

# Animoca Brands Corp. Ltd

## Mobile: The Global Games Playground

AB1 focuses on high product volume and cost suppression on the basis that a greater number of games translate to better opportunities for a hit to occur naturally.

**Portfolio** - AB1 has 358 fun titles targeted and localized for the Asia Pacific gaming market. The hit games include Doraemon Gadget Rush, Garfield's Diner and Ragnarok Online.

**Network** - There are ~7m monthly active users (MAUs), over 500,000 daily active users (DAUs) and over 130m downloads as of 1Q CY15.

**Strategic Cash Investment** – China's leading listed mobile game developer Ourpalm Co. invests A\$3.1m (11.11% stake) at A\$0.21 ps in AB1, with an option to invest a further A\$5m at A\$0.315 ps.

### Outlook

The growth in AB1's business is anticipated to accelerate:

- Doraemon Gadget Rush topped the charts on Apple and Google Play and in Japan, China, Hong Kong, Indonesia and Vietnam.
- The release of the Paris Hilton game has the opportunity to replicate the success of Kim Kardashians app which generated ~US\$700,000 per day and US\$55m in its first 3 months.
- Major Licensing agreements with Mattel and GungHo Online Entertainment, with a first to market opportunity to create mobile games based on their popular global portfolio of brands.
- Licensing globally recognized brands taps into existing fan bases thereby reducing marketing costs and enhancing desirability.

### Global Market

There are over 1.5bn global mobile gamers growing at a CAGR of 19%. Gaming revenue is anticipated to double from US\$17.5bn in 2013 to US\$35.4bn in 2017, with Asia Pacific revenues at US\$12.2bn, the largest mobile games market worldwide (Newzoo 2015).

### Valuation and recommendation

We recommend a BUY and place a price target on AB1 at A\$0.40 per share, on a revenue multiple valuation, based on:

- Highly scalable business model – Revenues from the portfolio's long tail are anticipated to cover AB1's fixed expenses in CY16.
- Attractive valuation – AB1 is trading at a substantial discount to its peers on a revenue multiple of 2.4x.
- Strong Board – Highly experienced Board and management team with proven success in the US and Asia.
- Major Shareholders – Intel Capital, IDG-Accel and Forgeam.

AB1.ASX

BUY

Tuesday 7 July 2015

Price A\$0.20  
 Price Target A\$0.40  
 Valuation Method Revenue Multiple

GICS sector Technology  
 12 mth price range A\$0.04 - A\$0.33ps  
 Avg monthly t/o 0.2m  
 Market Cap A\$26.0m  
 Shares on issue - weighted average 118.3m  
 Enterprise value A\$20.5m  
 Previous rating Initiating Coverage

Year ended December 31		14A	15E	16E	17E	18E
<b>Monthly Active Users</b>	<b>m</b>	<b>6</b>	<b>11</b>	<b>16</b>	<b>24</b>	<b>36</b>
Sales revenue	US\$m	0.9	6.0	9.0	14.4	21.6
<b>Net Revenue</b>	<b>US\$m</b>	<b>0.4</b>	<b>2.6</b>	<b>4.5</b>	<b>7.7</b>	<b>12.0</b>
EBIT	US\$m	-6.4	-2.0	-0.6	2.1	6.1
EBIT margin	%	-707	-32.6	-6.4	14.3	28.2
<b>NPAT</b>	<b>US\$m</b>	<b>-6.4</b>	<b>-3.8</b>	<b>0.8</b>	<b>2.1</b>	<b>5.1</b>
EPS	¢ps	-5.4	-3.2	0.6	1.4	3.4
DPS	¢ps	0.0	0.0	0.0	0.0	0.0
Franking	%	0.0	0.0	0.0	0.0	0.0
Dividend Yield	%	0.0	0.0	0.0	0.0	0.0
PE	x	-3.6	-6.1	31.3	13.8	5.7
EV / EBITDA	x	-3.8	-10.4	-39.7	10.0	2.4
EV / EBIT	x	-3.8	-10.4	-39.7	10.0	2.4
Debt / Debt + Equity	%	0.0	0.0	0.0	0.0	0.0
Price / Cash Flow	x	-4.8	-22.9	-151	11.6	4.4
ROA	%	-536	-41.7	-8.4	27.2	51.3
ROE	%	522	1347	36.1	55.9	69.3

All figures in US\$ unless stated otherwise.

AB1 v Small Industrial Index (XSI)



Source: IRESS

#### Activities

Develops and publishes mobile games to the global market.

[www.animocabrands.com](http://www.animocabrands.com)

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## Animoca Brands Corporation Limited.

### Financial Performance (US\$m)

Year ended December	2014a	2015e	2016e	2017e	2018e
Sales revenue	0.9	6.0	9.0	14.4	21.6
Cost of goods sold	(0.5)	(3.4)	(4.5)	(6.7)	(9.6)
<b>Net Revenue</b>	<b>0.4</b>	<b>2.6</b>	<b>4.5</b>	<b>7.7</b>	<b>12.0</b>
Expenses	(6.7)	(4.6)	(5.1)	(5.6)	(5.9)
EBITDA	(6.4)	(2.0)	(0.6)	2.1	6.1
Depreciation & amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	(6.4)	(2.0)	(0.6)	2.1	6.1
Net interest	0.0	0.0	0.0	0.0	0.0
Pre-Tax Profit/(Loss)	(6.4)	(2.0)	(0.6)	2.1	6.1
Tax (paid)/refund	0.0	0.0	0.0	0.0	(1.0)
Abnormals	0.0	(1.8)	1.4	0.0	0.0
Normalised Profit/(Loss)	(6.4)	(3.8)	0.8	2.1	5.1
Significant items	0.0	0.0	0.0	0.0	0.0
Reported Profit/(Loss)	(6.4)	(3.8)	0.8	2.1	5.1

### Balance Sheet (US\$m)

Year ended December	2014a	2015e	2016e	2017e	2018e
Cash	2.3	6.8	6.2	8.2	14.3
Receivables	0.0	0.2	0.3	0.5	0.8
Other assets	0.0	0.0	0.0	0.0	0.0
Total Assets	2.4	7.1	6.5	8.7	15.0
Payables	1.6	2.0	2.5	3.1	3.8
Current debt	0.0	0.0	0.0	0.0	0.0
Long term debt	3.2	1.4	0.0	0.0	0.0
Other liabilities	0.0	1.8	1.3	0.8	1.3
Total Liabilities	4.8	5.2	3.8	3.9	5.1
Shareholder Funds	(2.4)	1.9	2.7	4.8	9.9

### Cash Flow Statement (US\$m)

As at December	2014a	2015e	2016e	2017e	2018e
EBITDA	(6.4)	(2.0)	(0.6)	2.1	6.1
Net interest	0.0	0.0	0.0	0.0	0.0
Income tax paid	0.0	0.0	0.0	0.0	0.0
Working capital	1.5	0.9	0.4	0.4	0.5
Operating Cash Flow	(4.8)	(1.0)	(0.2)	2.5	6.6
Capex	0.0	0.0	0.0	0.0	0.0
Free Cash Flow	(4.8)	(1.0)	(0.2)	2.5	6.6
Loans to related parties	0.0	(0.8)	(0.5)	(0.5)	(0.5)
Acquisitions	0.4	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
Equity raised	1.9	8.1	0.0	0.0	0.0
Debt (Repay) / Borrowings	1.0	(1.8)	(0.0)	0.0	0.0
Net increase / (decrease) cash	(1.6)	4.5	(0.7)	2.0	6.1
Cash at beginning		2.3	6.8	6.2	8.2
Cash at end		6.8	6.2	8.2	14.3

### Major Shareholders

		Directors	
Ourpalm Co. Ltd.	11.11%	David Kim	Chairman
Asyla Investments Ltd.	11.85%	Robert Yung	Managing Director
Datahouse Investments Ltd.	11.85%	Yat Siu	Non-Exec Director
Intel Capital Corporation	9.24%	David Brickler	Non-Exec Director
Yong Hui Capital Holdings	8.63%	Richard Kuo	Non-Exec Director
Top 20 (31/12/2014)	88.08%	Martin Green	Non-Exec Director

### Valuation Metrics

	Premium / (Discount)
Price	A\$0.20 (107%)
Target Price	A\$0.40
Market Capitalisation	A\$26.0m

### Growth Ratios (%)

Year ended December	2014a	2015e	2016e	2017e	2018e
Sales revenue	na	572	48.1	60.7	50.0
COGS	na	533	30.0	49.5	43.5
Gross profit	na	632	72.3	72.0	55.6
Expenses	na	(31.9)	10.5	11.7	4.7
EBITDA	na	(69.0)	(71)	(461)	195
Normalised profit	na	(40.5)	(122)	154	143
EPS	na	(40.5)	(119)	128	143

### Operating Performance Ratios

Year ended December	2014a	2015e	2016e	2017e	2018e
Gross Profit / Sales revenue (%)	39.5	43.0	50.0	53.5	55.5
EBITDA / Sales revenue (%)	(707)	(32.6)	(6.4)	14.3	28.2
NPBT / Sales revenue (%)	(707)	(33.1)	(6.7)	14.6	28.2
Effective tax rate (%)	0.0	0.0	0.0	0.0	16.5
Interest / EBIT cover (x)	na	na	na	na	na

