

Video Gaming

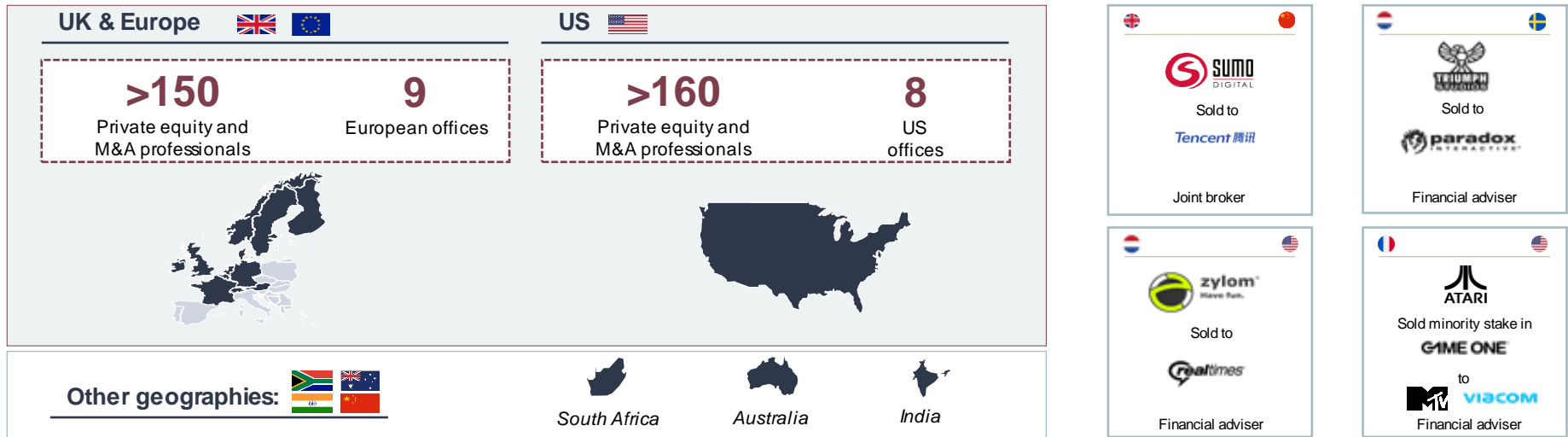
Market update

SEPTEMBER 2022



Investec's international M&A business

A global presence provides us with direct access to companies and investors in all key territories



Come and talk to us...



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Whether you are a Gaming entrepreneur looking to explore strategic options for your business, or an investor / strategic buyer looking for advice in evaluating and financing a Gaming acquisition, Investec can help by providing buy-side or sell-side advice, raising investment from private equity / venture capital or via an IPO.

Global Video Gaming sector background

Strong activity levels expected to continue

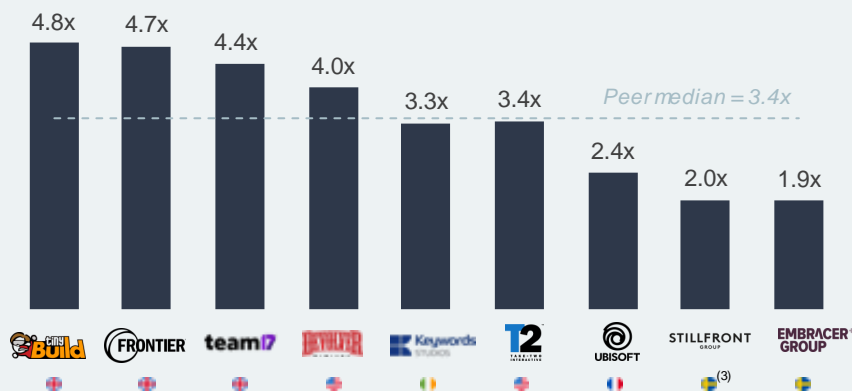
Public market performance

- IPO activity was strong in 2021, with many leading assets coming to market at premium valuations:
 - January 2021 – Playtika raised £1.3bn
 - March 2021 – Roblox IPO'd at a £31.1bn and TinyBuild IPO'd at a £340m market capitalisation
 - April 2021 – AppLovin raised £1.6bn
 - August 2021 – Nexters came to market under a \$1.9bn SPAC
 - November 2021 – Devolver Digital raised £206m on its admission to AIM
 - February 2022 – Hiro Metaverse raised £115m
- IPO markets are difficult across global markets. Despite this the Video Gaming sector is expected to be an early beneficiary when markets re-open.

