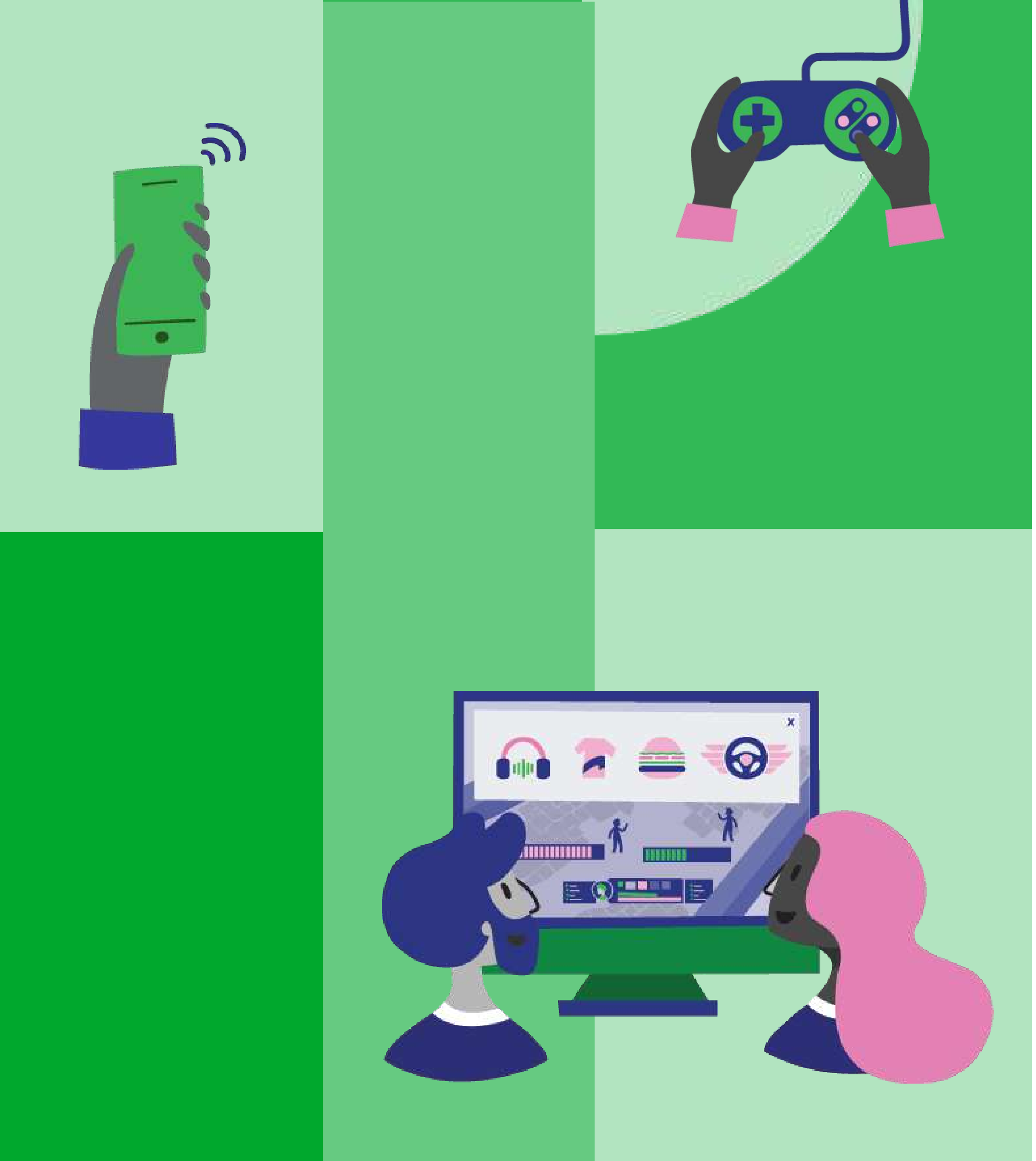


Newzoo's

Games, Esports, and Mobile Trends to Watch in 2021

1. Games

1. Engagement and Revenues Will Continue to Flourish (Even After the Pandemic Ends)

The COVID-19 pandemic certainly accelerated many trends in the games market, helping engagement spike across the globe. Of course, this engagement trickles into spending.

Even after the pandemic subsides, which we hope will be sooner rather than later, we forecast most of the additional engagement and revenues to stick. Gaming has etched itself into the habits of people during the lockdown, and these investments into enjoying gaming will not be easily cast aside.