### Balance Sheet Ratios

Year ended December	2014a	2015e	2016e	2017e	2018e
Receivables turn (x)	28.1	48.9	33.5	34.6	33.7
Net debt (\$m)	0.9	0.0	0.0	0.0	0.0
Debt / (Debt + Equity) (%)	0.0	0.0	0.0	0.0	0.0
Current Assets / Current Liabilities (x)	1.5	3.6	2.6	2.8	3.9
Net assets (eps)	(2.1)	1.4	1.8	3.2	6.7
Net tangible assets (eps)	(2.1)	1.4	1.8	3.2	6.7
Cash (eps)	0.0	4.1	4.2	5.5	9.6
Price to book value (x)	(9.5)	13.8	11	6.0	2.9
Return on assets (%)	(536)	(41.7)	(8.4)	27	51
Return on equity (%)	522	1,347	36	56	69.3

### Multiples (x)

Year ended December	2014a	2015e	2016e	2017e	2018e
<b>PE Ratio</b>	<b>-3.6</b>	<b>-6.1</b>	<b>31.3</b>	<b>13.8</b>	<b>5.7</b>
Enterprise value / EBITDA	-3.8	-10.4	-39.7	10.0	2.4
Enterprise value / Profit	-3.8	-5.4	27.4	9.9	2.9
Cash flow ratio	-4.8	-22.9	-151	11.6	4.4

### Per Share Data

Year ended December	2014a	2015e	2016e	2017e	2018e
Issued shares - weighted average (m)	118.3	118.3	133.1	148.1	148.1
EPS (eps)	(5.4)	(3.2)	0.6	1.4	3.4
EPS - adjusted (eps)	(5.4)	(3.2)	0.6	1.4	3.4
Operating cash flow (eps)	(4.1)	(0.9)	(0.1)	1.7	4.5
Free cash flow (eps)	(4.1)	(0.9)	(0.1)	1.7	4.5
DPS (eps)	0.0	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0	0.0
Dividend payout ratio (%)	0.0	0.0	0.0	0.0	0.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0

All revenue figures are US\$ unless stated otherwise.

## Investment Case

**Strong Endorsement from Global Leader** – Ourpalm Co. Ltd. invests A\$3.1m into AB1, representing an 11.11% stake, at a premium price of \$0.21 ps. Ourpalm is valued at over US\$3bn and is a leading listed mobile and social web game developer and publisher, employing over 2,000 staff and a global network of companies to publish games across China, USA, Southeast Asia and Europe.

**Leadership in Mobile Gaming** – Doraemon Gadget Rush, the latest game release, has become a success. It is modelled off the 12<sup>th</sup> highest grossing animated franchise of all time. Since the release in February 2015:

- It has topped the charts on the App Store and Google Play in the first month of its release. It is the Number 1 downloaded iPad game in Japan, China, Taiwan, Indonesia, Hong Kong, Vietnam, Macau and Brunei.
- It is the number 1 downloaded action game in Indonesia, Malaysia and Hong Kong and top 10 for most downloaded iPad game in Spain, Malaysia, Singapore, Thailand, Cambodia, Laos and Nepal.

**First to Market Licensing Agreements** – Licensing popular global brands is a significant competitive advantage that includes major global partnerships with Mattel & Gungho. This creates first to market global opportunities to develop games based on popular global brands with existing global fan bases.

**Experienced Board and Management** – Successful Board with a proven record with NASDAQ listed companies and entrepreneurial companies in the US and Asia. The Board is highly regarded in the gaming industry providing a key advantage in securing licensing deals with global brands.

**Paris Hilton App** – The Paris Hilton game is anticipated to compete with the success of the Kim Kardashian app that generated US\$55m in its first 3 months.

**World's Fastest Growing Games Market** - APAC is the world's fastest growing mobile gaming market with 740m mobile gamers (53% of global gamers). APACs total gaming revenue was US\$12.2bn for 2014 with an annual growth rate of 21%. The market has the highest portion of paying users at 33% or 243m users with an average spend of US\$4.17.

**Global Reach** – The Board has a clear strategy to retain customers while growing the global network to achieve scale, with:

- Network downloads growing to record levels of 130m as of March 2015, with a run rate of 4m to 5m downloads per month, 9.7m monthly active users (MAUs) in February 2015, and over 500,000 DAUs.

**A Proven Portfolio Model** – The power of AB1's network and the longevity of the brands have continued to perform with 358 published games.

**Low Risk Game Development** – The modular game development approach reduces costs of new games and produces a high volume of diversified releases. This strategy creates more opportunities to produce hit games and reduces risk of investing in individual titles.

**Highly Scalable Business Model** – The business model is highly scalable with the in-house development and enhancement of game engines, the substantial pipeline of new titles developed by third party studios and the low capex business model.

Ourpalm invests A\$3.1m in AB1

Has topped the charts on Apple and Google Play Store

Major partnership deals with leading Chinese games publishers

Experienced Board that are highly regarded in the gaming industry

Paris Hilton app is anticipated to replicate the success of Kim Kardashian

Massive reach with over 8m MAUs and growing

## Strategic Relationship with Ourpalm Co. Ltd

### The Strategic Investment

Ourpalm Co. Ltd has agreed to make a strategic cash investment in AB1, an endorsement that solidifies the existing relationship announced on 28 May 2015. The investment will accelerate and fuel AB1's expansion into the rapidly growing mobile games markets:

**Ourpalm invests A\$3.1m at a 23.5% premium at \$0.21 ps.**

- Ourpalm Co. Ltd will invest A\$3.1m in AB1 for an 11.11% (14.8m shares) stake, a premium of 23.5% (A\$0.21 ps) at the closing price on 24/06/2015.
- An option to invest a further A\$5m at a price equal to 150% (A\$0.315 ps.) of the subscription price (A\$0.21 ps.) when the volume weighted average price of AB1's shares over a five day period reaches 150% of the subscription price.
- Ourpalm will have 30 days to exercise the option after the date upon which that price has been reached.
- Mr. Steven Hu, co-CEO of Ourpalm Co. Ltd will be appointed as Non-Executive Director of AB1.

**An option to invest a further A\$5m at \$0.315 ps.**

Mr. Steven Hu is one of the earliest veterans in the gaming industry and has over 10 years' experience in the internet and wireless industry. Prior to joining Ourpalm, Mr. Hu was the partner of venture capital firm Qiming Venture Partners and led investments in Xiami, Domob, Zhihu.com, D.cn and Jiayaun (NASDAQ: DATE). Mr. Hu played an important role in three NASDAQ listed companies: KongZhong (NASDAQ: KONG), Sohu (NASDAQ: SOHU) and Sina (NASDAQ: SINA). He is a founding member of KongZhong and served as vice president from 2002 to 2007.

### About Ourpalm Co. Ltd

Ourpalm Co. Ltd is valued at over US\$3bn and is China's leading listed social web and mobile game developer and publisher, employing over 2,000 staff and working with a global network of companies to publish games across China, USA, Europe and Southeast Asia.

Ourpalm Co. Ltd pursues strategic investment mergers and acquisitions with game developers and industry leaders. Recent M&A's include Dovo Entertainment, PlayCrab, ShangGame, TIANMA, BLINGSTORM and Strategic investments in Unity Software and H&R Century Pictures.

### AB1's Attractive Proposition

AB1 has demonstrated a strong record in developing highly successful mobile games and is a highly attractive value proposition, with:

**Highly attractive value proposition**

- A high quality entrepreneurial Board and management that have over 10 years of corporate success in the gaming industry across Asia and the US.
- The Board's proven reputation and experience is a key factor in securing the trust and approval for highly sensitive licensing deals for popular global brands such as Mattel, Paris Hilton and Gungho.
- A unique low cost approach to developing a portfolio of successful mobile games for the global gaming market.
- AB1's strategic portfolio approach creates a large diverse games portfolio that generates long term revenues.

## Background

**AB1 was recognised as one of the top 50 developers in the world in 2013 and 2014 by Pocket Gamer.**

**Backed by leading venture capital companies**

Animoca Brands Corporation Limited (AB1.ASX) was formed in 2014 through the spinoff of a subsidiary of Appionics Holdings Ltd, known by the consumer brand Animoca. Appionics had been developing successful brand based mobile hits since 2011, with the first hit game 'Pretty Pet Salon' in 2011, which grew into a large franchise of Pretty Pet games.

Appionics was founded in 2010, with investors including Intel Corporation, IDG-Accel China Growth Fund II L.P., Neoteny Fund and Forgame Holdings Ltd. Appionics was recognized by Pocket Gamer as one of the Top 50 Developers in the world in 2013 and 2014.

AB1 listed on the ASX in January 2015, following a reverse takeover of Black Fire Minerals Ltd, which raised A\$2.4m, comprising 12m shares at A\$0.20 ps. AB1 has divested all the assets relating to Black Fire Minerals.

The ASX listing boosted AB1's profile and provided liquidity for shareholders. The funds raised will be directed to:

- Continue the development of its mobile games business with the continual launch of new titles based on its existing library of intellectual property, such as Garfield, Doraemon and Chibi Maruko-Chan to obtain market leadership.
- The majority of AB1's expenditure over the next two years will be applied to the development and marketing of mobile games and to accelerate growth by identifying and securing new licenses for other globally-recognised intellectual property.
- Identify lucrative mobile games to publish or acquire.

Following the listing, AB1's issued capital includes:

- 133.1m shares on issue (includes 14.8m Ourpalm shares).
- 30m A Class performance shares and 15m B Class performance shares, converting at FY15 US\$6m sales revenue and not less than negative US\$2m EBIT and FY16 US\$8m sales revenue and not less than negative US\$2m EBIT respectively.

**Revenue target of US\$8m for FY16**

AB1 operations currently comprise:

- **Headquarters** – The head office is located at Unit 417-421, Cyberport 1, 100 Cyberport Road, Hong Kong.
- **Staff** - Employs 70 staff in the areas of game development, graphic design, computer programming, software architecture and other related skills.

