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NEXT GAMES

FINANCIAL STATEMENTS BULLETIN 2019

BUSINESS REVIEW

Teemu HUUHTANEN
Chief Executive Officer



2019 Key Events

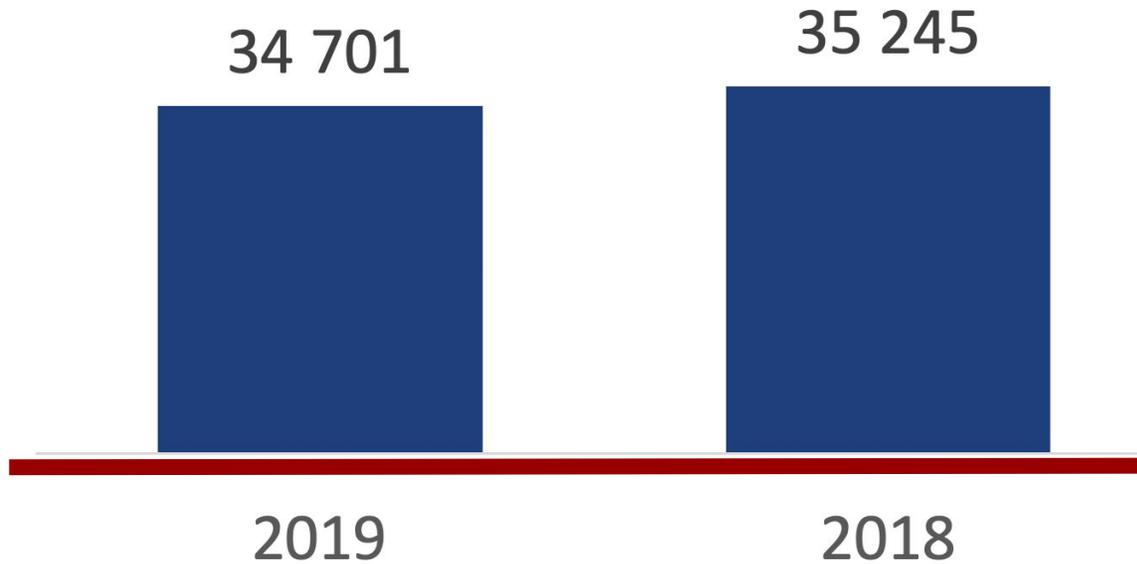
- Efficient execution of stabilizing baseline operating cost level and the successful **conclusion of the turnaround plan**
- 2,015 of existing shareholders participated in the **successful rights offering** - Including a clear commitment & continued support from AMC & Jari Ovaskainen - **EUR 8 million** raised towards the company's future investments
- **Business Finland awarded a grant of EUR 2 million** for a machine learning and artificial intelligence project
- **Collaboration with Netflix**, one of the most significant companies in the entertainment business, to create a game based on hit series **Stranger Things**
- No new games published in 2019, the **work on Blade Runner Nexus continued to 2020**
- Successfully **achieving over 30 million euro revenue levels for four consecutive years**

January - December 2019 Summary

- **Revenue** was EUR 34.7 million (35.2)
- **Gross Profit margin** declined by three percentage points and was EUR 19.7 million, 57% of revenue (21.2, 60%)
- **EBIT** improved by 9.5 million and was EUR -7.4 million (-16.9)
- **Publishing operations turned profitable** with an **EBITDA** of EUR 3.8 (-4.5)million
- **Product development costs** were EUR 6.6 million, 19% of revenue

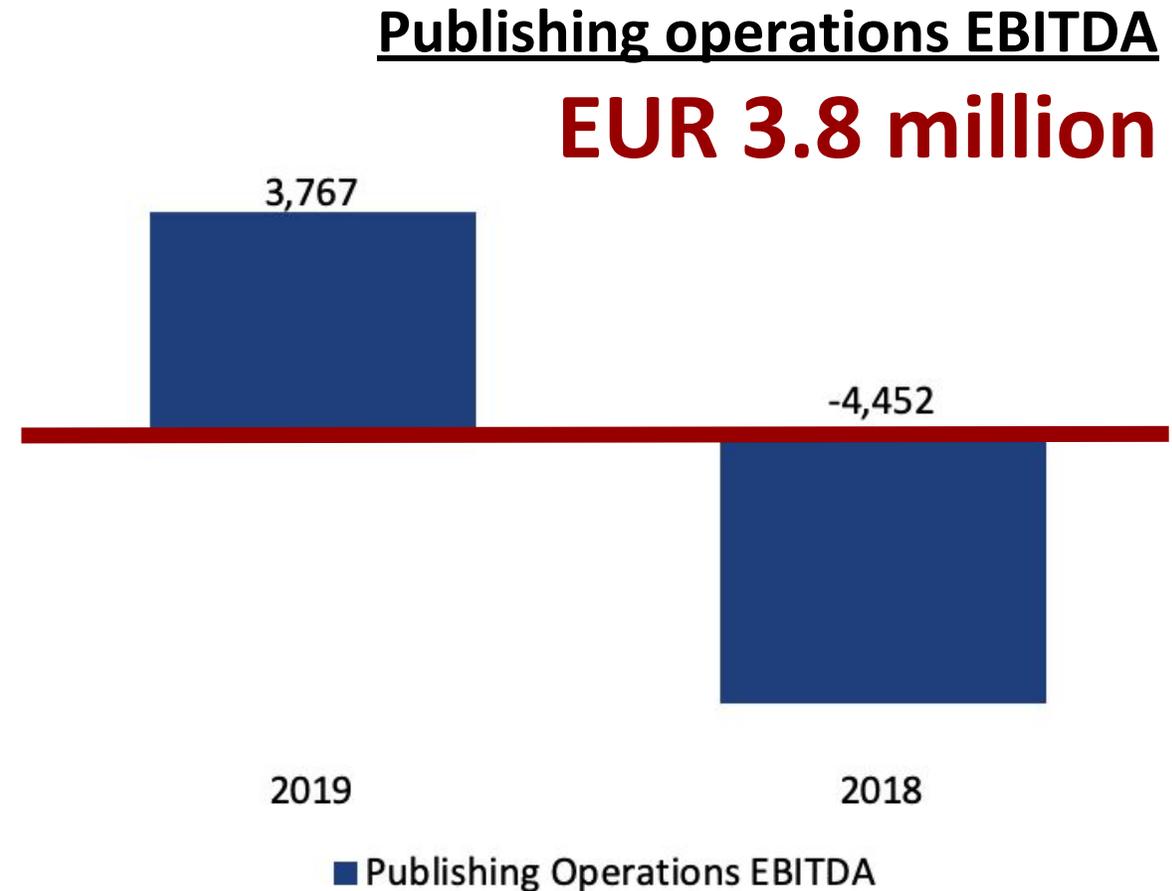
(Numbers in brackets refer to the corresponding year-on-year period unless otherwise mentioned)

