

Transcript of investor chat devoted to the CD PROJEKT Group Strategy Update – 5 October 2022

Moderator: Welcome to our investor chat with Adam Kiciński and Piotr Nielubowicz – Board Members of CD PROJEKT S.A. The subject of the chat is the Group’s Strategy Update.

I would like to remind everyone of our ground rules: questions must be submitted to the moderator. Selected questions posed by our guests will be published, along with replies. You can queue questions, and your queue will be displayed at the bottom of your screen. The moderator may reject questions which violate our rules.

A notice for journalists covering today’s chat: any excerpts from this discussion appearing in your press releases must be accompanied by the appropriate attribution. In case of questions or doubts, please contact us at biuro@stockwatch.pl.

You may now begin submitting questions, which our guests will begin answering at 11 a.m. If you encounter problems with viewing replies, please refresh your browser window. Participants are also encouraged to use the #czatStockWatch tag when sharing the chat and commenting upon it in social media.

Adam Kiciński (AK): Welcome to our investor chat dedicated to the CD PROJEKT Group Strategy Update. We await your questions.

Guest: Greetings; will you be releasing any updates on The Witcher game in the near future?

AK: In our updated strategy we announced a total of 5 projects belonging to The Witcher franchise.

1. Sirius – developed by our Boston-based studio, The Molasses Flood, which belongs to the Group.
2. Canis Majoris – a full-fledged production from an external studio headed by experienced developers who have worked on past Witcher games.
3. Polaris and two additional installments in the new Witcher saga.

We will soon release more information – e.g. on Canis Majoris. In addition, let’s not forget about the launch of the new-gen edition of The Witcher 3: Wild Hunt, which is scheduled for the fourth quarter of 2022.

bginvest: Can you describe, in very general terms, the current structure of CP sales for PC and consoles? Can you observe any trends in this regard?

Piotr Nielubowicz (PN): PC continues to be the leading platform for Cyberpunk; however, following the release of the new-gen edition, we have observed an increase in the share of console sales.

tgolik: Cyberpunk got second wind. Does this increase the chances for a second storyline expansion – or perhaps the second season of EDGERUNNERS?

AK: We're really pleased with the success of EDGERUNNERS. In accordance with our strategy, we want to continue spinning up our franchise flywheels and we're looking at opportunities offered by the TV and film industry.

As for CP 2077 expansions, we've decided to develop one large expansion for this game. The next installment in the franchise will be Project Orion, which will fully exploit the potential of this universe.

bioly: Hi. Will there be another large DLC for Cyberpunk 2077 (fan petition)? Have you heard of it, and what is your reaction?

PN: We can confirm that CP77 will receive one large expansion – Phantom Liberty is set to launch in 2023. We also announced that following this release we will begin work on the next AAA game set in the Cyberpunk universe – codenamed Orion.

tgolik: Is there a chance that the new Cyberpunk release will occur within two years of the launch of the first part in the new Witcher saga?

AK: Conceptual work on Orion – the next game in the Cyberpunk franchise – will be carried out by CD PROJEKT RED North America, and will begin after the launch of the Cyberpunk 2077 expansion – Phantom Liberty. This expansion is scheduled to appear in 2023.

Guest: Will the next Cyberpunk game use UE5?

AK: Yes.

Guest: Greetings. What guided your choice of location for the US hubs? Low taxes, access to grants, availability of talent?

PN: Mainly the ability to recruit talented and experienced developers from that region.

wtorek: Are you planning new Netflix series other than CP77 and The Witcher?

AK: We want to expand our franchises to film and TV. Cyberpunk: EDGERUNNERS is a good example of this “transmedia” approach where various types of media mesh together and reinforce each other.

I can add that given our full ownership of the Cyberpunk franchise, we can freely expand into TV and movies – whereas with The Witcher we do not hold the copyright to theatrical and TV adaptations.

Patriks: What conclusions did you draw from the CP launch? What changes did you make as a result?

PN: More information in this regard can be found in the introductory section of the strategy update video published on Tuesday.

Guest: Greetings. Do you plan to create other games based on literary works, as was the case with The Witcher? For example – a game based on the works of Brandon Sanderson?

AK: For some time now we've been carrying out conceptual work on a new IP codenamed Hadar. This universe is being developed fully in-house.

Guest: Are there plans to add multiplayer to CP2077?

PN: No; however – as announced on Tuesday – we have plans to include multiplayer in the majority of our future games.

anti: What about GWENT? Will you be phasing out development?

AK: GWENT has been on the market since 2016; it is a mature game that continues to entertain players. Traditionally, the GWENT team presents its plans for the coming year in a webcast organized each December.

anti: Do you have specific recruitment goals to match your ambitious plans? 2000+ people in several years' time – is that possible?

AK: Yes; we have plans concerning the development of our studio, and therefore also recruitment. Launching CD PROJEKT RED NA will enable us to effectively recruit North American talent. In Europe we intend to continue to grow at the current dynamic pace.

