

Gaming Insight

Volume 4

MERGERS AND ACQUISITIONS, PUBLIC & PRIVATE FINANCINGS
AND FINANCIAL ADVISORY SERVICES IN THE DIGITAL CONSUMER MARKET

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JULY 2023

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Your success is our business

Please reach out to the team to

1. Receive a detailed sub-sector deck
2. Gain further (sub-)sector intelligence
3. Learn how our deep industry expertise and commitment can help you achieve your objectives



Staying a step ahead of trends in the digital consumer industry requires deep knowledge, an effective network and a focus on long-term relationships. Our team of ~75 digital consumer bankers, located in Europe and the US, brings experience and commitment to execution, driving the transaction from kickoff to closing. We provide transaction and financial advisory services to both public and private digital lifestyle companies as a full-service investment banking firm.

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Consumer & Technology sector expertise

710+ closed M&A deals since 2015	USD 190bn+ closed deal value since 2015	300+ closed public equity deals since 2015
Significant transaction momentum	Active and experienced advisor network with global reach	Influential Wall Street research on public sector companies

Note(s): In December 2020, the boutique corporate finance firm Financo, specialized exclusively on the consumer sector, joined Raymond James with more than 25 professionals. For more information, please refer to the [press release](#)

Please find our prior insights here:
 Insight-2022 | Insight-2021 | Insight-2020

The holy trinity of gaming – a market definition

We slice the EUR 200bn+ gaming multiverse into the three pillars: 1) content, 2) technology, and 3) esports
 Growth varies significantly depending on the respective sub-sector – disruptive businesses quickly surpass CAGRs of 100% p.a.

Content

Definition
 Content is king – studios organized in larger groups or indie set-ups hunt for the next big hit IP
 → creative innovation as core

~70%
of today's global market

Key valuation considerations

1. KPIs to measure level of establishment and monetization:
 - I. EBITDA
 - II. Lifetime value vs. cost per install
 - III. Churn
2. IP diversification and development pipeline
3. Earn-out as key negotiation item

Sub-sectors

 Mobile	 Desktop / console	 Cross-platform
 Browser	 Spatial, e.g., AR and VR	 Distribution

Technology







Definition
 Industry backbone driving intra- & inter- gaming nucleus disruption
 → technical innovation as core

~29%
of today's global market

Key valuation considerations

1. KPIs to measure potential and competition:
 - I. Sales
 - II. Growth
 - III. Total addressable market
2. Level of innovation or disruption
3. Retain developer talent as key focus

Sub-sectors

 Platform developer	 Engines	 Tool developer
 Cloud gaming	 System developer	 Peripherals and accessories

Esports







Definition
 Combination of competitive edge with entertainment for broad audience
 → content creation amplified with monetization innovation as core

~1%
of today's global market

Key valuation considerations

1. KPIs to measure reach and engagement:
 - I. Sales
 - II. EBITDA
 - III. Hours watched, (social) media reach incl. user engagement
2. Ability to enhance monetization
3. Title specific level of esports integration from developer vs. free market share

Sub-sectors

 Tournament operators	 Big data analytics	 Teams (pro vs. lifestyle)
 Tournament related services	 Educational (AI) platforms	 Team adjacent content producer

Source(s): Raymond James Consumer Digital Lifestyle research, press, various interviews with industry thought leaders
 Note(s): Valuation considerations serve as mere indication which can be far-off on a transaction specific basis

Recent trends shaping the industry

Monetization focus on “safer” bets

1. IP games gaining larger market share

With dropping valuations, many developers actively push existing IPs to monetize on proven concepts both through acquisitions incl. Middle Earth Enterprises by Embracer and new game releases from well-known IPs with highly anticipated titles like Hogwarts Legacy and Star Wars Jedi: Survivor

2. Consolidators focus on integration of acquired studios

After a record number of acquisitions seen from players such as Embracer, Ubisoft and Epic Games, consolidators are shifting focus on restructuring and the integration of acquired studios to leverage synergies across the group and enter the next phase by shifting from investment-driven growth to growth through an asset care strategy

