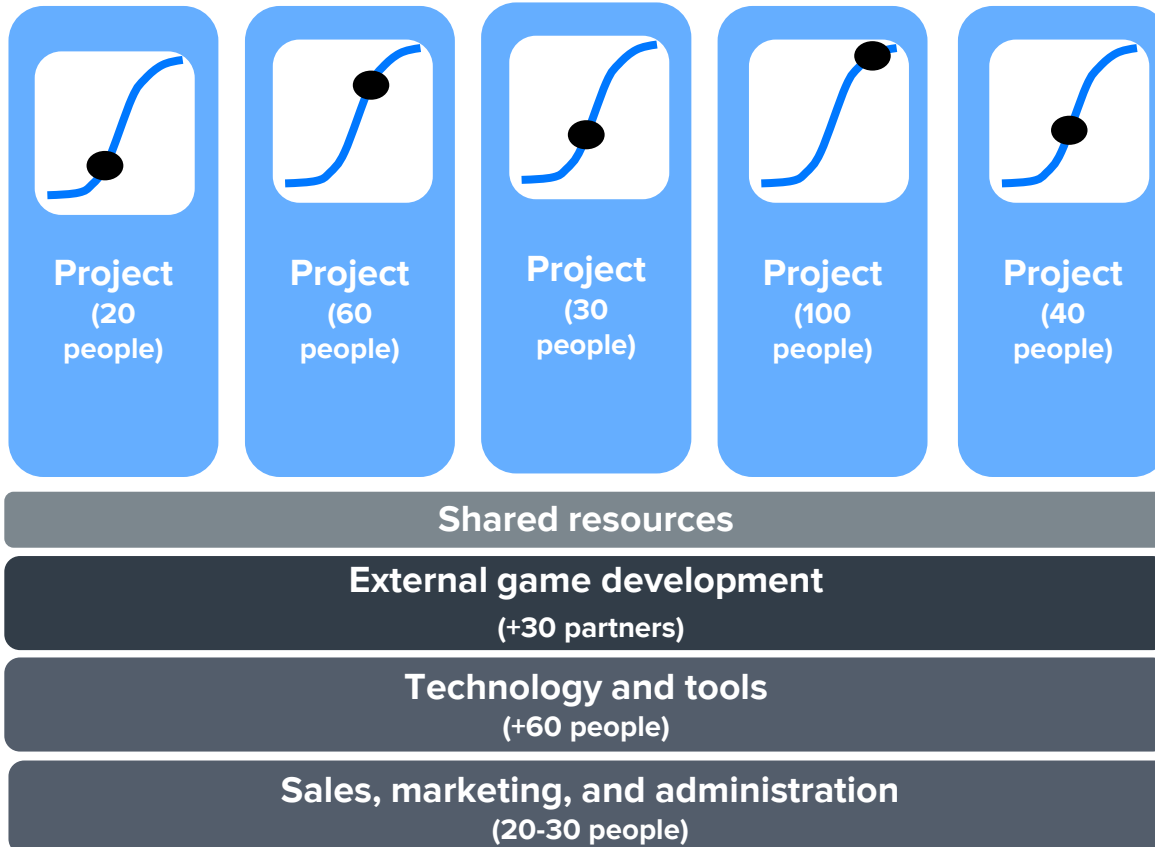
Transition process of Remedy's strategy



Source: Inderes

Multi-project model provides scalability for game development

Multi-project model



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

Financial position

First glimpses of the potential of the multi-project model seen in recent years

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. With development fees from an increasing number of projects and Control's royalty income, revenue grew by 30% and 9% in 2020-2021. Remedy's transition to IFRS reporting weakened operating profit in 2020-2021 compared to previous FAS figures (IFRS: 7.2-11.4 MEUR vs. FAS: 13.2-14.7 MEUR). This is due, among other things, to the different ways of accounting for options and the retroactive capitalization of the Control project, the amortization of which has a negative impact on the IFRS result.

In our view, Remedy's EBIT margin for 2020-2021 (IFRS: 17.6-25.5%) doesn't yet fully reflect the company's profitability potential at a stage where a more significant proportion of revenue comes from royalties. Depending on the success of the games, we estimate Remedy's medium-term profitability potential (EBIT-%) to be in the range of 30-50%, which is also achieved by peers (Paradox, CD Projekt).

Cost structure mainly fixed

Remedy's costs are mostly related to the development of games, so a significant part of the

cost structure is fixed personnel costs (2021: 47% of revenue) and external game development (materials and services 12% of revenue) that varies according to the stage of the project. Other operating expenses were 8% last year, and depreciation consisting mainly of capitalized development expenses was 7% of revenue.

Remedy capitalizes development costs related to its own game brands, which stabilizes the company's reported earnings development in the long run. In 2020-2021, EUR 5.1-8.5 million in costs were capitalized. Depreciation start at the point when the game projects in question are published. In 2021, the company will capitalize costs for AWR, AW2, Vanguard, Condor and Heron. The costs of Heron have been fully capitalized, as the project is still fully funded by the company itself. 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 weak. However, in the end this is 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

At the end of 2021, Remedy's balance sheet was very strong (equity ratio 86% and net cash including investments 55 MEUR) thanks to a directed issue of EUR 41.5 million in February. 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 take more risks in financing of future game projects with the strong cash position.

The assets in the balance sheet consisted primarily of cash and investments (EUR 58.5 million) and current receivables (EUR 22.5 million). EUR 15.1 million of development costs were capitalized in the balance sheet. The liabilities side of Remedy's balance sheet consisted at the end of 2021 primarily of equity (EUR 87.4 million) and non-interest-bearing debt (EUR 9.8 million). Interest-bearing liabilities totaled EUR 3.9 million, of which EUR 2.8 million was a loan granted by Business Finland and the remaining EUR 1.1 million are related to IFRS16 lease liabilities.