However, the level of growth maintained throughout 2020 will not be replicated next year, given the unique circumstances of the year. Per platform, PC and console gaming has a higher barrier to entry but therefore more sticking power.

Meanwhile, mobile gaming saw the largest positive impact from the lockdowns, but the low barrier to entry to mobile gaming means the lowest barrier to exit as well. Retaining the influx of new and returning players in 2021 will be one of the key challenges for developers and publishers.

Our Global Games Market Report shows that in 2021, 2.8 billion gamers worldwide will help the global games market generate revenues of $189.3 billion. Emerging markets will drive much of these new revenues, as infrastructure and economies continue to grow across regions like Southeast Asia and the Middle East & Northern Africa.

2.8Bn

Gamers globally in 2021

2. It Will Take Time for the Next-Gen Console Supply to Catch Up to Demand

Manufacturing, marketing, and launching new consoles is never an easy feat. But orchestrating these tasks during a pandemic—when supply chains are heavily disrupted—made things even more challenging for the PlayStation 5 and Xbox Series X|S launches.

On the hardware side, the aftermath of these challenges will ripple into the beginning of 2021 and beyond, and it will take time for the supply of next-generation consoles to satiate the skyrocketing demand.

Software development will also continue to feel the impact of lockdowns. Many of the games that were delayed in 2020 were in post-production (meaning the lion's share of the dev work was already done). Next year, we'll likely see even more delays for AAA games that were earlier in development at the start of the outbreak.

On the upside, games like PlayStation's Horizon Forbidden West, many third-party games, and almost all Xbox first-party games will be available on both generations (past and present). Therefore, console spend will remain high in 2021, mostly driven by:

- The massive installed base of the PlayStation 4 and Xbox One generation.
- The ongoing transition to F2P spending on console.
- The strong performance of the Switch.

3. The Cloud Gaming Market, Having Proven its Value in 2020, Will Grow Its Audience in 2021

This year marked a key inflection point for the cloud gaming market, with most of the major players (including Amazon, Google, Microsoft, and Tencent) having launched their respective services. Furthermore, stay-at-home orders sped up the adoption of cloud gaming globally, with consumers finding themselves with more time to invest in gaming.

In the West, workarounds for App Store challenges mean cloud gaming apps are finally making their way to iOS (via a web app) and other platforms. Stadia already has an iOS Safari-based app that reportedly works well. Meanwhile, xCloud's app is due for release on PC and iOS in the spring, and Xbox Boss Phil Spencer has already hinted at smart-TV compatibility.

To that end, yearly cloud gaming revenues will exceed $1 billion for the first time next year, and its serviceable obtainable market (SOM) will spike. Want to learn more? Stay tuned for our Global Cloud Gaming Report update and content next year!

Cloud gaming's use cases—which we highlighted in our 2020 report—are now becoming more visible. Game developers have been using services like Stadia and Parsec for QA (Cyberpunk 2077), demoing games to the public (Immortals Fenyx Rising via Stadia), and more. This trend will accelerate into 2021.

Next to that, Cyberpunk 2077's launch has underlined one of cloud gaming's biggest use cases: high-fidelity experiences without the need for expensive hardware. The Stadia version of the game boasts hardware-taxing fidelity and performance—all while removing the barrier of expensive hardware.

Cyberpunk 2077's reviews on previous-gen consoles were negatively impacted by a worse-than-expected technical performance, Therefore, cloud gaming services such as Stadia and GeForce Now stood out as one of the best ways for gamers to instantly experience optimized graphics.

$1.2Bn

Global cloud gaming revenues in 2021

4. The Rise of Gaming-as-a-Platform and Metaverse Development Will Expand the Addressable Market for Publishers

Virtual and social spaces have been a growing trend in gaming for over a decade now. However, owing to the lack of physical gatherings this year, the use of games as a “metaverse” has accelerated. The interest in using games as a platform for hosting simulated activities will be one of the most impactful trends for the coming years.

Game worlds can now closely simulate experiences such as fashion shows, music performances, movie viewings, and more. Notable examples include:

- Lil Nas X’s performance in Roblox.
- Travis Scott’s and other music performances in Fortnite.
- Marriages, graduation ceremonies, and even funerals taking place in Animal Crossing.
- Countless brand, media, and content crossovers in these shared spaces.

Despite taking place within games, these fundamentally non-gaming experiences have the potential to draw in non-gamers into the games space, growing the userbase for publishers.

