



HOULIHAN LOKEY

# VIDEO GAMES

MARKET UPDATE | SUMMER 2020



# Houlihan Lokey Gaming Industry Market Update

Dear Friends and Partners,

The global games market, which is on pace to be a \$200 billion market by 2022 (growing at a healthy 9% CAGR), has proven to not only be resilient during COVID-19 but is also in many respects a beneficiary of “shelter in place” orders. The popularization of diverse revenue models, including free-to-play, subscription, and ad-driven models, are important factors in the continued, rapid increase of the games industry. Mobile, which has been a key driver of growth, as well, now makes up 45% of the global games market and is expected to represent ~50% by 2022. In many ways, COVID-19 has helped to accelerate several key trends that were already driving innovation and growth within the industry. Some key takeaways that we have seen from this environment are:

- The global games market has experienced a surge in users, engagement, and spending as a result of the COVID-19 pandemic.
- COVID-19 has pushed gaming further into the mainstream, attracting a new and broader base of gamers.
- The importance of social and community-based games is heightened as users look to games as a way to connect with friends and families.
- In the absence of traditional live sports, esports is having its moment under COVID-19, with several games receiving their first appearance on linear U.S. networks.
- The games industry outlook is attractive, with growth driven by a combination of factors, including:
  - Continued growth in mobile
  - The drive to cross-platform games and social/immersive game play
  - Advancements in next-gen technology, including 5G and cloud gaming
  - Robust outlook for esports
- M&A and financing activity remains robust despite the broader market volatility, highlighted by Zynga’s acquisition of Peak Games, AppLovin’s acquisition of Machine Zone, and Stillfront Group’s acquisition of Candywriter. We expect this active M&A and financing environment to continue.

We hope you find this update to be informative and that it serves as a valuable resource to you in staying abreast of the market in these turbulent times. Of course, in this fast-changing market environment, we would be happy to discuss these developments in real time and look forward to staying in touch with you.

Regards,



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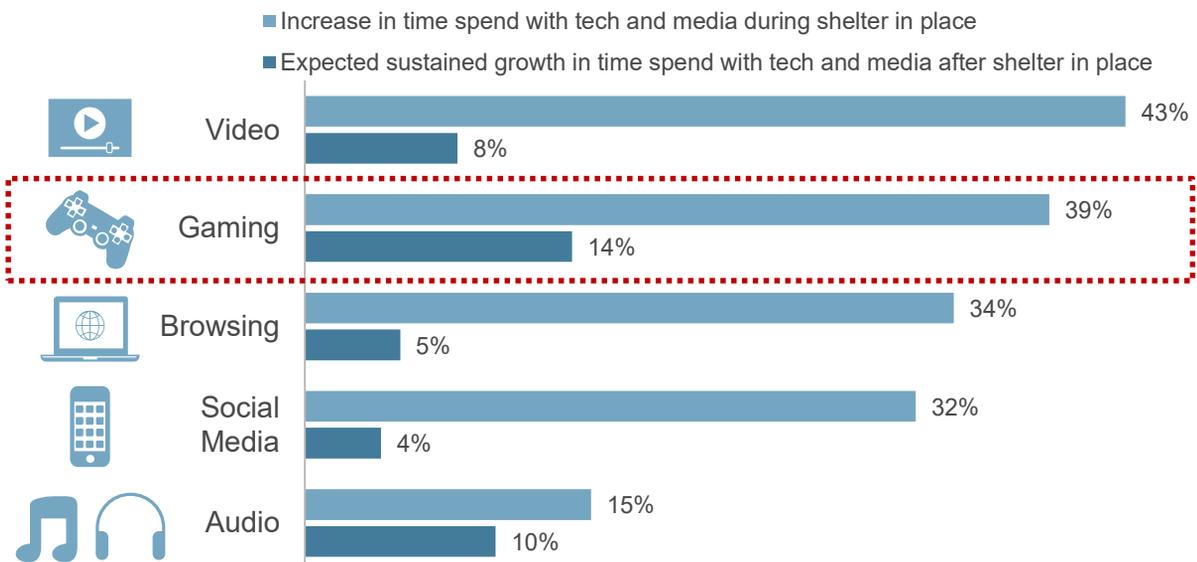
# Impact of COVID-19 on Gaming

The global games market has experienced a surge in users, engagement, and spending as a result of the COVID-19 pandemic.

## COVID-19 Propels the Gaming Industry to the Next Level

- Total spending on video games in the U.S. during May 2020 reached almost \$1 billion, which is up more than 50% over May 2019 levels and is the highest May spend since 2008.<sup>(1)</sup>
  - YTD spend is \$5.5 billion, up 18% over 2019 and the highest since 2011.<sup>(1)</sup>
- Since many of the games industry revenue models rely on increased engagement, the pandemic has been a catalyst for expanded user acquisition, retention, and monetization.
  - According to Verizon, U.S. video game usage during peak hours increased 75% in the week after the quarantine first went into effect.
- The pandemic has accelerated the adoption of games as mainstream entertainment.
  - Travis Scott’s concert series hosted in *Fortnite* during the pandemic drew 12.3 million viewers in its first show.
  - Esports has filled part of the void in the absence of live sports, as 30% of the audience watched esports for the first time.<sup>(3)</sup>
- Gaming has enabled users to stay socially connected while sheltering in place.
  - 34% of *Fortnite* users primarily play to stay connected with friends and family and meet people.<sup>(3)</sup>
  - Gamers are 1.4x more likely to feel connected while sheltering in place than non-gamers.<sup>(3)</sup>
- According to a recent study by Activate (see below), time spent with games increased by almost 40% during COVID-19. Games are expected to retain higher growth vs. other media after shelter in place ends.<sup>(3)</sup>

### Activate Analysis of Time Spend With Technology and Media by Adults Aged 18–64, U.S. (% Increase vs. 2019)<sup>(3)</sup>



Source: (1) GameSpot, June 2020. (2) Newzoo, 2019. (3) “The Post-COVID-19 Agenda for Technology and Media Companies,” Activate Consulting, June 10, 2020.