3. One-time purchases outperform game subscription growth

After the game subscription market has quickly gained momentum, with PS Play and Game Pass reaching combined ~75m subscribers in 2022, growth in subscriptions is plateauing at ~2%⁽¹⁾ as the services are struggling to attract new subscribers. One-time purchases grew on PlayStation by 30%+⁽²⁾

Rise of next generation developers

1. Blockchain as the first stage enabler for interoperability

Blockchain gaming, especially in the context of interoperability, is paving the way for the emergence of new business models in the space, increasing the value of digital assets by allowing players to use assets across multiple games, which shifts greater control to players to move from play-to-win towards play-to-earn, and improving the safety for in-game purchases through powerful encryption technologies

2. Dominant gaming engines continue to push boundaries

Unity joined forces with ironSource to create the leading end-to-end platform for mobile developers to build and monetize games, while Unreal launched a new creation tool add-on *Unreal Engine for Fortnite*, allowing players to create and publish their own games into the popular battle royale

3. Apple’s Vision Pro legitimizing the XR ecosystem

The long-awaited introduction of Apple’s Vision Pro has revived the cooled-off XR excitement from the broader public. The launch has kicked-off a new wave of XR content development and reflat investments into the space, putting enhanced focus on META and other industry players

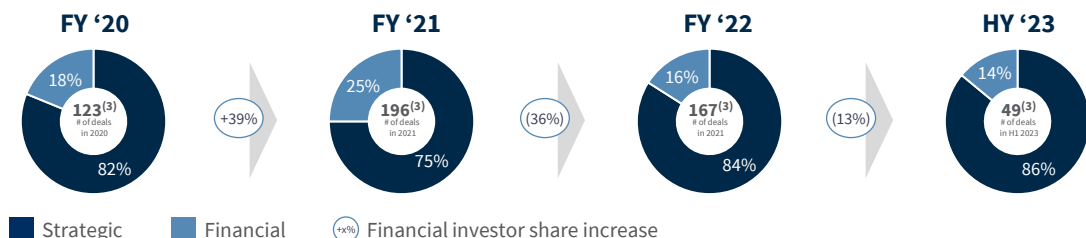
Transaction cool-down

1. Deal-values see downturn as strategics acquire fewer, and smaller targets

- I. TOP 3 acquirer (Embracer, Sony & Keywords) Studios have completed ~6 M&A deals each LTM
- II. Scopely / Savvy Games was the largest deal valued at USD ~4.9bn

2. Financial investors increase their sector focus as opportunities arise

Despite decreasing deal share, financial investor appetite persists with massive traction in the background and various thoughts on aggregator funding to enter the market



Source(s): Raymond James Consumer Digital Lifestyle research, press, interviews with industry thought leaders

Note(s): (1) LTM April 2023, (2) Sony Earnings release: game software sales Q3 FY 2022 vs Q3 FY 2021, (3) Excluding deals with deal values below EUR 5m or where the stake acquired is less than 30% at a valuation below EUR 100m, or where the target’s revenues are below EUR 10m

Further industry developments

1. Esports conquering mobile

Fueled by its accessibility & improving quality of games developed, mobile esports are achieving substantial attention, commanding a 19% share of total esports viewership in 2022. The largest mobile esports title, MLBB, was viewed over 330m+ hours, ranking 5th of the largest esports titles overall

2. Conventional and digital sports converge to attract younger audiences

Esports has changed the landscape of conventional sports as the target audience is significantly younger, previously untapped by conventional disciplines and thus encouraged organizations to embrace features of esports and other media content to increase engagement for spectators and athletes. Formula 1 is a leading example finding massive surge in popularity through its virtual racing league & Netflix show

