



NEXT GAMES™

Q1

Next Games Corporation

BUSINESS REVIEW

January-March 2018

Next Games Corp. Business Review Q1 2018: Revenue declined, projects proceeding

January-March 2018 in short:

- Revenue was 4.8 million euros, a decrease of 56% compared to Q1 2017 (€10.9M)
- Gross margin declined by 4% and was 32% (36%)
- EBITDA was -3.4 million euros (0.8M).
- The organization grew to 124 people (77). 70% off the staff was working on new game projects, 23% of the staff was working on The Walking Dead: No Man's Land and 7% in general administration.
- The company invested in product development, product development costs were 1.7 million euros in Q1 2018.
(January-March 2017 comparison in brackets)

Key Financial Figures

(EUR 1000)	1 Jan - 31 Mar 2018	1 Jan - 31 Mar 2017
Revenue	4 788	10 932
Gross bookings	4 747	10 432
Gross margin	1 515	3 938
Operating profit (-loss) (EBIT)	-3 735	369
EBITDA	-3 397	539
Adjusted EBITDA	-3 415	798
As percentage of revenue		
Gross margin (%)	32%	36%
EBITDA margin (%)	-71%	5%
Operating result (%)	-78%	3%
As percentage of gross bookings		
Adjusted EBITDA margin (percent)	-72%	8%

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 Jan - 31 Mar 2018	Jan - 31 Mar 2017
DAU	312 228	537 659
MAU	1 017 936	1 613 571
ARPDau (USD)	0.21	0.23
ARPDau (EUR)	0.17	0.22

Chief Executive Officer Teemu Huuhtanen:

The number of active users in The Walking Dead: No Man's Land declined which led to a decrease in revenue. The main cause for the declined amount of active users was weakened retention of players. The significantly lower revenue coupled with the organization's growth led to a loss in the first quarter. However, in relation to the resource and marketing investments to the Walking Dead: No Man's Land during Q1, further developing the game was still sustainable.

The investments in The Walking Dead: Our World, the Blade Runner game and other upcoming games in the pipeline are reflected in our first quarter numbers. During the end of 2017 and first quarter of 2018, Next Games has shifted resources from the No Man's Land team to the Our World team and other new projects. Next Games has actively recruited new employees during 2017, but during Q1 2018 the staff grew only by five employees, thus the recruitment pace has slowed down considerably.

During the first quarter, our main focus was to advance the soft launch phase of The Walking Dead: Our World game. Following the closed beta tests at the end of 2017, the game was published for technical testing in the Philippines. After this the game was soft launched in Australia, where we have received the first actual metrics and therefore we will be able to analyze the game's player behaviour, marketing performance and business potential. The game has thousands of daily active users in the current soft launch phase, and the preliminary, most important key figures have been promising.

As we gather more player behavior and marketing performance data during the soft launch period, we will be able to estimate a more precise global launch schedule. The estimate of the global launch schedule made before the soft launch has thus been further defined and Next Games estimates the global launch to take place in the beginning of third quarter 2018. The global launch schedule will be further defined during the spring as we gather more information from the test markets. The resources and time used for the soft launch phase are crucially important so that we can be confident that the marketing investments are profitable and the game is working as intended from both content and business perspectives at the time of global launch.



We received a good selection of first reactions from players at the Game Developers Conference (GDC) in San Francisco - the most important game development event of the year, which gathered a record number of visitors, a total of 28 000. Already a week before the conference, we announced our partnership with Google Maps and a demo of the game was prominently displayed at Google's GDC booth.

Next Games is firmly moving on to a new phase, as we publish new games to the market and add more products to our development pipeline. When the operational scale grows, it is necessary to invest in building adequate processes and support functions for game development, as well as continuous investments in commencing new projects. After the reporting period, in April 2018, Next Games has made changes to its management structure and appointed new key personnel to support Next Games' growth.

