

## Weekly News Digest #9

# 14

# of announced deals

# \$105m

announced deals' size

# 10

# of closed deals



### AppLovin Files for IPO

California-based mobile gaming and technology platform company AppLovin has filed for IPO on NASDAQ under the "APP" ticker. The company has not disclosed much details about the planned IPO — mentioned offering price of \$100m.

#### **AppLovin remains a controlled company**

AppLovin offers Class A (1 vote per share) of common stock to the market, while all Class B (20 votes per share) will be held by Adam Foroughi (Co-founder, CEO), Herald Chen (President, CFO), and Denali Holdings (KKR). After IPO, Class B stockholders will control more than 50% of the voting power, which will make AppLovin a controlled company under NASDAQ requirements.

#### **AppLovin — rapidly growing business**

In 2020, AppLovin reported \$1.45B Revenue and \$407.5m adj. EBITDA with 28% EBITDA margin. Over 2016–2020, AppLovin has demonstrated 76% Revenue CAGR — a dramatic growth driven primarily by gaming-related activities and M&As.

While AppLovin demonstrated \$126m net loss in 2020, it is an operational cash-flow positive business (+\$223m in 2020). Such difference is primarily explained by depreciation, amortization, and write-offs of recently acquired assets.

#### **AppLovin — gaming first company with unique tech capabilities**

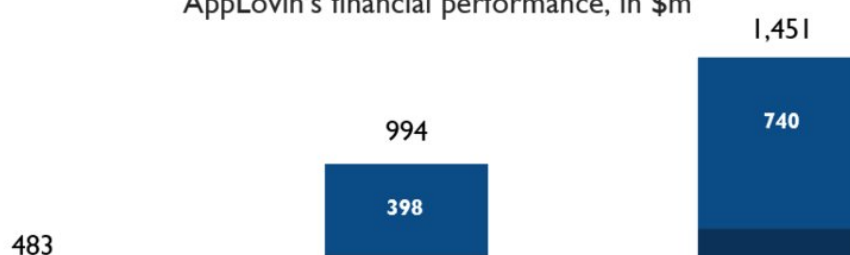
AppLovin divides its revenue into two major categories: Business and Consumer revenue:

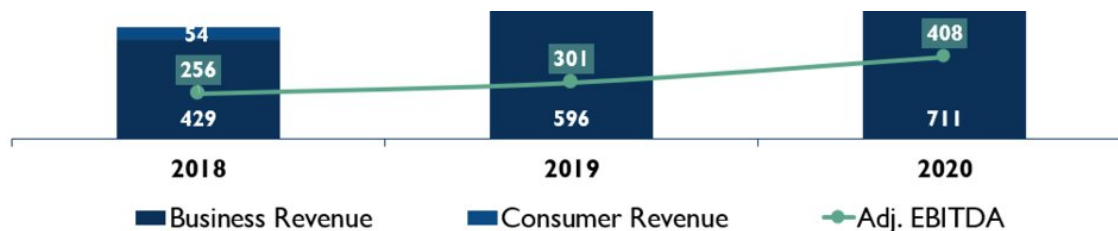
— *Business revenue* is generated from fees paid by mobile app advertisers and those who use AppLovin's software to monetize their mobile apps. Business revenue accounts for 49% of total revenue and includes ads revenue from mobile games. In fact, 71% of Business revenue relates to gaming activities;

— *Consumer revenue* (51% of total revenue) comes from in-app purchases made by users in games.

Though AppLovin has vast marketing, monetization, and analytics technology stack, it is mostly a gaming business with 86% of revenue generated the mobile games portfolio. Moreover, the core revenue driver of the last three years was the consumer segment, which saw 13.7x growth, substantially outperforming Business revenue. At the same time, the growth of Business segment was also largely influenced by gaming ads revenue.

#### AppLovin's financial performance, in \$m





### AppLovin — core services and products

Initially being solely focused on contextual ad network solutions and afterward improving monetization and market capabilities, AppLovin started its active expansion into the gaming business with the foundation of Lion Studios in 2018.

The company's product portfolio includes over 200 free-to-play mobile games with 32m DAU across multiple genres including word, match3, hypercasual, 4X strategy, card/casino, and other casual games. In 2020, the two best-performing titles (*Matchington Mansion* and *Wordscapes*) collectively accounted for approximately 31% of total revenue. At the same time, no single game contributed more than 16% of total revenue, demonstrating strong diversification across the game portfolio.

### AppLovin — Buy and Build strategy

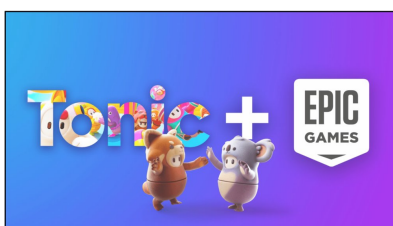
Since 2018, AppLovin has spent over \$1.1B (not including \$1B Adjust acquisition) across 15 strategic partnerships and acquisitions with a particular focus on gaming studios. Currently, the company has 12 studios including Owned Studios and Partner studios. Apps' acquisitions made in 2018 and 2019 have increased their quarterly revenue by over 100% on average — resulting in accretive deals for AppLovin. Considering that cash used for M&As grew from ~\$70m in 2018 to \$670m+ in 2020 and M&As were one of the key growth drivers, strategic acquisitions will continue to be a part of the company's inorganic growth strategy.