REVENUE & PUBLISHING OPERATIONS PROFITABILITY



Revenue

Revenues remained at the same level as last year. Change y-o-y, -1.6%. Lack of revenue growth was impacted by the delay of launching a game during 2019.



July - December 2019 Summary

- **Revenue** was EUR 15.5 million (24.8)
- **Gross Profit Margin** declined by eight percentage points and was EUR 8.4 million, 57% (15.3; 62%)
- **EBIT** improved by 8.1 million and was EUR -3.9 million (-12.0)
- **Product development costs** were EUR -3.3 million (-4.1)

(Numbers in brackets refer to the corresponding year-on-year period unless otherwise mentioned)

FINANCIAL REVIEW

Annina Salvén

Chief Financial Officer



Accounting Policy Change

- **Development costs for published products have been re-classified.** Previously all game development costs, both for published and unpublished games, were reported under the Research and Development function.
- In the future, development activities relating to **published games are reported as part of Marketing- and Sales function**, and only **costs related to unpublished games will be reported under the Research and Development function.**
- The accounting policy change **does not affect group-level revenue, EBIT, key financial figures or balance sheet reporting.**

Accounting Policy Change Impact

	Adjusted		
	Jan-Dec 2018	Jan-Dec 2018	Change
Revenue	35,245	35,245	0
Cost of Revenues	-13,952	-13,952	0
Gross Profit	21,294	21,294	0
Other Operating Income	71	71	0
Research and Development	-7,541	-10,418	2,877
Sales and Marketing	-26,776	-23,643	-3,133
Administrative	-3,963	-4,218	255
Operating Profit (EBIT)	-16,914	-16,914	0

Financials for 2019 were prepared with accounting policy changes. The impact on 2018 numbers were a decrease in Research and Development of EUR 2.9 million and an increase in Marketing and Sales of EUR 3.1 million

The re-statement does not affect group level revenue or profitability

New Alternative Performance Metric: Publishing Operations Profitability

- A new Alternative Performance Metric, “**Publishing Operations Profitability**” introduced in Next Games’ financial reporting
- The aim of the new APM is to **provide investors with meaningful insight into the profitability of the company’s publishing operations**
- Publishing Operations Profitability metric is defined as **revenues generated by the company’s published games, adjusted by the costs and investments related to game’s maintenance, further development, marketing and customer support**

New Alternative Performance Metric: Publishing Operations Profitability

EUR thousand	Jul-Dec 2019	Jul-Dec 2018	Jan-Dec 2019	Jan-Dec 2018
Revenue	15,477	24,769	34,701	35,245
Gross Profit	8,418	15,260	19,668	21,294
Marketing & Sales	-7,756	-21,212	-17,594	-26,776
Publishing Operations (EBIT)	662	-5,952	2,074	-5,482
Depreciations, Publishing Operations	846	961	1,693	1,030
Publishing Operations EBITDA	1,508	-4,991	3,767	-4,452

In conjunction with the turnaround plan, the company turned its Publishing operations profitable in 2019

Publishing Operations EBITDA was EUR 1.5 million during the second half and EUR 3.8 million for the full year

R&D, CASH AND CAPITAL EXPENDITURE

Cash flow

Capex and R&D continues to have significant impact

EUR thousand	2019	2018
Net cash flows from operating activities	-3 565	-12 004
Net cash flows from investing activities	-2 734	-6 736
Net cash flows from financing activities	6 572	-555
Net change in cash and cash equivalents (-) / (+)	360	-19 295
Cash and cash equivalents at beginning of the period	7 306	26 377
Foreign exchange rate differences	88	224
Cash and cash equivalents at the end of the period	7 666	7 306

- Publishing operations remained profitable with EBITDA at EUR 3.8million
- Cash flow is negatively impacted by overall R&D activities in addition to Capex relating to both R&D and acquisition of new licenses
- Cash position strengthened by rights issue executed in October 2019
- The company negotiated extended payment terms during 2019, after the rights issue was executed, short term debt of around 2 million between Q3 and Q4 was cleared. In addition due to an accounting change, the company did not receive Apple sales payments in December, and two months of sales payments were received in January 2020.

