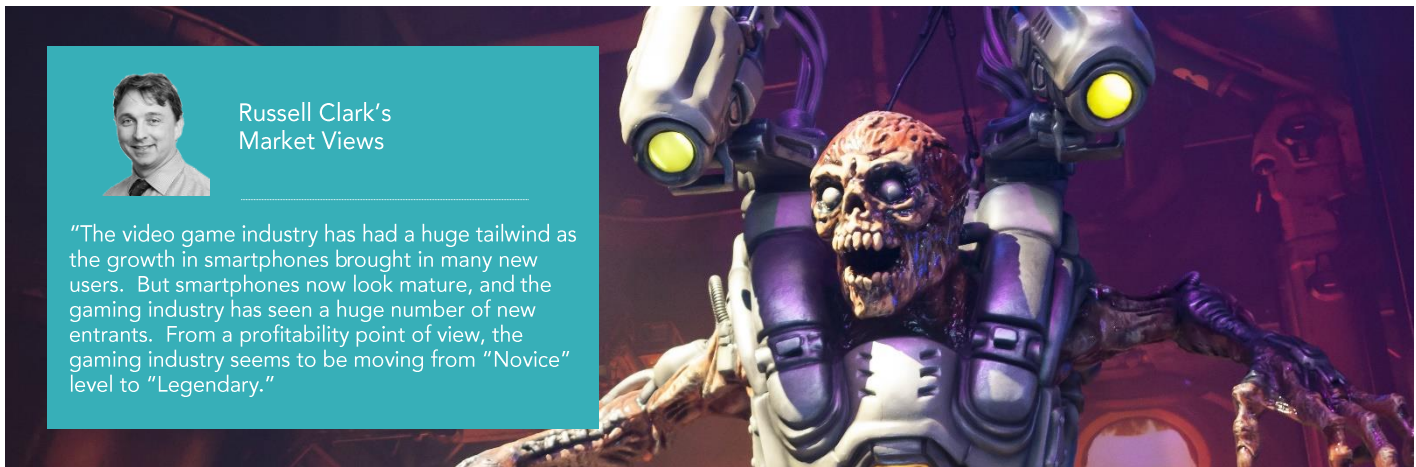


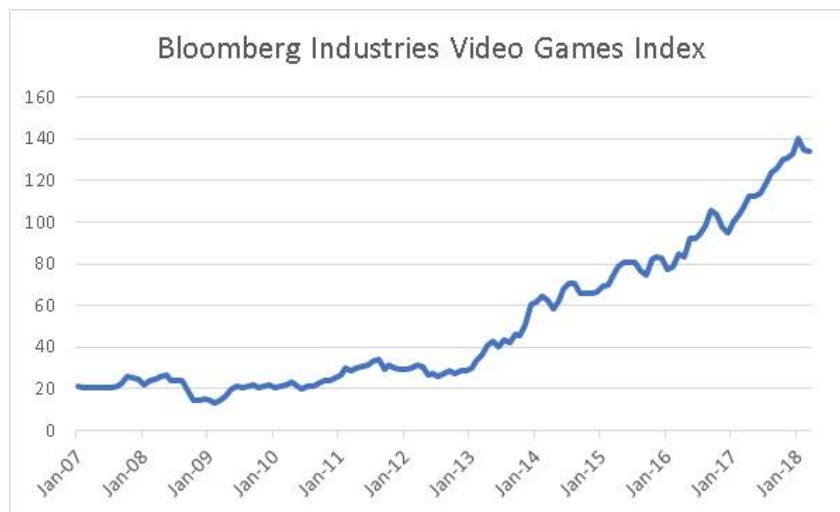
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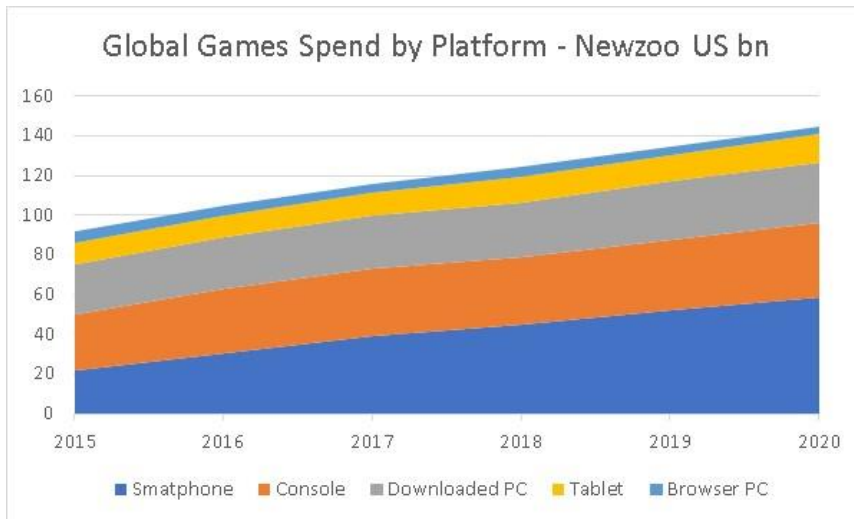
Russell Clark's
Market Views

"The video game industry has had a huge tailwind as the growth in smartphones brought in many new users. But smartphones now look mature, and the gaming industry has seen a huge number of new entrants. From a profitability point of view, the gaming industry seems to be moving from "Novice" level to "Legendary."

