

Who Will be the “Star Survivors”?

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——Post-pandemic Investment Themes in the Internet-related market

Abstract:

- The increasingly fierce competition in the video conferencing industry and the better off pandemic situation are challenging the growth of every company in this industry. That said, we believe Zoom has a long-term value with new focuses and profit channels.
- NFT is a hot spot in the field of Web3. There are some practices in mainland China, but we still need to identify their opportunities and risks.
- The pandemic also boosts the game market, the main component of the Consumer Internet. The movements of giants affect the direction of the entire industry.

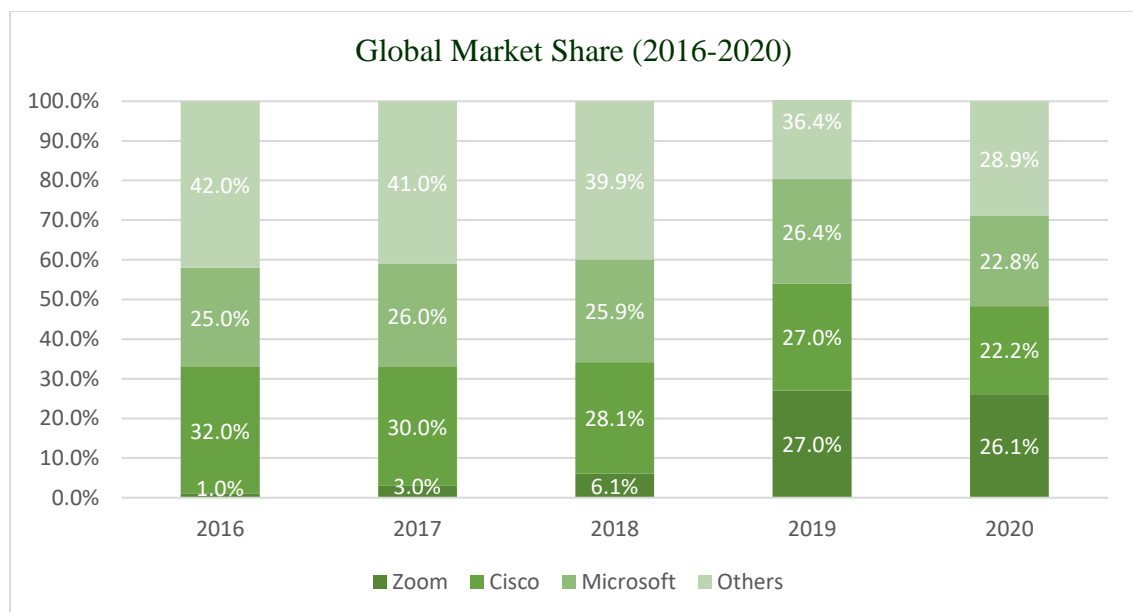
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Video Conferencing (Case: Zoom)

According to IDC's forecast, the global video conferencing market will reach US\$21.21 billion in 2025, and the compound growth rate from 2021 to 2025 will be 17.5%; the booming growth implies a long-lasting transformation of workplace.

As for the companies in this industry, we see from IDC that the oligopoly structure of global video conferencing market initiated from 2019 right after Zoom's skyrocketing growth and has been remained stable. By 1Q21, Zoom led the market with twice the MAU of that of Microsoft Teams according to Apptopia. However, the decline in Zoom's performance since October 2020 mainly reflects the market's continued concerns about the decline in revenue growth after the epidemic. We thus choose this company to see if the video conferencing company still has potential in a post-pandemic situation.



Zoom's fall in stock price can be explained as followed: the company's income relied much on small and medium-sized customers; while the average subscription duration of customers decreased as the pandemic situation got better off, Zoom incurred loss as a result of the weak willingness to pay of SMS customers, which led to relatively high churn rate of this client group.

Meanwhile, the proportion of customers with more than 10 employees, the average subscription duration, and the proportion of subscription revenue with a contract period of more

than one year have all continued to rise in recent quarters. With the gradual stabilization of the churn rate of SMS customers and the continuous increase in the revenue contribution of large customers, the company's revenue will resume its steady growth.