R&D activities

Strong investment in future pipeline

EUR 1000	2019	2018
Personnel expenses	-4 331	-4 499
Outsourcing	-467	-4 163
Share-based payments	-285	-718
General cost allocation	-2 522	-2 400
Depreciations	-1 341	-725
Capitalization	2 377	4 965
Total	-6 570	-7 541
Percentage of revenue	-19 %	-21 %

- Next Games continued extensive R&D investments in 2019, building up future pipeline
- Only a portion of R&D is capitalized, in 2019 EUR 2.4 (5.0) million was capitalized on the balance sheet
- Depreciations from R&D amounted to 1.3 million

COST SAVINGS

Cost Savings	2018	2019	Difference (three quarters)	Annualized	Public Target
Outsourced R&D	-€4,163.00	-€467.00	-€3,696.00	-€4,928.00	
Admin	-€3,963.00	-€2,952.00	-€1,011.00	-€1,348.00	
	-€8,126.00	-€3,419.00	-€4,707.00	-€6,276.00	4-8 million

- Cost savings kicked in during Q2 of 2019 so annualized full year is not visible
- The public target was to reach savings between EUR 4-8 million
- The company reached this alone in cutting outsourced R&D by EUR -3.7 million
- In addition Administration was heavily streamlined, cutting an additional million
- Annualized the effect is EUR 6.3 million
- Additional minor scale savings achieved

P&L KEY FIGURES - GROUP

EUR 1000	2019	2018
Revenue	34 701	35 245
Cost of Revenue	-15 033	-13 952
Gross Profit	19 668	21 294
Other Operating Income	11	71
Research and Development	-6 570	-7 541
Sales and Marketing	-17 594	-26 776
Administrative	-2 952	-3 963
Operating Result (EBIT)	-7 436	-16 914
EBITDA	-3 468	-14 750
Adjusted Operating Profit	-3 965	-13 778

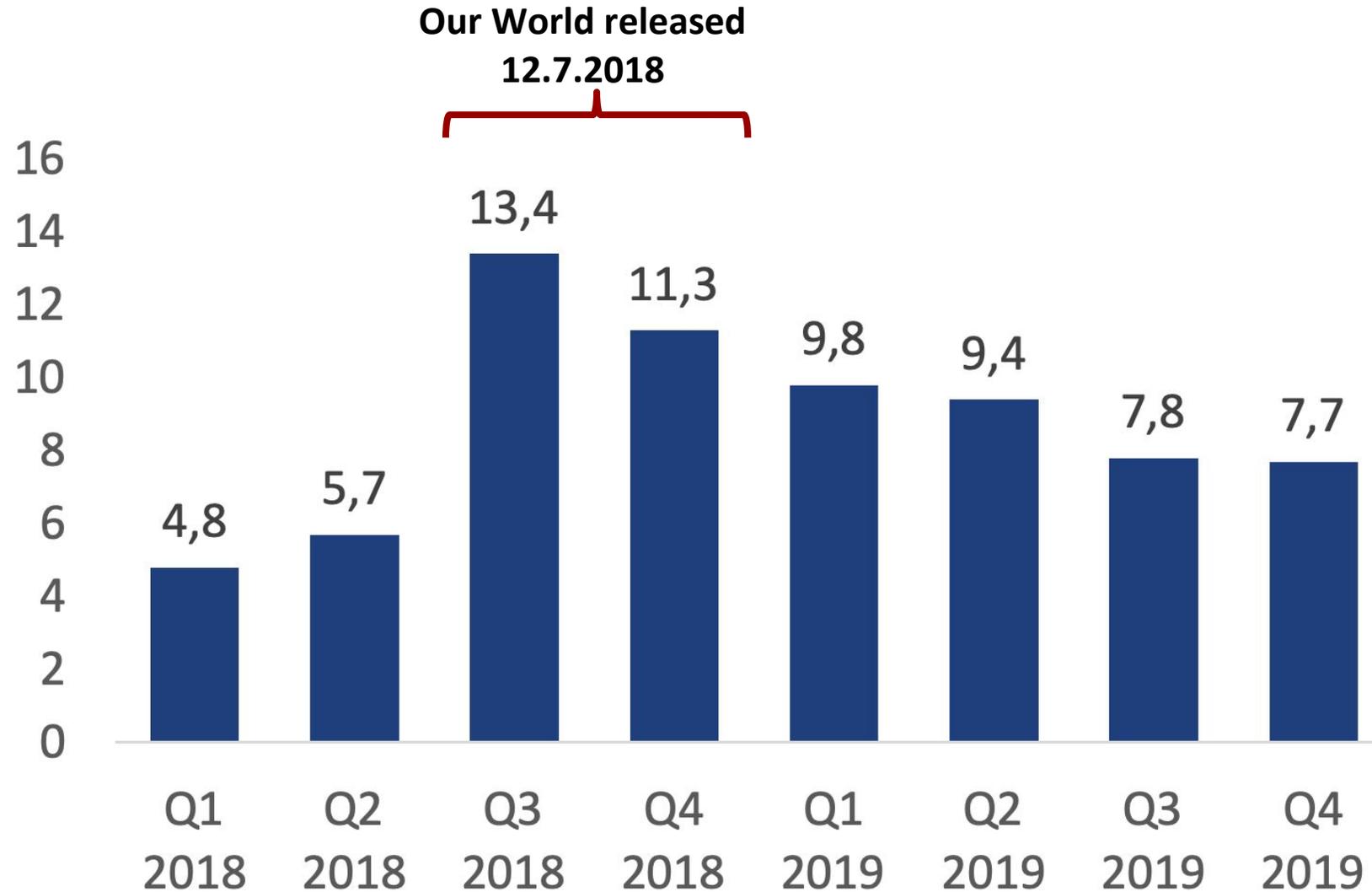
Revenues have remained at the same level 2019 and 2018. Gross profit was 57% (60%) for the full year.

