

#### RECOMMENDATIONS

Rating **BUY ▲**  
Risk High  
Price Target **\$0.35**  
Share Price \$0.14

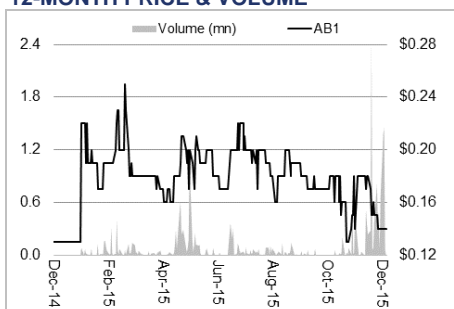
#### SNAPSHOT

Monthly Turnover \$1.4mn  
Market Cap \$23.5mn  
Shares Issued 167.5mn  
52-Week High \$0.28  
52-Week Low \$0.13  
Sector Information Technology

#### BUSINESS DESCRIPTION

AB1 operates in the casual mobile gaming/entertainment industry. Its business model is to publish a range of casual mobile games either created by itself or developed by third parties.

#### 12-MONTH PRICE & VOLUME



#### RESEARCH ANALYST

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#### Disclosure

The author owns no shares in AB1.

## Animoca Brands Corporation (AB1)

### COMPANY REPORT – INITIATION OF COVERAGE

#### Full Mattel jacket

- History:** Animoca Brands Corporation was formed in Hong Kong as a spinoff from Appionics Holdings in 2014. Appionics was formed in 2010. In January 2015 AB1 undertook a backdoor listing on the ASX after being acquired by the dormant mining company Black Fire Minerals – the ASX listed name was subsequently changed to Animoca Brands Corporation.
- The business:** AB1 operates in the casual mobile gaming/entertainment industry. Its business model is to publish a range of casual mobile games either created by itself or developed by third parties. Games developed by AB1 are combined with a range of well-known characters which are acquired and employed in games on a licenced basis. AB1 distributes its games on a range of platforms such as Apple App Store and Google Play for use on devices such as tablets, iOS and Android. Revenue is derived by consumers paying for in-app purchases and from in-game advertising.
- The Mattel relationship:** In May 2015 AB1 announced a partnership with Mattel Inc (Mattel) to co-develop games, leveraging characters and brands from Mattel's product portfolio such as Bob the Builder, Barbie etc, which sharpens the focus of AB1's product offering on children's entertainment. The relationship works on the basis of Mattel and AB1 sharing revenue and marketing/development costs. In 2016 AB1 intends to focus much of its e-book initiative on the Mattel library of characters and brands that have previously not been available in e-book form.
- The Ourpalm relationship:** In July 2015 AB1 announced that a listed China-based mobile game developer Ourpalm had invested A\$3.1m in fresh capital in AB1 at A\$0.21 per share giving it an 11% stake. The CEO of Ourpalm (Mr Steven Hu) has become a non-executive director of AB1. Ourpalm also has an option to invest a further US\$5m in AB1 once the share price reaches a 150% premium to its entry price. The relationship with Ourpalm started in May 2015 when AB1 provided distribution rights for one of its most popular titles to Ourpalm in China.
- Investment view:** We initiate coverage of Animoca Brands Corporation (AB1) with a high risk BUY rating, DCF valuation of A\$0.36 and price target of A\$0.35. Whilst we appreciate the growth profile in mobile gaming achieved in recent years, our attraction to AB1 is driven by the growth opportunities available through partnerships with Ourpalm in China and Mattel Inc (Mattel). We view the JV with Mattel to produce e-books as a key inflection point for AB1 with the capacity to add more predictable subscription revenue to the story which should dilute the ongoing need to produce "hit" games in its casual mobile gaming operations. A successful launch of e-books will reduce our risk rating for AB1.

#### INVESTMENT SUMMARY

Year End: 31 December		2014 (A)	2015 (E)	2016 (E)	2017 (E)
Revenue	\$mn	1	7	15	26
EBITDA	\$mn	-6.4	-3.4	-0.6	4.3
EBIT	\$mn	-6.4	-3.4	-0.6	4.3
Reported Profit	\$mn	-4.5	-1.5	-0.4	4.3
Adjusted Profit	\$mn	-0.9	-3.3	-0.4	4.3
EPS (Reported)	¢	-5.8	-1.0	-0.2	2.6
EPS (Adjusted)	¢	-1.2	-2.3	-0.2	2.6
EPS Growth	%	N/A	N/A	N/A	N/A
PER (Reported)	x	N/A	N/A	N/A	5.5
PER (Adjusted)	x	N/A	N/A	N/A	5.5
Dividend	¢	0.0	0.0	0.0	0.0
Yield	%	0.0	0.0	0.0	0.0
Franking	%	0	0	0	0

