



Management Discussion and Analysis Report

OVERVIEW ON THE GAMING INDUSTRY:

India is amongst the top five mobile gaming markets in the world with 365 million gamers in 2019 (Source Statista). This number is estimated to rise to 486 million by 2022. In 2019, around 5.6 billion mobile gaming apps were downloaded in India - the highest in the world that represents 13% of the total gaming app downloads as per App Annie estimates. Gaming contributed to nearly 6% of the time spent by users in 2019 across content categories on the mobile devices. Furthermore, a section of Indian consumers are looking to better utilize their leisure time & are spending that on playing games rather than watching OTT content. The overall gaming industry was \$1.9 billion in 2019 and is expected to be \$8.4 billion in 2024 (35% CAGR).

Games are new social community platforms for the millennials and GenZs and is inculcating habit of in game item purchases which improve game play as well as social status. Recent lockdown which has augmented virtual item purchase behaviour within gaming apps and has created 80-100 million paying gamers in India. The number of paying gamers will rapidly penetrate rest of the 250 million gamers in coming years as gaming is the cheapest form of entertainment as compared to watching movies in theatres or on OTT platforms. Indian gaming market is already bigger than Bollywood in terms of revenue though it is still much smaller than China or US markets.

The China gaming market is 14 billion USD in 2020 and in 2011 China gaming revenue was 0.9 billion USD (Source Goldman Sachs). India gaming market size in 2020 is 0.9 billion USD and in terms of number of gamers China has 385 million gamers in 2013 while India has 365 million gamers in 2020.

India has potential to become global gaming powerhouse because of the large domestic market and ability to make India hub for global game development. Some of the key growth factors driving domestic consumption of gaming in India apart from cheaper data & availability of high performing smartphone at great prices are as follows:

- Growth of social Multiplayer games because of improved delivered speeds on devices over mobile network as well as wifi
- Growth microtransaction payment system in india
- Localized and India specific games developed to Indian consumer tastes (such as ludo, carrom and cricket)
- Entry of global game publishers in India to tap into India which is the largest open gaming market in the world given that entry in China is restricted for global players.
- Increased supply of talent pool of quality game developers which are developing global quality games while based in India.
- Advent of real money skill-based games offering instant gratification of winning real money.

All segments of gaming, as defined below, will grow explosively and gaming will dominate the entertainment sector in India.

Table: Current Market Size & Potential Market Size. Explosive growth in Market Size

	2018	2019
India Market Size (\$Mn USD)	400	900
- RMG	220	500
- IAP	80	300
- Casual	100	100
Players (No. Monthly Active Players)		
- Non Internet Mobile Players	300-400mn	650mn
- Casual Gamers	250mn	400mn

Skill based Real Money games market has grown very fast however it is prone to binary regularity risks given that online real money games fall under state as well as central executive jurisdiction and different judicial courts have taken different views of definition of what constitutes game of skill versus game of chance.

Summary of the opportunity in gaming market from Nazara's perspective:

Nazara looks at following opportunities in gaming market leveraging its dominance in non-real money gaming business and its continued opinion of real money gaming being a binary risk on account of lack of clarity on nationwide uniform policy on online real money gaming.

1. **Build in India for India strong gamified sports IPs/ offerings:** Accelerate growth and strengthen dominance of Nazara in esports and virtual sports simulation mobile gamers catering to large addressable segment of sports fans which is looking at new age sports formats both as player as well as spectators.
2. **Create global brands out of India:** Target young learners (2-8 years old) and their parents across the world and build global brand and IP characters which provide edutainment to the early learners.
3. **Expand India playbook to other emerging markets like Africa and Middle East ;** Leverage the distribution pipelines built over across 62 countries and harness the global advertiser and publisher relationships.
4. **Aggressive M&A and startup incubation:** Keep investing in the local ecosystem and always be on the lookout for inorganic growth opportunities to partner with amazing talent pool emerging from India.

How does Nazara generate its revenues?

Your company has successfully evolved from being a curation & distribution of mobile gaming content company to the developer and publisher of in house created gaming and media content IPs and leveraging distribution pipelines globally covering India, Africa, Middle East and North America.