The new P&L structure shows publishing activities lumped together under Sales & Marketing, and separates R&D as its own line item. Sales and Marketing now includes all salaries and any expenses related to developing, maintaining, marketing and running live games - whereas R&D includes all expenses relating to development of titles with expected future revenue streams.

The new cost restructuring program also affected Administrative cost and they were cut by EUR 1 million year - on - year.

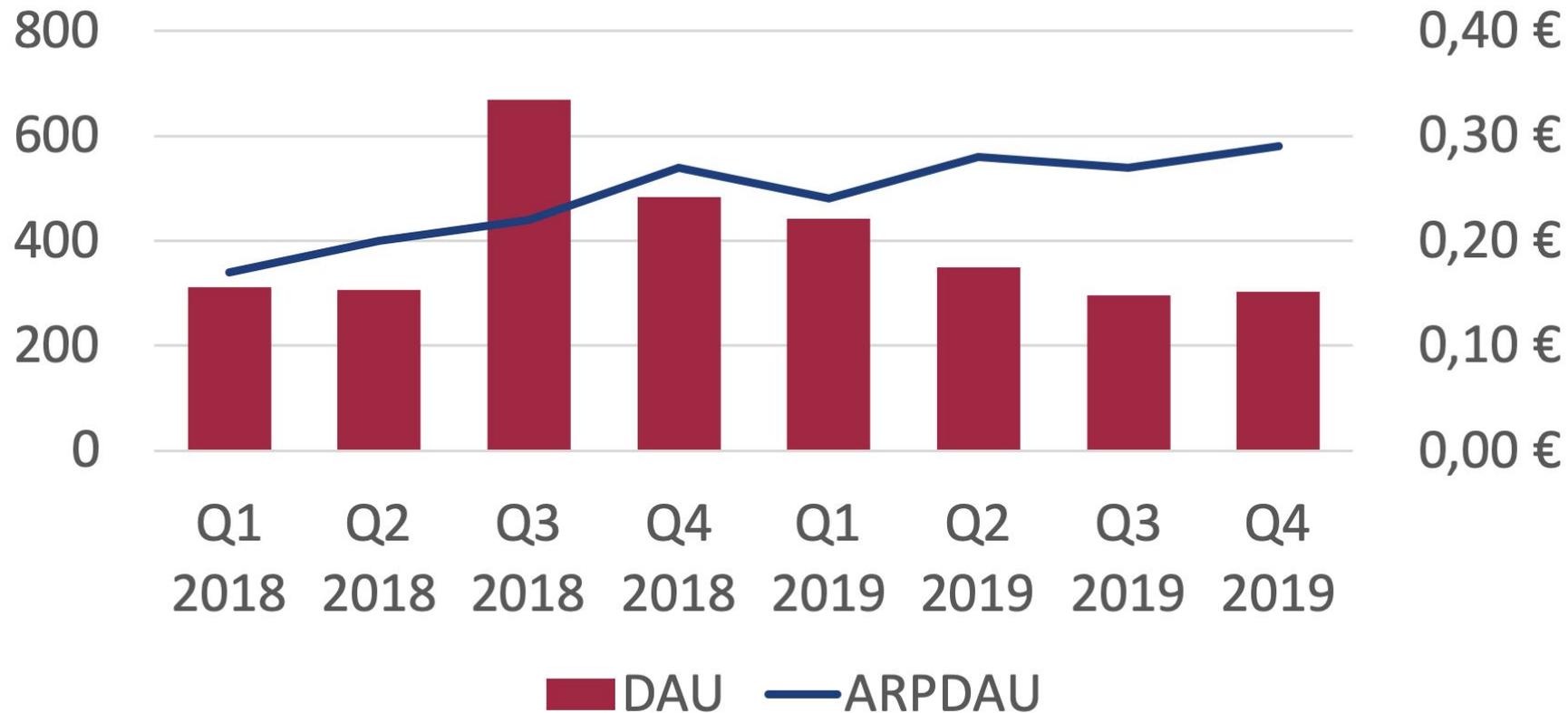
Both EBIT and EBITDA improved significantly between 2018 and 2019 as revenue remained stable.