The value of such collaborations is beginning to show itself—for publishers, artists, and brands alike. Travis Scott, for example, reportedly grossed roughly $20 million for his Fortnite concert appearance. So far, over 140 million people watched the Travis Scott concert on YouTube, compared to approximately 12 million who participated in-game, demonstrating both the growth potential and demand for such content.

Even beyond the pandemic, we will likely see brands across numerous sectors experimenting in the space. These digital events will complement their real-world counterparts (and vice-versa). Video games are ripe with engagement—especially with younger audiences, so we expect to see this trend continue, particularly as traditional ad spend is in flux.

140M

Views on YouTube of Travis Scott & Fortnite Present: Astronomical

5. Gaming Will Energize Efforts Towards Reducing Toxicity and Promoting Diversity and Inclusion

Games such as The Last of Us Part 2, Apex Legends, and Tell Me Why are prime examples of diversity in games, and more titles than ever before now feature accessibility options, boosted by releases like the Xbox Adaptive Controller and organizations like AbleGamers and SpecialEffect.

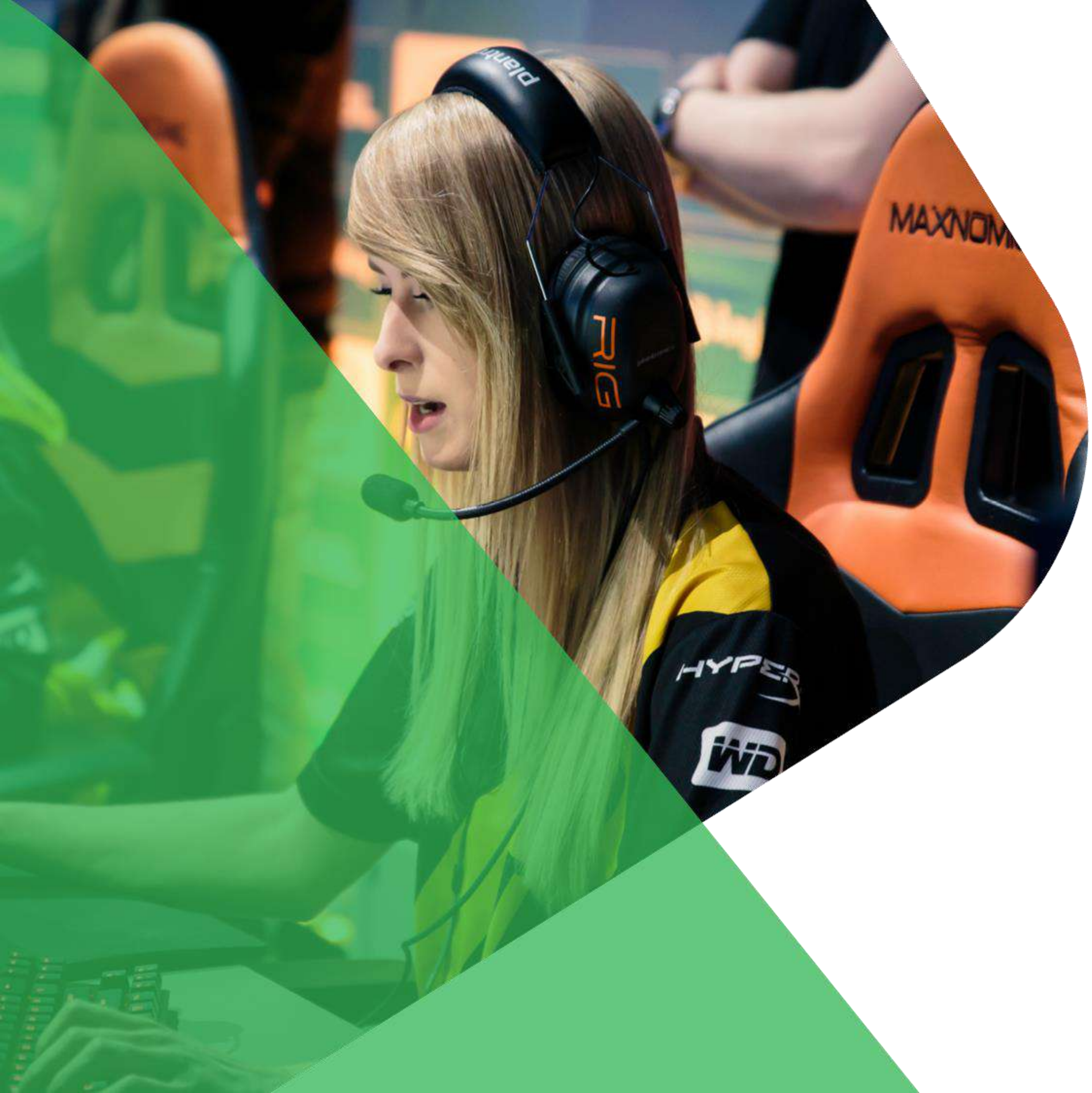
Online platforms and ecosystems are also striving to make their social hubs more wholesome and less toxic. To that end, Microsoft, Sony, and Nintendo recently announced a collaboration committed to safer and more responsible gaming and curbing toxicity.

