



Research Report on Nazara Technologies

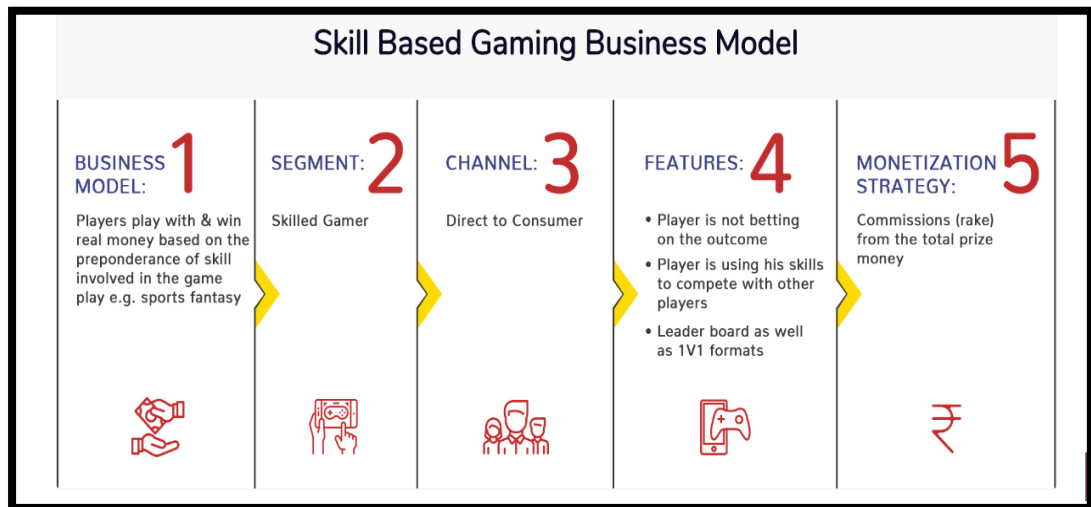


Overview:

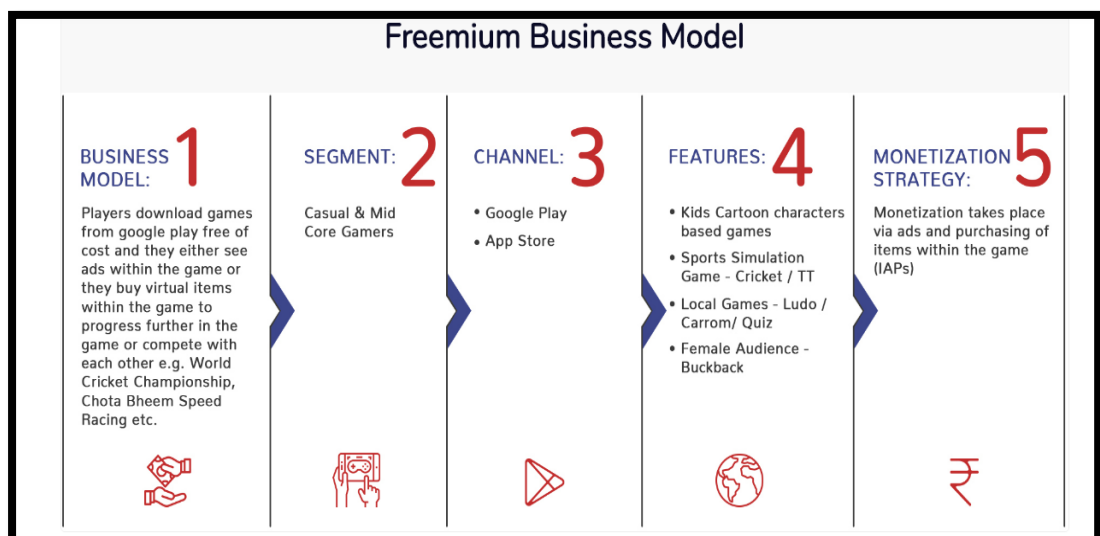
Nazara Technologies Limited is one of the leading 'Interactive Gaming and new age Sports Media' company headquartered in Mumbai and having operations in 60 countries spread across India, Asia, Africa and Middle East. Nazara has diversified business models and comprise of Subscription, Freemium, eSports, Skill Based Gaming in India and Chance based Gaming business in Kenya, Africa.

