



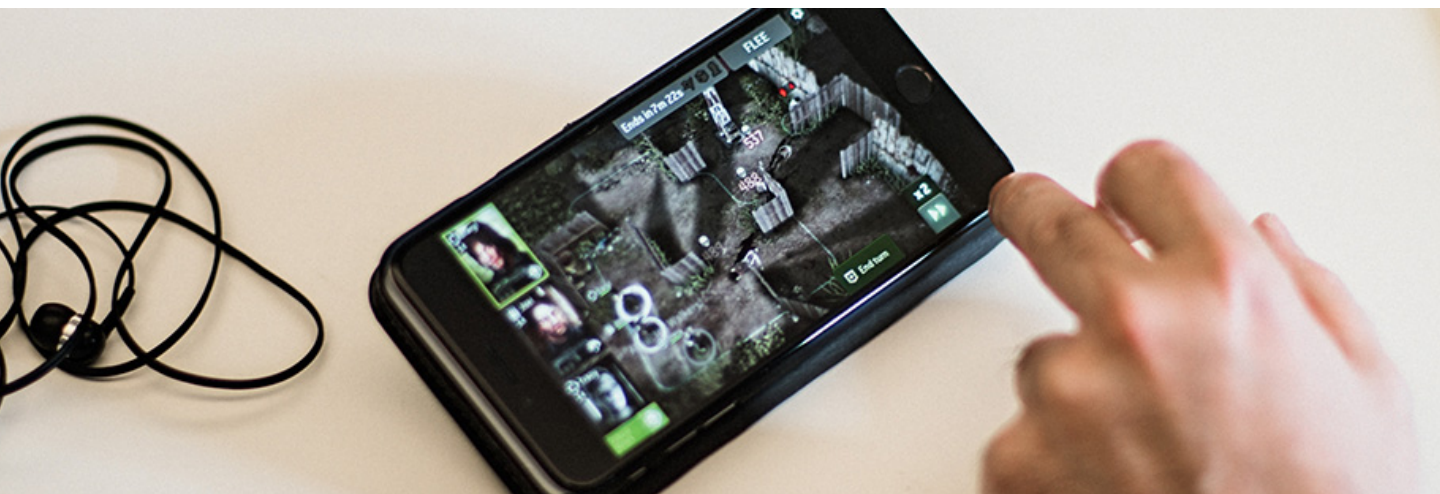
***NEXT GAMES***™

Q3

Next Games Corporation

BUSINESS REVIEW

January-September 2017



## Next Games Corp. Business Review Q3 2017: Continued Revenue Growth, Strong Focus on Product Development

### January-September 2017 in short:

- Revenue grew 31% to 25.8 million euros (€19.7M)
  - Gross margin improved and was 36% (24%)
  - EBIT was -2.1 million euros (-€3.1M). EBIT was impacted by investments in new game development, business development and scaling the organization. In addition, profitability was affected by listing expenses and depreciations related to capitalized listing fees 1.1 million euros in total
  - The company has succeeded in recruiting new talent. The organization grew to 104 people (69)
  - Product development costs were 1.9 million euros (€226k). The company does not capitalize game development costs
- (January-September 2016 comparison in brackets)

### Key Financial Figures

(EUR 1000)	01-09/2017	01-09/2016	1-12/2016
Revenue	25 837	19 722	31 112
Gross bookings	24 451	21 031	33 593
Gross margin	9 206	4 471	8 252
Operating profit (-loss) (EBIT)	-2 120	-3 145	-1 582
EBITDA	-1 292	-2 827	-1 155
Adjusted EBITDA	-1 553	-2 084	-709
<b>As percentage of revenue</b>			
Gross margin (%)	36%	-23%	27%
EBITDA margin (%)	-5%	-14%	-4%
Operating result (%)	-8%	-16%	-5%
<b>As percentage of gross bookings</b>			
Adjusted EBITDA margin (percent)	-6%	-10%	-2%

Gross Bookings does not include deferrals related to sales

Adjusted EBITDA is defined as operating profit, adjusted for depreciations, deferrals related to sales, licenses and commissions, as well as adjusted for listing expenses.

### Key Operational Metrics

Definitions related to key operational metrics can be found at the end of this document.

	1-9/2017	1-9/2016
DAU	455 301	406 457
MAU	1 357 789	1 583 551
ARPPAU (USD)	0.22	0.21
ARPPAU (EUR)	0.20	0.19

**Chief Executive Officer Teemu Huuhtanen:**

The positive development of Next Games' revenue and gross margin continued compared to the corresponding period in 2016. 31% revenue growth and DAU/MAU ratio growth from 26% to 34% indicate that the investments made in The Walking Dead: No Man's Land are paying off. The company daily active users, DAU figure, grew by 12%. Average revenue per daily active user, ARPDAU, was 0.20 euros, whereas it was 0.19 euros in the corresponding period in 2016.

