



Play the game: how to invest in the dynamic video gaming and esports industry

ASX: GAME

Betashares Video Games and Esports ETF

Introducing the Betashares Video Games and Esports ETF (ASX: GAME)

The video gaming industry of today bears little resemblance to the industry of years gone by, when teenagers saved their cash to buy a cartridge of their favourite game at Walmart.

There are now around 3 billion gamers globally, of whom a full 2.5 billion play on their mobile devices¹, with this number forecast to rise as more people go online and smartphone penetration rises. Factors such as increases in digital distribution and cloud gaming are expected to improve the profitability of game developers and publishers, while gamers are increasingly using video games as social media platforms to engage with other users.

With this in mind, the Betashares Video Games and Esports ETF (ASX: GAME) has been designed to provide investors with exposure to some of the world's leading companies in this fast-growing sector.

¹Newzoo, Global Games Market Report 2021

The rise of video gaming

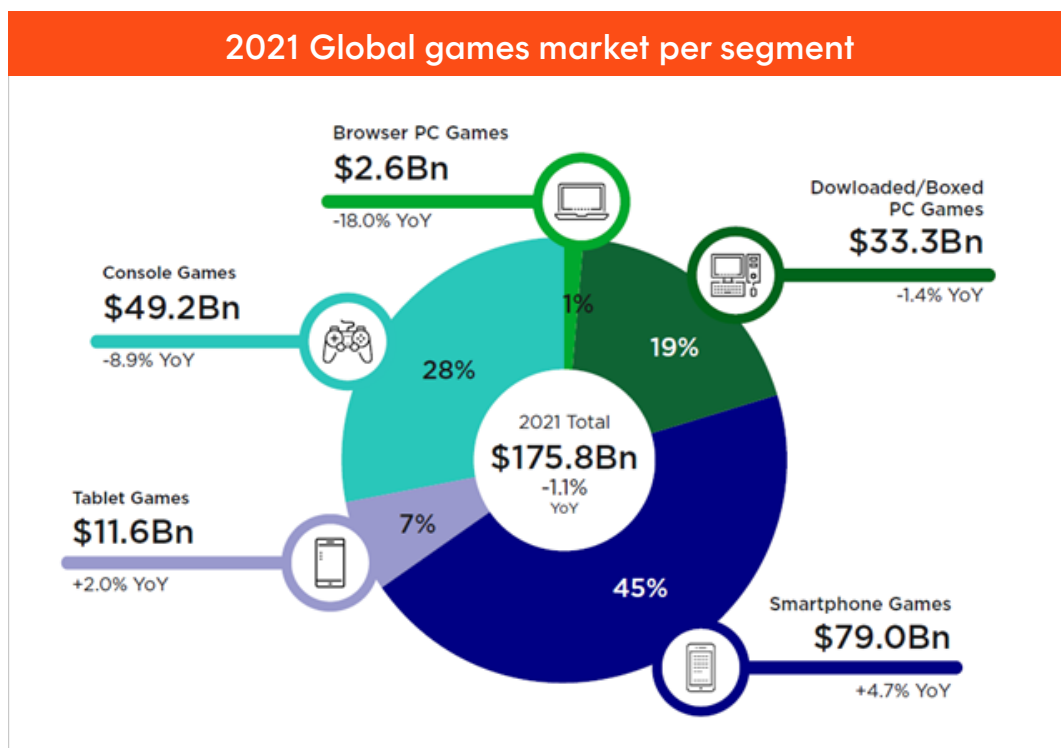
It is estimated that the global games market will generate ~US\$176 billion of revenue in 2021, and that this will increase to ~\$219 billion in 2024². For perspective, global video games now generate more revenue than the global movie business and North American sports combined³.

While the industry was on an already fast growth trajectory, revenues in the industry spiked 20% between 2019 and 2020 as the COVID-19 pandemic took hold, and the world's population spent much more time at home – creating a new base level of industry sales.

The gaming market can be broadly segmented into:

- ▶ Mobile games (smartphones and tablets)
- ▶ Console games
- ▶ PC games

As the chart below shows, mobile accounts for more than half of the global market, and mobile revenue growth is forecast to continue to outperform console and PC over the next three years, driven by growth regions, continued innovations in mobile monetisation, and console and PC publishers bringing their IP to mobile devices.



