

Global gaming – Call of Opportunity!

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The global gaming industry has moved forward in leaps and bounds over the last few years, with growth being led by China and the US. China has grown at 14% per year over last five years, whilst the US has grown by 8% per year.

These two markets make up 48% of the global market*. Industry forecasts expect the growth to continue as mobile gaming proliferates into other countries. Global gaming is no longer child's play but rather a serious investment opportunity.

There are multiple opportunities to invest in global gaming: game publishers (Electronic Arts, Activision and Nexon); Chinese conglomerates (Tencent, NetEase); Hardware (Microsoft, Sony, Nintendo). Our focus is on the game publishers as this offers the most direct exposure to this growing industry. We also think the game publishers have defensible business models due to the brands they own. We view game titles as brands e.g. FIFA, NBA2K, and Call of Duty. A publisher like Electronic Arts (EA) also defends its FIFA title through hundreds of licenses with various football (soccer) organisations, international or domestic clubs. For a competitor to replicate all of this would be very difficult. Where licenses don't exist to protect games, propriety technology remains a key differentiator of successful game publishers.

The foray of technology giants into gaming has caused some investors to question whether game publishers would be disintermediated. Google recently released a console-free (no hardware box required) gaming solution. You connect directly to the internet and are able to play games on your TV or phone, changing in-between seamlessly. This system requires internet speeds that most of us don't experience so it is a few years away. However, even in this environment game publishers will continue to be important as they have built up years of experience in terms of creating content that gamers demand. They also own the brands that we previously mentioned that gamers play religiously thus allowing them to weather the change in the industry.

Game publishers also have the benefit of another tailwind: the rise of eSports. eSports are competitive video games played against other people. Spectators view these events live in a stadium or most stream it online from their homes. This drives interest in specific game titles that are conducive to watching and means that those titles will remain relevant for longer periods of time. eSports remains difficult to value as game publishers begin to figure out how to monetise these markets. The market for game viewing remains attractive due to its size, estimated at over 650 million. This group has high disposable income and to place it into context is five times the size of the Netflix subscriber base.

We continue to look for opportunities in the gaming sector as we think there are companies within the sector that have defensible business models and attractive growth prospects.

*Source: Newzoo.com

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