

Animoca Brands Corporation Limited

Commentary Note

Delivering ownership of digital assets

Animoca Brands Corporation Limited is a global games developer that leverages popular brands, gamification, blockchain and mobile technology to make engaging apps ranging from games to fitness solutions. The company listed on Primary Markets on July 6 after raising US\$4.1m (A\$6m) in unsecured convertible notes with a coupon rate of 9% to fund working capital and support an potential initial public offering (IPO) of some of its games assets on the LSE, Euronext or another public exchange. Over the past four years, Animoca Brands has deployed an acquisition-led growth strategy to expand its suite of gaming assets and talent. The company has reported revenues of \$10.5m for the first four months of CY20, including \$4.3m in April alone, which was driven by the successful sale of digital collectibles (non-fungible tokens or NFTs) including crate sales in F1® Delta Time, LAND sales in The Sandbox, and collectible NFT hero sales in Crazy Defense Heroes. April also saw positive EBITDA of \$0.38m. We have undertaken a Compco valuation giving consideration to Animoca Brands' earlier lifecycle and have arrived at an indicative peer valuation of \$0.25/share.

KEY POINTS

Rapidly growing industry — Animoca Brands operates in the fast-growing mobile games industry which is outpacing the broader gaming industry by a factor of 1.4x. The sector is expected to generate US\$77b in CY2020 with smartphone games delivering more than 80% of the revenue.

Creating a pathway for ownership of digital assets — The company is forging a pathway for consumers, rather than game companies, to securely own their digital assets by leveraging blockchain technology in games. The company is a leading player in blockchain gaming, enabling true digital ownership of in-game content and collectibles in its games, as compared to the traditional game industry, where content is owned by the developer/publisher and rented by the player.

Partnering with some of the biggest entertainment brands — The company has secured partnerships with some of the biggest brands in entertainment including Disney (NYSE:DIS), Marvel, Formula 1, and WWE (NYSE:WWE).

Revenue growth accelerating — The company has recorded strong revenue growth over the past five calendar years, with a CAGR of 19%. Revenue growth has been accelerating in recent times with CY19 revenue lifting by 39% to \$17.9m and Q1 CY20 revenue increasing by 44% to \$6.2m. April experienced a record \$4.3m in revenue bringing total revenues for the first four months of CY20 to \$10.5m, surpassing the \$8.3m in revenue reported for the six months to June 2019.

Pathway to profitability emerging — The company has announced that April 2020 experienced positive EBITDA of \$0.38m and positive operating cashflow of \$0.53m for the four months to April 30.

Well-funded and attracting global investors — On July 3, Animoca Brands completed a US\$4.1m (A\$6m) unsecured convertible note offer to global investors, led by Mind Fund Group and M7 Alternative Investment Strategies Asia Limited, with a 9% coupon and conversion to equity at \$0.18/share. The company now has total liquid assets of \$8.7m including \$6m cash, \$1.1m in Bitcoin and Ether, and \$1.6m in other cryptocurrencies.

Creating new investment opportunities — Animoca Brands has announced plans to spin off its AI-driven health and fitness platform OliveX Holdings Limited into a publicly traded vehicle on the National Stock Exchange (NSX). It also has announced plans, as part of its recent \$6m capital raise, to explore an IPO of its blockchain gaming assets on the LSE, Euronext or another public exchange. This would create a digital asset play making Animoca Brands a leader in the emerging digital ecosystem for virtual assets.

Valuation — We have undertaken a compco valuation of Animoca Brands, using the Golden Rule methodology to define the appropriate EV/Revenue multiple to apply to the company's CY19 revenues. The Golden Rule methodology takes into account the earlier lifecycle stage of Animoca Brands' earnings relative to more established peers. Based on this analysis and using FY19 accounts, we have arrived at an indicative base valuation of \$0.25/share.

Mobile, PC, Console, Blockchain
Gaming

20th July 2020

Company Summary

Last traded Price	\$0.18*
Indicative valuation	\$0.25
Shares on issue	970.6M
Implied Market Cap	\$174.7M
Net Cash [^] at 31 Dec 19	\$3.4M
Enterprise Value	\$171.3M
Trading Platform	PrimaryMarkets.com
*from July 3 raise	[^] inc \$1.7m cryptocurrencies

Key Metrics CY19 (CY18)

Revenue (\$m)	17.8 (12.8)
Gross Profit (\$m)	8.1 (8.8)
Net Loss (\$m)	-24.7 (-3.3)
Cash receipts (\$m)	24.9 (13.6)
Gross cash at y/e (\$m)	8.8 (7.7)
Intangible assets (\$m)	11.3 (5.0)

Strategic Shareholders

M7 Alternative Investment Strategies Asia, Mind Fund Group, Perennial Value Mgmt, SG Hiscock, Tribeca IP, Atari, Sun Hung Kai Financial, CMCC

Upside Case

- Operating in the fastest growing segment in a rapidly expanding sector
- Opportunity to pioneer a new direction in gaming
- Backed by global gaming/blockchain investors

Downside Case

- Potential pushback from entrenched players
- Difficult to gauge underlying growth due to early-stage nature of blockchain gaming
- Shareholders risk value loss in spin offs

Board of Directors

Executive Chairman	Yat Siu
Non-Executive Director	David Brickler
Non-Executive Director	Holly Liu
Non-Executive Director	Chris Whiteman
Company Secretary/CFO	John Madden

PrimaryMarkets' Contact Details

Phone	+61 2 9993 4475
Email	trading@primarymarkets.com

RaaS Advisory Contact Details

Phone	+61 414 354 712
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COMPANY OVERVIEW

Animoca Brands

Animoca Brands is a global gaming company with three main business lines: blockchain games, traditional mobile games, and health & fitness. The Hong Kong-headquartered company develops original games as well as leveraging internationally recognised, licenced intellectual properties, and has one of the largest licensed brand portfolios in mobile gaming. The company is also using blockchain technology to develop and deliver a new asset class – true digital asset ownership – for game creators and players. Blockchain deployed in games allows for the creation of digital content (for example cars, swords, castles, land, digital player cards) that can be securely owned and be truly unique or limited in edition. The combined properties of ownership and rarity offer game players and collectors something that was not possible in digital content before the advent of blockchain, unlocking a whole new world that combines the games industry with blockchain technology. Thus far, Animoca Brands has successfully sold a range of digital content for its upcoming blockchain games, including LAND for its user-generated content game *The Sandbox*, collectible hero cards for its mobile game *Crazy Defense Heroes*, and racecar and crate sales for *F1® Delta Time*, built in partnership with Formula 1. Its strategy has attracted several leading investors and industry heavyweights to invest in Animoca Brands, its subsidiaries, and the new class of digital assets; these investors include: Hong Kong based venture capitalist Mind Fund Group (invested in Bytedance, Grab, Spotify, and Hedera Hashgraph); alternative investments fund M7 Alternative Investment Strategies Asia; Japan’s Square Enix (the owner of *Final Fantasy®* 149m units sold worldwide, *Dragon Quest®* 80m units sold, *Tomb Raider®* 75m units, and *Space Invaders®*); B Cryptos, Japan’s first licensed financial institution investment fund focused on blockchain startups and encrypted digital assets; and True Global Ventures, a technology fund licenced under the Monetary Authorities of Singapore.

The company has made a number of acquisitions over the past two years designed to boost its digital assets portfolio and extend its reach with gamers. We have set out the key investments in the following exhibit.

Exhibit 1: Strategic acquisitions since mid-2018

Date	Company	Price paid A\$m	Shares A\$m	Shares No.	Cash A\$m	Earnout A\$m	Games/assets
Aug-18	Pixowl	6.7	5.9	75.2	0.7	na	<i>The Sandbox</i> (40m downloads, 1m MAU), Peanuts, Garfield, Goosebumps
Apr-19	Stryking Entertainment	1.6	1.6	15.8		3.15	Football-Stars’ official licence from Deutsche Football Liga (Bundesliga)/Bayern Munich licence
Apr-19	Skytree Digital	0.85	0.43	3.04	0.43	na	75% stake brings original games <i>Hachi Hachi</i> and <i>Trillonia</i>
May-19	Leade.rs	0.71	0.40	2.59	0.31	1.60	Networking and event matching platform for the tech sector
May-19	Gamma Now	0.51	0.51			3.65	Idle-time crypto-mining tech, confers commercial relationship with Razer (HK:1337)
Aug-19	Quidd	7.20	7.20	45.00		4.30	2.1b individually serialized digital collectables, relationships with Disney, Marvel, HBO, Cartoon Network, CBS.
Dec-19	nWay	11.40	8.50	47.22	2.90		<i>Power Rangers Legacy Wars</i> (50m downloads), <i>Power Rangers Battle for the Grid</i> , and <i>ChronoBlade</i> + nWayPlay multiplayer development platform
Jul-20	Gamee	6.53	6.54	36.33		1.63	80 game titles and 13m registered users/1.3m monthly active users/\$1.14m cash

Source: Company announcements, RaaS Analysis

Background

The company was founded in May 2014 by chairman Yat Siu and former chairman David Kim through the spinoff of part of the app portfolio of Animoca (Appionics Holdings Ltd) and the consolidation of a number of partnerships and acquisitions. The company was listed on the ASX from early 2015 until March 9, 2020, with 2,400 shareholders including several institutional shareholders on the register and a market capitalisation of around \$170m. The ASX delisted the company on March 9 after rejecting the company’s responses to its concerns that it did not consider it to be appropriate for a listed company to have “substantial involvement in cryptocurrency related activities” and “substantial use of SAFEs issued by subsidiaries”. The SAFE (Simple Agreement for Future Equity) notes were issued by subsidiary TSB Gaming (owner of *The Sandbox* blockchain

game ecosystem) in CY19 to a range of investors including Square Enix, B Cryptos, Hashed, and True Global Ventures as part of two capital raises totalling US\$4.51m.