## Operating Model

**AB1 follows the freemium model, offers games for free with optional in-app purchases**

**Freemium Business Model** – The majority of AB1’s games are free to download and play but offer optional in-app purchases of virtual items and services. Examples of in-app purchases include unlocking new characters or objects for use in a game, obtaining another life for one’s character in a game or customizing the aesthetics of the game.

Free-to-play business models and the addition of mobile screens as game destinations lower thresholds and allow consumers to spend more time on games. Ultimately this is the only way to get non-paying gamers to start spending and expand the wallet of current paying gamers.

**Mobile Games** – AB1 has a portfolio of 358 titles, 130m downloads and MAUs of ~7m for the last 12 months. Game titles are targeted toward the industry’s most popular genres such as, casual, brain & puzzle, role-playing, strategy, time management and simulation. AB1 also licenses and develops popular brands such as Doraemon, Garfield, Ben 10 and Paris Hilton.

AB1 operates a multi strategy for revenue generation. The strength of the multi strategy model is that it offers a diverse range of mobile games across multiple geographies, with:

- **Game Development** – Develops original content
- **Publisher** – Publishes third party games
- **Advertising** – A proprietary marketing platform generates revenue through online advertising such as banners, performance displays and lead generation.

**Operates a multi strategy for game development to maximize revenue**

## Game Development

The game development strategy consists of:

- **Original Content** - Developing original content has a significantly higher return on investment per game, with less incremental costs and a greater percentage of revenue returned to AB1.
- **Licensing** - Licensing popular global brands and developing games targeted at the brands established global audience.

**Modular approach significantly reduces costs of game development**

AB1 has an innovative modular approach to game development that incorporates off the shelf software components in order to simplify and shorten the timeframe and cost of the development process. The software components can be third party tools such as Chukong Technologies Cocos 2DX, Unity Technologies APS Unity or in-house tools such as specific game engines.

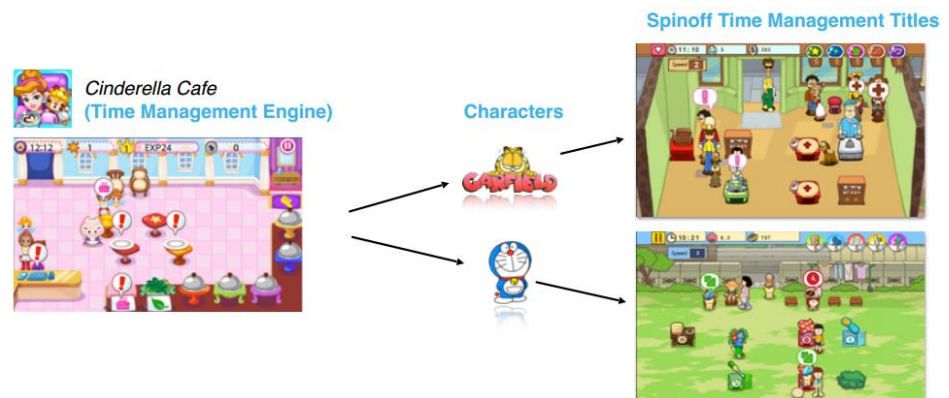
The game engines and software components can be mixed and matched with graphical elements to assemble the final game. The key advantages are:

- The modular concept significantly reduces the development lifecycle and lowers costs.
- Creates the opportunity to design new games based on already popular game formats.
- AB1 is able to produce larger volumes of game titles per year than most studios. The large diverse games portfolio includes titles across different genres and targeting different demographics, regions and device types.
- AB1 focuses on high product volume and cost suppression on the basis that a greater number of games translate to better opportunities for a hit to occur naturally.

**Portfolio approach creates better opportunities for a hit to occur naturally**

An example of a successful modular approach is AB1’s hit game Cinderella Café. The success validates the time management game play engine, therefore pairing this proven engine with well-known characters led to the success of Garfield’s Pet Hospital and Doraemon Repair Shop games.

**Figure 1: Modular Approach to Development**



Source: Company data

**Licensed Intellectual Property** – A key strategy to develop games based on intellectual property (IP) consists of well-known characters, which have existing global fan bases, popularized in other media that AB1 licenses from third parties.

Consumers are increasingly expecting games and media content related to their favorite games’ brands to travel with them across all screens and to be available at all times.

Licensing typically operates on the basis of a royalty agreement through which the licensor receives a percentage share of net revenues, defined by gross revenue less related expenses, such as platform fees and marketing.

**Licensing typically operates on a royalty agreement as a percentage of net revenue**

## Publishing

In addition to developing its own games, AB1 also licenses games designed and built for third parties to publish. Third parties often develop games for limited geographic distribution and then look for publishers to help publish their games in other territories. AB1 assists in localization by:

**AB1 licenses games designed and built by third parties**

- Providing services ranging from simple translation to advising on a wide array of feature customization based upon local tastes such as altering western themes to an Asian theme.
- Assuming responsibility for marketing and user acquisition costs, with the net revenue of the game usually shared between publisher and developer.
- The net sharing arrangements vary widely depending upon the territories involved, the history of the game and developer, the anticipated marketing budget and other factors.

AB1 acts as publisher for select titles developed by third party studios. Examples of third party apps published and/or managed by AB1 are Ragnarok: War of Gods by NeoCyon Ltd., a subsidiary of GungHo Online Entertainment Ltd. of Japan.

Publishing games on behalf of third parties allows AB1 to leverage its experience with its distribution and marketing partners all over the world. AB1's current partnerships include:

- **Global Platforms** – Google, Facebook, Amazon apps and Windows Phone.
- **User Acquisition** – Chartboost, Flurry, Tapjoy, Mobile app tracking, Twitter and mopub.
- **Publishing and Development** – Ourpalm, GungHo, and Forgeame.
- **Brands** – Mattel, Garfield, Astroboy, Ben 10 and Ultraman.

## Advertising

Developers need to weigh gamer experience against revenue goals by:

**Advertising is tailored to the type of gamer to maximize revenue and enjoyment**

- **Identifying New Users** – Developers can maintain an ad-free experience within the first few app launches so new and potentially loyal users will not be turned away from the game.
- **Segmenting High-Paying Users from Low-Paying Users** – Developers can choose to maintain ad-free experiences for high-paying users, while monetizing low or non-paying users.
- **Understanding Where and When to Place Ads** – Ad placement and timing impacts both gamer experience and ad performance.

Revenue in mobile game advertising is measured by performance display and brand display and requires a large network of users to be successful. Advancements in technology have made in-game premium ad experiences possible. The in-game advertisement formats in mobile gaming include:



**Figure 2: In-Game Advertisements Formats**



**Native Ad** – Less intrusive and integrated wholly and seamlessly into the game experience. Native ads mimic game form and function.



**Customised Ad** – Integrated into the game experience and share the game aesthetic but not function.



**Value Exchange Ad** – Users opt-in to interact with ads in exchange for tangible benefits. A value exchange ad is an incentivized video which ad-users opt-in to watch a video in exchange for a predefined benefit.



**App Gallery** – A tool to cross-promote developers own games, and feature other developers games.



**Interstitial Advertisement** – Developers can utilise full screen take over ads to promote their games.



**Banner Advertisement** – Banner ads are minimally invasive and aim to inherit the look and feel of the app.

Source: InMobi

**App store fees are typically 30% of gross revenues**

## Global Distribution

The app store is responsible for merchandising, the cost of hosting the store and the apps, software delivery and processing the payments made by users. In exchange, the app stores levy a platform fee, which is typically 30% of gross revenues paid by a user.

The largest app stores with the broadest geographic distribution are the iTunes app store operated by Apple and the Play Store operated by Google. Games sold through these two stores account for the majority of revenues earned by AB1.

Other major app stores AB1 works with are strongest in only single countries, with:

**Korea** – Samsung and LG dominate the smartphone market, with the Google Play Store generating the most revenue. Samsung and local carriers have curated their own app stores, with:



- **SK Telecom's T-Store** – Korea's largest platform for apps.



- **Kakao** – Most Koreans discover games through Kakao's game platform, a chat platform with over 520m users. Players are able to invite their friends to download games, play games with their friends, and make in-app purchases.



**Japan** – AppStore-Japan handles the majority of Japan's mobile game apps.

**China** – The Android market is very fragmented, instead of one platform such as Google Play; end users of mobile games are offered products via stores from carriers, hardware providers and other services. There are over 500 app stores, with the following stores covering ~80% of the market, with:



- **Tencent MyApp** – Has a highly social audience, because it is connected with WeChat and Mobile QQ. Games that have more social features work better in the Tencent ecosystem.



- **The Baidu App Store** – Operates the biggest hardcore gaming communities in China.



- **360 Mobile Assistant** – Launched in 2011 by Qihoo 360, has a network who are first time gamers. This makes 360 more suitable for casual games.



- **Wandoujia** – An Android mobile content engine with over 300m users and over 900m downloads per month. Wandoujia aggregates Android apps externally via SnapPea and has a large focus on foreign developers. The revenue model for app developers is: 40% developer, 30% mobile carrier, 30% Wandoujia.



- **UC AppStore** – Launched by UC Web in 2004, a provider of mobile internet software technology and services.



- **AnZhi Market** – Driven primarily by its very large community where gamers can discuss the app they downloaded in forums, with ~180m downloads per month.



- **Alibaba** – China's largest e-commerce company.



- **Gfan Market** – Total number of downloads to date is more than 3 billion, with 10 million new downloads every day.

**Paying and non-paying users are equally important to generating scale**

## Revenue Model

The business model has customers who pay little or nothing and are subsidized by another set of customers that pays large amounts of money to play AB1 games. Both sets of customers are important to achieve the scale within the business.

The free customers have an incremental effect on the value of cash flows from the population of fee paying customers and create substantial network effects and cash flows.