Your company has worked in FY 19-20 to strengthen the leadership in esports and cricket simulation mobile game in Indian market and added Sportskeeda (a multi sports news destination in its portfolio) and increased its stake in Halaplay –fantasy sports offering to ensure multiple touch points with new age sports fan in India.



Nazara further augmented its presence in kids vertical by acquiring majority in Paperboat Apps (51%) in FY 19-20. Paperboat Apps publishes a subscription app under brand name of Kiddopia in North America for preschool kids that teaches everything from math, language skills, general knowledge and social skills to creativity through fun & exciting game play thru in house created gamified learning content.

As of March 2020, your company has diverse business segments with revenue generation happening across subscription, advertisement, brand sponsorship, media rights licensing and purchase of virtual items within the game.

Sr. No.	Business Segment	Business Model	Content IP Ownership	% Rev Contribution (FY 18-19)	% Rev Contribution (FY 19-20)
1	Telco Subscription Business	Players subscribing to the daily/ weekly / monthly game subscription packs and Payment is collected by telecom carrier	No	57%	33%
2	Freemium	Ads & virtual items purchased within the games	Yes	14%	8%
3	Early learning*	Subscription paid by young parents	Yes	-	8%
4	Esports	Media rights licensing & events sponsorships, ad shown on the platform	Yes	29%	34%
5	Real Money Gaming	Platform fee collected from the games played on the platform	Yes	-	17%

SNAPSHOT OF FINANCIAL PERFORMANCE: FY 19-20 over FY 18-19:

Revenue Performance Snapshot

Nazara Technologies delivered total income of ₹ 2,629.65 million in FY 20 which is 41.30% growth over FY 19 (₹ 1,860.07 million). The revenue mix change has laid the perfect platform for achieving high growth in businesses which have higher user engagement and retention leading to predictable high growth revenue mix. Your company has built a great springboard for continued high growth in each of the underlying business offerings. Segment wise revenue breakup is as follows:

Revenue (₹) in Millions	FY 17-18*	FY 18-19	FY 19-20**	IPs
Telco Subscription	1,531.71	959.82	817.96	Rights to distribute aggregated gaming content
Freemium	152.29	245.63	197.79	World Cricket Championship
Early learning (Subscription)	-	-	191.33	Kiddopia
Esports	36.40	491.66	841.61	Nodwin + Sports Keeda
Real Money Gaming	-	1.20	426.40	Halaplay, Big PESA
Total Operational Revenue	1,720.40	1,698.31	2,475.09	45.73% growth YOY in FY 19-20
Other Income	98.98	163.08	154.56	
Total Revenue	1,819.38	1,861.39	2,629.65	41.30% growth YOY in FY 19-20

*only 3 months of Nextwave (freemium) and Nodwin (esports) revenue has been taken in FY 17-18

**only 3 months of Paper boat apps (early learning) & 6 months of Sports Keeda (esports) revenue has been taken in FY 19-20

Profitability Performance Snapshot

EBITDA Analysis: Nazara's business which were carried forward from FY 18-19 into FY 19-20 viz, telco subscription, esports and freemium, have delivered 25.85% EBITDA margin as compared to 17.11% EBITDA margin in FY 18-19. The new acquisition of real money gaming (Halaplay and Big Paisa) and early learning (PBA) have delivered ₹ 617.73 Million of revenue while incurring loss of ₹ 381.87 Million on account of upfront investment in new player acquisition & brand building. The investment in new acquisitions resulted in overall EBITDA margin for FY 19-20 of 4.01% as compared to 15.75% in FY 18-19. Paperboat's app Kiddopia has long term retention & profitable unit economics with 9-10 months breakeven of consumer acquisition cost and will demonstrate positive EBITDA in coming year/s.

