



NEXT GAMES™

Q3

Next Games Corporation

BUSINESS REVIEW

January-September 2018



Next Games Corp. Business Review Q3 2018: The Walking Dead: Our World Launched in July - Technical Challenges Affected The Game's Success

July-September 2018 in short:

- Revenue was 13.4 million euros (6.4 million euros), an increase of 110% on the comparison period
- Gross margin was -11% (33%) of revenue
- EBIT was -10.7 million euros (-2.1 million euros)
- The Walking Dead: Our World game was launched globally on 12 July
- New license agreement with a leading license partner in the entertainment industry

January-September 2018 in short:

- Revenue was 23.9 million euros (25.8 million euros), a decrease of 7% on the comparison period
- Gross margin was 5% (36%) of revenue
- EBIT was -18.7 million euros (-2.1 million euros)
- The organization grew to 143 (104) employees. During Q3/2018 the total number of staff increased by 11
- At the end of the review period 30 September 2018, the company's cash balance was 8.8 million euros. In addition, the company has an unused credit limit of 5 million euros. Cash balance at the end of the previous reporting period, 30 June 2018 was 16.9 million euros

Comparisons in brackets refer to the corresponding period in 2017 unless specified otherwise

Key Financial Figures

(EUR 1000)	7-9/2018	7-9/2017	1-9/2018	1-9/2017
Revenue	13 435	6 385	23 912	25 837
Gross bookings	13 787	6 163	24 236	24 451
Gross margin	-1 543	2 128	1 150	9 206
Operating profit (-loss) (EBIT)	-10 718	-2 113	-18 708	-2 120
EBITDA	-10 001	-1 941	-17 303	-1 292
Adjusted EBITDA	-9 767	-2 076	-17 083	-1 553
As percentage of revenue				
Gross margin (%)	-11%	33%	5%	36%
EBITDA margin (%)	-74%	-30%	-72%	-5%
Operating result (%)	-80%	-33%	-78%	-8%
As percentage of gross bookings				
Adjusted EBITDA margin (percent)	-71%	-34%	-70%	-6%

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

Operational Metrics include combined metrics from the company's live games. Definitions related to key operational metrics can be found at the end of this document.

	7-9/2018	7-9/2017	1-9/2018	1-9/2017
DAU	668 566	371 437	430 656	455 301
MAU	3 205 333	1 136 151	1 642 497	1 357 789
ARPPDAU (USD)	0.26	0.21	0.24	0.22
ARPPDAU (EUR)	0.22	0.18	0.21	0.20



Chief Executive Officer Teemu Huuhtanen:

During 2018 Next Games has focused on launching new games and further development of The Walking Dead: No Man's Land according to its strategy. Revenue for the first nine months amounted to 23.9 million euros, whereas it was 25.8 million euros during the corresponding period in 2017. The gross margin for the review period was 5%, whereas it was 36% during the corresponding period in 2017. Revenue decreased as a result of lower sales generated by The Walking Dead: No Man's Land. Gross margin decreased due to launch-marketing investments for The Walking Dead: Our World global launch. ARPDAU (average revenue per daily active user) was 0.21 euros during the reporting period, and 0.20 euros during the corresponding period in 2017.

Next Games' third quarter 2018 started with the global launch of The Walking Dead: Our World, based on AMC's TV series on 12 July.



The company made significant marketing investments on a global scale, and specifically in the game's key markets, the US and the largest markets in Europe, in pursuit of significant revenue growth.

Based on the game's monetization potential, the company sought to achieve one million daily active users (DAU) level during the weeks following the launch, and based its marketing plans on this goal. During the first weeks, the company succeeded in acquiring a significant amount of daily players, at the same time as reaching the company's expectations for the game's key operational metrics, retention and monetization. The game achieved top 50 grossing list ranking (list measuring game revenue) in multiple key markets, thus Next Games is pleased with the game's initial performance during the first weeks.

As the number of players in the game increased during the first weeks, some technical challenges were encountered, which adversely impacted the game's functionality and had a negative impact on revenue development for the game. As a consequence, the company elected to scale back the game's marketing investment to a considerably lower than planned level. Prior to the technical challenges, The Walking Dead: Our World reached a level of 625 thousand daily active users.

