

Weekly News Digest #40

19

of announced deals

\$477.4m

announced deals' size


13

of closed deals

Hi everyone,

This Thursday (October 8th) we're taking part in the webinar with Elite Game Developers, Deconstructor of Fun, and Aream&Co., where we will talk about investment activity in the gaming sector and present our Q1-Q3 findings. To register for the webinar, please [click here](#).

Here's your weekly summary of investments in the video game industry.



Sumo Group acquires parent company of Pipeworks Studio for up to \$99.5m

Sumo Group (AIM:SUMO) acquires **Lake Street Labs Buyer Corp**, a parent company of game development service provider **Pipeworks**, for a total consideration of up to \$99.5m, including

- \$59.5m upfront paid ~60% in cash and 40% stock;
- \$40m of earn-out consideration subject to EBITDA level in 2020-2021FY.


The transaction valuation multiples based on Pipeworks financial results (LTM Jun-20) are

- 3.1x EV/Rev and 14.2x EV/adj.EBITDA (excluding earn-out);
- 5.1 EV/Rev and 23.7x EV/adj.EBITDA (including earn-out).

Sumo Group trades at 6.8x EV/Rev and 31.0x EV/EBITDA.

With this deal, Sumo greatly expands its business, getting its first office in the U.S with a considerable headcount, as well as a high profile client list and a significant library of both original and external IPs. The deal is expected to greatly enhance the Sumo Group's earnings by the end of December 2021, after the first full year of Pipeworks ownership.

In 2018, private equity firm Northern Pacific Group, DGB Investments, and St. Cloud Capital backed the management team at Pipeworks to perform a carve-out from the Italian game developer and publisher Digital Bros (that acquired Pipeworks back in 2014). This transaction should result in great return for the institutional investors controlling over 75% shares of the selling company.



UPDATE: Zynga has completed the acquisition of 80% of Rollic for \$180m

American mobile game developer and publisher **Zynga (Nasdaq: ZNGA)** has completed the acquisition

of 80% stake in the Turkish hyper-casual game developer and publisher **Rollic** for \$180m in cash. Zynga has agreed to purchase the remaining 20% shares over the next three years through equal installments, depending on Rollic's growth and profitability.

The implied EV is \$225m, and the estimated valuation multiples are 2.25 EV/Rev and 11.25x EV/EBITDA based on the expected 2020FY results: \$100m bookings with ~20% EBITDA margin.

With this deal, Zynga enters into the hyper-casual sector, diversifying product portfolio, increasing audience footprint with cross-selling opportunities, and potential profitability improvement (ads revenue typically has higher margins).

Zynga will most probably take some time to integrate recently acquired businesses and prove that it can accelerate synergy at such a large scale. We expect Zynga to continue M&A activity in 2021.



Rumored talks: Roblox prepares to go public at \$8B valuation

Online gaming platform **Roblox** is reportedly preparing to go public early next year at \$8B valuation. However, the company didn't give any official comments nor confirmation on this information.

In February 2020, Roblox was valued at \$4B raising \$150m investments in Series G round. According to rumors, Roblox is working with investment banks to prepare for stock market listing and expect to double its valuation. Such valuation enhancement could be explained by recently disclosed operating results:

- Roblox has surpassed \$1.5b in player spending, with over \$100m being spent in May 2020 alone growing from \$30m in the previous year.
- As of August 2020, at least 20 Roblox games have been played more than one billion times, and at least 5,000 have been played more than one million times.
- During the Covid-19 pandemic, number of active users boosted from 115m by Feb 2020 to 164m as of Aug 2020.

Notable Transactions

Chinese gaming giant **Tencent** has invested into Swedish PC & console game developer **10 Chambers**, known for its cooperative first-person shooter GTFO.

David Beckham-backed esports organization **Guild Esports** has raised \$25.7m of funding ahead of a public listing, and started trading today on the London Stock Exchange at \$53.5m market cap.

South Korean gaming company **Krafton** is preparing for the IPO next year. The news came just week after announcement about the merger of Krafton and its subsidiary **PUBG Corp**.

PandaScore, a French AI-driven platform that collects and analyses esports competition data, has raised about \$5.8m in a Series A funding round led by Serena.

ESL and **DreamHack**, two Esports subsidiaries of Swedish media holding Modern Times Group, have finished the merger and established a new company — **ESL Gaming**.

VR hardware producer **HaptX** has won a \$1.5m National Science Foundation (NSF) grant that will be used to create a full-body haptics VR system.

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