Moreover, Microsoft Teams and Zoom essentially serve different customer needs. Microsoft Teams mainly focuses on document collaboration and serves the internal communication of enterprise users, competitiveness of which lies in the bundled sales for existing customers, while Zoom mainly relies on global. The deployed data centre nodes provide reliable, easy-to-use, and high-quality video calling capabilities, which are more efficient and convenient when communicating externally and across organizations.

Zoom further responded to the concern of losing SMS customers at the Zoomtopia analyst conference held in September 2021. Zoom updated its product-oriented addressable market space (TAM) size, which is expected to expand from \$34 billion in 2019 to \$91 billion in 2025, of which call center, seminars & virtual events, business calls, business collaboration (including Meeting, Chat, and other collaboration tools) are \$24 billion, \$4 billion, \$29 billion, and \$34 billion, respectively.

We believe that the first factor driving the expansion of TAM comes from the platform evolution of Zoom's traditional core products on the one hand, and the horizontal business expansion to related markets such as enterprise phones and call centres, etc. Consequently, covid-19 is a strong catalyst rather than necessary reactant in this booming growth.

Functions	Products
Continuous Collaboration	Meeting, Chat, Security
Mixed Work Scenarios	Zoom Rooms, Zoom Phone
Apps & Integration	Zoom Apps, Zoom Developer Platform (SDK/API)
Promotion	Zoom Events, Video Webinars
Clients Participation	Zoom Video Engagement Center

Zoom Video Engagement Center will be launched in early 2022, which marks the company's official entry into the Cloud Contact Center Market.

At present, the penetration rate of Zoom Phone in the stock video conferencing accounts is less than 4%, and the huge customer base combined with the low penetration rate drives the rapid growth of Zoom Phone products.

The other factor of the global conference industry is sales channels. Zoom is actively expanding its external channel ecosystem which has obvious positive significance for product portfolio sales to large customers and the expansion of international markets.

General agents & recommended channel partners: currently, Zoom has 18 main agencies around the world and more than 3,000 channel partners recommended by main agencies.

Reseller & seller partners: in addition to the general agent model, Zoom also sells through dealers and resellers. Currently, Zoom has 12 authorized or franchised dealers and more than 2,000 reseller partners around the world.

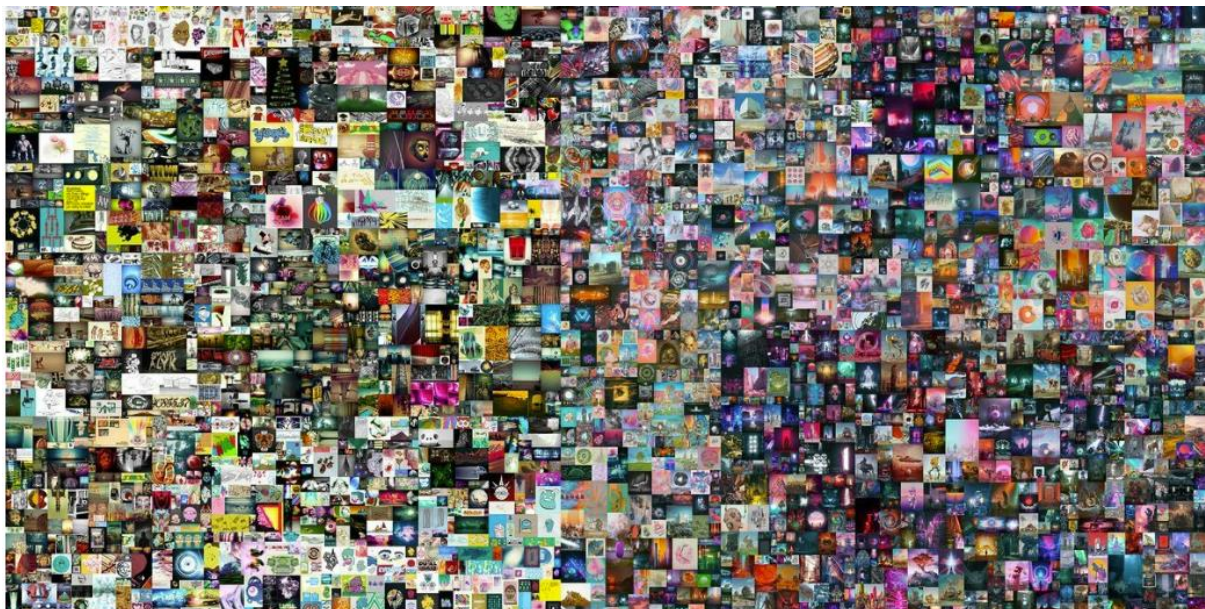
Operator & Service Provider Partners: as for Zoom Phone, the company also cooperates with telecom operators and aggregators that integrate operator services to sell Zoom Phone products strategically. In fiscal year 2022, the company's revenue from the international market accounted for 1/3 of the total revenue, a significant increase from the level of 17.5% at the beginning of fiscal year 2019.