As issues have been addressed, the number of technical errors has decreased, the drop in key performance indicators has levelled out and has improved towards the end of September. The technical challenges have, however, slowed down the game's revenue development considerably. At the time of the release of this report, both of the company's live game's, No Man's Land and Our World are being operated profitably.

The technical challenges have had a negative impact on the launch-marketing investment payback time, which is longer than previously estimated. At the time of publishing this report, the company has recouped two thirds of the investment. The Investment payback period is estimated to have at least doubled from the originally estimated 120-day timeframe. In addition, as a result of the technical challenges, the server costs for the third quarter have been at a higher level than that which the company aims to achieve over the long term.

The Walking Dead: Our World's slower-than-expected revenue development, longer marketing investment payback times, as well as higher-than-expected server costs have affected the company's cash position. As a consequence, the company considers options to strengthen its financial status as a part of its risk-management plan. Even though at present both live games are operated profitably, the combined revenue from the products will not cover the costs related to products in the development phase, before Our World revenue grows. Strengthening Next Games' cash position is important in order to secure the working capital needed to carry out future scaling of the business, and to develop and publish the products in the company's development pipeline, according to plan.

The third quarter of 2018 has been a challenging time for the company especially with regards to the expectations of Our World's global launch. As things stand, I'm very pleased with the effort the whole Next Games team has put into Our World, as well as the swift but controlled issue-resolution plan which has improved the situation as regards a better future position. Building the future for the company continues on a steady path - Next Games has signed a new license agreement during the third quarter with a leading entertainment IP holder for an extremely sought-after license.



Teemu Huuhtanen
Chief Executive Officer
Next Games

Revenue and Earnings Development

The company's revenue grew to 13.4 million euros in the review period (July-September) and was 110% higher than in the comparison period in 2017. The biggest factor driving growth was the global launch of The Walking Dead: Our World. At the time of the launch, the company invested heavily in player acquisition as planned, which generated the significant revenue growth of 110% during the July - September period compared to the previous year. Investments in The Walking Dead: Our World were planned and the negative gross margin of this quarter was therefore expected. During the third quarter, The Walking Dead: No Man's Land's sales, profitability, and impact on the company's financial performance has remained at levels customary for the product.

The company's revenue for the entire review period (January - September) was 23.9 million euros. Revenue decreased 7% relative to the comparison period. The decrease in revenue was a consequence of lower sales generated by The Walking Dead: No Man's Land. The gross margin for the review period was 5% (36%). The main reason for this decrease was the marketing investments made during the launch of The Walking Dead: Our World. At the end of the review period, the company's cash balance was 8.8 million euros. In addition, the company has an unused credit limit of 5 million euros. Cash balance at the end of the previous reporting period, 30 June 2018, was 16.9 million euros

Player acquisition costs are front-loaded, where CPI (Cost Per Install) occurs when the player is acquired. However, the revenue (LTV - Life Time Value) is generated later, during the player's life-time in the game. Therefore, the profitability of a product is specifically related to the margin between CPI and LTV. The company has the ability to influence both the acquisition cost (CPI) and the return per player (LTV), and on this basis, investment decisions concerning marketing and product development are made.

Depending on the monetization profile of the game, the payback period for player acquisition costs may vary considerably for different types of games. As a rule, Next Games strives to achieve a 120-day payback time for The Walking Dead: Our World's marketing investment. Due to technical challenges, Our World's investment payback period has been extended and is estimated to have at least doubled. This will have an impact on the company's cash position and the company considers options to strengthen its financial position to secure working capital as part of its risk-management plan.

During the weeks following the launch, technical challenges had a negative effect on player experience, which resulted in retention and ARPDAU (Average revenue per daily active user) decreasing below the game's target levels. As a player's expected life-time value (LTV) is based on the player's willingness to continue playing, and spending money in the game, the expected return per player dropped. At the same time, the company's player acquisition cost (CPI) increased, whereby the profitability per acquired player decreased and the company decided to immediately scale back the level of marketing investment.