Another example from this year came from Riot Games, which formally invested in tackling toxicity in 2020 release Valorant, after its own developers reported incidents of harassment. Companies' efforts over the past few years are certainly to be commended, but we still have a long way to go.

This year also saw the games industry face a "me-too" wave of allegations of abuse and sexual harassment. In combination with the rise of the Black Lives Matter movement, the attention on social issues will drive the industry to prioritize diversity and inclusion efforts in 2021.

Our recent Diversity & Inclusion Study, which is already helping many top publishers identify opportunities to make games more inclusive, shows that around half of players in the U.S. and the U.K want more diverse characters in games. Many also want publishers to take a stance on societal issues.

With game communities continuing to grow around new forms of engagement, the responsibilities of game IP owners have become even more complicated, leading many companies to create internal positions and even teams dedicated to diversity and inclusion. We will begin feeling the impact of these initiatives more next year, and we're excited to see the resulting game experiences for ourselves next year.



54%

of gamers in the U.S think that diversity is important in game characters.

2. Esports & Streaming

1. Mobile Esports and Live Viewership Will Enter the Upper Echelon

As we reported in our Global Esports Market Report, mobile esports are already subverting expectations in the once-PC-dominated esports market. Even towards the end of last year, games like PUBG Mobile and Garena Free Fire began to generate higher peak esports viewer counts than PC titles like CS:GO and Dota 2.

We expect this to continue into next year, as consumer appetite for mobile esports continues to grow in China, South and Southeast Asia, and Latin America. While the CS:GO and Dota scenes boast higher overall hours watched, PUBG Mobile and Free Fire are now top five esports titles, and they're setting their sights on the traditional PC giants.

+380%

Growth of PUBG Mobile's esports hours watched in 2020 vs. 2019, making it the fourth-largest esports title for the year.

2. Esports Teams Will Continue to Diversify

Esports teams continue to broaden their horizons and diversify their operations. To that end, organizations will continue to diversify beyond the model set by traditional sport structures, putting a large focus on other initiatives, like positioning their company as a lifestyle brand or moving toward content-creator strategies.

When an esports company positions itself as a lifestyle brand, it transcends esports alone and enters pop culture, diversifying an organization's income streams in the process. Naturally, this lowers risk, as if one revenue stream performs worse than expected due to unforeseen circumstances (the pandemic, for example), a different stream could help offset the damage.

Signing content creators can also be advantageous:

- It gives organizations new assets to sell to sponsors, promising exposure and activation from pro players on the team and individual influencers.
- It provides further leverage when negotiating with platforms, where teams can ''bundle'' these influencers and receive a fee for exclusivity on a specific platform.
- For the influencers themselves, it's an opportunity to leverage the expertise and back-office capabilities of a team organization, helping the streamer up their reach and content production and let others handle more mundane or administrative tasks.

Looking forward, we only expect this trend to amplify. The pandemic has exposed some of the key challenges esports faces when emulating the sports model, highlighting the need for esports to evolve beyond the traditional sports framework.

3. Traditional Sports Will Increasingly Look to Esports

Speaking of traditional sports, we expect the market to continue taking cues from the world of esports. Traditional pro-sport events are starting to happen again; however, sports organizations spent 2020 accelerating their esports efforts.

While some of these experiments performed better than others, we expect to see further innovation from traditional sports organizations as they expand their activities in the esports space.

4. League-Based Formats Will Foster the Ecosystem

With travel restrictions still inhibiting international play, we expect to see another year with an increased focus on league-based formats and regional play alike.

Therefore, a major development this year will span from ecosystems that traditionally focused on international tournaments. It is possible that these once-internationally-focused ecosystems will permanently shift to a regional league-driven format following positive results, even after lockdown restrictions are lifted.