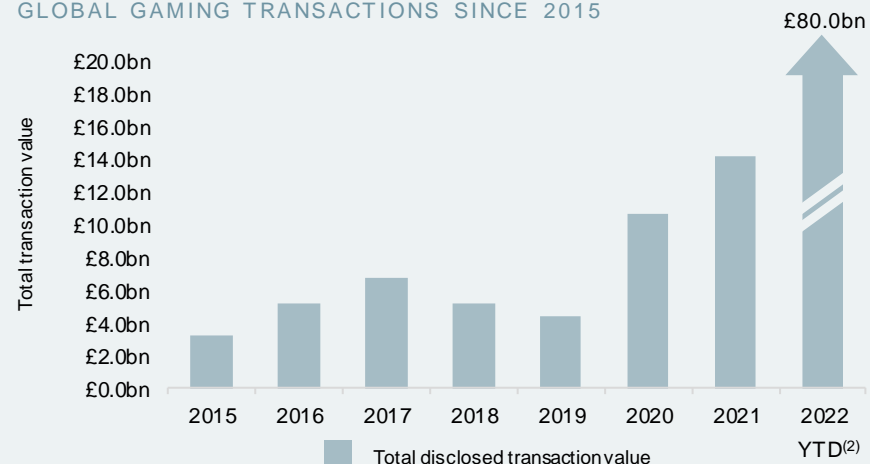
M&A market conditions

- In 2021, M&A activity continued to thrive as larger players like Microsoft, Sony, Tencent and Embracer Group made big-ticket acquisitions
- A few recent notable trade deals include:
 - Microsoft's acquisition of Activision Blizzard at £50.5bn EV (7.6x EV/Sales and 17.0x EV/EBITDA), represented a 45% premium
 - Take-Two Interactive's acquisition of Zynga, a listed online social gaming platform, at 4.5x EV/Sales and £9.0bn transaction value, represented a 64% premium
 - EA's acquisition of Codemasters (Take-Two was the under-bidder) for £895m (7.7x LFY EV/Sales), as well as EA's acquisition of Glu Mobile for £1.5bn (3.5x LFY EV/Sales)

PUBLIC VALUATION – FY22 EV/Sales⁽¹⁾



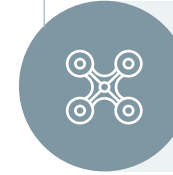
GLOBAL GAMING TRANSACTIONS SINCE 2015



More players, more consoles, more content



- Number of global players increased by 5.3% in 2021 vs 2020
- Newzoo experts are now forecasting a Video Gaming market growth CAGR of c.5% to 2024
- Content backlog from COVID is reducing, with more output expected in the latter part of this year also driven by what many hope will be greater availability of now “current-gen consoles”
- Expected content saturation with large investment in both traditional games and the Metaverse



Consolidation

- Recent increase in M&A in the sector to acquire 1st party titles
- Largest tech acquisition of all time with purchase of Activision Blizzard by Microsoft and Sony’s purchase of Bungie, giving the group greater live services expertise



Current trends in the market

Working conditions



- Crunch was the big issue of 2020/21, with the drive to create content in less efficient working from home conditions becoming ever more pressing
- Better conditions and in some cases, unionisation looks set to be the trend of 2022



Inflation

- Lower disposable income is unlikely to be positive for game sales – however, propensity to cancel a subscription lower than propensity to purchase an AAA game
- We predict that gaming will take share from other leisure activities as the Games-As-A-Place / Platform trend continues

Spotlight on console and streaming providers

SONY

PS Plus

- Sony to merge PS Now and PS Plus services into a simplified 3 tier subscription service under the PS Plus brand
- PS Plus is a back catalogue subscription services whereas Xbox Game Pass features new titles

48m

Sony's PS Plus subscriber base

vs

25m

Xbox Game pass subscriber base

- Sony has also announced that any publisher looking to release a premium-priced game must create a min 2 hour trial (available to top-tier subscribers). Their ability to demand this of publishers was only made possible due to Playstation's leverage given its market position