AB1 generates revenue from its mobile games, with:

- **In-App Purchases** – The cost of in-app products are subject to the games popularity and tend to be higher for freemium games than paid games.
- **Paid Games** – Games valued at the lower tier price point in the app stores. This strategy works with licensed products that have an established global audience.
- **Advertising** – Revenue is proportional to the size of AB1’s network of customers, as the network grows revenue is anticipated to increase exponentially.

The industry average revenue per user (ARPU) and cost per installation (CPI) vary significantly in each country, with:

- AB1 implements targeted strategies to maximize in-app purchases from paying users and advertising revenue from non-paying users. New users drive the growth and have a life cycle of 30 to 60 days to maximize revenue.
- AB1’s current ARPU is ~US\$0.08 per MAU. This includes in-app purchases and advertising revenues.
- The CPI for AB1 is ~US\$0.02, which includes marketing and installation costs. This compares favorably to industry CPIs of >US\$1.00 and is a key competitive advantage.

**Figure 3: ARPU and Cost of Installation by Country**

Country	Average Cost Per Install (US\$)	Average Revenue Per Download (US\$)	Average Profit Per Download (US\$)
Japan	\$1.86	\$6.34	\$4.48
Australia	\$2.59	\$4.50	\$1.91
South Korea	\$1.98	\$3.82	\$1.84
United Kingdom	\$1.86	\$2.33	\$0.47
Germany	\$2.07	\$2.45	\$0.38
United States	\$2.17	\$2.52	\$0.35
Canada	\$2.42	\$2.73	\$0.31
China	\$0.90	\$1.13	\$0.23
Italy	\$1.47	\$1.61	\$0.14

Source: AppLift

**In-App Purchases**

**Freemium Business Model**

**AB1 offers its games for free with the option for in-app purchases with real money**

AB1 offers most of its games for free with paid content through in-app purchases to enhance the gaming experience. Types of in-app purchases include:

- Consumables – Extra health/lives/energy, continuation of gameplay after death, boosters, hints or experience points.
- Non-consumables – Bonus game levels, increased resources and upgraded character abilities.

Customers need to buy consumable in-app purchases every time they want them and they only purchase non-consumable apps once. In-app products tend to have a higher price point for freemium games than paid games. AB1 games typically focus on consumable in-app purchases. An example is Doraemon Gadget Rush, AB1’s latest hit freemium game:

- Doraemon Gadget Rush is a freemium puzzle game. The aim is to form long strings of the same colored bells on the game board within a time limit. Once players have long chain combos, rare features are unlocked and the game progresses.
- In-app products include packages of colored bells from \$1.49 - \$150.99 per item.

**Figure 4: Colored Bell Game Board**



Source: Google Play

**Figure 5: AB1’s Latest Freemium Game**



Source: Google Play

**Paid Games**

**In-app purchases are typically higher for freemium games than paid games**

The paying games are valued at the lower tier price point in the app store, are usually the licensed global brands and are the most popular paid price point globally, with in-app purchases typically priced lower than freemium in-game purchases. AB1’s licensed Feed Garfield game is valued at \$1.99, with in-app products priced at \$0.99 per item.

**Figure 6: Paid Licensed Mobile Game**



Source: Google Play

**Advertising**

**Advertising is the means of monetizing both non-paying and paying users**

Advertising is incorporated into game play in ways that bring value to the gamer’s experience. AB1 works closely with brands to deeply integrate native ad experiences to connect advertisers to AB1’s global network. Successful strategies include:

- Incorporating in-game advertising to reach game players during moments of achievement, such as a new high score achievement. This approach aims that users will reciprocate the brand’s gift and takes a post ad action.
- Emotional targeting by tapping into player’s emotions and serving ads in the right place at the right time with the right message.

Advertising revenue is generated through the network of monthly active users of AB1’s mobile games. The monetisation methods are:

- Brand Display - Cost per Duration (CPD) and Cost per 1,000 impressions (CPM).
- Performance Display - Cost per Click (CPC) and Cost per Action (CPA).

A Fill Rate is used to determine the number of successfully sent and received ad impressions from the ad network, with CPM benchmarks varying depending on the region in which the ads are going to be shown.

**Figure 7: An Example of Monthly Advertising Revenue Scenario**

<b>MAUs</b>	m	8.0m	18.0m	27.0m	40.0m	60.0m	200.0m
<b>Sessions/Month/Player</b>		30	30	30	30	30	30
<b>Total monthly sessions</b>	m	239m	540m	810m	1,200m	1,800m	6,000m
<b>Average session length</b>	mins	2.0mins	2.0mins	2.0mins	2.0mins	2.0mins	2.0mins
<b>Banner ads per session</b>		3	3	3	3	3	3
<b>Interstitial ad per session</b>		1	1	1	1	1	1
<b>Refresh rate for banner ads</b>	sec	30sec	30sec	30sec	30sec	30sec	30sec
<b>Traffic US/English speaking</b>	%	20%	20%	20%	20%	20%	20%
<b>Traffic Asian/Emerging markets</b>	%	80%	80%	80%	80%	80%	80%
<b>Fill rate</b>	%	90%	90%	90%	90%	90%	90%
<b>Monthly banner impressions English markets</b>	m	143m	324m	486m	720m	1,080m	3,600m
<b>Monthly banner impressions Asian markets</b>	m	573m	1,296m	1,944m	2,880m	4,320m	14,400m
<b>Monthly interstitial impressions English markets</b>	m	48m	108m	162m	240m	360m	1,200m
<b>Monthly interstitial impressions Asian markets</b>	m	191m	432m	648m	960m	1,440m	4,800m
<b>US banner ad revenue</b>	US\$	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20
<b>US interstitial ad revenue</b>	US\$	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00
<b>Asia banner ad revenue</b>	US\$	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20
<b>Asia interstitial ad revenue</b>	US\$	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00
<b>Monthly Revenue</b>	US\$	<b>\$0.3m</b>	<b>\$0.8m</b>	<b>\$1.2m</b>	<b>\$1.7m</b>	<b>\$2.6m</b>	<b>\$8.6m</b>

Source: Veritas estimates

**The network effect increases exponentially with scale and can generate high margin advertising revenue**

## Forecasts

The revenue model for AB1 at scale is significant and offers a unique opportunity to gain exposure to a global mobile game and marketing company with a focus on the world's largest and highest growth mobile gaming markets.

All revenue figures are in US\$ unless stated otherwise.

AB1 has given revenue guidance for CY2015 of US\$6m based on:

**Gross Revenue** – Gross revenue is anticipated to be US\$6m in CY2015, translating to ~US\$2.6m in net revenue. Gross revenue includes associated fees from the app platforms, Google, Apple, Appionics and license partnerships that translate to ~60% - 70% of gross revenue.

**Net Revenue** – Revenue is expected to be ~30% - 45% of gross revenue, based on a conservative ARPU of US\$0.06. This includes in-app purchases and advertising.

**Costs** – The cost per install (CPI) to AB1 is US\$0.02 per download. This compares to an industry average CPI of >US\$1.00 per download.

**Revenue Scenario Forecasts** – Based on the Q1 2015 MAU growth rate of 50% and average revenue per user, we anticipate the following revenue assumptions:

- **MAUs 16m** - Gross revenue of US\$9m, translating to ~US\$4.5m in net revenue on a net ARPU of \$0.07.
- **MAUs 24m** – An increase in gross ARPU to US\$0.15 and revenue of US\$14.4m. Net ARPU of US\$0.08 and revenue of US\$7.7m.

As brand advertisers get more comfortable spending on mobile, ad rates are anticipated to rise exponentially

**Figure 8: Financial Forecasts Scenario based in Industry Averages**

		Q1 2015	CY2015	Forecast Revenue Opportunity				
<b>MAUs</b>	m	<b>8m</b>	11m	16m	24m	36m	54m	200m
<i>Growth</i>	%		<i>36%</i>	<i>48%</i>	<i>50%</i>	<i>50%</i>	<i>50%</i>	<i>270%</i>
<b>Gross ARPU</b>	US\$	<b>\$0.14</b>	\$0.14	\$0.14	\$0.15	\$0.15	\$0.16	\$0.18
<b>Yearly (Gross) Revenue</b>	US\$	\$4.4m	\$6.0m	\$9.0m	\$14.4m	\$21.6m	\$34.6m	\$144.0m
<b>Net ARPU</b>	US\$	<b>\$0.06</b>	\$0.06	\$0.07	\$0.08	\$0.08	\$0.09	\$0.11
<b>Yearly (Net) Revenue</b>	US\$	<b>\$2.0m</b>	<b>\$2.6m</b>	<b>\$4.5m</b>	<b>\$7.7m</b>	<b>\$11.5m</b>	<b>\$19.4m</b>	<b>\$88.0m</b>

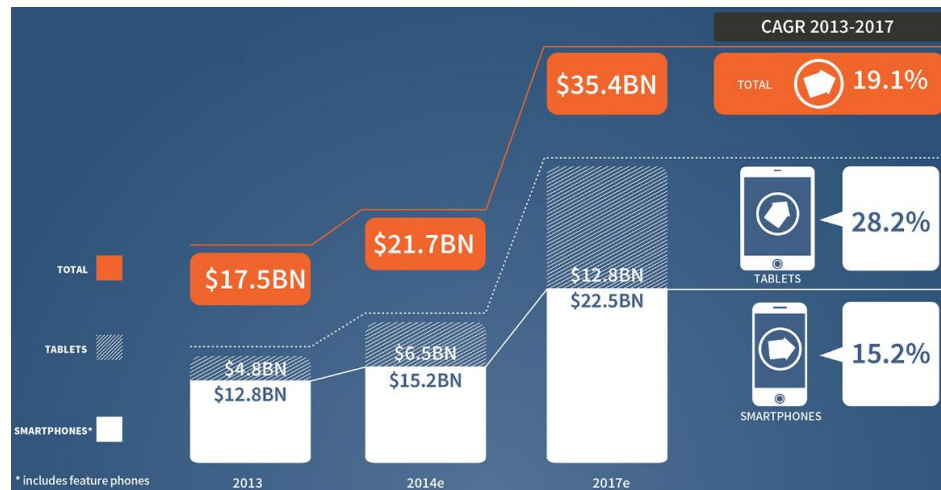
Source: Veritas Securities estimates

## The Mobile Gaming Sector

**Mobile gaming has become the truly global playground for developers**

Globalisation of the games market is accelerating as platforms and business models become more aligned across all regions of the world. Free-to-play games have moved from East to West, at the same time the East is opening up to Western intellectual property (IP) and game devices. Mobile gaming has become the truly global playground for developers and it is expected that total mobile gaming revenue will double by 2017.

**Figure 9: Total Mobile Gaming Revenue Expected to Double by 2017**



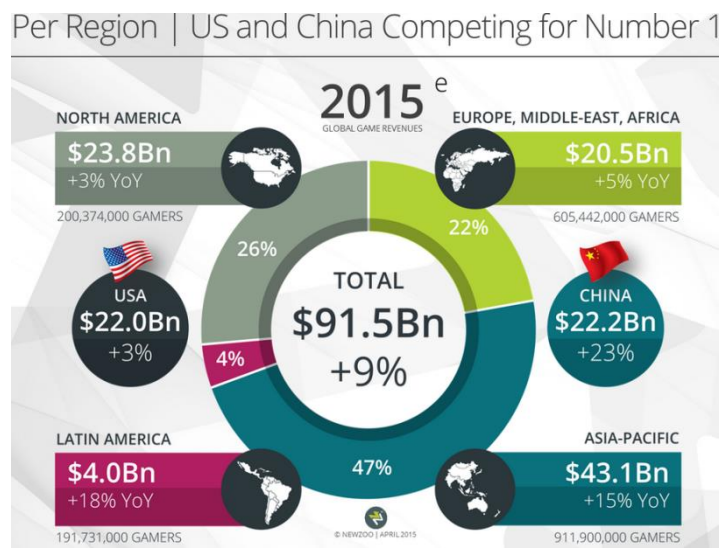
Source: AppLift, Newzoo

## Asia Pacific Region: Animoca’s Primary Market

**APAC CAGR of 15% is almost double the global growth rate**

The Asia Pacific Region (APAC) total games revenue is estimated to increase by 15% in 2015, well above the global year-on-year growth of 9% and increasing total revenues in APAC to US\$43.1 billion, nearly equaling the revenues of North America and Europe, Middle-East and Africa combined.

**Figure 10: The Global Games Market 2015**



Source: www.newzoo.com

APAC is the largest mobile market in the world with over 740m gamers and is the world's fastest growing mobile games market, with revenues more than doubling from US\$5.9 billion in 2013 to US\$12.2bn in 2014. This accounts for over 56% of total global mobile games revenue and has a compound annual growth rate (CAGR) of 12.1%.

**The fastest growing global games segment is the personal screen with annual growth of 28%**

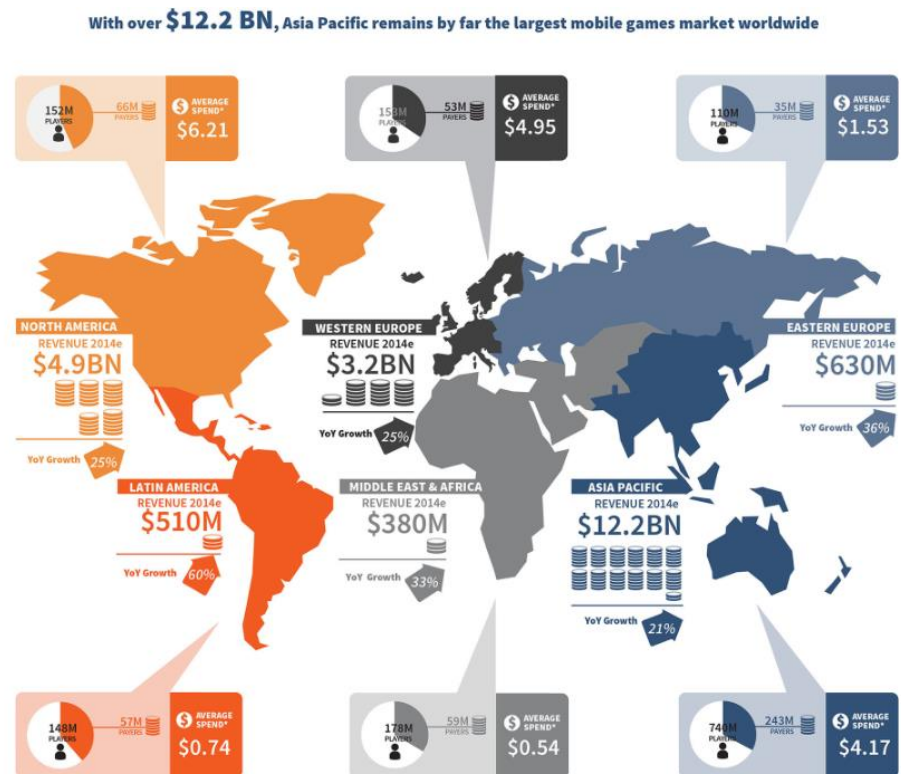
The fastest growing global games segment is the personal screen such as smartphones, tablets and handhelds, with a year-on-year growth of +28% (Newzoo 2015).

**Game Genre** - Casual and social games account for 30% of online games played on the mobile and they make up 46% of all games. Casual mobile categories like puzzle, board games, game show, trivia and card games add up to another 31%, the broader casual game segment accounts for a total of 77% of all mobile games played.

**Demographics** - The game playing population is split relatively evenly between males and females, however adult women make up the largest single demographic (36%) of game players. According to Flurry, a subsidiary of Yahoo Analytics, female gamers make 31% more in-app purchases than men, spend 35% more time playing game apps than men and have a 42% higher 7-day retention rate than men.

**Female gamers spend 35% more time playing mobile games than males**

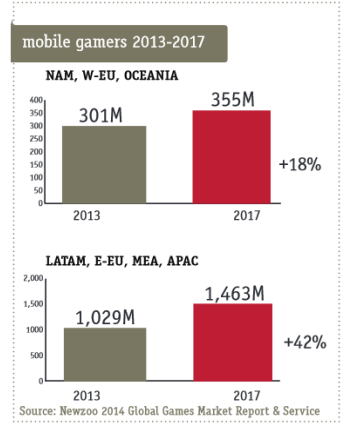
**Figure 11: Mobile Games Monetisation World Map**



Source: AppLift: Mobile Games Marketing



**Figure 12: Global Gamers by Region**



**AB1's primary markets are China and Japan. They generate the largest revenue from freemium apps globally**

**Global Outlook**

The growth of smartphones and tablets continues to exceed all expectations:

- In 2017, mobile game spending is anticipated to surpass US\$35bn or 34% of the total gaming market.
- The number of mobile gamers is expected to increase from 1.33bn in 2013 to 1.83bn in 2017. This includes growth of +18% for Western mature markets and +42% for Asia, Eastern Europe, MEA, and LATAM combined.
- Japan was the leading country for gaming app revenue in 2014 for the iPhone and Android's Play Store. China's new emergence claimed third highest revenues in its first year and it is anticipated to be a clear leader in 2015.

**Global Return on Investment Metrics**

The Asia Pacific region is the most lucrative for app developers. On average in Japan, one download is worth US\$6.34 in ARPU, China generated a much lower US\$1.13 ARPU and Australia the ARPU is US\$4.50.

The most lucrative markets for gaming apps are Japan, China, South Korea and Australia. AB1 primary markets are Japan and China where the largest amount of revenue is generated from freemium apps globally.

**Figure 13: Mobile Cost per Install (CPI) and ARPU by Country**

Region	iOS Cost Per Install (\$ US)	Android Cost Per Install (\$ US)	ARPU (\$ US)	Annual Growth (%)
North America	\$3.78	\$2.30	\$6.21	25%
Western Europe	\$2.49	\$2.01	\$4.95	25%
Middle East & Africa	\$1.58	\$0.80	\$0.54	33%
Eastern Europe (Russia)	\$2.26	\$1.53	\$1.53	36%
Eastern Europe (Others)	\$1.33	\$0.74		
APAC (Australia, S. Korea, Japan)	\$3.09	\$3.06	\$4.17	21%
APAC (Others)	\$1.61	\$1.16		
LATAM (Brazil, Mexico)	\$1.51	\$0.76	\$0.74	60%
LATAM (Others)	\$1.17	\$0.45		

Source: Chartboost

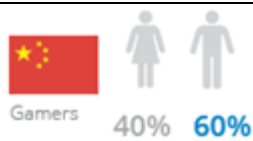
## China: Mobile Games are the Future

### Mobile Gaming Market

China is the world's largest mobile market. The number of subscribers to mobile communications services in China increased to 1.2bn in 2013, equivalent to 91 phones per 100 people.

China's mobile game market accounts for 38% of digital games revenue in Asia, with China's digital games market growth running at five times higher than the rest of Asia in 2015. There are ~450m mobile gamers in China, growing at +15% per quarter.

Figure 14: Gamers by Gender



Source: InMobi

**Demographics** - In China, female gamers make up 40% of the total game playing market, ~180m gamers. Male gamers make up the remaining 60% or ~270m gamers.

**Mergers and Acquisitions** - There is high demand for innovative mobile content among Chinese companies to beat the competition. The top Asian tech firms collectively have ~\$30bn in cash and half of those firms have made game related acquisitions. Recent investments include:

- Ourpalm acquires Chinese game developer Playcrab for US\$420m and makes US\$700m in private placements to mobile game developers in China.
- Alibaba invests US\$120m in gaming company Kabam. Kabam's valuation tops US\$1bn.
- Tencent makes a US\$110m investment in Korean game developer startup 4:33, a US\$126m investment in US gaming company Glu Mobile, following Glu's deal for Britney Spears game, a US\$500m investment in Korea's CJ Games known for its portfolio of mobile games, a US\$330m investment in US based Epic Games and buys Los Angeles-based Riot Games for US\$400m.
- Zhongji buys FunPlus for US\$960m to reinvest in mobile gaming.
- Hasbro invested a majority stake in mobile game developer, Backflip Studios for US\$112m.

There is high demand for innovative mobile content

### Gameplay Intent and Discovery

**Game Preference** - To combat piracy, developers build complex social games, with subscription based models and in-game monetization strategies. Adventure and role playing games (RPG) provided the ultimate structure to monetize, with 43% of Chinese gamers playing RPG/adventure games and 70% playing social and strategy games.

### Gameplay Motivators

Gameplay motivators impact genre preference, context and behavior. The majority of Chinese gamers play as a means to pass the time, preferring quick and easy gameplay.

**Time of Gameplay** – Chinese gamers are likely to play games while waiting for something or commuting and also tend to play at home.

**Frequency** – Chinese mobile users spend more time on mobile than online, watching TV, reading magazines and newspapers, and listening to the radio combined. More than three

**Chinese gamers are loyal and risk adverse in their gaming behavior**

quarters of gamers in China play at least once a day averaging ~33mins per session and over half of gamers are likely to play more than one hour per session.

Chinese gamers are highly brand loyal and are notorious for their risk adverse behavior. Developers can leverage the reward of their brand loyalty by developing sequels to popular games.

**Game Culturalisation**

Culturalisation requires developers to adjust their game to the habits of Chinese consumers, and not only fit gamers taste in playing but also make them comfortable when it comes to paying.

Publishing in China requires more adjustments to the mobile game than language, graphics and gameplay combine. Payment is the most crucial aspect of Culturalisation in China. Players are generally not willing to pay for in app purchases, but prefer to gain prestige within the game.

**Monetisation Opportunities**

**Tailoring the gaming experience to the user's wants and needs creates a frictionless relationship**

Mobile developers must tailor their user acquisition and monetisation strategies by understanding which types of games are popular, and how their user demographic views and makes in-app purchases. Developers can then utilize in-app advertising to increase revenue and monetize players who are resistant to paying for downloads.

**App Discovery** - China has a very fragmented app distribution market. China's iOS store is the primary store to download iOS apps, with most gamers discovering new apps by browsing the app stores. There are over 500 competing Android app stores so gamers rely heavily on mobile apps and websites for reviews and recommendations.

**App discovery is different for each country**

Developers need to leverage multiple channels to reach their gamers, such as mobile advertising, social media and forums.

**In-App Purchases** - Mobile game developers need to tailor in-game purchases to their target gamers. In China, gamers prefer quick and simple gameplay and will upgrade to beat a tough level. Developers will need to partner with a local third party platform to market and distribute through the most effective channels.

**In-app Purchase Frequency** - The percentage of paying users in May 2014 was ~2.9% in China. This means that games are dependent on a very small percentage of users to spend large amounts.

**In-App Advertising** - All gamers are not equal, but developers should be able monetize all gamers. Developers can monetize non-paying or low quality gamers by placing 3<sup>rd</sup> party ads in their games.

Developers must merge consumer insights with gameplay metrics to continuously optimize advertisement campaigns to maximize revenue potential. Ad receptivity is highest among Chinese mobile consumers, with three quarters of gamers noticing in-game ads and half making purchases via their smartphone as a response to an ad.

Developers should leverage data collected by advanced ad-tracking technologies, which track post-click conversions across multiple networks. Another method is user lifetime value or the amount of money a player is expected to spend over the life of the app. Developers

can use this information to make informed decisions on optimizing marketing campaigns on both the ad-creative and user-targeting levels.

Payment channels in China are different to western culture. Western laws block in app purchases made within China. The main methods of payment can be made through Alibaba's Alipay, online banking, credit card or mobile carriers.

### Distribution and Marketing

Publishing partners in China are required to make sure games are released through the right channels, with optimized versions for different audiences, the most suitable type of marketing and integrated through the appropriate monetisation channels.

Research by ilovegames.com found that in China the key drivers for game downloads are app store rankings (40%), word of mouth (37%) and social media (23%).

The prominent publishing enterprises with international experience include:

- **Ourpalm** – Publishes and operates smart mobile and social web games and has partnered with AB1 to publish its hit games into the Chinese market.
- **Chukong Technologies** – The largest iOS developer community in China, focusing on developing and publishing and operating mobile games. The sole agent for Disney, Nexon, Gameloft, Konami and Gamevil.
- **Forgame** – Has an extensive network of more than 350 publishing partners, including Tencent and Qihoo360 and is listed on the Hong Kong Stock Exchange.
- **Giant Interactive Group** – Publishes all free-to-play mobile games focusing on casual and hardcore gamers between 18 and 40.
- **iDreamSky** – Listed on the New York Stock Exchange raising over US\$100m. Its games have been installed on more than 160m Android phones. Games include Fruit Ninja and Temple Run.
- **Kongzhong** – Listed on the NASDAQ and distributes mobile games, internet games and wireless value added services.
- **Netease** – Listed on NASDAQ in 2,000 and are a developer and operator of online games, mobile games and web portals with over 7,000 employees.
- **Qihoo 360** – Wan.360.cn is the company's game website, which has over 60m registered users.
- **Shanda Games** – A leading developer, operator and publisher of online games, mobile games in China and overseas. Shanda Games manage and operate games developed in-house, co-developed or licensed from third parties.
- **Tencent** – Acquired a major stake in Riot Games (Leagues of Legends) and in 2012 in Epic Games (Gears of War). Tencent has over 20,000 employees and is listed on the Hong Kong Stock Exchange.
- **Yodo 1** – Specialises in culturalising and publishing foreign games in the Chinese market. Management has a Silicon Valley background.

**App store rankings are the most important driver for downloads in China**

**AB1 has partnered with Ourpalm to publish its games into the Chinese market**

## Japan: The world's most lucrative mobile game market

### Mobile Gaming Market

Japan's mobile market accounts for 45% to revenues in Asia

The mobile gaming market in Japan accounts for 45% of digital games revenue in Asia, generating US\$5.4bn in revenues, projected to reach US\$18bn in 2016. Japanese gamers are huge spenders averaging US\$6.34 MAU, a 70% margin to listing costs.

In Japan every installed iOS games make three times more money than it makes worldwide and every installed Android game makes six times more.

**Demographics** - The majority of mobile gamers in Japan are 21 to 35 year old females, with the total female proportion of the market at 46% and males at 54%.

### Smartphone Ecosystem

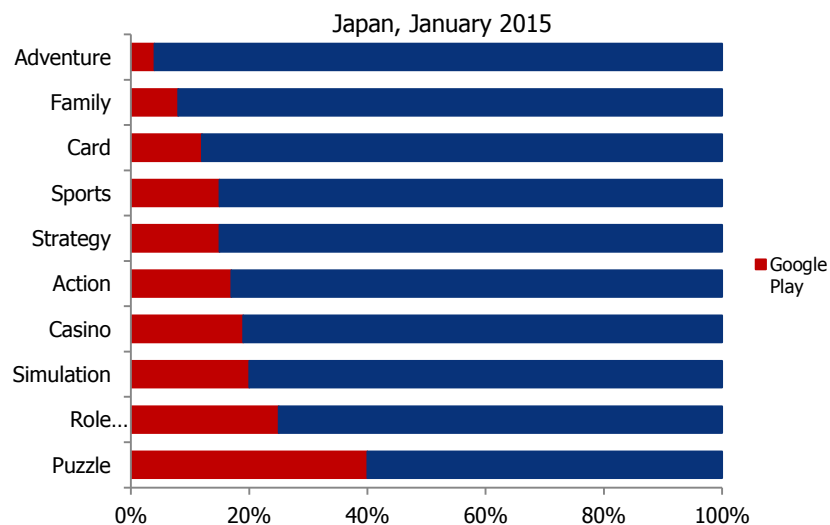
The smartphone penetration rate in Japan is currently ~50% and is projected to reach 70% by 2018. Of the 60m smartphones, ~ 33% (20m) of gamers own an iPhone and 7% (4m) own a Samsung. Japanese smartphone owners are quite unique:

Apple's iOS dominates the Japanese market

- **In-app payments predominate** – Japanese players are more likely to make in-app purchases in their favorite games. The Japanese first began using the internet on their phones largely due to Japan's top mobile carrier Docomo launching internet access as a US\$3 monthly purchase option. Under Japanese culture, players are comfortable paying for premium content on and for their phones.
- **Social Networks are Deeply Integrated with Mobile Games** – Mobile games began emerging in 2006 and were largely integrated with gamer social networks. Two of the leading networks are DeNA and Gree which started on the web and integrated friend invites into their games.