QUARTERLY REVENUE DEVELOPMENT



DAU & ARPDAA DEVELOPMENT

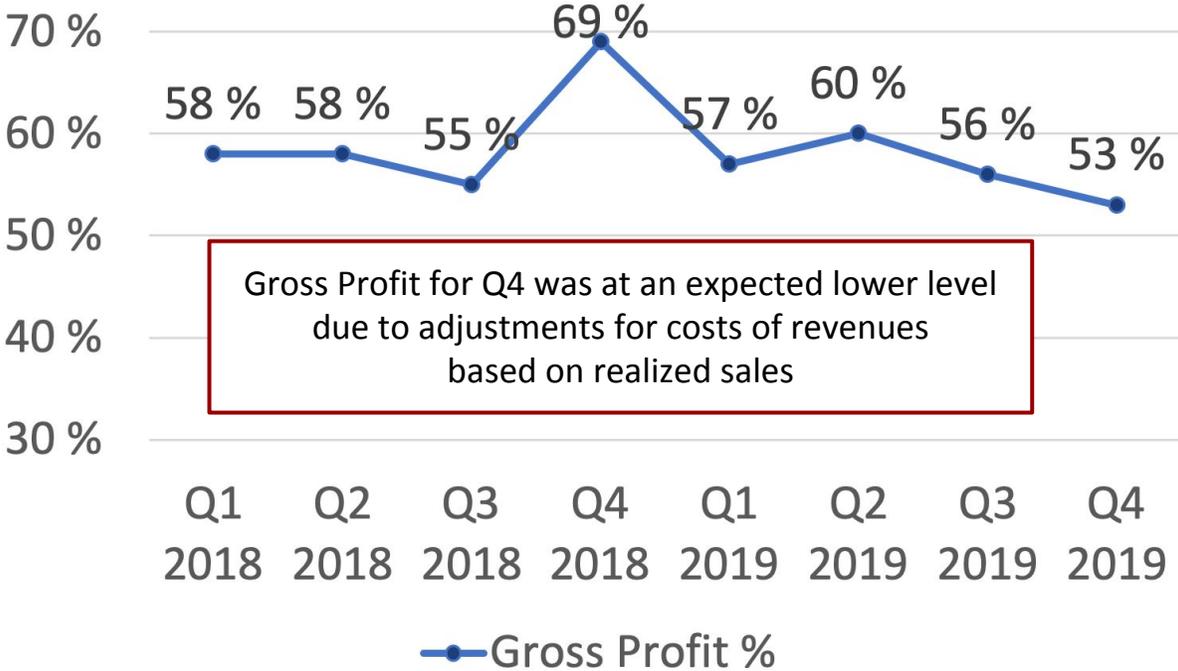
The company succeeded in significantly and continuously growing ARPDAA across the entire portfolio during 2019. Our World achieved another record-breaking in-app purchase ARPDAA, 0.41 euros, in December. DAU stabilized during Q4 but improvements to retention are still needed for Our World.



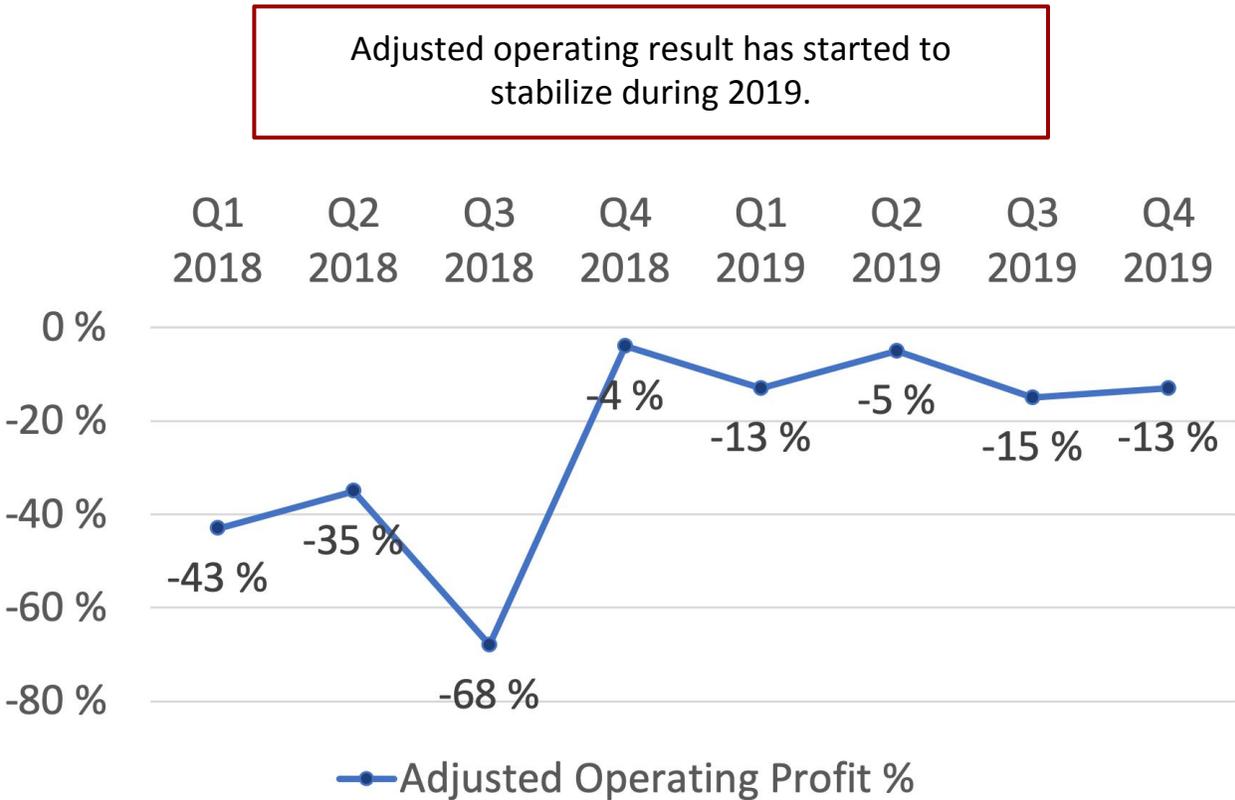
**Our World ARPDAA
record in December
EUR 0.41**