Nazara's goal is to cater to billion plus mobile internet players across emerging markets who have embraced social multiplayer interactive gaming as the foremost form of entertainment. Nazara generates revenues from following business models and partners with digital payment providers, telecom carriers, ISPs and ad networks to offer a seamless intuitive experience to the players on Nazara's offerings:

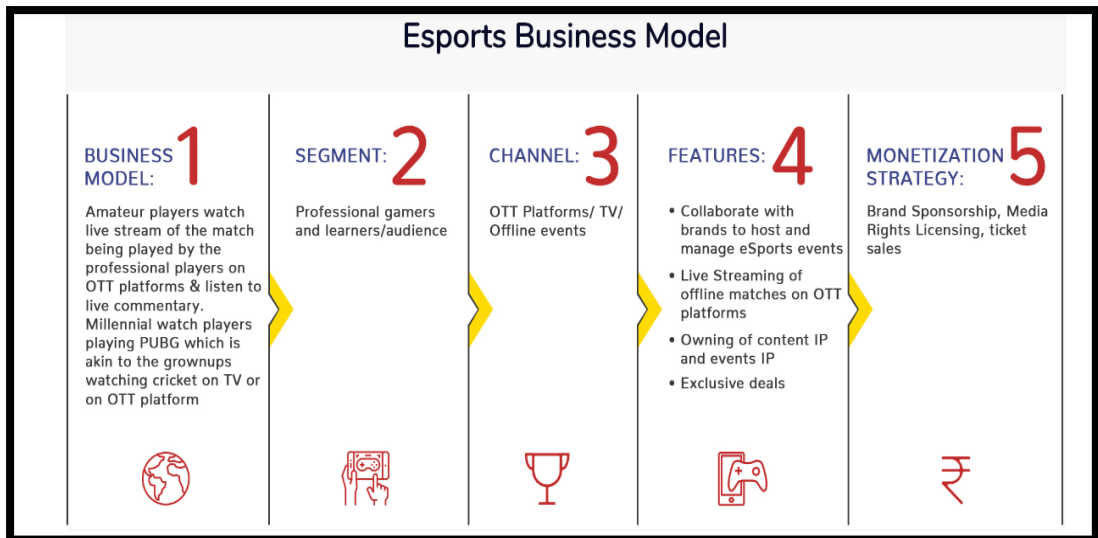
- 1. Players' spending money within games: Skill Based Games** – players play with and win real money based on the preponderance of skill involved in the game play e.g. sports fantasy



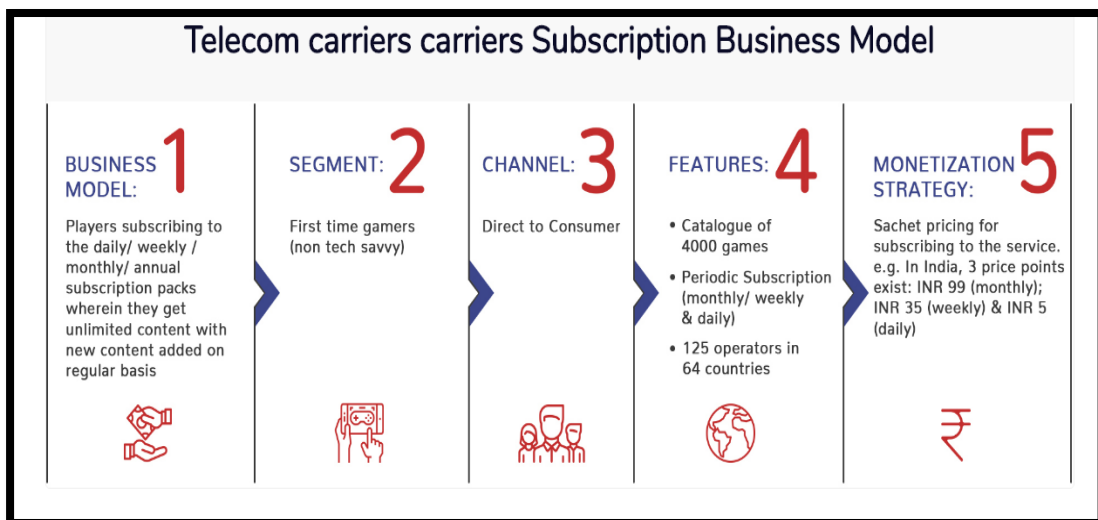
- 2. Advertising revenues by selling inventory within games:** Freemium – players download games from google play free of cost and they either see ads within the game or they buy virtual items within the game to progress further in the game or compete with each other e.g. World Cricket Championship, Chota Bheem Speed Racing etc.