Animoca Brands has subsequently engaged with PrimaryMarkets to provide secondary exchange services, relisting on July 6, 2020, after completing a US\$4.1m (A\$6m) convertible note issue (9% coupon rate and \$0.18/share conversion price) to Mind Fund Group, M7 Asia, and other investors.

Business Model

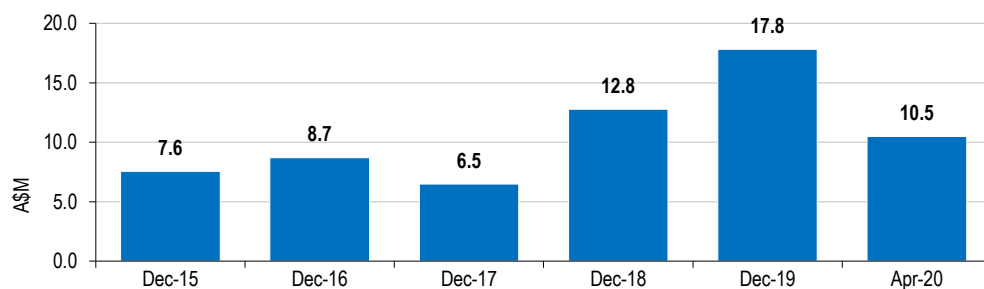
Animoca Brands generates income from gamers spending on in-app purchases to enhance their gaming experience in original games developed by the Company as well as branded games utilising IP licences from third parties. More recently, it has unlocked a new line of revenue in the form of digital content sales of non-fungible tokens (NFTs, which are unique digital assets secured on blockchain) to both gamers and collectors. Across its gaming properties, the company has more than 10m monthly active users generating expenditure both in-app and through purchases of NFTs. Recent NFT sales include LAND for *The Sandbox*, racecar and crate sales for *F1® Delta Time*, and digital collectibles and crate sales for Bayern Munich football club.

Its original games include *Crazy Defense Heroes*, *Crazy Kings*, and *The Sandbox*, while its licenced IP games include *F1® Delta Time*, *Power Rangers Legacy Wars*, *Power Rangers Battle for the Grid*, *Beast Quest Ultimate Heroes*, *Chibi Maruko Chan Dream Stage*, *Snoopy's Town Tale*, *MasterChef Dream Plate*, *The Addams Family Mystery Mansion*, and *Garfield's Diner*, among others.

Recent Earnings Performance

Animoca Brands has announced that it generated revenues of \$10.5m for the four months to April 30, with \$4.3m of this written in April. These results include contributions from the recently acquired businesses nWay, Quidd, and Gamee, and the successful sale of non-fungible tokens (NFTs) including the LAND release for *The Sandbox*, and racecar and crate sales for *F1® Delta Time*. Revenues for the first quarter to March 31 were \$6.2m, up 44% on the previous corresponding quarter and despite the tumultuous impact of COVID-19 on its Asian operations beginning in January and on the rest of operations globally by late February.

Exhibit 2: Revenue generated each year (CY20 year to date)



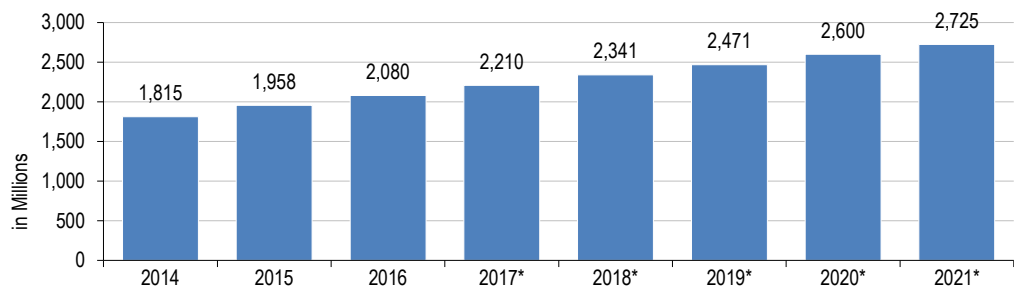
Source: Company reports

The company noted that the impact of lockdowns around the world resulted in gamers having more time to engage with games. As a result, Animoca Brands' business had grown during the pandemic, reflected in both the record quarterly and monthly revenues to April 30 as well as positive EBITDA of \$0.38m for April. The company also reported net operating cashflows for the four months to 30 April of \$0.525m and cash at the end of the period of \$8.7m, including \$6m in cash, \$1.1m in Bitcoin and Ether, and \$1.6m in other cryptocurrencies. We have set out the company's historical P&L, Cashflows, and Balance Sheet in our Summary Table on page 19 of this report.

INDUSTRY OVERVIEW

Animoca Brands operates in the video gaming industry, predominantly in the mobile apps space. This is a highly competitive space with, according to Statista, more than 900,000 mobile gaming apps available on iOS and more than 350,000 available on Google play. Games now make up the lion's share of revenue generated from apps. According to AppAnnie¹, games now make up 72% of the US\$120b spent on apps subscriptions globally. This expenditure is being driven by a rise in active gamers, globally. Industry forecaster NewZoo estimates that there are 2.5b active gamers in the world today and estimates that this will continue to grow to 2.725b by 2021.

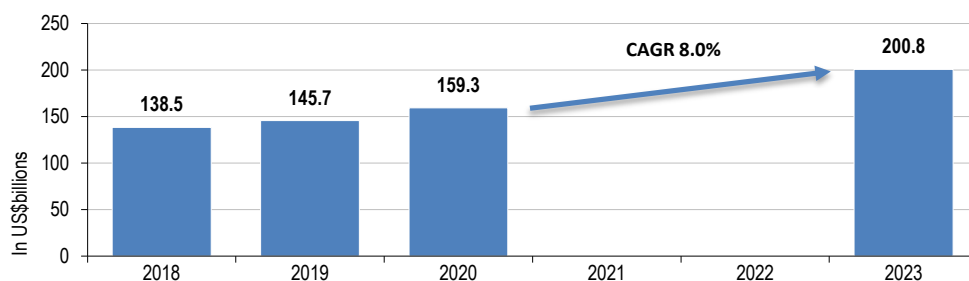
Exhibit 3: Number of active gamers worldwide 2014-2021 (19% CAGR)



Source: Statista, Newzoo *estimated from 2017

NewZoo² is forecasting games expenditure to grow at a CAGR of 8% from 2020 to 2023, to US\$200.8b.

Exhibit 4: Games expenditure actual and forecasted from 2020-2023 (CAGR 8.0%)



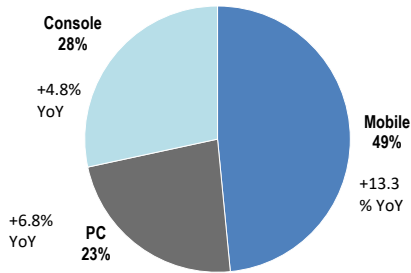
Source: NewZoo 2020 Global Games Report

NewZoo estimates that mobile games now account for almost half the expenditure (US\$77m) on games across all devices and that mobile is the key driver of year-on-year growth in the category, with smartphone expenditure outpacing all other devices to grow at almost 16% y-o-y in 2020.

¹ AppAnnie.com, State of Mobile 2020 report

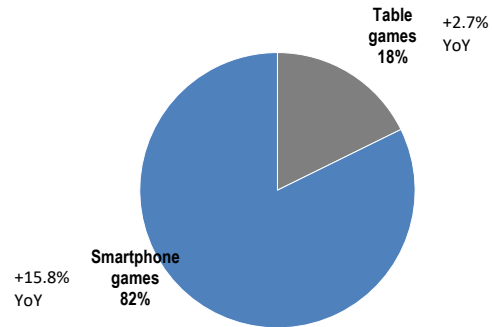
² NewZoo.com, 2020 Global Games Report

Exhibit 5: Fcst 2020 spend on games based on device (in US\$m and % share) and year on year growth rate



Source: NewZoo 2020 Global Games Report

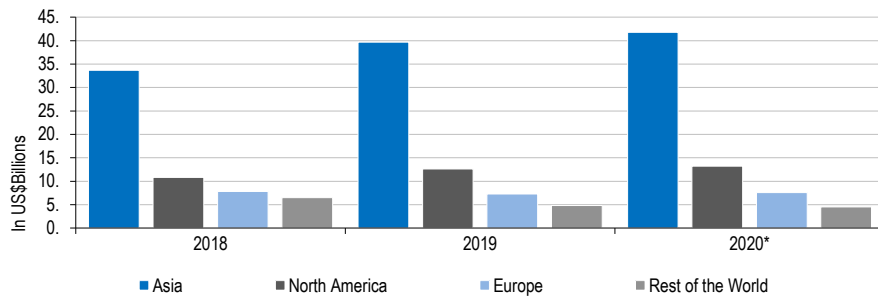
Exhibit 6: Fcst mobile games spend for 2020 by device (in US\$m and % share) and year on year growth



Source: NewZoo 2020 Global Games Report

Animoca Brands has traditionally operated in the free-to-play (F2P) mobile games market. As the name suggests, free-to-play video games give players access to content free of charge, with payment often required for in-app purchases to enhance in-game features. The free-to-play mobile games market in Asia, which is by far the largest market for F2P games, was estimated at US\$33.7b in 2018, according to SuperData Research. This is predicted to rise to US\$41.8b in CY 2020.