In February we celebrated the best workplaces at the Great Place to Work Finland gala. Our investments in our employees' involvement with developing the company has yielded us a significantly improved Great Place to Work ranking. From last year's 28th position we climbed to number 12, up by 16 positions. I am extremely satisfied with this result as this is a good basis to move onwards to launching new games and to a next phase of Next Games.



Teemu Huuhtanen

Chief Executive Officer
Next Games

Revenue and Earnings Development

Revenue decreased during the first quarter of 2018. The largest contributor to the decrease was the change in daily active users (DAU) and monthly active users (MAU). The amount of monthly active users (MAU) declined by 37%, which also led to the decline of daily active users (DAU) by 42%.

January and February were especially challenging months. In March, *The Walking Dead: No Man's Land* received successful optimizations and updates, which led to an improved retention and as a result a larger amount of players acquired through marketing activities were retained in the game. Thus in March, we were able to invest more into user acquisition. The eighth season of *The Walking Dead* was airing at the same time and as the game's retention improved, we were also able to better retain the organic users brought in by the TV show's on season period.

As a result, sales picked up in March. This was due to successful marketing campaigns, which attracted new users and at the same existing users were successfully brought back to the game by retargeting campaigns. In these campaigns, advertisements presenting new content updates are targeted towards players who have at some point played the game before, but churned. The stars of the TV show headlined the campaigns and their celebrity status contributed towards creating an efficient and meaningful marketing activation. The marketing investments affected gross margin, which ended up on a lower level than during the first quarter of 2017. The change is not significant, however.

The change in ARPDau (Average revenue per daily active user) was only \$0.02 in US dollars but €0.04 in euros. The depreciation of the US dollar had a significant impact on euro denominated sales. The biggest reason for the decline of the company's euro denominated ARPDau figure was the unfavorable exchange rate of the US dollar. Over half of the company's sales is accounted for in US dollars.

Personnel expenses increased 52% as Next Games' headcount grew to 124 employees. During the same time last year, the headcount was 77 employees. The recruitment pace has however slowed down considerably. The company employed 119 people at the end of 2017, thus the first quarter's headcount growth was only by five employees.

Along with the headcount growth, the costs for our business premises doubled compared to the first quarter of 2017. The costs are expected to stay on this new level. Due to the headcount growth, Next Games is moving in to new bigger premises in Helsinki during summer 2018.

Product development costs were 1.7 million euros in total in the first quarter of 2018 from which salaries accounted for 0.9 million euros and other product development costs for 0.8 million euros.

The significantly lower revenue coupled with the organization's growth led to a loss in the first quarter. However, in relation to the resource and marketing investments to *The Walking Dead: No Man's Land* during Q1, further developing the game was still sustainable.