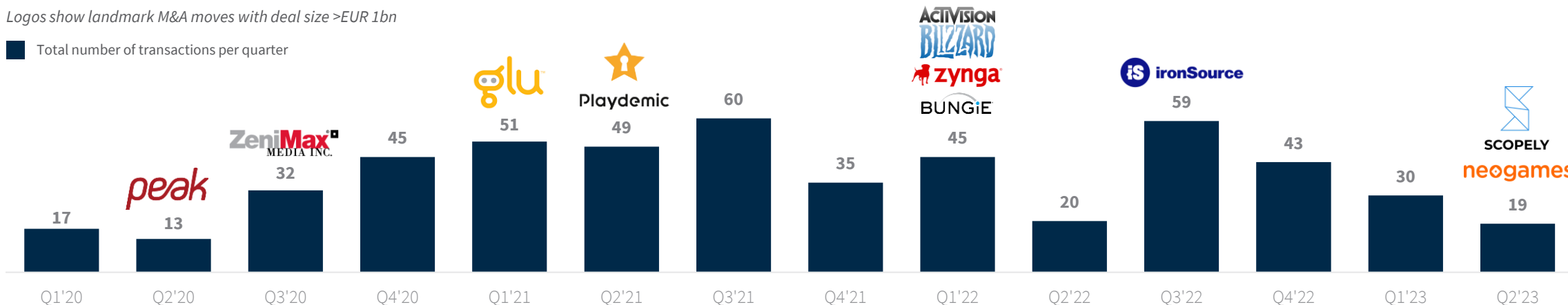
3. Connected fitness equipment introducing the era of omni-fitness

Spatial technologies and gamification of connected fitness have elevated the experience of workouts as game-like mechanics contribute to a higher engagement among users, driving them to better fitness results, and adding a layer of entertainment to traditional work-outs

Landmark gaming deals follow clear strategic patterns

Logos show landmark M&A moves with deal size >EUR 1bn

■ Total number of transactions per quarter



Consolidation

- Consolidation play by expanding existing competences
- Acquisitions enable consolidators to strengthen profitability and create platforms for further organic growth and IP expansion

Representative transactions

Date	Target	Value	Acquirer
Aug-2021	ZeniMax	~EUR 6.4bn	Microsoft
May-2023	neogames	~EUR 1.1bn	ARISTOCRAT

Platform expansion

- Strategic add-ons with shift away from existing platform capabilities
- Transactions allow acquirors to accelerate business growth and expand platform as well as audience

Representative transactions

Date	Target	Value	Acquirer
Aug-2021	Playdemic	~EUR 1.2bn	EA
Apr-2023	SCOPELY	~EUR 4.5bn	SAVVY GAMES GROUP

Strategic calibration

- Large-scale strategically focused acquisitions
- Acquisitions accelerate growth in core business units and play a key role in long-term strategy execution