INR ₹ in millions	FY 18-19			FY 19-20		
	Revenue	EBITDA	% Margin	Revenue	EBITDA	% Margin
Existing Biz (Nz+ Nodwin +NW)	1,697.11	290.45	17.11%	1,857.36	480.20	25.85%
New Business (HP + PBA)	1.20	(22.95)	-1,912.50%	617.73	(381.87)	-61.82%
Total	1,698.31	267.50	15.75%	2,475.09	98.33	4.01%

Company wise Financial Reporting: (₹ in millions)

Revenue	FY 17-18	FY 18-19	FY 19-20	% YOY Growth
Nazara and its foreign subsidiaries	1,638.88	1,054.46	933.88	(11.44%)
Nodwin Gaming Private Limited	170.43	495.17	746.61	50.77%
Paper Boat Apps Private Limited	35.53	182.50	572.17	213.52%
Next wave Multimedia Private Limited	117.75	150.87	136.76	(9.35%)
Absolute Sports Private Limited	132.48	154.48	142.21	(7.94%)
Halaplay Technologies Private Limited	25.46	223.49	396.76	77.53%

(₹ in millions)

EBITDA	FY 17-18	FY 18-19	FY 19-20	IPs
Nazara	332.14	39.05	160.91	
Nodwin Gaming Private Limited	16.38	36.18	84.89	IndiaPremiership; ESPORTS MANIA
Paper Boat Apps Private Limited	4.12	(19.85)	(33.41)	Kiddopia
Next wave Multimedia Private Limited	53.71	60.88	46.00	World Cricket Championship
Absolute Sports Private Limited	18.44	8.30	13.47	Sportskeeda
Halaplay Technologies Private Limited	(20.96)	(276.41)	(308.12)	Halaplay

Commentary on Key Growth drivers & Investment Performance Snapshot:

Pls note: The revenue and EBITDA numbers are at the operating company level for the respective financial year and will not match with the Nazara consolidated numbers as time period of consolidation of revenue and % holding of will lead to difference in revenue as well as ebitda in company's SFS and Nazara CFS.

- Paperboat apps(IP: Kiddopia) :** Nazara acquired majority in early learning app Kiddopia in January 2020. Kiddopia is aimed at 2-7 year old kids and is very popular



in North America with majority of its revenue coming from USA. Kiddopia has shown 3 X growth in FY 20 in terms of revenues and has very strong unit economics with consumer acquisition cost getting recovered in 9 months and high life time value on account monthly subscriber retention being 14%. Long term retention makes it very high EBITDA margin at steady state of user acquisition spends and offers high growth annuity business with high EBITDA margins. The annual subscription revenue which is collected upfront has been amortized over 12 months and deferred revenue as of March 30,2020 is .. Crs which makes business cash EBITDA positive.

₹ in millions	FY 2018	FY 2019	FY 2020
Revenue	35.53	182.50	572.17
EBITDA	4.12	(19.85)	(33.41)

Paying Subs Calendar year	2018	2019	2020
Avg Total Paying Subs/ month	27760	98228	279468
Avg Monthly Paying Subs/ month	19194	69602	202823
Avg Annual Paying Subs/ month	1277	3455	9082

2. **Esports (Nodwin/ Sportskeeda):** Overall esports media grew by 40% in FY 20 over FY 19 and expected to surge in FY21 over FY20 due to momentum in the business. Esports revenues comprises of media rights licensing of own content, brands sponsorships for the offline and online events, licensing fee received from game publisher for the community activation and programmatic inventory selling on SportsKeeda.

Esports is disrupting traditional sports worldwide and is an outcome of sports and gaming intersecting to create a fast paces high thrill spectator entertainment content. Number of registered players participating in tournaments organized by Nodwin in FY 19-20 zoomed to 2.2 mil from 0.45 mil in FY 18-19, Likewise, Live streams from the events got 28 million live stream views in FY 19-20 as compared to 6 mil views in 18-19 across OTT platforms. SportsKeeda registered average 47.3 Mil visits per month in FY 19-20 which is 38% growth over FY 18-19.

2.1 **Nodwin** is into esports content business and dominates the esports business in India across esports content on OTT platforms, large scale esports IP, partnerships with global game publishers and brand sponsorships across endemic and non-endemic brands. Media rights licensing business contributes to over 55% of the overall revenues and Nodwin is now top 5 global esports company in terms of revenue scale and is leading mobile esports across the world. Esports content business grew by 60% in FY 20 over FY 19 and has grown 8.5 X in 3 years.

₹ in millions	FY 2018	FY 2019	FY 2020
Revenue	170.43	495.17	746.61
EBITDA	16.38	36.18	84.89

2.2 **Sportskeeda** is leading multi sports/ esports news destination with over 20 million monthly active users visiting the website to read the content across WWE, esports, cricket, soccer, basketball and it is the largest multi Sports news site in India. Revenue in FY 20 declined over FY 2019 on account of decline in advertising rates in India.