Exhibit 7: Free-to-play (F2P) mobile games market revenue worldwide 2018-2020, by region

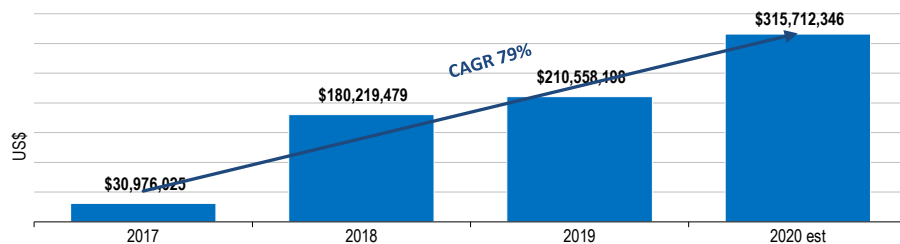


Source: SuperData Research, Statista

Blockchain Games and Non-Fungible Tokens (NFTs)

Pioneered by Dapper Labs (of which the company is a partner and shareholder) with its game *CryptoKitties*, the use of non-fungible blockchain tokens (NFTs) in a game was novel in late 2017 when *CryptoKitties* launched. Since then, the blockchain game subsector of the global games market has grown rapidly, largely due to the fact that NFTs enable consumers to truly own their digital content. With ownership comes the ability to buy, sell, and trade that content on third-party marketplaces, uncommon in the games industry prior to blockchain gaming. Nonfungible.com has been tracking expenditure on non-fungible tokens since 2017 and estimates that expenditure in 2020 will surpass US\$315m globally. This suggests a CAGR of 79% since 2017 when ~\$31m was generated globally. NFTs have become a meaningful class of assets driven by game players.

Exhibit 8: Growth in Non-Fungible Token Expenditure from 2017 to 2020 est



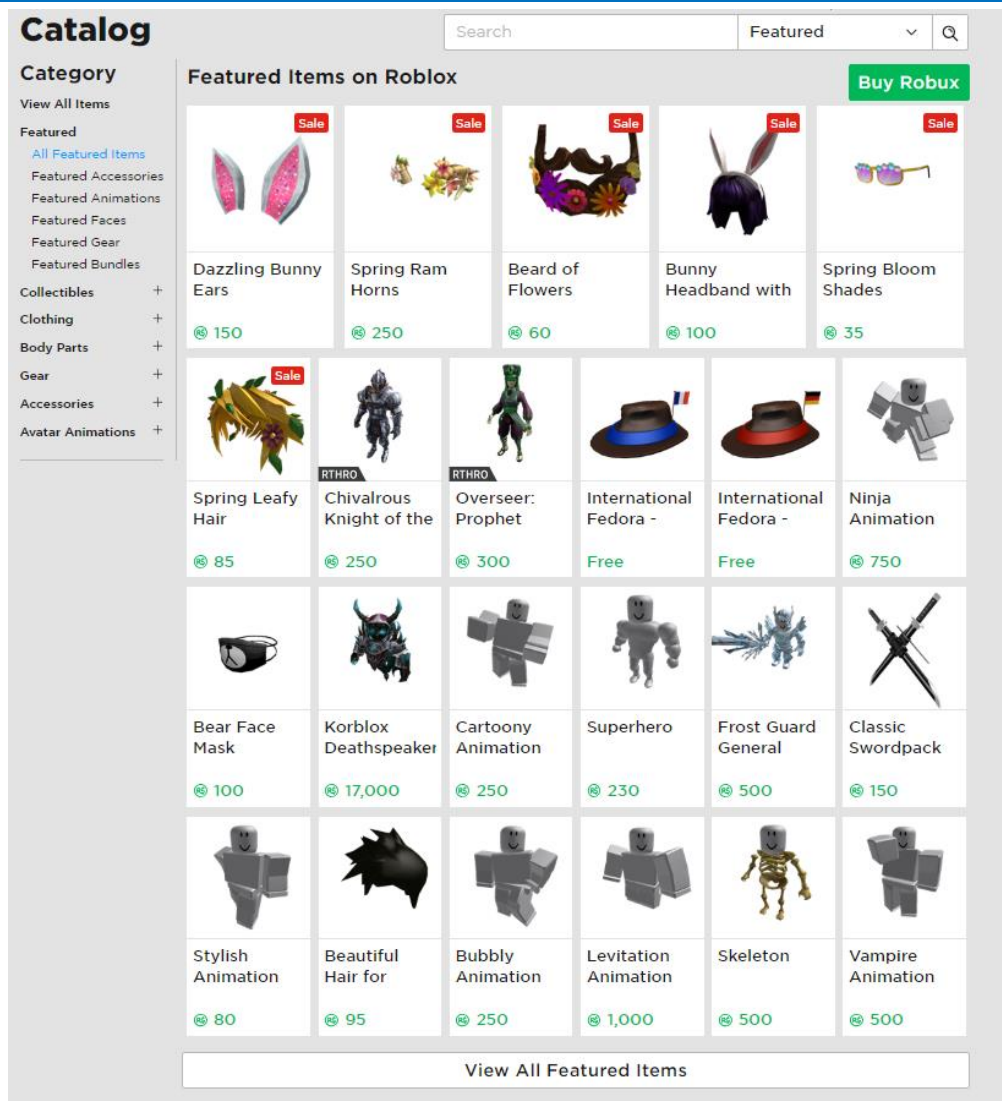
Source: Nonfungible.com 2019 report

Current State Of Play – The Walled Garden

Traditionally gaming companies have contained their games in walled gardens, ensuring that any in-game purchases made by players such as “skins”, weapons, or avatars remain the property of the gaming company. Essentially players are licencing their purchased items instead of owning them.

Even within games platforms such as Roblox, which allows players to create their own games using its proprietary engine, Roblox Studio, the content created is ultimately owned by the game. Roblox content creators can earn the site’s virtual currency, known as “Robux,” through creating and selling virtual content on Roblox. This content is made available for sale on the UGC catalogue (an example of a catalogue page is below). Roblox splits a share of the revenue generated from content purchases with the content developers, paying this out as Robux, which the developer can exchange for real world currency through the website’s “Developer Exchange” system. In 2019, Roblox paid 500,000 developers more than US\$100m in Robux for user-generated content, about 22% of its gross sales. While the payments can be exchanged for real world currency, neither the purchased items nor Robux are available for use in other gaming platforms. This “walled garden” system is the status quo that Animoca Brands is challenging.

Exhibit 9: User generated content available for sale in the Roblox catalogue



The screenshot shows the Roblox catalogue interface. At the top, there is a search bar and a 'Featured' dropdown menu. Below this is a 'Catalog' header and a 'Buy Robux' button. The main content area is titled 'Featured Items on Roblox' and displays a grid of items for sale. Each item card includes an image, a name, a price in Robux, and a 'Sale' badge where applicable. The items are organized into categories on the left side of the page.

Item Name	Price (Robux)	Special Offer
Dazzling Bunny Ears	150	Sale
Spring Ram Horns	250	Sale
Beard of Flowers	60	Sale
Bunny Headband with	100	Sale
Spring Bloom Shades	35	Sale
Spring Leafy Hair	85	Sale
Chivalrous Knight of the	250	RTHRO
Overseer: Prophet	300	RTHRO
International Fedora -	Free	
International Fedora -	Free	
Ninja Animation	750	
Bear Face Mask	100	
Korblox Deathspeaker	17,000	
Cartoony Animation	250	
Superhero	230	
Frost Guard General	500	
Classic Swordpack	150	
Stylish Animation	80	
Beautiful Hair for	95	
Bubby Animation	250	
Levitation Animation	1,000	
Skeleton	500	
Vampire Animation	500	

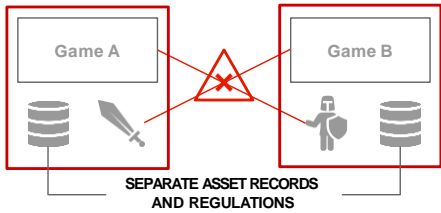

At the bottom of the grid, there is a button labeled 'View All Featured Items'.

Source: Roblox website

HOW BLOCKCHAIN CAN BE APPLIED TO GAMING

Blockchain is the decentralized ledger technology that was originally developed for the cryptocurrency Bitcoin. This technology has since come into its own and is now recognized for its many other potential applications beyond cryptocurrency, including in Fintech and e-government. Blockchain allows an extremely secure way to transfer or confirm the ownership of digital assets, which can include gaming virtual goods. By tokenising content on a blockchain, gaming companies can take their current siloed asset databases, which have no interoperability between games, and allow both customer ownership of content as well as the migration of assets from one game to the next. For the first time, not only can players truly own their game content (which they're free to sell or trade), but they can also potentially bring that content with them in other supporting games, extending the useful life of that game asset/investment.