GROSS PROFIT & ADJUSTED OPERATING PROFIT

Gross Profit %



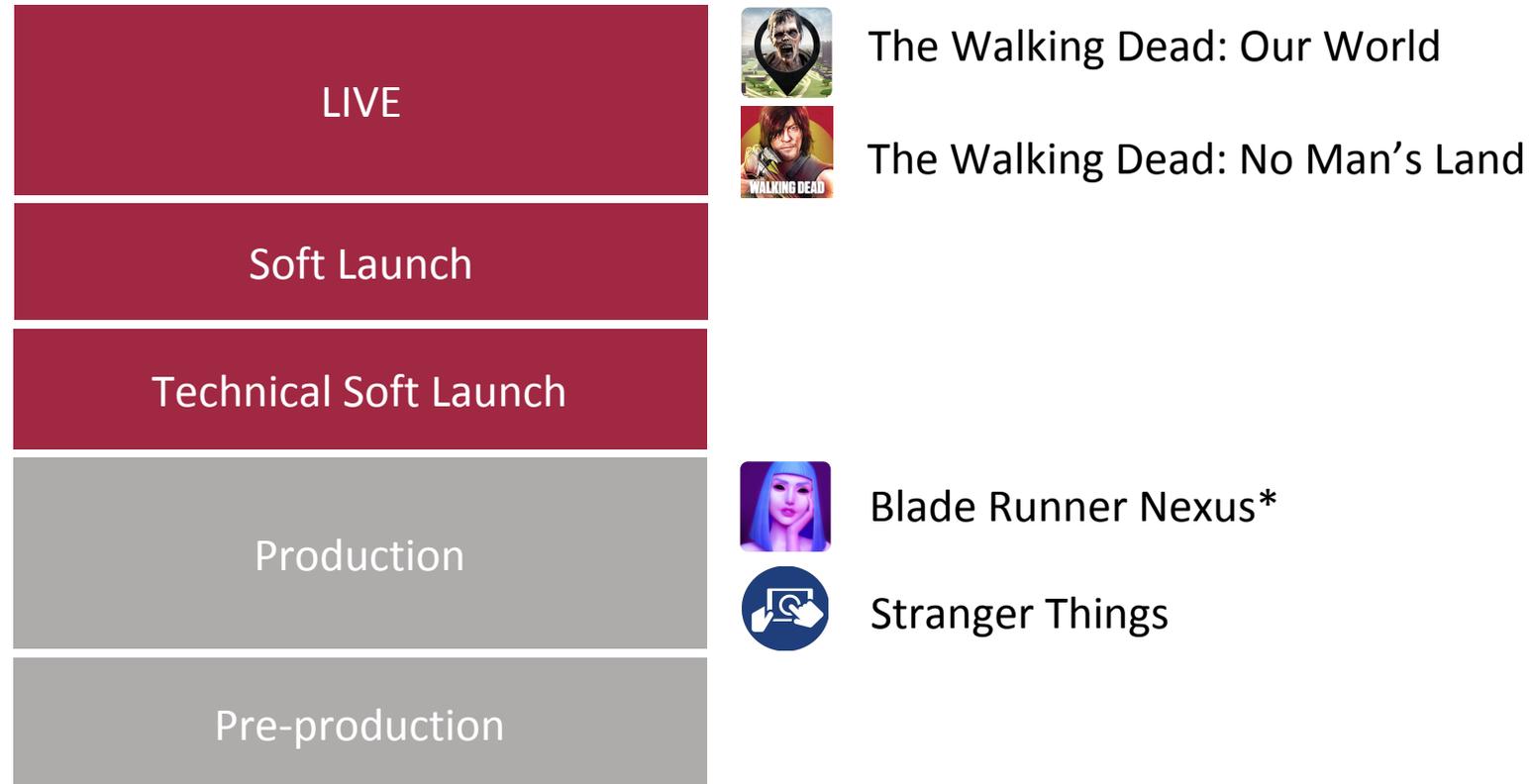
Adjusted Operating Profit %





PRODUCT DEVELOPMENT UPDATE

GAME DEVELOPMENT PIPELINE 2019



* Blade Runner Nexus moved back into production during the fourth quarter of 2019

LIVE PRODUCTS

The Walking Dead: No Man's Land

- The game's ARPDAU improved by 6% from 2018 and averaged EUR 0.22 during 2019.
- The number of daily active users decreased from 2018.
- The team succeeded in their goal to maintain the game's key operational metrics on a stable level and maintain the game's profitability as an independent project.

The Walking Dead: Our World

- New ARPDAU record, EUR 0.41 in December 2019.
- Despite the improved ARPDAU, user base could not be scaled up as retention was not optimal
- As a result, the game's marketing investments were on a higher level than targeted relative to revenue
- This affected operational profitability for both the game and the company
- The user cohorts acquired at launch, generated back their launch acquisition investment by Aug 2019, and the game remained profitable as an independent project



PRODUCTS IN DEVELOPMENT

Blade Runner Nexus

- Blade Runner Nexus was developed throughout 2019
- Launch was targeted for 2019, but was postponed due to results from the game's testing.
- During the fourth quarter, a decision was made to return the game to production phase as the game did not achieve the required targets to continue soft launch at this stage.
- Since then, the development has focused on improving the game's features and quality with continuous testing.
- New test results have signalled significant improvements in the game's key metrics and the development continues.

Stranger Things

- The game based on Netflix's Stranger Things series, moved to production phase in 2019.
- During 2019, the game team has grown to an optimal size to complete the game's development.
- Development and testing of the game is proceeding as planned and the goal is to release the game according to its original schedule in 2020.



FOCUS ON NEW PRODUCTS

EMPLOYEES END OF 2019

OUR WORLD

23% (24%) ↓

NEW PROJECTS

51% (49%) ↑

NO MAN'S LAND

13 % (14%) ↓

ADMIN

12% (13%) ↓

MEN

75% (79%) ↓

WOMEN

25% (21%) ↑

107

EMPLOYEES (140)

24

NATIONALITIES (20)



Comparison to end of 2018 in brackets.

RENEWAL OF PRODUCT DEVELOPMENT OPERATIONS

- Game development process renewed as part of the turnaround plan. The goal was to:
 - **Decrease time to market** for the company's products and reduce the risk involved in different stages of the development
 - **Increase code reusability and reutilization** of various game functionality components as well as augment the shared infrastructure between the group's games
 - **Develop shared live operations tools** for the company's games
- As a result from the investments made in the group's proprietary technology platform, large-scale and efficient reutilization is possible.