Game and Product Pipeline

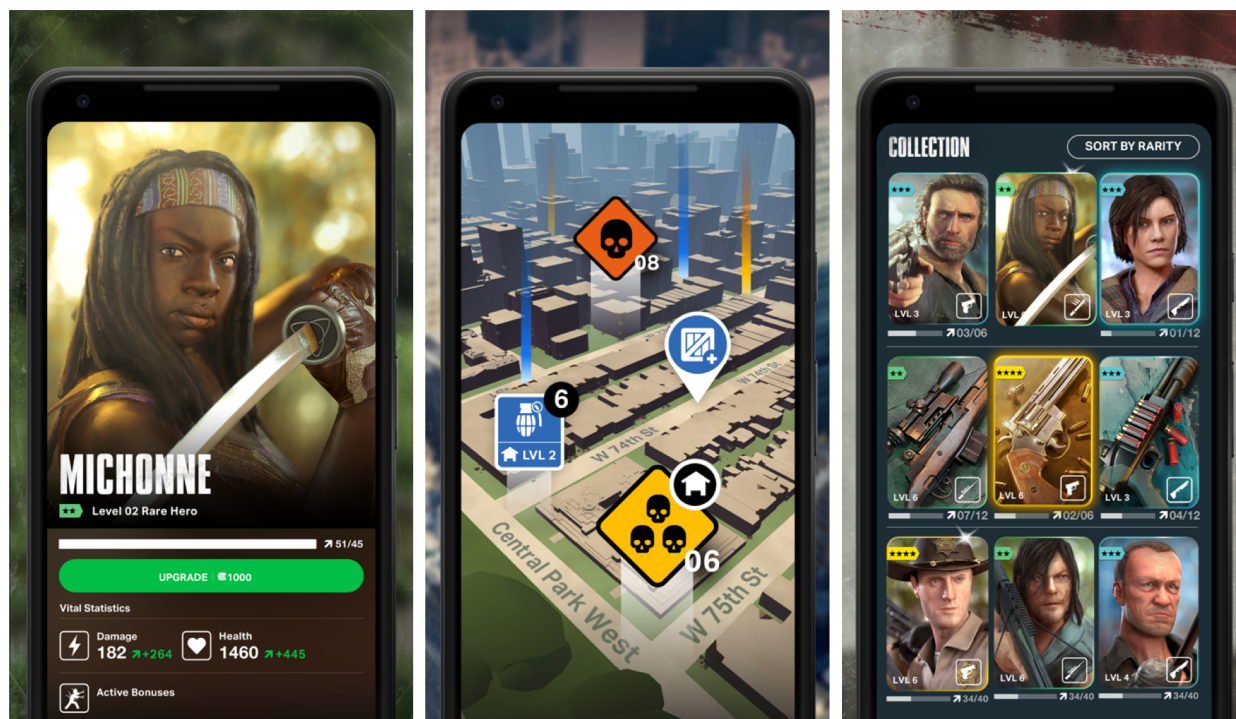
The Walking Dead: Our World

The soft launch of the location-based augmented reality (AR) game, The Walking Dead: Our World has advanced during Q1 2018. After the closed beta test period at the end of 2017, the game was first published in the Philippines for technical testing, and in the beginning of Q2 in Australia and Norway, where more information about player behaviour will be acquired.

During the spring, the game will be launched in additional soft launch markets before the global launch. The global launch schedule will be further defined in detail during the soft launch period as information is accrued from the test markets. The estimate of the global launch schedule made before the soft launch has thus been further defined and Next Games estimates the global launch to take place in the beginning of third quarter 2018.

Preceding a game's soft launch period, according to the company's process focus group studies, player discussion groups and several other types of testing is organized to validate the functionality of the concept.

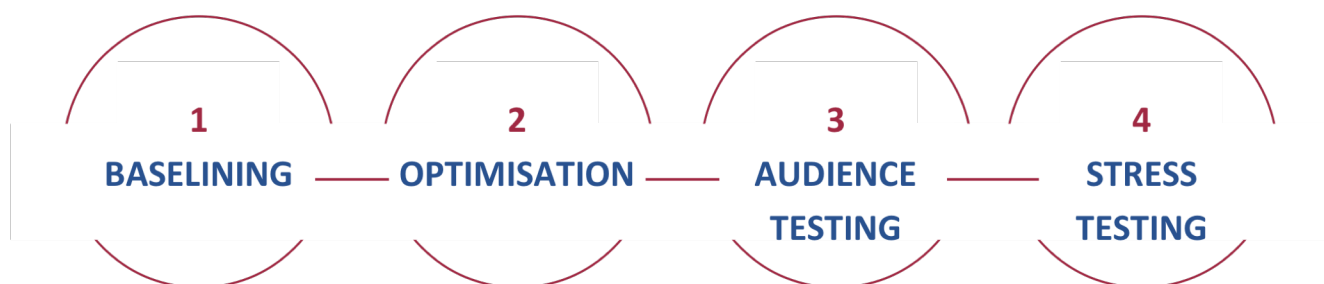
A typical soft launch starts with closed beta testing moving through technical testing to actual market soft launch phase, where the player behaviour analysis begins, including monitoring of key operational metrics. The technical testing phase can be carried out in a market which has a large enough user base and cost efficient user acquisition.