## Financial summary

<b>Animoca Brands Corporation</b>						<b>Rating:</b>	<b>BUY</b>				
<b>Analyst:</b>	Nick Caley					<b>Price Target:</b>	\$0.35				
<b>Date:</b>	24-December-2015					<b>Valuation:</b>	\$0.36				
<b>Share Price (\$A):</b>	\$0.14					<b>Upside/(Downside):</b>	150%				
<b>Year End:</b>	31 December					<b>Risk:</b>	High				
<b>PROFIT &amp; LOSS (A\$m)</b>						<b>EARNINGS</b>					
	<b>FY14A</b>	<b>FY15E</b>	<b>FY16E</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY14A</b>	<b>FY15E</b>	<b>FY16E</b>	<b>FY17E</b>	<b>FY18E</b>	
Sales Revenue	0.9	7.3	15.4	26.2	39.0	EPS - Reported	-5.8	-1.0	-0.2	2.6	4.2
Cost Of Goods Sold	0.5	2.9	5.4	9.2	13.7	EPS - Normalised	-1.2	-2.3	-0.2	2.6	4.2
<b>Gross Profit</b>	<b>0.4</b>	<b>4.4</b>	<b>10.0</b>	<b>17.0</b>	<b>25.4</b>	EPS Growth (%)	n/a	n/a	n/a	n/a	64%
Other Income	0.0	0.1	0.0	0.0	0.0	DPS	0.0	0.0	0.0	0.0	0.0
Total Net Revenue	0.4	4.5	10.0	17.0	25.4	Franking (%)	0.0	0.0	0.0	0.0	0.0
<b>Total Cash Expenses</b>	<b>6.7</b>	<b>7.9</b>	<b>10.6</b>	<b>12.8</b>	<b>18.2</b>	Payout Ratio (%)	0%	0%	0%	0%	0%
<b>EBITDA</b>	<b>-6.4</b>	<b>-3.4</b>	<b>-0.6</b>	<b>4.3</b>	<b>7.2</b>	<b>VALUATION</b>					
Depreciation & Amortisation	0.0	0.0	0.0	0.0	0.0	P/E (x)	-12.1	-6.0	-64.5	5.5	3.3
<b>EBIT</b>	<b>-6.4</b>	<b>-3.4</b>	<b>-0.6</b>	<b>4.3</b>	<b>7.2</b>	EV/EBIT (x)	n/a	-4.9	-27.9	2.5	0.3
<b>Net Interest Expense</b>	<b>0.0</b>	<b>-0.1</b>	<b>-0.2</b>	<b>-0.3</b>	<b>-0.3</b>	EV/EBITDA (x)	-2.1	-4.9	-27.9	2.5	0.3
Fair Value Gain On Perf.Shares	1.9	1.9	0.0	0.0	0.0	Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Net Profit Before Tax</b>	<b>-4.5</b>	<b>-1.5</b>	<b>-0.4</b>	<b>4.5</b>	<b>7.4</b>	Price/Book (x)	-6.8	6.8	7.7	3.2	1.6
Income Tax Expense	0.0	0.0	0.0	0.2	0.4	Price/NTA (x)	-6.8	6.8	7.7	3.2	1.6
<b>NPAT - Reported</b>	<b>-4.5</b>	<b>-1.5</b>	<b>-0.4</b>	<b>4.3</b>	<b>7.0</b>	Price/Cash/Flow per Share (x)	-11.5	-6.9	40.9	4.2	2.7
Normalisation Adjustments	3.6	-1.9	0.0	0.0	0.0	<b>GROWTH</b>					
<b>NPAT - Normalised</b>	<b>-0.9</b>	<b>-3.3</b>	<b>-0.4</b>	<b>4.3</b>	<b>7.0</b>	Sales Revenue Growth (% pcp)	n/a	686%	110%	70%	49%
<b>BALANCE SHEET (A\$m)</b>						<b>FY14A</b>	<b>FY15E</b>	<b>FY16E</b>	<b>FY17E</b>	<b>FY18E</b>	
<b>Current Assets</b>						Op. Expense Growth (% pcp)	n/a	17%	33%	21%	43%
Cash	2.3	7.0	7.5	13.1	21.8	EBITDA Growth (% pcp)	n/a	n/a	n/a	n/a	68%
Inventory	0.0	0.0	0.0	0.0	0.0	NPBT Growth (% pcp)	n/a	n/a	n/a	n/a	64%
Receivables	0.0	0.4	0.9	1.4	2.1	NPAT Growth (% pcp)	n/a	n/a	n/a	n/a	64%
Other	0.0	0.0	0.0	0.0	0.0	<b>MARGINS &amp; RETURNS</b>					
<b>Total Current Assets</b>	<b>2.4</b>	<b>7.4</b>	<b>8.4</b>	<b>14.6</b>	<b>24.0</b>	Gross Profit Margin %	42%	60%	65%	65%	65%
<b>Non Current Assets</b>						EBITDA Margin %	-681%	-47%	-4%	16%	18%
Property, Plant & Equipment	0.0	0.0	0.1	0.1	0.2	EBIT Margin %	-681%	-47%	-4%	16%	18%
Intangibles	0.0	0.0	0.0	0.0	0.0	NPBT Margin %	201%	26%	0%	0%	0%
<b>Total Non Current Assets</b>	<b>0.0</b>	<b>0.0</b>	<b>0.1</b>	<b>0.1</b>	<b>0.2</b>	ROIC %	n/a	108%	-13%	95%	72%
<b>Total Assets</b>	<b>2.4</b>	<b>7.5</b>	<b>8.5</b>	<b>14.7</b>	<b>24.2</b>	ROE %	n/a	108%	-13%	95%	72%
<b>Current Liabilities</b>						ROA %	n/a	-54%	-5%	39%	38%
Payables	1.6	1.7	3.1	5.0	7.4	Effective Tax Rate %	0%	2%	5%	5%	5%
Loans & Borrowings	0.0	0.0	0.0	0.0	0.0	<b>GEARING</b>					
Other	0.0	0.3	0.3	0.3	0.3	Net Debt (A\$m)	-2	-7	-7	-13	-21
<b>Total Current Liabilities</b>	<b>1.6</b>	<b>2.0</b>	<b>3.4</b>	<b>5.3</b>	<b>7.7</b>	Net Debt/Equity (%)	95%	-195%	-235%	-174%	-149%
<b>Non Current Liabilities</b>						<b>SEGMENTAL (A\$m)</b>					
Loans & Borrowings	0.0	0.0	0.0	0.0	0.0	<b>Revenue</b>					
Other	3.2	2.0	2.0	2.0	2.0	Gaming	3.0	7.3	11.5	15.2	19.7
<b>Total Non Current Liabilities</b>	<b>3.2</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	eBooks	0.0	0.0	3.9	11.0	19.4
<b>Total Liabilities</b>	<b>4.8</b>	<b>4.0</b>	<b>5.4</b>	<b>7.3</b>	<b>9.8</b>	<b>Total Revenue</b>	<b>3.0</b>	<b>7.3</b>	<b>15.4</b>	<b>26.2</b>	<b>39.0</b>
<b>Equity</b>						<b>Gaming</b>					
Contributed Capital	6.9	16.3	16.3	16.3	16.3	DAU (000)	504	581	906	1,133	1,359
Reserves	-4.8	-3.8	-3.8	-3.8	-3.8	MAU (000)	6,207	7,179	10,067	11,325	12,355
Retained Earnings	-4.5	-9.2	-9.5	-5.2	1.8	ARPDau \$A	\$0.02	\$0.03	\$0.04	\$0.04	\$0.04
<b>Total Equity</b>	<b>-2.4</b>	<b>3.4</b>	<b>3.1</b>	<b>7.4</b>	<b>14.4</b>	<b>e-books</b>					
<b>CASH FLOW (A\$m)</b>						Average Users					
<b>Cash at Start</b>	<b>0.0</b>	<b>2.3</b>	<b>7.0</b>	<b>7.5</b>	<b>13.1</b>	Average Price per User (A\$)	\$0.00	\$0.00	\$13.89	\$13.89	\$13.89
Cash Flow from Ops	-0.9	-2.9	0.6	5.6	8.8	<b>SEGMENTAL (A\$m)</b>					
Cash Flow From Investing	0.4	0.0	0.0	-0.1	-0.1	<b>Revenue</b>					
Cash Flow From Financing	2.8	6.9	0.0	0.0	0.0	Gaming	3.0	7.3	11.5	15.2	19.7
Net Cash Flow	2.3	4.0	0.5	5.6	8.7	eBooks	0.0	0.0	3.9	11.0	19.4
Other Adjustments	0.0	0.6	0.0	0.0	0.0	<b>Total Revenue</b>	<b>3.0</b>	<b>7.3</b>	<b>15.4</b>	<b>26.2</b>	<b>39.0</b>
<b>Cash At End</b>	<b>2.3</b>	<b>7.0</b>	<b>7.5</b>	<b>13.1</b>	<b>21.8</b>	<b>Gaming</b>					
						DAU (000)	504	581	906	1,133	1,359
						MAU (000)	6,207	7,179	10,067	11,325	12,355
						ARPDau \$A	\$0.02	\$0.03	\$0.04	\$0.04	\$0.04
						<b>e-books</b>					
						Average Users	0	0	23,400	66,144	116,183
						Average Price per User (A\$)	\$0.00	\$0.00	\$13.89	\$13.89	\$13.89