5. Non-Gaming Content Will Become Even Bigger on Streaming Platforms

Younger audiences are continuing to move away from traditional TV and towards curated viewing experiences on streaming platforms like Twitch. Many conventional players in the entertainment sector have been slow to adapt to these formats that appeal to younger people, leading younger viewers to consume content elsewhere.

To that end, Twitch and YouTube have flourished into important platforms for non-gaming content. In 2020, we already saw in-person event cancellations forcing many brands to look for alternative and innovative ways to engage with their (younger) audiences.

While Twitch began with gaming, non-gaming content is growing on the platform. In fact, the 'Just Chatting' category is now one of the most popular, and lockdown measures led to concerts, political events, and live shows all being hosted on the platform.

All of this could indicate game video-content platforms evolving to accommodate a wider variety of live content, especially as young people move away from cable television. We expect non-gaming content to become even more popular this year, and companies have already started doubling down on it for 2021.

For example, in its latest move to challenge platforms like Twitch and YouTube, Facebook Gaming has added a series of proven features from other services. For example, Facebook recently introduced a "Hanging Out" streaming category, which resembles Twitch's popular "Just Chatting" content (the most-streamed category on Twitch).

3. Mobile

1. The Removal of Apple's Advertising Identifier (IDFA) May Change the Face of Mobile Marketing

Apple's iOS 14 changes have the potential to disrupt app publishers' ability to market themselves effectively and monetize through advertising. The removal of the IDFA, or Identifier for Advertisers, is a sweeping change that will ripple throughout the mobile ecosystem, even beyond gaming.

IDFA shaped current user-acquisition processes and mobile advertising platforms, so its removal will have varying impacts on publishers and other advertising stakeholders. Notably, Google has not announced a similar change for Android and is not expected to in 2021; though, more moderate steps towards protecting user privacy may happen in 2022.

While it is too early to determine the changes' exact impact, we expect a short-term lower spend on user acquisition across iOS in 2021. Instead, this spend may flow into Android, web, or other channels while the industry attempts to regain its footing.

IDFA's removal will impact all mobile genres—casual and core alike—in some way, and we expect it to spark a revival of traditional forms of creative advertising, which are currently more common to see among PC and console campaigns. Offline channels may also play a greater role, and marketing creatives and ad innovation will become even more important. To that end, we expect to see:

- Publishers learning from more traditional brand marketers, such as from strategies found in FMCG
- Marketers building innovative new campaign structures from the ground up and diversifying the channel mix beyond Google/Facebook
- And more cross-team integrations between data science, engineering, product, and creative teams.

Above all, we foresee a more aggressive approach to FTUE (first Time User Experience) and early user flow optimization. Optimal user-registration funnels and onboarding processes will be paramount, as iOS 14's new advertising framework SKAdNetwork contains complex mechanisms that will drive developers to maximize high-value event signals in the first few game sessions.

2. 5G Penetration Will Begin to Spike

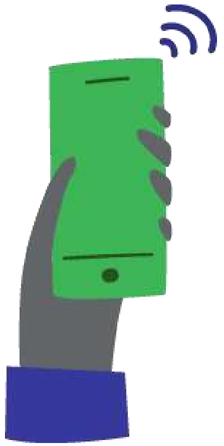
The pandemic has impeded the rollout of 5G, especially in the West, and these effects will continue throughout this year. And while 2021 will not be the year for 5G, it will pave the way for the exciting mobile technology.

This year will see continued improvements to network infrastructure and increased governmental support. What's more, all leading smartphone manufacturers will have launched their 5G handsets, with Apple finally launching its long-awaited 5G flagship. The iPhone 12 series is expected to be a major driving force for 5G adoption in Apple's key markets such as the U.S., Japan, and China.