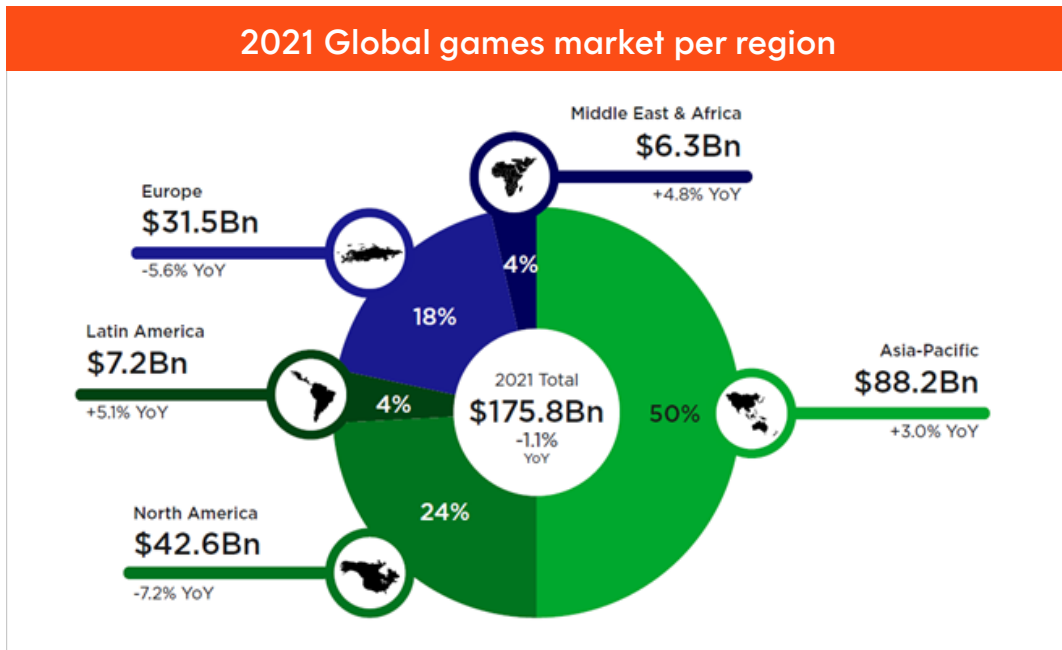
Source: Newzoo, Global Games Market Report 2021

² Ibid. Actual outcomes may differ materially from projected outcomes.

³ <https://www.marketwatch.com/story/videogames-are-a-bigger-industry-than-sports-and-movies-combined-thanks-to-the-pandemic-11608654990>

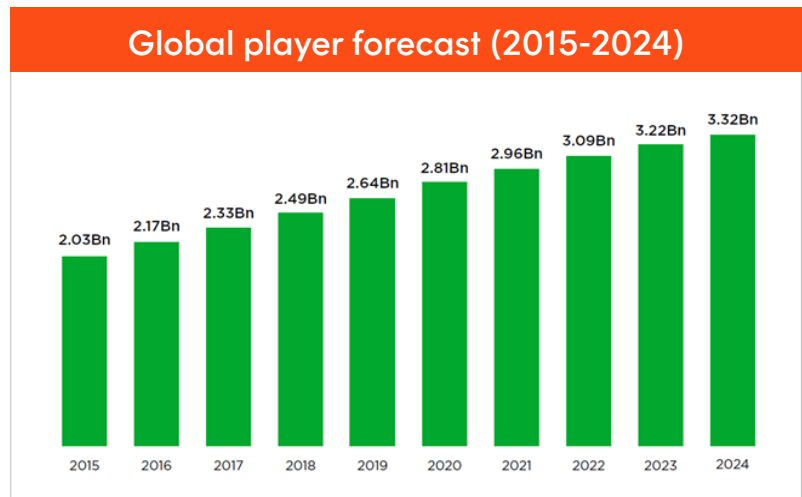
Regionally, the Asia-Pacific dominates, accounting for half of total global revenues, with North America the second-largest region in 2021. China alone accounted for ~\$46 billion in revenue.

While both North America and the Asia-Pacific are expected to continue to grow steadily, Latin America, the Middle East and Africa are forecast to increase their overall share of revenue over the next three years.



Source: Newzoo, Global Games Market Report 2021

There are around 3 billion players globally, of whom 2.5 billion are mobile gamers⁴. The number of players is forecast to increase by more than 10% by 2024, driven by rising access to the internet, improvements in internet infrastructure, and increased smartphone penetration – factors that have an especially significant impact in Latin America, the Middle East and Africa. The widespread use of smartphones and availability of free-to-play (F2P) games should particularly support the growth of the mobile gaming sector.



Source: Newzoo, Global Games Market Report 2021. Actual outcomes may differ materially from projected outcomes.

⁴ Newzoo, Global Games Market Report 2021





Social gaming: the metaverse

Rather than being a distraction from our world, games are increasingly becoming an extension of it, and a key destination for social gatherings. As such, video games are changing the way people interact online, and incorporating entertainment into those interactions.

In 2021, 36% of gamers stated that interactivity with other players was an important aspect of their gaming⁶.

The ability to facilitate social experiences is likely to be a core feature of successful games as the industry develops. Newzoo describes the 'metaverse trend' with respect to gaming as "the growing importance of virtual worlds and digital persistence in unlocking alternative spaces and identities for shared human experiences"⁷.

As an example, the Roblox platform lets its users create unique game experiences and collaborate with users across different games. It is estimated that more than half of children in the U.S. play video games on Roblox, and as of November 2021, more than 220 million people worldwide used the platform monthly, and more than 49 million daily⁸. As of 25 November 2021, the company has a market cap of over US\$70 billion.

Not only is the number of players projected to increase, but the average time spent by players is also on the rise. The Limelight State of Online Gaming 2021 survey found that video gamers spend an average of 8 hours, 27 minutes each week playing games, up 14% from the previous year.

Gamers also enjoy watching other gamers play, with 74% of gamers globally watching other people play online weekly, up 11% from the previous year. Gamers between the ages of 18 and 35 watch people play games online more than they watch traditional sports online or on television⁵.

Digital distribution improves profit margins

Not only is gaming revenue expected to grow, but profit margins are also forecast to increase – largely as a result of increased digital distribution.

Where 20 years ago the purchase of a video game typically took place at a retail outlet, today ~83% of total video game sales (PC and console) are digital. Mobile revenues are almost 100% digital⁹.

As more sales shift to digital channels such as Valve's Steam for PC games and Sony's PlayStation Store for console games, publishers' margin profiles are expected to improve as they avoid the need to manufacture, package, and ship physical product.

Projected increases in cloud gaming, where games are run from a remote server and streamed across TVs, laptops, desktops, tablets and phones via a fast internet connection, are likely to lower the take rate (the cut taken by distributors) in the console market, to the benefit of game developers and publishers.

Similarly, in the mobile segment, pressure from the likes of Epic and Netflix could potentially reduce the fees Apple and Google are able to charge on gamers' purchases.

⁵ Limelight Networks, The State of Online Gaming 2021

⁶ Ibid.

⁷ Newzoo, Global Games Market Report 2021

⁸ <https://activeplayer.io/roblox/>; <https://ir.roblox.com/news/news-details/2021/Roblox-Reports-November-2021-Key-Metrics/default.aspx>

⁹ Newzoo, "Three Billion Players by 2023: Engagement and Revenues Continue to Thrive Across the Global Games Market," Jun 25, 2020

Innovations in mobile monetisation

Companies are becoming increasingly skilled at engaging gamers in F2P games and then monetising the experience once gamers become attached to the game. Monetisation involves microtransactions (MTX), such as extra lives and skins, or payments for new downloadable content (DLC), such as maps or missions.

The F2P segment has become increasingly important for companies. For example, DLC/MTX channels provided more than half of 2020 revenue to Activision Blizzard, publisher of Call of Duty and Candy Crush¹⁰. The development costs of these add-ons are relatively small for publishers, meaning that even low-value in-game purchases can be highly profitable.

Given that only 38% of today's mobile gamers spend money on video games¹¹, there is plenty of potential to further monetise the mobile user base.

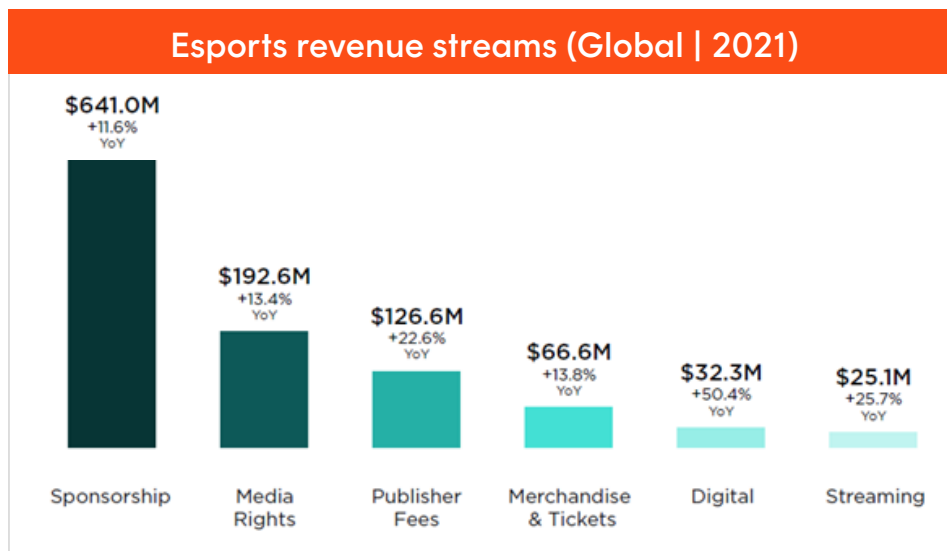
Esports

Newzoo defines esports as "professional or semi-professional competitive gaming in an organised format (tournament or league) with a specific goal/prize, such as winning a championship title or prize money"¹².

The global esports audience is forecast to reach 577 million in 2024, up from 474 million in 2021, a compound annual growth rate (CAGR) of 7.7% over the years 2019-2024.

Industry revenues, generated via the sale of sponsorship, media rights, digital streaming, tickets and merchandising, and publisher fees, were estimated at ~\$1.08 billion in 2021, and are forecast to be in excess of \$1.6 billion by 2024, representing a CAGR of 11.1% between 2019 and 2024¹³.

Sponsorship revenue is by far the largest revenue stream, accounting for 59% of industry revenues in 2021, as shown in the chart below.



Newzoo, Global Esports & Live Streaming Market Report 2021

Driving the rapid revenue growth of the industry is increased investments in Esports marketing by brands drawn by the potential of reaching a large and engaged audience.

¹⁰ Activision Blizzard, Q4 2020 Financial Model, Feb 4, 2021

¹¹ IronSource, Mobile Gaming Trends 2021, Oct 15, 2020

¹² Newzoo, Global Esports & Live Streaming Market Report 2021

¹³ Ibid.





Betashares Video Games and Esports ETF (ASX: GAME)

GAME's index provides exposure to leading companies in the global Video Game and Esports industry. This includes companies in the following three key sectors:

- ▶ **Developer/publisher:** companies or organisations that design and execute the creation of video games.
- ▶ **Esports:** companies or organisations that own, operate, or develop professional/competitive video game tournaments, leagues, teams, or viewing platforms.
- ▶ **Hardware:** companies or organisations that create video game platforms (e.g. home and portable video game consoles).

To ensure that the constituents of the Index are 'true to label', to be eligible for inclusion in the index, a company must derive at least 50% of its revenue from Video Gaming and/or Esports.

Top 10 companies in GAME's index (as of 31 January 2022)	
Company name	Weight
Activision Blizzard Inc	12.24%
Nintendo Co Ltd	10.34%
Electronic Arts Inc	9.68%
Tencent Holdings Ltd	9.47%
NetEase Inc	8.35%
Take-Two Interactive Software Inc	4.86%
Roblox Corp	4.72%
Sea Ltd	4.69%
Unity Software Inc	4.66%
Nexon Co Ltd	2.44%

Source: Bloomberg. GAME's Index is the Nasdaq CTA Global Video Games & Esports Index. No assurance is given that these companies will remain in the Index or be profitable investments.

Summary

The rise of video gaming and esports looks likely to continue in the coming years, supported by an expanding and engaged user base.

As smartphones become ubiquitous, and more of the world goes online, mobile gaming will become available to most of the world's population. Profit margins for game developers are likely to increase as distribution increasingly takes place through digital channels, and opportunities to monetise F2P games are maximised. While still in the early stages, there are also signs that games will increasingly be used as social platforms, and play a significant role in the development of the metaverse.

An exposure to these trends has the potential to benefit investors seeking growth. With this in mind, Betashares is pleased to offer GAME, which aims to provide a cost-effective and convenient way to access a portfolio of some of the world's leading video gaming and esports companies.

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