# Impact of COVID-19 on Gaming (cont.)

## Recent Quotes from Game Industry Executives



*“Starting mid-March, the lockdown led to a sharp increase in player engagement worldwide, but even at the beginning of the fourth quarter, our operating trends already were higher than expected [...]. The intense levels of activity for our games, in terms of both live content and esports events, combined with highly effective acquisition strategies helped several of our titles to be remarkably successful.”*

– Frédéric Duguet, CFO



*“The change in dynamics related to COVID shelter-in-place really started to show up in the second half of March pretty late. It carried through into April. And what we’ve seen is, frankly, a broad-based increase in engagement, audience growth, folks are playing longer sessions, and more sessions. And, interestingly, while we’ve seen new players come into our platform and into our games, we’re seeing a tremendous number of reactivations.”*

– Frank Gibeau, CEO



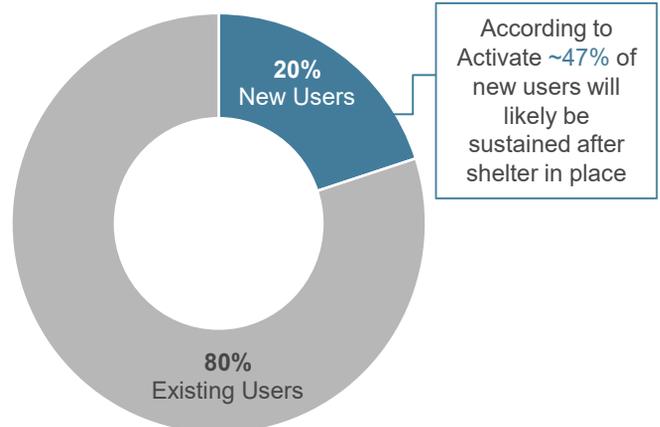
*“Since COVID-19 began, the traffic on our Offerwall has doubled since early January; we also saw huge spikes in conversions at the end of March specifically. In surveying our network audience—45% of users report spending 2+ additional hours on mobile games per day since the onset of the virus.”*

– Ben Chen, EVP Global Developer Relations, CFO

## COVID-19 Has Pushed Gaming Further into the Mainstream, Attracting a New and Broader Base of Gamers

- Companies have seen a spike in new users as well as a return of older, more casual players during the pandemic.
- According to a recent analysis by Activate, the number of subscribers to gaming subscription services like PlayStation Now, Xbox Game Pass, and EA Access has jumped during shelter in place, 20% of which are new users (see chart).<sup>(1)</sup>
  - Activate believes that ~47% of those new users will likely stay subscribed after shelter in place.<sup>(1)</sup>

Activate Analysis of Gaming Subscription Penetration<sup>(1,2)</sup>



*“People have turned to games like they never had before! We saw a high number of reactivations among players for such games as Zynga Poker.”*

– Frank Gibeau, CEO

(1) “The Post-COVID-19 Agenda for Technology and Media Companies,” Activate Consulting, June 10, 2020.

(2) Gaming subscriptions are defined as users who subscribe to a gaming service, such as PlayStation Now, XBOX Game Pass, EA All Access, Uplay+, Google Play Pass, and Apple Arcade.

# Impact of COVID-19 on Gaming (cont.)

## Heightened Importance of Social and Community-Based Games

- COVID-19 has heightened the importance of social and community-based games as users look to them as a way to connect with friends and families.
- By many estimates, *Fortnite* ranks in the top of monthly active players for non-mobile games, with 60 to 80 million players and 3.2 billion hours of playtime in April (*Roblox* and *Minecraft* both have more active players but “only” had ~2 billion hours of direct playtime in April).
  - *Animal Crossing: New Horizons*, released on March 20, is the fastest-selling Switch game of all time, with more than 13 million sales in its first six weeks.
  - *Fortnite*’s launch of its *Season 3* broke Twitch’s concurrent viewership record with 2.3 million viewers (see chart below).

Travis Scott’s concert series hosted in *Fortnite* drew 12.3 million viewers in its first show, setting the precedent that virtual events can not only be done but also be wildly successful.



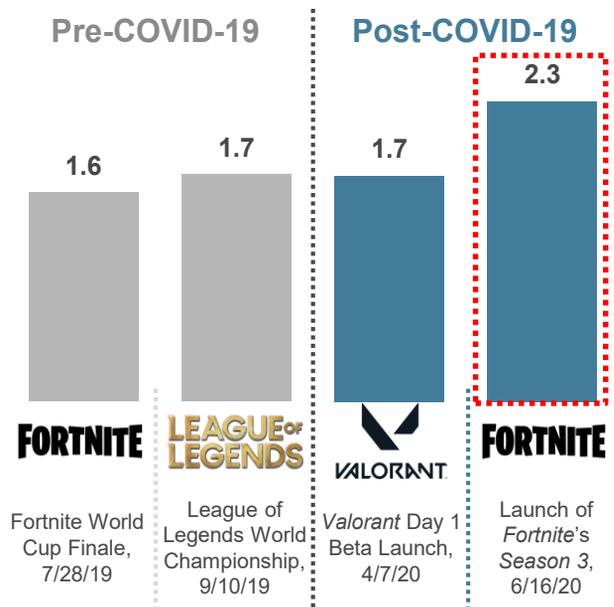
UC Berkeley held a virtual ceremony in *Minecraft* for their graduating class in lieu of an in-person event, showing that even large institutions are using video games to replace canceled events.



Nintendo’s new social game *Animal Crossing: New Horizons* has allowed people to connect with (new) friends and family while sheltering in place by going on online dates and even holding in-game weddings.



### Concurrent Twitch Viewership



**ROBLOX** “At this time, when people need to stay physically distant, Roblox becomes a very, very valuable platform for them to stay socially connected. We have something called private servers, which enables you to play in one of our worlds, but it’s only with people you know. It creates this sense of privacy. We see those used for birthday parties and other sorts of functions, where people want to go together into these worlds and just hang out in a more intimate way.”