TECHNOLOGY REUSABILITY & SHARED COMPONENTS

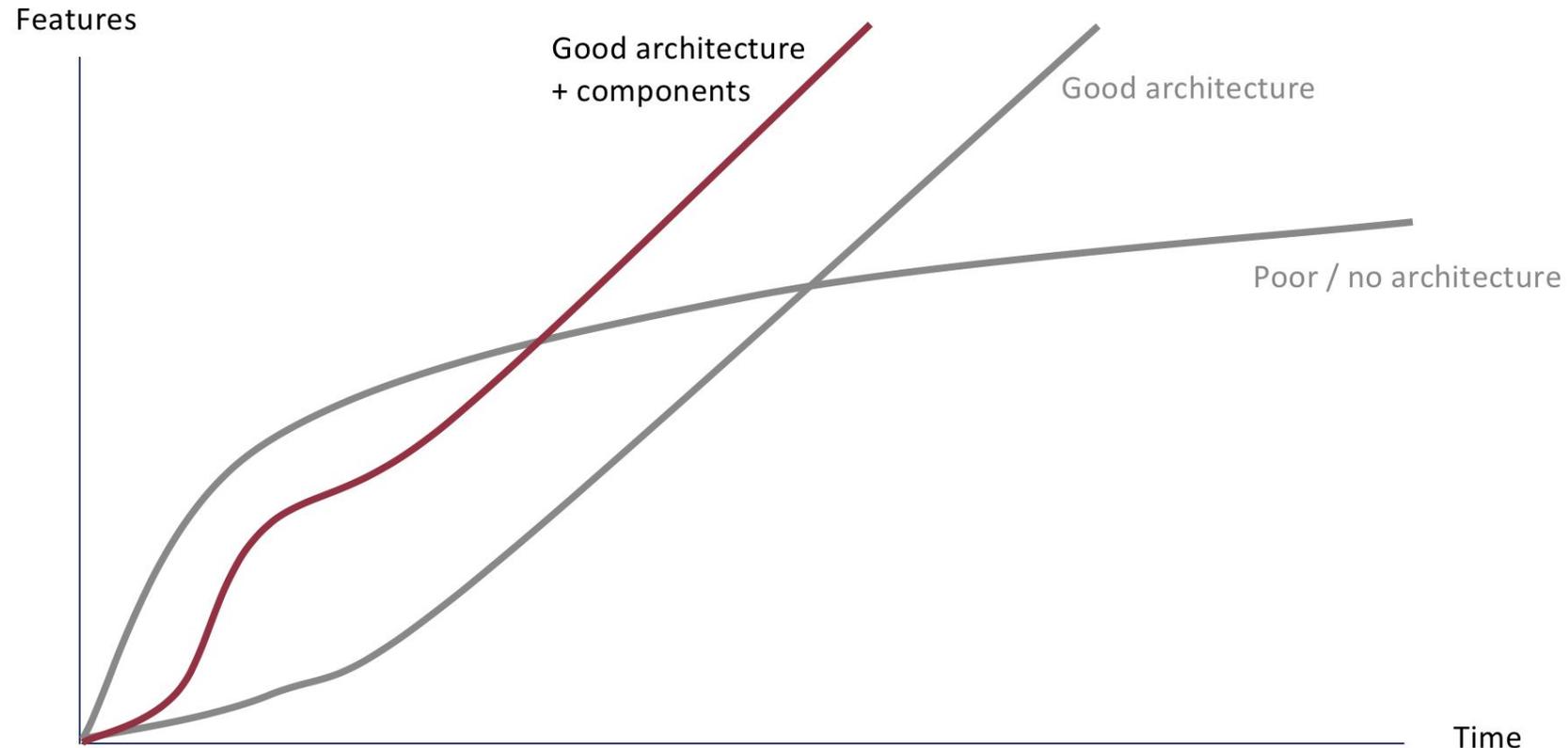
- Using shared components is an efficient way to affect product development times and production costs
- Allows focus on building game-specific functionality as the most common basic functionality, such as technical integrations are provided out-of-the box
- Shared components include among others:
 - **Technical integrations**: server, analytics or app store connections, for example
 - **Transactions**: purchase events or player progression in the game, for example
 - **Communications methods**: chat functionality or display of the players' leaderboard ranking, for example
 - **Storage**: player levels or reporting the amount on virtual goods or in-game currency balance, for example
 - **Live operations tools**: tools for operating in-game sales or events, for example

TECHNOLOGY REUSABILITY IN 2019

- During 2019, a total of 14 shared components were produced
- All have been used across projects, primarily in newer projects, but some of them also in the live products:
 - No Man's Land – 1 component
 - Our World – 5 components
 - Blade Runner – 5 components
 - **Stranger Things – 12 components**
 - Prototypes – 8-12 components on average per project

TECHNOLOGY REUSABILITY GOING FORWARD

- During the next 2-3 years, we aim to continue producing shared components and up to doubling their amount
- Over a longer time-period, it is possible to achieve considerable benefits and savings for example in development times.



The effect of technical architecture and shared components on game development times.

MORE DIVERSE LICENSE AGREEMENT FRAMEWORK

- In order to **decentralize the company's risk profile**, we will investigate diversifying our agreement framework
- Within our existing licensing agreements, the company carries a relatively high risk over a game's commercial success, which however also yields the highest possible return to the company provided the product is successful.
- Next Games will investigate adding projects with a **lower risk profile or more guaranteed returns**, such as so called **co-development arrangements**, and building our business operations on the basis of a combination of different agreement structures.