- 3. Media rights and events sponsorships:** eSports – amateur players watch live stream of the match being played by the professional players on OTT platforms & listen to live commentary. Millennial watch players playing PUBG which is akin to the grownups watching cricket on TV or on OTT platform



- 4. Subscription of gaming services:** Players subscribing to the daily/ weekly / monthly/ annual subscription packs wherein they get unlimited content with new content added on regular basis



Nazara's diversified business model caters to different player segments. Each of the gaming segments is growing faster than the growth of internet users in emerging markets given that gaming is underserved category in emerging markets

Nazara's growth strategy is focused on building online games based on familiar game mechanics which are prevalent in offline mode and provide stimulus to a free player to convert into a paying player.

Nazara is fully cognizant of the fact that opportunity cost of building engaging games is steep given the high mortality rate of product/ gaming companies. Hence, Nazara has consciously adopted strategy of acquiring / investing in high performance and proven game companies versus building companies from scratch.

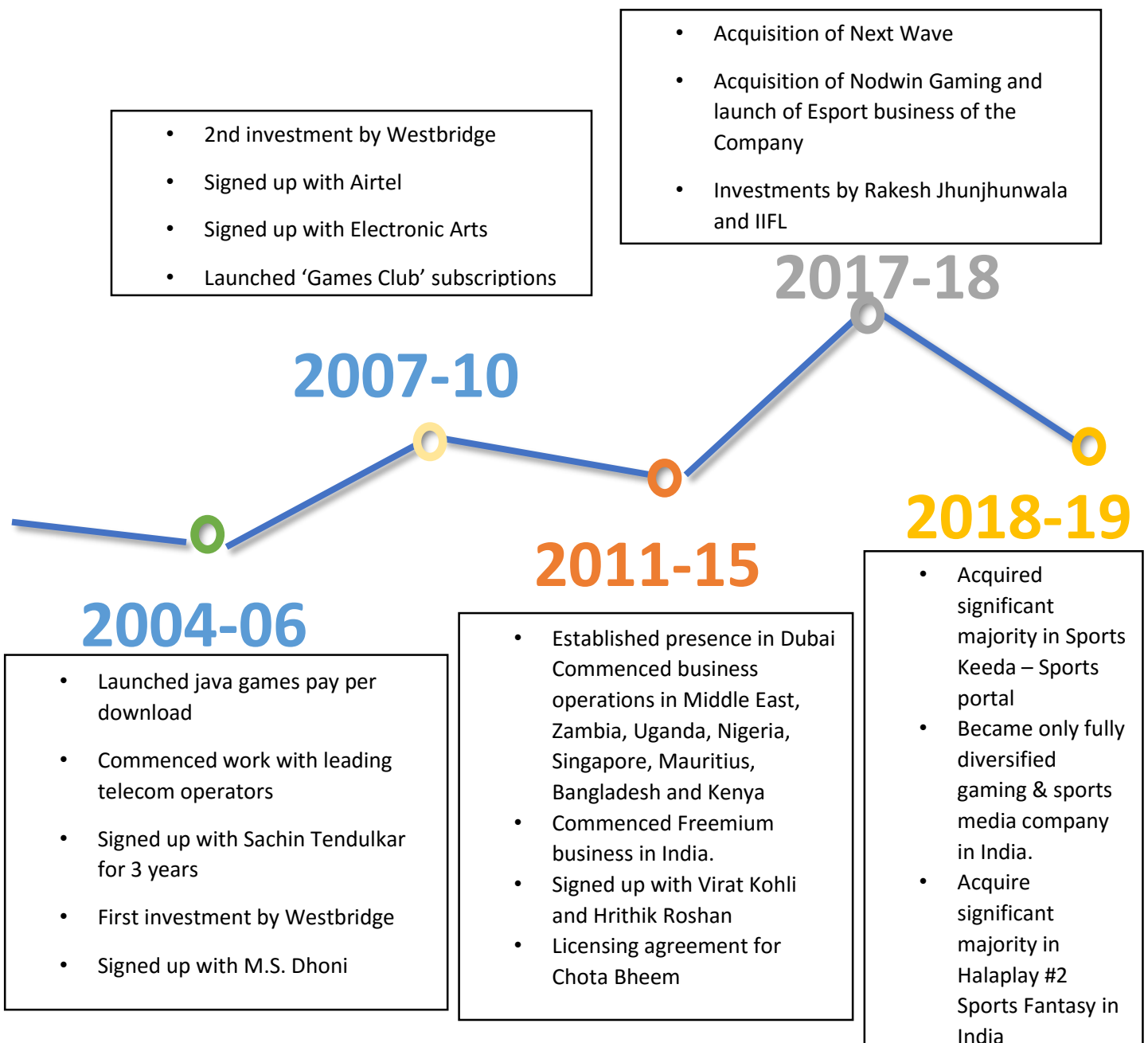
Nazara either invests or acquires majority stake in startups which have either demonstrated better economics in terms of LTV to CAC (consumer acquisition cost) equation and whose business can scale up quickly via expansion into newer geographies or collaborate with the founding team to create highly engaged games at scale.