Exhibit 10: How blockchain can extend the life of in game assets

TRADITIONAL CLOSED LOOP MODEL	DECENTRALIZED NETWORKS ENABLE INTEROPERABILITY
<p>PROBLEM: As long as assets are bound to one server, their value hinges on one use case: the original game. And when players get tired of that game, or when that game shuts down, that item becomes a sunk cost. The centralized model, put simply, traps players' assets to a single server.</p> <p>SILOED DATABASES CONFINE ASSETS TO THEIR NATIVE ECOSYSTEM</p>  <p>SEPARATE ASSET RECORDS AND REGULATIONS</p> <p>Under this model, user-transactions form mere license agreements: a right to use items within (and only within) the context of that original game, thus forming a closed loop between player and developer.</p>	<p>SOLUTION: By storing these assets on distributed ledgers, they can be leveraged by players in a variety of games. Items in Game A have use-cases in Game B. Decentralized networks foster an open-economy, one in which the borders of applications are opened, allowing migration of assets from one game to the next.</p> <p>DECENTRALIZED MODEL FACILITATES XCH. BETWEEN GAME ECOSYSTEMS</p>  <p>NFTs PROMISE TO SET THIS BOLD NEW STANDARD FOR CROSS-APPLICATION SUPPORT</p> <p>If developers shut down, players assets are not lost. Players can still use them in other games which recognize those assets and continue to trade them on decentralized marketplaces. The idea is that assets are no longer constrained to a single ecosystem.</p>

Source: Animoca Brands presentation May 2020

Blockchain enables:

- **True digital ownership** – Gamers become the perpetual owners of their digital items even if the game is shut down. With blockchain, every game item can become a permanent asset, allowing gamers to decide how they want to trade, sell, or gift their items. This introduces real property rights for game items.
- **Security** – Blockchain allows digital game items to be tokenized and traded in primary and secondary markets managed by blockchain technology. Items that are scarce and valuable can invite fraud and theft, but this risk can be minimised on blockchain because it is a highly secure distributed ledger with decentralized trust not controlled by any one organisation or individual.
- **Trading** - Blockchain-based gaming platforms can provide users with ultimate control over their digital assets. Users can buy and sell items freely without concern that they will be swindled or that a platform will close down, or that a publisher will unilaterally change the value of existing in-game items.
- **Cross-Application Interoperability** - Blockchain allows games to utilize shared assets. Items, characters, and other game elements can be used in other games that permit their use. Game items no longer have to be confined to one narrow digital ecosystem, but can expand beyond their original use, thereby increasing in utility and potential value.

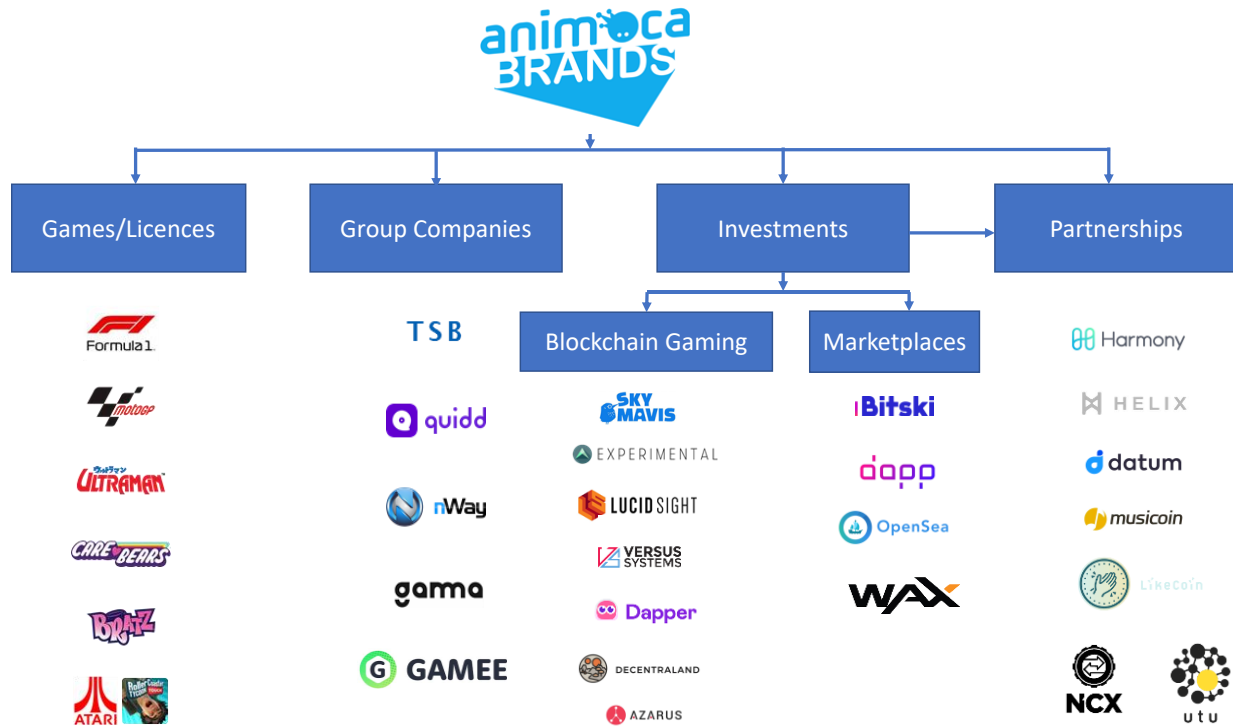
The use of blockchain in gaming is still in its early stages but player demand for ownership of in-game assets is likely to drive its adoption.

Animoca Brands' Blockchain Investments and Partnerships

Since 2018, Animoca Brands' acquisition and partnership strategy has been focused on developing the company's blockchain capabilities and its IP portfolio. It has made several investments in blockchain gaming companies such as Sky Mavis (US\$420,000 in November 2019 including US\$295,000 in shares at \$0.18/share) which is the maker of the highly rated blockchain game *Axie Infinity*; Argentinian blockchain gaming studio

Experimental Group Ltd, the maker of *Cryptowars*; and Versus Systems (US\$250,000 in shares), a developer of real time, in-game rewards technology, with which the Company intends to augment the value of its digital assets and acquisitions. Of the businesses the company has acquired in the past two years, we view the acquisition of Pixowl, and its subsidiary TSB Gaming, maker of *The Sandbox*, for US\$4.9m (A\$6.65m) as its most strategic move. The upcoming blockchain version of *The Sandbox* is expected to demonstrate the benefits of blockchain gaming and the true digital ownership of NFTs.

Exhibit 11: Animoca Brands’ blockchain investments and partnerships



Source: Company reports and announcements

The Sandbox

Background

The Sandbox game franchise is one of the world’s largest independent user-generated content and gaming platforms with more than 40m downloads and over 1m monthly active users. It was first released on iOS in May 2012 and was formally recognised by Apple in its “Best of App Store 2012” lists. The Android version was released early 2013, and by 2014 it had 10m downloads.

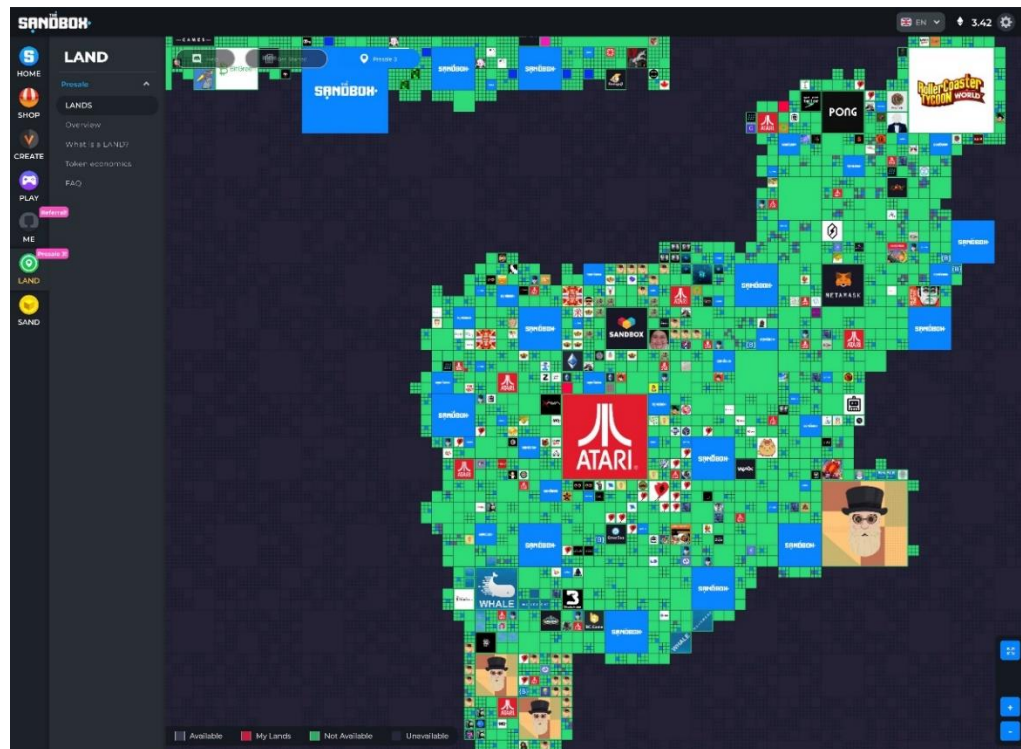
The Sandbox is a virtual world where players can build, own, and monetize their own gaming experiences on the Ethereum blockchain. *The Sandbox* is made up of LANDs, which are virtual real-estate sandboxes owned by players to create and monetize games. Each LAND is a virtual space in *The Sandbox* universe that comes with a pre-built default terrain that can be modified by the owner (or another player authorized by the owner, similarly to a virtual gardener). LANDs are used as the space to publish games or can be rented to game creators who want to publish their games.

The Sandbox notably partnered with Sony to offer in-game content based on the *Ghostbusters* movie franchise. The following year Bandai Namco introduced its Pac Man franchise to the platform, and DreamWorks brought *Shrek* animated franchise content to the game. By April 2018, the game had garnered 40m downloads and facilitated 70m player creations. The following month Pixowl announced that it would launch a 3D blockchain version of the platform, and in August of 2018 Animoca Brands announced that it would acquire 100% of Pixowl for US\$4.875m, including US\$0.52m in cash and the remainder in shares, with a lockup period of 24 months. Pixowl’s game portfolio also includes *Peanuts: Snoopy’s Town Tale*, *Garfield: Survival of the Fattest*, and *Goosebumps Horror Town*.