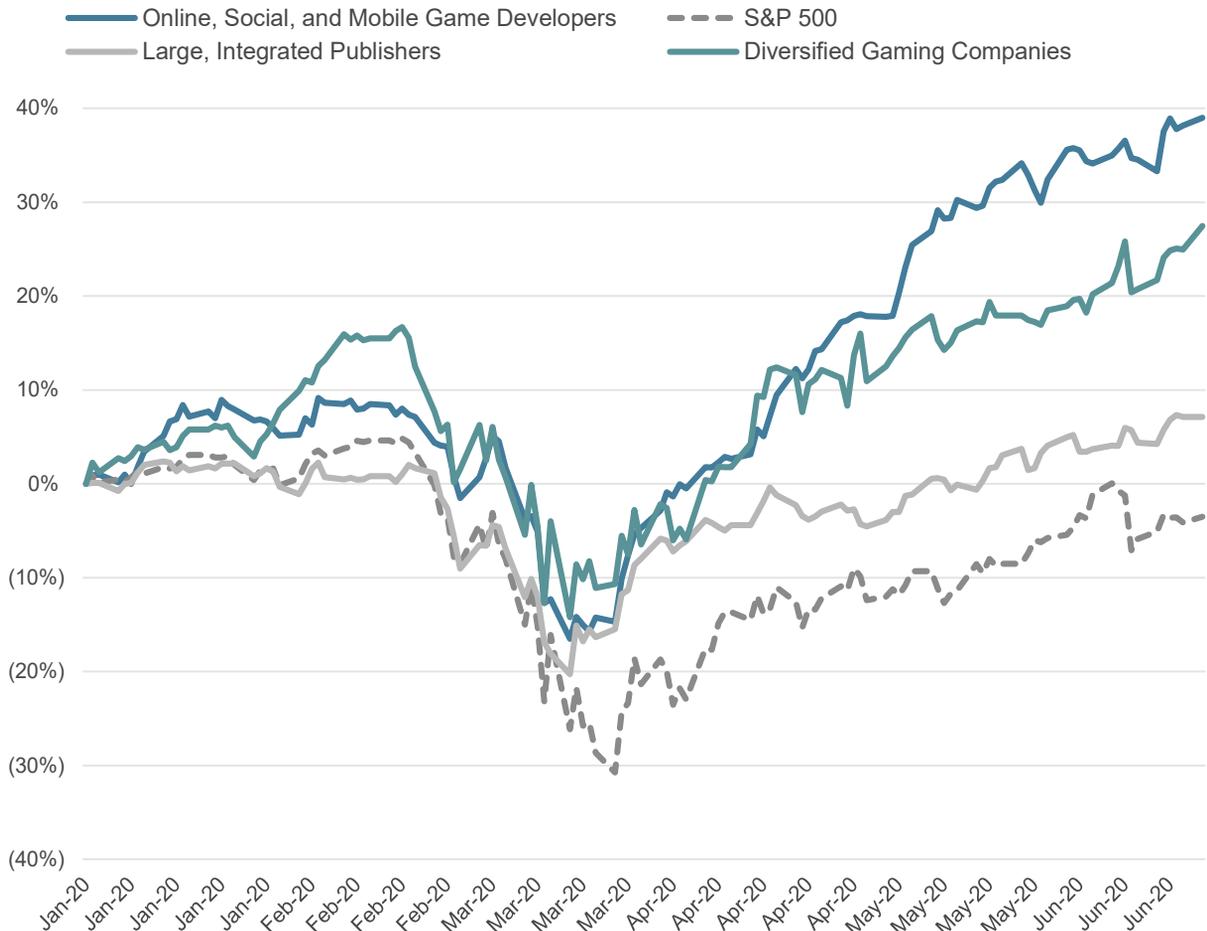
– Craig Donato, CBO, Roblox

**MINECRAFT** “I’ve been so inspired by the many ways in which the Minecraft community has come together to support each other during this challenging time, through university campus replicas, presidential celebrations, graduation ceremonies, and more. In fact, this weekend our own Lydia Winters was honored to give a commencement speech for UC Berkeley students in the “Blockeley University” world they created in Minecraft.”

– Helen Chiang, Studio Head, Mojang Studios

# Impact of COVID-19 on Gaming (cont.)

Leading game industry stocks have significantly outperformed the S&P 500, and many have hit all-time highs during this period.<sup>(1)</sup>



## Online, Social, and Mobile Game Developers

- CD Projekt
- Codemasters Group
- Com2uS
- DeNa
- Frontier Developments
- G5 Entertainment
- GAMEVIL
- Glu Mobile
- GREE
- GungHo
- JOYCITY
- MAG Interactive
- NCSoft
- NetEase
- Netmarble
- NEXON
- Next Games
- NHN
- Remedy Entertainment
- Rovio Entertainment
- SciPlay
- Stillfront Group
- Team17 Group
- WeMade
- Zynga

## Large, Integrated Publishers

- Activision Blizzard
- Capcom
- Electronic Arts
- Konami Holdings
- Sega Sammy
- Square Enix
- Take-Two Interactive
- Ubisoft

## Diversified Gaming Companies

- Amazon
- Google
- Microsoft
- Sony

(1) S&P Capital IQ, as of June 22, 2020.

# Impact of COVID-19 on Gaming (cont.)

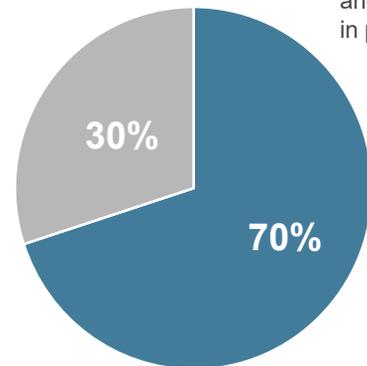
In the absence of traditional live sports, esports is having its moment under COVID-19, with several games receiving their first appearance on linear U.S. networks.

## Esports Tournaments Are Moving Online and Seeing a Spike in Viewership

- Due to COVID-19-related restrictions, major esports tournaments moved online, including the League of Legends European Championship (LEC) Finals, ESL Pro League, *Counter-Strike: Global Offensive*, and the remainder of the Overwatch League 2020 regular season.
- The League of Legends' Spring Playoffs and Finals (remote, fully online) smashed their previous viewership records:
  - During playoffs overall, fans watched more than 10.5 million hours of the LEC, an increase of more than 70% the previous year.
  - During the finals, peak viewership reached 807,033, which was more than 75% higher than the previous 2020 record.
- The 11th season of the ESL Pro League was announced as “the most successful season in the competition’s history” by ESL.
  - Total hours watched doubled over 2019, and AMA rose 215.5% over the prior season.
- While large, in-person esports gatherings will undoubtedly return in the future, we expect online matches to remain a key component of many tournaments going forward.

### Activate Analysis of Esports Viewership During Shelter in Place<sup>(1)</sup>

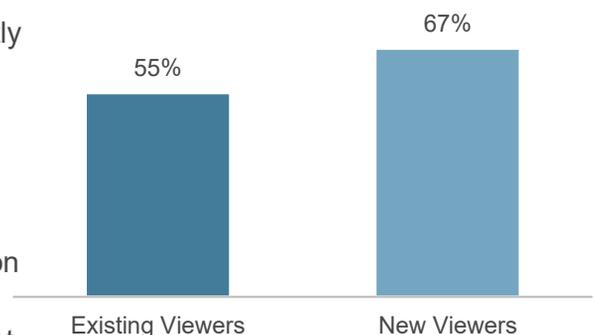
- 30% watched esports for the first time since shelter in place
- 70% watched esports in the prior 12 months and since shelter in place



## Esports Enters the Mainstream

- Some linear broadcast networks aired live esports content for the first time (such as Fox), while others that have broadcasted esports content in the past (like ESPN), aired significantly more esports programming.
- This coverage has resulted in record-high viewership, helped by the promotion by many “traditional” athletes from the NBA, UEFA, etc.
  - NASCAR’s iRacing Series has aired multiple races on Fox that averaged more than 1 million viewers since shelter in place began.<sup>(1)</sup>
  - According to Activate, an NBA 2K tournament that pitted NBA players like Kevin Durant and Devin Booker against each other averaged ~400,000 viewers per game on ESPN2.<sup>(1)</sup>

### Activate Analysis of Demographics of Esports Viewers Aged 35+<sup>(1)</sup>



- Research from Activate shows that new esports viewers during shelter in place have skewed older as esports continues to become more mainstream.

