



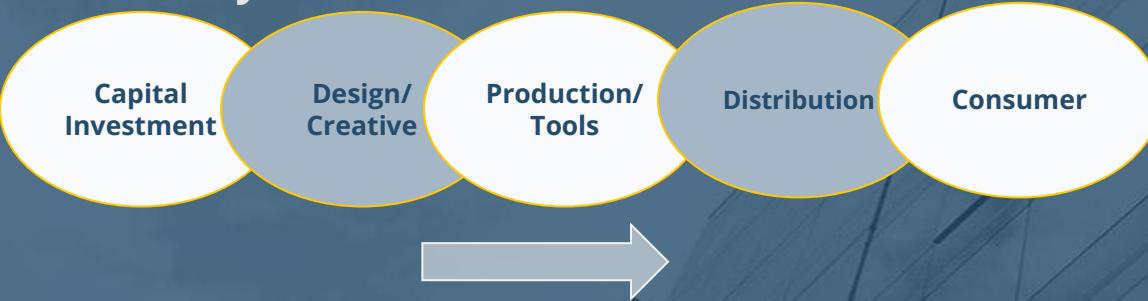
NEW YORK STOCK EXCHANGE

Video Game Development Industry

RSM 439

Industry Overview

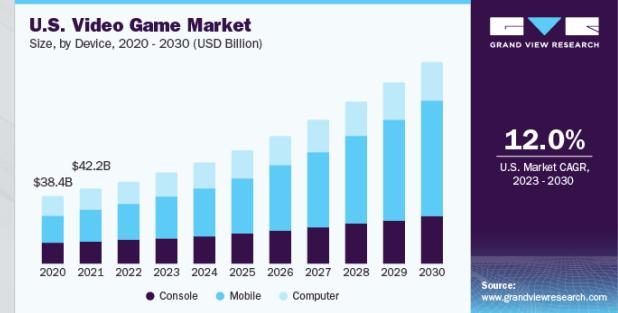
Industry Value Chain



1. All video games start with a capital investment, the size depends on the magnitude and genre of the game
2. The production plan is designed, from art style, characters, controls and etc
3. The designs are then put to life through the creation or use of a video game engine
4. The title is now complete and is ready to be distributed through a publisher, which could be physical or digital. The developer gets profit from sale of title through publisher, and publisher receives a small percent of that revenue
5. The consumer purchases it from publisher, and gives back review and feedback which goes back to the developer who then uses the profit and feedback to start the cycle again

Growth Dynamics

217 \$ Billion Market Size



Over the last 10 years the video game industry has become the biggest entertainment industry in the world. From a 9.5 billion market in 2007 to 217 billion dollar market in 2023. I believe it will continue to grow with these new technologies and platforms like AI and Twitch. With the expected 12% CAGR for the next 10 years, the industry is very attractive and will generate higher and higher returns for investors in the coming years.

Industry Attractiveness

Essential Product

Video games are entertainment goods, however they are recession proof based off the 2007 recession, video games unimpacted by the economic downturn

Barriers to Entry

High investment costs depending on the size of game, Brand loyalty, customer prefer renown game series over others, Technical skills to utilize and create engines that enable video game creation

Low Supplier/ Customer Concentration

Very high customer distribution base, video games are played worldwide due to digitization. High supplier power as there is very few suppliers in video game industry

Stable Cash Flows

Video games are cyclical, but can be managed to produce stable monthly cash flows through in game purchases and battle passes

Competitive Advantage

Intangible Assets: the licenses and engines used, Network Effects: online platform within video games used to promote, economies of scale: the more produced the less overall cost as engine/license already created

Operating Leverage

High Operating leverage: fixed costs are small in comparison less to the variable costs in video game company due to its cyclical nature. During a project, selling and administrative expenses rise while fixed costs do not really change

M&A Potential

Lots of Potential: market is fragmented as there are various genres of games AAA, indie, platformers and etc. Various studies and developers who excel in each genre. No big studio yet who encompasses all genres.

Growth Dynamics

The expected annual growth rate is 12% for the next 10 years, video games are becoming mainstream and developers are trying to create more and more inclusive games that fit multiple genres to increase market size

Opportunities/Risk

Opportunities

Technology

With Ai and Unreal Engine 5(U5) a commonly used video game engine used to design video games,, the cyclical nature of video games is reduced. The time it takes to create video games has vastly decreased. All while increasing the quality of each game and increasing competitive advantage for each company. Virtual reality, and augmented reality alongside Metaverse style technology has increased both in demand and supply.

Untapped Markets

Within the video game industry there are lots of markets untapped such as the esports, online video game streaming platforms like twitch which demand is extremely high and not enough supply. Not only that but different genres of video games that have not been overused and where demand is still very high. Examples such as MMORPGS and VR and AR simulation type games.

Monetization Models

Only within the last few years have video games profits become more stable due to in game purchases like skins, battlepasses and in game currency. These monetization models make the industry a lot more attractive as it gives stable cash flow in periods where projects are not executed yet. The models can also provide cash indefinitely if a game is popular enough like Valorant or Call of Duty

Risks

Customer Demand

In the last 5 years alone, video game prices have increased by 15%, not only that but more and more video games are having microtransactions and make games pay to win. If the prices are higher than actual WTP, industry sales will drop.

Regulatory Climate

The new monetary models within video games have made games a lot more profitable within the last few years, if the government declared any laws against in game currency and microtransactions, a lot of the stable profits that make the industry attractive would disappear Some reasons they government may take action is due to the recent lawsuits against Blizzard and other developers.

Potential Targets



Bandai Namco

Bandai Namco is a Japanese video game developer for various popular franchises like Dragon Ball, Pac-man and Tekken.

Market Cap/EV: 1.18
PE Ratio: 30.16
Beta: 0.78
Price to Book: 2.95

Reasons to Purchase:

- Inefficient use of licenses over various popular anime
- Untapped market of in game purchases



Ubisoft

Ubisoft is a French video game developer for popular open world and action-adventure games like Assassin's Creed and Watch Dogs

Market Cap/EV: 0.79
PE Ratio: 29.15
Beta: 0.16
Price to Book: 2.49

Reasons to Purchase:

- Decline in quality in recent games, can benefit from new ideas
- At a historical low price



Nexon Games

Nexon games is a South Korean video game developer known for its multiplayer games such as Dungeon & Fighter as well as Maplestory

Market Cap/EV: 1.14
PE Ratio: 22.05
Beta: 0.34
Price to Book: 2.52

Reasons to Purchase:

- New promising multiplayer game with microtransactions
- Holds various mobile game licenses, like Dynasty Warriors

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