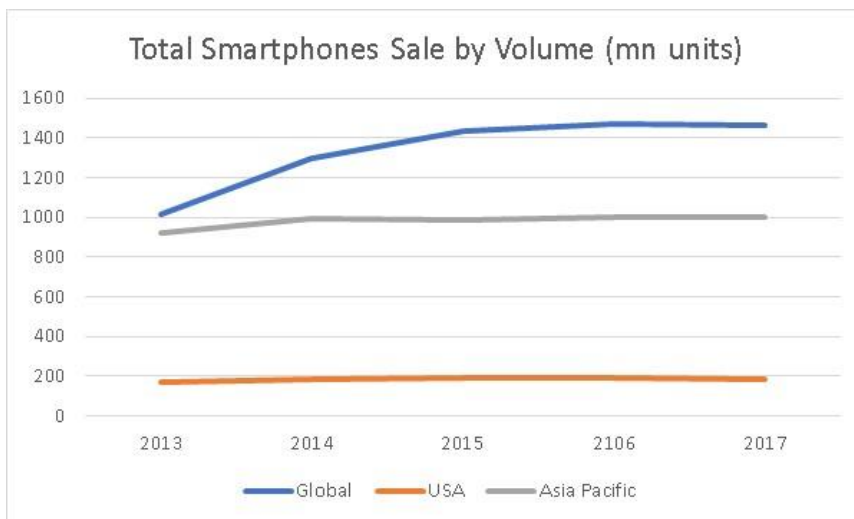
Video games have been a huge winner in the stock markets over the past 5 years, with a Bloomberg index of video game stocks rising more than 600 percent.



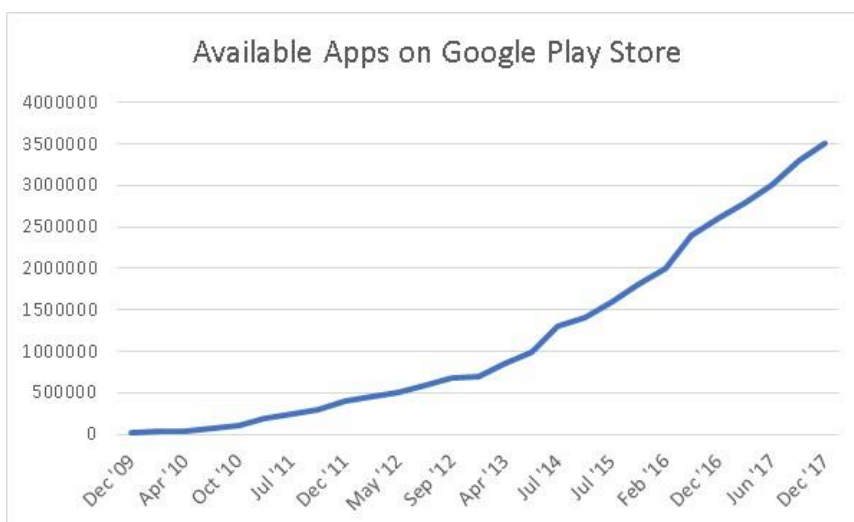
Research firm newzoo details the gaming market by platform. Recent growth has been driven mainly by growth in the smartphone segment of the gaming market. <https://newzoo.com/insights/articles/the-global-games-market-will-reach-108-9-billion-in-2017-with-mobile-taking-42/> The same report has China overtaking the US as the biggest market for gaming in 2017, with total spend of USD27.5bn versus USD 25.1bn in the US.



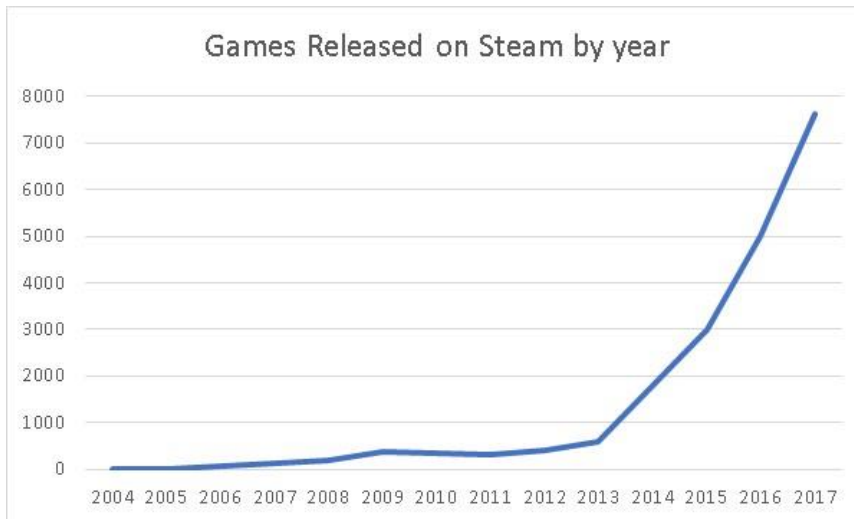
One of the big drivers for the gaming industry has been a significant increase in the number of users. This has been driven by the global take up of smartphones. We have seen growth in smartphone sales slow significantly, not only in the USA and Asia, but globally.



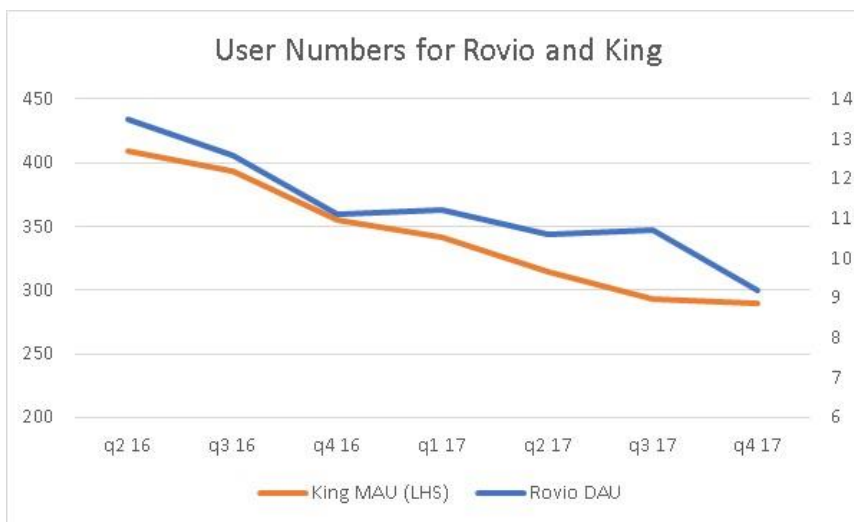
The problem is that as a proxy for competition for smartphone based games, there has been a huge increase in available apps to download.



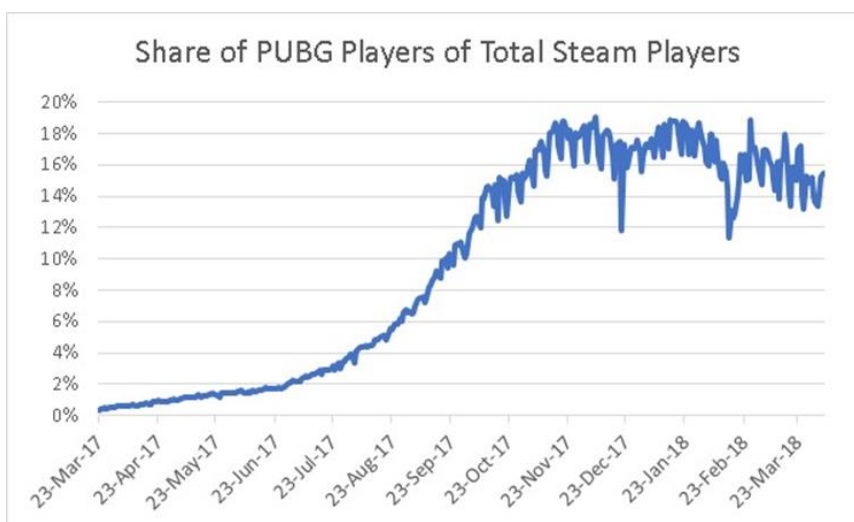
If we look at Steam, a platform for PC gamers to download games, we can also graph the number of new titles released per year.



The negative effects of this competition is starting to become apparent. King, maker of Candy Crush, and Rovio, maker of Angry Birds, have both been reporting substantially declines in active users. (MAU – Monthly Average Users; DAU – Daily Average Users)



While Rovio and King are both focused on the “casual gaming” market, the hard core gaming market is also beginning to face more pressure. A game from an independent Korean game developer, called Playerunknown’s Battlegrounds, has seen huge increase in concurrent users on Steam. For context, this game now has more players than the next 20 most played games. This includes many well-known games such as Dota 2, Counter-Strike and Grand Theft Auto. As can be seen below, PUBG is 15% of all Steam players.



Gaming companies have responded to the falling users in a number of ways. One has been to increase monetisation of players. This involves a number of different measures, including the offering of various digital products online. For example, paying a premium to receive a strong weapon earlier. This has also led to the use of “loot boxes”, where players can spend a small amount of money, for the chance that they might receive valuable loot. This has taken on the appearance of gambling, and politicians and regulators in both Europe and the US are beginning to act.

<https://www.gamesindustry.biz/articles/2018-02-13-hawaii-introduces-landmark-legislation-against-loot-boxes>

The video game industry has had a huge tailwind as the growth in smartphones brought in many new users. But smartphones now look mature, and the gaming industry has seen a huge number of new entrants. From a profitability point of view, the gaming industry seems to be moving from “Novice” level to “Legendary”. Investors should be cautious on video game stocks.

INFORMATION

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