₹ in millions	FY 2018	FY 2019	FY 2020
Revenue	132.48	154.48	142.21
EBITDA	18.44	8.30	13.47

3. **Next Wave (IP: World Cricket Championship):** World's largest cricket simulation game on mobile played for 51 minutes per day by over 15 millions monthly active users. The game is a cult among mid core gamers who love virtual sports simulation genre. WCC revenue declined in FY 20 on account of drop in the advertising rates in India However, company expects new growth drivers such as in-app purchases and release of WCC3 – the new game which is scheduled to be launched in July 2020. and is being designed to drive IAPs – to contribute to revenue growth in FY21 and beyond.

₹ in millions	FY 2018	FY 2019	FY 2020
Revenue	117.75	150.87	136.76
EBITDA	53.71	61.55	46.00

4. **Halaplay (Real Money Skill Gaming):** Due to potential regulatory risks, your company has modified its aggressive user acquisition led approach to this vertical towards a more conservative, profitability led growth model. The results of this new approach will be visible through the vertical delivering profitability in FY21 despite lack of live sports due to Covid-19 impact.

₹ in millions	FY 2018	FY 2019	FY 2020
Revenue	25.46	223.49	396.76
EBITDA	(308.12)	(276.41)	(307.63)

Incubation of licensed sports betting in Kenya, Real money Trivia in India are still work in progress to find product market fit for scaling the # of users

Cash and Cash Equivalents:

Your Company has added ₹ 61.35 millions to cash and near cash reserves during the year under review aggregating to ₹ 2,233.58 million of total cash and near cash reserves as of March 31, 2020 as compared to ₹ 2,172.23 million as of March 31, 2019. The Company and all its subsidiaries continue to remain debt free from external borrowings



Details of the Investments Made by Nazara as on March 31, 2020

Investments made by the Company			
Name of the Party	Amount (₹ in millions)		Nazara's Holding
	Cash Consideration	Share Swap	
Next Wave Multimedia Pvt Ltd	300.30	227.94	52.38%
Nodwin Gaming Private Limited	355.32	414.31	54.99%
Halaplay Technologies Private Limited	318.48	-	38.40%
Crimzoncode Technologies Private Limited	16.85	13.1	100%
Khichadi Technologies Private Limited	7.50	-	15%
Sports Unity Private Limited	60.90	-	62.53%
Absolute Sports Private Limited	95.00	343.43	63.90%
Paper Boat Apps Private Limited	400.10	435.00	50.91%
Nazara Technologies FZ LLC	0.64	-	100%
Nazara Pro Gaming Pvt Ltd	0.1	-	100%
Nazara Pte Limited	0.05	-	100%
Instasportz Consultancy Private Limited	10.00	-	8.67%
Moong Labs Technologies Private Limited	10.00	-	24.41%
Mastermind Sports Limited	26.04	-	26.00%
Total	1501.28	1533.78	-

OUTLOOK

We at Nazara are very excited with the diversified platform which has been laid out to deliver high growth across diversified offerings and tailwinds in the gaming and esports and gamified learning will propel the momentum even faster.

Gaming & eSports Industry

- ✓ In 2023, gaming and esports will be a \$ 3.5 Bln India opportunity. This growth will be driven by:
 - o Convergence of sports, virtual sports and eSports
 - o Gen Z and Millennials, playing games on their mobiles
- ✓ Nazara Owns content IPs, is well positioned to capitalize and benefit from this convergence:
 - o Through it's dominance in large TAM segments of eSports, Sports Simulation (cricket) and Early Learning
 - o In India, across Emerging and Developed economies such as the US
- ✓ Nazara is a unique and one of kind story:
 - Is the only annuity investment in India that offers scale without any regulatory risk
 - Has a diversified story with a presence across various large TAM segments / formats within gaming
 - Benefits from multiple value creators in its portfolio, where each can be a global force to reckon with
 - Has a track record of generating free cash flows & driving profitable growth
- ✓ Ultimately, Nazara offers a unique combination of high growth annuity (Early Learning) and high value creation (eSports + Sports Simulation).