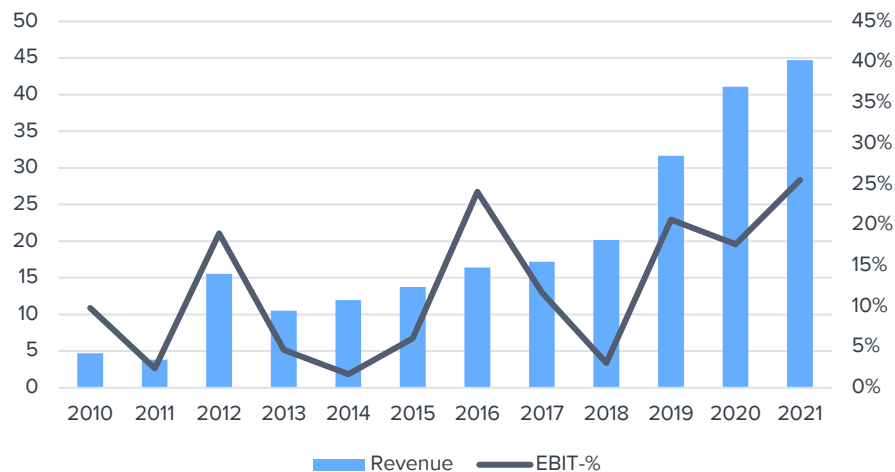
Remedy's business model requires a strong cash position as the business needs a buffer in case of game development projects being delayed or failing. The company needs a strong enough cash position after each game project to continue on with the development of subsequent games regardless of the success 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

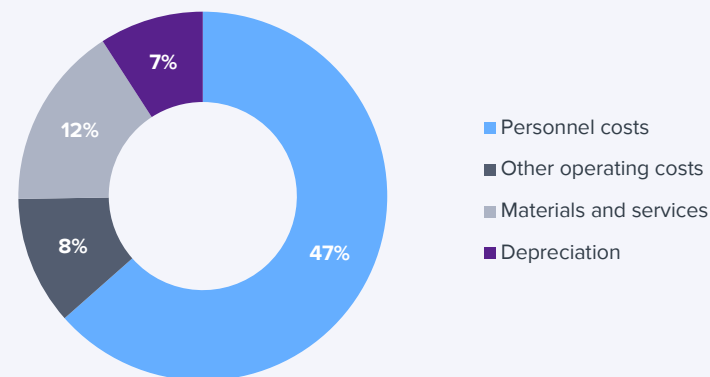
Due to capitalization of product development costs, Remedy's result and cash flow will deviate from one another over the next few years. Earnings development is more stable due to capitalization and the related depreciation, but cash flow focuses on the time of the game release. Projects carried out as subcontracting and game projects that are partially financed by publishing partners do, however, generate cash flow for Remedy also during **30** the game development stage.

Financial position

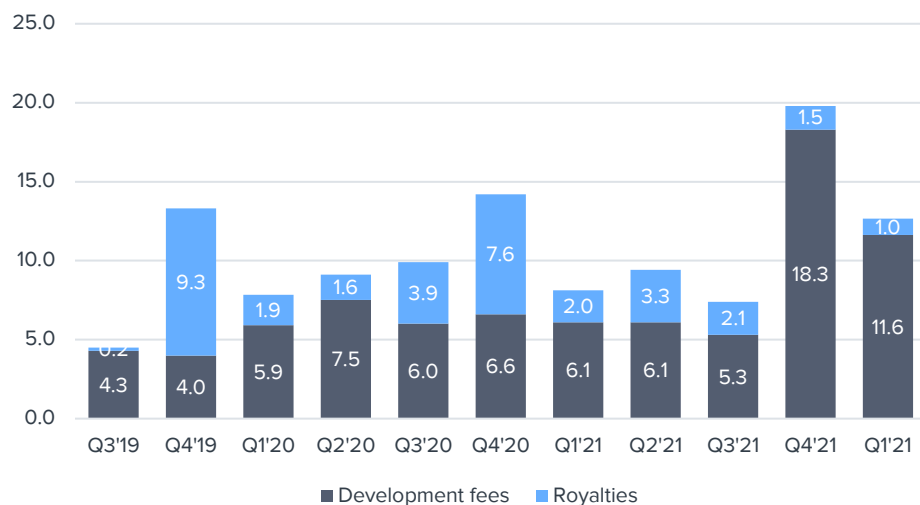
Revenue and profitability*



Cost structure 2021 % of revenue (IFRS)



Revenue breakdown by quarter (MEUR)



Balance sheet (IFRS) at end of 2021



Source: Inderes *2020-2021 IFRS

Estimates 1/4

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 the estimates. We expect capitalization to amount to EUR 10 million per year in the next few years.

We outline Remedy's revenue drivers for the next few years on the following page. The development fees of the games currently under development create a solid base for revenue estimates, but the visibility to royalty forecasts is weak. Overall, our forecasts expect Remedy to do reasonably well with its upcoming games. We also see potential for the games to perform significantly better in a good scenario, but overall, the range of final outcomes at project level is wide. The graph below shows our rough outline of the royalties per game, but these should only be taken as an indication, as the final result is bound to be very different in the end.

With this report, we have reviewed our royalty assumptions for the coming years and found our previous estimates of the timing of royalties to be too optimistic. The key change in the background is how quickly we expect future games to recoup their costs after release, which is when the royalty income for Remedy kicks in. At the same time, we revised our overall royalty assumptions to a degree more cautious in both the medium and long term. With these changes, the royalty income from virtually all future gaming projects was shifted one step further into the future, which had a significant impact on earnings forecasts for the coming years.

In our revised estimates, with the releases of Alan Wake 2 (2023), Condor (2024), Vanguard (2024) and Heron (2025), Remedy's earnings will take a significant leap in 2025-2026, driven by increased royalty income. Thanks to high-margin royalty income, Remedy's profitability should also improve clearly at that time. We expect the releases of Alan Wake 2, Condor and Vanguard to take place to H2 in the expected release year. Thus, we don't expect that royalties are generated until the following year.

When the strategy progresses, we believe that Remedy has good preconditions to continue growing after this too. For example, we estimate that the Max Payne project will only start generating royalty income from 2026 onwards. At that time, Remedy will have several new game projects underway and royalty streams will come from a wide range of games released in previous years.