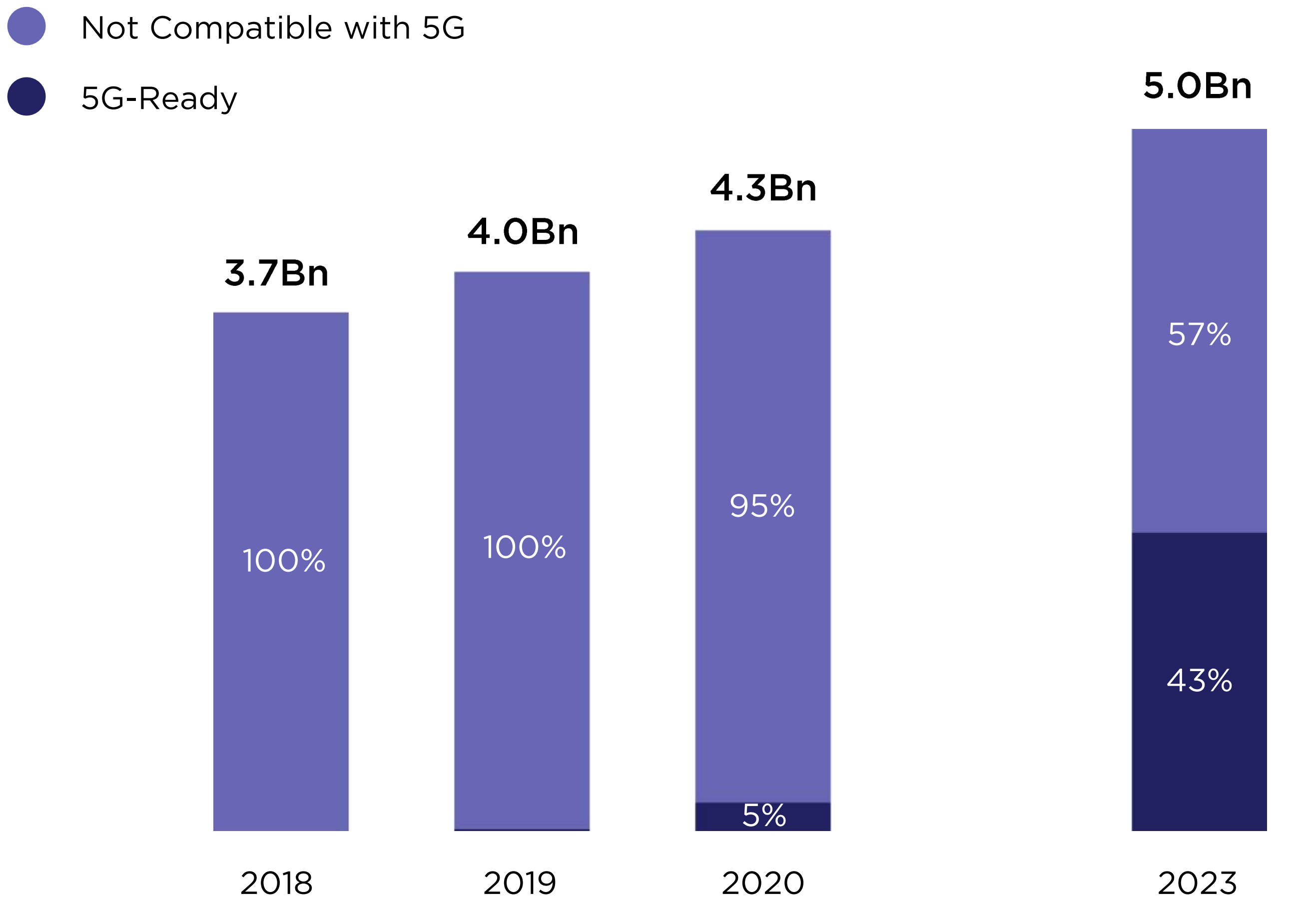
In fact, our Global Mobile Market Report shows that 16% (more than 700 million) of all active smartphones will be 5G-ready by the end of this year, up from just 5% in 2020. By 2023, the share will skyrocket to 43%—or 2.1 billion 5G-ready active smartphones.

2.1Bn

5G-ready active smartphones by 2023



Global Active Smartphone & 5G Forecast



+6.2%

Global active smartphone CAGR 2018-2023

4.8%

or **206.3M** of all active smartphones will be 5G-ready by 2020. By 2023, the global share will grow to **42.5%.**

3. Genshin Impact Will Catalyze More AAA Experiences on Mobile (from Chinese Developers)

Our Newzoo Expert data shows that Genshin Impact performed exceptionally well across mobile, console, PC, and video-streaming platforms last year, and that strong performance is progressing into this year. Made by Chinese company miHoYo, Genshin Impact has also been attracting players outside of China (in the West and East alike).

Owing to the strict government restrictions on game licenses in China and heavy domestic competition, Chinese publishers have sought to target audiences outside of their home market. Genshin Impact—with its smart mix of game mechanics, monetization, and themes that appeal to many markets—is a successful fruit of that labor.

Simply put, Genshin Impact successfully brought immersive and single-player mechanics from AAA console and PC games to the mobile platform.

In a similar vein, we expect to see Chinese developers continue to expand overseas with more AAA immersive, competitive content not only on mobile, but also console and PC. A notable example is the reported Lilith battle royale title for PC and mobile.