Guest: Are you buying back stock in order to delist the Company, or do you simply have too much free cash?

PN: No, we have no plans to delist the Company. We believe in our strategy and in the long-term value of the Company – hence the buyback.

ValueDrivenInvestor: How do you make sure that ESG assessment does not restrict the authors of your stories – in creative terms?

PN: Creativity and courage in addressing difficult subjects are both part of our DNA. We believe that in this way we can leave our mark on the world around us.

Guest: Have you purchased the right to Thorgal?

PN: No; our third IP is being developed internally.

Elfu: Do you think it's a good idea to disclose such far-reaching plans, perhaps looking ahead by more than 10 years? What's your aim in doing this now?

AK: We have ambitious plans which require that we continue to expand our development teams. Charting our long-term directions of growth supports this process.

Guest: Your presentation mentions the mobile game market and development of publishing activities. Can you point to any new works which you intend to publish?

PN: As before, we will focus on publishing our own products.

bginvest: Hello. Congratulations and respect for your persistence and forging ahead with your plans in this difficult environment. Do you regard the release of Patch 1.6 and the launch of CD EDGERUNNERS as a game changer for the Cyberpunk IP?

AK: We see a notable uptick in interest in Cyberpunk 2077. In the wake of the release of Cyberpunk EDGERUNNERS over 1 million people would visit Night City each day – both new and returning players. This is clearly a result of good reception of the anime series, but also of the many months of hard work which our developers put into updating the game.

A change in sentiment could already be observed after the successful new-gen console release of Cyberpunk 2077. Together with the Netflix debut, we also published a patch which contained additional improvements and introduced some content inspired by the series. This helped us further raise interest in both titles.

bginvest: Your recent sales milestones for CP 2077 were 18 and 20 million. Will the Company issue another update after you've sold 2 million units more?

AK: We don't have a prebaked policy of announcing sales milestones – we do so when it helps our marketing effort and when we feel it may increase interest in the game.

bginvest: Is the Board planning to publish earnings projections for the third quarter of 2022?

AK: At present we have no such plans. Publication of our Q3 earnings is scheduled for 28 November 2022.

Roki: Is there a chance that a big shareholder might emerge to help support the Company's growth? Or perhaps you might be acquired by a bigger market player?

PN: As we've always emphasized – we intend to remain independent.

CSharpBeginner: What is the current status of development of W3 new-gen? Is the Q4 release in jeopardy, or can you confirm this timeframe with 100% certainty?

AK: Final touches are being applied on schedule. We plan to release the new-gen console edition of The Witcher 3, along with a PC update, in the fourth quarter of 2022.

Gość: Will Orion be based on UE5?

AK: Yes, that's the plan.

tgolik: Could launching the CD PROJEKT NA studio be the first step towards reducing the competitive edge of CD PROJEKT given the lower labor costs in Poland? Aren't you divesting yourselves of one of your advantages in this way?

PN: Our competitive edge is based primarily on the unique nature of our projects.

tgolik: Can we assume that Phantom Liberty will be comparable in scope to Hearts of Stone and Blood and Wine taken together?

AK: The structure and scope of Phantom Liberty differ from W3 expansions. We will reveal more details in the course of our marketing campaign accompanying this release.

tgolik: Does the stock buyback plan reduce chances for a dividend for 2022?

AK: Our decisions to pay out dividends are taken on a case-by-case basis and always rooted in the current needs and operational plans of the Company.

Zaprzeczenie: Will 2023 be a good year for CDR and its shareholders?

PN: 2023 will see the launch of a large expansion for Cyberpunk 2077 – Phantom Liberty. ;)

chimpo: What are the Company's goals with regard to mobile productions? So far the Company has had limited success in this field.

AK: Mobile games are part of our strategy. For the first time in our history we're opening up to collaboration with external teams which can develop new games based on our IPs. Our goal is to work with talented partners who are able to clear the quality bar set by our past games, and deliver worthwhile experiences for our fans.

Alex 0: Do your near-term plans include opening studios in Eastern Europe (other than in Poland) where the costs of employment are significantly lower?

PN: We plan to start a new hub in Boston, which will be part of CD PROJEKT RED North America. We're also growing in Poland and currently have no plans regarding other potential locations in this part of Europe.

Guest: What is the current role of Adam Badowski?

AK: Adam Badowski is a Board Member at CD PROJEKT S.A. and heads the CD PROJEKT RED Studio.

Gość: Where will you get the money to finance all these plans?

PN: We have been self-financed for years, and wish to remain so.

Gość: Quantitatively speaking, what is your current headcount? Will opening new hubs cause you to exceed the 1500 employees mark?

AK: We currently employ over 1200 people – in the future, in order to realize our production plans, we will definitely require a larger team.

Guest: Why is your new IP developed internally? You seem to have been successful in purchasing licenses.

PN: We've been toying with the concept of a third IP for several years now, and we're excited to be able to develop it from scratch.

AK, PN: Thank you for taking part in the chat – and we'll see you next time.

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