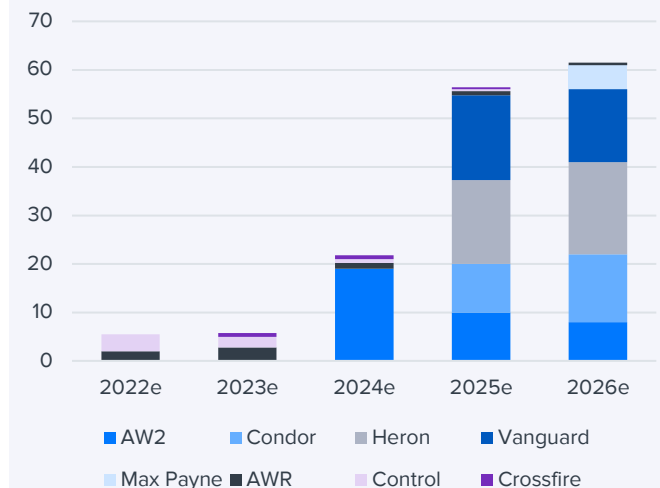
Estimates for 2022

In its outlook, Remedy expects its revenue to grow in 2022 (2021: EUR 44.7 million) and operating profit (2021: EUR 11.4 million) to decrease from the previous year. Remedy is currently working on 5 major game projects. Moving these forward in the production pipeline requires more investments in recruitment and external game development. According to Remedy, the visibility to the upcoming titles is very good and the company's capabilities to take the projects to the release phase are stronger than ever.

Revenue and profitability



Assumptions of royalties by game (MEUR)



Strategy in light of game projects

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

	2021	2022	2023	2024	2025	2026
Crossfire	Development fees \$\$\$	Development fees \$	Royalties \$	Royalties \$	Royalties \$	Royalties \$
Control	Royalties \$\$\$	Royalties \$\$	Royalties \$/\$\$	Royalties \$	Royalties \$	Royalties \$
Epic projects	Development fees and AWR release \$\$\$	Development fees + royalties \$\$\$	Alan Wake 2 release \$\$\$	Royalties \$\$\$	Royalties \$\$/\$\$\$\$	Royalties \$\$
Vanguard	Development and distribution agreement with Tencent \$\$\$	Development fees \$\$\$	Development fees \$\$\$	Release \$\$\$	Royalties \$\$\$	Royalties \$\$\$
Condor	Development fees \$	Development fees \$\$/\$\$\$\$	Development fees \$\$/\$\$\$\$	Release \$\$	Royalties \$\$\$	Royalties \$\$\$
Heron (Control 2)	Conceptualization	Development fees \$\$	Development fees \$\$/\$\$\$\$	Development fees \$\$\$	Release \$\$\$	Royalties \$\$\$
Max Payne		Conceptualization \$\$	Development fees \$\$/\$\$\$\$	Development fees \$\$\$	Development fees \$\$\$	Release \$\$\$
Next game projects					Development fees \$\$\$	Development fees \$\$\$

Estimates 2/4

We estimate Remady's revenue to grow by 7% this year, driven by growing development fees. We expect royalty income to fall by 38% to EUR 5.5 million, as the royalty flow from Control is decreasing, which is not offset by the royalties we expect from AWR for the rest of the year. We don't expect royalties from Crossfire projects this year. Given the low royalty income, growing number of recruits and other costs, we estimate operating profit to decrease to EUR 6.7 million.

Estimates for 2023

With our updated estimates, we don't expect the sales of Alan Wake 2 to recoup the game's production and marketing budget in 2023. In a good scenario, this could be possible if the game had a strong commercial start after the release that we estimate to take place in Q3'23. We have illustrated the royalties from Alan Wake 2 in the calculations on page 36. We revised our assumption for the total budget of the game upwards quite heftily, which partly contributes to the timing of royalties to Remedy in our forecast.

We now expect Remedy's revenue to drop 3% to EUR 46.6 MEUR in 2023, with most of revenue still coming from development fees. We expect royalties (2023e: 5.8 MEUR) to grow slightly year-on-year, as AWR's sales receive support from AW2 release and Control continues on a gradually declining sales curve. In addition, small amount of royalties can be recognized from the Crossfire projects. We forecast that Remedy's cost structure will continue to go up and operating profit will thus remain at a low level of EUR 0.6 million. Overall, the earnings level for next year can be significantly

reduced depending on the timing of potential AW2 royalties and development fees for projects under development.

Estimates for 2024-2026

Currently, we expect both Vanguard and Condor to be released in 2024. However, we don't expect royalty income from the projects to start accruing until 2025 as both projects need to cover a certain part of the production and marketing budget before royalty income can be generated. Moreover, as service-based GaaS games their earnings are significantly different from those of traditional AAA games, so there is considerable uncertainty about the development of the early-stage sales curve. Thus, the royalties we forecast for 2024 (21.8 MEUR) are almost entirely on the shoulders of Alan Wake 2. Then, a significant amount of development fees will be recorded from the Max Payne project. In our estimates, Remedy's 2024 revenue will grow by 32% to EUR 61.7 million, driven by royalties. High-margin royalties are also gradually being reflected in profitability (EBIT: 14%), which still remains far from its potential.

We estimate that the Heron project (Control 2) will be released in H1'2025 and that in total, Remedy will create revenue from at least 9 games that have already been released or are currently being developed. In 2024-2025 we estimate that Remedy will start new game projects, which may generate revenue through release contracts and development fees. Therefore, we expect that the revenue stream of Remedy's development fees will continue to be at a good level in the future.

EPS and dividend



Source: Inderes

Estimates 3/4

In our estimates, revenue grows by 46% to EUR 90.4 in 2025 million and operating profit to EUR 23.2 million, which represents a 26% EBIT margin.

In 2026, we expect Max Payne Remake to be released and revenue to come from the same sources as the previous year. At that time, we expect revenue to decline by 3% to EUR 87.5 million and profitability (EBIT%-) to remain roughly stable at 24.5%.

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 successful game releases from Remedy, which enable growth and good profitability. However, the growth is unlikely to be steady, but the timing of the game releases will continue to swing the annual figures. With our estimates, Remedy's revenue grows by an average of 10% p.a. in 2027-2031 and reaches EUR 138 million by 2031. 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.

In our forecasts, Remedy's operating profit margin is at 25-33% in 2027-2031. Our eternity profitability assumption is set at 33%. 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. The company has paid small dividends of EUR 0.10-0.17 per share in 2018-2021. Most of Remedy's employees are company owners, and we believe the company will continue to pay a small dividend also in coming years.

In the big picture, we believe the company should invest its capita mainly in new game projects and maintain strong net cash in order to maintain its good negotiation position towards publishing partners. We expect the dividend to play a very small role in the return on the share.

Estimates 4/4

Examining the royalty sensitivity of Alan Wake 2

In the calculation below, we have outlined Alan Wake 2's return potential for Remedy in different scenarios. The distribution cost used in the calculation is 25%, which assumes 30% of sales through the Epic store (distribution cost 12%) and the rest from console platforms (distribution cost 30%). We are not entirely sure what Epic Games will do about distribution costs when acting as the publisher of the game itself, but we estimate that the total cost of 25% includes a slight safety margin. To some extent, it also considers the costs associated with the production and distribution of physical copies, but we assume that the majority of sales will be made through digital channels. A VAT rate of 20% may also be a conservative assumption if a significant proportion of sales come from the United States (VAT 0%).

In the calculation, we assume that the total budget (production+marketing) for AW2 is EUR 66 million.

Based on these assumptions, the game would need to sell between 1.8 and 2.6 million copies at an average price of around EUR 40-60 to recoup the full cost of the project. Once the costs of the projects have been recouped, Epic Games and Remedy divide the proceeds of the games equally. In the bottom right table, we have illustrated the royalty income from AW2 to Remedy at different sales volumes and average prices.

The calculation illustrates that Alan Wake 2 would be a lucrative project for Remedy, if sales reached over 3 million copies, which we also consider a very realistic level in the first two years. From the royalty perspective, it would of course be important that as many sales as possible take place within a year of release, when the average price of the game is not yet under significant pressure. There is also clearly potential for better, as the original Alan Wake has sold at least 6 million copies, according to estimates from various sources, and the game has

been distributed for free on various platforms from time to time. Therefore, we estimate that well over 10 million players have played the game. In addition, Alan Wake 2 may also generate some revenue from B2B agreements with different subscription services or platforms.

Alan Wake 2			
Game price (EUR)	40	50	60
VAT-%	20%	20%	20%
Price excl. VAT (EUR)	33.3	41.7	50.0
Distributor's share %	25%	25%	25%
After the distributor's share (EUR)	25.1	31.4	37.7
Budget (production+marketing) MEUR	66.0	66.0	66.0
Unit sales (thousand) needed to recoup costs	2,626	2,101	1,751

Remedy's royalties with a estimated budget of EUR 66 million

		AW2 Sales price (€)		
		40	50	60
Sales volume (millions of copies)	1.0	-	-	-
	1.5	-	-	-
	2.0	-	-	4.7
	2.5	-	6.3	14.1
	3.0	4.7	14.1	23.6
	3.5	11.0	22.0	33.0
	4.0	17.3	29.8	42.4
	4.5	23.6	37.7	51.8

Estimates

Income statement	2020	Q1'21	Q2'21	Q3'21	Q4'21	2021	Q1'22	Q2'22e	Q3'22e	Q4'22e	2022e	2023e	2024e	2025e
Revenue	41.1	8.1	9.4	7.4	19.8	44.7	12.7	10.4	12.0	13.0	48.1	46.6	61.7	90.4
Development fees	26.0	6.1	6.1	5.3	18.3	35.8	11.6	9.5	10.2	11.2	42.5	40.8	39.9	34.0
Royalties	15.0	2.0	3.3	2.1	1.5	8.9	1.0	0.9	1.8	1.8	5.5	5.8	21.8	56.4
EBITDA	14.0	0.9	2.3	0.4	10.9	14.5	3.3	0.6	2.2	2.6	8.7	3.5	16.2	39.4
Depreciation	-6.7	-1.1	-0.8	-0.6	-0.5	-3.0	-0.6	-0.5	-0.5	-0.5	-2.0	-2.9	-7.4	-16.2
EBIT (excl. NRI)	7.2	-0.2	1.5	-0.2	10.3	11.4	2.8	0.1	1.7	2.1	6.7	0.6	8.8	23.2
EBIT	7.2	-0.2	1.5	-0.2	10.3	11.4	2.8	0.1	1.7	2.1	6.7	0.6	8.8	23.2
Net financial items	-0.2	0.2	-0.2	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.1	-0.1	-0.1
PTP	7.0	0.0	1.3	-0.2	10.3	11.3	2.7	0.1	1.7	2.1	6.5	0.5	8.7	23.1
Taxes	-1.6	0.0	-0.3	-0.2	-2.1	-2.5	-0.5	0.0	-0.3	-0.4	-1.3	-0.1	-1.7	-4.6
Net earnings	5.4	0.0	1.0	-0.4	8.2	8.8	2.2	0.0	1.3	1.6	5.2	0.4	7.0	18.5
EPS (adj.)	0.45	0.00	0.08	-0.03	0.61	0.67	0.16	0.00	0.10	0.12	0.39	0.03	0.51	1.35
EPS (rep.)	0.45	0.00	0.08	-0.03	0.61	0.67	0.16	0.00	0.10	0.12	0.39	0.03	0.51	1.35

Key figures	2020	Q1'21	Q2'21	Q3'21	Q4'21	2021	Q1'22	Q2'22e	Q3'22e	Q4'22e	2022e	2023e	2024e	2025e
Revenue growth-%	29.8 %	3.4 %	3.2 %	-25.4 %	39.4 %	8.9 %	55.9 %	10.4 %	62.2 %	-34.3 %	7.4 %	-3.0 %	32.4 %	46.5 %
Adjusted EBIT growth-%	11%	-119%	-29%	-106%	1506%	57%	-1474%	-93%	-911%	-80%	-41.3 %	-90.5 %	1285.3 %	164.0 %
EBITDA-%	34.0 %	10.7 %	24.7 %	5.0 %	55.0 %	32.3 %	26.4 %	5.8 %	18.4 %	20.0 %	18.2 %	7.6 %	26.2 %	43.6 %
Adjusted EBIT-%	17.6 %	-2.5 %	15.7 %	-2.9 %	52.3 %	25.5 %	21.8 %	1.1 %	14.3 %	16.2 %	13.9 %	1.4 %	14.3 %	25.7 %
Net earnings-%	13.2 %	-0.4 %	10.7 %	-4.8 %	41.3 %	19.7 %	17.1 %	0.5 %	11.1 %	12.7 %	10.8 %	0.9 %	11.3 %	20.5 %

Source: Inderes

Estimate revisions	2022e	2022e	Change	2023e	2023e	Change	2024e	2024e	Change
MEUR / EUR	Old	New	%	Old	New	%	Old	New	%
Revenue	48,1	48,1	0 %	62,6	46,6	-26 %	85,6	61,7	-28 %
EBITDA	8,7	8,7	0 %	21,2	3,5	-83 %	41,0	16,2	-61 %
EBIT (exc. NRIs)	6,7	6,7	0 %	11,1	0,6	-94 %	28,2	8,8	-69 %
EBIT	6,7	6,7	0 %	11,1	0,6	-94 %	28,2	8,8	-69 %
PTP	6,5	6,5	0 %	11,0	0,5	-95 %	28,1	8,7	-69 %
EPS (excl. NRIs)	0,39	0,39	0 %	0,66	0,03	-95 %	1,66	0,51	-69 %
DPS	0,17	0,17	0 %	0,22	0,17	-23 %	0,27	0,17	-37 %

Source: Inderes

Valuation 1/3

Investment view

Over this decade, 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 significantly larger game developer than currently. 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 become an actual hit game. The revenue potential of a single game varies from tens of millions to well over hundreds of million euros, so the range of possible outcomes is wide. With successful ramp-up of the multi-project model, the release rate of games also quickens and the number of "success options" increases. We estimate that even with only relatively well succeeding games, Remedy's growth outlook is good far into the future.

Since 2019, Remedy's growth story has been visible in its figures, which has been, in our opinion, justifiably reflected in the share's valuation level. However, after a strong increase in the share price over the past year or so, the stock has shown signs of calming down. At the same time, valuations in the gaming sector as a whole have taken a breather after the spike in demand and enthusiasm brought on by the COVID pandemic. In addition, the rise in interest rates and the resulting pressure on valuations of growth companies have also contributed to Remedy's share price.

Given Remedy's high valuation multiples in the short term, the stock would still have clear

downside potential in a bad scenario, but subcontracting projects and projects partly funded by publishers significantly offset business risks. However, in a video game company, investors must 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.

We are aware that this year the significantly weakened sentiment of the stock market will put pressure on Remedy's share in the short term, as investors' time horizon has clearly been shortened in the midst of increased uncertainty. At the same time, the company's game projects appear to be starting to generate royalties at a much slower rate than we had previously estimated, and in the current market the wait can feel long. For the patient investor playing the long game, we still see the share as very interesting. Remedy's strategy and game projects are currently progressing as planned and we believe that the company's share price will begin at some point to anticipate more strongly the potential of current projects. The exact timing of this is obviously challenging, but one of the key drivers will be the launch of Alan Wake 2 next year.

Overall, with our lowered forecasts, Remedy's earnings potential will take longer to materialize than previously expected. Thus, in the short term, the attractiveness of the stock has weakened compared to our previous estimates. We lower our recommendation to Accumulate (was Buy) with a new target price of €34 (was EUR 42.0). Our target price corresponds to an EV/EBIT multiple of around 17x based on 2025-2026 estimates, which we believe is very reasonable for Remedy as the company's growth story continues on track.

Valuation	2022e	2023e	2024e
Share price	29.9	29.9	29.9
Number of shares, million:	13.4	13.5	13.6
Market cap	400	400	400
EV	352	361	360
P/E (adj.)	76.9	>100	58.3
P/E	76.9	>100	58.3
P/FCF	neg.	neg.	>100
P/B	4.4	4.5	4.3
P/S	8.3	8.6	6.5
EV/Sales	7.3	7.7	5.8
EV/EBITDA	40.2	>100	22.3
EV/EBIT (adj.)	52.5	>100	40.9
Payout ratio (%)	43.8 %	536%	33.2 %
Dividend yield-%	0.6 %	0.6 %	0.6 %

Source: Inderes

Valuation 2/3

Valuation multiples

We don't expect Remedy's share price to be materially supported by earnings multiples for 2022-2024, as investments in game projects under development will continue to weigh on earnings in the coming years. Remedy's P/E multiple for 2022 is 77x and EV/EBIT multiple that considers the strong net cash is 52x. With our estimates for 2023, Remedy's earnings will fall close to zero, and the royalties from Alan Wake 2 alone won't be enough to make the earnings level and thus valuation reasonable in 2024 (EV/EBIT 41x). However, the level of earnings in the coming years does not yet in any way reflect the full royalty potential of Remedy's future game projects, which is why we believe the valuation should be viewed in light of the company's long-term growth prospects. However, we point out that the tight valuation in the short term doesn't leave much room for a bigger fracture in the growth story and also partly limits the share's upside potential.

In our estimates, royalties from Remedy's presently ongoing game projects take largely place in 2025-2026, when we expect the company's revenue and earnings go up a significant step. With our estimates, the share's EV/EBIT ratios (2025e-2026e: 14x-15x) go down to an attractive level, as we expect Remedy's growth outlook to remain strong after that too.

Sales-based pricing of Remedy for 2022-2023 is 7x-8x with EV/Sales multiples. The multiples are high and speak volumes about the major growth expectations loaded in the share. However, when our forecast is realized, the revenue multiples will fall low in 2025-2026 (3.7-3.6x), when compared to Remedy's growth and profitability profile.

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. However, the growth and profitability profiles of the individual peer companies differ considerably, which poses its own challenge when comparing multiples.

Valuations of gaming companies have seen a strong correction after the sharp rise in demand following the COVID pandemic. For 2022-2023, the peer group median is currently 7x-5x for the EV/S multiple, 23x-15x for the EV/EBIT multiple, and 29x-21x for the P/E multiple. Forward-looking multiples have fallen by more than 30% compared with around a year ago, partly due to companies growing but mainly due to falling share prices. In light of the strong growth prospects for the gaming sector, we believe that valuation levels in the sector look very reasonable at the moment.

In our view, as Remedy's strategy progresses and future game projects are successful, the company would position itself among the highest quality game companies among its peer group. Thus, guidelines for Remedy's potential acceptable valuation level can be sought from, for example, Paradox or CD Projekt multiples (2022- 2023e EV/EBIT 22x-28x). Looking at the whole peer group, Remedy's acceptable EV/EBIT ratio could be around 15x-25x in the medium term, depending on the company's growth prospects and stock

market sentiment. However, you can't get too locked into the multiples for a single year, as the timing of development fees and royalties, among other things, can have a significant impact on short-term earnings growth.

DCF model

The DCF value for equity for Remedy is EUR 464 million, which corresponds with an EUR 34.6 per share value. The estimates used in the model are presented in the Estimates section and our terminal assumption is 3% growth and 33% 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 8.7%. Given Remedy's strong financial position, growth prospects and strategic progress, we believe that the required return is well justified.

Valuation 3/3

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.

Based on our current forecasts, we expect Remedy's revenue to grow to around EUR 90.4 million in 2025. We expect profitability (EBIT-%) to be to 26% and assume that the company would be valued 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 464 million in 2025. By adding the estimated 2025 net cash to this, as well as the dividends received by then, the value of the entire

stock is some EUR 534 million or EUR 40 per share. This would mean some 8% annual expected earnings with the current share price. In our opinion, the expected earning is reasonable 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 revenue to be some 30% lower and be EUR 63.3 million. The EBIT margin is expected to be at 20% in this scenario. In this scenario the value of the entire stock with the assumed 15x EV/EBIT multiple is EUR 246 million or EUR 18 per share, which would mean annual expected earnings of some -13%. 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. We assume an adjusted EBIT margin of 35% in this scenario and apply a 20x EV/EBIT multiple to the result. With these assumptions the value of the entire stock is EUR 907 million or EUR 68 per share, which would mean annual expected earnings of 26%. The scenario illustrates that there is considerable upside potential 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	63.3	90.4	117.5
EBIT-%	20%	26%	35%
EBIT	12.7	23.2	41.1
x pricing multiple (EV/EBIT)	15.0	20.0	20.0
EV	190	464	823
+ Net cash & dividends 2022-2025	56	70	84
Value of entire stock	246	534	907
<i>Per share (EUR)</i>	<i>18</i>	<i>40</i>	<i>68</i>
Potential	-38%	34%	127%
Annual expected return	-13%	8%	26%

Peer group valuation

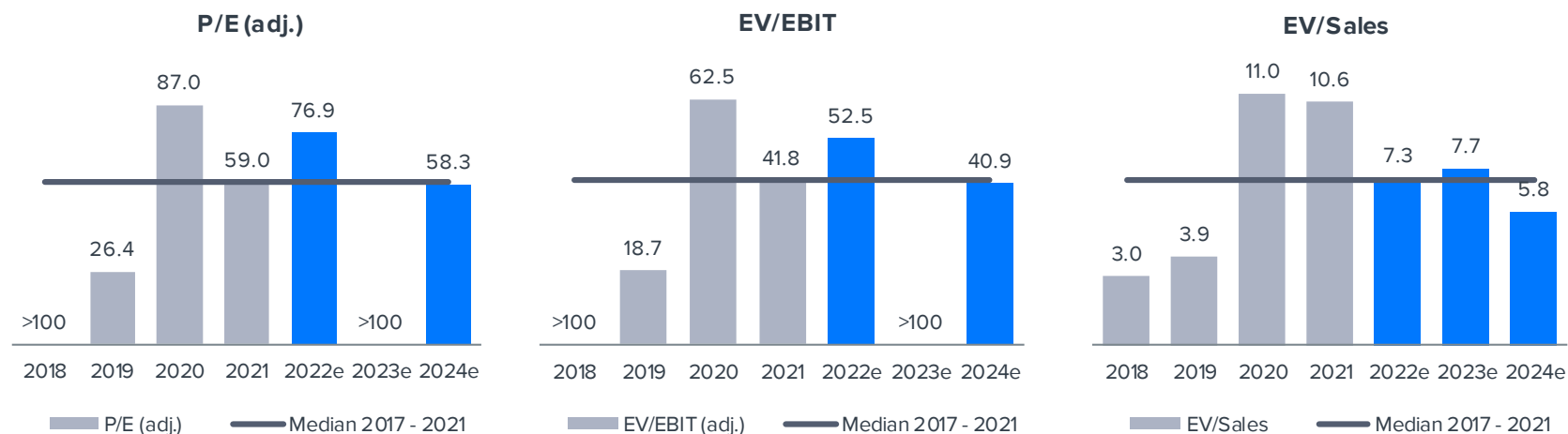
Peer group valuation	Share price	Market cap	EV	EV/EBIT		EV/EBITDA		EV/S		P/E	
Company		MEUR	MEUR	2022e	2023e	2022e	2023e	2022e	2023e	2022e	2023e
Frontier Developments PLC	1214.0	580	563	56.2	24.3	13.9	10.1	4.3	3.6	60.1	27.9
Embracer Group	88.9	9044	7586	17.8	7.5	11.7	6.3	4.8	2.1		
CD Projekt SA	108.7	2401	2164	28.0	25.7	21.1	18.7	10.6	9.9	31.7	29.4
Paradox Interactive AB	186.2	1847	1797	26.1	21.8	15.1	12.1	9.9	7.9	34.2	28.6
Koei Tecmo Holdings	4575.0	5567	5586	22.6	21.4	21.9	21.1	10.5	9.6	21.5	20.9
Team17 Group PLC	460.0	807	741	16.2	14.0	14.6	12.8	5.1	4.6	21.7	19.8
Playway SA	315.0	450	409	11.7	9.7	11.7	9.7	7.5	6.4	16.7	13.5
11 Bit Studios SA	507.0	261	238	139.9	8.3	69.5	5.9	21.6	4.2	91.4	10.0
Enad Global 7	18.5	155	152		7.7	3.5	3.4	0.9	0.8		12.8
Tinybuild Inc	172.0	413	368	17.4	15.1	15.8	13.9	6.1	5.6	25.2	22.1
Remedy (Inderes)	29.9	400	352	52.5	568.6	40.2	102.1	7.3	7.7	76.9	940.9
Average				37.3	15.6	19.9	11.4	8.1	5.5	37.8	20.5
Median				22.6	14.6	14.9	11.1	6.8	5.1	28.5	20.9
Diff-% to median				132%	-	170%	821%	8%	52%	170%	-

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

Valuation table

Valuation	2018	2019	2020	2021	2022e	2023e	2024e	2025e
Share price	6.70	11.5	39.0	39.7	29.9	29.9	29.9	29.9
Number of shares, millions	12.1	12.1	12.1	13.1	13.4	13.5	13.6	13.7
Market cap	81	138	471	528	400	400	400	400
EV	61	122	453	476	352	361	360	337
P/E (adj.)	>100	26.4	87.0	59.0	76.9	>100	58.3	22.1
P/E	>100	26.4	87.0	59.0	76.9	>100	58.3	22.1
P/FCF	neg.	neg.	neg.	16.1	neg.	neg.	>100	15.4
P/B	3.6	5.2	13.0	6.0	4.4	4.5	4.3	3.7
P/S	4.0	4.4	11.5	11.8	8.3	8.6	6.5	4.4
EV/Sales	3.0	3.9	11.0	10.6	7.3	7.7	5.8	3.7
EV/EBITDA	55.2	16.6	32.5	33.0	40.2	>100	22.3	8.5
EV/EBIT (adj.)	>100	18.7	62.5	41.8	52.5	>100	40.9	14.5
Payout ratio (%)	226.8 %	25.4 %	36.2 %	25.7 %	43.8 %	535.9 %	33.2 %	12.6 %
Dividend yield-%	1.5 %	1.0 %	0.4 %	0.4 %	0.6 %	0.6 %	0.6 %	0.6 %

Source: Inderes



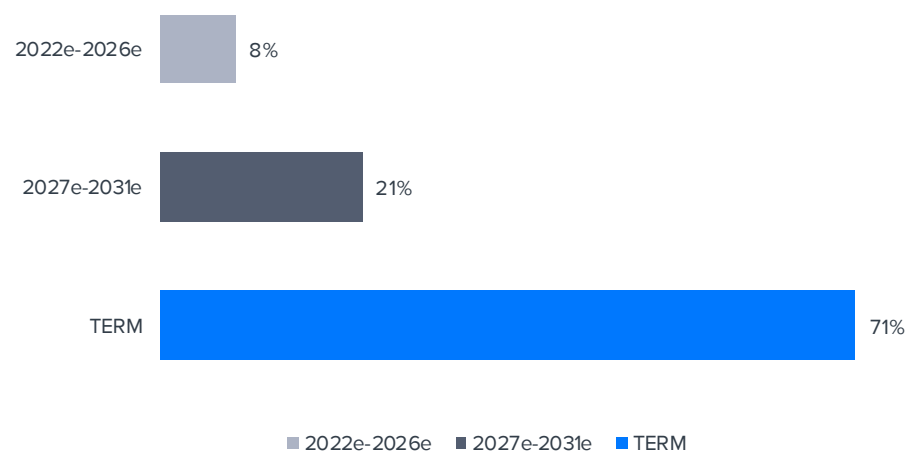
DCF calculation

DCF model	2021	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	TERM
EBIT (operating profit)	11.4	6.7	0.6	8.8	23.2	21.4	22.5	34.6	41.0	44.3	45.7	
+ Depreciation	3.0	2.0	2.9	7.4	16.2	16.2	13.5	14.6	12.6	11.9	11.7	
- Paid taxes	-2.7	-1.3	-0.1	-1.7	-4.6	-4.3	-4.5	-6.9	-8.2	-8.8	-9.1	
- Tax, financial expenses	0.0	0.0	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	-7.7	1.1	0.3	-0.5	1.8	2.9	2.5	1.3	0.8	1.1	0.0	
Operating cash flow	4.0	8.6	3.8	13.9	36.5	36.3	34.0	43.6	46.2	48.5	48.1	
+ 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	-12.8	-9.8	-10.6	-10.6	-10.6	-10.8	-11.1	-11.3	-11.4	-11.5	-11.7	
Free operating cash flow	-8.8	-1.2	-6.8	3.3	25.9	25.5	22.9	32.3	34.8	37.0	36.4	
+/- Other	41.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	32.7	-1.2	-6.8	3.3	25.9	25.5	22.9	32.3	34.8	37.0	36.4	659
Discounted FCFF		-1.2	-6.0	2.6	19.2	17.4	14.4	18.6	18.5	18.1	16.4	296
Sum of FCFF present value		414	415	421	419	400	382	368	349	331	313	296
Enterprise value DCF		414										
- Interesting bearing debt		-3.9										
+ Cash and cash equivalents		55.5										
-Minorities		0.0										
-Dividend/capital return		-2.3										
Equity value DCF		464										
Equity value DCF per share		34.6										

Wacc	
Tax-% (WACC)	20.0 %
Target debt ratio (D/(D+E))	0.0 %
Cost of debt	5.0 %
Equity Beta	1.20
Market risk premium	4.75%
Liquidity premium	1.00%
Risk free interest rate	2.0 %
Cost of equity	8.7 %
Weighted average cost of capital (WACC)	8.7 %

Source: Inderes

Cash flow distribution



Balance sheet

Assets	2020	2021	2022e	2023e	2024e
Non-current assets	13.4	23.1	30.8	38.5	41.7
Goodwill	0.0	0.0	0.0	0.0	0.0
Intangible assets	7.6	15.1	23.3	31.4	35.7
Tangible assets	5.2	4.3	3.9	3.5	2.3
Associated companies	0.0	0.0	0.0	0.0	0.0
Other investments	0.0	3.0	3.0	3.0	3.0
Other non-current assets	0.6	0.7	0.7	0.7	0.7
Deferred tax assets	0.0	0.0	0.0	0.0	0.0
Current assets	37.9	78.1	66.6	56.2	59.3
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	14.2	22.5	16.8	16.3	18.5
Cash and equivalents	23.7	55.5	49.8	39.9	40.8
Balance sheet total	51.3	101	97.4	94.7	101

Source: Inderes

Liabilities & equity	2020	2021	2022e	2023e	2024e
Equity	36.1	87.4	90.4	88.5	93.2
Share capital	0.1	0.1	0.1	0.1	0.1
Retained earnings	22.2	31.5	34.5	32.6	37.3
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	55.8	55.8	55.8	55.8
Minorities	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	4.0	2.1	0.9	0.9	0.9
Deferred tax liabilities	0.2	0.0	0.0	0.0	0.0
Provisions	0.0	0.0	0.0	0.0	0.0
Long term debt	3.9	2.1	0.9	0.9	0.9
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
Current liabilities	11.1	11.7	6.2	5.3	7.0
Short term debt	1.8	1.8	0.9	0.2	0.2
Payables	9.3	9.8	5.3	5.1	6.8
Other current liabilities	0.0	0.0	0.0	0.0	0.0
Balance sheet total	51.3	101	97.4	94.7	101

Summary

Income statement	2019	2020	2021	2022e	2023e	Per share data	2019	2020	2021	2022e	2023e
Revenue	31.6	41.1	44.7	48.1	46.6	EPS (reported)	0.43	0.45	0.67	0.39	0.03
EBITDA	7.4	14.0	14.5	8.7	3.5	EPS (adj.)	0.43	0.45	0.67	0.39	0.03
EBIT	6.5	7.2	11.4	6.7	0.6	OCF / share	-0.04	1.07	0.30	0.64	0.28
PTP	6.6	7.0	11.3	6.5	0.5	FCF / share	-0.25	-0.17	2.50	-0.09	-0.51
Net Income	5.2	5.4	8.8	5.2	0.4	Book value / share	2.19	2.99	6.69	6.75	6.56
Extraordinary items	0.0	0.0	0.0	0.0	0.0	Dividend / share	0.11	0.15	0.17	0.17	0.17
Balance sheet	2019	2020	2021	2022e	2023e	Growth and profitability	2019	2020	2021	2022e	2023e
Balance sheet total	35.9	51.3	101.1	97.4	94.7	Revenue growth-%	57%	30%	9%	7%	-3%
Equity capital	26.4	36.1	87.4	90.4	88.5	EBITDA growth-%	568%	90%	4%	-39%	-60%
Goodwill	0.0	0.0	0.0	0.0	0.0	EBIT (adj.) growth-%	973%	11%	57%	-41%	-91%
Net debt	-15.9	-18.0	-51.7	-48.0	-38.8	EPS (adj.) growth-%	884%	3%	50%	-42%	-92%
Cash flow	2019	2020	2021	2022e	2023e	EBITDA-%	23.2 %	34.0 %	32.3 %	18.2 %	7.6 %
EBITDA	7.4	14.0	14.5	8.7	3.5	EBIT (adj.)-%	20.6 %	17.6 %	25.5 %	13.9 %	1.4 %
Change in working capital	-6.5	0.4	-7.7	1.1	0.3	EBIT-%	20.6 %	17.6 %	25.5 %	13.9 %	1.4 %
Operating cash flow	-0.5	12.9	4.0	8.6	3.8	ROE-%	21.5 %	17.3 %	14.2 %	5.9 %	0.5 %
CAPEX	-2.5	-14.9	-12.8	-9.8	-10.6	ROI-%	23.6 %	20.2 %	17.1 %	7.3 %	0.7 %
Free cash flow	-3.0	-2.0	32.7	-1.2	-6.8	Equity ratio	73.5 %	70.4 %	86.4 %	92.7 %	93.4 %
Valuation multiples	2019	2020	2021	2022e	2023e	Gearing	-60.2 %	-49.8 %	-59.1 %	-53.1 %	-43.8 %
EV/S	3.9	11.0	10.6	7.3	7.7						
EV/EBITDA (adj.)	16.6	32.5	33.0	40.2	>100						
EV/EBIT (adj.)	18.7	62.5	41.8	52.5	>100						
P/E (adj.)	26.4	87.0	59.0	76.9	>100						
P/E	5.2	13.0	6.0	4.4	4.5						
Dividend-%	1.0 %	0.4 %	0.4 %	0.6 %	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 a holding of over EUR 50,000 in the target company of the report.

Inderes has made an agreement with the issuer and target of this report, which entails compiling a research report.

Recommendation history (>12 mo)

Date	Recommendation	Target price	Share price
5/30/2017	Accumulate	7.40 €	6.69 €
8/17/2017	Buy	7.50 €	6.31 €
2/19/2017	Buy	7.50 €	5.90 €
6/4/2018	Buy	8.50 €	7.30 €
8/15/2018	Buy	8.50 €	6.75 €
2/13/2019	Accumulate	9.00 €	8.25 €
7/3/2019	Accumulate	10.00 €	9.28 €
8/14/2019	Accumulate	11.50 €	10.65 €
12/5/2019	Accumulate	11.50 €	10.15 €
2/16/2020	Accumulate	15.50 €	13.80 €
3/31/2020	Buy	18.00 €	14.80 €
4/21/2020	Accumulate	20.00 €	18.55 €
8/16/2020	Reduce	33.00 €	33.80 €
10/27/2020	Accumulate	33.00 €	29.00 €
12/10/2020	Accumulate	38.00 €	34.00 €
2/14/2021	Accumulate	50.00 €	45.00 €
4/8/2021	Accumulate	50.00 €	43.75 €
5/12/2021	Accumulate	50.00 €	41.30 €
8/16/2021	Accumulate	50.00 €	43.00 €
9/14/2021	Buy	50.00 €	40.00 €
11/15/2021	Buy	50.00 €	40.75 €
2/14/2022	Buy	50.00 €	33.50 €
5/16/2022	Buy	42.00 €	29.30 €
6/2/2022	Accumulate	34.00 €	29.85 €



Inderes' mission is to connect listed companies and investors. We produce high-quality research and content for the needs of our extensive investor community.

At Inderes we believe that open data is every investor's fundamental right. We guarantee investors' access to award-winning research, insightful video content and an active investor community.

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**Research belongs
to everyone.**