The largest M&A deals closed by AppLovin so far include:

- 4X strategy games developer Machine Zone for \$328.6m. The deal raises concerns, given the company's falling revenue (-43% in 2020) and constantly generated loss (-\$62m loss before income taxes in 2020);
- Match-3 games developer Firecraft Studios for \$150m upfront cash, a deferred cash consideration of \$90m, and service agreement with one-time earn-out payments, of either \$60m or \$30m per game, subject to revenue milestone in 36 months after launch of the game;
- Casual and words games developer ZenLife for \$160m upfront cash and future earn-out payments for each of the four years;
- Casual games developer Belka Games for \$131m upfront cash, \$22.5m deferred cash consideration due in the next 15 months and future earn-out payments for each of the four years;

Other acquisitions include: PeopleFun, MagicAnt, Clipwire, Redemption Games (~\$54m upfront for 95.5% shares), Athena (\$110m upfront cash, \$20m deferred, and four-year earn-out), and Geewa (~\$26m).

AppLovin actively relies on “asset acquisition” type of deals, which allows the company to acquire Apps and enter into service and development agreements with the independent game developer to support the initially acquired game Apps and to develop new Apps.



### Epic Games acquires Fall Guys developer Tonic Games Group

American video game giant Epic Games acquires multiplatform game developer Tonic Games Group for an undisclosed sum.

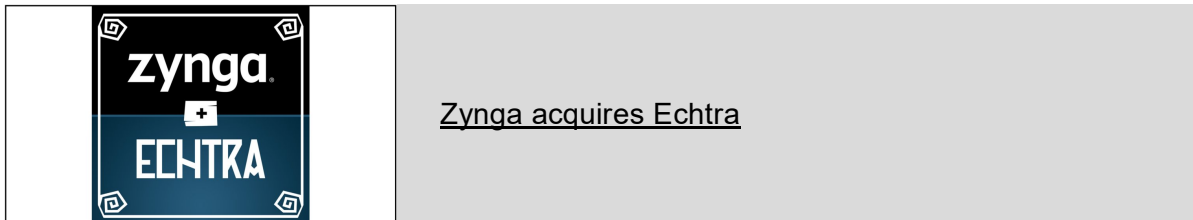
Tonic is best known for its multiplayer hit *Fall Guys: Ultimate Knockout* (published by Devolver Digital), which reached its engagement peak soon after release in August 2020, when the game showed over 100 million players at the same time. Fall Guys is a Unity-powered game, which makes the deal rationale even more interesting and highlights the importance of the team and the game for Epic Games.

Considering Epic Games' massive experience in developing and operating *Fortnite* and *Rocket League*, the company seems to be a perfect match for Tonic, which can use one of the best GaaS expertise in the industry to further improve *Fall Guys*. Tonic has already announced its plans to bring much new content to the game from new costumes and skins to account systems, cross-play, squad vs squad modes, and other features inspired by Epic Games' free-to-play multiplayer titles.

Fall Guys is available on PC and PlayStation. Currently, the two companies work on bringing Fall Guys to Nintendo Switch and Xbox.

### **VC-backed company**

Founded in 2005, Tonic Games Group has closed three investment rounds during the 2010-2019 years, raising a total of more than \$35m. Some of the active VC investors of the company are Frog Capital Synova Capital, and Future Fifty.



American mobile game developer and publisher **Zynga** (Nasdaq: ZNGA) has acquired San-Francisco-based multiplayer game developer **Echtra Games** for an undisclosed sum.

Founded in 2016, Echtra is led by industry veterans, who worked in Blizzard North, Flagship Studios, and Runic Games and participated in the development of such critically and popularly acclaimed franchises as *Diablo*, *Torchlight*, and *The Sims*.

In October 2020, Perfect World Entertainment published the first game developed by Echtra — Torchlight 3, a sequel to a well-known hack and slash action RPG franchise. However, the game received mixed reviews from both critics and players.

Though some of Zynga's games can be played via browser, we can say this acquisition marks the company's expansion into PC&console space. In the future, we can expect more cross-platform games published by Zynga, as well as some of its acclaimed games being ported to other platforms.

## **Notable Transactions**

### **MERGERS & ACQUISITIONS**

*UPDATE:* Stockholm-based multiplatform games developer, publisher, and distributor **Enad Global 7** (ST: EG7) has completed the acquisition of Vancouver-based PC/Console game developer **Piranha Games** for ~\$24.5m of initial consideration with the potential to earn ~\$50m more during the next four years.

PC&console-focused racing games developer **Motorsport Games** (NASDAQ: MSGM) has entered into an agreement to acquire Dutch racing simulation developer **Studio397** for an undisclosed sum. Motorsport plans to combine Studio397's real-physics racing simulation technology with Unreal Engine.

American mobile monetization company **Vungle** has acquired Finland-based mobile game analytics company **GameRefinery** for an undisclosed sum.

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## VENTURE FINANCING

Newly launched studio **Theorycraft Games** has raised \$37.5m in its first funding round led by **NetEase** with participation from **NEA**, **BITKRAFT Ventures**, **Griffin Gaming Partners**, **Sisu Game Ventures**, and several strategic angel investors. Launched by industry veterans from Riot Games and other studios, Theorycraft will use its deep expertise to create competitive PvP games.

India-based mobile sports games developer **All-Star Games** (former known as Deftouch Interactive Art) has closed \$1.5m funding round led by **Lumikai** with participation from **Play Ventures** to support the development of the new multiplayer cricket game *All Star cricket*.

India-based esports organization House of Gaming, known for its **Indian Gaming League** subsidiary, has raised \$500k of strategic investment.

Spanish developer **PlayJoy Games** has raised ~\$393k (€330k) to further develop its multiplayer gaming platform with such classical and social casino games as *Ludo*, *Uno*, *Dominoes*, and others.

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