# Impact of COVID-19 on Gaming (cont.)

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## Potential Delay in New Game Releases

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- COVID-19 has led to mid-term uncertainty around the ability to stay on track with the development pipeline and release schedule of new games.
- A number of game companies have indicated they expect a delay in new game releases:
  - Ubisoft delayed several games to its 2020–2021 fiscal year, including *Gods & Monsters* and *Rainbow Six Quarantine*.
  - Square Enix delayed *Marvel's Avengers*' release from May to September 2020.
  - Sony pushed the release of *The Last of Us Part II* to June 2020 and *Ghost of Tsushima* to July 2020.
- We expect any delays to be more centered around the major console titles, which typically have large development teams and more logistical challenges, and probably less around the mobile games and casual game titles.

## Supply Chain Issues and Delays for New Consoles

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- Several console manufacturers have indicated that they expect to see some impact from COVID-19 on their supply chains and, as a result, expect some risk of production delays.
- However, the impact is expected to be temporary and not long-term.
- Sony revealed its next-gen console, PlayStation 5, on June 11 and expects to ship the new console on schedule, before the 2020 holiday season.
  - However, according to some press reports,<sup>(1)</sup> Sony plans to produce fewer units in its first year than it had for the previous-generation console's launch.
  - While COVID-19 has not necessarily impacted Sony's production capacity, it is expected to affect Sony's promotional plans.

 *"We expect the COVID-19 impact on our production to go away by summer, and our 19 million units sales forecast is based on that... There is a risk that we may need to delay releases of the games we plan for this fiscal year."*

– Nintendo President Shuntaro Furukawa

**SONY** *"Although there has been a slight impact on production of PS4 hardware due to issues in the component supply chain, demand in the short-term is being addressed with current inventory, and sales are trending well."*

– Sony press release, March 31, 2020

(1) Source: "Sony Plans Limited PlayStation 5 Output in First Year," Bloomberg, April 16, 2020.

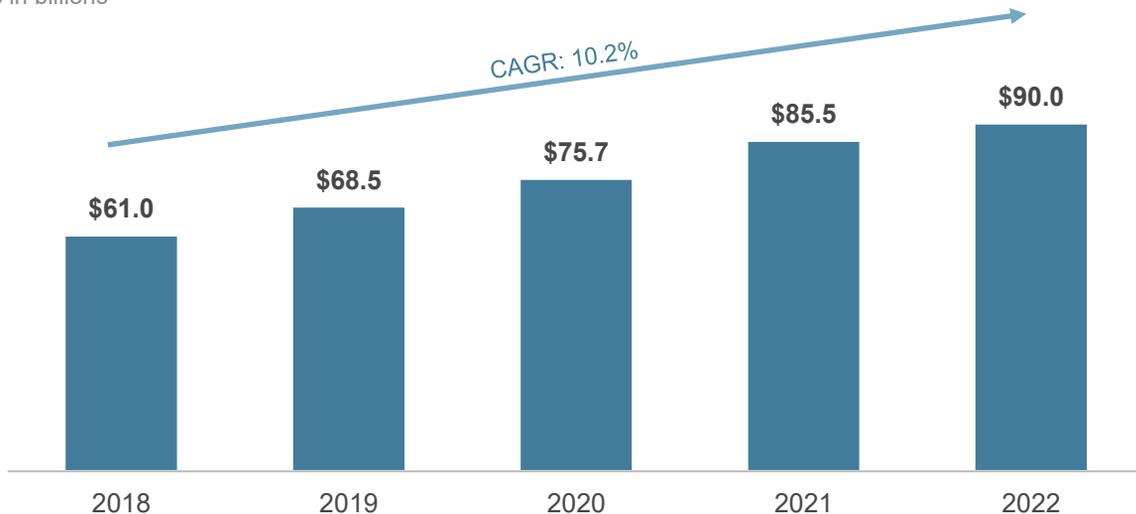
# Trends and Future Growth in Gaming

## Mobile Will Continue to Drive Future Growth

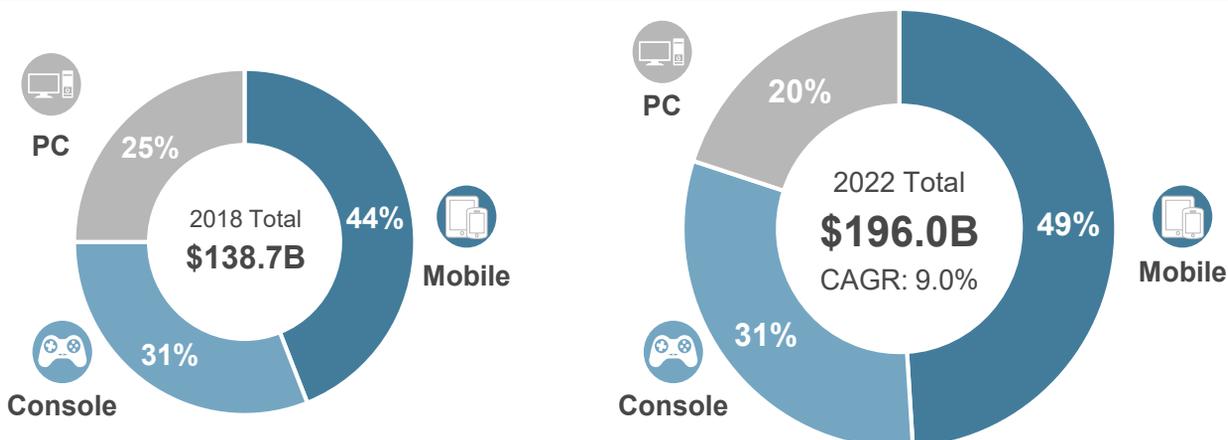
- Mobile gaming now represents 45% of the global games market and is expected to continue to slightly outpace growth in other segments.
  - The overall games market is expected to grow at an 8.8% CAGR during the 2018–2022 period, while mobile is expected to grow at a 10.2% CAGR.
- The mobile game segment is dominated by the casual segment, in particular arcade games (~50%) and puzzle games (~20%), but core games still represent almost 20% of mobile game downloads.
- Key growth drivers include the widespread adoption of smartphones, the proliferation of mobile connectivity, increasing average spend per user, and the growing popularity of the free-to-play revenue model, which extends the lifetime of games.