NETFLIX

- Netflix's approach to gaming market is to release games as a supplement to VoD content aiming to generate upwards pressure on subscriptions
- Mobile / casual games based on 1st party 1P from movies and TV content
- The company has joined in the market consolidations having acquired Next Games and appointing a new Head of Gaming strategy:

 x 
£55m EV (March 2022)



and



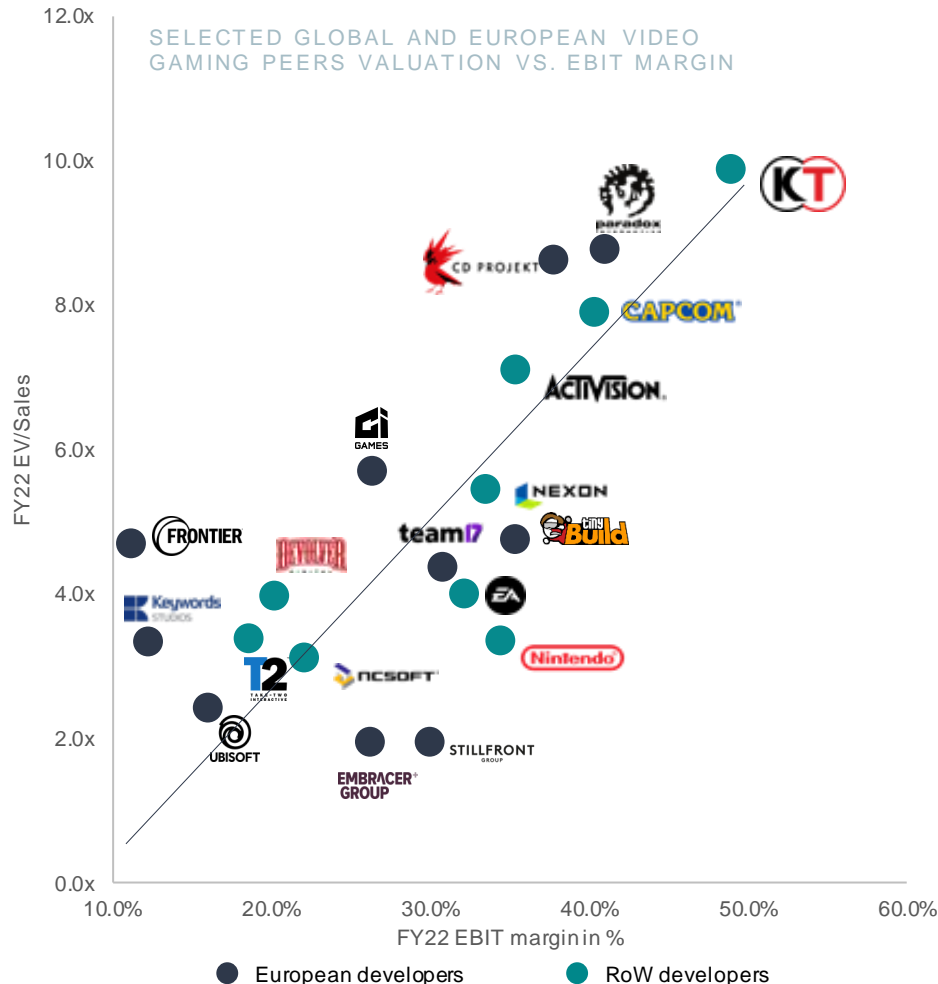
Appointing new Head of Gaming strategy:
Roberto Barrera (ex director of corporate strategy at Playstation)

amazon

- Amazon first announced its entry into gaming in 2012, with a service focused on mobile and Facebook games
- Post acquisition of Twitch and announcement of 3 new multiplayer titles in 2016 – of which 2 were scrapped and only New World enjoyed a strong release – Amazon still does have a sustainable 1st party franchise
- This has seen Amazon pivot slightly and partner with Smilegate to publish the Western release of hit RPG, Lost Ark (which reached top end of the charts of Steam in first week of sale)
- Comes into question whether Amazon's model is:
 - Publishing cross-platform 3rd party IP
 - or
 - Continue to aim to create 1st party IP to drive uptake of its newly released Luna subscription service

Public markets performance

EV/Sales valuations broadly follow EBIT margins



Recent market commentary

Team17 (TM17.L)