Nazara's value creation is predominantly based on two principles:

1. Creating network of highly engaged players which ensures that the Life Time Value (LTV) of a player keeps moving upwards thus improving EBITDA margins of the business over a period of time

2. Cross selling multiple offerings of Nazara to the same player, thus creating a network effect to drive up overall EBITDA margins by keeping consumer acquisition cost (CAC) low.

Evolution of Nazara into India's largest Gaming & Sports Media Company:



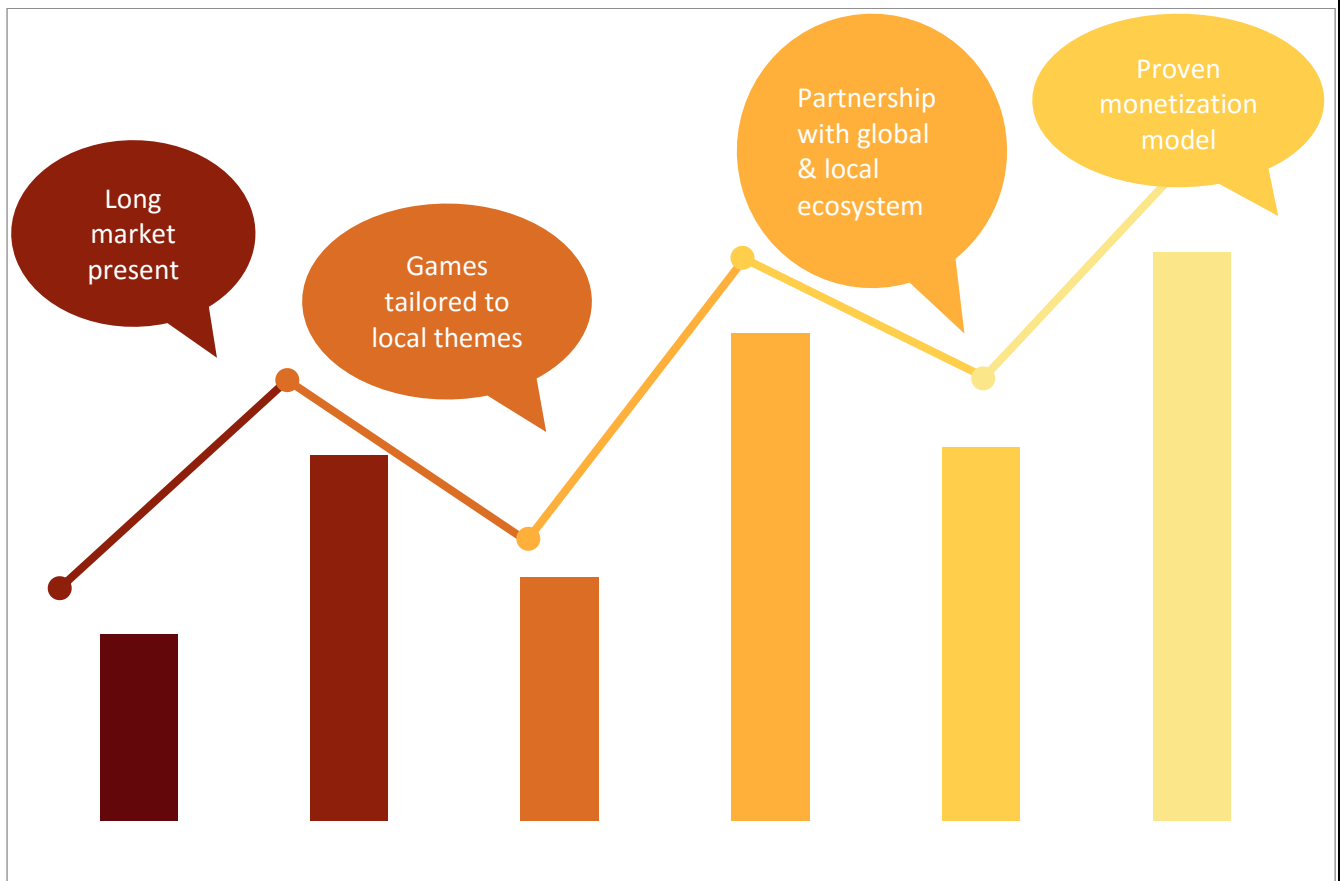
SUBSIDIARIES



INVESTEE



Key success factors underlying Nazara's Dominant Position:



Nazara's investments:

Nazara has looked at companies which are leaders in their space. Both eSports and next wave are leaders in their space and continue to lead the space. Nazara has worked with the Founders to scale their revenue without interfering in their day to day operations.