The Land Sale

The Sandbox blockchain version is slated for beta release in Q4 CY2020 but the game is already garnering income with sales of LAND. Once it launches its blockchain version, *The Sandbox* will be a persistent, interactive “metaverse” (a term used to describe the next iteration of the Internet, conceived as multiple virtual worlds), in which games, environments, and content can be created collaboratively and without central authority. LANDs are the unique digital locations in *The Sandbox* universe where players can build and monetize their games and assets. LAND is, essentially, *The Sandbox*’s real estate upon which assets can be imported to create original interactive experiences. Game assets are blockchain-backed digital goods tokenized as NFTs and are tradeable on a free and open decentralized marketplace. *The Sandbox* players will enjoy permissionless transfer of their in-game assets from one game to another within *The Sandbox* universe while retaining digital scarcity, security, ownership, and authenticity.

Exhibit 12: The Sandbox’s LANDs Map



Source: Company presentation May 2020

The Sandbox has 166,464 LANDs, of which around 120,000 will be made available for sale over time. Each LAND is tokenized as an ERC-721 non-fungible token that uses the transparency of the Ethereum blockchain to track its uniqueness and enable true digital ownership, including the ability to sell or rent the property.

Thus far in 2020, Animoca Brands’ subsidiary, TSB Gaming, has launched four LAND (or real estate) presales, garnering in excess of US\$1m in revenue:

- ✚ The first round of 3,000 LANDs sold out in the first four hours of what was to be a 15-day event, generating approximately 546 ETH (equivalent to about US\$100,000);
- ✚ The second presale (February 2020) offering 6,192 LANDs (5% of total parcels) sold out after one day generating an estimated US\$227,000;
- ✚ The third presale of 12,384 unique LANDs (10% of total land available) sold out within 5 hours and generated 3,400 ETH (or US\$450,000 equivalent) and attracted the iconic game brand Atari;
- ✚ The MOON sales launched starting on June 4 to coincide with the full moon and ran over six weeks, following the phases of the moon, and offering around 6% of total land available; each Moon Sale sold out within minutes and generated a total 1,081 ETH (about US\$245,500).

The third pre-sale attracted longstanding gaming brand Atari, which bought large parcels of LAND in order to reserve space for the creation of 3D voxel versions of its well-known gaming properties *Asteroids*, *Centipede*, *Pong*, and *RollerCoaster Tycoon*. *The Sandbox* and Atari plan to develop Atari-inspired in-game assets that game creators will be able to use in their own games; the two companies are also planning to build a virtual theme park-like universe within *The Sandbox* featuring a variety of Atari game titles with attractions, games, and environments to explore.

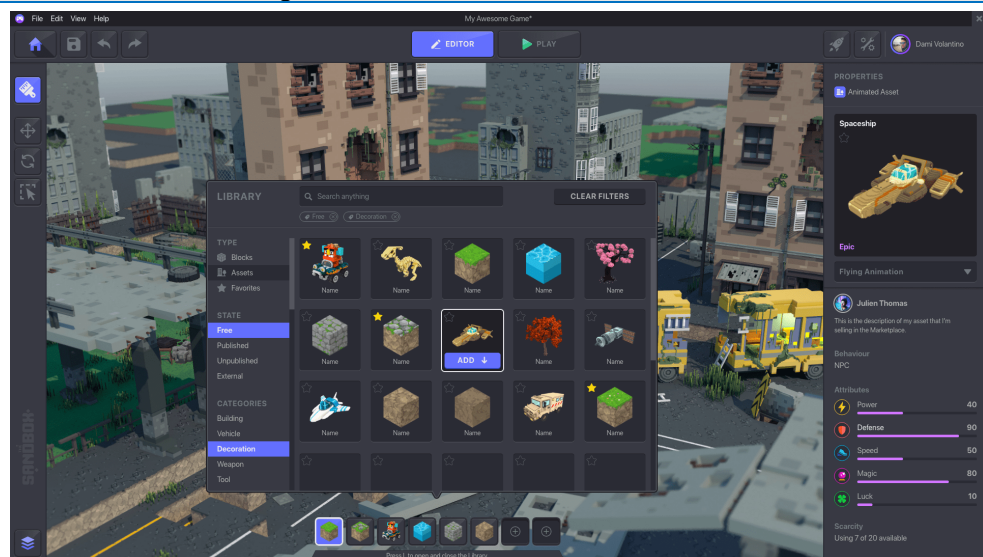
Exhibit 13: Atari theme park game land on The Sandbox platform



Source: Company presentation May 2020

Beyond the initial LAND sales so far, *The Sandbox* has the opportunity to generate further income from future LAND sales and other NFT sales. In addition, the game will generate revenue via transaction fees from the trade by users of any NFT game items such as characters, animals, monuments, and buildings, to populate and enhance the gaming experiences created by its users. Game players and creators will buy and sell these assets via the ASSETS catalogue, which can be used anywhere within *The Sandbox*.

Exhibit 14: ASSETS catalogue



Source: Company presentation May 2020

THE BOARD AND MANAGEMENT

Board

Yat Siu, Executive Chairman and co-founder, created Animoca Brands in 2014 after spinning out part of the app portfolio of Animoca (Appionics Holdings Ltd) and consolidating a number of partnerships and acquisitions. He became chairman in September 2018 after co-founder David Kim stepped down from the position. Mr Siu is also the founder and CEO of Outblaze Ltd, a digital media company which specialises in gaming, cloud technology and smartphone/tablet software development. In April 2009, Outblaze messaging assets were sold to IBM and incorporated in IBM's LotusLive suite of services. IBM also used the Outblaze assets to open its first cloud computing laboratory in Hong Kong. Mr Siu is a director for TurnOut Ventures Limited, a partnership between Outblaze Investments Limited and Turner Entertainment Holdings Asia-Pacific Limited that brought to prominence the hugely popular emoticon character Tuzki. He is a member of the advisory board of BAFTA and serves on the board of directors for the Asian Youth Orchestra.

David Brickler, Non-Executive Director, is currently the ICT Manager for Baptcare - a provider of healthcare and family and community services throughout Victoria and Tasmania. Prior to this role, Mr Brickler was Senior Director of Applications for World Vision International, one of the world's largest non-profit organisations. Much of Mr Brickler's career has been played out in Hong Kong where he held the positions of Asia Pacific CIO for Mizuho Securities Asia Ltd, Executive Director of Ernst & Young in Hong Kong, and Global CIO for the Noble Group, one of the largest commodities traders in the world. Mr Brickler was the founder and CEO of Emergent Technology Limited, a venture-backed Hong Kong supply-chain company, and a Vice President of Information Technology at Caspian Securities. Prior to his 14 years in Hong Kong, he spent 15 years in Japan, including several years as the Vice President of Equity Technology at Goldman Sachs Japan. Mr Brickler also served in various engineering positions at EDS Japan LLC, Sundai, and Fujitsu Limited. He holds an MBA from Kellogg-HKUST and a BA from Princeton University and is fluent in Chinese and Japanese.

Holly Liu, Non-Executive Director, co-founded Kabam, a venture-backed mobile gaming company, where she led the design of the award-winning *Kingdoms of Camelot* franchise, which grossed over US\$250m in just four years. Other successful titles by Kabam included *The Hobbit: Kingdoms of Middle-Earth* and *Marvel Contest of Champions*. At Kabam, Ms Liu was instrumental in growing annual revenue from zero to US\$40m. The majority of Kabam's assets were acquired by Netmarble, South Korea's largest mobile gaming company, in 2017. Two of Kabam's remaining studios formed Aftershock, which was subsequently acquired by FoxNext. Following her exit from Kabam and Aftershock, Ms Liu took on a role as a visiting partner at Y Combinator, an accelerator providing seed funding to nearly 2,000 startups with a combined value of over US\$80bn.

Chris Whiteman, Non-Executive Director, brings more than 20 years of commercial management, finance, and investment expertise to the board, with experience across multiple sectors including banking, energy, resources and wealth management. Mr Whiteman has specific expertise in commercial negotiations, equity capital markets and deal structuring, investor and public relations, and strategic planning, gained through assignments with both public and private companies in Australia, the United Kingdom, and China. During his 5+ years stint with stockbroker Taylor Collison, Mr Whiteman originated and managed investment opportunities for an extensive client network, including inbound investment from Asia. Within the corporate landscape, Mr Whiteman has worked in senior roles with a number of leading energy companies, including Santos Limited, Beach Energy and TXU Australia. He holds a Bachelor of Economics from the University of Adelaide and a Graduate Diploma in Applied Finance and Investment from FINSIA.

Management

Robby Yung, Chief Executive Officer of Animoca Brands Corporation Ltd, and also a director of Appionics. He was previously the co-founder and CFO of Redgate Media, a venture-backed Chinese television and outdoor media holding company sold to Inno-Tech Holdings Limited (HK.8202) in 2012. Mr Yung was also co-founder and Chief Strategy Officer of One Media Group Limited (HK.426), a Hong Kong-based magazine group whose IPO he oversaw in 2005. Prior to that, he was the founder and CEO of One Studio Limited, a venture-backed web development company in Hong Kong, and OSMedia Limited, a Chinese television advertising sales company. Mr Yung began his career in Asia as the General Manager of Metromedia Asia Limited, a subsidiary of Metromedia International Group (AMEX: MMG), building wireless broadband networks and mobile telecoms services in China and Indonesia. He holds a Master of Arts from New York University and a Bachelor of Arts with Honors in Public Policy from the University of Chicago.