United Kingdom | Media

- Team17 delivered H1 results in line with its expectations, with a strong back catalogue performance from the games label and in-line trading from its recent acquisitions
- However, it is a difficult time to be H2 weighted in game publishing, with a potentially congested release window combined with arguably a peak cost of living squeeze
- Amongst the 7 new games label titles, the group is excited about Marauders given its internal performance, with Thymesla, Sweet Transit and Sunday Gold the other named titles

Source: Investec (Jul-22)

tinyBuild



First View: tinyBuild 1H22 Update Reassures, Leads on Social Measures

- Although tinyBuild had been trading well at its early June CMD, the Devolver warning and macro clouds have driven a 30% fall since. Reassurance should thus be well-received.
- H1 trading is slightly ahead of its expectations and the given traction so far, expected to at least meet FY estimates

Source: Jefferies (Jun-22)

Frontier Developments (FDEV.L)



United Kingdom | Media

- Announced a reshuffle of its executive team, with CEO David Braben moving to a new role on the Board as "President and Founder" with CCO Jonny Watts moving into the CEO role
- Frontier Development's trading update showed a number of reasons for optimism. Beating at the top line versus Investec estimates, with the pain now fully taken from Odyssey. The slower start from JWE2 has been largely caught up, with the first strong title from Foundry, Chaos Gate, outperforming expectations. F1 Manager is now the next major landmark, which needs a strong performance to rebuild faith in the investment case.

Source: Investec (Aug-22 and July 2022)

Keyword Studios (KWS.L)



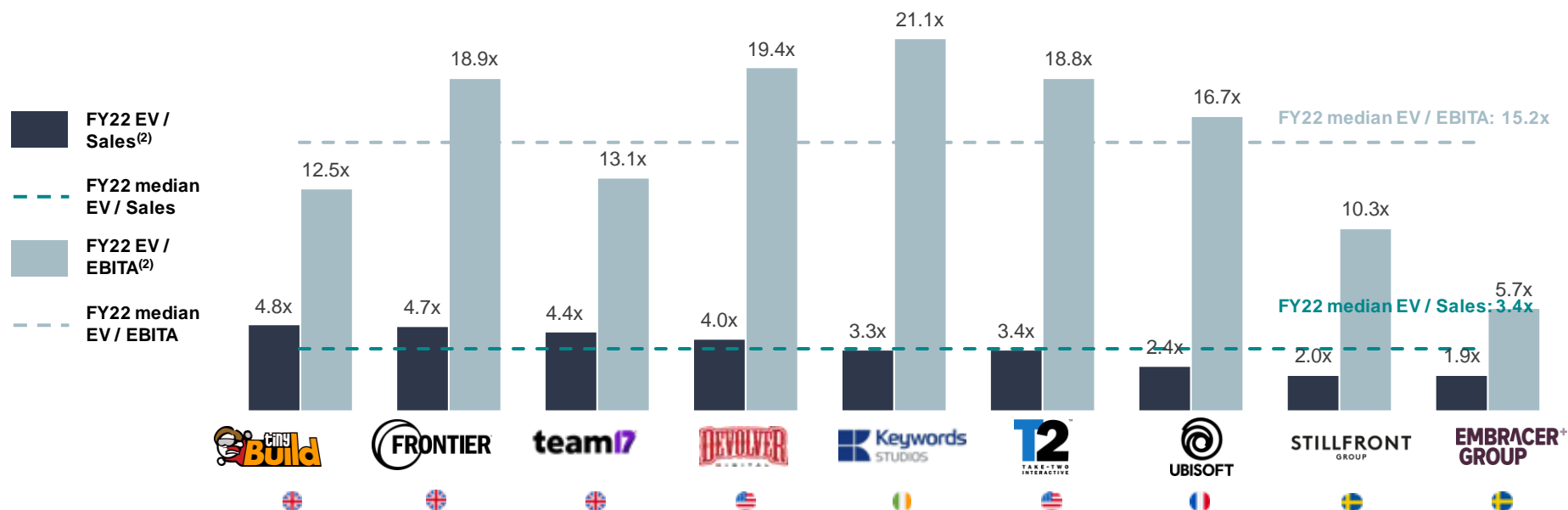
United Kingdom | Media

- Key words delivered an excellent set of H1 results, with a broad-based growth and particular strength in its new Create and Globalize business lines continuing the recent market trend of greater new content creation
- It is poised to further benefit from the content 'arms race' in a trend-agnostic fashion. Keywords reported H1 revenues of 320m euros, up 24%, with organic growth of 22% and broad-based demand across its service lines