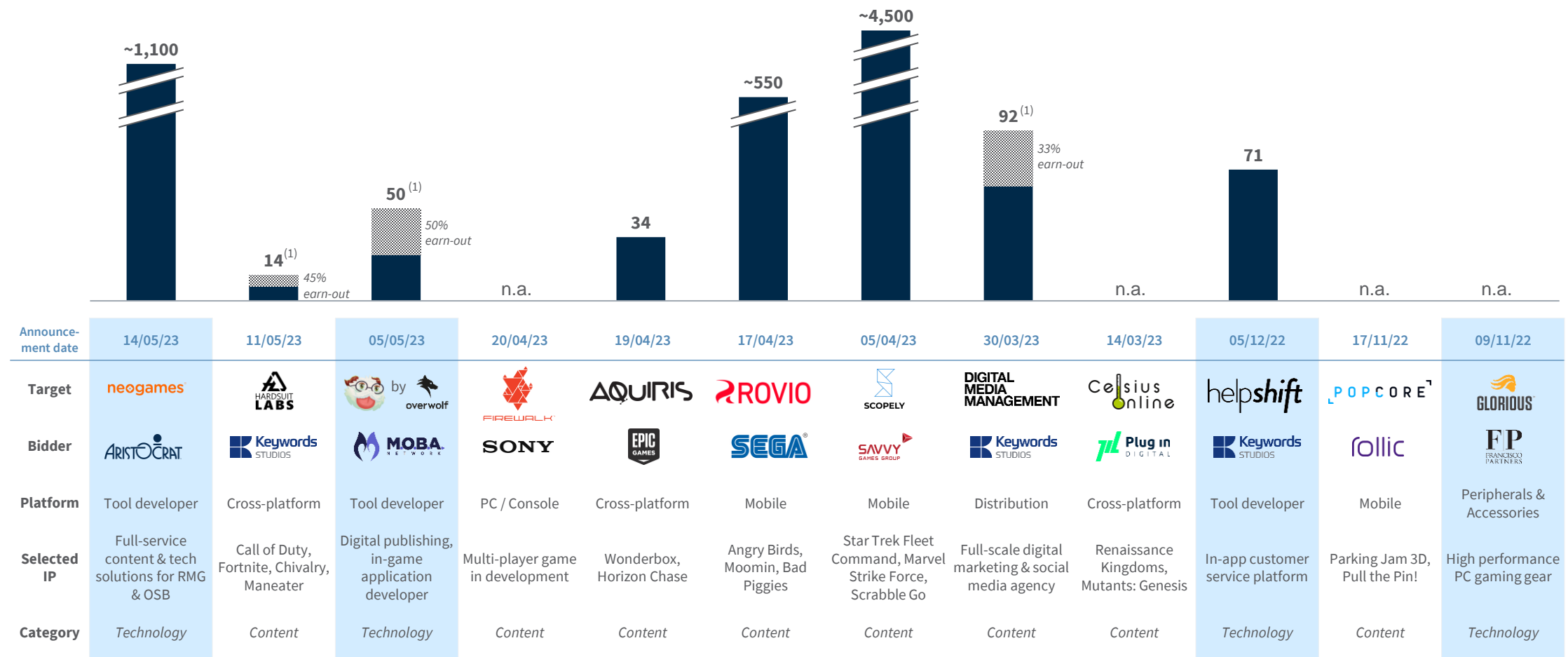
Representative transactions

Date	Target	Value	Acquirer
Jun-2020	zynga	~EUR 9.3bn	T2
Jul-2022	ironSource	~EUR 2.5bn	unity

Major EU & US LTM industry moves (I/II)