Distribution of Zoom's total resellers Source: Zoomtopia

NFT

In the field of Web3, we believe that the next hot spot is NFT. NFT, Non-Fungible Tokens, is a decentralized digital ledger technology similar to cryptocurrencies such as Bitcoin. Because of the irreplaceable nature of NFTs, they can be used to represent something unique, such as the original Mona Lisa painting in the museum, or the ownership of a piece of land. Although mainstream encrypted assets such as Bitcoin (BTC) and Ethereum (ETH) are also recorded in the blockchain, the difference between NFT and cryptos is that any NFT token is irreplaceable and indivisible. When you buy an NFT token, it means you get its indelible record of ownership and the right to use the actual asset. For example, if you buy a piece of art, it can be displayed and copied, but only you are its actual owner. The key innovation of NFT is that it provides a method of marking the ownership of native digital assets, which solves the stubborn problem that "copy and paste" cannot effectively protect intellectual property rights in the traditional Internet era. This is of great positive significance for respecting digital content innovation and protecting intellectual property rights. In the NFT ecosystem, the traditional profit-making model is to directly sell NFT assets, charge fees for transactions in the secondary trading market, and charge fees for in-game transactions.



Works by digital artist Beeple Source: Christie's auction house

Overall, the underlying structure of China's NFT ecosystem is not yet mature. Although the technology is relatively mature and controllable, the alliance chains are not interconnected with each other and market transactions. The radius is limited, and a domestic public chain that is safe and controllable within a perfect supervision system and has sufficient credibility and market influence has not yet been hatched in China. Under the current incomplete regulatory system and underlying architecture environment, China's NFT trading platform, NFT project creators, and investors are all in the stage of cautious exploration, and NFT transactions are mainly limited to the primary trading market of digital collections.

On August 2, 2021, Tencent officially launched the NFT trading software "Magic Core". Compared with foreign works with high premiums, the Magic Core app blocked players from hyping NFTs in terms of mechanism and management. Up to now, Tencent Magic Core has completely deleted the word NFT and changed it to "digital collection." Ali has also established an NFT trading platform based on Ali's ecology, and has released a number of NFT works, including Alipay payment code skins and various models with NFT works jointly launched by big IP. NetEase Wenchuang Sansan Studio release its first IP-to-NFT work on Taobao in June 2021, the Little Alpaca Sansan Commemorative Gold Coin. After purchase, users can register the Nervos (CKB)-based NFT platform "Secret Treasure" to receive NFTs. On the basis of continuously improving its 500px community communication and version monetization functions, and relying on the existing community advantages, Visual China continues to use NFT technology to upgrade the community, empower creators, expand global markets and fields, and enhance assets. Monetization ability, enhancing community vitality, and building the world's leading blockchain-based visual digital art creative community are the futures of NFT.

The future of NFT faces opportunities and challenges in China. It can be used for intellectual property protection and can stimulate creators' enthusiasm for creation. On the flip side, it can also be use as community influence to trigger group carnival. It faces both regulatory risk and the associated energy issues that arise from it.