Simultaneously, the company's server costs have been higher than anticipated, whereas the fixed product development costs for upcoming projects have remained unchanged. The company decided to scale up the server capacity in an effort to keep the potential technical errors at a minimum, which caused a peak in server expenses during the third quarter. Consequently, the third quarter server costs were at a higher level relative to the company's long-term target.

The tables below describe the company's profitability at the project unit level. The latter table describes the situation of Our World before and after the adjustment of marketing investments. By the end of the review period, both of the company's published games, Our World and No Man's Land, were positive in terms of EBITDA, but the development of new games requires investments.

The company does not normally specify costs at project unit level and makes an exception in this report.

7-9/2018	TWD: No Man's Land	TWD: Our World	Development	Tech	Admin	Total
Revenue	5 672	7 764				13 435
Gross Margin	1 630	-3 156	-16			-1 543
Staff and other operating expenses	-665	-4 591	-2 032	-486	-684	-8 458
EBITDA	965	-7 747	-2 048	-486	-684	-10 001

1-9/2018	TWD: No Man's Land	TWD: Our World	Development	Tech	Admin	Total
Revenue	15 976	7 937				23 912
Gross Margin	4 658	-3 471	-37			1 150
Staff and other operating expenses	-2 723	-7 589	-4 958	-1 391	-1 792	-18 452
EBITDA	1 934	-11 060	-4 995	-1 391	-1 792	-17 303

The company announced on 25 September that it has taken corrective measures, and that it has a clear understanding of which measures were necessary to overcome the technical challenges. The company has since reached an improved level in its key figures, with actions taken to improve the technical environment and has steadily scaled up marketing investments towards the target level. The company's view of the game's monetization potential has not changed and the company believes in the product's performance potential in the future. In October, the company has been able to profitably increase the volume of player acquisition, which has offset the decrease in daily active users. The aim of the original marketing plan was to acquire 1 million daily active users to the game. Prior to the technical challenges and reducing the level of marketing investments, the game had 625 thousand daily active users.

The table below describes the situation of The Walking Dead: Our World before and after the adjustment of marketing investments to match the performance level of the game. The table shows that the game has become profitable for the company during the second half of the third quarter.

TWD: Our World	1.7-15.8.2018	16.8-30.9.2018	Total
Revenue	4 626	3 138	7 764
Gross margin	-3 995	839	-3 156
Staff and other operating expenses	-3 912	-679	-4 591
EBITDA	-7 907	161	-7 747

Game and Product Pipeline

The Walking Dead: No Man's Land

The development of The Walking Dead: No Man's Land has continued during the reporting period and the game's sales and profitability have remained at a level customary to the product. During the third quarter, the game's live operations continued with active development of new in-game events. The company is satisfied with this summer's "Summer of Explosions" campaign and will use the findings from the campaign to develop new functionalities in the game. During the third quarter, the game's performance was exceptionally good in Japan, where the game was launched in June 2018. During the third quarter, Japan became the second largest market for No Man's Land in terms of sales.

The Walking Dead: Our World

The Walking Dead: Our World is an innovative location-based AR (Augmented Reality) game based on a new game mechanic. The game is a pioneer in its genre, integrating Google Maps technology and the usage of map data into an interesting and versatile game experience.

The Walking Dead: Our World was launched globally on 12 July. By the end of September, the game had received six client updates, in addition to several technical server side updates. In addition to multiple technical fixes; several improvements in user experience, content from the tv-series for season 9 premiere, and a friend invite function were added to the game during this time period.

In September's game update, the "Bait" feature was added to the game following testing by a closed user group – the feature went live to all players after the reporting period in October. Bait allows players to create missions with endless number of walkers on the map. Missions are visible and playable to all players at or near that specific location in real time. Early player feedback on Bait has been very positive, with players trying to find the best strategies to optimize their scores and rewards as well as meeting virtually, and in real-world locations to play together.

The company continues to address technical challenges at the same time as developing new features due to be published in 2018. The product development team is also concentrating on the development of in-game events and live-operations tools, in order to create future opportunities for increasing the game's revenue.