Transaction EVs, if not stated otherwise in EURm

Category definition Content Technology Esports

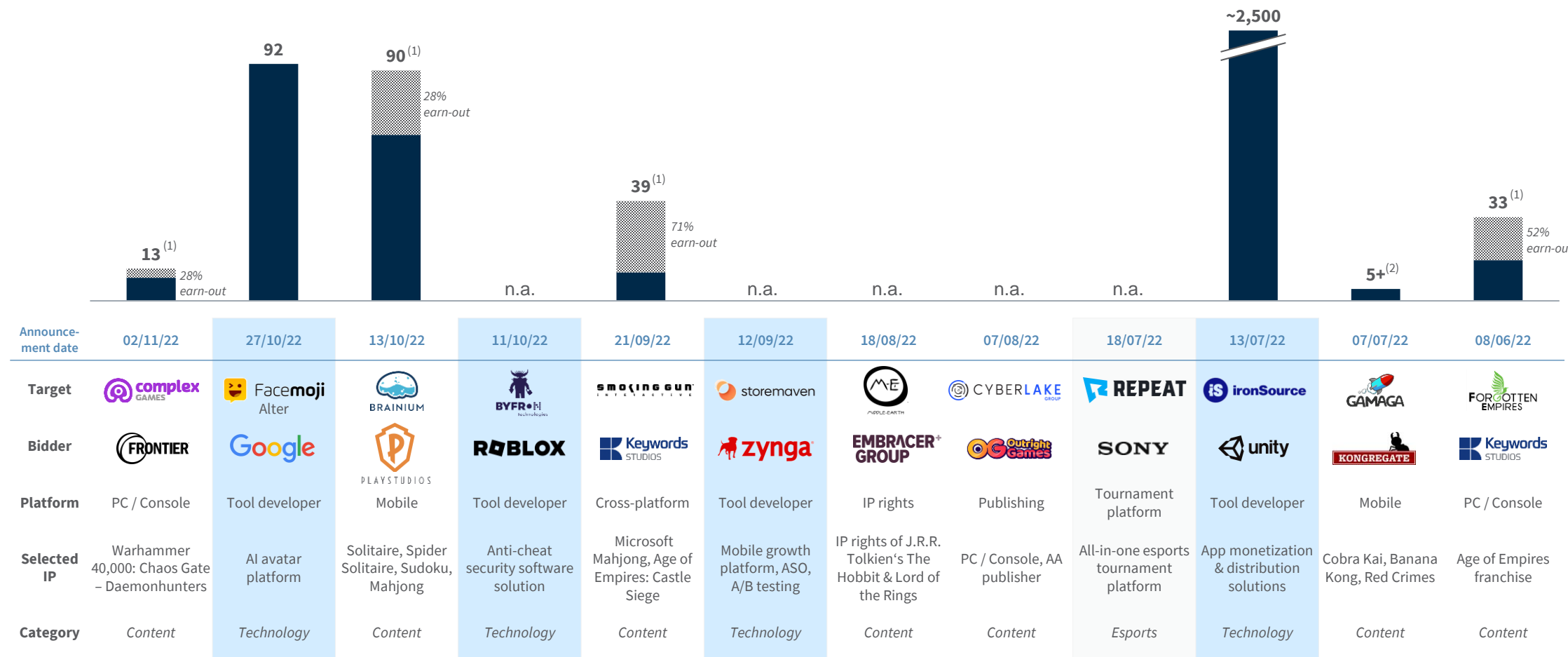


Source(s): Mergermarket, Raymond James Consumer Digital Lifestyle research, press, investor relations
 Note(s): This selected overview includes most recent & prominent M&A moves, (1) Maximum enterprise value incl. full earn-out potential

Major EU & US LTM industry moves (II/II)

Transaction EVs, if not stated otherwise in EURm

Category definition ■ Content ■ Technology ■ Esports

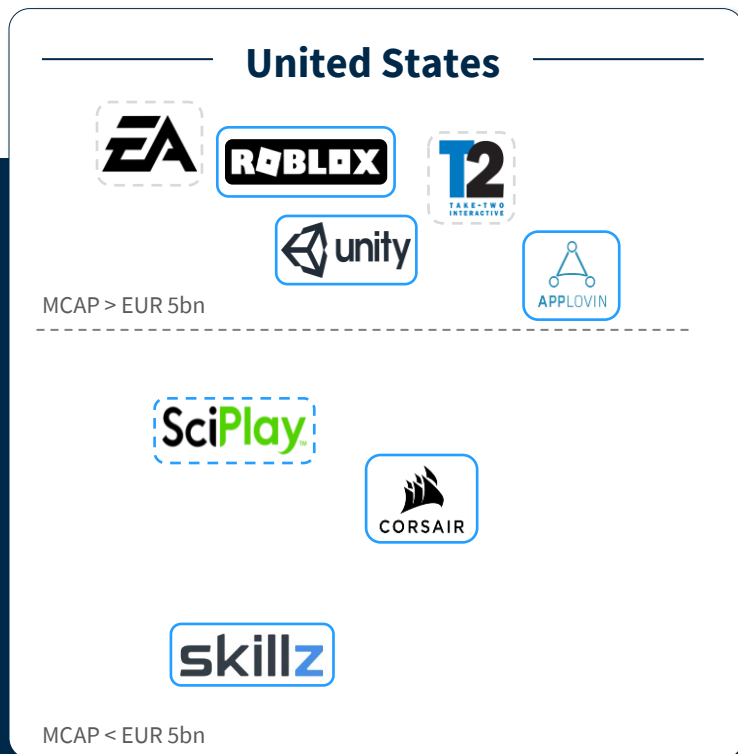


Source(s): Mergermarket, Raymond James Consumer Digital Lifestyle research, press, investor relations

Note(s): This selected overview includes most recent & prominent M&A moves, (1) Maximum enterprise value incl. full earn-out potential, (2) Specific deal value not disclosed, assumed between USD 5-7m

Public company universe (1/2)

Content developers dominate the public universe as the only current standalone gaming businesses of scale. Technology businesses mostly sit within broader technology platforms (e.g., Sony, Microsoft, Facebook, etc.) or are privately owned apart from Unity's IPO. Sizeable quoted esports companies limited to streaming and event services (Huya, DouYu, in parts MTG) except for Skillz' IPO – smaller players (Enthusiast Gaming, Astralis etc.) not included in overview



Large US developers mostly dominate US, EU and in certain genres Asian IPs. Smaller US players tend to be venture funded until a large buyout