**Game Type** - The preferred genres for mobile gamers are role playing, puzzles, simulation, action and adventure.

**Figure 15: Game Category Sessions Share by Operating System**



Source: Distimo

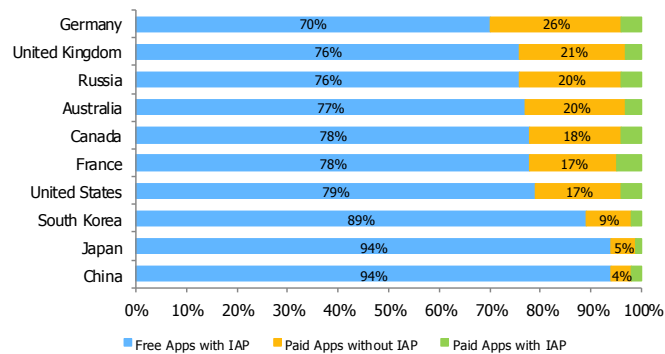
**Mergers and Acquisitions** – Recent transactions include:

- Nexon acquires DeNA’s social gaming platform Mobage for US\$468.4m.
- Reliance Big Entertainment acquires game developing giant Funnel Japan.
- SoftBank Corp acquires a 51% stake in Finnish mobile game maker Supercell for US\$1.53bn.
- LINE GAME Global Gateway US\$100m investment fund to collaborate with global independent game developers.

94% of Japan and China’s revenue is generated from Freemium apps.

Japan and China have the largest revenue share from freemium apps, with each taking a record 94% of total revenue.

**Figure 16: Revenue Split by Free and Paid Apps by Country**



Source: Distimo

**Publishing Partners** – Partnering with local handset carriers who can assist with promotion and monetisation is essential to success in Japan. The top five mobile game companies are SoftBank, GungHo, COLOPL, Line, Namco Bandai and Sega. Local developers typically feature at the top of the app store for downloads and revenue.

**Figure 17: Top Companies by Downloads and Revenue in Japan**

Partnering with local publishers in Japan is essential with top games typically made by local developers

Top Companies											
iOS & Google Play Combined - Games - Japan - Jul 2014											
#	By Downloads			Headquarters	Apps	#	By Revenue			Headquarters	Apps
	Rank	Change	Score				Rank	Change	Score		
1	LINE (ライン)	=	●		174	1	GungHo Online (ガンホー・オンライン)	=	●		89
2	Sega Sammy Holdings	▲1	●		319	2	LINE (ライン)	=	●		174
3	BANDAI NAMCO (バンダイナムコ)	▼1	●		599	3	Mixi (ミクシイ)	▲2	●		50
4	DeNA (ディー・エヌ・エー)	=	●		568	4	COLOPL (コロプラ)	▼1	●		423
5	GungHo Online (ガンホー・オンライン)	▲7	●		89	5	BANDAI NAMCO (バンダイナムコ)	▼1	●		599
6	COLOPL (コロプラ)	▲1	●		423	6	Sega Sammy Holdings	=	●		319
7	GAMEVIL ((株)게임빌)	▲3	☒		451	7	CyberAgent (株式会社サイバーエージェント)	=	●		1,085
8	Goodia (グツディア株式会社)	▲1	●		448	8	Supercell	▲2	+		6
9	SQUARE ENIX (株式会社スクウェア・エニックス)	▼1	●		266	9	SQUARE ENIX (株式会社スクウェア・エニックス)	▼1	●		266
10	CyberAgent (株式会社サイバーエージェント)	▲4	●		1,085	10	KLab	▼1	●		27

Source: App Annie

**Monetisation Strategy**

The Japanese culture believes the installation of a game is just the start and the longer a user plays a game, the more likely they are to decide to pay for in-app products. The most important aspects of monetisation are:

- To prevent the players enthusiasm from slowing down the developer and publisher need to regularly host various events such as limited in time prize distribution, draws for additional chances to get items with unique features and changing the gameplay to a more interactive role.
- The most important feature is to make the game challenging enough for players to get really interested but at the same time not to make it too difficult to finish. This is when the gamers are willing to pay for the items that can help them move forward.

**Competitor Landscape**

**GungHo – Puzzles & Dragons** is the first mobile game to officially generate more than US\$1bn in sales, US\$4.5m per day and US\$11.89 per user. GungHo’s subsidiaries Neocyon and Gravity Inc. both license games to AB1 for publishing.

**Candy Crush Saga** – Candy Crush is a freemium app and has 7.7m daily active users (DAUs) and generates US\$850,000 per day from in-app purchases and advertising.

**Supercell – Clash of Clans, Hay Day and Boom Beach** are freemium apps with 29.4m DAUs and generate US\$5.15m in a single day combined.

**Puzzles & Dragons became first mobile game to generate over US\$1bn in revenue**

**Figure 18: International Competitor Analysis**

Company	Country	Market Cap	Revenue	PE	Revenue Multiple
Ourpalm Co.	China	US\$3bn	US\$138m	-	21.7x
Tencent Holdings Ltd	China	US\$237bn	US\$16bn	34.7x	14.8x
NetEase Inc	China	US\$18.8bn	US\$1.9bn	16.8x	9.9x
Shanda Games Ltd.	China	US\$1.9bn	US\$602m	9.0x	3.2x
Qihoo 360 Technology Co.	China	US\$7.1bn	US\$1.4bn	31.9x	5.1x
iDreamSky Technology Ltd.	China	US\$936m	US\$768m	0.0x	1.2x
Forgame	China	US\$407m	US\$105m	0.0x	3.9x
Glu Mobile Inc.	US	US\$804m	US\$223.2m	48.8x	3.6x
Zynga Inc.	US	US\$2.8bn	US\$690m	0.0x	4.1x
Activision Blizzard Inc	US	US\$18.9bn	US\$4.4bn	17.8x	4.3x
Electronic Arts Inc	US	US\$19.9bn	US\$4.5bn	21.9x	4.4x
King Digital Entertainment	US	US\$5.2bn	US\$2.3bn	8.6x	2.3x
Konami Corporation	Japan	US\$2.6bn	US\$1.7m	32.9x	1.5x
Daum Kakao Corp	South Korea	US\$6.0bn	US\$0.5m	38.1x	120.0x
<b>Average</b>		<b>US\$23.6bn</b>	<b>US\$2.3bn</b>	<b>22.8x</b>	<b>14.3x</b>

Source: Company data, Veritas Securities estimates

## AB1 Financial Results

### Recent Highlights

**Doraemon Gadget Rush topped the charts on Apple and Google Play**

**Record revenues in 1Q CY2015 of US\$1.1m**

- Doraemon Gadget Rush topped the charts on the App Store and Google Play in its first month of release in February 2015 and is the number 1 downloaded iPad game in Japan, China, Taiwan, Indonesia, Hong Kong, Vietnam, Macau and Brunei.
- Record revenue increased +100% in 1Q CY2015 to US\$1.1m.
- Launched 22 new localized games across APAC, bringing the total gaming library to 358 titles.

### Revenue

- Revenue was US\$1.1m for the 1Q CY2015, from the mobile audience, primarily from in-app purchases and advertising.
- The increase in revenue was primarily due to increased bookings related to some new games, particular Doraemon Gadget Rush.

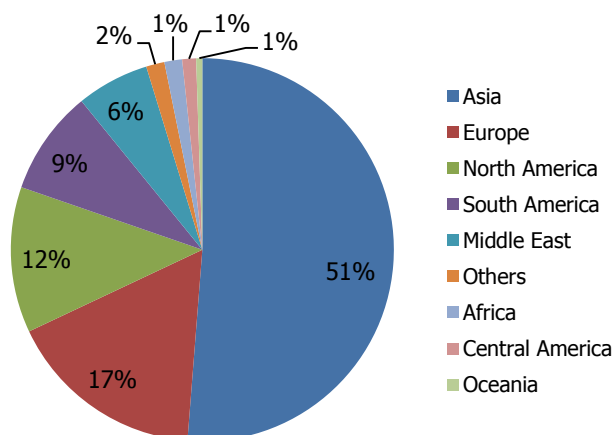
### Network Reach

**Records highs for MAUs in 1Q CY2015**

**503,407 DAUs increased by 17%**

- Network reach rose to record highs for MAUs from 1.7m in CY2014 to 9.7m in Q1 CY2015.
- Daily Active Users (DAUs) increased by 17% to 503,407.
- App installations gaining momentum with a sequential increase of 16.3m downloads in 1Q CY2015, up +46% from CY2014.
- The increase in network reach was due to an increase in the mobile player base, primarily driven by newer games.

**Figure 19: Q1 2015 Revenue by Region**



Source: Company data



## Valuation

Our 12-month price target of A\$0.40 ps is based on an \$A revenue multiple valuation. This implies AB1 would be trading on a 29.9x CY2017 PE compared to the current CY2017 PE of 13.8x.

The revenue multiple valuation is modelled on:

- A valuation of A\$53.7m (A\$0.40 ps.) is based on a CY2016 Revenue multiple of 5x. This compares to the domestic industry average of 84.2x and the international industry average of 14.3x.
- The valuation includes weighted average shares of 133.1m, which includes 14.8m shares allocated to Ourpalm Co. Ltd.
- The Revenue multiple of 5x is low compared to AB1's peers and international averages. Once AB1 complete the latest portfolio of licensed games for Mattel and Paris Hilton in the 2H CY2015 the Revenue multiple can be increased significantly.

**Figure 20: Revenue Multiple Valuation and Price Target**

Revenue Multiple	AUD/USD Rate	Revenue Multiple		CY2016	
		A\$m	x	A\$m	ps
Revenue	\$0.83	A\$10.7m	5.0	53.7	\$0.40
<b>Enterprise Value</b>				<b>53.7</b>	<b>\$0.40</b>
Debt				0.0	\$0.00
Options - In the money				0.0	\$0.00
<b>Equity Valuation</b>				<b>53.7</b>	<b>\$0.40</b>
Implied CY2017 PE	29.9				
Implied CY2018 PE	11.7				

Source: Veritas estimates, Company data

Based on comparative ASX listed companies we believe AB1's valuation is conservative.