Next Games soft launch phase has four stages.



SOFT LAUNCH PHASES



During the first, baselining phase, the intention is to analyze player behaviour of the prospective target market, and thus markets that correspond as closely as possible to the key target market are chosen for testing. When the United States and other bigger western markets are the key target markets, the typical soft launch test markets are Canada, Australia and New Zealand and potentially some European markets. In this first phase, player acquisition starts with largely untargeted acquisition campaigns. In this phase the goal is to find the base level for operational metrics, on which the later phases will be based upon.

In the second, optimization phase, campaigns are optimized from a marketing perspective by identifying the best performing advertisements by analyzing view counts and download conversions among other things. Also, the game's user behavior data is analyzed carefully, including retention i.e. if the acquired players stay within the game and whether players use all the game's features. Through this process, the player experience can be optimized, such as clarifying the user interface and optimizing the game economy and amount of content.

In the third, audience testing phase, advertising is tested with various targeted user groups and compared to the metrics acquired through the baselining phase both from a marketing and the game's perspectives.

In the fourth, stress testing phase, the game's base metrics and target audience are clear and the goal is to test scaling up advertising in order to determine the scalability of the business case. Typically, these four phases are repeated during the soft launch as the game receives updates and new markets are opened.

Blade Runner

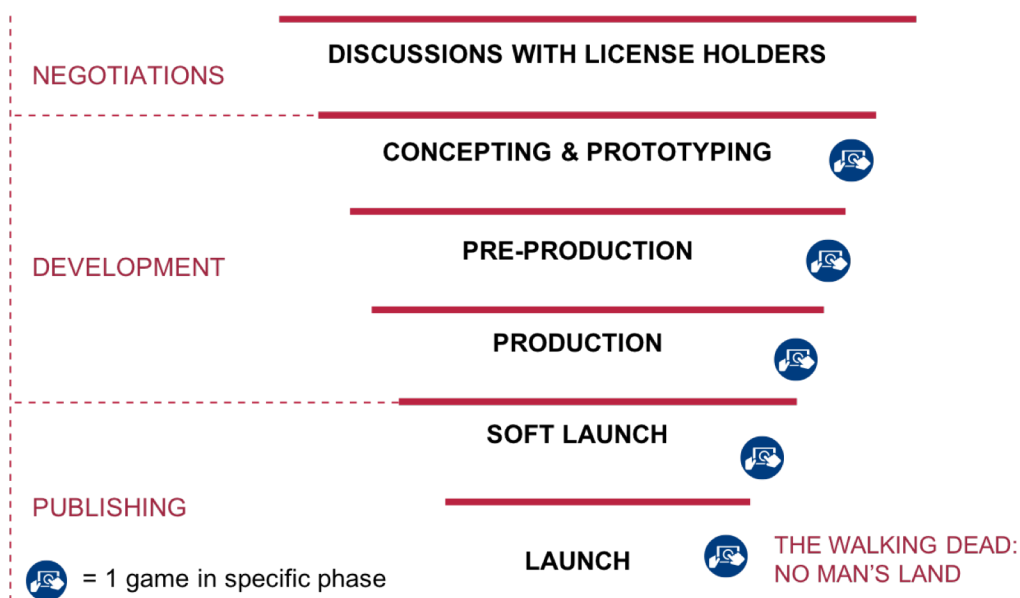
The development of the Blade Runner game is proceeding as planned. Next Games estimates that the soft launch phase, starting with closed beta tests, will begin in the beginning of Q2 2018. The company estimates that the game's first soft launch market for technical testing should be opened in the end of Q2 2018.

Unannounced Projects

During the first quarter of 2018, Next Games signed a deal to develop a new licensed game with a yet unannounced license partner. One of the four games in development, is a project with NBCUniversal. NBCUniversal is known for multiple popular global movie franchises and tv series. More details about the project will be announced as the project proceeds.