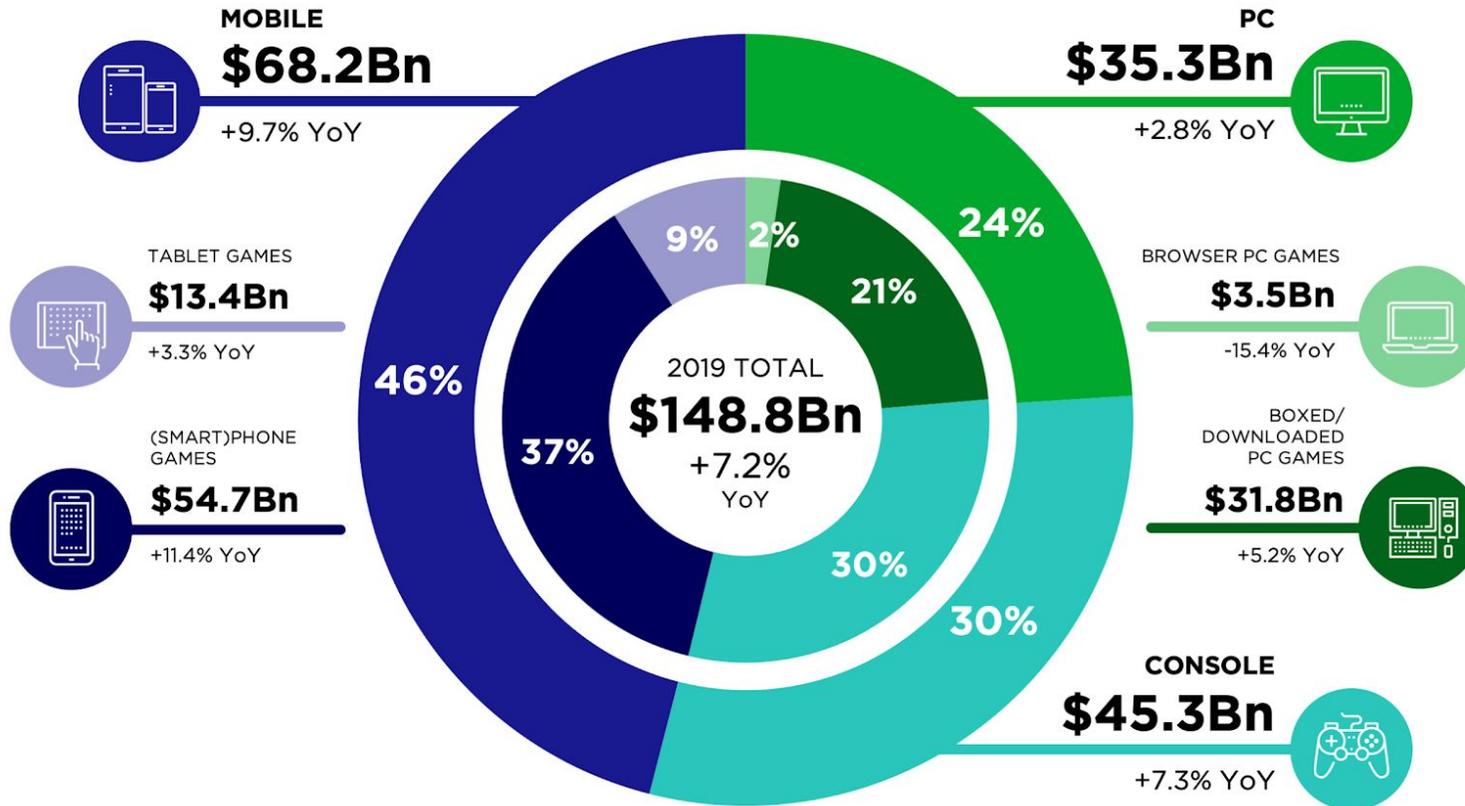


MARKET OVERVIEW



2019 GLOBAL GAMES MARKET

PER DEVICE & SEGMENT WITH YEAR-ON-YEAR GROWTH RATES



\$68.2Bn

Mobile game revenues in 2019 will account for 46% of the global market.

Source: ©Newzoo | 2019 Global Games Market Report | October Update

newzoo.com/globalgamesreport

MOBILE GAMES MARKET

- According to market intelligence provider Newzoo, global revenue from the mobile games market was USD 68.2 billion in 2019.
- By 2022, the revenue forecast is expected to total around USD 95.4 billion (CAGR +9.7%), which is approximately half of the entire games market revenue.
- Growth of the industry is **no longer based on a rising number of players**
- Global trends shaping the mobile games industry:
 - growing loyalty towards well-known brands,
 - increased game performance requirements and intensifying competition,
 - and thus longer product development times,
 - as well as growing user acquisition costs

Next Games strategy addresses these changes – by **working with well-recognized brands** through utilizing popular entertainment franchises and global partners, **fully utilizing the company's efficient shared game development infrastructure** and by using **ready-made components to speed up development** in order to to **fully focus on game features and performance.**

OUTLOOK 2020

Outlook 2020

In 2020, Next Games expects to achieve moderate revenue growth. The potential growth will be weighed towards the end of 2020. The company believes its publishing operations EBITDA will continue to be profitable. The company expects the revenues from already published games to continue on a flat or declining trend.

Basis for outlook

The outlook is based on an estimate that the company publishes one or two games during 2020. The revenue growth forecast is based on the company's estimate on the success of its new products.



QUESTIONS?



Nasdaq Helsinki First North: NXTGMS

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