Arnoldo Concepcion, Chief Operating Officer since 2018. Mr Concepcion oversees day-to-day operations, M&A, partnerships/licensing, and legal functions. From 2017 to 2018 he was the company's Legal Counsel. Mr Concepcion previously served in the legal department at The Walt Disney Company (Japan), and prior to that was in private practice at the law firm of Jones Day, focusing on M&A and corporate matters. He holds a JD from the University of Chicago and a BA from the University of Houston.

John Madden, Acting Chief Financial Officer, was appointed to act as CFO in March 2020. He brings more than 30 years' experience in finance reporting roles in both small and large entities. A large part of his career was with Rio Tinto. Mr Madden is also Animoca's company secretary and performs this role for Aura Energy Ltd and Indian Pacific Resources Ltd. He is a fellow of the CPA Australia and a member of the Australian Institute of Company Directors.

Yusuf Goolamabbas, Chief Technology Officer, provides engineering advisory services and direction across the Animoca Brands group companies (TicBits, nWay, Pixowl, TSB, Quidd, and others), manages strategic partners including Apple, Google, Amazon, and Facebook, and runs the Growth team that manages user acquisition for mobile games. As the CTO of Outblaze since 1998, Mr Goolamabbas designed the large-scale messaging infrastructure used to provide Outblaze's award-winning email system, which was acquired by IBM. Prior to Outblaze, he worked at Kent Ridge Digital Labs in Singapore as Senior Engineer. He has a Bachelor of Science in Computer Engineering from the University of Bombay and a Master of Science in Computer Science from the Georgia Institute of Technology.

Gen Kanai, Director of Strategic Partnerships, was appointed to his role in November 2018. Mr Kanai brings more than 20 years' experience in strategy, marketing and advisory roles to the position. Previously he was a Mentor at 500 Startups, a Tokyo based investment company with US\$200m under management, which invests in technology companies building consumer and business internet services, an advisor to Shanghai-based Brandma International Group and NYC-based Claritas Global. Prior to these roles, Mr Kanai held several senior management positions with internet engine Mozilla over the course of 10 years including Director of Asia Client Engagement, Director of Evangelism Asia, and Director of Marketing. His early career includes stints in commerce and strategy with Toyota and Sony Corporation.

Michael Ephraim, Head of Partnership for Australia and New Zealand, was appointed to his role in April 2019. Prior to this, Mr Ephraim served as managing director and vice president for Sony, where he had been part of the PlayStation creator's senior management team in Europe for over 22 years, while his full-time VP role was focused on Australasia as part of Sony Entertainment. Alongside his roles at Sony, Mr Ephraim served as vice chairman for the Video Game Committee of the Australian Visual Software Distributors Association for seven years, as well as chairman of esports tournaments producer Showdown.

STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS

Exhibit 15: SWOT Analysis

STRENGTHS		WEAKNESSES	
Backed by some of the biggest investors in gaming technology		Competing against international game giants such as EA and Roblox	
Board and senior executive team experienced in building game/tech businesses		Still lossmaking, potentially requiring additional capital raisings	
Revenue growth accelerating, operating leverage improving		Acquisitive nature makes it challenging for investors to get a handle on underlying earnings potential	
Relationships with international brands such as Disney, Mattel, Formula One and WWE		IPOs of OliveX Holdings and assets associated with Pixowl, TSB Gaming, Quidd and nWay will potentially transfer value away from Animoca Brands' shareholders	
Has successfully acquired new audiences, brands and platforms predominantly with scrip			
Has secured industry recognition for its game-making prowess, ranked number 5 in Blockchaingamer.biz's 2020 top 50 Blockchain gaming company list			
Demonstrated ability to raise capital at or at a premium to the prevailing share price			
OPPORTUNITIES		THREATS	
Greater turnover of digital assets will generate transaction fees for Animoca Brands and its ecosystem		Incumbent gaming giants will potentially push back against the shift to consumers owning digital assets	
Potential to replicate the FC Bayern Munich digital collectibles success across other top-level sports clubs		Larger players have deeper pockets to market their products extensively	
Yet to fully harvest the value of the digital collectibles brought by Quidd acquisition			
Potentially will see a shift to blockchain gaming in a similar manner to the way mobile gaming overtook traditional gaming			
First mover advantage in setting the boundaries for digital asset trading and the ecosystems surrounding			

Source: RaaS Advisory

RISKS AND SENSITIVITIES

Following are the key risks and sensitivities that we see for Animoca Brands' business model:

- + **Key man risk** – Yat Siu has been the driving force behind the company's strategic push into blockchain gaming, augmented by CEO Robby Yung. We would view the loss of this leadership as a negative for the company;
- + **Blockchain gaming fails to become mainstream** – an industry shift to blockchain gaming is going to take support from at least some of the major players in the industry, and almost certainly from gamers. While there is demand evident for non-fungible tokens, it is yet to be proven that the market wants interoperability across games and eventually platforms;
- + **Competition** – Animoca Brands is still a relatively small player in the gaming market, despite the recognition it has received by Blockchaingamer.biz (ranked 5th in the 2020 Top 50 Blockchain Gaming Companies) for its blockchain gaming development. There is always the risk that a much larger competitor with deeper pockets will outspend Animoca Brands to secure market position;
- + **Capital risk** – Animoca Brands is still loss making although the recent unaudited results suggest the gap is closing. We expect the company will continue to need capital to grow the business, which in these uncertain economic times could be harder to secure.
- + **Value transfer risk** – Animoca Brands has announced it is exploring a potential IPO of the assets of Pixowl, TSB Gaming, nWay, and Quidd on Euronext or another exchange. Given these businesses were acquired by the company for their strategic assets (The Sandbox, Power Rangers, and the leading global marketplace for digital collectibles) there is a risk that an IPO may not generate the valuation uplift being sought.

PEER COMPARISON

We considered a range of peers for Animoca Brands, both domestic and international which are set out on the following two tables. As the table below highlights, the Australian and Hong Kong peers are substantially smaller than Animoca Brands in terms of enterprise value, and as they are also at an early stage in their life cycles, the EV/revenue multiples for the most part reflect that the market is paying well ahead for revenue. These peers are also less relevant to Animoca Brands, in our view, with Esports and Emerge Gaming both focused on esports tournaments, Kneomedia on edutainment and Sportshero a real-time predictive sports platform. iCandy (ASX:ICI) has some relevance to Animoca Brands given it is a mobile games company and that it has recently acquired a portfolio of games from Animoca Brands, which in turn secured a shareholding in iCandy.

We then looked to the international market, where the peer group is substantially more developed in terms of earnings and business model.

Code	Company	Enterprise value (US\$M)	EV/Revenue
ICI.AX	iCandy Interactive Ltd	3.0	1.7
SHO.AX	SportsHero Ltd	4.6	49.9
ESH.AX	Esports Mogul Ltd	3.4	56.3
KNM.AX	Kneomedia Ltd	5.8	120.7
EM1.AX	Emerge Gaming Ltd	9.7	317.2
Median		4.6	56.3

Source: Thomson Reuters Eikon, RaaS Analysis Prices at 10 July 2020

Code	Company Name	Current Enterprise Value (US\$M)	EBITDA (US\$M)	EV/Revenue (LTM) x	PER LTM x	Forward P/E x	EV/EBITDA 1 year fwd x	EV/Sales 1 year fwd x	EBITDA Margin %
UBIP.PA	Ubisoft Entertainment SA	11,086	729	6.15	n.a	26.5	7.4	3.8	41%
EA.OQ	Electronic Arts Inc	35,915	1,613	6.49	9.7	27.0	18.0	6.3	29%
ATVI.OQ	Activision Blizzard Inc	59,312	2,308	9.19	30.5	28.0	20.0	8.0	36%
TTWO.OQ	Take-Two Interactive Software Inc	15,535	662	5.03	33.5	35.3	23.6	5.3	21%
GLUU.OQ	Glu Mobile Inc	1,614	16	3.82	107.3	26.5	24.3	3.0	4%
CDR.WA	CD Projekt SA	9,104	60	56.74	160.5	20.3	16.2	12.2	44%
SCPL.OQ	Sciplay Corp	2,063	113	4.43	8.6	16.4	13.0	3.9	24%
SFRG.ST	Stillfront Group AB	3,350	79	13.73	27.5	30.2	6.2	1.1	37%
ROVIO.HE	Rovio Entertainment Oyj	386	36	1.20	26.7	17.0	15.7	6.6	11%
Median		9,104	113	6.2	29.0	26.5	16.2	5.3	29%

Source: Thomson Reuters Eikon, RaaS analysis. Prices at 10 July 2020

Of the international peers, **Glu Mobile** is the closest to Animoca Brands' lifecycle and business model in terms of its portfolio approach and acquisition strategy. Glu Mobile develops, publishes and markets a portfolio of mobile games including Fashion and Celebrity, Food, Sports and Action, Social Networking and Home. Its portfolio of games include *Contract Killer*, *Cooking Dash*, *Covet Fashion*, *Deer Hunter*, *Design Home*, *QuizUp*, *Racing Rivals* and *Tap Sports Baseball*, as well as games based on third party licensed brands, including *Gordon Ramsay DASH*, *Kendall & Kylie*, and *Kim Kardashian: Hollywood*. Glu Mobile is also similar to Animoca Brands in terms of its maturity, having only moved to profitability in the 2019 financial year.