In addition to the company's only live game, The Walking Dead: No Man's Land, Next Games has four new games in the development pipeline, with four different license holders.

GAME DEVELOPMENT PIPELINE



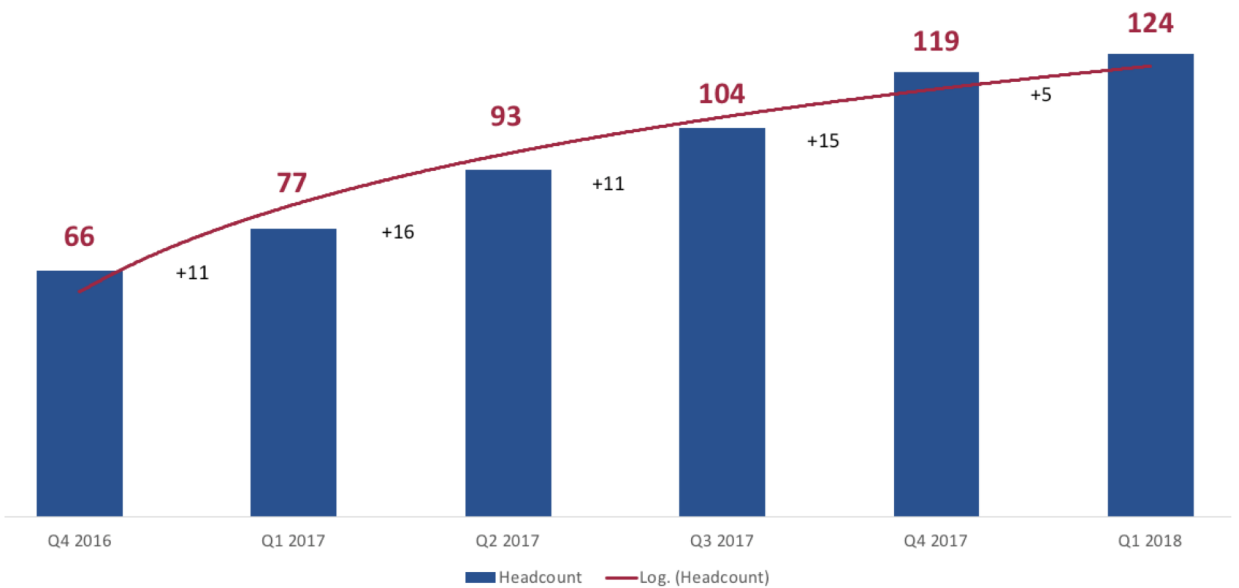
Strategy and Business Outlook

During the reporting period, the company focused on new product development and advancing the soft launch phases and development of both The Walking Dead: Our World and the Blade Runner game, as well as further developing The Walking Dead: No Man’s Land. Next Games has four new licensed IP-based games in different phases of production, with four different license partners, in addition to The Walking Dead: No Man’s Land. The company aims to launch at least one new product per year starting from 2018.

Staff and Management

During the first quarter, Next Games staff grew by five employees and was 124 employees in total by the end of the quarter. At the end of the first quarter of 2017 Next Games staff was 77 in total. The company has continued to grow its organization, but the growth rate has slowed.

Headcount growth Q4 2016 - Q1 2018



Significant Events After the Reporting Period

The company announced changes in its Management on 27 April. As of 27 April, 2018 the Management Team consists of Teemu Huuhtanen (Chief Executive Officer), Annina Salvén (Chief Financial Officer), Saara Bergström (Chief Marketing Officer), Emmi Kuusikko (Chief Product Officer), Kalle Hiitola (Chief Technology Officer) and Joonas Viitala (Chief Operating Officer).

Upcoming Events

Annual General Meeting 17 May in Helsinki
Read more: www.nextgames.com/agm2018

Half-year review 20 July

Helsinki 27 of April 2018

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.

Calculations of Key Financial Ratios

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



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