

CD PROJEKT Group H1 2022 earnings chat session with individual investors held on 8 September 2022

Moderator: Welcome to the chat session with representatives of the Management Board of CD PROJEKT S.A.: Adam Kiciński, CEO, and Piotr Nielubowicz, CFO. The session is devoted to the CD PROJEKT Group's earnings for the first half of 2022. I would like to remind everyone of our rules: questions should be submitted to the moderator. We publish questions selected by our guests, along with their answers. Each user's questions are queued at the bottom of their respective screens. The moderator may reject questions which violate our rules.

To journalists covering today's chat: any excerpts from today's conversation cited in your press releases must be properly attributed. In case of questions of doubts, please contact biuro@stockwatch.pl.

You may begin asking questions. In case of problems with viewing replies, please refresh the page. We also encourage participants to share the chat session and comment on it in social media using the #czatStockWatch tag.

Adam Kiciński (AK): Welcome to our chat with individual investors which follows the release of the Group's earnings for H1 2022. We invite you to ask questions.

Guest: What projects did the Board have in mind when talking about work on two AAA projects?

Piotr Nielubowicz (PN): In H1 2022 we made some changes to the GWENT team, adjusting the number of developers to the scale of the project. Having published the Rogue Mage expansion, we redirected part of that team to other projects underway at the studio. We're not currently planning to release further expansions.

Regarding Monster Slayer, we intend to keep supporting the game. Spokko is also carrying out conceptual work on further projects.

Janek79: Is the new Witcher based on U5 or RedEngine?

PN: The new game set in the Witcher universe is being developed with Unreal Engine 5.

Guest: To what degree, in the Board's opinion, may the release and positive reception of Cyberpunk: EDGERUNNERS influence sales of CP2077 in respective markets?

AK: We regard Cyberpunk: EDGERUNNERS as an investment in the popularity of the Cyberpunk IP as the format is an excellent match for the CP universe. We believe that EDGERUNNERS will entice viewers to get to know the game; the anime series will also provide an opportunity for fans of Cyberpunk 2077 to delve even deeper into the game's universe.

tgolik: Is another expansion for Cyberpunk in the cards if next year's expansion proves successful? Or has the decision to cease expanding Cyberpunk 2077 already been made and the first expansion will be all we get?

PN: We have decided to release one major expansion which takes advantage of the capabilities of new-gen consoles. Nevertheless, I want to emphasize that we intend to keep developing Cyberpunk. We have invested a lot of time and effort to build the franchise and we definitely want to continue expanding it.

Guest: When will The Witcher 4 be released? Who will be the next witcher?

AK: We're in the preproduction phase of the new Witcher game, and it is too early for me to discuss its release date or storyline.

tgolik: In the wake of Cyberpunk post-release departures, does the Company still have teams of developers capable of creating world-class AAA games?

PN: The Group currently employs nearly 800 developers, approximately 730 of whom are working on game development. Yes, our plans involve ambitious new projects, and we have excellent people onboard, capable of implementing these plans.

tgolik: Is recruitment of employees experienced with development of Unreal Engine-based games for the New Witcher Saga project proceeding in line with your expectations?

AK: It is definitely easier for us to recruit developers for UE than for REDengine. UE is well known on the market and familiar to many developers. In general, there is strong competition for talent on the gaming market; this is par for the course in our industry.

tgolik: Does the company intend to pay out dividends in the coming years, if financial resources allow?

PN: After every annual statement, we make a decision on whether to submit to the GM a recommendation concerning payment of a dividend. In doing so we take into account the Group's future capital requirements.

THORGAL: What does the Board intend to do about the very low price of CDR stock? Will there be e.g., a buy-back of shares?

AK: As you know, as the Management Board we should refrain from commenting upon our stock price. What I can do is assure you that we're focusing our efforts on growing our business, and progressively implementing our strategy. While we're at it, I would like to invite you to our strategy update presentation which will take place in October.

Piotr: Should we expect a similarly high tax rate in Q3 and Q4 of 2022?

PN: We estimate that during the first half of the year we settled approximately 3/4 of our withholding tax. We expect to settle the remainder in the second half of the year.

Guest: How are you planning to reach players who have been disillusioned with Cyberpunk given the bugs and negative post-release reviews? Despite marked improvements, many people still seem to believe that Cyberpunk is an unfinished bug-ridden game, much worse than it actually is.

AK: We see great improvements in the game's stability, and this is reflected by gamers' feedback.

Yesterday we published another major patch – 1.6. We invest in further development of the franchise. The Cyberpunk: EDGERUNNERS anime series is launching next week, while in 2023 we plan to publish a major storyline expansion for Cyberpunk 2077.

mach6: Any news on the company's new strategy – when can we expect details? This year or next year?