Games (Case: Blizzard)

In 2020, the growth rate of the global game market reaches 23%. Under the impact of the epidemic, it broke out against the trend, which is the largest growth rate in the past ten years. In a report by Google and Newzoo, it is pointed out that the global game market will exceed \$180 billion in 2021, of which 48% will come from console and PC players. According to its prediction, the game market size will exceed 210 billion US dollars in 2024, and the linkage and interoperability between multiple platforms will become the next outlet of the game industry. The development foundation of Blizzard Entertainment's multi-platform games may usher in a long-lost spring after being acquired.

The impact of the epidemic has led to many traditional entertainment risks and increased costs: tourism and brick-and-mortar entertainment venues have been severely suppressed under the policy. Although there is a trend of loosening policies around the world, the game industry has taken advantage of the opportunity of 2020 to become a popular entertainment model. Stand firm. The same report pointed out that about 70% of new players and returning players said that they would maintain or even increase their game time in the next time, which also means that the business opportunities brought by the epidemic will continue to affect the game industry.

The gradual improvement of e-sports and live broadcast content had attracted more players and increased the stickiness of old players. In mid-2021, more than 450 million people around the world watched e-sports events (a year-on-year increase of 6.7%), and after the first wave of inability to watch the games offline due to the epidemic, the gradual recovery policy and the global epidemic have brought the growth of new e-sports events. The number of users watching game live broadcasts was about to break the 1 billion marks. A large number of new audiences' influx due to the epidemic in 2020 will have a high retention rate in 2021, which also confirms the aforementioned feature of the high retention rate of new users in the game industry.

Activision Blizzard's stock price is currently \$79.12, with a total market value of 61.65 billion, ranking fifth in the world before the acquisition. Before the record-breaking 68.7 billion cash flow acquisition in January, Activision Blizzard's market value was only about \$47 billion,

and the acquisition at a premium of 45% also reflected Microsoft's determination in the game industry and the metaverse. The acquisition added 30% to Activision Blizzard's stock price.

In the fourth-quarter financial report released in February, Activision Blizzard's net revenue reached \$2.16 billion and net profit was \$564 million, an increase of 11% YoY in profit.

Activision has the foundation and ability to deploy the entire platform. Activision's well-known IP "Call of Duty" series launched a mobile game version in 2019. Blizzard's "Hearthstone" has a ten-year history of cross-platform data and battle interoperability, and its "Candy Crush" mobile game revenue ranked sixth in the world. At the same time, Blizzard established a mobile game version of the well-known IP "Diablo" in 2018, and the upcoming sequel of "Overwatch", which won the best game of the year, will also land on the mobile terminal. After being acquired by Microsoft, there will also be a better experience on the console side, that is, on the Xbox. Therefore, under the general trend of inter-platform interoperability, it will take the lead.

Fitting the concept of the metaverse, Activision Blizzard has the industry's top art and artistic standards and has launched many movies and novels for its major IPs. The film and televisionization of the game industry is also a major trend in recent years. As the first game company started to launch related cultural products and was widely recognized, Activision has unique advantages in film and television IP.

The high-level changes brought about by Microsoft's acquisition may improve management quality. In 2018, Activision Blizzard gradually exposed many management issues such as gender discrimination, sexual harassment, and fraternity culture, and was involved in a series of related legal cases in 2019. And there are many materials that prove that the root cause of this problem is the inaction of Activision Blizzard executives. After Microsoft's acquisition, Microsoft also ordered Activision Blizzard's former CEO, Bobby Kotick, who was accused by many employees, to step down after the acquisition was completed, and Spencer, a hero of the Xbox team in recent years, became the CEO. The optimization of management may bring a new turn to Activision Blizzard's poor corporate culture.

Game competition is fierce, and Activision Blizzard is beginning to decline. In the fast-developing game industry, high-quality new games continue to refresh players' expectations

Conclusion

Overall, companies in global conference industry are to be prosperous as long as they can expand sales channels and update new products catering for diverse needs of clients, just like how Zoom does. Other risk factors like competition and temporary fall in stock price should not matter that much. We mainly focus on three segmentations in the Internet market and identify the opportunities and risks inside, video conferencing for industry Internet, NFT for Web3, and games for consumer Internet. Based on these insights, we can find the investment hot spots and frequently adjust our trading strategy.