## Global Mobile Games Market<sup>(1)</sup>

\$ in billions



## Global Games Market by Platform Over Time<sup>(1)</sup>



(1) Newzoo, 2019.

# Trends and Future Growth in Gaming (cont.)

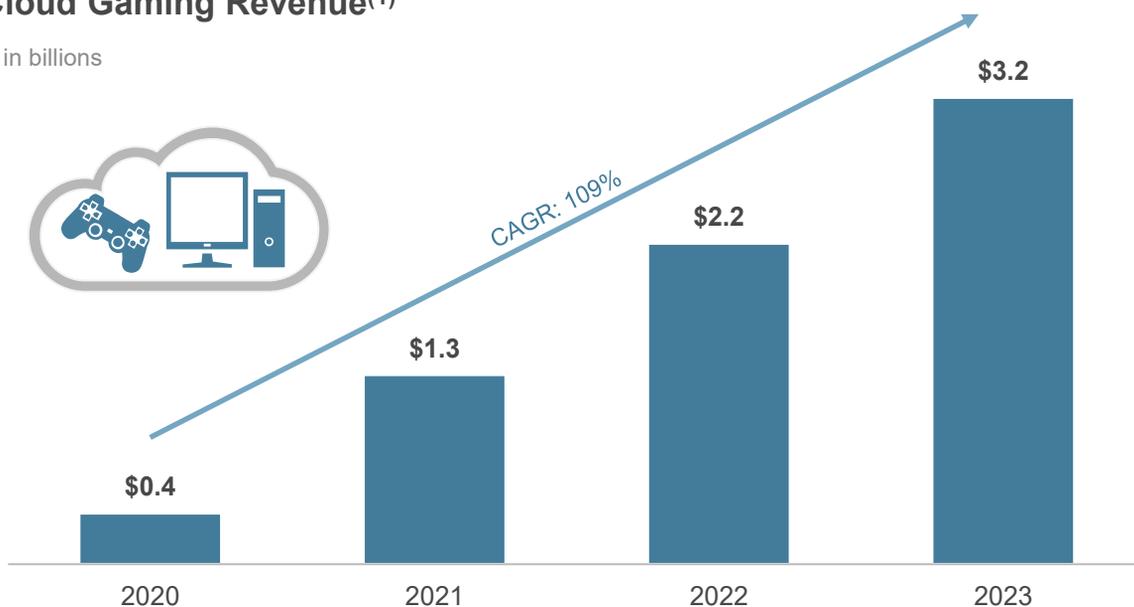
## Cloud Gaming and Subscription Services Expected to Expand Market Further

- Cloud gaming is expected to generate more than \$300 million in 2020 and grow to more than \$3.0 billion by the end of 2023.<sup>(1)</sup>
- Cloud gaming enables the playing of any game on any device without needing to have a local copy of the game itself or to own the physical hardware to process the game.
- As the technology continues to improve, we expect more consumers to enter the gaming ecosystem and drive growth in overall demand for games.
- Faster internet and the upcoming release of 5G technology will make cloud gaming more feasible in an increasing number of markets.
- At the same time, game publishers have optimized their content offerings and are adding newer and high-profile content to their cloud-based offerings.
- The technology advances that have driven the growth in cloud gaming have also enabled the proliferation of subscription streaming services, with Sony, Microsoft, Google, and Apple now offering various forms of subscription options.



## Cloud Gaming Revenue<sup>(1)</sup>

\$ in billions



(1) Newzoo, April 2020.

# Trends and Future Growth in Gaming (cont.)

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## The Drive to Cross-Platform Games

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- Cross-platform play has helped create the modern juggernauts of gaming like *Minecraft*, *Fortnite*, and *Call of Duty Warzone*.
- The ability to play a game regardless of the type of console or platform (console, PC, or mobile) has made many cross-platform games one of the primary destinations for many people during the COVID-19 lockdown.
- Many game companies have increased their focus on offering cross-platform games as they expand their potential customer base and monetization opportunities.
- We expect that the increased focus on cross-platform gaming will create a catalyst for further strategic activity as companies look to expand their IP and capabilities to gain a competitive advantage.

## Games: The Social Network of the Future

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- The success of games like *Fortnite*, *Roblox* and *IMVU* is in large part attributed to their role as a social network inside of a game.
- COVID-19 has clearly heightened the need for social and/or immersive game play, as illustrated by the success of Nintendo's new game *Animal Crossing*. It sold 5 million copies in March, making it the highest-selling title for any console in a single month.
- In the future, these types of social game platforms are expected to evolve into a next-generation internet called the Metaverse, where real-world brands start engaging with consumers in real time.
  - Recent examples include *Star Wars* characters or Marvel content in *Fortnite* and virtual concerts by Marshmello and Travis Scott, which were attended by 11 million and 13 million people, respectively.



*“Just as every company a few decades ago created a webpage, and then at some point every company created a Facebook page, I think we’re approaching the point where every company will have a real-time live 3D presence through partnerships with game companies or through games like Fortnite and Minecraft and Roblox [ ... ] That’s starting to happen now. It’s going to be a much bigger thing than these previous generational shifts. Not only will it be a boon for game developers, but it will be the beginning of tearing down the barriers, not just between platforms but between games.”*

– Tim Sweeney, Founder and CEO of EPIC Games (LA Times, May 13, 2020)

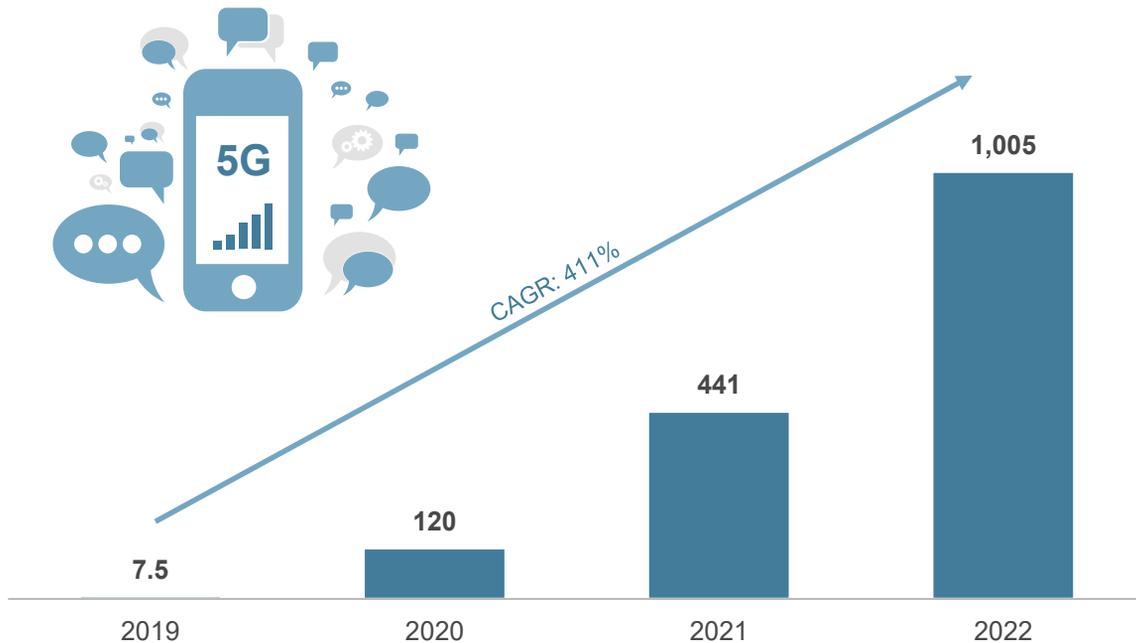
# Trends and Future Growth in Gaming (cont.)

## 5G Could Supercharge the Games Industry

- 5G is expected to truly enable the promise of “play anywhere, at any time, on any screen,” which in turn helps to stoke an increased demand for games from new consumers.
- While 5G is currently still in its infancy, it is expected that there will be more than 1.0 billion active 5G phones by 2022.
- 5G’s low latency combined with the convenience of smartphones will make mobile a key platform for cloud gaming.
- As a result, platform choice will be less relevant, enabling cross-platform games and services and potentially cross-platform multiplayer.
- 5G will enable higher-end mobile gaming experiences, which allows mobile-first gamers to get increasingly exposed to mid-core game experiences that were previously only available on console and PC.
- The combination of cloud gaming and 5G will make more premium game titles accessible to more consumers on their mobile devices.

## Active 5G Smartphones<sup>(1)</sup>

# of active 5G smartphones globally, in millions



(1) Newzoo, 2020.

# Trends and Future Growth in Gaming (cont.)

## The Continued Growth of Esports

- On the heels of increased coverage and interest in esports under COVID-19, we have seen advertisers start to reallocate ad dollars from live sports to esports, which could have long-term implications on the esports industry.
- While any COVID-19-related lift may very well be temporary, the long-term outlook for esports remains robust.
  - The global esports audience is expected to grow from 495 million in 2020 to ~650 million in 2023, more or less equally split between esports enthusiasts (~55%) and occasional viewers (~45%).
  - Global esports revenue is expected to increase from ~\$1.1 billion in 2020 to ~\$1.6 billion in 2023; media rights and sponsorship will be the key drivers for the growth in revenue.

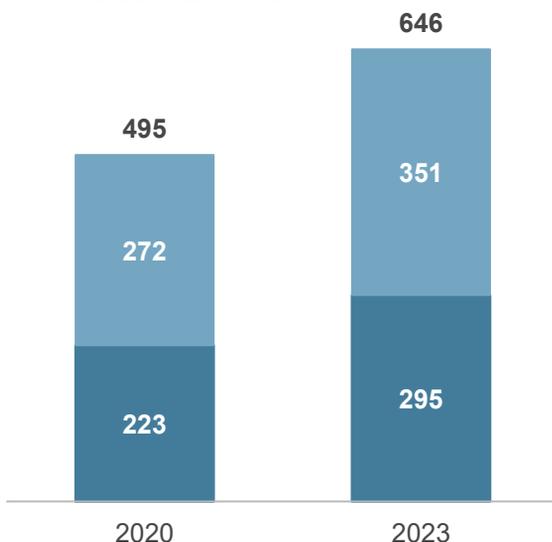
*“In the long term, esports will be our biggest footprint. Esports will eventually eclipse spending on sports such as motorsports and golf. The younger generation, being born digital first, doesn’t really care about TV or traditional advertising. Esports is our tool to reach them.”*

*– Stefan Ponikva, Head of BMW Brand Experience Shows & Events*

### Global Esports Audience Growth<sup>(1)</sup>

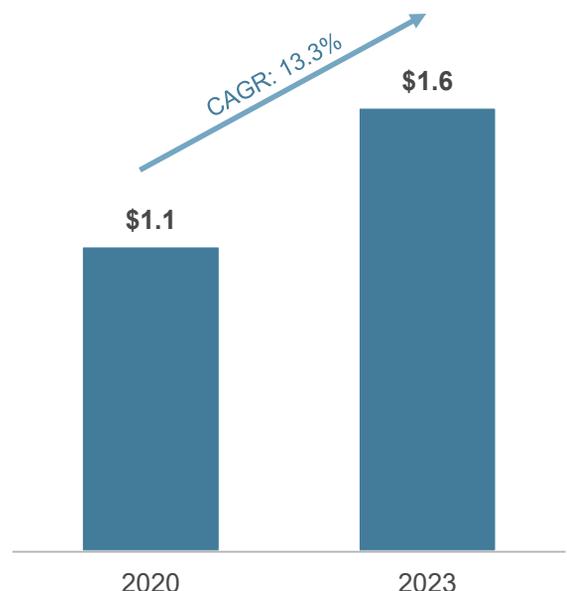
# in millions of people

- Esports Enthusiasts
- Occasional Viewers



### Esports Revenue Growth<sup>(1)</sup>

\$ in billions



- Although projections have been lowered in recent years as some of the early hype has subsided, we expect esports to continue to evolve and become an important driver in the continued growth of the overall gaming and broader media ecosystem.

(1) Newzoo, May 2020.

# Notable M&A Transactions During COVID-19

| Acquirer  | Target  | Transaction Overview  |
|---|---|---|
|    |    | <p><b>Expected Close Date:</b> Q3 2020<br/> <b>Target's Enterprise Value:</b> \$1.8 billion<br/> <b>TEV/LTM Revenue Multiple:</b> 2.7x</p> <ul style="list-style-type: none"> <li>• Two years after the successful acquisition of Peak's card game portfolio in 2017, Zynga acquired the whole company in June 2020.</li> <li>• The acquisition expands Zynga's portfolio of forever franchises to include hits such as <i>Toon Blast</i> and <i>Toy Blast</i>, and it also grows Zynga's mobile daily active users (DAUs) by more than 60%.</li> <li>• The acquisition helps Zynga expand geographically and gives Peak the ability to leverage Zynga's powerful game ecosystem and assets while remaining autonomous to control the creative pipeline.</li> <li>• The transaction demonstrates the continued demand in the casual mobile games category.</li> </ul> |
|  |  | <p><b>Close Date:</b> May 19, 2020<br/> <b>Target's Enterprise Value:</b> ND<br/> <b>TEV/LTM Revenue Multiple:</b> ND</p> <ul style="list-style-type: none"> <li>• The acquisition of Machine Zone, a pioneer of free-to-play mobile massively multiplayer online (MMO) games, grows AppLovin's games segment by adding hit titles such as <i>Game of War: Fire Age</i> and <i>Mobile Strike</i>.</li> <li>• Combining Machine Zone's expertise, unmatched success in core games, monetization, and user acquisition tools and knowledge with AppLovin's impressive portfolio of casual games and leading marketing platform allows the combined company to offer both top game franchises and game technologies to players and developers around the world.</li> </ul>   |
|   |  | <p><b>Close Date:</b> April 29, 2020<br/> <b>Target's Enterprise Value:</b> \$74.4 million<sup>(1)</sup><br/> <b>TEV/LTM Revenue Multiple:</b> 2.9x<sup>(1)</sup></p> <ul style="list-style-type: none"> <li>• Acquisition expands Stillfront's free-to-play portfolio by adding Candywriter's collection of casual and "mash-up" (casual and mid-core) games.</li> <li>• With 1.2 million DAUs and 7.8 million monthly active users (MAUs), <i>BitLife</i>, Candywriter's text-based life simulation game mixing casual and mid-core elements, was among the top five most downloaded iOS games of 2019.</li> <li>• This acquisition diversifies Stillfront's portfolio in terms of genre and audience, while Candywriter's existing portfolio will benefit from enhanced capabilities such as localization and live-ops.</li> </ul>                                 |

# Robust M&A and Financing Activity

|                               |                 | Notable YTD M&A Transactions |   |   |   |             |                     |
|-------------------------------|-----------------|------------------------------|---|---|---|-------------|---------------------|
|                               |                 | Date                         | Acquirer  | Target  | TEV (\$M)   | TEV/Revenue | TEV/EBITDA          |
| After COVID-19 <sup>(2)</sup> |                 | Jun-20                       | <b>facebook.</b>  |    | --  | --          | --                  |
|                               |                 | Jun-20                       | <b>playrix</b>  |    | --  | --          | --                  |
|                               |                 | Jun-20                       | <b>ROVIO</b>  | Darkfire Games  | --  | --          | --                  |
|                               |                 | Jun-20                       | <b>zynga</b>  |    | 1,800.0   | 2.7x        | --                  |
|                               |                 | May-20                       | <b>Tencent 腾讯</b>   |    | 325.0 <sup>(1)</sup>  | 1.4x        | 8.9x                |
|                               |                 | May-20                       |    |    | 0.6   | --          | --                  |
|                               |                 | May-20                       |    |    | --  | --          | --                  |
|                               |                 | Apr-20                       |    |    | --  | --          | --                  |
|                               |                 | Apr-20                       | Macarthur Fortune Holding   |    | 530.0   | --          | --                  |
|                               |                 | Apr-20                       | <b>STILLFRONT GROUP</b>   |    | 74.4 <sup>(3)</sup>   | 2.9x        | 4.9x <sup>(4)</sup> |
|                               |                 | Apr-20                       |   |   | 100.0   | --          | --                  |
|                               |                 | Mar-20                       |  |  | --  | --          | --                  |
|                               |                 | Mar-20                       |  |  | --  | --          | --                  |
|                               |                 | Mar-20                       | <b>playrix</b>  | <b>PLEXONIC</b>   | --  | --          | --                  |
|                               | Before COVID-19 |                              | Feb-20  | <b>facebook.</b>  |  | --          | --                  |
|                               |                 | Feb-20                       | <b>EMBRACER+ GROUP</b>  |  | 150.0 <sup>(5)</sup>  | 1.4x        | 2.4x                |
|                               |                 | Feb-20                       |  |  | 138.8   | 2.1x        | 7.6x                |
|                               |                 | Feb-20                       |  |  | --  | --          | --                  |
|                               |                 | Jan-20                       |  | <b>KOLIBRI</b>  | --  | --          | --                  |
|                               |                 | Jan-20                       |  |  | 150.0   | --          | --                  |
|                               |                 | Jan-20                       |  |  | 250.0   | ~1.0x       | --                  |
|                               |                 | Jan-20                       | <b>Tencent 腾讯</b>   |  | 148.0   | 5.6x        | 12.2x               |
|                               |                 | Jan-20                       | <b>STILLFRONT GROUP</b>   |  | 300.0 <sup>(6)</sup>  | 2.5x        | 4.9x                |
|                               |                 | Jan-20                       | <b>MINICLIP</b>   |  | 100.0   | --          | --                  |

Source: PitchBook.com, S&P Capital IQ, company press releases, and news reports.

(1) Based on a 20% stake. (2) After COVID-19 is defined as February 29, the first reported death from COVID-19 in the U.S. (3) Excludes earn-outs of up to \$120.6 million. (4) Represents TEV/LTM adjusted EBITDA multiple.

(5) Excludes earn-outs of up to \$375.0 million. (6) Excludes earn-outs of up to \$100.0 million.

## Robust M&A and Financing Activity (cont.)

|                               |  | Notable YTD Private Placement Transactions |  |   |                         |           |
|-------------------------------|--|--|--|---|-------------------------|-----------|
|                               |  | Date                                       | Investor   | Target  | Investment Amount (\$M) | TEV (\$M) |
| After COVID-19 <sup>(1)</sup> |  | Jul-20                                     | Sony   |    | 250.0                   | --        |
|                               |  | Jun-20                                     | T. Rowe Price Group, Baillie Gifford, KKR  |    | 750.0 <sup>(2)</sup>    | 17,000.0  |
|                               |  | Jun-20                                     | Galaxy Interactive, BITKRAFT Esports Ventures  |    | 10.0                    | --        |
|                               |  | Apr-20                                     | NTWRK  |    | 40.0                    | --        |
|                               |  | Mar-20                                     | Advance, The Chernin Group   |    | 200.0                   | 1,700.0   |
| Before COVID-19               |  | Feb-20                                     | Andreessen Horowitz, Temasek, Tencent, Altos Ventures, Meritech Capital, Tiger Global Management |  | 150.0                   | --        |
|                               |  | Jan-20                                     | Insight Partners   |  | 125.0                   | 1,250.0   |

### Robust M&A and Financing Activity

- M&A and financing activity has remained robust during COVID-19, with continued interest shown from both strategics and financial buyers.
- We expect this trend to continue, driven by the favorable underlying trends in the games industry.
- We anticipate further consolidation across the industry as the most successful game companies look to augment IP, diversify games in its portfolios, and expand their capabilities.
- We also foresee that media companies and financial buyers that have been hesitant in the past may reconsider games as an important pillar.
- Increased focus from large-cap tech companies such as Apple, Google, Microsoft, and Amazon could become an additional catalyst for incremental investment, growth, and M&A activity in the space.

