

**To:** Asia Private Equity Client

**From:** Rockwall Analytics

**Subject:** Acquisition of an online gaming company - INVESTMENT BANKING

**Date:** October 8, 2020

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#### THE OVERVIEW

Prepare Target Company Profile, Select Appropriate Comparable Companies, Compute Relevant Financial Metrics, Summarize Key Findings



## **Prepare a one-page company profile**

Providing an overview of Zeta's business model and key financials

### *The background information*

As part of their preliminary assessment, they have requested *Rockwall Analytics* to compile the following information for their investment committee:

1. Quick profile of Zeta
2. Comparable companies list
3. Their associated financial metrics

Zeta Inc., a leading IP-based game operator and publisher in China. Zeta Inc. focuses primarily on IPs relating to well-known cultural products and art works, such as icons or characters from popular animations, novels, and motion pictures, which have a significant fan base, market acceptance and commercial value

### ZETA INC. INFORMATION PACK

#### **Industry Overview**

Mobile games are played using mobile internet as operating platform on mobile devices. Mobile games currently have the highest market share in China, and the mobile game market has the highest profitability compared to the markets of client games and web games. The most prominent feature of mobile games is that they can be played anytime anywhere, unrestricted by the physical location of the player. Mobile games have an average development cycle of approximately six to ten months and the shortest gameplay time amongst all categories of online games. Compared to other categories of online games, mobile games have a shorter average lifecycle of around six to twelve months

China's online game market reached a size of RMB260 billion in 2019, and is expected to reach RMB360 billion in 2022, representing a CAGR of 11.5%. With the advancement of hardware and internet technology, the graphics, content and response speed of online games are being constantly upgraded, and the development of online games are more tailored to player preference. The rising level of interactivity of online games further enhances players' ability to socialize in games, thereby improving player stickiness. In addition, with the advancement of online games and the growing popularity of IPs in the online game industry, more online games have been developed based on IPs, thereby attracting more player traffic, further adding to the growth of China's online game industry

With the popularization of portable entertainment, mobile games became the focus of the online game industry in 2010. Benefiting from the growing accessibility of mobile games, diverse game settings and gameplay methods, and the popularization of smart devices, mobile games are becoming increasingly popular. The market size of mobile games in China was RMB170 billion in 2019 and is expected to reach RMB270 billion in 2022, representing a CAGR of 16.7%

The growth of China's mobile game market has attracted an increasing number of mobile game developers. Due to limited capital and resources, small and medium game developers rely on mobile game publishers to publish and promote their games, which contributed to the significant growth in China's mobile game publishing market. The size of China's mobile game publishing market was RMB56 billion in 2019, and is expected to reach RMB75 billion in 2021,

representing a CAGR of 10.2%.

The top 5 players in China's mobile game publishing market are Eta Hill, Sixth Avenue, Zeta Inc., Above Clouds and Delta Team, with market share of 45%, 20%, 15%, 5% and 3%, respectively

*In the mobile game industry, IPs refer to intellectual property rights relating to cultural products or art works, such as icons or characters from popular animations, novels, and motion pictures, which have a significant fan base, market acceptance and commercial value. IP-based games refer to games that are developed based on IPs from such cultural products or art works*

IP-based games have more cost efficient player acquisition process, as the innate fan base of IPs can easily be turned into players of such games. With the increasing general market focus, IPs have become a core asset of game companies. Through acquiring and developing IPs, game companies may not only increase the revenue generated from their games, but also develop pan-entertainment products, thereby diversifying their sources of revenue. Furthermore, IP-based games have higher player loyalty and stickiness, and more developed contents and storylines, which prolongs the lifecycle of such games compared to non-IP based games. It is therefore crucial for game companies to have sufficient IP reserve

IPs have become an increasingly important constituent of the successful monetization of mobile games. It is therefore crucial to be competitive in the IP ecosystem in terms of both game products and IP sourcing capabilities. In relation to game products, game publishers should possess strong operational capabilities over launched games, and an extensive pipeline of games to be launched in the future. In relation to IP sourcing, game publishers should expand their IP reserve to achieve sustainable development, and cooperate with game developers to develop licensed IPs into high-quality games.