Source: Investec (Aug-22)

Public markets continue to rate Video Gaming peers strongly

Selected global Video Gaming publisher / developer peers⁽¹⁾

































EV	£215.3m	£593.2m	£545.7m	£453.1m	£1,821.7m	£15,207.6m	£4,797.4m	£1,108.1m	£5,167.3m
FY21-23 revenue CAGR ⁽²⁾	18.7%	23.0%	15.7%	22.6%	20.0%	41.2%	11.5%	18.1%	58.9%
FY22E revenue growth ⁽²⁾	34.6%	20.9%	37.5%	52.9%	44.2%	54.9%	7.7%	29.8%	120.9%
FY22E EBIT margin (%) ⁽²⁾	35.3%	11.2%	30.7%	20.2%	12.3%	18.6%	16.0%	29.9%	26.2%

M&A activity by trade players

2022 set to be another record year for Video Gaming M&A

Commentary

- 2021 saw a c.30% increase in number of transactions and c.45% increase in average transaction value from 2020. The investment space also saw over 700 private placings
- Sweden-based Embracer Group lead the charge, executing both the most and the biggest industry acquisitions
- The start of 2022 has been no different – with mega-deals such as Take-Two's £9bn acquisition of Zynga and Microsoft's (pending) £50bn acquisition of Activision Blizzard
- Tailwinds remain strong as we enter H2'22 – mobile gaming, in particular, is contributing to the industry's expansive growth, generating nearly £74bn revenue in 2021
- Outstanding performance from industry leaders such as Microsoft is also breeding M&A confidence – with Q2'22 gaming revenue up 18% year-on-year⁽⁶⁾

Date ⁽⁶⁾	Target	Target description	Acquirer	EV	LFY	
					EV/Sales	EV/EBITDA
July -22		US-based developer and marketer of entertainment software specializing in advanced consumer and commercial games		-	-	-
Jan-22		US-based videogame developer		£2,680m	-	-
Jan-22		Germany -based developer, publisher and distributor of sophisticated 'working' simulation games		£83m	-	-
Jan-22		US-based publisher and distributor of interactive entertainment software products		£50,445m	7.6x	17.0x
Jan-22		US-based social Video Games developer for mobile & social networking platforms		£9,002m	4.5x	8.1x
Aug-21		China-based Video Games developer, known for Golf Rival		£377m	-	-
Jul-21		UK-based Video Games developer and provider of creative services		£924m	9.0x	38.8x
Mar-21		UK-based Video Games developer spread, known for Fall Guys		-	-	-
Mar-21		China-based mobile and video games developer		£2,887m	-	-
Feb-21		US-based developer and publisher of mobile games		£1,512m	3.5x	72.0x
Feb-21		US-based developer of interactive original AAA game titles and franchises		£1,010m	9.7x	25.5x
Feb-21		Cyprus-based mobile game developer with a core focus on puzzle and logic games		£561m	3.6x	10.9x
Dec-20		UK-based Video Game developer and publisher		£895m	12.6x	52.0x
Dec-20		UK-based independent mobile free-to-play gaming studios		£270m	5.6x	22.6x
Sep-20		US-based developer, publisher and distributor of Video Games		£5,830m	-	-
				Average	7.0x	25.0x ⁽⁷⁾




Microsoft to acquire Activision Blizzard

"to bring the joy and community of gaming to everyone, across every device"⁽¹⁾

-  Provides the building blocks for the Metaverse
-  Makes Microsoft the third largest gaming company in the world
-  Adds another 400m MAU's⁽¹⁾




Tencent to acquire UK-listed Sumo Digital

"expertise and resources to accelerate [...] the UK as a hub for game innovation"⁽²⁾

-  Expanding its significant but low-key presence in the UK
-  Driving forward wider gaming M&A strategy   
-  Unlocking access for Sumo to accelerate development plans

Recent PE Video Gaming activity

PE investors pile into the \$190bn Video Game market



\$160m Investment



US-based game studio
March 2022

Deal summary

TPG Capital LP and Sequoia Capital made an investment in Thatgamecompany LLC - consideration was \$160m