## Investment view

- **Stock call:** We initiate coverage of Animoca Brands Corporation (AB1) with a high risk rating, DCF valuation of A\$0.36 and price target of A\$0.35. Whilst we appreciate the growth profile in mobile gaming achieved in recent years, our attraction to AB1 is driven by the growth opportunities available through partnerships with Ourpalm in China and Mattel Inc (Mattel). We view the JV with Mattel to produce e-books as a key inflection point for AB1 with the capacity to add more predictable subscription revenue to the story which should dilute the ongoing need to produce “hit” games in its casual mobile gaming operations. A successful launch of e-books will reduce our risk rating for AB1.
- **Valuation:** We have employed a DCF methodology with the following inputs: 1) risk discount rate of 13%; 2) terminal growth rate of 3%; 3) long-term revenue growth of 10% per annum, although we expect group revenues to approach A\$100m within 10 years; 4) long-term EBITDA margin of 30%; and 5) our valuation includes the dilution for the conversion of 45m performance shares (on a 1 for 1 basis) which are based on revenue and profit hurdles for the 12 months to June 2016. Our earnings forecasts do not yet dilute for the performance shares.
- **Bull points:** 1) Well-established casual mobile gaming business with strong growth trajectory in a growth industry; 2) key partnerships with Ourpalm in China (leading mobile game developer in China) and Mattel; 3) launch of e-books through Mattel JV leverages Mattel’s well-known library of characters (Bob the Builder, Thomas the Tank Engine etc.) on a global basis – this will reduce the reliance on the need to produce “hits” in casual mobile gaming; 4) partnership with Mattel in casual mobile gaming looks to be increasing the yield on existing games; 5) AB1’s recent A\$4.7m capital raising underwrites the e-book initiative and should see the company through to becoming EBITDA positive; and 6) M&A is common in the mobile gaming industry.
- **Investment risks:** 1) Mobile gaming is very hit driven which makes for unpredictability; 2) relationship with Mattel is non-exclusive; and 3) retention of key game developers is critical.

## History and business

- **History:** AB1 was formed in Hong Kong as a spinoff from Appionics Holdings in 2014. In turn, Appionics was formed in 2010. In January 2015 AB1 undertook a backdoor listing on the ASX after being acquired by the dormant mining company Black Fire Minerals – the ASX listed name was subsequently changed to Animoca Brands Corporation. As part of the ASX listing AB1 raised A\$2.4m in fresh capital (24m shares at A\$0.20 each). The vendors received 75m ordinary shares and 45m performance shares to acquire Animoca Brands.
- **The business:** AB1 operates in the casual mobile gaming industry. It’s business model is to publish a range of casual mobile games either created by itself or developed by third parties. Games developed by AB1 are combined with a range of well-known characters which are acquired and employed in games on a licenced basis. AB1 distributes its games on a range of platforms such as Apple App Store and Google Play for use on devices such as tablets, iOS and Android. Revenue is derived by consumers paying for in-app purchases and from in-game advertising. More recently AB1 has announced its intention to diversify its revenue base by entering the e-book publishing market for children related titles – monetisation will be largely subscription based.
- **Recent growth:** AB1’s recent growth in casual mobile gaming has been steady and strong. It recently guided to FY15 revenues of A\$7.5m (+88% pcp) for FY15 (December year-end). Quarterly revenues have grown from A\$0.6m in 4Q14 to a forecast A\$2.4m in 4Q15.
- **The Mattel relationship:** In May 2015 AB1 announced a partnership with Mattel Inc (Mattel) to co-develop games leveraging characters and brands from Mattel’s product portfolio such as Bob the Builder, Thomas the Tank Engine, Barbie etc. The relationship works on the basis of Mattel and AB1 sharing revenue and marketing/development costs. In 2016 AB1 intends to focus much of its e-book initiative on the Mattel library of characters and brands that have previously not been available in e-book form. The relationship with Mattel is not exclusive to AB1 (which is not uncommon in the industry), however the term of licencing is indefinite.