## **Company Overview**

Zeta Inc. is a leading IP-based game operator and publisher, focusing primarily on IPs relating to well-known cultural products and art works, such as icons or characters from popular animations, novels, and motion pictures, which have a significant fan base, market acceptance and commercial value. According to Industry Consultant, amongst all Chinese independent mobile game publishers, Zeta Inc. ranked first in terms of revenue generated from publishing IP-based games in 2019, and had the largest IP reserve that can be used to develop into IP-based games as of Dec 2019

Zeta Inc. supplies players around the world with mobile games based on the IPs that it licenses and owns. The Company develops mobile games based upon these IPs by cooperating with third-party game developers and through its own in-house development team and then publish these games on its extensive publishing network. It also actively invests in IP owners and game developers to strengthen mobile game ecosystem. Its relationships with top-grade IP owners allow the Company to license popular IPs, placing it in a better position as compared to competitors. As of end 2019, the Company held licenses over 30 IPs and owned 70 proprietary IPs

The Company has a diversified, commercially successful and extensive mobile game portfolio. From 2017 to 2019, it launched 100 mobile games. As of end 2019, 20 of its published games had lifecycles of over three years. During 2019, the Company had an average paying user conversion rate of 8.0%, which is significantly higher than the industry average. The Company

also has a strong game pipeline, and as of end 2019, it had identified 30 games to potentially launch by the end of 2020. To further expand its game portfolio, the Company strategically invest in game developers whose core team has a track record of successful game development and with whom the Company have a working history. As of end 2019, the Company held equity interests in 15 mobile game developing companies, which serve as an important source of new games

The Company has industry-leading and multifaceted global publishing capabilities and one of the largest mobile game publishing networks in China, and it is capable of publishing on all major platforms in China. As of end 2019, it cooperated with over 500 third-party publishing channels, including application stores and third-party open platforms, application stores operated by mobile phone manufacturers, and social network platforms

As of end 2019, Zeta Inc. had over 200 million registered users, over 15 million monthly active users and over 1 million monthly paying users. The Company derives the majority of its revenue from providing game publishing services to game developers, and it shares a portion of the gross billings paid by game players with other participants of its mobile game ecosystem. Third-party publishing channels collect gross billings from game players and remit a portion to the Company after deducting their share of the gross billings. The Company retains a prescribed percentage of the gross billings collected from publishing channels, and remit the remaining amounts to third-party game developers and IP owners

## **Business Model**

Zeta Inc. operates in a mobile game ecosystem founded on popular IPs, which forms the basis of its business model. Within this ecosystem, Zeta Inc. works closely with its business partners, including IP owners, game developers and publishing channels to offer a wide range of games to game players. The Company both licenses IPs from their owners and possesses proprietary IPs. Zeta Inc. develops mobile games based upon these IPs by cooperating with third-party game developers and through its own in-house development team. It also licenses games directly from third-party game developers. Prior to the launch of games, it cooperates with game developers to optimize the games through beta testing, and conduct sales and marketing activities to promote the games. Its games are published and made available to players on publishing channels, which provide the Company with player feedback and player in-game behavior data. After launching games, Zeta Inc. continues cooperating with game developers to operate its games and provide player services and technical support

## **Financials**

The table summarizes the key financial information for Zeta Inc. for the last 3 years:

USD in million	2017	2018	2019
Revenue	2,197	1,832	1,971
EBITDA	498	336	190
EBIT	449	219	183
Net Income	281	172	144

## OUR TASK

Based on the information pack provided, extract relevant information and populate the 1-pager PowerPoint for Zeta.Inc

- For Company Overview, summarize the company description along with the most important operating metrics
- For Industry Overview, outline the market size and competitive landscape
- For Business Model, it would be helpful to include a diagram illustrating the key parties in the company's ecosystem and how they interact with one another
- For Summary Financials, present key financial numbers in the form of embedded charts