Next Games focuses on growth in its strategy, which requires investments for the future. This shows, as planned, in increased product development costs and is thus reflected on our EBIT as the company does not capitalize game development costs. Currently our product portfolio consists of one game that accrues significant revenue. The three games in development require upfront investments in development and marketing. This may affect Next Games' profitability prior to new game launches and their potential revenue impact.

Our game development proceeds according to plan. The Walking Dead: Our World will enter testing and soft launch phase at the end of 2017, latest in January 2018. The first teaser trailer of the game drew significant international attention amongst the entertainment and games media. The Next Games team is eagerly awaiting first player reactions as we begin testing the product. In addition, the game based on the Blade Runner movie franchise and the third, yet unannounced game project proceed according to plans.

The majority of our potential license partners, such as international TV and movie studios, as well as our key marketing partners are based in the United States. We will reinforce our local presence on the west coast of the US by establishing an office consisting of marketing and business development functions in Los Angeles on the first quarter of 2018.

We have succeeded in recruiting experienced game developers both from Finland and abroad. At the end of Q3 2017 Next Games employed 104 professionals in total. We are proud of our commitment to the well-being and job-satisfaction of our staff and we will be moving to a new office space in Helsinki in 2018. The new space comfortably fits approximately 200 employees, which covers our growth needs for the next few years.

**Teemu Huuhtanen**

Chief Executive Officer  
Next Games



## Revenue and Earnings Development

The company continued to develop The Walking Dead: No Man's Land game, which lead the company's revenue to grow 31% compared to the corresponding January-September period in 2016. Gross-margin improved and was 36%, with EBIT at -2.1 million euros. EBIT was impacted mainly by the development costs and investments associated to upcoming games as well as personnel costs, which were 1.9 million euros in total.

The company's ARPDau was 0.20 euros. The ARPDau figure during the corresponding January-September period in 2016 was 0.19 euros. The company's daily active users, i.e. DAU figure, grew by 12% and was 455 301, whereas in the corresponding January-September period in 2016 it was 406 457. This indicates that the company had more active daily players compared to the previous period.

## Game and Product Pipeline

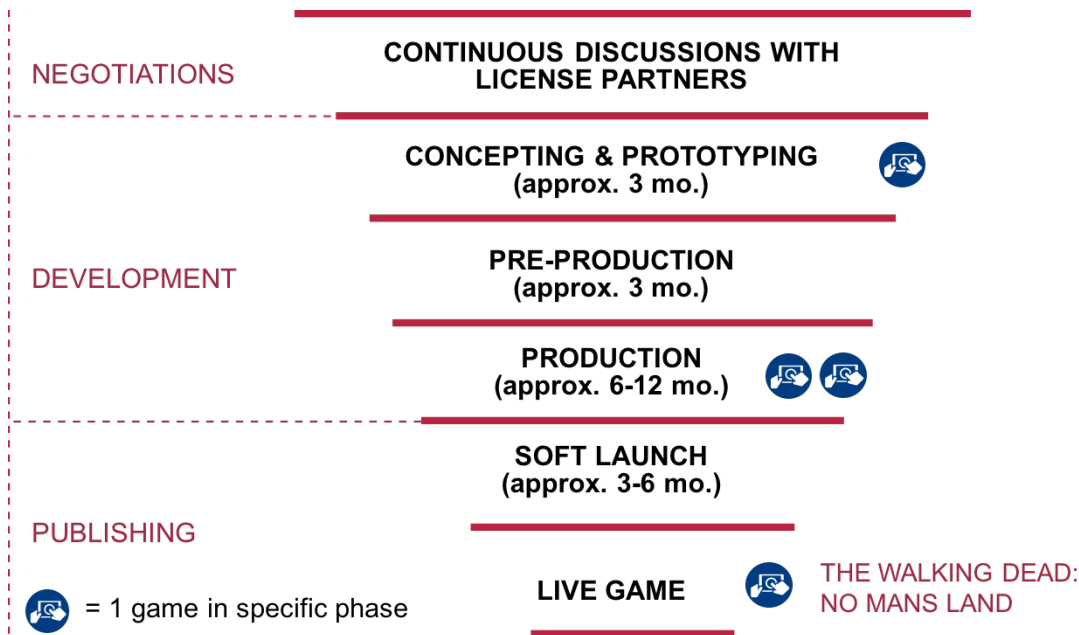
In addition to The Walking Dead: No Man's Land, Next Games has three games in development. All game projects are proceeding according to plan.

The Walking Dead: No Man's Land's revenue grew and DAU/MAU ratio grew from 26% to 34%. The change in DAU/MAU ratio shows a change in player base profile, indicating growth in the number of daily players relative to the monthly players. This signals that we have succeeded in marketing efforts and engaging players as a larger portion of the player base plays the game more often.