Investment Performance Snapshot:

(Rs in Millions)

| Sr. No | Name of Company | Revenue* | | Profit Before Tax | |
|--------|-------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| | | For the Financial Year ended 2018-19 | For the Financial Year ended 2017-18 | For the Financial Year ended 2018-19 | For the Financial Year ended 2017-18 |
| 1. | Nextwave Multimedia Private Limited | 146.94 | 44.89 | (113.75) | (23.94) |
| 2. | Nodwin Gaming Private Limited | 495.17 | 36.39 | 10.97 | (5.02) |

*On December 22, 2017, the Company acquired 52.38% of equity share capital of Nextwave

*On January 10, 2018, the Company acquired 54.99% of equity share capital of Nodwin.

Investors in Nazara:

| <u>Name of the shareholders</u> | <u>No of shares</u> | <u>% of holdings</u> |
|---|----------------------------|-----------------------------|
| Westbridge Venture II Investments Holding | 6,121,210 | 22.69 |
| Rakesh Jhunjhunwala | 3,294,310 | 12.21 |
| IIFL Special Opportunity Fund | 1,748,185 | 6.48 |
| Emerging Investments Limited | 5,50,810 | 2.04 |
| Turtle Entertainment GmbH | 485,018 | 1.76 |

Financials:

The year 2018-19 has been a challenging, yet exceptional year for Nazara as this was the year where we embarked aggressively to expand beyond telecom driven subscription business and create high growth verticals across free to play mobile games and esports.

(Rs in Millions)

| PARTICULARS | Standalone | | Consolidated | |
|---|------------|----------|--------------|----------|
| | 2018-19 | 2017-18 | 2018-19 | 2017-18 |
| Revenue from Operations | 434.47 | 663.54 | 1671.89 | 1705.47 |
| Total Expenditure | 522.62 | 694.08 | 1732.71 | 1311.56 |
| Profit before tax & exceptional item | 31.44 | 319.26 | 102.26 | 492.09 |
| Exceptional Item | - | (357.18) | - | (357.18) |
| Net Profit/(Loss) Before tax | 31.44 | (37.92) | 92.79 | 134.28 |
| Profit/ (Loss) for the year | 22.18 | (104.08) | 43.79 | 12.11 |
| Equity Share Capital | 109.91 | 107.89 | 109.91 | 107.89 |
| Other Equity | 2416.73 | 2114.97 | 4024.06 | 3454.14 |
| Net Block | 5.71 | 12.46 | 1194.30 | 1269.54 |
| Net Current Assets | 831.08 | 1021.14 | 2702.45 | 2524.38 |
| Cash and Cash Equivalents (including bank balances) | 28.61 | 25.46 | 1332.68 | 1174.93 |
| Earnings/(Loss) per Share (Diluted) (in Rs) | 0.80 | (4.11) | 3.88 | 1.08 |

(Rs. in Millions)

| (Rs. in Millions) | | | Biz Vertical View | Segment | For the financial year ended March 31,2019 | For the financial year ended March 31,2018 |
|-------------------|--|--|-------------------|----------------|--|--|
| Region | For the financial year ended March 31,2019 | For the financial year ended March 31,2018 | | | | |
| India | 183.09 | 556.39 | Mature | Subscription | 939.85 | 1517.01 |
| Middle East | 216.19 | 325.38 | Emerging | Freemium | 240.38 | 152.06 |
| Africa | 325.51 | 404.38 | | eSports/ media | 491.66 | 36.40 |
| Rest of the world | 215.05 | 230.86 | | | | |
| Total | 939.85 | 1517.01 | Total | | 1671.89 | 1705.47 |

Overall, Nazara is very excited with the opportunity which massive growth in gaming in emerging markets and Nazara has laid strong foundation to continue to gain market share in fast growing gaming market by transforming Nazara from a telco driven subscription services company to a pure play Interactive Gaming & sports media platform which has leadership in multiple fast growing verticals with large opportunity size. Nazara believes that it is well poised for aggressive growth in revenues in coming years and improving Profit Before Tax margins.

Nazara's Way Forward:

Transforming from a Telco Subscription focused Company to pure play Interactive Gaming & sports media platform:

Building consumer facing brands & IPs across 1) Freemium, 2) Skill Based Games, 3) Chance Based Games in Africa & 4) new age sports media business.



Attaining Vertical leadership:

Nazara is focusing on creating #1 or #2 position in the verticals which it is going to operate and has attained leadership in the following segments:

