

Remedy

Extensive report

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Atte Riikola
+358 44 593 4500
atte.riikola@inderes.fi

✓ Inderes corporate customer

This report is a summary translation of the report “Se ei pelaa, joka pelkää” published on 12/18/2024 at 7:45 am EET.

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res.

No game, no fame

We reiterate our Buy recommendation and EUR 19.0 target price for Remedy. Over the years, Remedy has demonstrated its ability to develop games of very high quality, but this has not yet been reflected to the same extent in their commercial success for the company. As a result of years of work, the company has built its capabilities and resources to support a more frequent, even annual pace of new game releases over the 2025-2030 strategy period. Self-publishing will allow their financial success to be strongly reflected in Remedy's figures going forward, and with a hit game, the potential would be very significant. We believe that the current valuation of the stock provides an attractive risk/reward ratio to tap into the long-term potential of the company's ongoing game projects and its own game brands (Alan Wake and Control).

Long journey to multi-project model and self-publishing nearly complete

In 2017, Remedy began its transition to a multi-project model and value chain journey from subcontractor to independent game developer and publisher. Since then, much progress has been made and the company now has the resources and capabilities to develop two projects simultaneously in full production. The company has also built the capabilities to self-publish its own future games. Currently, the FBC: Firebreak multiplayer project is moving towards a 2025 release. In addition, the company has Max Payne 1&2 Remake in full production under the subcontracting model. Control 2, which is in the production readiness phase, is on track for full production in 2025. In addition, the company has a fourth, as-yet-unnamed game project in early conceptualization.

Targets for sustainable profitable growth by the end of the decade

Remedy aims to double its 2024 revenue by 2027 and continue to grow steadily thereafter. The EBITDA margin is targeted to reach 30% by 2027, and profitability is set to remain at least at this level until the end of the strategy period (2025-2030). Based on our projections, the target level would indicate an estimated revenue of around 100 MEUR, which is realistically achievable with a well-performing games portfolio. If the revenue target is roughly met, profitability is on track to meet the target.

Forecasts fine-tuned and major structural change to account for distribution costs

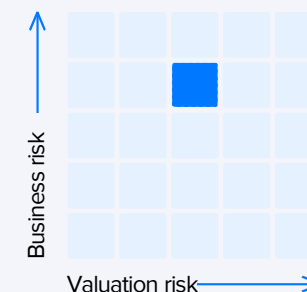
Remedy's move to self-publishing means that all sales of the company's own games will be reflected in the income statement, but the company will also bear the distribution and marketing costs associated with the release. We had already factored in rising marketing costs, but the cost of distribution platforms (assumed to be 25% of sales) was still missing from our forecasts. Taking these into account increased the revenue forecast but had a neutral impact on earnings. At the same time, however, we have refined and changed our assumptions for FBC: Firebreak and Control 2. We have therefore revised our forecasts for the coming years and the medium term. However, the overall picture of our forecasts remains unchanged, and in the medium term, the release of Control 2 (assumption H1'27) is the most important game project for Remedy's revenue growth in our forecasts.

Long game can be played with attractive risk/reward at current valuation

We believe in Remedy's ability to produce more quality and successful games over the long term, which makes the stock's current valuation (2025e EV/S 3.1x) attractive given its growth and profitability potential. The long-term potential is indicated by the value of the base case of the DCF model at EUR 26. However, the model is very sensitive to the success of future games due to the fixed cost structure and self-publishing. In an optimistic scenario, the stock could be worth well over EUR 50, while a moderate performance would put the stock at EUR 6-10. The exceptionally wide range is a good indication of both the potential and the risks associated with Remedy's stock.

Recommendation

Buy
(was Buy)
19.00 EUR
(was EUR 19.00)
Share price:
13.50



Key figures

	2023	2024e	2025e	2026e
Revenue	33.9	48.6	60.6	73.0
growth-%	-22%	43%	25%	20%
EBIT adj.	-28.6	-7.1	-3.5	3.3
EBIT-% adj.	-84.4 %	-14.7 %	-5.7 %	4.6 %
Net Income	-22.7	-5.6	-2.8	2.7
EPS (adj.)	-1.68	-0.41	-0.20	0.19

P/E (adj.)	neg.	neg.	neg.	69.8
P/B	5.1	3.0	3.1	3.0
Dividend yield-%	0.0 %	0.0 %	0.0 %	0.0 %
EV/EBIT (adj.)	neg.	neg.	neg.	56.4
EV/EBITDA	neg.	neg.	62.3	13.9
EV/S	9.3	3.7	3.1	2.6

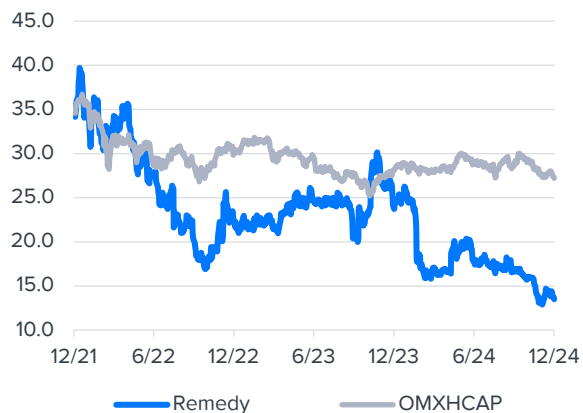
Source: Inderes

Guidance

(Unchanged)

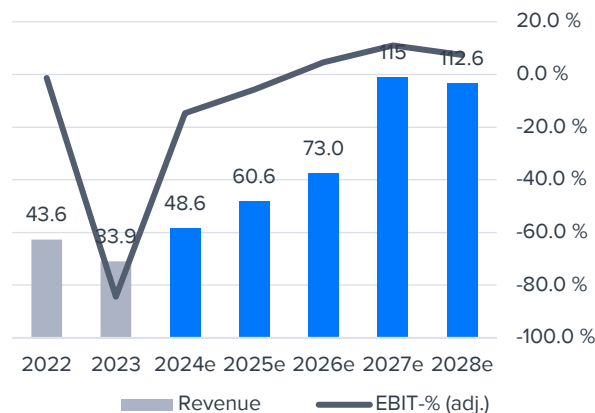
Remedy expects its revenue to increase from the previous year and operating profit (EBIT) to improve, but to remain negative.

Share price



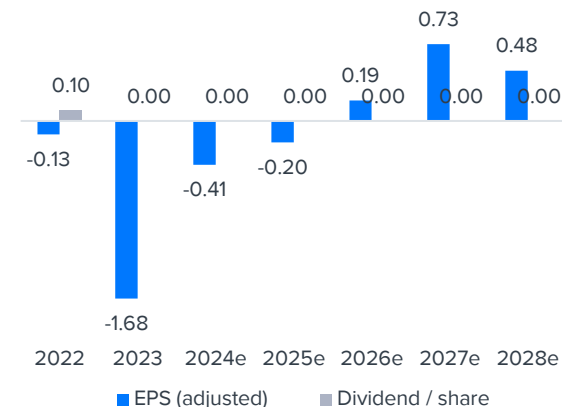
Source: Millstream Market Data AB

Revenue and EBIT-%



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- Alan Wake 2 sales development and the successful launch of FBC: Firebreak
- Own game brands (Alan Wake and Control)
- Multi-project model creates continuity and disperses risks
- Strong track record of developing high-quality games
- Own game engine and game development tools create scalability and a competitive advantage
- Attractive position in value chain considering industry trends and consolidation



Risk factors

- Commercial failure of upcoming games
- Game projects being delayed
- Dependency on publishing partners
- Fierce competition for top talent and players' time and money in the games industry
- Technology and market trends
- Changes in expectations for future games can cause significant volatility in the stock

Valuation	2024e	2025e	2026e
Share price	13.5	13.5	13.5
Number of shares, millions	13.6	13.7	13.8
Market cap	183	185	186
EV	177	189	188
P/E (adj.)	neg.	neg.	69.8
P/E	neg.	neg.	69.8
P/B	3.0	3.1	3.0
P/S	3.8	3.0	2.5
EV/Sales	3.7	3.1	2.6
EV/EBITDA	neg.	62.3	13.9
EV/EBIT (adj.)	neg.	neg.	56.4
Payout ratio (%)	0.0 %	0 %	0.0 %
Dividend yield-%	0.0 %	0.0 %	0.0 %

Source: Inderes

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Remedy in brief

Remedy is an internationally renowned 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

33.9 MEUR (-22% vs. 2022)

Revenue 2023

-17.0 MEUR (-50 % of revenue)

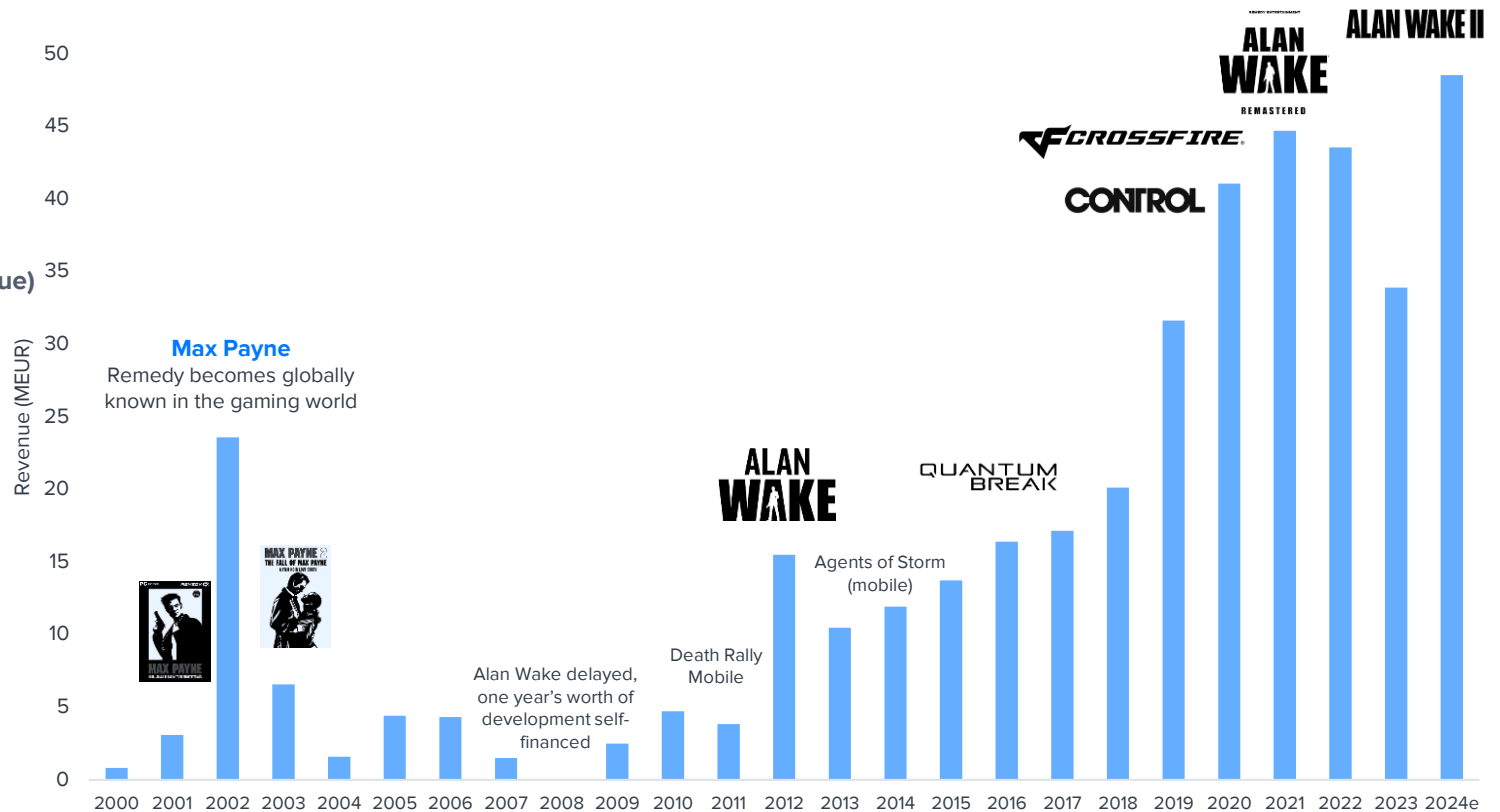
EBITDA 2023

365

Personnel at the end of Q3'24

80/100

Average Metacritic score for Remedy's games



Source: Remedy / Inderes

Company description

Renowned and independent AAA game studio

Remedy Entertainment (Remedy) is a Finnish video game developer founded in 1995. The company develops high-quality games for console and PC platforms that stand apart from the mass-market games of the major studios. The company's best-known game brands include Control, Alan Wake and Max Payne. The company owns all rights to Alan Wake and Control, and its growth strategy for the coming years will be based primarily on new games based on these brands. At the end of Q3'24, Remedy employed 365 people, most of whom are working in the company's Espoo studio. The company also has a studio in Stockholm.

Best known for its story-driven and visually stunning action games, Remedy is one of the most respected independent AAA game studios in the world. Remedy's dedication to creating high quality games with unique storylines is also reflected in the company's Metacritic rating (80/100). On Metacritic, games are given an overall rating by both critics and players separately. Games that receive over 90 points are critically acclaimed and rare. More than 80 points is already a very good achievement.

In 2017, Remedy began its transition to a multi-project model and value chain journey from subcontractor to independent game developer and publisher. Since then, much progress has been made and the company now has the resources and capabilities to develop two projects simultaneously in full production. The company has also built the capabilities to self-publish its own future games.

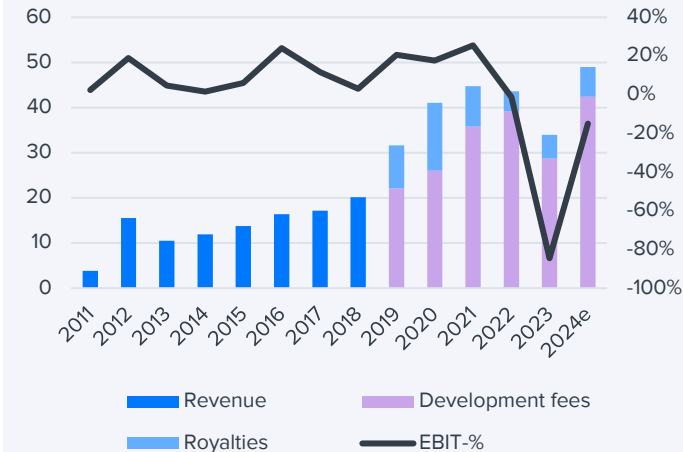
Currently, the FBC: Firebreak multiplayer project is moving towards a 2025 release. In addition, the

company has Max Payne 1&2 Remake in full production under the subcontracting model. Control 2, which is in the production readiness phase, is on track for full production in 2025. In addition, the company has a fourth, as-yet-unnamed game project in early conceptualization.

Control, released in 2019, was the first major game to be published under a multi-project strategy and has proven to be a commercially successful product. The next big release to rely on an own brand was Alan Wake 2, released in October 2023. The game has been a critical success, but this has not yet been fully reflected in sales as well as expected, given the game's target budget.

Remedy has a long history of proving its ability to make top-quality games, but it has yet to achieve real commercial success. The commercial success will be even more pronounced for the next game projects (FBC: Firebreak and Control 2), as Remedy will also be the publisher for the first time and will finance a larger part of the projects itself. As a result, the revenue and profit potential of games for Remedy is significantly higher than previous game projects.

Revenue and profitability



Reviews of Remedy games

Game	Release	Metacritic review*	
		Critics	Players
Death Rally	1996	62	7.2
Max Payne 1	2001	86	8.6
Max Payne 2	2003	81	8.4
Alan Wake	2010	83	8.1
AW's American Nightmare	2012	75	7.3
Quantum Break	2016	72	6.1
Control	2019	84	7.5
Control Ultimate edition	2020	85	8.0
Alan Wake Remastered	2021	80	7.9
Alan Wake 2	2023	89	8.4

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

Business model 1/5

Big-budget video games

Remedy develops games for console and PC platforms. Games are distributed through physical distributors and digital distribution platforms. Remedy develops games using three models: the subcontracting model, the own-brand model with a publisher, and self-publishing. In a subcontracting model (Max Payne), Remedy does not own the IP of the game being developed. In this case, the partner finances the game development and receives the majority of the revenue from game sales. In a proprietary IP model with a partner (Alan Wake 2), Remedy owns the game brand being developed, funds more development and also gets a larger share of the game sales. However, the partner (Epic Games) has been responsible for publishing the game. For the self-published projects (FBC: Firebreak and Control 2), Remedy will also be fully responsible for the publishing, marketing and distribution of the games for the first

time. There may still be a partner to partially fund the project.

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 30-60 MEUR. As a rule of thumb, the marketing budget for AAA games is typically 15-30% of the production budget.

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 3-5 years. Often, a significant portion of a game's sales are concentrated in the launch period and the following year, with the majority of game sales occurring in

the first three years. In the past, sales were much more front-loaded due to the important role of physical copies of games. Today, with the rise of digital distribution, game sales are spread more evenly and over a longer period of time. High-quality games can sell well in digital channels for many years (e.g. Control) and can be supported by discount campaigns later on. 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.

Remedy's value chain

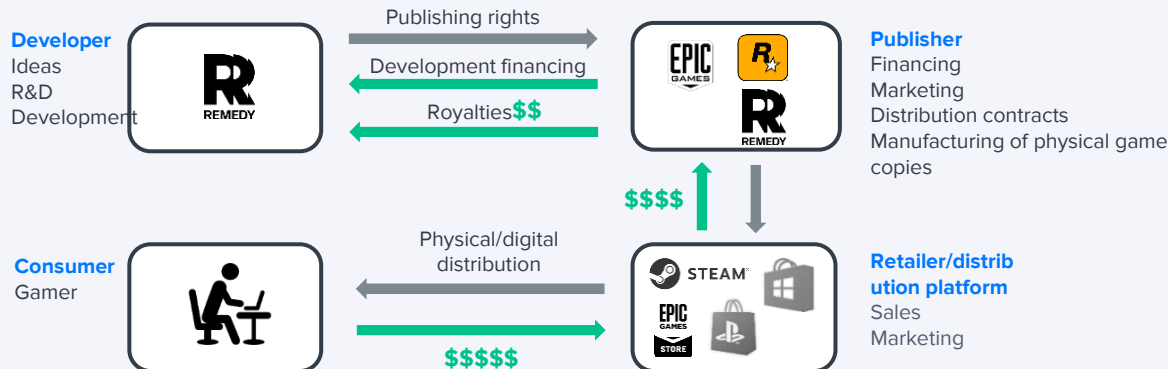
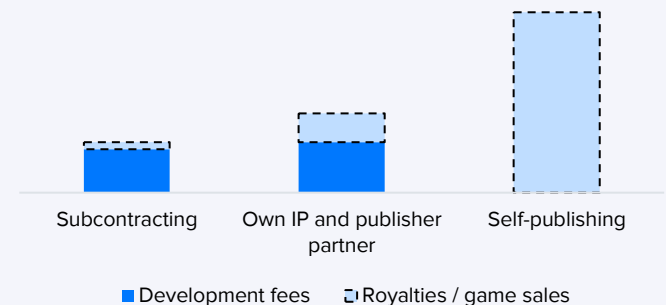


Illustration of the composition of revenue for different types of publishing models*



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

Business model 2/5

Game development life cycle of Remedy games

Remedy's game development process from drawing board to finished product can be divided into five stages and takes approximately 3-5 years depending on the game. A game project starts from the mandate phase, where high-level goals, a preliminary budget and timeline are set for it. This phase typically involves only studio executives, the project's executive producer, and the core game team. The phase lasts 1 to 2 months. The conceptualization phase defines the game's vision, mechanics, themes, main characters, and visual identity. A preliminary prototype of the game is made at this phase. Typically, less than 20 people are involved and the phase lasts 3-6 months.

During the proof-of-concept phase, a proper demo version of the game is made to test the game concept in practice. The team size is less than 50 people and the phase lasts about 4-12 months, depending on the game. At this point, 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. The better the guidelines for the project are defined at this phase, the less surprises and delays are likely in the actual production phase. Additionally, negotiations with publishing partners often take place at this phase. The first time a project recognizes revenue is when a publication agreement is signed if a partner participates in the funding of the project. The partner will then pay development fees in proportion to the number of people working on the project and its progress.

The next step in the production readiness phase is to assemble the project team for full production and finalize the production plan. This usually involves less than 75 people and lasts 3-6 months. In the production phase, the project is worked on by a full team, which at its most intensive stage involves more than 200 people, including Remedy's team of more than 75 people and subcontractors. In the alpha phase of production, the previously drawn up project plan is implemented, and the game is developed. Depending on the project, this phase lasts approximately 1 to 2 years. After that, in the beta phase, which lasts about 3 to 6 months, the

game is fine-tuned 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. Depending on the agreement, royalties may require the publisher to first cover its own investments, i.e. development, marketing and physical copy production costs, with the proceeds from sales. With self-publishing, Remedy is responsible for this and, of course, receives its share or all of the game sales directly. In the subcontracting model, it is possible to tie a completion bonus to the publication.

The development of the game doesn't immediately stop at release, but a live team (10-20 people) analyzes player behavior and publishes updates and bug fixes to improve the gaming experience. In addition, Remedy aims to bring 1-3 DLCs or other additional content to games within 1-2 years of release to extend player engagement and the game's life cycle. These add-ons are typically developed by a team of 20-30 people.

The phases and duration of Remedy's game development process – on average, the development of an AAA game takes at least 3-4 years

Project phase:	Mandate	Conceptualization	Proof-of-concept	Production readiness	Production	Live phase
Team size:	Studio management and key project personnel	Less than 20 people	Less than 50 people	Less than 75 people	> 75 and up to 200 with outsourcing	10-20 people for updates 20-30 people for add-ons
Duration:	1-2 months	3-6 months	4-12 months	3-6 months	15-26 months	1-2 years (with 1-3 DLCs)

Source: Inderes, Remedy

Business model 3/5

Life cycle of development varies slightly in service-model games

In service-based multiplayer games (FBC: Firebreak), the development phases are slightly different from a traditional AAA game. These emphasize the importance of live design in the conceptualization and proof-of-concept phases, which can take longer. On the other hand, the production phase itself can be accelerated by continuing to develop the game during the live phase. In the POC phase, the goal is to keep the team at a moderate size for an extended period of time so that conceptualization can be done at scale and live operations can be planned as far in advance 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. Thus, self-funding makes the business very sensitive to rather unpredictable 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. FBC: Firebreak is the first project for which the company has assumed full financial and publishing responsibility.

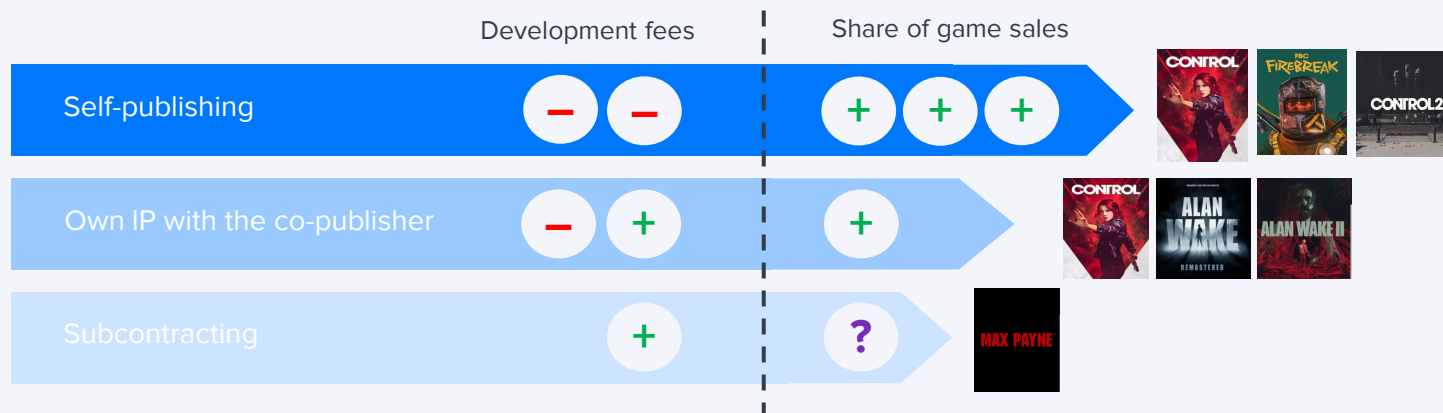
From the developer's point of view, developing your own game brands is an attractive option, as they allow for the development of add-ons and full sequels. Developing a sequel is easier, because you don't need to create a game world or characters from scratch. Moreover, demand predictability is better thanks to the pre-existing player base. Remedy has the opportunity to

capitalize on this most scalable element of game development for the upcoming Alan Wake and Control games.

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 includes 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.

An illustration of the impact of different publishing models on the results during the development and publication phase



Business model 4/5

Proprietary game engine brings that Remedy feel to the games

Remedy uses and develops its own game engine, Northlight, which provides economies of scale in a multi-project model and differentiates the company from competitors using commercial game engines. The game engine and the game development tools built around it are developed by the company's own team of more than 60 people.

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 provides the foundation for all development teams in the form of shared production and operating models. In-house technologies can also help streamline game development by allowing certain elements developed earlier to be reused in other projects.

Remedy's game engine made significant technological advancements during the development of Alan Wake 2, and the economies of scale it provides will be better leveraged in future game projects. A proprietary game engine can also allow Remedy to take advantage of the latest technologies faster than commercial engines and in a way that is tailored to the company's needs.

External partners are also used in game development

In recent years, as the number of projects has grown, Remedy has increased the use of external development in game development. This enables, e.g., producing certain sound and graphics contents through external partners. Furthermore,

creating different game versions for various platforms can be outsourced.

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. It also allows for the development of more and more projects simultaneously and provides flexibility in the use of internal staff for different projects and also for recruitment needs.

Publishing capabilities of games have been gradually built up over the years

Over the years, Remedy has gradually expanded its own capabilities in the commercialization, marketing and publishing of games as its own brands have grown in importance. In previous projects published by the partner, Remedy has been more actively involved in planning and contributing to the commercialization and marketing of the games, from which the company has gradually learned lessons for self-publishing.

As a result, the company now employs 18 people in its publishing operations, and self-publishing future games will likely require some additional hiring. With Remedy now fully in charge of its own game brands, the company can be sure that every effort will be made to maximize the visibility and sales of the games.

Self-publishing also has an impact on Remedy's P&L compared to selling the game through a partner. With self-publishing, Remedy collects all revenues, but pays the distribution costs of the sales platforms, which were not previously

reflected in Remedy's figures. In addition, marketing efforts for games are reflected in other operating expenses.

Business model 5/5

Pricing and volumes of AAA games

Sales volumes is the most critical driver for the revenue of game brands owned by Remedy. Prices for AAA games are fairly standardized and are now around EUR 60-80 at launch. Over the long term, prices range from EUR 10 to EUR 50, depending on discount promotions. In other words, 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). Thus, from the revenue viewpoint, the range for a single game varies from a few dozen million to as much as one billion.

Remedy's competitive advantages stem from the ability to develop high quality games through both efficient production and a high level of technology on a relatively low budget. In this way, the company's games are profitable with sales of just a few million copies. This also allows the company to develop games that are clearly differentiated from the mainstream for a specific target group, so that the company does not face such direct competition from the major game studios. However, the "weirdness" and variety of Remedy's games inevitably discourages potential buyers.

Self-publishing increases potential

Remedy's goal for each game project is to achieve at least a 100% return on investment. For any project, this means first identifying the potential player base and then matching the game's development budget to that potential. Games that

do well have the potential to return many times the capital invested in the project, and this optionality is one of the most attractive aspects of Remedy's business model. The company has stated that Control 2 would need to sell approximately 3-4 million copies and FBC: Firebreak about 3 million copies to reach the 100% ROI target (including potential revenue from B2B contracts).

The calculations below illustrate the profit potential of Remedy's publisher (50% funding and 50% revenue share) and self-published games. Mainly due to the fixed cost structure, the project's profitability will increase significantly as game sales increase from 100 MEUR to 200 MEUR. We believe that Remedy's future game projects have the potential to achieve this level of revenue, and that a hit game could do even more.

Illustration of the profit potential of a game project with a publisher or self-published

Game sales of 100 MEUR	Publisher and recoup	Self-publishing	Game sales of 200 MEUR	Publisher and recoup	Self-publishing
Development fees	30		Development fees	30	
Royalties	15		Royalties	50	
Game sales revenue		100	Game sales revenue		200
Total revenue	45	100	Total revenue	80	200
Platform distribution costs		-30	Platform distribution costs		-60
Marketing		-10	Marketing		-10
Development costs	-30	-30	Development costs	-30	-30
Return	15	30	Return	50	100
Invested capital	30	40	Invested capital	30	40
ROI %	50%	75%	ROI %	167%	250%

Assumption: 30% of revenue

Rule of thumb 15-30% of development budget

Remedy's development budgets are about 30-60 MEUR

Self-publishing offers significant revenue potential for successful game releases

Remedy's game projects and partners



Control

Released
Q3'19

Budget
~30 MEUR

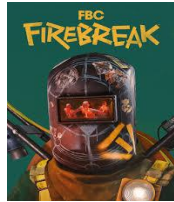
Remedy's share of
production budget:

45%⁴

Remedy's share
of revenue:

45%⁴

Recoup² before
the royalties to
Remedy?



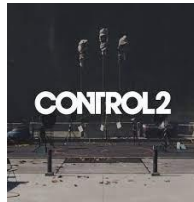
FBC: Firebreak

Production

Budget
~30 MEUR

100%

100%



Control 2

Production
readiness

Budget
~50 MEUR

50%

60-75%⁵



**Alan Wake
Remastered**

Released
Q4'21

Budget
~8 MEUR¹



Alan Wake 2

Released
Q3'23

Budget
~60 MEUR¹



0%³

50%



**Max Payne
1&2 remake**

Production

Budget
~60 MEUR¹



0%

10-30%¹



Project #4

Early
conceptualization



Source: Inderes, ¹Inderes' rough estimates of the production budgets and profit splits.

²The production and marketing budget financed by the distributor must be recouped in whole or in part before royalties accrue to Remedy.

³Remedy also provided some funding for Alan Wake 2 towards the end of production to ensure the game's high quality.

⁴Old publishing agreement with 505 Games, as of 2025 Remedy's share of royalties 100%

⁵Remedy will be the publisher of the game and will be responsible for marketing costs, thus getting a bigger share of the game sales.

The game's revenue will be split equally until the game's production budget is recouped.

Game projects 1/3

Control

Remedy's strategy is based on a multi-project model, with its first self-owned game brand, Control, launching 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.

Control had a production budget of around EUR 30 million, of which publisher 505 Games contributed 55%. Remedy's share of Control's net sales was 45%, and from 2025 onwards it will 100%, as Remedy [acquired](#) all Control game brand rights from 505 Games in February 2024.

Control was very well received (Metascore 84/100) and the game won numerous critics' awards. However, Control's initial sales after release were moderate, and given the game's very good critical reception, it had the potential to do even better. However, the game continued to sell well in digital channels and was ultimately a commercial success too. With more than 4.5 million units sold, more than 19 million players and well over 100 MEUR in net sales, Control has already generated well over 100 MEUR. We estimate that this represents a near 3.0x return on investment for the project.

FBC: Firebreak

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 that it was developing a multiplayer project set in the world of Control (codenamed Condor). In October 2024, Remedy revealed Condor as FBC: Firebreak, a three-player

cooperative first-person shooter. Remedy will publish the game itself in 2025 on PC (Steam and Epic Store), Xbox Series X/S and PlayStation 5. The game has a development budget of around 30 MEUR.

The business model of the game is a mix of AAA game and service-based fixed-price game. The game will be mid-priced (probably around EUR 30-40), and Remedy will update and expand the game with additional content after release. Depending on the success of the service component, the game has the potential to generate revenue for years after its release.

The game will also be available on Microsoft's PC Game Pass and Game Pass Ultimate on launch day, as well as Extra and Premium members of PlayStation Plus. We believe this is a prudent risk management approach as the game is Remedy's first multiplayer project and there is considerable uncertainty surrounding the success of new multiplayer games in the current market environment. However, these B2B contracts can reduce the risks associated with publishing. The game can now be made immediately available to a large number of players on these subscription services, Remedy will receive a certain compensation for these contracts (which could be substantial), and the game could potentially get off to a flying start in terms of player numbers without significant user acquisition investment. Based on the trailer and its reception, we think the game has potential, but we can only draw more accurate conclusions once the game is on the market.

Watch the Control trailer:



Watch the FBC: Firebreak trailer:



Game projects 2/3

Control 2

Control 2 is the sequel to the original game that is being developed as an action RPG. Remedy will self-publish the game, but under a strategic partnership agreement signed in August 2024, Annapurna Pictures will fund 50% of the game's development budget of approximately 50 MEUR. The agreement also gives Annapurna the rights to extend the Control and Alan Wake brands into film and television.

After the release, Remedy and Annapurna will split the game's revenue equally until the game's production budget is recouped. After this, Remedy, as the publisher of the game, will receive a larger share of game sales. Thus, Remedy's share after recouping the development budget could be estimated at around 60-75% of sales revenues. In return, Annapurna will receive a greater share of audiovisual productions in which Remedy does not have to invest capital.

We see Control 2 as an attractive risk/reward project for Remedy. The significant growth in awareness and player base of the Control brand in recent years will reduce the risks associated with the release while increasing the game's sales potential. We also believe that the technological advances made in the development of Alan Wake 2 will allow Control 2 to surpass the quality of the original game.

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 10/2021. The bigger one was

Alan Wake 2, released on October 27, 2023. The games were released on PC in the Epic Games Store and on PlayStation 5 and Xbox X|S platforms.

The original publishing deal with Epic was very favorable to Remedy, as the company was in a development phase at the time. Epic fully funded the development of the projects and made a significant marketing commitment. Once development and publishing costs are covered by game sales, net income is split equally between Epic and Remedy. Remedy also owns the intellectual property rights to the games. Towards the end, Remedy invested some of its own money in the development of Alan Wake 2 to ensure that the game was of the highest quality. Overall, the project's budget increased from the original, which has slowed the game's cost recoup in its first year, despite reasonably good sales.

Alan Wake Remastered

Remedy has not disclosed the exact budgets of the projects, but we estimate the development budget for AWR to have been around 8 MEUR, reflecting the much lighter and shorter development cycle for remastering projects. At the same time, the release sales price of the game (EUR 30) was significantly lower than a traditional AAA game. Since its release, AWR has been well received by both critics (Metascore: 80/100) and players. The game has sold more than 1.7 million copies and has generated an estimated 5-6 MEUR in royalties for Remedy to date (the game recouped in 7/2023). AWR's role was also to assist in the marketing of Alan Wake 2 and to help raise the profile of the Alan Wake brand, as so many years had passed since the release of the original game. For

example, the game was released for the first time on PlayStation and Nintendo Switch. So we feel that the game has served its strategic purposes well so far, and has also provided Remedy with a small revenue stream.

Alan Wake 2

Alan Wake 2 is Remedy's largest and most ambitious game project to date. The game is a survival horror game that features a new protagonist in addition to Alan Wake, FBI agent Saga Anderson. Players also have much more freedom to explore the game's setting of Bright Falls and other environments at their leisure.

We estimate the final production budget for the game to be around 60 MEUR, while we believe the original target was closer to 50 MEUR. On top of this, we estimate that around 10 MEUR will be spent on marketing. As of mid-November, the game had sold over 1.8 million copies, but had not yet recouped (we estimate it will take around 2 million copies).

Alan Wake 2 received an excellent critical reception upon its release (Metascore 89/100), which initially increased the game's sales potential. Against this backdrop, the game's sales performance has been disappointing compared to expectations, as there seemed to be clear potential for better. One factor limiting sales is the fact that the game isn't on the Steam platform on PC, and the initial digital-only release was sure to put off some buyers. However, the physical version of the game was launched in October 2024.

Game projects 3/3

2023 was also the year of a number of big game releases, and the fierce competition certainly had an impact on short-term sales, with players' game libraries already overflowing with games to play. We still believe that the quality of AW2 will provide a long sales tail for the game and that it will be a reasonably successful commercial project within 3 years of release. However, deviations from the original budget and resulting delays in royalty payments underscore the importance of project planning and management to stay within financial limits. In any case, the project has provided Remedy with many important lessons for a more effective implementation of future projects. The company's next self-published projects will also be available on Steam upon release, which we expect will significantly boost PC sales.

Max Payne 1&2 Remake

In April 2022, Remedy announced that it has signed a development agreement with Rockstar Games to develop remakes of Max Payne and Max Payne 2: The Fall of Max Payne games. Under the terms of the agreement, Remedy will develop games as a single product for the PC, PlayStation 5 and Xbox Series X/S platforms using its proprietary Northlight game engine. Rockstar Games finances the game development, and the budget is equivalent to Remedy's normal AAA game production (our estimate: 60 MEUR). The agreement allows Remedy to receive royalties after Rockstar Games has recouped the development and marketing costs of the game, as well as other publishing and distribution costs. The project has progressed well in recent years and is now in full production (we expect a release in 2026).

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. Remedy has two key objectives for this project: 1) make an excellent and successful game, and 2) build a strong action-game team in the process. We believe it is likely that Max Payne will be Remedy's last subcontracting project, and that the team that will be freed from this project will begin developing a new game, either for Remedy's existing franchises (Alan Wake and Control) or a new franchise altogether.

Crossfire

From 2016 to 2022, Remedy partnered with Korean company Smilegate to develop the single-player portions of Smilegate's Crossfire games (Crossfire HD and X) on a subcontracting model. The original Crossfire is a hugely popular online game in China, generating nearly a billion dollars in revenue each year. Crossfire HD is the remastered version of the original game and was released in November 2021 in China. Crossfire X was a console version of the game, and it was released in February 2022 on Xbox. Crossfire X was poorly received by both players and critics (Metascore: 38/100) and the game was shut down in 2023. Particular criticism was aimed at the game's multiplayer mode, which was not developed by Remedy. In our view, the Smilegate subcontracting was a very profitable deal for Remedy based on the development fees alone, and the steady cash flows it generated helped offset the risks associated with ramping up the multi-project model.

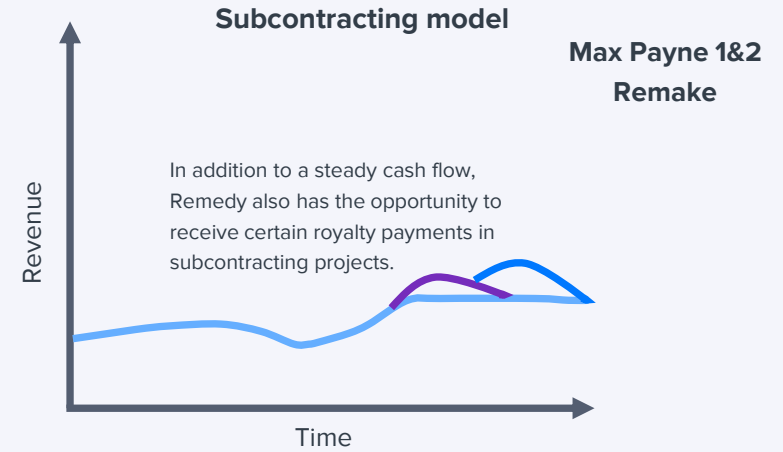
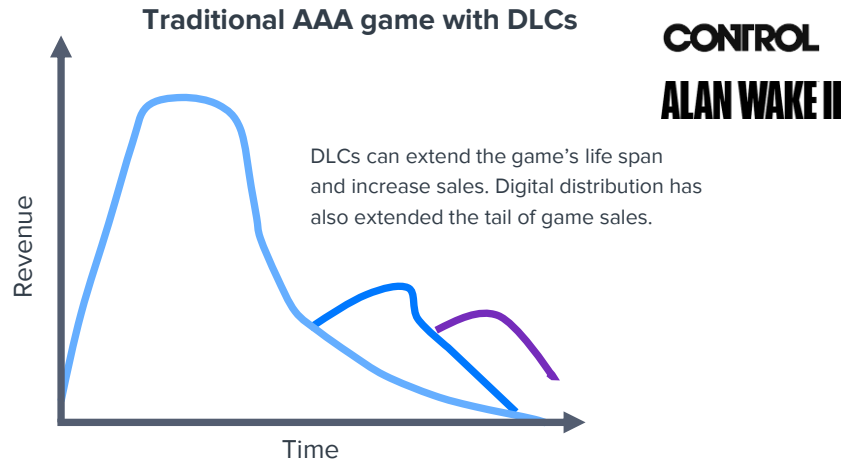
Watch the trailer for Alan Wake 2:



Watch the trailer for Alan Wake 2's Lake House expansion:



Business models for Remedy games



- We think Max Payne is likely to be the last subcontracting project for Remedy
- Future projects likely to be sequels or spin-offs to Alan Wake and Control brands
- At some point, the development of an entirely new game brand will also be possible.

Investment profile

Video game company for a long-term portfolio

Over the years, Remedy has demonstrated its ability to develop games of very high quality, but this has not yet been reflected to the same extent in their commercial success for the company. After years of work, the company has built the capabilities and resources for a more frequent, even annual, pace of new game releases in the 2025-2030 strategy period. Thanks to self-publishing, their financial success will continue to be strongly reflected in Remedy's figures, and in the event of a possible hit game, the potential is very significant.

Remedy combines many characteristics that in our opinion makes it an interesting long-term investment case. Firstly, the company operates on a structurally growing, extremely large market whose trends are favorable for the company. Most importantly, digital distribution has allowed the company to gradually move up the value chain to become an independent studio that finances and self-publishes its games.

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. In general, the high profitability potential is supported by the scalable nature of the company's business model, which is only enhanced by self-publishing.

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 the planning and management of game projects, reducing the risk of serious delays in the production phase. 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 a given in the games 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 risk/reward ratio of the company's business model. We believe the likelihood of complete failures in game projects is low but a future project can become an actual hit game. This means the company's earnings potential is considerable. Even with only moderately successful games, the company's long-term earnings growth prospects are strong.

Fifthly, Remedy's financial position is solid thanks to the deals signed this year, allowing the company to invest in the self-publishing of future games with a margin for possible surprises. From an investor's point of view, this eliminates the risk of significant dilution from a share issue, as has been the case with a number of companies in recent years during the turmoil in the gaming market.

Strategy has been built with controlled risks

Since the IPO, Remedy's strategy has progressed step by step and the transition to a stronger position in the value chain has been achieved 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. However, due to the business logic of the gaming company, Remedy's business model still has a higher risk profile than the average company listed on Nasdaq Helsinki.

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.
- Competition in the AAA game market is fierce and the bar has been raised over the years, especially in terms of quality. Remedy must continue to produce top-quality games at reasonable budgets to balance the financial equation.
- Remedy is still partially dependent on its publishing partners, their success and the contract terms agreed upon with them. With self-publishing, however, the fate of the company's games is increasingly in its own hands.
- 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. A rare listed AAA game developer

2. Self-publishing allows for very high profit potential if games are successful

3. Strong track record of quality games, but no commercial jackpot yet

4. Big and growing market with favorable trends for the company

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

Potential



- Self-owned game brands (Alan Wake and Control) allow for sequel development
- Scalable business model enables excellent profitability if games are successful
- The multi-project model provides continuity, balances risks and offers economies of scale
- Own game engine and game development tools create scalability and a competitive advantage
- Attractive position in value chain considering industry trends and consolidation

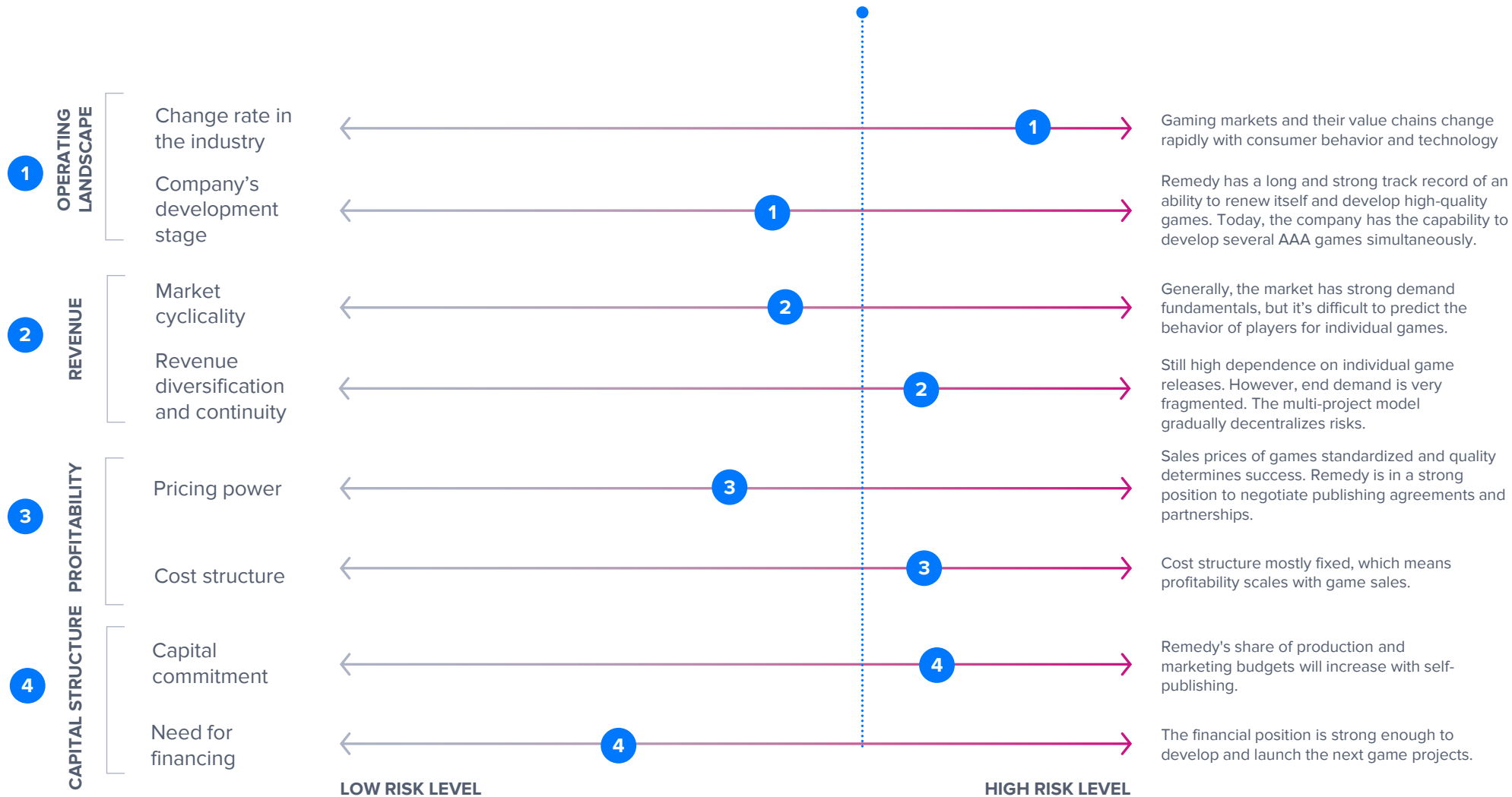
Risks



- The risks to the success of individual games are compounded by self-publishing
- 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 and players' time and money in the games industry
- Technology and market trends change quickly
- Changes in expectations for future games can cause significant volatility in the stock

Risk profile of the business model

Assessment of Remedy's overall business risk



Markets 1/3

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 3.4 billion people play games and gaming is by far the most popular form of entertainment in the world. Market research company Newzoo estimates that the global games market will be worth around 188 BNUSD in 2024, an increase of around 2% year-on-year. The gaming market took a huge leap with the COVID pandemic between 2020 and 2021, growing by more than 33% in two years to nearly 50 BNUSD. Since then, the market has declined slightly from its peak but has remained stable in the big picture. After the digestion phase, the market is expected to grow at a CAGR of around 4% between 2025 and 2027.

Geographically, the Asia-Pacific region is the largest market (46% of the market), of which China accounts for about half. The next largest regions are North America (27%) and Europe (19%), where Remedy's core big screen PC and console gaming is still mainly concentrated in the Western market. The popularity of consoles is, however, quickly growing on emerging markets as the income level increases.

Remedy operates on PC and console platforms

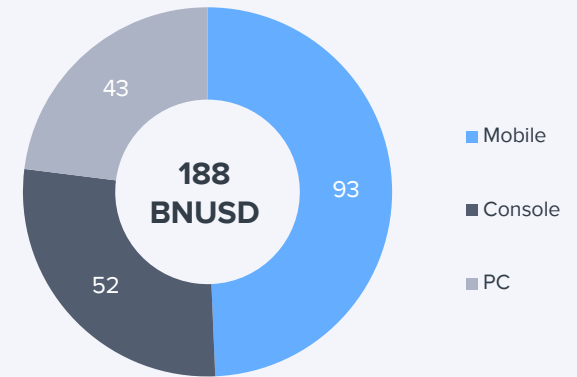
Divided by platform, PC and console platforms that are key for Remedy together (95 BNUSD) form around one-half of the entire game market. The market is expected to remain stable this year, despite a number of major game releases scheduled for 2023. This is because many of these late-year releases are selling well this year, and the time (and money) spent on these games was

partially taken away from the big service games. This also indicates that the market has reached a fairly mature stage, making competition even more intense. With player growth slowing and players' game libraries already full of good games, it is becoming increasingly difficult for new game brands to make big commercial breakthroughs.

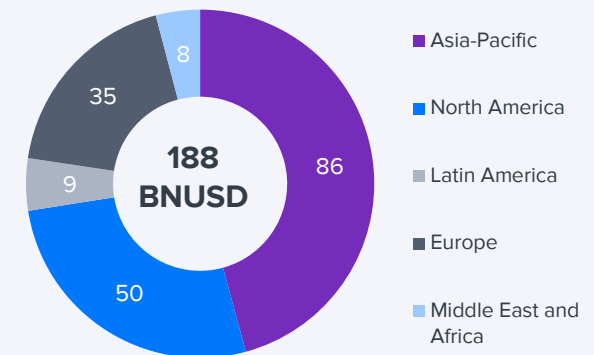
Overall, we believe that Remedy's market is on very solid footing and that the growth drivers in the market are healthy. The latest consoles (PS5 >65 million units and Xbox X/S >30 million units) have sold well and players are still gradually migrating from older platforms (PS4 >117 million units and Xbox >51 million units). On the console side, the role of digital distribution has increased significantly, further accelerating the trend set by the COVID pandemic. During Sony's fiscal year 2023, 70% of PlayStation game sales were already be digital, up from 32% six years earlier.

Digital distribution has been one of the biggest changes in the industry, shifting a significant amount of value from physical distributors to publishers and game developers. Digital distribution also allows smaller game studios (such as Remedy) to self-publish games, leaving more of the value to the game developers. Digital distribution also allows games to significantly extend their life cycle. 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.

Game market by platform in 2024



Game markets by region 2024



Markets 2/3

The distribution of PC games has long been virtually digital. Steam, the PC gaming marketplace, has 150 million monthly active users, while its competitor, the Epic Games Store, has approximately 75 million monthly active users. 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 12 %). In order to grow its platform, Epic Games has signed time-based exclusive distribution agreements with game developers in recent years. For example, Remedy's Control was released on PC as an Epic Games Store exclusive for the first year, for which Epic paid approximately 9.5 MEUR. The sum was considerable as it covered a one-third of Control's production budget of 30 MEUR.

Mobile gaming exploded in the 2010s with the rise of smartphones, but growth has leveled off in recent years. The market size in 2024 will be around 93 BNUSD and, like the rest of the market, growth is expected to pick up in the coming years. The growth of mobile gaming has not eaten into the popularity from PC and console gaming, but mobile has brought a whole new category of casual games that have reached entirely new audiences.

Players today have plenty of options

Over the years, the gaming market has seen the emergence of many iconic games and platforms (e.g., Fortnite, Roblox, Minecraft, GTA) that are played in huge numbers year after year. Multiplayer and social games are also becoming increasingly

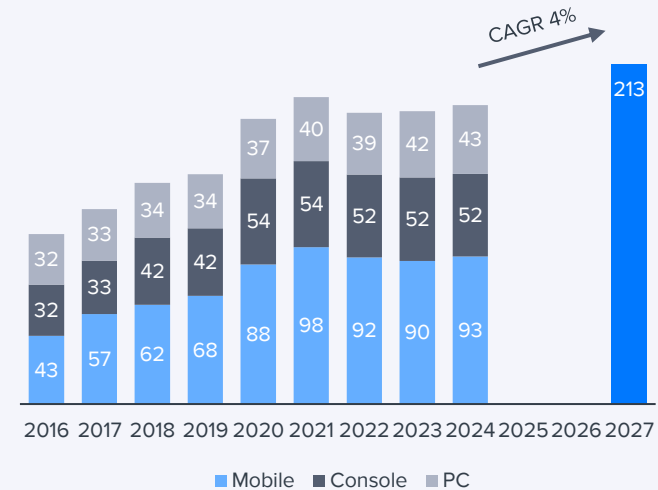
popular with young gamers. At the same time, new quality games are released every year, increasing the catalog of potential good games. This makes it increasingly difficult for new games to stand out in the market, and players clearly prefer existing brands. According to Newzoo, by 2023, 48 games accounted for 90% of all time spent on new game releases. In turn, of the total time spent on all games, 390 games took up 90% of all playing time. As a result, there is still a wide range of games from different genres on the market, but success requires excellent quality and preferably a well-known brand.

We believe that Remedy is well-positioned for this development with its own game brands (Alan Wake and Control), where it can develop new games for a ready-made audience and fan base. The potential audience for Remedy's games will also be expanded by entering new game genres (FBC: Firebreak) and possible future TV series and movies from Annapurna.

The F2P model on consoles is an attractive but risky option

The free-to-play (F2P) business model typical of mobile games has gained popularity in PC and console games, driven by successful games (e.g. Fortnite, CoD: Warzone). 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 and PC is achieving sufficient scale, as usually only a small share of players spend money in the game.

Development of the games market (BNUSD)



Key console and PC platforms



Source: Newzoo, Epic Games, Sony, Nintendo, Inderes

Markets 3/3

The much smaller number of console and PC gamers compared to the number of active smartphones (Newzoo: 3.6 billion) limits the size of the potential player base. In addition, console games tend to be significantly more expensive to develop than mobile games, which increases the risks of F2P game projects on consoles. In recent years, a number of big-budget F2P multiplayer games in development have died during or shortly after release. With the market already dominated by a few evergreen multiplayer games, it will be very difficult for a new game to make a sustainable entry into the market. Remedy also discontinued development of the F2P multiplayer game Kestrel at the end of 2023, as the project still required significant investment with no guarantee of future success.

Subscription-based gaming services here to stay

In recent years, the subscription business model has been rapidly introduced to the gaming industry. For example, subscription services from Sony and Microsoft allow you to play games from their selection for a monthly fee. Microsoft has invested huge sums in developing its service and content (including the 69 BNU\$ acquisition of Activision Blizzard), but the scale of the business is still small in comparison. Game Pass has over 34 million subscribers, of which the annual turnover can be estimated at around 5 BNU\$. At these numbers, the financial equation relative to the traditional AAA game business model is far from sustainable, but the tech giants have virtually unlimited resources to continue investing if they so choose.

Thus, one of the long-term threats to independent game studios can be seen in the significant

strengthening of subscription-based services. If the majority of quality game content were available for a reasonable monthly fee, the incentives for players to buy AAA games costing more than EUR 60 would probably decrease. In this case, independent game developers may be forced to choose sides and join these service providers through acquisition. This would probably also mean that subscription service providers would be prepared to make long-term sacrifices in the revenues of their games business. At worst, the rise of subscription-based services could mean a decline in the quality of games compared to today, if production budgets were to be compromised in order to optimize the profitability of subscription services.

Big challenges still to overcome on the road to cloud gaming

An extension of subscription-based models is streaming console and PC games directly from the cloud. Google broke new ground in this area with the launch of its Stadia service in November 2019, which ended up being closed already in 2022. Microsoft is building game streaming around the Xbox Game Pass and Sony around the PlayStation Plus service. In addition, Amazon with its strong cloud services is on the market as a challenger with its Luna service.

Cloud gaming requires a seamless and fast Internet connection, and yet the problem for the player is the potential for small delays in real-time gaming. A major breakthrough would require a better value proposition for consumers, and the service is currently expensive to deliver because of the cloud capacity required. If streaming games became

more mainstream, it could significantly increase the potential player base for AAA games in the long term by removing the need to buy a physical console to play them.

Generative AI likely to boost game development in the future

With the launch of ChatGPT at the end of 2022, the excitement and debate about the potential of AI has also accelerated in the gaming industry. At this point, it's impossible to assess the final impact, but we believe that AI tools will enhance game development in many areas and provide new tools to support creative design, among other things. This can bring relief to game developers struggling with ballooning production budgets. Similarly, the same development budget can be used to produce even bigger and better-looking games in the future. At the same time, smaller indie game developers are able to create more impressive games with fewer resources. In the long run, the ability for players to create their own content (UCG - User Generated Content) is also likely to evolve with AI solutions.

In the short term, one of the challenges of using AI is the potential risks of copyright infringement. AI-generated worlds and characters can inadvertently infringe copyright and this could lead to unpleasant surprises for game developers.

Competition

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. 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. However, games have been divided into their own subcategories and game developers have focused on developing games of a particular genre (e.g. action, adventure, role-playing, driving) according to their own strengths. 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 with AAA games, gamers pay close attention to reviews and comments 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. To compete, Remedy must be able to produce content that is of a very high quality, but at the same time differentiated from the larger industry players. From the investor's point of view, this should still be achieved with reasonable production budgets.

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, Microsoft, Sony and Tencent have been active in M&A. Remedy would also be an attractive acquisition target for a number of players. Out of the independent game studios, an ever-smaller group is formed by studios developing story-driven action games similar to Remedy. New competitors are not easily born in this category due to the high entry barrier. For example, it is very difficult for a studio specialized in driving games to switch to action games, as developing them requires notably different technology and knowhow. When publishers are looking for game developers to partner with, the process emphasizes an experienced team, high technological expertise and a track record.

Remedy's competitive advantages

Over the years, Remedy has successfully developed several world-class games in a very competitive market, which we believe demonstrates the company's clear competitive advantages. In our view, Remedy's key strengths are:

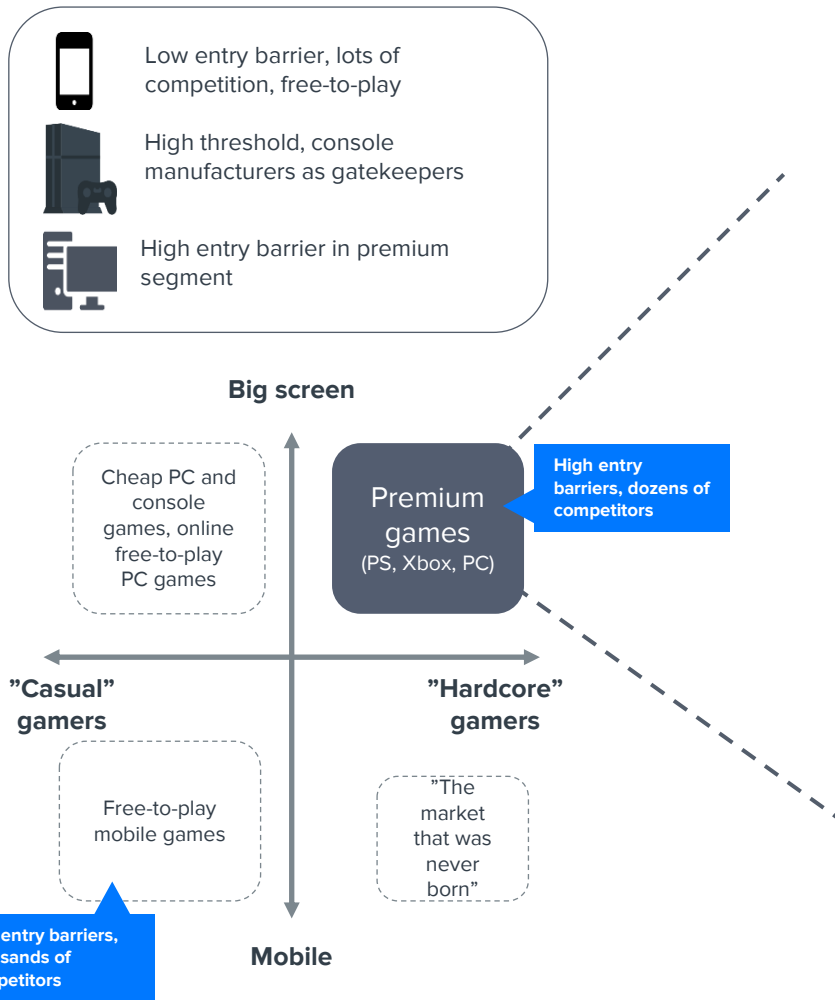
- Remedy can develop very well received and

high-quality games. The company has strong expertise in challenging and long-term game productions. A strong reputation provides leverage for partnerships and attracts the best talent in the industry.

- 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. As the market grows, a game that is distinctly different, created for a slightly narrower audience, has the potential to sell well.
- Remedy's Northlight game engine enables economies of scale in a multi-project model, allowing games to be developed more efficiently. Own technology also offers important continuity as previously developed code and elements can be utilized in other projects.
- 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. In this case, the game doesn't have to sell as much to be profitable.
- 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. The company also now has two vibrant game brands with growing player bases (Alan Wake and Control) on which to build future game projects.

Remedy's positioning on the market

Gaming market segments



Remedy's sub-segments

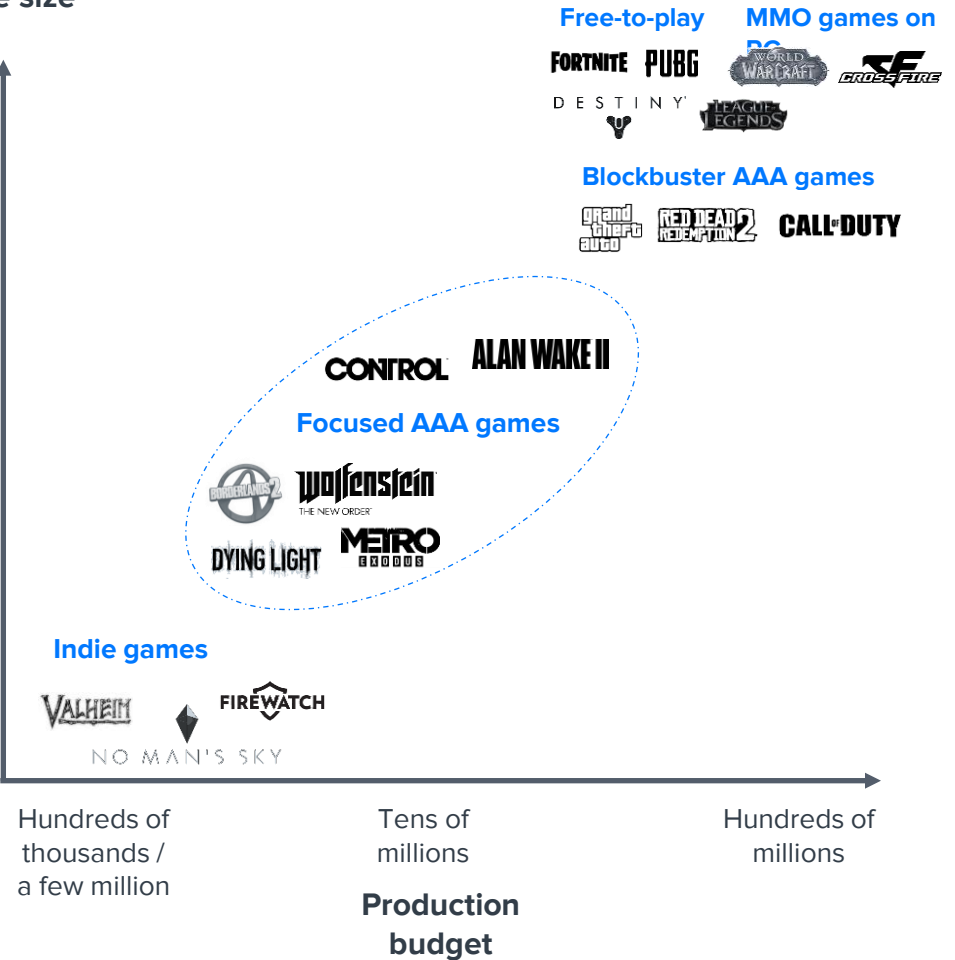
Game size

AAA+

AAA

AA

A



Strategy

Strategy has progressed decisively in the big picture since IPO

After the IPO in 2017, Remedy set out to implement its strategy, the cornerstone of which was to move to a better position in the value chain, creating longer-lasting games while managing risk by moving to a multi-project model. After years of work, the company has built the capabilities and resources for a more frequent, even annual, pace of new game releases in the 2025-2030 strategy period. Thanks to self-publishing, their financial success will continue to be strongly reflected in Remedy's figures, and in the event of a possible hit game, the potential is very significant.

The strategy transformation journey from a subcontractor to an independent studio fully responsible for project development and publication has been long and sometimes bumpy. But in the big picture, things have constantly moved in the right direction. In the new strategy period, the focus will be on fully exploiting the built-in capabilities. If successful, this should result in a steady stream of high-quality and commercially successful game releases through the end of the decade.

Targets for sustainable profitable growth by the end of the decade

Remedy aims to double its 2024 revenue by 2027 and grow steadily thereafter. The EBITDA margin is targeted to reach 30% by 2027, and profitability is set to remain at least at this level until the end of the strategy period (2025-2030). Based on our forecasts, the target level would indicate an estimated revenue of approximately 100 MEUR. To

achieve these goals, Remedy focuses on:

- Creating and growing world-class gaming brands
- Developing distinctive category leading games
- Working in ways that enable successful productions
- Self-publishing its own games

We believe that the 2027 revenue target is achievable if the company's games in development perform well or very well. Remedy's minimum target for each project is still 100% return on investment, and a hit game could be many times that figure.

If the revenue target is roughly achieved, profitability is well positioned to reach the target level and, in a good scenario, there is also potential for a significant improvement. In our projections, the successful launch of Control 2 (planned for 2027) is particularly critical to the targets. Self-publishing the game means that the revenue potential for Remedy is very significant if it exceeds the popularity of the already successful first Control game.

Maintaining high levels of revenue and profitability from 2027 is an ambitious goal, given the potential for revenue volatility due to major game releases. Remedy is targeting an average of one new game release per year starting in 2025, which we believe is achievable with successful games.

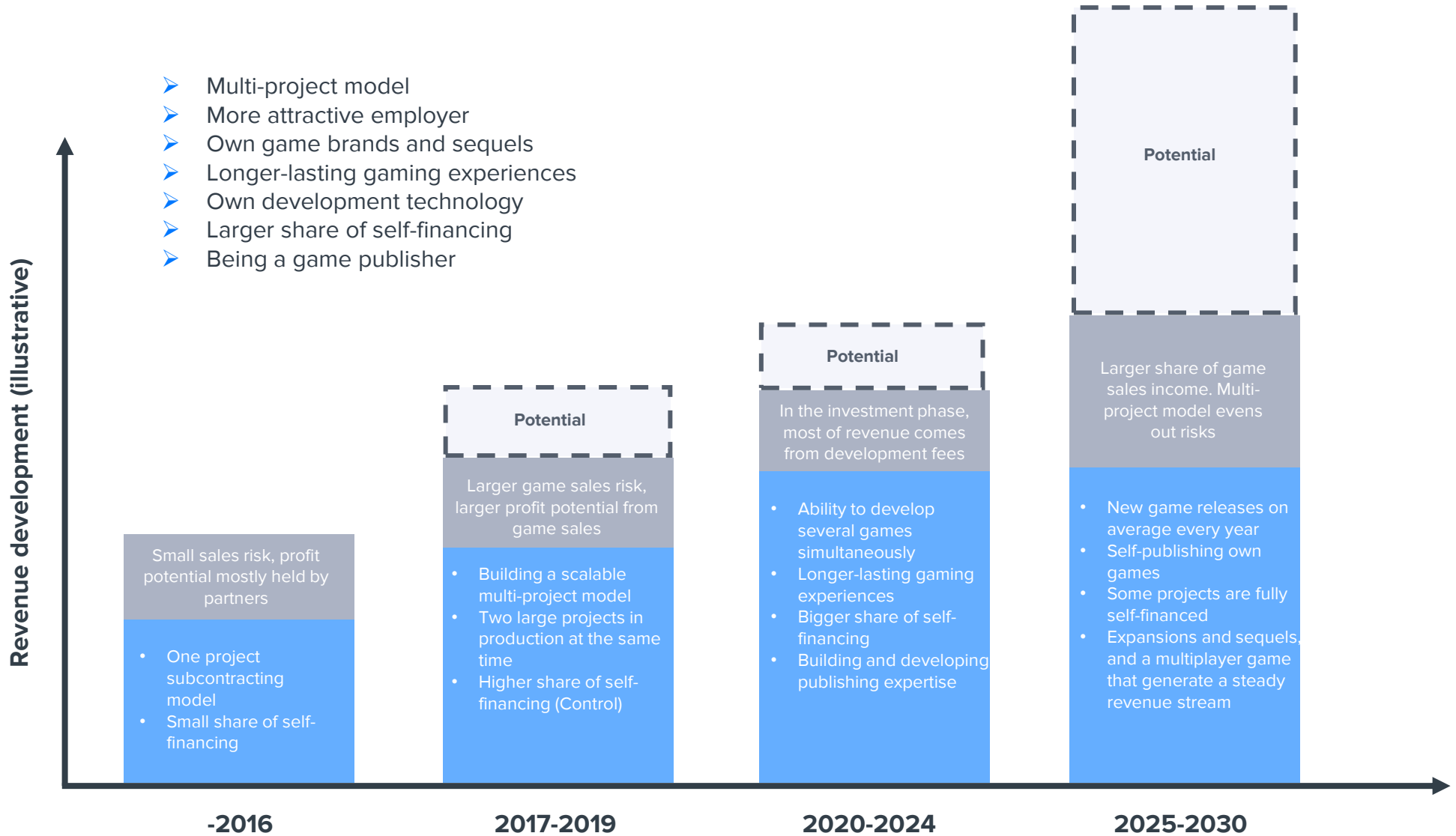
A pace of one game per year sounds fast in historical terms, but Remedy has made great strides over the years in operating a multi-project

model, developing its own game engine and other technologies, and growing its organization and resources to a size sufficient to work on multiple projects simultaneously. In addition to the three known projects, the company has a fourth game project in early conceptualization that could be released by 2028, if the development pace is efficient. In this way, we estimate that the game/year target would be achieved in 2025-2028.

Successful game releases can create a self-feeding cycle

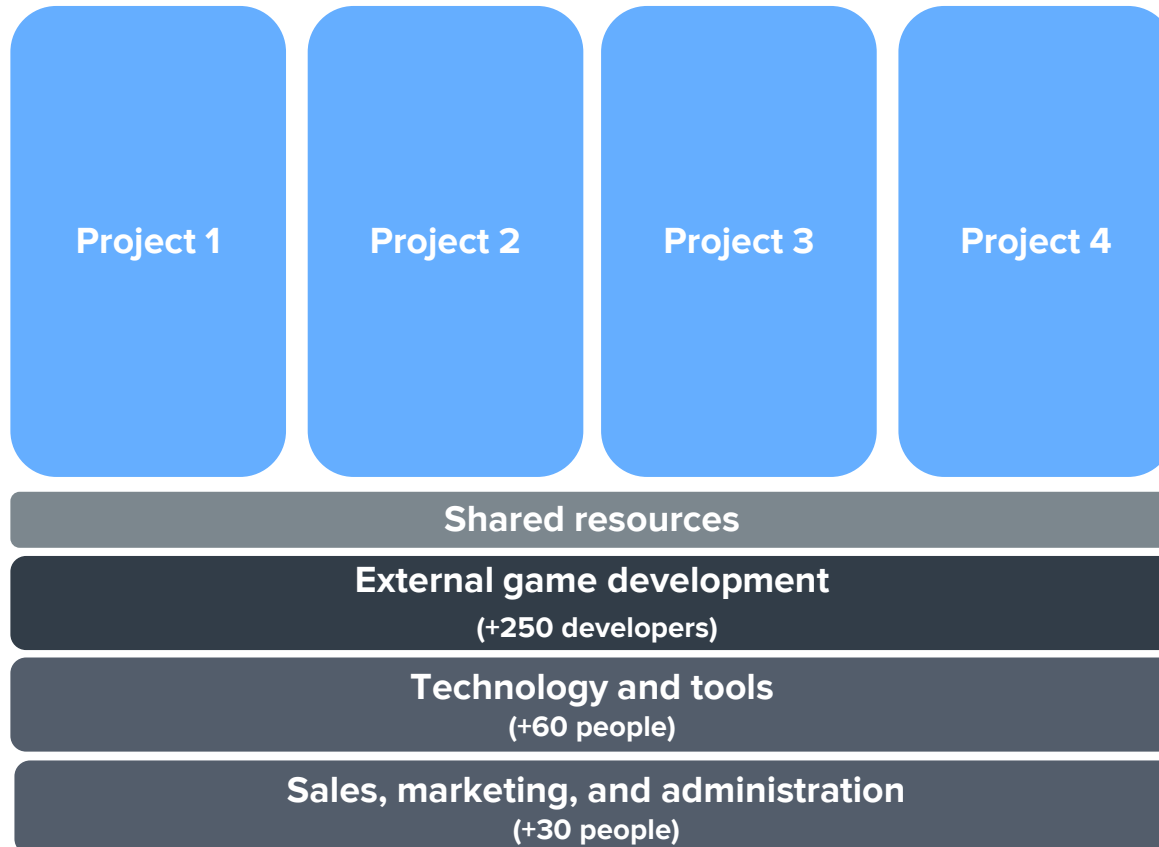
If Remedy can create a steady stream of new sequels, spin-offs, and expansions for its existing game brands (Alan Wake and Control), the company's revenue-generating game catalog will begin to grow. Successful games would also gradually increase the fan base of the games, further reducing the risk of future game releases. This will allow new games to be developed with an ever-improving risk/reward ratio, as long as Remedy can maintain reasonable production budgets without compromising the quality of the games. The successful launch of Control 2 is critical to this virtuous cycle. FBC: Firebreak, on the other hand, is an experiment to extend the Control brand to new audiences, but sales expectations for the game are currently much lower.

Transition process of Remedy's strategy



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 the development of Alan Wake 2, Remedy built a better ability to reuse content and elements already developed for the games in the following 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 1/2

The last few years have been a period of heavy investment

Historically, Remedy's growth and profitability was strictly determined by project-based business and the terms of partnership agreements. In 2011-2018, Remedy's revenue varied between EUR 4 and 20 million and the company was profitable every year.

The strategy, based on a multi-project model, was first reflected in the figures in 2019, when the launch of Control led to a 57% increase in revenue and a 21% EBIT margin. With development fees from an increasing number of projects and Control's royalty income, revenue grew by 30% and 9% respectively in 2020 and 2021, and profitability was at a good level.

The years 2022-2023 were clear investment years for Remedy, as the company at its peak had five major game projects in development at the same time. At the same time, the company took a greater role in financing and publishing these projects, which reduced the development fees that would have been due during the development phase. As a result, low royalty income, significantly increased hiring, external game development, and other cost increases resulted in a significantly negative result, especially in 2023. At EBIT level, the losses were deepened by the termination of the Kestrel project and the related write-off of development costs (7.2 MEUR).

In 2024, Remedy has continued to make some targeted hires, but overall the evolution of the cost structure has calmed down significantly. Increased revenue over last year, driven by Max Payne development fees and the Annapurna deal, will significantly improve profitability over last year.

In the big picture, Remedy's game development

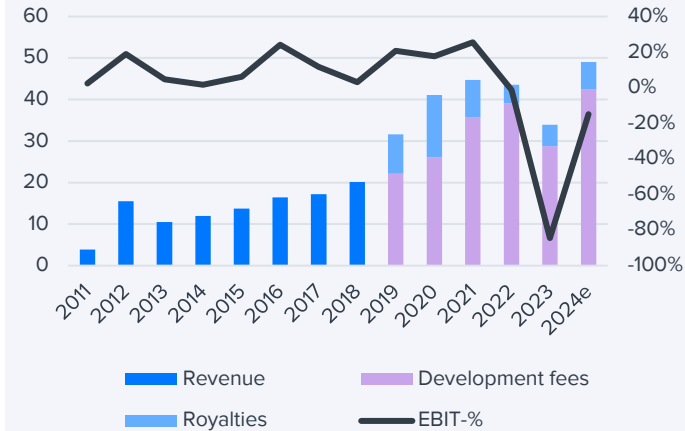
costs (including capitalization on the balance sheet) are not expected to increase significantly over the next few years. Thus, as the company operates with a largely fixed cost structure, an increase in revenue will be strongly reflected in the company's earnings in the future.

Cost structure mainly fixed

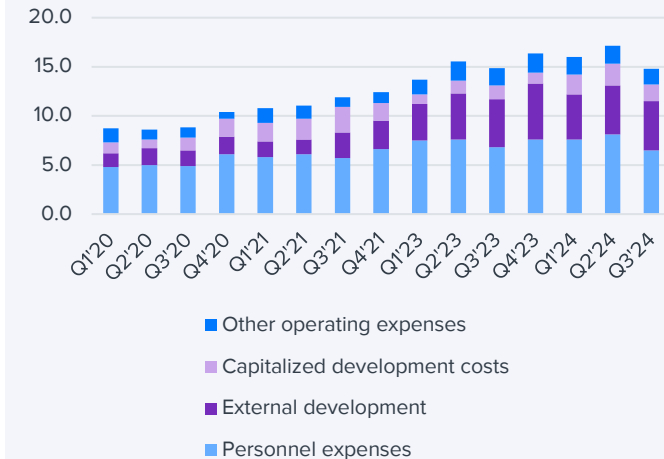
Remedy's costs are mostly related to the development of games, so a significant part of the cost structure is fixed personnel costs (2024e: 53% of revenue) and external game development (materials and services 33% of revenue) that varies according to the stage of the project. This year we expect other operating expenses to be around 15% of revenue, while depreciation, mainly capitalized development costs, to amount to 14%.

Remedy capitalizes development costs related to its own game brands, which stabilizes the company's reported earnings development in the long run. Between 2021 and 2022, 8.2-8.5 MEUR were be capitalized and in 2023, 4.8 MEUR. Depreciation start at the point when the game projects in question are published. The company has capitalized expenses for AWR, AW2, FBC: Firebreak and Control 2. AWR's capitalized expenditure has already been eliminated by Q3'24. For game projects, Remedy capitalizes an amount of costs corresponding to the share of the expected sales revenues/royalties after the release of the game in the total expected revenues of the game. If there is no publishing partner involved in the game project, all expenses directly related to the development of the game are capitalized. However, capitalizations are only an accounting measure and the result and cash flow from an individual project are as large throughout the life span of the project.

Revenue and profitability*



Cost development by quarter (MEUR)



Source: Inderes *from 2020 onwards IFRS

Financial position 2/2

Cash flow

Due to the capitalization of product development, Remedy's profit and cash flow often fluctuate on both a quarterly and annual basis. Earnings development is more stable due to capitalization and the related depreciation, but cash flow focuses on the time of the game release. Projects carried out as subcontracting and game projects that are partially financed by publishing partners do, however, generate cash flow for Remedy also during the game development phase. In 2022-2024, cash flow has naturally been clearly negative due to the company's investment phase, which has been reflected in a decrease in the company's liquid financial assets (Q3'24: 31.2 MEUR vs. Q2'22: 60.4 MEUR).

Funding in place for games projects under development

The 2024 strategic cooperation agreement with Annapurna for the development of Control 2 and the 15 MEUR convertible bond with Tencent ensured Remedy's financial position to develop all game projects with sufficient quality and financial flexibility. 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. This will be further emphasized in the future as Remedy moves toward self-publishing.

Remedy's cash and cash equivalents amounted to 31.2 MEUR at the end of Q3'24, in addition to 15 MEUR from Tencent. Remedy publishes a short-

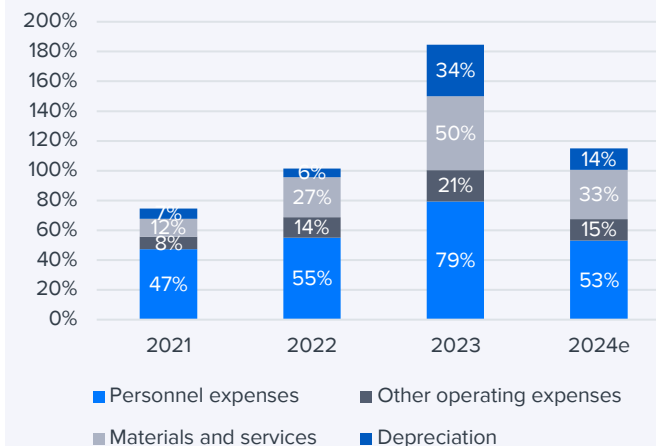
form business review for Q3, so the latest full balance sheet is available from Q2'24. At that time, balance sheet assets consisted mainly of liquid financial assets, receivables (10.4 MEUR) and intangible assets (40.2 MEUR). Intangible assets mainly consist of capitalized development costs, but the acquisition of the rights to the Control game brand this year increased this item by 16.9 MEUR. These will be amortized after the releases of FBC: Firebreak and Control 2.

The liabilities side of the balance sheet mainly consisted of equity (65.3 MEUR) and non-interest-bearing liabilities (20.9 MEUR). Non-interest-bearing liabilities still include a liability of 10.4 MEUR to 505 Games for Control rights. Otherwise, Remedy has virtually no interest-bearing debt, as the relevant balance sheet items consist of lease liabilities (3.2 MEUR) and a product development loan (0.9 MEUR) granted by Business Finland.

Basic information on the convertible bond

The unsecured convertible bond of 15 MEUR issued by Tencent carries an annual interest rate of 8%. Interest is capitalized annually at the end of the year, so the loan has no annual cash flow impact. The loan matures in 5 years from the date of drawdown if the conversion or early repayment option is not exercised. The convertible bond is convertible into Remedy shares as of the third anniversary of the date of the drawdown. The conversion price is fixed at EUR 27.20, so that the loan will only result in a moderate dilution of 5.98% of the share capital. Before the arrangement, Tencent already owned 14.8% of Remedy, which could increase to 20.8% after the conversion of the convertible bond.

Cost structure, % of revenue



Balance sheet Q2'24



Source: Inderes

Estimates 1/3

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 start of amortization of capitalized development costs with new game releases will also introduce its own variable into the equation, especially at EBIT level. We expect Remedy to capitalize approximately EUR 10-12 MEUR of development costs per year.

Remedy's move to self-publishing means that all sales of the company's own games will be reflected in the income statement, but the company will also bear the distribution and marketing costs associated with the release. We had already factored increasing marketing costs into our other operating cost forecasts, but distribution platform costs (assumed to be 25% of sales) were still missing from our forecasts. We had previously netted them out when calculating royalties. We have taken this into account in this report, which meant a significant increase in revenue forecasts, but at the same time distribution costs (shown under materials and services) increased by the same amount, so the impact on earnings was neutral. However, the change makes the company's 2027 goal of doubling revenue from 2024 look increasingly realistic.

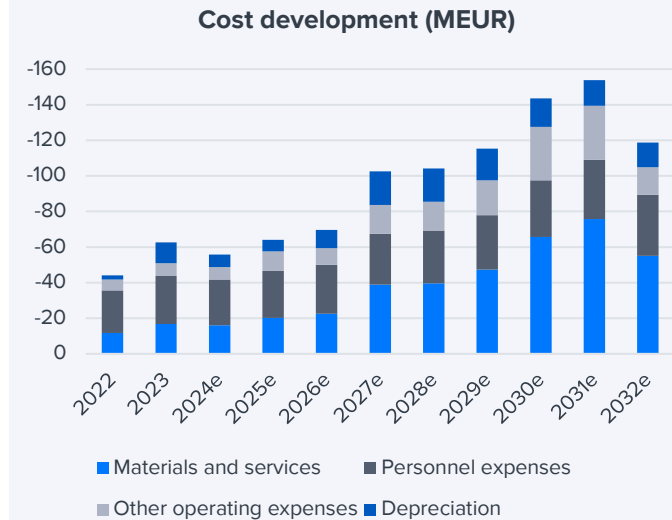
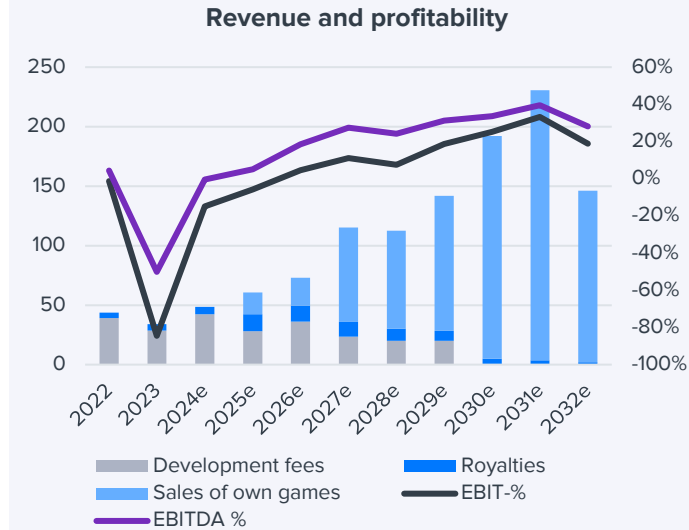
At the same time, however, we have refined and changed our assumptions for FBC: Firebreak and Control 2. We have therefore revised our forecasts for the coming years and the medium term. The big picture in our forecasts is still unchanged.

We have outlined Remedy's revenue drivers and our game-specific projections on the following pages. Remedy's revenue structure will change

significantly in the coming years as development fees begin to decline and royalties and income from the sale of own games increase. Due to the move to self-publishing, we have separated royalties and sales of future games in the forecasts. From a profitability perspective, Remedy's royalties have a higher margin because the publishing partner has already paid for the marketing and distribution costs.

The visibility on royalties and sales of own games is naturally low at this point. Overall, our estimates expect future games to perform well, especially traditional AAA projects. We also see potential for the games to perform better, but overall the range of final outcomes at project level is wide. We also do not separately forecast B2B contracts for other projects, as visibility on their timing and size is weak. For FBC: Firebreak, we expect a total revenue of 10 MEUR from Sony and Microsoft in with the game being brought to Game Pass and PS Plus at launch. We now assume that the revenue will be spread over a period of one year (prev. whole sum in Q3'25).

Remedy's earnings potential will gradually be tested in the coming years as the company begins to release new games on a more regular basis. A particular watershed year will be 2027, when we expect a successful launch of Control 2 to drive significant revenue growth. If this is successful, the company will be able to maintain good profitability in line with its targets as regular game releases continue towards the end of the decade.