Sweden-based **Stillfront Group** also shares similarities with Animoca Brands. The independent creator, publisher and distributor of digital games operates through a number of near-autonomous subsidiaries, including Bytro Labs in Germany, Coldwood Interactive in Sweden, Power Challenge in the United Kingdom and Sweden, Dorado Online Games in Malta, Simutronics in the United States, and Babil Games in United Arab Emirates and Jordan. Like Animoca Brands, Stillfront has acquired many of its subsidiaries. Stillfront's games portfolio includes *Call of War*, *DragonRealms*, *ManagerZone Football*, *Lara Croft Relic Run*, *Supremacy 1914*, and *Unravel*.

Electronic Arts, while a substantially larger company, deploys a similar licensing strategy to Animoca Brands with game brands including *FIFA*, *Madden NFL*, *Star Wars*, *Battlefield*, *the Sims*, and *Need for Speed*. Electronic Arts also develops, markets, publishes and distributes games, content, and services across a range of platforms.

We chose to include Ubisoft, Activision Blizzard and Take-Two Interactive as they are market leaders in the gaming market, all at a more mature stage in their lifecycles which is relevant for our discussion on valuation in the following section.

Ubisoft develops, publishes and distributes video games for consoles, PCs, smartphones and tablets in both physical and digital formats and owns several brands and a diversified portfolio of franchises, including *Assassin's Creed*, *The Crew*, *Far Cry*, *For Honor*, *Tom Clancy's Ghost Recon*, *Tom Clancy's Rainbow Six Siege*, *Tom Clancy's The Division*, and *Watch Dogs*.

Activision Blizzard has five business units under its banner – Activision Publishing, Blizzard Entertainment, King, Major League Gaming, and Activision Blizzard Studios. Its major properties include *Call of Duty*, *Guitar Hero*, *Tony Hawk's*, and *Skylanders*, *World of Warcraft*, *StarCraft*, the *Diablo* series, *Hearthstone*, *Heroes of the Storm*, and *Overwatch* through Blizzard Entertainment and mobile titles including *Candy Crush Saga* through King.

Take-Two Interactive Software develops and publishes products through its labels Rockstar Games and 2K. Rockstar Games is the developer and publisher of *Grand Theft Auto* as well as other successful titles including *L.A. Noire*, the *Max Payne* series, *Midnight Club*, and the *Red Dead* series.

For completeness, we included **CD Projekt**, a Poland-based company active in both movies, blue-ray storage, and games including *The Witcher*, *The Witcher 2: Assassins of Kings*, *The Witcher 3: Wild Hunt*, and *Cyberpunk 2077*; **SciPlay Corporation**, a developer and publisher of social mobile games including *Jackpot Party Casino*, *Gold Fish Casino*, *Hot Shot Casino*, and *Quick Hit Slots*, and casual games *MONOPOLY Slots and Bingo Showdown*; and **Rovio Entertainment** which is the owner of the *Angry Birds* franchise, and is engaged in mobile game development and brand licensing.

Valuation – ‘the Golden Rule’

The sense of pre-earnings and pre-cash flow valuations can be cross-checked using a simple relationship that focuses attention on the most significant risks and opportunities. This premise was examined by Dr Kingsley Jones³ and suggested as a golden rule used by venture capitalists and early stage investors to sense check their valuations. The golden rule is based on the following:

- ✚ Early-stage companies have revenue as the most visible performance metric
- ✚ Later-stage companies have earnings and margin as visible metrics
- ✚ Valuations at both stages are subject to sentiment and changing multiples

This simple valuation rule takes into account profit margins and earnings multiples and is defined as:

$$\text{Current price to sales} = \text{Stable NPAT margin} \times \text{Price Earnings Ratio} \times \text{Sales uplift/Price uplift.}$$

The price that the market will pay at a given time is dependent on the cyclicity of markets. When the market favours growth then the emphasis is on revenue multiples with seemingly little regard for profitability. However, as this enthusiasm cools the market will turn its attention to profitability and return on funds employed. To apply the simple valuation rule explained above we make the following assumptions:

- ✚ Sales uplift (defined as the expected growth in sales over the investor's investment horizon) divided by price (to the investor) uplift (defined as the investor's expectations of return over the investor's investment horizon)

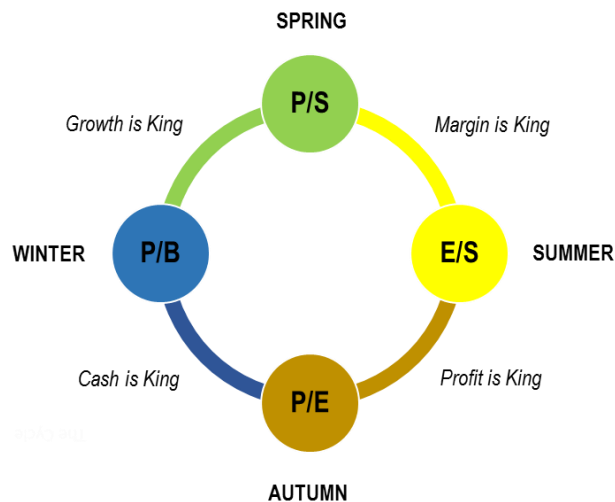
3 Jevons Global – Valuation for Early-Stage Technology Companies

- ✦ A long run EBITDA profit margin for the industry of ~29% which converts to 20.4% NPAT margin using a tax rate of 30%. We have based this margin on the median EBITDA margin discussed in the international peer group above

The third component to this calculation is Price Earnings Ratio. The long-term PE ratio of the Australian market is 15x and the long-term PE of the US market is 20x. The average PE for profitable companies in our comparative company group is 27.7x. The market capitalization of this group of companies averages US\$16.4b. Most of these companies are profitable gaming companies and this, together with relative size and growth prospects, sees the market paying around 1.9x the Australian market PE and 1.4x the US market.

Our simple valuation approach (the Golden Rule) described above is a way of taking into account the ultimate profitability of each company. In a buoyant financial market where growth is king, investors will tend to focus on revenue (the spring season). The next stage will be a focus on margins followed by an autumn period where the focus turns to profit before entering the depressed winter stage where cash is king. In our view the market seems to have turned its attention more to profitability or at least the path to profitability rather than revenue growth. Investor mood changes are illustrated in the exhibit below:

Exhibit 18: The seasons of valuation



Source: Jevons Global – Valuation for Early-Stage Technology Companies (P/S – Price/Sales; E/S – Earnings/Sales; P/E – Price/Earnings; P/B – Price/Book)

Application of Golden Rule

Input selection

We have selected as a long-term steady state PE 27.7x which is a 85% premium to the long-term average Australian market PE of 15x, a 66% premium to the current Australian market PE of 16.7x, and a 39% premium to the long-term average of the US market. Our analysis of the comparative company group suggests that even more mature businesses with steady NPAT margins are rewarded with long term PE multiples of 20-30x. The average for the group is 30x on a 12-month rolling basis. We have set out in the next two exhibits the impact that different PE's have on the implied uplift factor required to achieve the current market capitalisation of each of these companies. In the first exhibit, we use each company's current PE, in the second, we have adjusted the PE to that of the average gaming PE of 27.7x to demonstrate what uplift factor is required.

As the table below demonstrates, the implied uplift factor for many of these companies is around 1.6x, however when we apply the average PE, the uplift factor widens to 2.4x, reflecting the different stages of profitability and market expectations for each of these companies.

Exhibit 19: Uplift factor required to reach each market cap using the tech sector's PE

Company	Gaming PER	NPAT Margin	Uplift factor required	Revenue multiple	Revenue FY19	Market cap
Ubisoft Entertainment SA	26.48	29%	0.8	6.1	1,759	10,690
Electronic Arts Inc	18.37	20%	2.0	7.3	5,537	40,654
Activision Blizzard Inc	29.25	25%	1.3	9.6	6,489	62,617
Take-Two Interactive Software Inc	34.39	15%	1.1	5.7	3,089	17,537
Glu Mobile Inc	66.89	3%	2.3	4.2	411	1,729
CD Projekt SA	90.40	31%	2.4	67.3	137	9,253
Sciplay Corp	12.49	17%	2.0	4.2	466	1,946
Stillfront Group AB	28.84	26%	2.0	15.0	210	3,153
Rovio Entertainment Oyj	21.82	8%	0.9	1.6	324	516
Median	28.84	20.4%	1.6	13.5	2,047	16,455

Source: RaaS Analysis, Thomson Reuters Eikon – based on share prices at July 10

Exhibit 20: Uplift factor implied in each peer's current PE to achieve market cap

Company	Average Gaming PER	NPAT Margin	Uplift factor	Revenue multiple	Last reported Revenue US\$m	Market cap US\$m
Ubisoft Entertainment SA	27.7	29%	0.8	6.1	1,759	10,690
Electronic Arts Inc	27.7	20%	1.3	7.3	5,537	40,654
Activision Blizzard Inc	27.7	25%	1.4	9.6	6,489	62,617
Take-Two Interactive Software Inc	27.7	15%	1.4	5.7	3,089	17,537
Glu Mobile Inc	27.7	3%	5.6	4.2	411	1,729
CD Projekt SA	27.7	31%	7.9	67.3	137	9,253
Sciplay Corp	27.7	17%	0.9	4.2	466	1,946
Stillfront Group AB	27.7	26%	2.1	15.0	210	3,153
Rovio Entertainment Oyj	27.7	8%	0.7	1.6	324	516
Median	27.7	20.4%	2.4	13.5	2,047	16,455

Source: RaaS Analysis, Thomson Reuters Eikon – based on share prices at July 10

Now we are ready to apply the Golden Rule formula:

$$\text{Current price to sales} = \text{Stable NPAT margin} \times \text{Price Earnings Ratio} \times \text{Sales uplift/Price uplift}$$

or

$$\text{EV/Revenue multiple (or Current price to sales)} = 20.4\% (\text{Median NPAT Margin}) \times 27.7 (\text{Gaming PER}) \times (48\% (\text{expected revenue growth rate}) \div 20\% (\text{required investor return}))$$

Taking this information, we have used the average Gaming PER x the median NPAT margin x Expected growth rate ÷ the investor's expected return. The expected growth rate has been calculated to give us the average gaming revenue multiple of 13.5x. Applying this to Animoca Brands' CY19 revenues of \$17.8m we arrive at a current valuation of \$240.4m or \$0.25/share.