Deal highlights

Investment helps Thatgamecompany to:

1. Grow its **development team** and **organisation infrastructure**
2. **Technological advancements and R&D** spend to enhance player experience
3. **Service the games growing player community**
4. **Support mobile title**, Sky: Children of the Light



c.£60m acquisition



France-based Video Game distributor and publisher
November 2021

Deal summary

BDC acquired an undisclosed majority stake in Plug In Digital, from Inter Invest Capital SAS

Deal highlights

Investment helps Plug in digital to:

1. **Finance its organic development** (including publishing of high-potential indie games)
2. **Execute external growth strategy** of targeting Video Game developers with own-IP on which company can further capitalise



Investment



UK-based advertising technology focused on Video Games
September 2021

Deal summary

Venatus, secured an undisclosed investment from Livingbridge, via Livingbridge 7

Deal highlights

Investment helps Venatus to:

1. **Work on growth plans in the US**
2. **Invest in proprietary technology**



majority acquisition of



UK-based children's and family Video Games publisher
August 2021

Deal summary

EMK and the management of Outright Games, have acquired the company from Rockpool Investments via an undisclosed MBO


Rockpool netted 12.7x on sale

EV/Sales: 3.8x⁽¹⁾
EV/EBIT: 14.8x⁽¹⁾


Deal highlights

Acquisition allows OG to:

1. **Further develop output of Video Game titles** (aiming to triple their portfolio from date of investment to end of 2023)
2. **Expand its global presence**



Investment



US-based Video Game software developer and publisher
April 2021

Deal summary

Epic games raised \$1bn in the funding round from various investors. The transaction values Epic Games at \$28.7bn

Deal highlights

Investment helps Epic games to:

1. **Advance state of the art in technology, entertainment, and socially connected online services**
2. **Accelerate innovation** in social experiences in Fortnite, Ticket League and Fall Guys
3. **Empower game developers** and creators with Unreal Engine, Epic Online Services and Epic Games Store

In April 2022, Kirkbi and Sony announced acquisition of 6.35% of Epic Games. The consideration was \$2bn, valuing the business at \$31.5bn⁽¹⁾

Key financial KPIs

Strong financial performance is essential to maintaining a premium valuation

Characteristics	team17	Build	Peer group Dec FY22F
Business model	Dec FY22F	Dec FY22F	Peer group Dec FY22F
Revenue visibility (back catalogue as % revenue)	77.0%	83.0%	50% ↔ 80%
Revenue growth	37.5%	34.6%	7% ↔ 45% ⁽¹⁾
EBIT growth	19.0%	38.9%	(10%) ↔ 40%
EBIT margin	30.7%	35.3%	10% ↔ 36%
Average launch revenue	c.£1.5m	c. £1.3m	£1.0m ↔ >£50.0m
Financials	FY22F	FY22F	FY22F
Revenue	£124.4m	£45.2m	£45.2m ↔ £4.0bn
EBIT	£38.2m	£15.9m	£8.2m ↔ £0.8bn

Key non-financial KPIs

Investors will look to both financial and non-financial KPIs when considering valuation

Characteristics	team17	Build	Peer group Dec FY22F
Business model	Dec FY22F	Dec FY22F	Peer group Dec FY22F
Average longevity of title (years contributing to revenue)	5-7 years ⁽¹⁾	5 years	2 years ↔ 10+ years
Diversified revenue streams (no. utilised platforms ⁽²⁾)	4	4	1/4 ↔ 4/4
Social media following (total across core social platforms)	245.3k	938.5k	50k ↔ >1,000k
Single title concentration (single title % conc in back catalogue)	<10%	54%	10% ↔ 60%
Back catalogue strength (no. of titles >£1m in back catalogue)	20-30 ⁽¹⁾	4	3 ↔ 20+
Amount of 1 st party IP (1 st party sales as % total sales)	22%	65% ⁽³⁾	0% ↔ 100%
New title launches (next financial year)	8	9	4 ↔ 15
M&A strategy (based on historic & forecast M&A)	Identified	Clear	Unclear ↔ Clear
Digital capability (% revenue from digital vs. physical)	93% ⁽³⁾	96%	30% ↔ 100%
Reliance on partners (IP holders, QA testing, developers etc.)	Low	Low	High ↔ Low
Metacritic rating (Average career score)	78	67	58 ↔ 78

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