Large EU developers own few world hit IPs in comparison to US peers. Broad field of smaller players as a result of non-uniform EU market



Asian players clearly dominate valuation metrics due to demographic fundamentals combined with cultural game title preferences

Established – in 2015 publicly listed with MCAP > EUR 1bn

Emerging – in 2015 private or MCAP < EUR 1bn

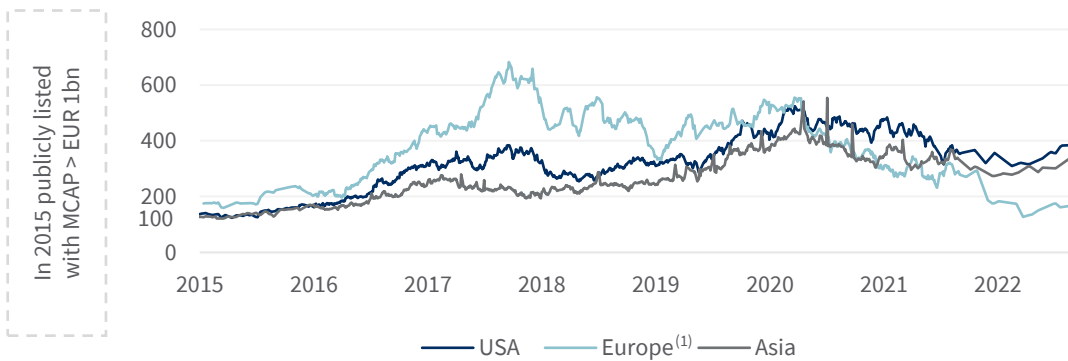
IPO in FY2020 or later

Source(s): FactSet, Raymond James Consumer Digital Lifestyle research
 Note(s): As of 30.06.2022, geographic categorization based on companies' HQ location

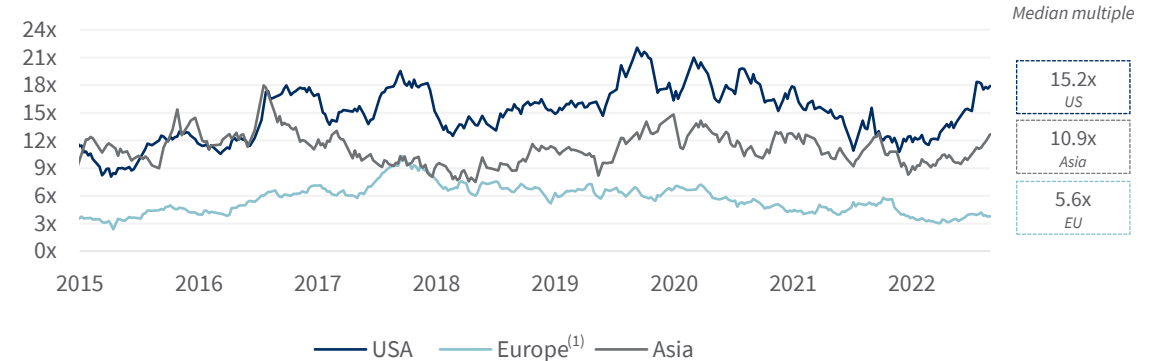
Public company universe (2/2) – valuation over time

Valuation mainly driven by hit IPs performance. Higher innovation capability expected from emerging companies with yet fewer IPs

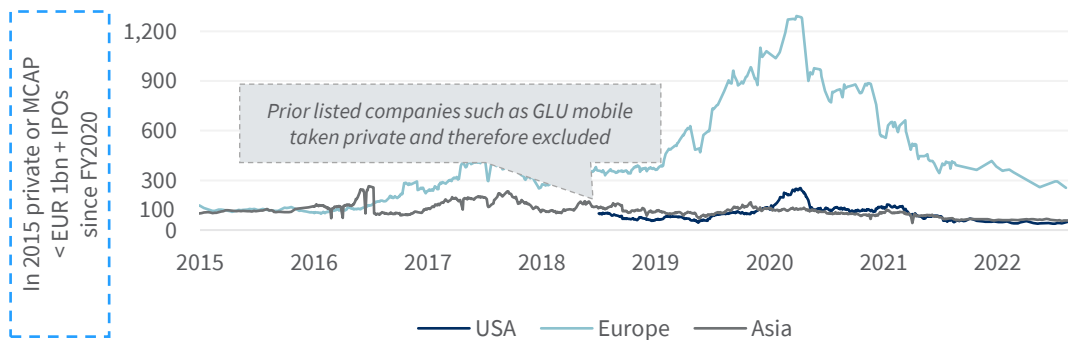
Established companies indexed share price