4. App Store Distribution Will Face Challengers on All Fronts

Individual games and services are powerful, especially live services with massive engaged audiences. Games even have the power to disrupt game distribution. In the West, the Epic and Apple case highlights just how much impact individual titles like Fortnite can have.

As a response, Apple introduced the App Store Small Business Program, reducing its revenue cut from 30% to 15% for developers earning less than $1 million annually from the App Store. Similarly, cloud gaming platforms have managed to sidestep strict iOS App Store restrictions in the West, with Amazon releasing its Luna cloud gaming service via a web app on iOS. Microsoft and GeForce Now are following suit with Safari-based apps for their cloud gaming services as well.

A similar trend is unfolding in China: individual games are challenging the country's third-party app stores to release independently, reportedly due to publishers and platforms failing to reach a mutual agreement on revenue shares (similar to the Apple and Epic situation).

For example, Lilith Games and miHoYo chose not to release their newest titles—Rise of Kingdoms and Genshin Impact, respectively—on China's mainstream Android app stores. These stores include Huawei AppGalary and Xiaomi's Mi Store.

In the West, many developers and publishers are rejecting Apple and Google's 30% revenue cut. In China, however, the third-party Android app stores typically take a 50% cut.

Recently, Huawei removed all Tencent games from its app stores in China—again, reportedly due to a revenue-share dispute between them. However, Tencent apps returned to the store shortly afterward.

While we might not see such extreme measures in 2021, one thing is for sure: individual games, publishers, and services will continue to change the face of game distribution on mobile—in the East, West, and everywhere in between.

5. More IP-Based Games Will Come to Mobile While Mobile IP Expand Their Reach Beyond Gaming

IP-based licensed games can be traced all the way back to the original Atari console. Yet, the relatively shorter development timeframes and lower investment costs of mobile development mean mobile is the platform of choice for modern-day IP-holders looking to bring their franchises to gaming platforms.

As mobile continues to be the fastest-growing and most-prevalent gaming platform, more and more IP holders across various entertainment divisions are vying for a slice of the opportunity pie. In fact, we have identified over 230 entertainment-based (from movies, TV, or books) IP games currently available on app stores, and over 900 IP-based games released across all platforms in the last two decades alone.

In China, leading game companies like Tencent, Yoozoo Games, and Perfect World all have set up entertainment businesses in areas like movies, TV shows, and literature, aiming to build giant IP powerhouses around gaming, movies, TV, and more. Eight out of the top 20 grossing iOS games in 2020 were based on non-gaming entertainment IP (mostly literature).

In the West, several IP-based games, including Marvel Contest of Champions had a great year on mobile; however, there are still relatively few entertainment-based IP-based games cracking the U.S. top 20 (by revenues).

Once relegated to medium- or lower-budget attempts to quickly capitalize on the popularity of the underlying franchises, IP games today are increasingly complex, top-rated, and sometimes even surpass the original formats in terms of engagement.

We expect this trend to continue, and IP specialist Scopely has soft launched an Avatar game while an Aliens game is currently in development. Meanwhile, Dragon Ball Z: Dokkan Battle has already generated over $2 billion in lifetime revenue.

IP recognition provides a strong organic pathway to user acquisition, which will become even more important in a post-IDFA world, thus motivating publishers to seek out these types of advantages. And it's not just TV, movie, and literature IP holders which are coming to the mobile platform.

In recent years, the largest PC and console publishers are also ensuring their mega franchises find a home on mobile. Notably, Blizzard's Diablo Immortal entered the technical alpha base last month, and Riot Games released League of Legends spinoff Wild Rift in October 2020. In August 2020, The Witcher franchise also announced a mobile title: The Witcher: Monster Slayer.

Advances in mobile phone technology, the rise of 5G & cloud gaming, and platform agnosticism trends are leading PC/console publishers to ensure the mobile platform plays a strong role—whether through native mobile experiences or streamed mobile experiences.

On the other hand, game franchises popularized on mobile are expanding their reach outside of the gaming ecosystem. Tencent introduced the Infinite Kings group—a virtual men's group featuring five game characters from the publisher's leading mobile title Honor of Kings—more than a year ago.

The virtual idol group has accumulated over 2.3 million followers on Weibo and collaborated with several consumer brands such as M.A.C and Nivea in China. What's more, The Infinite Kings has even released music singles in China and performed on stage with a real-life Chinese idol using AR technology at Honor of Kings' 5th-anniversary celebration event.