PN: As announced yesterday – we will share our plans for the future in October.

mach6: Greetings. You have handed development (at a high code layer) and fixes for CP2077 over to the people with REDmod. Does this mean that you will no longer support this product other than with the previously announced DLC?

AK: Releasing REDmod to the gaming community is not tied to our plans regarding Cyberpunk.

Guest: Will there be any significant licensing royalties from Netflix's Cyberpunk series?

PN: We will receive a one-time payment which covers the production costs. Altogether, this will have a slight positive effect on our earnings. We treat this project as an investment in the recognizability of the brand, and a new field of entertainment where we can learn a lot.

Rufusinski: Would the company consider publishing REDengine and/or all its attendant tools as an open-source project following its abandonment?

AK: We have not been considering this.

Piotr: How many developers are currently working at The Molasses Flood, and how many are involved in the project underway at CD PROJEKT?

PN: There are over 30 developers currently at The Molasses Flood. All are working on a project based on one of our IPs.

Guest: Series, comic books, games... are you planning to morph into a multimedia company?

AK: It's already happened. We are active on these fields as CD PROJEKT; we publish comics, board games etc. Now an anime series – Cyberpunk: EDGERUNNERS – is joining our product family.

Guest: Do you intend to keep developing REDengine or are you shifting entirely to Unreal 5?

PN: The Cyberpunk 2077 expansion will be our last project implemented with REDengine. Further games produced by the studio will be based on Unreal Engine.

Guest: You mentioned that you were working in parallel on two AAA projects. What is the current stage of this work, and how many people are involved in each project?

AK: The allocation of our dev team is shown on one of the slides from yesterday's earnings presentation – see <https://www.cdprojekt.com/pl/wp-content/uploads-pl/2022/09/prezentacja-grupy-cd-projekt-wyniki-h1-2022-en.pdf>

Regarding the new Witcher game, we are in preproduction, while the CP expansion is at an advanced stage of development.

bginvest: The Board has announced the beginning of work on two AAA games. Please clarify whether you mean The Witcher 4 and the CP 2077 expansion, or another project altogether. Thanks.

AK: The first project is the large storyline expansion for Cyberpunk: 2077: Phantom Liberty. The second one is the previously announced game belonging to the new Witcher saga.

Andrzej Łapczyński: Do you still intend to publish the Cyberpunk expansion in the first quarter of 2023, or should we expect this release to be pushed back to later quarters?

AK: The expansion is scheduled for release in 2023.

Guest: Is the CP207x brand staying with you?

PN: Yes, the entire Cyberpunk IP belongs to CD PROJEKT, enabling us to develop it on any field of our choosing. We want to keep expanding the brand and using it in our future projects.

Lolekk: Will you be looking to change the financial parameters of your incentive program, e.g., in conjunction with the strategy update?

PN: We are thinking about the next iteration of our incentive program.

Piotr: Can we regard your recent activities as the launch of the CP77 expansion marketing campaign, or is that still in front of us?

AK: Yes; the day before yesterday we revealed a lot about Phantom Liberty. This marks the beginning of the information campaign related to this expansion.

Guest: How far along are your employees when it comes to learning Unreal Engine 5?

AK: The process is ongoing; we are training developers in collaboration with an Epic Games team. The team responsible for development of the new Witcher game is using UE5.

Guest: Have you improved the security of remote work? I'm thinking of the major leak of source code.

AK: We continue to invest in security systems and have a strong in-house security team.

Rufusinski: How large is the CP2077 expansion? Is it closer to Hearts of Stone or to Blood and Wine?

PN: At the moment I can only confirm that we're planning a major update introducing new characters and new captivating storylines set in Night City. ;)

Guest: Does the downsizing of the GWENT team mean you will no longer support this product quite as much?

PN: We will continue to support GWENT – after the release of Rogue Mage we have adjusted the size of the team to match our planned activities related to the game.

Guest: Does the company plan to increase salaries across the board given the high inflation rate and strong competition for talent?

AK: Competition for talent is a standard aspect of our industry and we're used to it. Regarding wages, last years we raised them by an average of 23% and we expect a similar trajectory this year.

Piotr: There was something missing in the tax-related question; could you clarify?

PN: In the first half of the year our P&L includes approx. 24.6 million PLN in withholding tax, which is potentially 3/4 of all possible withholding tax liabilities for the current year. Settlement of withholding tax requires that we receive confirmation of its payment and deduction by our licensees.

Alex: Do you plan to seek a new large-scale investor, or increase your capital involvement as key shareholders by buying back shares?

PN: We absolutely intend to remain independent.

AK: Thank you very much for taking part in the chat. I would like to take this opportunity to invite you to the CD PROJEKT Group strategy update presentation which will take place this October.

Moderator: On behalf of the editorial board of StockWatch.pl I would also like to thank you for an interesting discussion and invite you to future chat sessions.