Exhibit 21: Golden Rule valuation

Golden Rule Valuation	Parameters
Average Gaming PER	27.7
NPAT Margin	20.4%
Investor return	20%
Nominal revenue growth rate*	48%
Golden rule revenue multiple	13.5
Animoca Brands' CY19 revenue	17.8
Implied Golden Rule valuation (\$M)	240.4
Valuation per share	0.25

Source: RaaS Analysis *Adjusted to give us the average revenue multiple

Another way to consider this is to apply the required rate of return from the investment to the expected revenue growth rate to the industry PER and NPAT margin. This derives a multiple to apply to the last reported annual revenues (\$17.8m). We set this out in the following table. Note that we have put a blue border around the scenario which most closely matches the uplift factor derived from the peer group (2.4x) and the EV/Revenue multiple which also most closely matches the median derived from the peer group (13.5x).

Exhibit 22: Golden rule applied to expected revenue growth rate and required rate of return

Expected growth rate	÷	Invest or rate of return	=	Uplift factor	X	PER	X	NPAT Margin	=	Golden rule EV/multiple	X	CY19 Rev (A\$M)	=	Implied valuation (A\$M)	Implied valuation Per share
30%	÷	10%	=	3.0	X	27.7	X	20.4%	=	16.97	X	17.8	=	302.1	\$0.31
30%	÷	15%	=	2.0	X	27.7	X	20.4%	=	11.31	X	17.8	=	201.4	\$0.21
30%	÷	20%	=	1.5	X	27.7	X	20.4%	=	8.48	X	17.8	=	151.0	\$0.16
40%	÷	10%	=	4.0	X	27.7	X	20.4%	=	22.63	X	17.8	=	402.8	\$0.41
40%	÷	15%	=	2.7	X	27.7	X	20.4%	=	15.08	X	17.8	=	268.5	\$0.28
40%	÷	20%	=	2.0	X	27.7	X	20.4%	=	11.31	X	17.8	=	201.4	\$0.21
50%	÷	10%	=	5.0	X	27.7	X	20.4%	=	28.28	X	17.8	=	503.4	\$0.52
50%	÷	15%	=	3.3	X	27.7	X	20.4%	=	18.86	X	17.8	=	335.6	\$0.35
50%	÷	20%	=	2.5	X	27.7	X	20.4%	=	14.14	X	17.8	=	251.7	\$0.26

Source: RaaS Analysis



Exhibit 23: Financial Summary

Animoca Brands						Last share price						A\$	0.18																
Profit and Loss (A\$m)						Interim (A\$m)						H117A	H217A	H118A	H218A	H119A	H219A												
Y/E 31 December	FY15A	FY16A	FY17A	FY18A	FY19A	Revenue	3.7	2.8	5.7	7.1	8.3	9.5	Gross Profit	2.1	1.4	3.6	5.2	4.9	3.2										
Revenue	7.6	8.7	6.5	12.8	17.8	Gross Profit Margin	56.7%	52.0%	62.9%	73.0%	59.2%	33.3%	EBITDA	(4.2)	(5.0)	(1.4)	(3.9)	(6.1)	(9.5)										
Gross Profit	5.0	5.0	3.6	8.8	8.1	EBIT	(4.2)	(3.9)	1.1	(3.6)	(7.7)	(14.9)	NPAT (normalised)	(4.2)	(3.9)	1.0	(4.1)	(7.3)	(17.7)										
Gross Profit Margin	65.6%	57.8%	54.7%	68.5%	45.4%	Minorities	0.0	0.0	(0.0)	0.2	(0.5)	(0.1)	NPAT (reported)	(4.2)	(3.9)	1.0	(3.9)	(7.8)	(17.8)										
EBITDA	(3.9)	(8.5)	(9.2)	(5.3)	(15.6)	EPS (normalised)	(1.2)	(1.0)	0.2	(0.7)	(1.1)	(1.9)	EPS (reported)	(1.2)	(1.0)	0.2	(0.7)	(1.1)	(1.9)										
EBIT	(3.9)	(8.5)	(8.1)	(2.5)	(22.6)	Operating cash flow	(5.2)	(7.7)	(0.6)	(3.3)	(0.2)	(4.8)	Free Cash flow	(5.2)	(7.7)	(0.4)	(3.3)	0.1	(3.3)										
Depn	0.0	0.0	0.0	0.0	(0.8)	Segment reporting	H117A	H217A	H118A	H218A	H119A	H219A	Revenue - Asia	3.7	1.9	5.4	6.1	6.1	7.2										
Amort	0.0	0.0	0.0	0.0	(2.8)	Revenue - Europe	-	0.8	0.1	-	0.0	0.0	Revenue - Americas	-	-	0.1	1.0	2.2	2.2										
EBITDA	(3.9)	(8.5)	(9.2)	(5.3)	(15.6)	Total Revenue	3.7	2.8	5.7	7.1	8.3	9.5	Operating profit (loss) - Asia	(3.5)	(5.3)	0.7	(3.9)	(6.2)	(13.8)										
Interest	1.0	0.5	0.0	(0.6)	(2.4)	Operating profit (loss) - Europe	(0.4)	1.1	0.4	0.1	0.2	(3.7)	Operating profit (loss) - Americas	0.0	0.0	(0.1)	(0.4)	(1.3)	(0.1)										
Tax	0.0	0.0	0.0	0.0	(0.3)	Corporate/unallocated costs	(0.2)	0.2	0.0	(0.0)	0.1	0.0	Total Operating Loss before minorities	(4.2)	(3.9)	1.0	(4.1)	(7.3)	(17.7)										
Minorities	0.0	0.0	0.0	0.2	(0.6)	Margins, Leverage, Returns	FY15A	FY16A	FY17A	FY18A	FY19A	Gross Profit	65.6%	57.8%	54.7%	68.5%	45.4%	EBITDA	(52.2%)	(97.1%)	(141.0%)	(41.2%)	(87.5%)						
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0	Net Debt (Cash)	(4.9)	(1.5)	(0.7)	(7.5)	(1.2)	EBIT	(52.2%)	(97.1%)	(124.0%)	(19.3%)	(127.0%)	NPAT pre significant items	(38.7%)	(91.1%)	(123.9%)	(22.9%)	(145.8%)						
NPAT pre significant items	(2.9)	(7.9)	(8.0)	(2.9)	(26.0)	Net debt/EBITDA (x)	(x)	n/a	n/a	n/a	n/a	NPAT (reported)	(2.9)	(7.9)	(8.0)	(2.9)	(26.0)	Net Debt/Equity (%)	(%)	(155.3%)	86.4%	(313.6%)	70.6%	6.9%					
Significant items	0.0	0.0	0.0	0.0	0.0	ND/ND+Equity (%)	(%)	(155.3%)	86.4%	(313.6%)	70.6%	6.9%	EBIT interest cover (x)	(x)	n/a	n/a	n/a	n/a	n/a										
NPAT (reported)	(2.9)	(7.9)	(8.0)	(2.9)	(26.0)	EBIT interest cover (x)	(x)	n/a	n/a	n/a	n/a	n/a	ROA	(51.7%)	(136.7%)	(155.7%)	(15.3%)	(61.1%)	ROE	(165.9%)	(240.3%)	(426.5%)	(31.7%)	(143.2%)					
Cash flow (A\$m)							NTA (per share)	0.01	0.01	n/a	0.02	0.02	Working capital	2.4	2.2	1.6	4.1	1.9	WC/Sales (%)	32%	25%	25%	32%	11%					
Y/E 31 December	FY15A	FY16A	FY17A	FY18A	FY19A	Revenue growth	15%	-25%	97%	39%	EBIT growth pa	n/a	n/a	n/a	n/a	n/a	Pricing	FY15A	FY16A	FY17A	FY18A	FY19A	No of shares (y/e)	(m)	171	265	386	542	950
EBITDA	(3.9)	(8.5)	(9.2)	(5.3)	(15.6)	Weighted Av Dil Shares	(m)	171	265	386	542	950	EPS Reported	cps	(1.73)	(3.14)	(2.19)	(0.52)	(2.98)	EPS Normalised/Diluted	cps	(1.58)	(2.17)	(2.19)	(0.52)	(2.98)			
Interest	0.0	0.0	0.0	0.0	0.0	Share capital	16.2	25.7	31.1	45.8	73.6	Accumulated profits/losses	(14.4)	(22.4)	(30.7)	(33.4)	(59.6)	Reserves	0.0	0.0	0.0	0.0	0.0	Minorities	0.0	0.0	0.0	5.6	4.2
Tax	0.0	0.0	0.0	0.0	0.0	Total Shareholder funds	1.8	3.3	0.5	18.0	18.3																		

Source: RaaS estimates, Company data

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FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

ABN 92 168 734 530

AFSL 456663

Effective Date: 26th November 2018

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- our services
- how we transact with you
- how we are paid, and
- complaint processes

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