Source: PitchBook.com, S&P Capital IQ, company press releases, and news reports.

(1) After COVID-19 is defined as February 29, the first reported death from COVID-19 in the U.S.

(2) Transaction is still pending announcement.

# Expertise in the Games Industry

Houlihan Lokey professionals have a long history and deep experience advising game companies across a wide range of transactions.

**JUMPSTART**  
has been acquired by  
**ND**  
Sellside Advisor

**GAWKER MEDIA**  
has been acquired by  
**UNIVISION**  
Sellside Advisor

**PokerStars**  
and  
**FULL TILT POKER**  
have been acquired by  
**AMAYA**  
Sellside Advisor

**WGT MEDIA**  
has been acquired by  
**TOPGOLF**  
Sellside Advisor

**OUYA**  
has been acquired by  
**RAZER**  
Sellside Advisor\*

**FanDuel**  
\$275,000,000  
Series E Preferred Stock  
**KKR** **Google capital**  
**SHAMROCK** **Time Warner**  
Placement Agent\*

**FanDuel**  
\$70,000,000  
Series D Preferred Stock  
**SHAMROCK** **Capital Advisors**  
**NBC Sports Network** **KKR**  
Placement Agent\*

**gamesys**  
has sold its B2C assets for £425.8 million plus earn-out  
to  
**Intertain**  
Sellside Advisor\*

**VIACOM**  
has merged its gaming assets and made an investment into  
**DEFY** **MEDIA**  
Financial Advisor\*

**aeria GAMES**  
has merged with  
**Gamepot**  
**So-net**  
Financial Advisor\*

**indiagames.com**  
has been acquired by  
**Disney**  
Strategic Advisor\*

**ColumbusNova**  
has acquired  
**HARMONIX**  
from  
**VIACOM**  
Financial Advisor\*

\*Selected transactions were executed by Houlihan Lokey professionals while at other firms acquired by Houlihan Lokey or by professionals from a Houlihan Lokey joint venture company.

# How Houlihan Lokey Can Help

Our firm is well-equipped to help our clients navigate uncertain times. We respond quickly to challenging situations and are constantly helping clients to analyze, structure, negotiate, and execute the best possible solutions from both a strategic and a financial perspective.

## What We Offer

### Corporate Finance

1 Mergers and Acquisitions

2 Capital Markets

Private Funds Advisory

Board Advisory Services

### Financial Restructuring

Company Advisory

Financial Restructuring

Distressed M&A

Liability Management

Creditor Advisory

### Financial and Valuation Advisory

Portfolio Valuation and Fund Advisory

Transaction Opinions

Corporate Valuation Advisory Services

Transaction Advisory Services

Real Estate Valuation and Advisory

Dispute Resolution Consulting

#### Mergers and Acquisitions

We are widely recognized as the leading M&A advisor to the middle market in general and the TMT sector in particular.

Our deep expertise across the sector, knowledge of the strategic landscape, and long-standing relationships with all relevant strategic and financial buyers make us the M&A advisor of choice for strategic transactions in the digital media industry.

#### Equity Financing

We have a market-leading private capital markets platform focused on the placement of solution-oriented capital for a wide range of financing needs. We have differentiated investor relationships and access to the key decision makers, allowing us to run a bespoke, high-touch, confidential, and efficient process.

## Why We're Different



**Deep Video Game Industry Expertise**



**Strong Relationships with the Most Relevant Buyers**



**Solution-Oriented Capital Markets Platform**



**Dominant in Special Situations and Restructuring**



**Senior-Level Commitment and Dedication**



**Superior Work Product/Technical Abilities**



**Creativity, Imagination, Tenacity, and Positivity**



Houlihan Lokey is the trusted advisor to more top decision-makers than any other independent global investment bank

- 1,500+ Employees
- ~\$1+ Billion in Revenue
- 22 Locations Globally
- ~\$4+ Billion Market Cap

## Corporate Finance

| 2019 M&A Advisory Rankings<br>All U.S. Transactions |                       |            |
|---|-----------------------|------------|
|   | Advisor               | Deals      |
| 1   | <b>Houlihan Lokey</b> | <b>184</b> |
| 2   | Goldman Sachs & Co    | 167        |
| 3   | JP Morgan             | 141        |
| 4   | Morgan Stanley        | 122        |
| 5   | Evercore Partners     | 112        |

Source: Refinitiv (formerly known as Thomson Reuters)

**No. 1** U.S. M&A Advisor  
**Top 10** Global M&A Advisor  
**Leading** Capital Markets Advisor

## Financial Restructuring

| 2019 Global Distressed Debt & Bankruptcy<br>Restructuring Rankings |                       |           |
|--|-----------------------|-----------|
|  | Advisor               | Deals     |
| 1  | <b>Houlihan Lokey</b> | <b>76</b> |
| 2  | PJT Partners Inc      | 43        |
| 3  | Moelis & Co           | 36        |
| 4  | Lazard                | 29        |
| 5  | AlixPartners          | 19        |

Source: Refinitiv (formerly known as Thomson Reuters)

**No. 1** Global Restructuring Advisor  
**1,000+** Transactions Completed Valued  
 at More Than \$2.5 Trillion Collectively

## Technology, Media, and Telecom

| 2014 to 2019 M&A Advisory Rankings<br>U.S. Technology, Media, Entertainment &<br>Telecom Transactions Under \$1 Billion |                             |            |
|---|-----------------------------|------------|
|   | Advisor                     | Deals      |
| 1   | <b>Houlihan Lokey</b>       | <b>198</b> |
| 2   | Goldman Sachs & Co          | 162        |
| 3   | Raymond James Financial Inc | 155        |
| 4   | Morgan Stanley              | 154        |
| 5   | Evercore Partners           | 144        |

Source: Refinitiv (formerly known as Thomson Reuters)

**No. 1** M&A Advisor for U.S. TMET  
 Transactions Under \$1 Billion Over the  
 Past Six Years  
**33** Completed Transactions in 2019

## Financial and Valuation Advisory

| 2000 to 2019 Global M&A Fairness<br>Advisory Rankings |                               |              |
|---|-------------------------------|--------------|
|   | Advisor                       | Deals        |
| 1   | <b>Houlihan Lokey</b>         | <b>1,057</b> |
| 2   | JP Morgan                     | 929          |
| 3   | Duff & Phelps                 | 734          |
| 4   | Morgan Stanley                | 621          |
| 5   | Bank of America Merrill Lynch | 612          |

Refinitiv (formerly known as Thomson Reuters). Announced or completed transactions.

**No. 1** Global M&A Fairness Opinion  
 Advisor Over the Past 20 Years  
**1,000+** Annual Valuation Engagements

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