The Walking Dead: Our World, the location-based augmented reality game, based on The Walking Dead TV series, is approaching soft launch phase. In soft launch the game will be published to a limited amount of players or certain markets for testing purposes. During soft launch, the company tests its technology, the game's appeal among the players as well as monetization. The soft launch phase is expected to begin at the end of 2017, latest in January 2018. The Walking Dead: Our World is thus the furthest developed game out of the three games in development.

This product gives Next Games’ an opportunity to become one of the pioneers in developing products utilizing AR and location, as utilizing these technologies, and specifically combining the two technologies within one product, requires specific technical expertise. Therefore, there are only few noteworthy competitive products as far advanced in their product development as Next Games in this product category at the moment.

The game based on the Blade Runner movie franchise and the third, yet unannounced game project, with a third license partner are both proceeding according to their respective plans. In addition, the company continues negotiations with new license partners. In the future, the company will inform the market of significant advancements in game development in conjunction of its quarterly reports.



Strategy and Business Outlook

The company focused on developing its main product, The Walking Dead: No Man’s Land and developing new games as well as active negotiations with new license partners during the period. The company has three new license-based games in development, of which The walking Dead: Our World is approaching testing and soft launch phase.

To reinforce its future product portfolio, the company undergoes active discussions and negotiations with new license partners. The majority of potential partners, such as international TV and movie studios, as well as key marketing partners are based in Los Angeles, United States. The company will therefore reinforce its local presence on the west coast of the US by establishing an office consisting of marketing and business development personnel in Los Angeles on the first quarter of 2018.

The company's product portfolio currently consists of one game that accrues significant revenue, which supports the company's cost structure, i.e. the three new games in development and upfront investments to the new games' marketing. In addition the company will invest in new office space. This may affect Next Games' profitability prior to new game launches and their potential revenue impact. The company aims at launching at least one new game starting from 2018 as previously stated.

## Staff and Management

Next Games staff grew by 11 employees during the third quarter of 2017 and was 104 employees in total at the end of the period. The organization grew mainly to reinforce the new games' development teams and marketing team.

The company invests in the well-being of its staff in many ways. Comfortable and functional work environment is important and as a result of the company growth renewing the office space becomes necessary. The company has rented a new office space in downtown Helsinki. The new office space will be taken into use approximately during spring 2018.

## Upcoming Events

**29 - 30 November 2017** - SIJOITUS INVEST-event (location Messukeskus Helsinki)

**30 January 2018** - 2017 Financial Statement

Helsinki 3rd of November 2017

Board of Directors  
Next Games Corporation

Statements are made in this report, which describe, inter alia, the current beliefs and expectations of the management of Next Games regarding the future plans and objectives concerning future activities and goals of Next Games. All such statements involve risks and uncertainties, which may cause the achievements of Next Games to differ materially from what has been expressed or implied in such statements.

## Key Operational Metrics Defined

**DAU** (daily active users). A user is counted as a daily active user if they sign in to the game at least once during a 24-hour period. Average DAU is calculated by adding the total number of active players as of the end of each day in a given period and dividing by the number of days in the period. DAU is a key measure for player network engagement.

**MAU** (monthly active users). A user is counted as a monthly active user if they sign in to the game at least once during a 30-day period. Average MAU is calculated by adding the total number of active players as of the end of each month in a given period and dividing by the number of months in the period. MAU is a key measure of the overall size of the player network.

**ARPDau** (Average revenue per daily active user). ARPDau is calculated by dividing daily gross bookings by daily active users (DAU). ARPDau is an important measure of monetization as it places sales in relation to player volume.

## Tunnuslukujen laskentakavat

**Gross Bookings** Revenue adjusted with the change (+/-) in deferred revenue

**Gross Margin** Revenue less purchases and services

**EBITDA** Operating profit (loss) excluding depreciations and amortizations

**Adjusted EBITDA** EBITDA adjusted for changes in deferred revenue, deferred commissions and licenses, adjusted for capital gains and losses from non-current assets, and for expenses related to listing

**Equity Ratio**

$$\frac{\text{Capital and reserves total}}{\text{Total assets} - \text{Advances received}} \times 100$$

**Earnings per share (EPS), undiluted** Profit (loss) for the financial year divided by the average number of outstanding shares during the financial year. The indicator has been calculated using the adjusted number of shares after the share issue without consideration to the Company's shareholders. The Board of Directors of the Company decided on the share issue on 23 February 2017 in connection with the arrangements relating to the listing.

**Earnings per share (EPS), diluted** Profit (loss) for the financial year divided by the average number of outstanding shares during the financial year after adding the number of shares with potential dilution effect. The indicator has been calculated using the adjusted number of shares after the share issue without consideration to the Company's shareholders. The Board of Directors of the Company decided on the share issue on 23 February 2017 in connection with the arrangements relating to the listing.





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