Blade Runner

The Blade Runner game is in soft launch in one market. Findings taken from The Walking Dead: Our World project including management of live operations, timing of marketing investments and risk level assessment, have been taken into consideration in the development and marketing plans for the Blade Runner game.

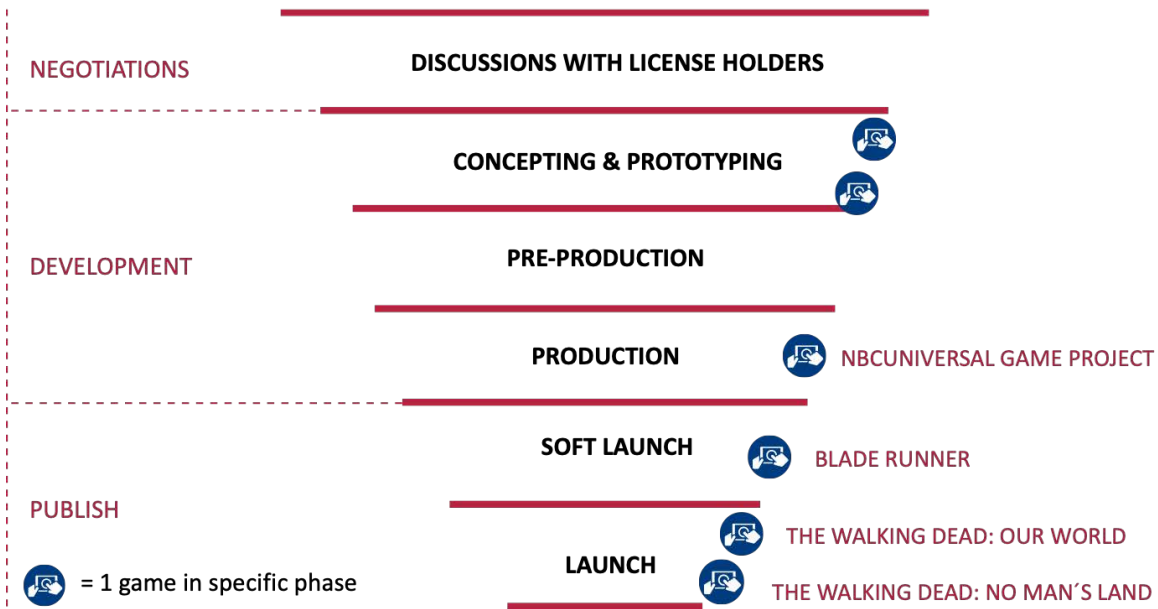
NBCUniversal Game Project

The game project with NBCUniversal is in production. The company has also actively continued to research the chosen game mechanic through focus groups, in order to validate its functionality among central target groups.

Unannounced Projects

The company has one game in the concepting and prototyping phase with an as yet unannounced license partner. In addition, the company has signed a new licensing deal with a notable IP in the entertainment world. Thus, the company has two unannounced projects in the concepting and prototyping phase.

Game Development Pipeline



Strategy and Business Outlook

During January–September 2018 the company has focused on The Walking Dead: Our World launch and on post-launch corrective measures. The company continues to execute its strategy to launch one new game per year.

Staff and Management

During the third quarter, Next Games' staff grew by 11 employees. The total amount of employees was 143, representing 19 different nationalities. During the reporting period, 33% of the staff was working on The Walking Dead: Our World, 14% on The Walking Dead: No Man's Land, 42% on new projects, and 11% in general administration. The company does not plan to grow its headcount for the time being.

Upcoming Events

The Financial Statements Bulletin for financial year 2018 will be published on Friday 15 February, 2019.

Helsinki 2 November, 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.

eCPM - effective cost per mille = Actual cost per thousand impressions

CTR - Click-Through Rate = Number of clicks / Number of impressions (%)

CVR - conversion to installs ratio = install rate of those who click the advert (%)

CPI - Cost Per Install = The actual cost of an install generated through adverts

LTV - Life Time value = Average revenue amount that one player generates during their lifetime

Calculation 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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