- **Ourpalm:** In July 2015 AB1 announced that a listed China-based mobile game developer Ourpalm had invested A\$3.1m in fresh capital in AB1 at A\$0.21 per share giving it an 11% stake. The CEO of Ourpalm (Mr Steven Hu) has become a non-executive director of AB1. Ourpalm also has an option to invest a further US\$5m in AB1 once the share price reaches a 150% premium to its entry price. The relationship with Ourpalm started in May 2015 when AB1 provided distribution rights for one of its most popular titles to Ourpalm in China.
- **Recent capital raising:** AB1 recently completed a A\$4.7m capital raising at A\$0.14 per share to fund: 1) The development of new mobile entertainment products; and 2) to fund the development and launch of the e-book initiative in partnership with Mattel.
- **Performance shares:** A somewhat confusing angle to the AB1 story is the existence of 30m Class A performance shares and 15m Class B performance shares. Our valuation contemplates full conversion.

**FIG.1: ANIMOCA BRANDS SOCIAL GAMING INDUSTRY POSITIONING**

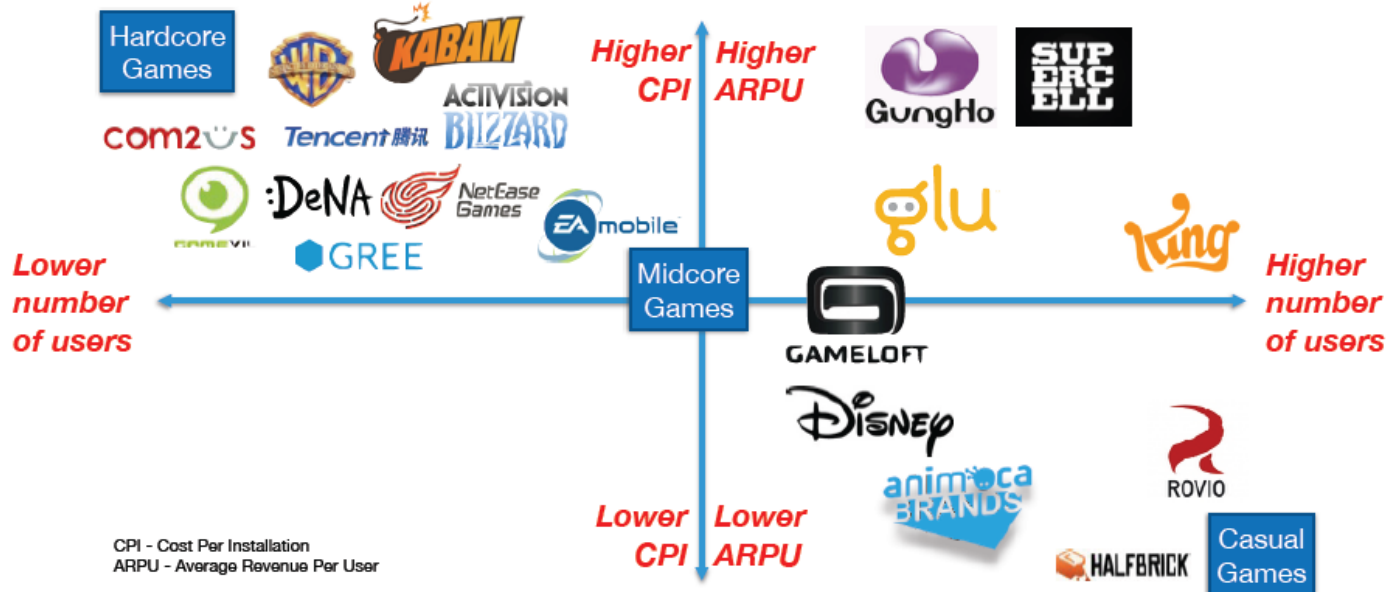
Instrument	Milestone	Conversion Event	Conversion Ratio	Status
Class A Performance Shares 30,000,000	1	12 months to June 2015 Sales > US\$6m and EBIT < Negative US\$2m	1 Performance Share for 1 Ordinary Share	Not met
	2	If conversion event to June 2015 not met 12 months to June 2016 Sales > US\$8m and EBIT < Negative US\$2m	1 Performance Share for 1 Ordinary Share	Yet to be determined
	If 1 and 2 not met		0.25 Ordinary Shares for every US\$100k that FY15 sales exceed US\$2m	Yet to be determined
	Change of Control		1 Performance Share for 1 Ordinary Share	Ongoing
Class A Performance Shares 15,000,000	Same as 2 above	12 months to June 2016 Sales > US\$8m and EBIT < Negative US\$2m		
	If 2 not met		0.05 Ordinary Shares for every US\$100k that FY16 sales exceed US\$6m	Yet to be determined
	Change of Control		1 Performance Share for 1 Ordinary Share	Ongoing

Source: AB1 presentation

## Animoca brands and social gaming

- **Terminology:** Mobile gaming has three base terms that are frequently quoted and are self-explanatory: 1) DAU: daily average users; 2) MAU: monthly average users; and 3) ARPPDAU: average revenue per daily average user. The reason for quoting both DAU and MAU is that the DAU/MAU ratio gives a sense of game retention for players. For example a DAU/MAU of 50% means that the average user is playing a particular game 15 out of 30 days in a month.
- **Business philosophy:** AB1's business focus is on the casual mobile gaming market. Although its products have monetisation features it does not undertake games in the wagering industry such as online slot machines. As per FIG 2 below AB1 seeks to position itself as high volume (users)/low value (average revenue per user) as a lower risk strategy than some of the better known players in the industry. Whilst well publicised, casual mobile gaming titles such as Candy Crush (King Entertainment) have a long life, the reality is that most new game titles earn the majority of revenues in the first 90 days after launch. Daily average users (DAU) of over 50k for a new game tend to classify it as a "hit" and will generally have a longer shelf life than games that have DAU under 50k. AB1's strategy is to reduce risk by generally releasing more titles than most developers to increase its chance of achieving hit titles. AB1 now has a library 400+ games and aims to launch 80-100 new games per annum.

**FIG.2: ANIMOCA BRANDS SOCIAL GAMING INDUSTRY POSITIONING**



Source: AB1 presentation

- Business models:** The range of business models available in the social gaming industry are depicted in FIG 3 below. In general, AB1 employs two main business models being: 1) AB1 acts as the sole game developer/publisher and receives 100% of the revenue (less platform fees paid to portals such as Google) and bears 100% of costs; and 2) where AB1 publishes games that have been developed by third parties – under this arrangement AB1 bears 100% of distribution/marketing costs and shares revenue with the developer. In developing games AB1 tends to purchase the licence rights to well-known characters/franchises to place in standard games. For example, AB1 has purchased the licence rights to characters such as Garfield and Astro Boy. Another example is that AB1 has purchased the rights to the name and likeness of Paris Hilton to use in mobile game applications globally – AB1 currently employs Paris Hilton’s likeness in its “Star Girl” range of games that focus on female fashion. AB1 generally incurs royalty fees of 25-40% of net revenues (post platform fees) on games with licenced characters.

**FIG.3: DEVELOPMENT MODELS**

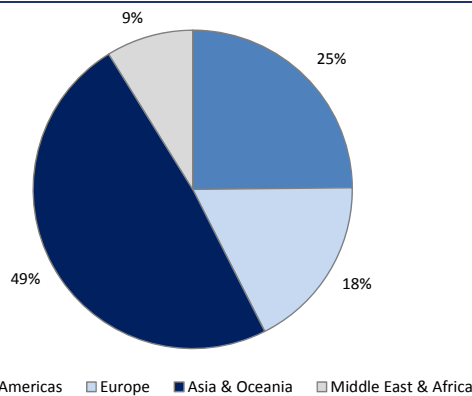
Developer/Publisher model	Publisher model	Partnership model
<ul style="list-style-type: none"> <li>Animoca develops and distributes games</li> <li>100% of costs borne by company</li> <li>100% of revenues (after platform fees) earned by company</li> </ul>	<ul style="list-style-type: none"> <li>3<sup>rd</sup> party develops the game</li> <li>Animoca distributes the game and incurs marketing and distribution costs</li> <li>Net revenues (after platform fees and recovery of marketing costs) are typically shared equally with developer</li> </ul>	<ul style="list-style-type: none"> <li>Animoca Brands and partner co-develop the game and share distribution and marketing costs</li> <li>Net revenues (after platform fees) are shared equally</li> </ul>

Source: AB1 presentation

- Monetisation:** AB1 earns revenue from casual mobile gaming in two forms: 1) In-app purchases by game players; and 2) advertising. Whilst access to games are provided on a free download basis, there are typically triggers in games for the player to make in-app purchases such as buying a piece of virtual clothing to put on a character or paying an amount of money for the game to proceed to another level (the ‘freemium’ model). Around 20-30% of gross revenues come from advertising. At this stage advertisers are typically other app developers. Brand advertisers have yet to migrate to mobile games en-masse, although AB1 has some success in contracting fashion brand advertising in its dress-up apps targeting females. Advertising rates vary but are typically in the US\$5-15 per minute range depending upon the market and type of app.

- Monetisation example:** AB1’s Ever After High™ Tea Party Dash, is a typical "time management" game. In the game, the player operates a tea party / cafe, and has to serve customers, with the focus being on the speed of the service. As the game progresses, it gets faster and faster. So therefore, to deal with the speed, the player needs to have 1) faster equipment and/or 2) more servers. The player can also upgrade the character not just based on performance but based on the player’s favourite character from the Ever After High™ cast. All of these upgrades are paid, and the player spends different kinds of in-game currency to do so (gems and gold). The player can either upgrade equipment/staff in between levels, or can go to the store and buy value packs that combine the two types of currency and new characters. Like most freemium games, the idea is that the player can either play (earn) their way to all the levels / characters or can pay to get there.
- Staff:** AB1 employs about 70 staff with the majority engaged in game development. Development teams are incentivised based on a range of metrics such as revenues, profit player engagement, retention, installation numbers, and a range of other factors.
- The economics:** AB1’s game development costs vary based on whether AB1 is the game developer or if a game has been developed by a third party with AB1 acting as the publisher. Around 30% of gross revenue derived from a game is paid to the platform provider (Apple, Google etc). Post platform fees around 30% of net revenues are then paid as royalties for any licenced characters used in the game. AB1 estimates its current cost per installation (an all-up cost of customer acquisition) at A\$0.05. Based on current ARPDAU of A\$0.03, this means that a player needs to play on 2.5 days for the acquisition cost to be re-couped. AB1’s current DAU/MAU ratio of around 8% suggests that it is now covering customer acquisition costs – although we expect growth in all metrics from here to cover operating costs and move into positive EBITDA.
- Customer base:** Like most mobile gaming companies, AB1’s products are distributed globally with its customer base depicted in the FIG 4 below.

**FIG.4: ANIMCOA GAMES – CURRENT MIX OF USERS**

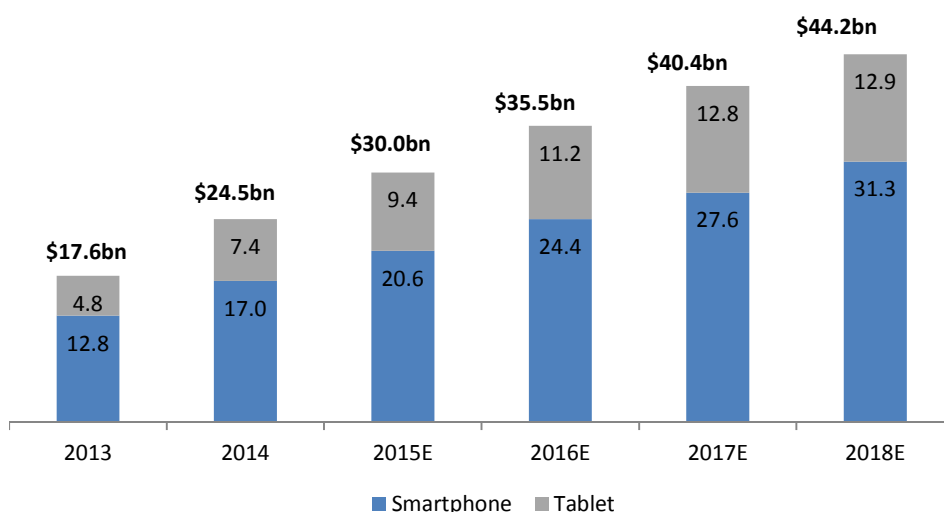


Source: AB1 presentation

**The industry**

- Size and growth:** As per FIG 4 below, mobile gaming consultancy Newzoo estimates global industry revenues at US\$30bn in 2015 with a forecast for the industry to grow to US\$44bn in 2018. CAGR revenue growth for 2013-18 has been forecast by Newzoo at 13%. FIG 5 underlines the global nature of the industry characterised by the emergence of China. A recent investor presentation by market leader King Digital Entertainment provided 2015 data for the distribution of social gaming globally showing that mobile apps were now dominant – see FIG 6 below.

**FIG.5: GLOBAL MOBILE GAMING REVENUES (US\$bn)**



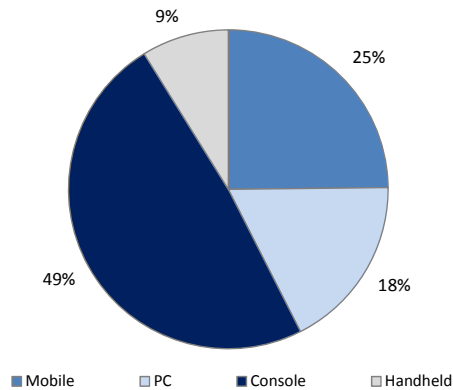
Source: Newzoo 2015 Global Mobile Games Whitebook

**FIG.6: COUNTRY RANKINGS – MOBILE GAMING 2015**

	COUNTRY		2015 MOBILE REVENUES	SHARE OF GLOBAL	2014-2015 GROWTH
1	China		\$6,530M	21.7%	+46.5%
2	Japan		\$6,180M	20.6%	+5.8%
3	US		\$6,020M	20.0%	+15.2%
4	South Korea		\$1,850M	6.2%	+8.7%
5	UK		\$1,010M	3.4%	+11.3%
6	Germany		\$820M	2.7%	+12.7%
7	France		\$520M	1.7%	+10.9%
8	Australia		\$520M	1.7%	+10.8%
9	Canada		\$510M	1.7%	+13.5%
10	Taiwan		\$480M	1.6%	+51.2%
			<b>\$24,440M</b>	<b>81.3%</b>	<b>+18.9%</b>

Source: Newzoo Global Games Market Report Premium, Q1 2015 update

**FIG.7: GLOBAL MIX OF SOCIAL GAMING DISTRIBUTION – CY15**



Source: King Digital Entertainment Presentation

- **The consumer:** Recent research by Newzoo classifies the consumer into 3 categories: 1) “free marketers” which are people who play games for greater than 10 hours per week without spending money; 2) “Big spenders” which vary from country as to definition but in the US are classified as people who spend more than US\$25 per month on mobile games; and 3) the balance of consumers who fall between free marketers and big spenders..
  - **Free marketers:** Newzoo estimates this segment to be around 5% of global mobile gamers which would be around 90m people. Interestingly, although this segment does not pay for in-app purchases the data remains valuable to marketers. Free marketers are typically evenly divided between men and women with an age concentration in the 10-35 range.
  - **Big spenders:** Newzoo estimates this segment at around 49m people globally and accounts for almost 5% of gaming in the US. Big spenders are estimated to have a strong male bias with the age concentration in the 21-50 range.
- **Who’s popular?:** FIGs 8 and 9 below show the rankings of social games on iOS in the United States during November on a revenue and download basis respectively. Our general observations are that:
  - The top 10 revenue generating games commonly feature casino/slot game offerings which are subsidiaries of global gaming manufacturers such as IGT and Aristocrat Leisure.
  - The top 3 games by revenue (Game of War, Clash of Clans and Candy Crush Saga) have been consistently highly ranked during 2015. By contrast the rankings of game titles by downloads is very fluid from one month to the next.
  - Ranking of game titles is reasonably consistent between the United States and Europe at any one time. Rankings of games in China are very different which tends to be dominated by a small number of large players publishing localised products. Newzoo estimates point to China narrowly ahead the United States as the largest country for casual mobile gaming revenues in the world.
  - Many of the popular game titles are derivatives on a previously successful game from the same publisher e.g. Candy Crush Saga.
  - Outside of the large listed players such as King Entertainment, the industry has a plethora of smaller private players that have commonly been founded over the last 3-5 years. Also, a perusal of news headlines for the small private players indicates that a number have sold equity stakes to larger players in the industry.
  - The domicile of the major players confirms the global nature of the industry.



FIG.8: RANKING OF TOP 10 iOS GAMES IN UNITED STATES BY REVENUE - NOVEMBER 2015

Publisher	Listed/Private	Founded	Domicile	Title
Machine Zone Inc	Private	2008	California	Game of War
Supercell	Private	2010	Helsinki	Clash of Clans
King Entertainment	Listed NYSE:KING	2003	Dublin	Candy Crush Saga
DoubleDown (IGT)	Listed NYSE:IGT	2010 Acquired By IGT in 2012	Nevada	DoubleDown Casino
King Entertainment	Listed NYSE:KING	2003	Dublin	Candy Crush Soda Saga
Big Fish Games Inc (Churchill Downs Inc)	Listed NASDAQ:CHDN	2002 Acquired by CHDN in 2014	Seattle	Big Fish Casino
Electronic Arts	Listed NASDAQ:EA	1982	California	MADDEN NFL Mobile
Supercell	Private	2010	Helsinki	Hay Day
Supercell	Private	2010	Helsinki	Boom Beach
Product Madness (Aristocrat Leisure)	Listed ASX:ALL	2007 Acquired by Aristocrat in 2012	Sydney	Heart of Vegas

Source: Newzoo

FIG.9: RANKING OF TOP 10 iOS GAMES IN UNITED STATES BY REVENUE - NOVEMBER 2015

Publisher	Listed/Private	Founded	Domicile	Title
Ketchapp	Private	2014	Paris	Twist
Remco Kortenoever	Private	2014	Netherlands	Smashy Road: Wanted
King Entertainment	Listed NYSE:KING	2003	Dublin	Blossom Blast Saga
Kiloo Games	Private	2000	Denmark	Subway Surfers
Electronic Arts	Listed NASDAQ:EA	1982	California	MADDEN NFL Mobile
FEO Media	Private	2011	Gothenburg	Pixduel
minclip.com	Private	2001	Switzerland	Agar.io
MildMania	Private	2012	Turkey	rop
Hipster Whale	Private	2014	Sydney	Crossy Road Endless Arcade Hopper
Mag Interactive	Private	2011	Stockholm	WordBrain

Source: Newzoo

- **Listed examples:** FIG 10 and 11 below show the summary revenue and operating metrics for King Digital Entertainment and Glu Mobile. The numbers confirm that revenues can build very quickly in the industry based on successful game(s).

- **King Digital Entertainment:** Listed on the NYSE in March 2014 and has become well known with the words “Candy” and “Saga” in all of its games e.g. Candy Crush. Whilst the company currently remains listed it recently endorsed a transaction to be acquired for US\$5.9bn by game developer Activation Blizzard.
- **Glu Mobile:** Listed on the NASDAQ in September 2013. In April 2015 Glu Mobile sold a 15% stake to Chinese game developer Tencent for US\$126m.

FIG.10: KING DIGITAL ENTERTAINMENT FINANCIALS

King Digital Entertainment	FY12	FY13	FY14
US\$m (Year Ended December)			
Total Revenue	164	1,884	2,260
Daily Active Users (DAU) (000)	11,000	86,000	142,000
Monthly Active Users (MAU) (000)	49,000	293,000	499,000
ARPPAU \$US	\$0.61	\$0.55	\$0.66

Source: King Digital Entertainment financial statements

FIG.11: GLU MOBILE FINANCIALS

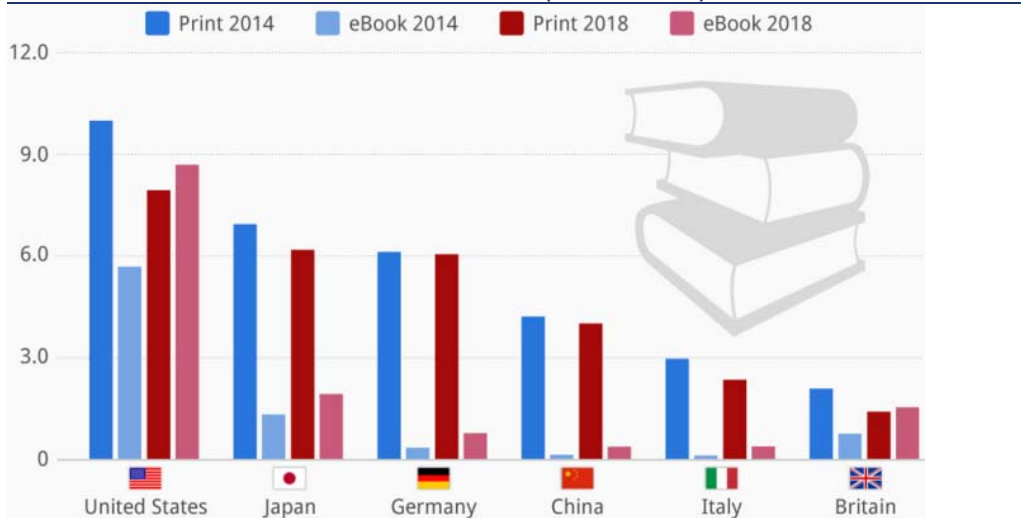
Glu Mobile Inc	FY12	FY13	FY14
US\$m (Year Ended December)			
Total Revenue	108	106	223
Daily Active Users (DAU) (000)	3,535	6,415	7,222
Monthly Active Users (MAU) (000)	34,795	56,297	62,578
ARPPAU \$US	\$0.07	\$0.06	\$0.11

Source: Glu Mobile financial statements

## e-books

- **e-books:** An e-book is an electronic version of a traditional print book and can be read using an e-reader (tablet/kindle) or computer. E-books have evolved over the prior decade due to the increased number of books that now are now accessible on an e-reader and the increase number of manufactures (i.e. Amazon, Apple, Sony).
- **Growth:** The growth of e-books can be attributed to the convenience of e-books (i.e. multiple books on one device), instantaneous access to new books and the ease in which e-books can be transported.
- **Recent trend:** The Book Industry Study Group, a research group for the publishing industry noted that between 2008-2010 e-books sales increased by 1260%. While 2015 sales figures show that e-book growth has been slowing, this trend can be attributed to the cycling of tough comparables in prior years. Whilst growth has slowed, PwC predicts e-books to overtake tradition print in the USA market in 2018.

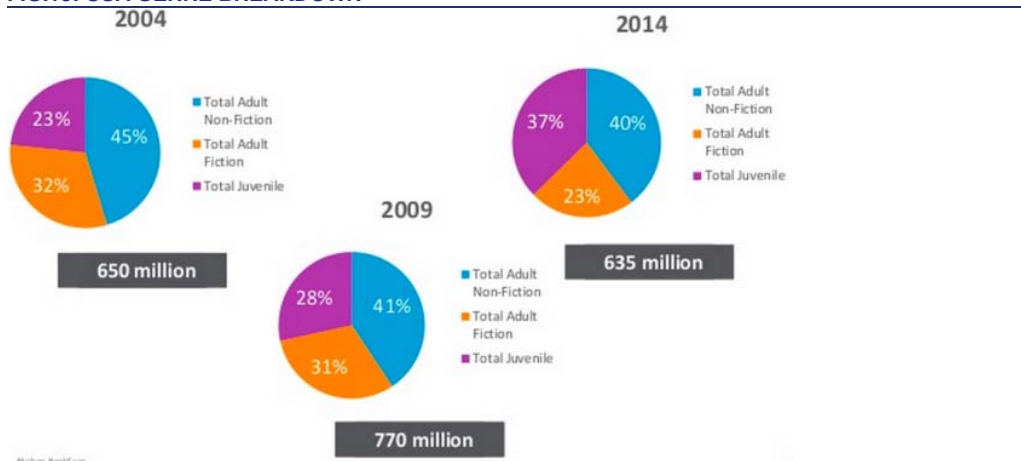
**FIG.12: BOOK MARKET DEVELOPMENT FORECAST (USD \$BILLION)**



Source: PriceWaterHouseCoopers

- **Juvenile e-books:** The 2015 Digital Book World Conference Nielson Bookscan provided data showing that the market share of juvenile genre has grown from 23% of the market in 2004 to 37% in 2014. Younger generations who now more frequently use tablets such as the Apple iPad which incorporates an e-reader and an iBook application to buy and download books as well as an increased number of competitor tablets and kindles on which an individual can read e-books has contributed to this growth.