It's not just the boundaries between PC, console, and mobile gaming blending into each other. To that end, we will see more and more entertainment-based IPs (including gaming) flourishing across all industries, appealing to audiences across the globe.

$2Bn

Lifetime revenues for Dragon Ball Z: Dokkan Battle

Newzoo Global Reports: The Data Behind the Trends

Global Cloud Gaming Report

Newzoo's Global Cloud Gaming Report is your guide to cloud gaming's impact, helping you understand key market developments toward 2023.

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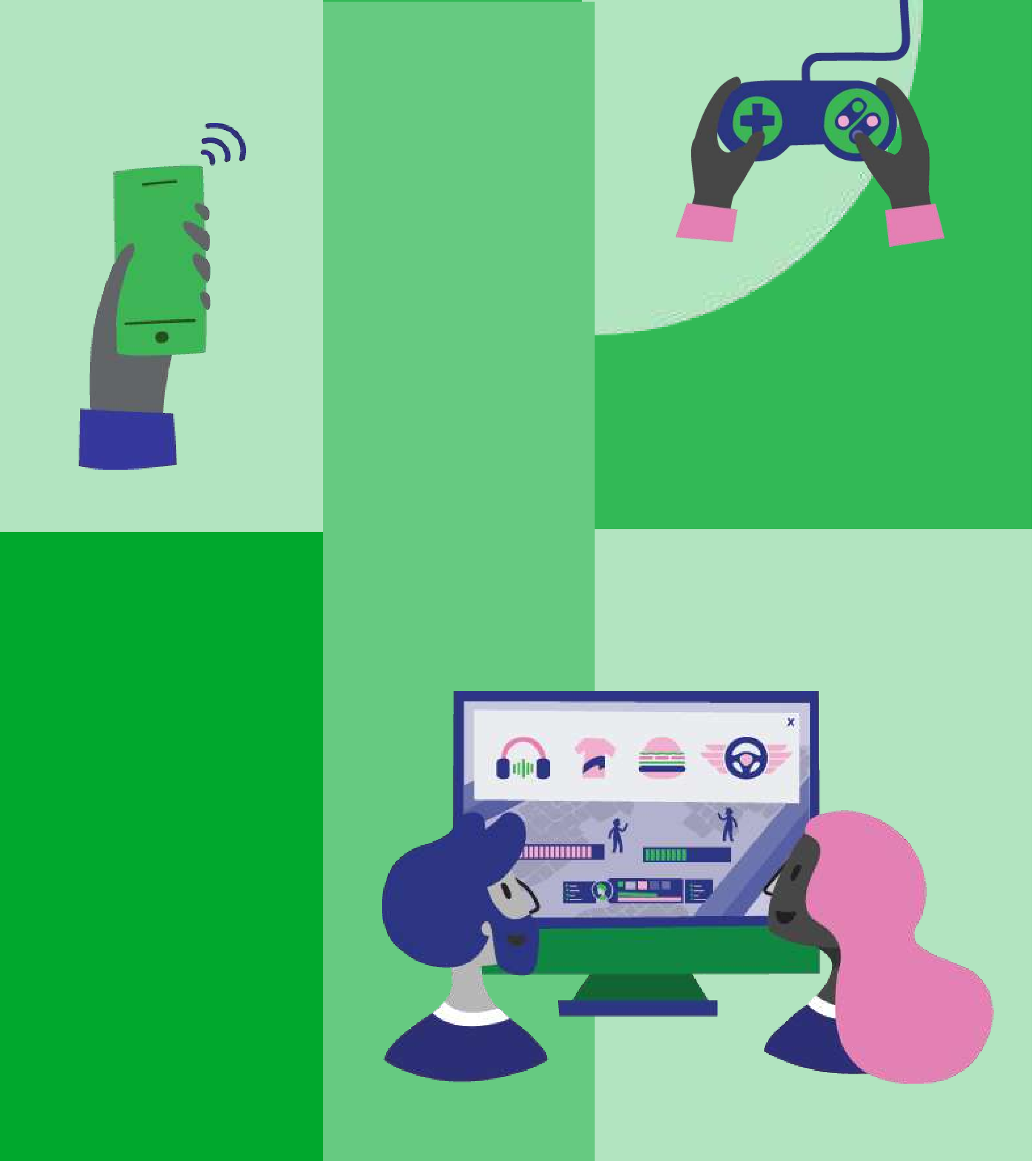

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