Strategy in light of game projects

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

	2023	2024	2025	2026	2027	2028	2029	2030	2031
Control	Royalties \$	\$	\$	\$					
Alan Wake Remastered	Royalties \$	\$	\$	\$	\$	\$			
Alan Wake 2	Development fees \$\$\$	Royalties \$	Royalties \$\$\$	\$\$\$	\$\$/\$\$\$	\$\$	\$	\$	\$
FBC: Firebreak	Development fees \$/\$\$		Release in Q3 \$\$\$	\$\$\$	\$\$\$	\$\$\$	\$\$/\$\$\$	\$/\$\$	\$/\$\$
Control 2	Development fees \$\$	Development fees \$\$\$	Development fees \$\$\$	Development fees \$\$\$	Release in H1 \$\$\$	\$\$\$	\$\$\$	\$\$/\$\$\$	\$/\$\$
Max Payne	Development fees \$\$	Development fees \$\$\$	Development fees \$\$\$	Release in H1 \$\$\$	Royalties \$\$/\$\$\$	\$\$/\$\$\$	\$\$/\$\$\$	\$/\$\$	\$
Next game projects*		New project in preliminary conception	New project in conception				"Alan Wake 3" publication \$\$\$	\$\$\$	\$\$\$
				New project in conceptualization				"Control 3" publication \$\$\$	\$\$\$
					New project in conceptualization				"Game X" publication \$\$\$

Source: Inderes, *Inderes' estimates of future projects

Underlying assumptions for revenue estimates

AW2 assumptions in the estimate model

	Q3'23	Q4'23	Q1'24	Q2'24	Q3'24	Q4'24	Q1'25	Q2'25	Q3'25	Q4'25
Average price (€)	60	55	55	55	50	45	40	40	40	40
Sales volume (millions of copies)	0.30	0.70	0.40	0.20	0.25	0.35	0.30	0.25	0.15	0.30
Project income (MEUR)	11	24	14	7	8	10	8	6	4	8
Remedy's royalties (MEUR)	0	0	0	0	0.0	1.9	3.8	3.1	1.9	3.8
Cumulative copies sold (million)	0.3	1.0	1.4	1.6	1.9	2.2	2.5	2.8	2.9	3.2
Cumulative project income (MEUR)	11	35	49	56	64	74	81	87	91	99
Remedy's cumulative royalties (MEUR)		0	0	0	0.0	1.9	5.6	8.7	10.6	14.4

Underlying assumptions for the calculation

- Value added tax 20%
- Distribution cost 25%
- Budget (production+marketing) 70 MEUR

→ AW2 needs to sell around 2 million copies under these assumptions to cover the production and marketing costs funded by Epic and to start generating royalties for Remedy.

Current projects under development

Control 2 (self-publication, 50% funded by Annapurna)

Marketing budget 15 MEUR

Production budget 50 MEUR

	2027	2028	2029
Sales volume (millions of copies)	1.8	2.2	1.1
Average price (€)	60	50	45

Max Payne 1&2 (subcontracting)

Marketing budget 25 MEUR

Production budget 60 MEUR

Remedy's share of royalties 15%

	26-27	2028	2029
Sales volume (millions of copies)	4.1	1.5	1.2
Average price (€)	60	50	45

FBC: Firebreak (self-publication)

Development + marketing 35 MEUR

Assumption: The game will generate around 1.5x the capital invested in the project by the end of 2028

Assumptions of future game projects

"Alan Wake 3" (self-publication)

Marketing budget 20 MEUR

	2029	2030	2031
Sales volume (millions of copies)	1.5	1.8	1.2
Average price (€)	60	55	50

"Control 3" (self-publication)

Marketing budget 20 MEUR

	2030	2031	2032
Sales volume (millions of copies)	1.7	2.2	1.3
Average price (€)	60	55	50

Underlying assumptions for the calculation

- Value added tax 20%
- Distribution cost 25%
- We expect Remedy to be able with its current organization (with assumed increase in costs) to start and self-publish the next game projects

Estimates 2/3

Estimates for 2024

Remedy expects 2024 revenue to increase year-on-year (2023: 33.9 MEUR) and EBIT (2023: -28.6 MEUR) to improve. The company also said that EBIT will remain negative this year.

We forecast Remedy's revenue for 2024 to grow by 43% to 48.6 MEUR and EBITDA (-0.1 MEUR) to improve significantly year-on-year. Depreciation and amortization will still push the EBIT to -7.2 MEUR. Remedy's cost structure has stabilized this year, as most of the investments for the ramp-up of the multi-project model have already been made in recent years. The increase in revenue, mainly due to the fixed cost structure, is now strongly reflected in profitability. Current-year revenue was significantly supported in Q3 by the Annapurna agreement, which resulted in retroactive development fees from Control 2.

We expect Q4 to be the weakest quarter of the year (revenue 9.6 MEUR, EBITDA -3.2 MEUR), with low development fees and just minor royalties expected from AW2. We estimate that the game will need to sell around 2 million copies to recoup its production and marketing costs. The end of the year is the strongest seasonal sales period for games, and AW2 will now also be supported by the release of a physical version and a second expansion pack, as well as increased discount campaigns and marketing activities. We expect the game to sell around 2.2 million copies by the end of the year (over 1.8 million by CMD on November 19).

Estimates for 2025

In 2025 (revenue 60.6 MEUR and EBITDA 3.0 MEUR), in addition to royalties from AW2, a key

variable for growth will be the reception of FBC: Firebreak. We expect the game to be released in Q3. We anticipate that sales of the game will initially focus on selling copies of the game itself, with in-game purchases playing a more limited role. We expect the game to generate 18.3 MEUR in revenue for Remedy next year, which would require, in addition to 5 MEUR in B2B contracts, sales of around 0.4 million copies of the game at an average price of EUR 35. On the expense side, we expect continued moderate growth in personnel expenses and an increase in other expenses, primarily due to FBC: Firebreak's marketing and distribution costs.

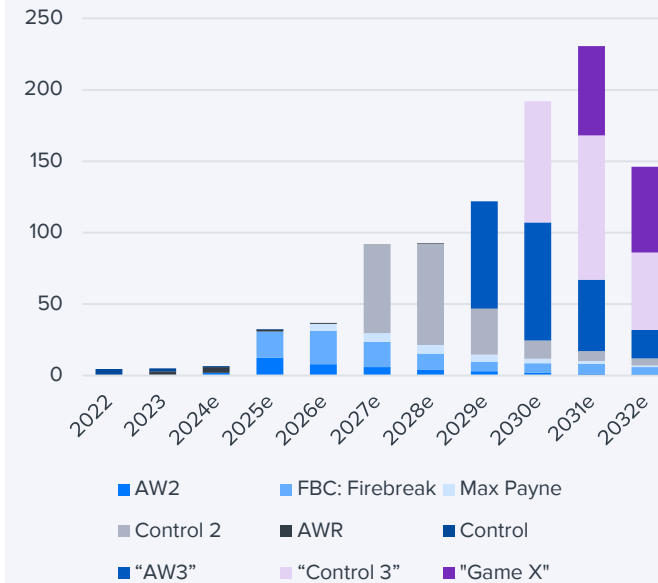
Estimates for 2026-2028

In 2026, we expect Max Payne to be released in H1 and FBC: Firebreak will continue its sales (B2B contracts 5 MEUR). This would result in a significant year-on-year improvement in revenue (73 MEUR) and EBITDA (13.5 MEUR).

In terms of performance, however, we are particularly looking ahead to 2027-2028, when we expect the release of Control 2 (H1'27). We anticipate that the brand's growing player and fan base will set the stage for a successful launch and expect the game to sell approximately 4 million copies in its first two years.

Driven by strong game sales, we expect Remedy's revenue to increase to around 115 MEUR in 2027 and 113 MEUR in 2028. For these years, we forecast EBITDA margins of 27% and 24%, respectively. Based on this, Remedy's own assumptions behind its financial targets are based on a leaner cost structure and/or a different revenue mix than our projections.

Assumptions on royalties and own game sales (MEUR)



Games that generate royalty income:

Control, Alan Wake Remastered, Alan Wake 2, Max Payne 1&2 Remake, other old games

Self-published games:

FBC: Firebreak, Control 2 and all upcoming games

Estimates 3/3

Long-term estimates

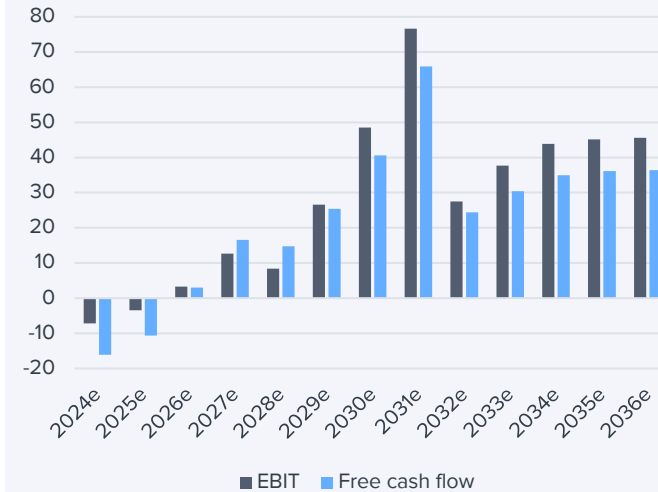
With a multi-project model and more regular game releases, we believe the long-term prospects for Remedy's business are strong. However, long-term visibility to revenue and earnings development is weak, requiring trust in the successful implementation of Remedy's current strategy.

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.

We forecast Remedy's revenue to continue to grow strongly between 2029 and 2031, from 142 MEUR to 230 MEUR, driven by new major game releases. 2031 is the year with the largest revenue impact from several new games over the forecast period, while old games will continue to generate revenue. This is also when we expect profitability to peak, with an EBIT margin of 33% at best. Thereafter, we expect annual revenue to stabilize at around 150-180 MEUR and the EBIT margin to settle at 25-26% in the long term. At that point, we should also have a pretty good balance between capitalization and depreciation, and a good free cash flow to EBIT ratio.

Self-publishing will result in a slight deterioration in Remedy's relative profitability, because distribution costs will flow through the company's income statement and increase revenue. However, in a very best-case scenario, Remedy has the potential to be even more profitable than we forecast, as margins of over 40% are not unprecedented for quality console and PC game studios.

EBIT and free cash flow



Income statement and estimate revisions

Income statement	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24	Q2'24	Q3'24	Q4'24e	2024e	2025e	2026e	2027e
Revenue	43.6	6.9	8.9	7.8	10.3	33.9	10.8	10.3	17.9	9.6	48.6	60.6	73.0	115
Development fees	39.1	6.4	7.9	6.7	7.6	28.8	9.0	9.4	17.0	7.0	42.4	28.0	36.2	23.5
Royalties	4.5	0.5	1.0	1.1	2.7	5.2	1.8	0.9	0.8	2.6	6.2	14.3	13.5	12.3
Own game sales	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	18.3	23.3	79.5
EBITDA	1.9	-4.9	-4.0	-4.2	-3.9	-17.0	-1.2	-2.4	6.7	-3.2	-0.1	3.0	13.5	31.6
Depreciation	-2.5	-0.7	-0.8	-1.3	-8.9	-11.7	-0.9	-0.9	-4.3	-1.0	-7.0	-6.5	-10.1	-18.9
EBIT (excl. NRI)	-0.6	-5.6	-4.8	-5.5	-12.7	-28.6	-2.1	-3.2	2.4	-4.2	-7.1	-3.5	3.3	12.7
EBIT	-0.6	-5.6	-4.8	-5.5	-12.7	-28.6	-2.1	-3.2	2.4	-4.2	-7.1	-3.5	3.3	12.7
Net financial items	-0.6	0.0	0.4	0.0	0.7	1.1	0.1	0.3	0.0	0.1	0.5	0.0	0.0	-0.1
PTP	-1.2	-5.6	-4.4	-5.5	-12.0	-27.5	-2.0	-2.9	2.4	-4.1	-6.7	-3.5	3.3	12.6
Taxes	-0.5	0.0	1.7	1.1	2.1	4.9	0.0	0.7	-0.5	0.8	1.0	0.7	-0.7	-2.5
Net earnings	-1.7	-5.6	-2.7	-4.4	-9.9	-22.7	-2.0	-2.2	1.9	-3.3	-5.6	-2.8	2.7	10.1
EPS (adj.)	-0.13	-0.42	-0.20	-0.33	-0.74	-1.68	-0.15	-0.16	0.14	-0.24	-0.41	-0.20	0.19	0.73
EPS (rep.)	-0.13	-0.42	-0.20	-0.33	-0.74	-1.68	-0.15	-0.16	0.14	-0.24	-0.41	-0.20	0.19	0.73

Key figures	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24	Q2'24	Q3'24	Q4'24e	2024e	2025e	2026e	2027e
Revenue growth-%	-2.5 %	-45.4 %	-5.3 %	-1.1 %	-24.4 %	-22.2 %	56.2 %	16.2 %	128.5 %	-7.1 %	43.2 %	24.8 %	20.4 %	58.0 %
EBITDA-%	4.4 %	-71.6 %	-44.7 %	-53.4 %	-37.4 %	-50.0 %	-11.2 %	-22.7 %	37.3 %	-33.8 %	-0.3 %	5.0 %	18.5 %	27.4 %
Adjusted EBIT-%	-1.3 %	-81.0 %	-53.7 %	-70.5 %	-123.6 %	-84.4 %	-19.3 %	-31.0 %	13.4 %	-44.3 %	-14.7 %	-5.7 %	4.6 %	11.0 %
Net earnings-%	-4.0 %	-81.6 %	-30.0 %	-56.7 %	-96.3 %	-66.8 %	-18.5 %	-21.4 %	10.6 %	-34.6 %	-11.6 %	-4.6 %	3.7 %	8.7 %

Source: Inderes

Estimate revisions	2024e	2024e	Change	2025e	2025e	Change	2026e	2026e	Change
MEUR / EUR	Old	New	%	Old	New	%	Old	New	%
Revenue	48.6	48.6	0%	62.3	60.6	-3%	62.7	73.0	16%
EBITDA	-0.1	-0.1	0%	8.0	3.0	-62%	7.8	13.5	73%
EBIT (exc. NRIs)	-7.1	-7.1	0%	1.5	-3.5	-331%	-2.4	3.3	241%
EBIT	-7.1	-7.1	0%	1.5	-3.5	-331%	-2.4	3.3	241%
PTP	-6.7	-6.7	0%	1.5	-3.5	-331%	-2.4	3.3	241%
EPS (excl. NRIs)	-0.41	-0.41	0%	0.09	-0.20	-331%	-0.14	0.19	241%
DPS	0.00	0.00		0.00	0.00		0.00	0.00	

Source: Inderes

Valuation 1/4

Remedy's long-term potential is attractive

In the long term, 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 risk/reward ratio of the company's business model. We believe the likelihood of complete failures in game projects is low but a future project can become an actual hit game.

The revenue potential of a single game from Remedy's perspective ranges from tens of millions to hundreds of millions of euros, depending on the publishing or self-publication, so the range of possible outcomes is wide. With the successful ramp-up of the multi-project model, the pace of game releases will quicken and the number of "success options" will rise in the future. We estimate that even with only relatively well succeeding games, Remedy's growth outlook is good far into the future. We have illustrated Remedy's share potential in the scenarios on page 40.

Valuation multiples for a single year will fluctuate based on game releases.

Remedy's strategy is transitioning from an investment to a growth phase, which is still reflected in high valuation multiples (2025e EV/EBITDA 62x) in the near term. Due to the timing of game releases, Remedy's earnings performance, and therefore valuation multiples, will fluctuate with our forecasts for several years to come. The amortization of capitalized development costs at

the EBIT level is likely to continue to affect the figures for the rest of the decade. The smoother earnings development enabled by the multi-project model will be reflected in EBITDA from 2027 onwards, when the EV/EBITDA multiples (2027e-2028e: 5.5x -5.9x) will already be very low, driven by the success of Control 2, as we forecast.

The same conclusions can be drawn from the valuation of Remedy using revenue-based multiples. The multiple for the current year (3.7x) is not particularly attractive, but as growth materializes, the multiples (2027e- 2028e 1.5-1.4x) become low given the company's growth and profitability profile.

FBC: Firebreak release next bigger driver

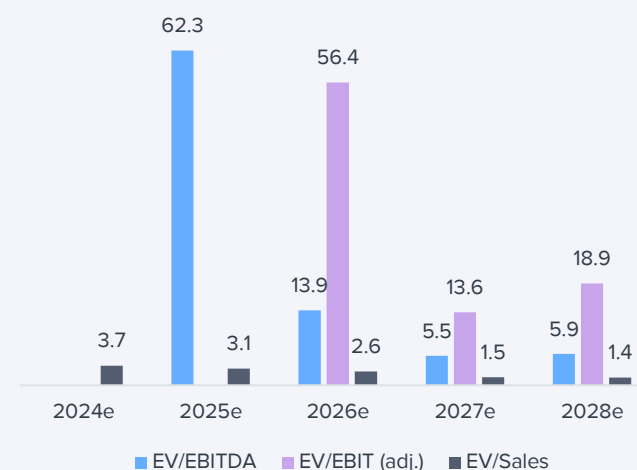
We believe in Remedy's ability to create more quality and successful games in the long term, which makes the current valuation of the stock very attractive. In the short term, however, the stock's valuation is elevated and a key driver (AW2 royalties) has fallen short of expectations this year, which could keep the stock under pressure while overall sentiment towards the gaming sector remains rather gloomy.