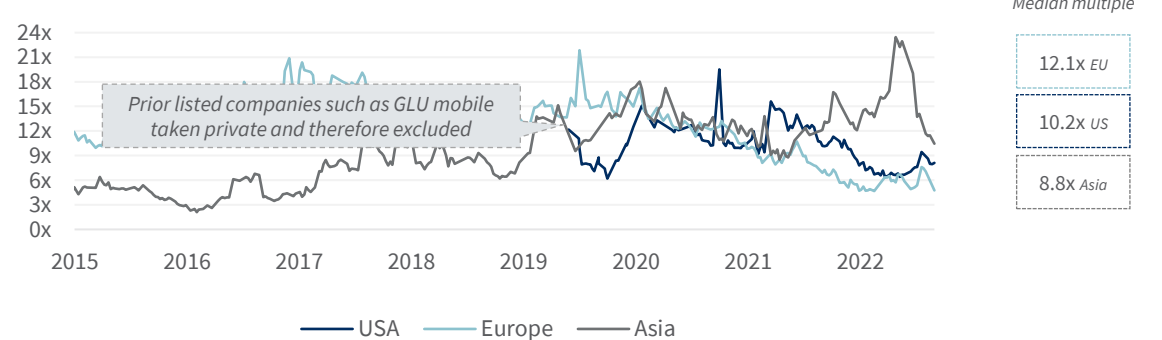
Established companies EV / EBITDA NTM



Emerging companies indexed share price



Emerging companies EV / EBITDA NTM



Source(s): FactSet

Note(s): As of 30.06.2023. All charts show geographic medians. Erratic movements might occur, caused by start- or cease of trading of companies in the respective peer groups, (1) Ubisoft Only

Conference calendar

Planning to attend the following conferences?

Please reach out to schedule a meeting!



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 Conference Name	 Date	 Location	 Description
	Aug 23 – 27, 2023	Cologne, Germany	Leading video game trade fair with exhibitions of upcoming games from developers and game-related hardware
	Oct 12 – 15, 2023	London, UK	Video game trade fair, with tournaments, developer presentations and panels, parties, games, B2B and career space
	Nov 23 – 26, 2023	Jönköping, Sweden	One of the world's largest digital festivals including esports tournaments, cosplay, live music, and expo area
	Nov 30 – Dec 1, 2023	Helsinki, Finland	One of the world's leading startup and tech events, facilitating meetings between founders and investors
	Dec 4 – 6, 2023	New York, USA	Three-day forum on factors that influence technology investing for 2023 and beyond
	2024 TBA	London, UK	The leading mobile gaming conference with 2,000+ game industry attendees to network, discover, pitch and learn from industry giants
	Mar 18 – 22, 2024	San Francisco, USA	Leading game developer conference, the event includes an expo, networking events and award shows
	May 19 – 21, 2024	Krakow, Poland	One of Europe's largest business events, addressed to the representatives of the digital entertainment sector

Notes & Disclosures

Sources of data include FactSet, Mergermarket and other news organizations. Information obtained from third-party sources is considered reliable, but we do not guarantee that the information herein is accurate or complete. This report was prepared within Raymond James & Associates' Investment Banking Department and is for information purposes only. This report is not a product of Raymond James & Associates' Research Department; recipients of this report should not interpret the information herein as sufficient grounds for an investment decision or any other decision. The report shall not constitute an offer to sell or the solicitation of an offer to buy any of the securities mentioned herein; past performance does not guarantee future results. Any performance mentioned does not include transaction fees and costs which would reduce an investor's return. An investment cannot be made directly in a market index.

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