**Figure 21: ASX Comparative Performance Measures**

Company	Users	Market Cap	Revenue	Revenue Multiple
	m	A\$	A\$	x
<b>Animoca Brands Corp.</b>	<b>130.0m</b>	<b>\$26m</b>	<b>\$10.7m</b>	<b>2.4x</b>
<b>Industry Average</b>		<b>\$309m</b>	<b>\$9.9m</b>	<b>84.2x</b>
Freelancer	14.3m	\$564m	\$26.1m	21.6x
Migme	14.0m	\$294m	\$3.0m	98.0x
Ziptel	na	\$57m	\$0.5m	114.0x

Source: Company data

## Board and Directors

The Board and management have a history of entrepreneurial success in the media and technology sectors in the US and Asia.

### **David Kim BA (Hons) – Current Non-Executive Chairman**

Mr. Kim was the former CEO of Appionics and was a key developer of Animoca Brands. His experience includes:

- Former CEO of mail.com Corporation co-based in Seattle and Hong Kong, CFO of China.com (NASDAQ: CHINA) and CEO of Lycos Inc.
- Manages several independent financing and advisory projects ranging from private equity investments to refinancing of distressed assets.
- Advised several boards including Viztel Solutions Group of Malaysia and Daum Corporation in Korea. He also served as Managing Director for SoftBank Inc., and Techpacific Venture Capital Limited.

### **Robert Yung BA (Hons) MA – Managing Director**

Mr. Yung was the CEO of Animoca Brands and a Director of Appionics. His experience includes:

- Co-Founder and CFO of Redgate Media, a venture backed Chinese television and outdoor media holding company sold to Inno-Tech Holdings in 2012. He also co-founded One Media Group Limited and listed on the Hong Kong Stock Exchange in 2005.
- Mr. Yung began his career in Asia as the General Manager of Metromedia Asia Ltd., a subsidiary of Metromedia International Group (AMEX:MMG).

### **Yat Siu – Non-Executive Director**

Shareholding: 14,021,882 | Performance Shares: 8,968,284

Mr. Siu is the founder and CEO of Outblaze Limited, a digital media company specializing in gaming, cloud technology and smartphone software development. His experience includes:

- In 2009 he sold Outblaze’s messaging division to IBM. He transformed Outblaze Ltd. from B2B messaging services to B2C digital entertainment.
- Mr. Siu is a Director of TurnOut Ventures Ltd., a partnership between Outblaze Investments Ltd. and Turner Entertainment Holdings Asia-Pacific Ltd. He is co-founder of Appionics. In 2012 he set up ThinkBlaze, the research arm of Outblaze Ltd.
- Mr. Siu has earned numerous accolades including Global Leader of Tomorrow at the World Economic Forum and Young Entrepreneur of the Year.

**Experienced Board and management  
with a history of entrepreneurial success**

**David Brickler BA, MBA – Non-Executive Director**

Mr. Brickler is the ICT manager for Baptistcare throughout Victoria and Tasmania. His experience includes:

- He was a senior Director of Applications for World Vision International. He served as Asia Pacific CIO for Mizuho Securities Asia Ltd and was an Executive Director of Ernst & Young in Hong Kong and Global CIO for the Noble Group.
- Mr. Brickler was the founder and CEO of Emergent Technology Ltd., a venture backed Hong Kong Supply Chain Company.
- Mr. Brickler spent 15 years in Japan and served as the Vice President of Equity Technology at Goldman Sachs Securities Co. Ltd Japan. He holds an MBA from Kellogg-HKUST and a BA from Princeton Uni. and is fluent in Chinese and Japanese.

**Richard Kuo B.Com., LL.B FAICD – Non-Executive Director**

Shareholding: 250,000

Mr. Kuo is the founder and CEO of Pier Capital, a boutique investment banking firm specializing in technology sectors. His experience includes:

- He is a Non-Executive Director of Probiotic Ltd. and Favourit.com. He has held Directorships at Equity Capital Markets Ltd., Glenorchy Arts & Sculpture Park and Australian Arts Events Foundation.
- He has advised a wide range of domestic and cross border transactions involving technology and digital media companies. Mr. Kuo is Fellow of the Australian Institute of Company Directors.

**Martin Green BA (Hons) – Non-Executive Director**

Shareholding: 847,501

Mr. Green is a qualified Chartered Accountant and has held positions with Ernst & Young in London in Corporate Finance and joined Consolidated Press Holdings (CPH) in 1999. During 10 years at CPH he undertook various roles including sourcing deals, deal analysis and execution and ongoing management of a wide range of investments for the group.

**Risks**

The risks inherent with AB1’s gaming operations as well as general economic risks include:

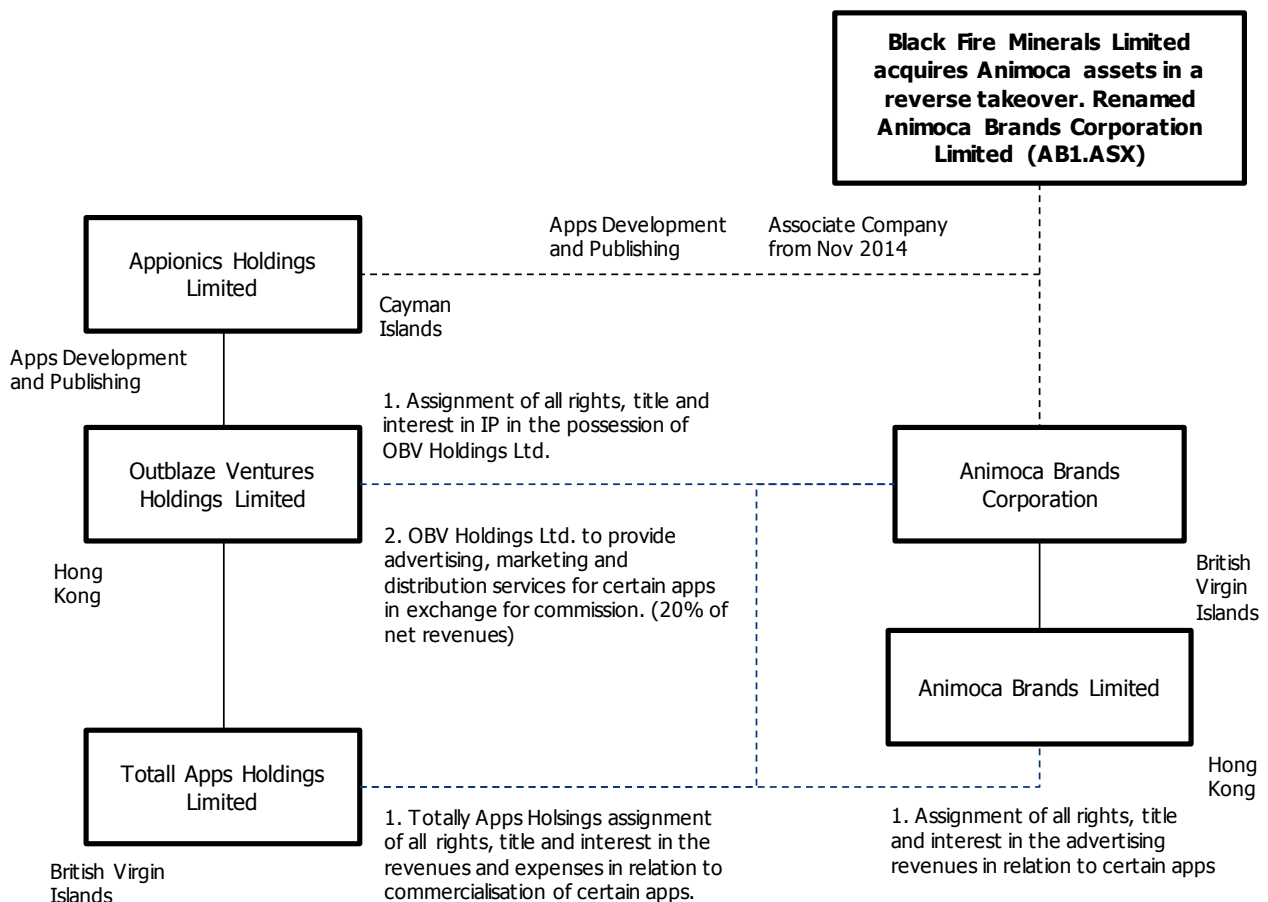
- User acquisition – The increase in published games incrementally increases the difficulty to stand out and get noticed.
- Alliance Risk – AB1 has agreements with a variety of IP holders to utilize their IP in its products. There is a risk that licenses may be terminated upon expiry.
- Chargeback Risk – Consumers may request refunds from their credit card companies for purchases made and may adversely affect AB1’s revenues.
- IP Risk – Any inability to effectively protect AB1’s IP could harm its competitive position. AB1 may need to undertake expensive litigation to protect its IP.
- Low ARPU – The challenge of monetisation or increasing the volume of paying users depends on the success of AB1’s games. AB1 may not be successful in designing games in the future.

## AB1 Entity Structure

Animoca Brands and Animoca Brands HK have entered into the following agreements with related party companies (Animoca Brands Restructure).

The company structure formed through multiple agreements with related parties is based on:

- In Chinese culture, siblings less than 30 years old typically still live at home, and are often discouraged from working for companies of which their mother has never heard. Appionics and Outblaze Holdings have been incorporated for over 15 years.
- The relationships developed through Appionics are the key reason AB1 has the ability to license global brands. Without these historical relationships these licensing agreements would not be possible.



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RATING

BUY – anticipated stock return is greater than 10%  
 SELL – anticipated stock return is less than -10%  
 HOLD – anticipated stock return is between -10% and +10%  
 SPECULATIVE – High risk with stock price likely to fluctuate by 50% or more

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