However, the release of FBC: Firebreak is approaching, and this will be a clear driver for the stock over the next year. Be that as it may, the success of Remedy's first multiplayer project remains to be proven. We think this is reflected in the share price, which fell at the end of the year, and expectations for the game are not very high. So there is also room for possible positive surprises.

Valuation	2024e	2025e	2026e
Share price	13.5	13.5	13.5
Number of shares, millions	13.6	13.7	13.8
Market cap	183	185	186
EV	177	189	188
P/E (adj.)	neg.	neg.	69.8
P/E	neg.	neg.	69.8
P/B	3.0	3.1	3.0
P/S	3.8	3.0	2.5
EV/Sales	3.7	3.1	2.6
EV/EBITDA	neg.	62.3	13.9
EV/EBIT (adj.)	neg.	neg.	56.4
Payout ratio (%)	0.0 %	0%	0.0 %
Dividend yield-%	0.0 %	0.0 %	0.0 %

Source: Inderes

Evolution of Remedy's valuation multiples



Source: Inderes

Valuation 2/4

However, we also consider FBC: Firebreak to be Remedy's riskiest project at the moment, and in a failed release scenario, the stock's drivers would be lost in the short term. The key to value creation is the release of Control 2, but this event, which is several years away, is not yet enough to support the stock in the current sentiment on Nasdaq Helsinki. However, we still believe that at some point in the next few years, Remedy's stock will begin to more accurately reflect the company's long-term potential as game projects move through the production pipeline toward release.

We remind investors that they must continue to be prepared to tolerate the high price volatility that changes in expectations for future games can cause. Given the current share price, which has fallen sharply in recent years, we also see the risks as being on the positive side.

We believe Remedy is likely to be acquired in the long term

In the consolidation of the gaming market, many independent game studios like Remedy have already merged to become part of a larger player. In theory, all the big players in the market (e.g. Tencent, Microsoft, Sony and the big publishers) are potential candidates to buy Remedy.

Based on this year's events, Tencent has emerged as the clear frontrunner, already owning 14.8% of Remedy's shares, rising to 20.8% after the convertible bond conversion. With its shareholding, the company would also be able to fend off other potential takeover bids. In the short term, we see the likelihood of a takeover bid has decreased, but looking out to the end of the decade, we see the likelihood of a takeover bid gradually increasing.

This is supported by the fact that if Remedy succeeds in executing its strategy over the next few years, we see the stock at a completely different valuation level, which could provide a good exit point for the company. From a buyer's perspective, Remedy would have proven that the multi-project model works over time, while strengthening the brands it owns.

Buy if you believe in the success of future games

Remedy's value relies on cash flows generated far in the future, to which precise visibility is naturally still very weak. Therefore, at this stage, valuation should be approached through different scenarios and aim to assess the expectations priced into the share and thus the risk/reward ratio. In the baseline DCF scenario discussed on page 39, we assume successful game releases, resulting in a value per share of around EUR 19-31, depending on the required return. In the optimistic scenario, the stock could multiply, but in a bearish scenario, there is still plenty of room for downside. The base case scenario already ends up well above the current share price, so the stock is cheap right now if you believe in the success of Remedy's future games. We still believe in the stock and reiterate our Buy recommendation with a target price of EUR 19.0.

Valuation 3/4

Many pitfalls when comparing the valuations of gaming companies

We have compiled Remedy's peer group mainly of companies that focus on console and PC games. The companies in the peer group vary widely in size and stage of development, and their growth and profitability profiles differ significantly. Some companies have run into financial difficulties in recent years, which has driven their valuations very low relative to their expected performance in the coming years. Others (e.g., Take-Two and CD Projekt) are focused on big games coming out in the medium term, with very high near-term valuation multiples. For others, the short-term valuation may look low because a major game release took place this fiscal year. Based on the above, we do not believe that the median peer group valuation we have compiled for Remedy (2024e EV/S 1.7x and EV/EBITDA 5x) is a true reflection of the average acceptable valuation of gaming companies.

In general, valuations of games companies have seen a strong downward correction in recent years after a sharp rise in demand following the COVID pandemic (2020-2021). Of course, this has also been influenced by the significantly higher required rates of return resulting from the rise in interest rates. In many cases, the company-specific challenges mentioned above have also resulted in lower multiples.

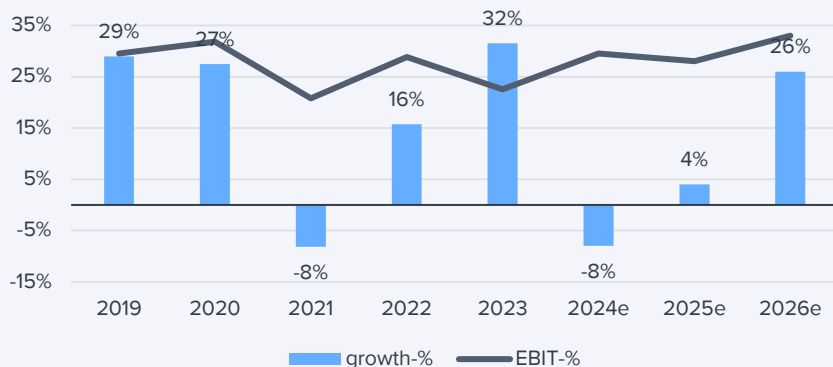
Despite the market turmoil, quality gaming companies are still valued at high multiples. For example, CD Projekt, Paradox, EA and Take-Two have median EV/EBITDA multiples of around 30x and EV/S multiples of 7-8x for the next few years. However, even for most of them, the valuation levels will fall sharply in the medium term with the expected game releases.

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. Therefore,

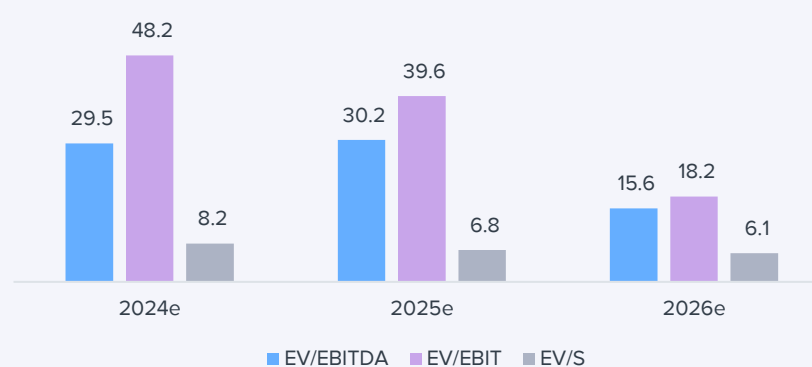
this group can be used to outline Remedy's potential acceptable valuation level. These companies are also publishers of their own games, so they would be relatively comparable in terms of revenue. From an investor's perspective, the value of a gaming company's revenue can be very different, and Remedy's transformation into a self-publisher (with distribution costs now reflected in its revenue) is a good example of this.

If Remedy manages to reach a more stable phase in the long term and earnings performance levels off to some extent, an acceptable EV/EBIT ratio could be in the range of 12x-20x, depending on growth prospects and stock market sentiment. Multiples at these levels would to some extent reflect the valuations of software companies that are making good profits. However, even in the longer term, one cannot get too hung up on any one year's multiples, as the timing of game releases will continue to affect the numbers for much larger game companies.

Growth and EBIT% of quality peers* (median)



Valuation multiples of quality peers* (median)



Source: Inderes, Refinitiv, *CD Projekt, Paradox, EA and Take-Two

Valuation 4/4

DCF model very sensitive to game success

We approach Remedy's DCF modeling through three scenarios to illustrate the sensitivity of the company's value to the success of future games. In particular, we have changed our assumptions about the sales volumes of future AAA games in the scenarios. With a fixed cost structure and self-publishing, the company's stock value can fluctuate over an exceptionally wide range between pessimistic and optimistic scenarios.

The value of Remedy's share in our DCF model in a baseline scenario based on our projections is around EUR 26. Due to the company's stage of development, cash flows are heavily weighted towards the period after 2027, when more regular game releases will increase revenue and profitability. In the baseline scenario, we assume that the major AAA games will sell an average of

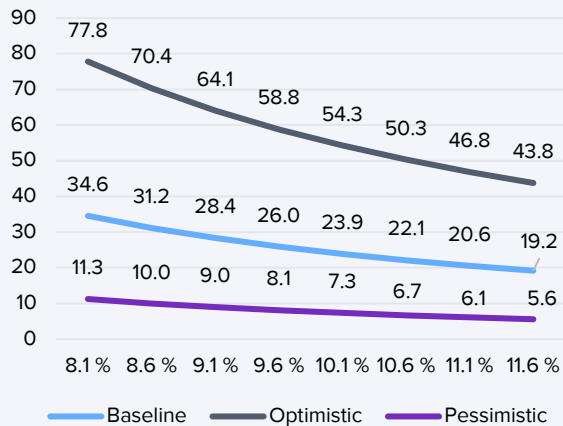
around 5 million copies in the first three years.

In our model, the cost of capital (WACC) is set at 9.6%, which is justified given Remedy's strong financial position, growth prospects, and progress on strategy. In light of high growth expectations, the required return could also be somewhat higher. In the graph below, we illustrate the effect of the used required return on the DCF value.

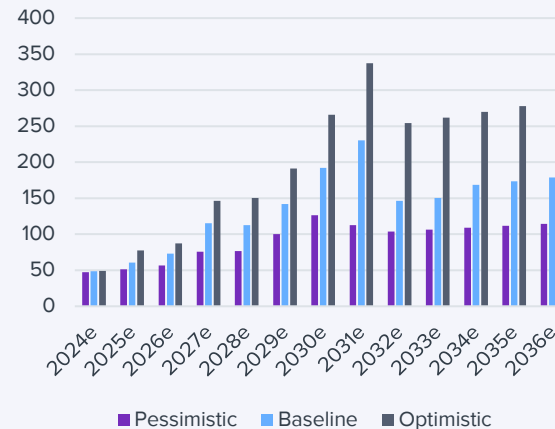
In the optimistic scenario, we expect the major AAA projects to sell around 7 million copies on average over three years, and we expect FBC: Firebreak and Max Payne to outperform the baseline. In this scenario, Remedy's free cash flow would skyrocket and, depending on the required return, the share price could be well above EUR 50. The scenario also illustrates how, in the case of a hit game, the last few million copies sold can dramatically improve the profitability of a single project.

In the pessimistic scenario, we expect the major AAA game projects to sell an average of about 3 million copies in three years, and FBC: Firebreak and Max Payne to be significantly below the baseline. In this case, we estimate that Remedy would need to reduce its cost structure below the baseline to achieve reasonable profitability. A smaller organization is also reflected in lower longer-term revenue forecasts. Even in this scenario, Remedy would generate reasonable profits and cash flow over the long term, but the share value would be around EUR 6-10, depending on profitability. This also shows that Remedy's stock is already loaded with clear growth expectations and there is no room for major disappointments.

DCF value in different scenarios



Revenue in different scenarios (MEUR)



EBIT % in different scenarios



Gauging Remedy's long-term potential

Share price in different scenarios

		EV/EBIT 12x				
		Revenue (MEUR)				
EBIT-%		100	125	150	175	200
25%		21.3	26.3	31.3	36.3	41.3
30%		25.3	31.3	37.3	43.3	49.3
35%		29.3	36.3	43.3	50.3	57.3
40%		33.3	41.3	49.3	57.3	65.3

		EV/EBIT 16x				
		Revenue (MEUR)				
EBIT-%		100	125	150	175	200
25%		28.0	34.7	41.3	48.0	54.7
30%		33.3	41.3	49.3	57.3	65.3
35%		38.7	48.0	57.3	66.7	76.0
40%		44.0	54.7	65.3	76.0	86.7

		EV/EBIT 20x				
		Revenue (MEUR)				
EBIT-%		100	125	150	175	200
25%		34.7	43.0	51.3	59.7	68.0
30%		41.3	51.3	61.3	71.3	81.3
35%		48.0	59.7	71.3	83.0	94.7
40%		54.7	68.0	81.3	94.7	108.0

Annual expected return 2030

		EV/EBIT 12x				
		Revenue (MEUR)				
EBIT-%		100	125	150	175	200
25%		8%	12%	15%	18%	20%
30%		11%	15%	18%	21%	24%
35%		14%	18%	21%	24%	27%
40%		16%	20%	24%	27%	30%

		EV/EBIT 16x				
		Revenue (MEUR)				
EBIT-%		100	125	150	175	200
25%		13%	17%	20%	23%	26%
30%		16%	20%	24%	27%	30%
35%		19%	23%	27%	30%	33%
40%		22%	26%	30%	33%	36%

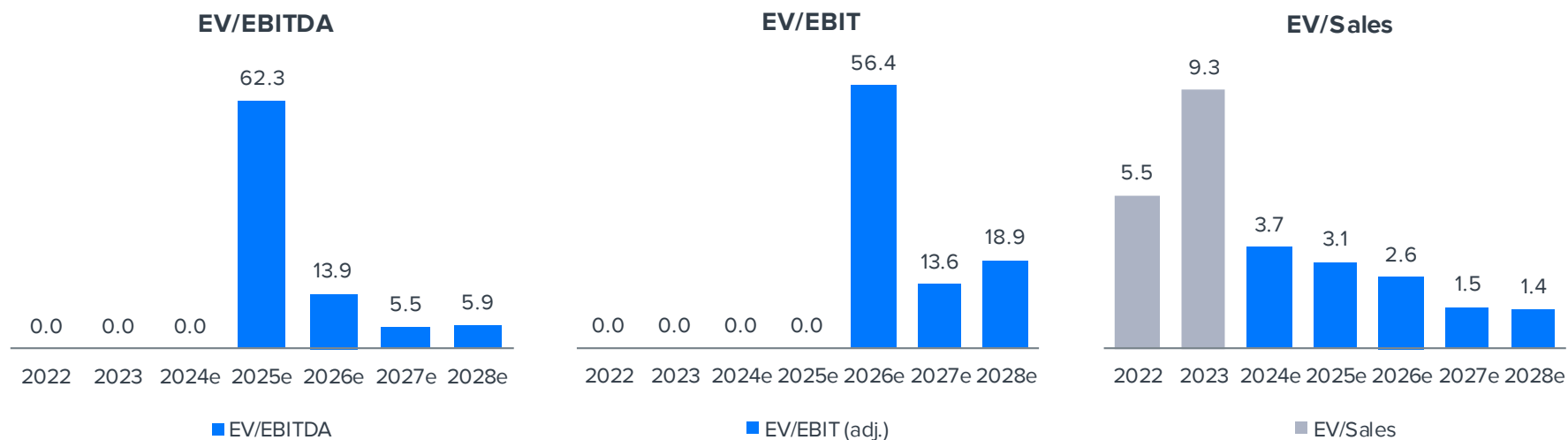
		EV/EBIT 20x				
		Revenue (MEUR)				
EBIT-%		100	125	150	175	200
25%		17%	21%	25%	28%	31%
30%		20%	25%	28%	32%	35%
35%		23%	28%	32%	35%	38%
40%		26%	31%	35%	38%	41%

- The scenarios aim to illustrate the expected return on Remedy's share if the company achieves a revenue of 100-200 MEUR with an EBIT margin of 25-40% by 2030.
- If the company's game projects perform well, we see the revenue and profitability potential to reach these levels.
- The scenarios assume Remedy's net cash to be 20 MEUR and number of shares to be 15 million (accounting for the dilution of stock option schemes and convertible bond).
- In terms of valuation multiples, we believe that an EV/EBIT multiple of 12x would reflect a scenario where Remedy's future growth outlook would be weak, good at 16x and excellent at 20x.

Valuation table

Valuation	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Share price	39.0	39.7	21.9	25.4	13.5	13.5	13.5	13.5
Number of shares, millions	12.1	13.1	13.4	13.5	13.6	13.7	13.8	13.9
Market cap	471	528	294	343	183	185	186	187
EV	453	473	241	316	177	189	188	172
P/E (adj.)	87.0	59.0	neg.	neg.	neg.	neg.	69.8	18.6
P/E	87.0	59.0	neg.	neg.	neg.	neg.	69.8	18.6
P/B	13.0	6.0	3.3	5.1	3.0	3.1	3.0	2.6
P/S	11.5	11.8	6.7	10.1	3.8	3.0	2.5	1.6
EV/Sales	11.0	10.6	5.5	9.3	3.7	3.1	2.6	1.5
EV/EBITDA	32.5	32.8	>100	neg.	neg.	62.3	13.9	5.5
EV/EBIT (adj.)	62.5	41.5	neg.	neg.	neg.	neg.	56.4	13.6
Payout ratio (%)	36.2 %	25.7 %	neg.	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Dividend yield-%	0.4 %	0.4 %	0.5 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %

Source: Inderes



Peer group valuation

Peer group valuation	Market cap	EV	EV/EBIT		EV/EBITDA		EV/S		Lv:n kasvu-%		EBIT-%		
Company	MEUR	MEUR	2024e	2025e	2024e	2025e	2024e	2025e	2024e	2025e	2024e	2025e	
Frontier Developments	99	89			2.9	2.0	0.8	0.8	-14%	3%	-29%	-4%	
Embracer	3655	4940	7.8	9.8	5.2	5.8	1.3	1.5	15%	-11%	17%	15%	
Starbreeze	25	8			1.0	1.4	0.5	0.6	-71%	12%	-124%	-4%	
CD Projekt	4444	4196	61.6	101.9	43.3	63.2	20.5	25.4	-25%	-19%	33%	25%	
Paradox Interactive	1863	1765	34.9	24.0	15.7	11.1	9.6	7.4	-17%	31%	28%	31%	
Team17	400	338	7.8	7.3	6.8	6.4	1.7	1.7	9%	3%	22%	23%	
Playway	423	388	10.3	8.9	10.2	8.8	5.4	4.8	0%	13%	52%	54%	
11 Bit Studios	96	89	4.6	3.5	3.7	2.5	2.3	1.8	171%	23%	50%	53%	
Enad Global 7	124	111	5.5	4.1	3.7	2.5	0.7	0.6	-17%	17%	13%	15%	
Thunderful Group	5	7					1.5	0.3	0.2	-90%	5%	-205%	-25%
Tinybuild	38	29					18.0	0.8	0.7	-18%	10%	-16%	-2%
Cl Games	54	54			3.6	8.9	2.8	4.0	-64%	-30%	-6%	-24%	
Electronic Arts	39040	38393	17.4	16.2	15.6	14.7	5.4	5.2	6%	2%	31%	32%	
Take-Two Interactive	31287	33589	62.8	55.2	51.6	45.7	6.7	6.3	1%	6%	11%	11%	
Ubisoft	1633	3042	8.5		3.4	4.1	1.4	1.5	11%	-10%	16%	-2%	
Remedy (Inderes)	183	177	-24.8	-54.7	-1304.2	62.3	3.7	3.1	43%	25%	-15%	-6%	
Average			22.1	25.6	12.8	13.1	4.0	4.2	-6%	3%	-7%	12%	
Median			9.4	9.8	5.2	6.4	1.7	1.7	-7%	4%	15%	13%	
Diff-% to median			-	-	-	872%	110%	86%					

Source: Refinitiv / Inderes

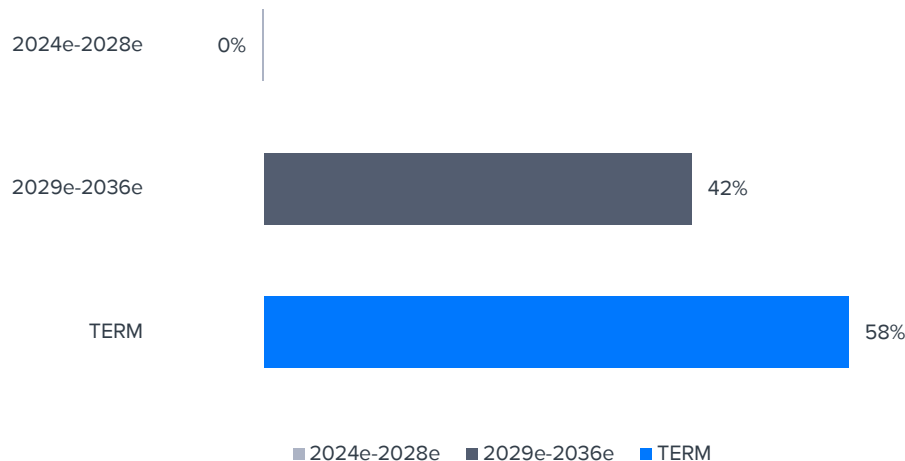
DCF calculation

DCF model	2023	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	2034e	2035e	2036e	TERM
Revenue growth-%	-22.2 %	43.2 %	24.8 %	20.4 %	58.0 %	-2.4 %	26.0 %	35.4 %	20.0 %	-36.6 %	3.0 %	12.0 %	3.0 %	3.0 %	3.0 %
EBIT-%	-84.4 %	-14.7 %	-5.7 %	4.6 %	11.0 %	7.5 %	18.7 %	25.3 %	33.2 %	18.8 %	25.0 %	26.0 %	26.0 %	25.5 %	25.5 %
EBIT (operating profit)	-28.6	-7.1	-3.5	3.3	12.7	8.4	26.6	48.5	76.6	27.4	37.6	43.8	45.2	45.6	
+ Depreciation	11.7	7.0	6.5	10.1	18.9	18.7	17.9	16.0	14.5	13.8	13.4	13.2	13.1	13.1	
- Paid taxes	0.0	0.9	0.7	-0.7	-2.5	-1.7	-5.3	-9.7	-15.3	-5.5	-7.5	-8.7	-9.0	-9.1	
- Tax, financial expenses	0.2	0.1	0.0	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	0.0	0.0	0.0	
- Change in working capital	-2.1	5.9	-3.4	1.2	-1.4	1.3	-0.8	-1.3	3.1	1.7	-0.1	-0.4	-0.1	-0.1	
Operating cash flow	-18.9	6.8	0.3	14.0	27.6	26.7	38.4	53.6	78.9	37.4	43.4	47.9	49.1	49.4	
+ 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	0.0	0.0	0.0	
- Gross CAPEX	-10.1	-27.9	-11.0	-11.0	-11.0	-12.0	-13.0	-13.0	-13.0	-13.0	-13.0	-13.0	-13.0	-13.0	
Free operating cash flow	-29.0	-21.1	-10.7	3.0	16.6	14.7	25.4	40.6	65.9	24.4	30.4	34.9	36.1	36.4	
+/- Other	0.0	5.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	-29.0	-16.1	-10.7	3.0	16.6	14.7	25.4	40.6	65.9	24.4	30.4	34.9	36.1	36.4	
Discounted FCFF		-16.1	-9.7	2.5	12.6	10.2	16.0	23.3	34.6	11.7	13.3	13.9	13.1	12.1	189
Sum of FCFF present value		326	342	352	349	337	327	311	287	253	241	228	214	201	189
Enterprise value DCF		326													
- Interest bearing debt		-3.7													
+ Cash and cash equivalents		30.4													
-Minorities		0.0													
-Dividend/capital return		0.0													
Equity value DCF		353													
Equity value DCF per share		26.0													

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	1.40%
Risk free interest rate	2.5 %
Cost of equity	9.6 %
Weighted average cost of capital (WACC)	9.6 %

Source: Inderes

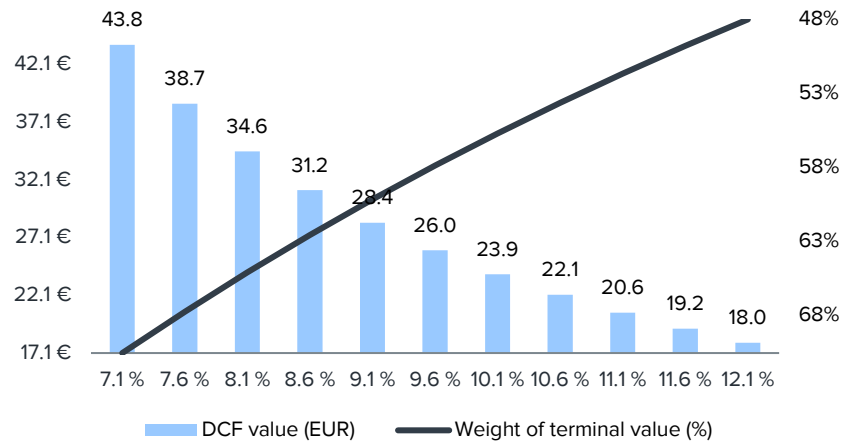
Cash flow distribution



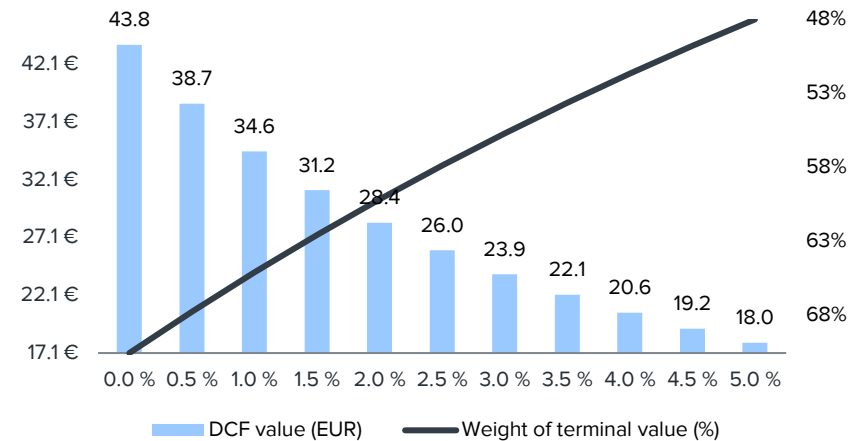
■ 2024e-2028e ■ 2029e-2036e ■ TERM

DCF sensitivity calculations and key assumptions in graphs

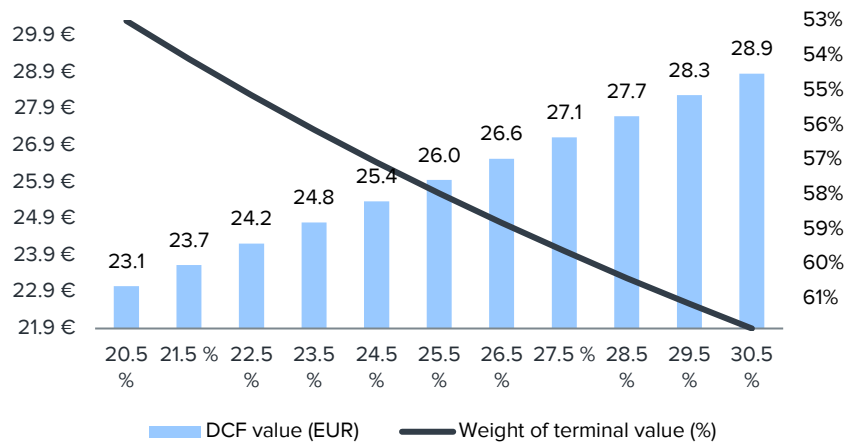
Sensitivity of DCF to changes in the WACC-%



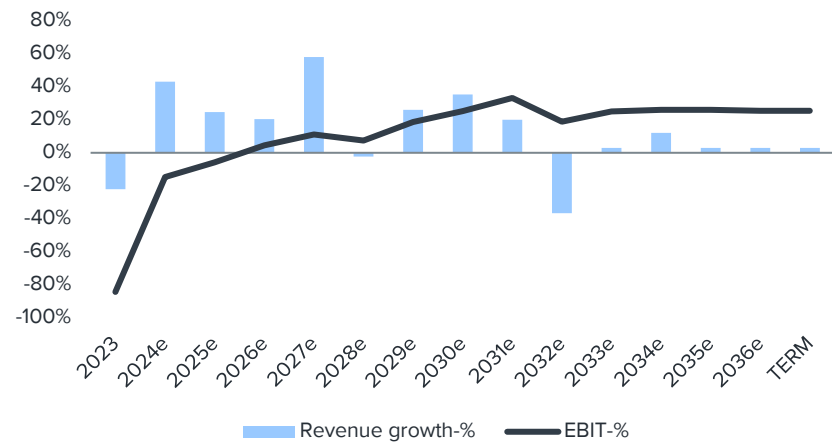
Sensitivity of DCF to changes in the risk-free rate



Sensitivity of DCF to changes in the terminal EBIT margin



Growth and profitability assumptions in the DCF calculation



Source: Inderes. Note that the weight of the terminal value (%) is shown on an inverse scale for clarity.

Balance sheet

Assets	2022	2023	2024e	2025e	2026e
Non-current assets	28.4	31.9	52.8	57.3	58.1
Goodwill	0.0	0.0	0.0	0.0	0.0
Intangible assets	23.3	19.3	41.0	46.5	48.2
Tangible assets	4.3	6.5	5.8	4.8	3.9
Associated companies	0.0	0.0	0.0	0.0	0.0
Other investments	0.0	0.0	0.0	0.0	0.0
Other non-current assets	0.8	1.0	1.0	1.0	1.0
Deferred tax assets	0.0	5.0	5.0	5.0	5.0
Current assets	71.2	47.4	38.5	28.4	31.7
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	15.3	17.0	14.6	15.8	16.0
Cash and equivalents	55.9	30.4	24.0	12.6	15.6
Balance sheet total	99.6	79.3	91.3	85.6	89.8

Source: Inderes

Liabilities & equity	2022	2023	2024e	2025e	2026e
Equity	88.4	67.8	62.1	59.4	62.0
Share capital	0.1	0.1	0.1	0.1	0.1
Retained earnings	31.1	9.8	4.2	1.4	4.1
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	57.1	57.8	57.8	57.8	57.8
Minorities	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	1.1	1.5	17.7	17.0	17.0
Deferred tax liabilities	0.0	0.1	0.0	0.0	0.0
Provisions	0.0	0.0	0.0	0.0	0.0
Interest bearing debt	1.1	1.4	17.7	17.0	17.0
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	0.0	0.0	0.0	0.0	0.0
Current liabilities	10.1	10.0	11.5	9.3	10.8
Interest bearing debt	1.8	2.2	0.2	0.2	0.2
Payables	8.2	7.8	7.3	9.1	10.6
Other current liabilities	0.0	0.0	4.0	0.0	0.0
Balance sheet total	99.6	79.3	91.3	85.6	89.8

Summary

Income statement	2021	2022	2023	2024e	2025e	Per share data	2021	2022	2023	2024e	2025e
Revenue	44.7	43.6	33.9	48.6	60.6	EPS (reported)	0.67	-0.13	-1.68	-0.41	-0.20
EBITDA	14.5	1.9	-17.0	-0.1	3.0	EPS (adj.)	0.67	-0.13	-1.68	-0.41	-0.20
EBIT	11.4	-0.6	-28.6	-7.1	-3.5	OCF / share	0.30	0.51	-1.40	0.50	0.03
PTP	11.3	-1.2	-27.5	-6.7	-3.5	FCF / share	-0.44	-0.29	-2.15	-1.19	-0.78
Net Income	8.8	-1.7	-22.7	-5.6	-2.8	Book value / share	6.69	6.57	5.02	4.57	4.34
Extraordinary items	0.0	0.0	0.0	0.0	0.0	Dividend / share	0.17	0.10	0.00	0.00	0.00
Balance sheet	2021	2022	2023	2024e	2025e	Growth and profitability	2021	2022	2023	2024e	2025e
Balance sheet total	101.1	99.6	79.3	91.3	85.6	Revenue growth-%	9%	-3%	-22%	43%	25%
Equity capital	87.4	88.4	67.8	62.1	59.4	EBITDA growth-%	4%	-87%	-990%	-99%	-2334%
Goodwill	0.0	0.0	0.0	0.0	0.0	EBIT (adj.) growth-%	57%	-105%	4985%	-75%	-51%
Net debt	-54.7	-52.9	-26.8	-6.1	4.6	EPS (adj.) growth-%	50%	-119%	1209%	-75%	-51%
Cash flow	2021	2022	2023	2024e	2025e	EBITDA-%	32.3 %	4.4 %	-50.0 %	-0.3 %	5.0 %
EBITDA	14.5	1.9	-17.0	-0.1	3.0	EBIT (adj.)-%	25.5 %	-1.3 %	-84.4 %	-14.7 %	-5.7 %
Change in working capital	-7.7	5.6	-2.1	5.9	-3.4	EBIT-%	25.5 %	-1.3 %	-84.4 %	-14.7 %	-5.7 %
Operating cash flow	4.0	6.8	-18.9	6.8	0.3	ROE-%	14.2 %	-2.0 %	-29.0 %	-8.7 %	-4.6 %
CAPEX	-9.8	-10.8	-10.1	-27.9	-11.0	ROI-%	17.1 %	-0.6 %	-35.2 %	-9.4 %	-4.4 %
Free cash flow	-5.8	-4.0	-29.0	-16.1	-10.7	Equity ratio	86.4 %	88.8 %	85.5 %	68.0 %	69.3 %
						Gearing	-62.5 %	-59.8 %	-39.5 %	-9.8 %	7.7 %
Valuation multiples	2021	2022	2023	2024e	2025e						
EV/S	10.6	5.5	9.3	3.7	3.1						
EV/EBITDA	32.8	>100	neg.	neg.	62.3						
EV/EBIT (adj.)	41.5	neg.	neg.	neg.	neg.						
P/E (adj.)	59.0	neg.	neg.	neg.	neg.						
P/B	6.0	3.3	5.1	3.0	3.1						
Dividend-%	0.4 %	0.5 %	0.0 %	0.0 %	0.0 %						

Source: Inderes

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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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Recommendation history (>12 mo)

Date	Recommendation	Target	Share price
8/15/2022	Accumulate	26.00 €	22.15 €
10/31/2022	Buy	25.00 €	18.14 €
12/27/2022	Accumulate	25.00 €	21.50 €
2/13/2023	Accumulate	25.00 €	22.70 €
4/19/2023	Accumulate	25.00 €	24.20 €
4/27/2023	Accumulate	25.00 €	23.10 €
6/12/2023	Reduce	25.00 €	26.10 €
8/14/2023	Reduce	25.00 €	25.55 €
9/14/2023	Reduce	24.00 €	22.50 €
10/27/2023	Accumulate	30.00 €	27.00 €
11/1/2023	Accumulate	30.00 €	27.95 €
11/16/2023	Reduce	29.00 €	28.85 €
2/7/2024	Reduce	21.00 €	21.60 €
2/13/2024	Accumulate	21.00 €	17.62 €
2/19/2024	Accumulate	19.00 €	17.02 €
3/21/2024	Accumulate	19.00 €	16.70 €
4/30/2024	Accumulate	20.00 €	19.20 €
8/12/2024	Accumulate	20.00 €	17.20 €
9/5/2024	Accumulate	21.00 €	17.50 €
11/4/2024	Accumulate	19.00 €	15.32 €
11/20/2024	Buy	19.00 €	12.90 €
12/18/2024	Buy	19.00 €	13.50 €



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Inderes Oyj

Itämerentori 2

FI-00180 Helsinki, Finland

+358 10 219 4690

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