**FIG.13: USA GENRE BREAKDOWN**

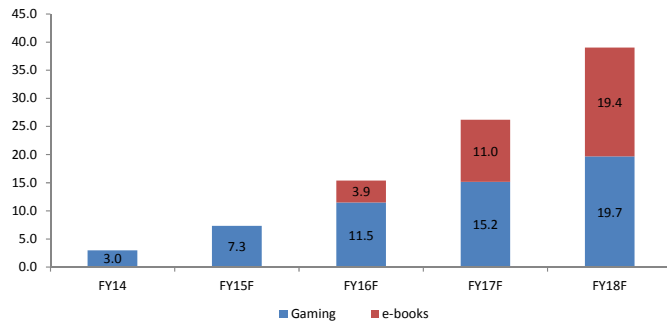


Source: Nelson Bookscan

## Baillieu Holst forecasts

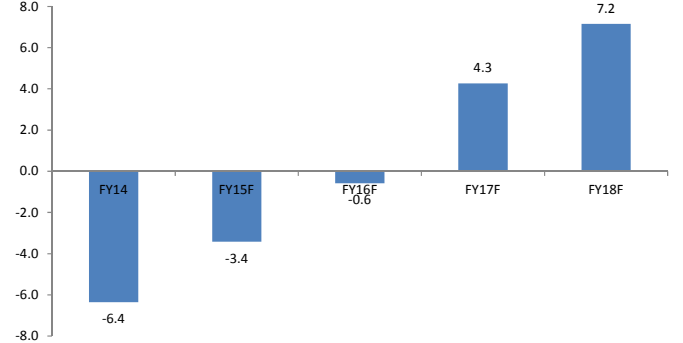
- Overview:** FIG 14 and 15 below summarises our forecasts for AB1 with a segment breakdown between casual mobile gaming and e-books.

**FIG.14: ANIMOCA BRANDS – REVENUE (A\$m)**



Source: AB1, Baillieu Holst forecasts

**FIG.15: ANIMOCA BRANDS – EBITDA (A\$m)**



AB1, Baillieu Holst forecasts

- Mobile gaming:** Although the prediction of hit games is somewhat difficult, we continue to model for growth in the gaming segment for AB1. This view is underpinned by the steady growth trends exhibited in FY15 but more importantly the roll-out of games from mid-December 2015 and 2016 from the use of Mattel content from the JV with AB1. AB1 recently launched its first Mattel title (Ever After High™ Tea Party Dash) and will soon launch a series of games around Thomas & Friends™ (Thomas the Tank Engine).
- e-books:** More difficult to predict in terms of revenue will be the 1Q16 launch of e-books with licenced e-book content. Whilst we are of the view that this will be a successful segment for AB1 we have no history of operating metrics to guide likely take-up. The work to facilitate product launch is relatively simple in terms of scanning input into a tablet format and adding narration. The absence of mobile gaming style product interactivity means that labour cost are lower than AB1 historical products. Our modelling assumes that AB1 will employ a subscription style model with an initial charge of US\$10 per month and a churn rate for subscribers of 60% per annum.

## Board of directors

**FIG.18: ANIMOCA BOARD OF DIRECTORS**

<b>Name</b>	<b>Position</b>	<b>Biography</b>
David Kim	Co-founder & Executive Director	Co-Founder & CEO, Animoca, formerly CEO at Lycos (NASDAQ: LCOS), mail.com (NASDAQ: MAIL), Techpacific Venture Capital (HK: 8088), Partner at Softbank Capital, CFO at China.com (NASDAQ: CHINA), vice Chairman at Daum Corp (KRX: 035720), Chairman at Viztel (KLSE: 0050) and Director at Outblaze.
Yat Siu	Co-founder & Executive Director	Founder & CEO of Outblaze, who began his career at AT&T and Atari. Outblaze's core business was sold to IBM in 2009. Yat is a Young Global Leader of the World Economic Forum and was awarded the Young Entrepreneur award at the Hong Kong Business Awards in 2009.
Robby Yung	CEO & Executive Director	Co-founder and formerly CFO of Redgate Media, sold to Inno-Tech Holdings (HK: 8002), co-founder and former Chief Strategy Officer of One Media Group (HK: 0426), Founder and CEO of One Studio, and former GM of Metromedia Asia (AMEX: MMG).
Martin Green	Independent Director	Holds a BA (Hons) from UWE (Bristol). Qualified as Chartered Accountant with Ernst & Young, London and joined Consolidated Press Holdings (CPH), the Packer Family private company in 1999. He was involved in a very broad range of the family's investments over his more than 10 years with CPH.
Richard Kuo	Independent Director	Founder and CEO of Pier Capital, a boutique technology investment banking firm. He is a non-executive director of Probiotec Limited, Favourit.com. Richard is a Fellow of the Australian Institute of Company Directors and holds qualifications in accounting, finance and law together with post graduate qualifications in applied finance and investment.
Steven Hu	Independent Director	Currently serves as Co-CEO of Ourpalm. Prior to joining Ourpalm, Mr Hu was a partner at VC firm Qiming Venture Partners, where he played an important role in the firm's investments in smartphone giant Xiaomi, advertising platform Domob, online dating service provider Jiayuan.com (NASDAQ: DATE), Zhihu.com and D.cn. Mr Hu was also a co-founder of KongZhong.net (NASDAQ: Kong), one of China's first mobile value added service providers, where he managed the mobile gaming business. He holds a bachelor degree in information science from Peking University.
David Brickler	Independent Director	ICT Manager at Bapcare, which he joined after being Senior Director of Applications for World Vision International. Prior to that, David served as Asia Pacific CIO for Mizuho Securities Asia Ltd., was an Executive Director of Ernst & Young in Hong Kong, and Global CIO for the Noble Group. Mr Brickler was the VP of Equity Technology at Goldman Sachs Japan and also served in various engineering positions at EDS Japan, Sundai, and Fujitsu Limited. David holds and EMBA MBA from Kellogg- HKUST and a BA from Princeton University.

Source: Company presentation

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