



NEXT GAMES™

Q3

Next Games Corporation

BUSINESS REVIEW

January-September 2019



Next Games Corp. Business Review January-September 2019. Profitability improved, rights offering concluded successfully

July-September in Short

- Revenue was 7.8 million euros, a decrease of 42% (13.4). The exceptionally high revenue level in the comparison period was caused by The Walking Dead: Our World's launch.
- Gross profit increased by 1 percentage point and was 4.3 million euros, 56% of revenue (7.4, 55 % of revenue)
- Adjusted operating profit improved by 8.0 million euros and was -1.2 million euros (-9.2)
- EBITDA improved by 8.2 million euros and was -1.1 million euros (-9.3)
- EBIT improved 8.2 million euros and was -2.1 million euros (-10.3)
- Product development costs were 2.1 million euros (3.4)
- Number of employees was 105 at the end of the quarter (143)
- On 25 September the company announced it will commence a rights offering of approximately 8 million euros. The rights offering was concluded successfully and the proceeds were transferred to the company's accounts after the reporting period on 22 October at which date the company's cash balance was 10.3 million euros. Additionally, the company renewed its credit limit, totalling 3 million euros.

January-September in Short

- Revenue was 27.0 million euros, an increase of 13% (23.9)
- Gross profit increased by 2 percentage points and was 15.6 million euros, 58% of revenue (13.4, 56 % of revenue)
- Adjusted operating profit improved by 10.3 million euros and was -3.0 million euros (-13.3)
- EBITDA improved by 11.5 million euros and was -2.6 million euros (-14.1)
- EBIT improved 9.7 million euros and was -5.6 million euros (-15.3)
- Product development costs were 6.7 million euros (7.0)

(Numbers in brackets refer to the corresponding year-on-year period unless otherwise mentioned)

Key Figures

	2019			2018			2018 Full year
	07-09/2019	07-09/2018	Change	01-09/2019	01-09/2018	Change	
Revenue (k€)	7,812	13,435	-42%	27,036	23,912	13%	35,245
Gross Profit (k€)	4,336	7,410	-41%	15,586	13,444	16%	21,294
Gross profit margin %	56%	55%	0ppt	58%	56%	1ppt	60%
Operating Result (EBIT) (k€)	-2,113	-10,342	n/a	-5,609	-15,296	n/a	-16,915
Operating result margin %	-27%	-77%	50ppt	-21%	-64%	43ppt	-48%
Adjusted Operating Result* (k€)	-1,195	-9,199	n/a	-3,004	-13,271	n/a	-13,777
Adjusted operating result margin %	-15%	-68%	53ppt	-11%	-55%	44ppt	-39%
Depreciations and Amortizations total (k€)							
	991	1,029		2,976	1,169		2,165
IFRS 16 (k€)	256	256		768	256		512
Amortizations of R&D & Licenses (k€)	579	30		1,736	91		1,248
Other (k€)	157	743		472	822		405
Employees (end of period)	105	143		105	143		143

Reconciliation of Non-GAAP Measurements

	2019		2018		2018 Full year
	07-09/2019	07-09/2018	01-09/2019	01-09/2018	
Operating Result (EBIT)	-2,113	-10,342	-5,609	-15,296	-16,915
Depreciations total	991	1,029	2,976	1,169	2,165
EBITDA	-1,122	-9,314	-2,632	-14,127	-14,749
IFRS 16	-256	-256	-768	-256	-512
IFRS 2 share based payments	183	371	396	1,112	1,483
Adjusted Operating Result	-1,195	-9,199	-3,004	-13,271	-13,777

Adjusted operating result is a non-GAAP measure and differs from EBITDA as it excludes IFRS 16 depreciations and include IFRS 2 adjustments for share based payments. The company's management uses this Non-GAAP measure as an alternative to EBITDA to analyze the profitability of the business. Please see reconciliation of Non-GAAP measurements.

Current ratio is an alternative measure which is calculated by dividing current assets such as cash and short-term receivables to current liabilities. Current ratio measures the liquidity of the company.

Chief Executive Officer Teemu Huuhtanen

We took a significant step forwards in September when we announced our rights offering, and thus officially kickstarted the final phase of our turnaround project. This far during 2019, we have first successfully balanced our cost structure, secondly renewed our operational model and lastly kickstarted the rights offering, all according to our original plan. I am very pleased about our current shareholders' commitment to the company and happy that we received a total of full 8 million euros subscription undertakings from Jari Ovaskainen and AMC Networks. I would like to thank our new and current shareholders for their confidence in the future of the company.

Our third quarter EBIT improved significantly, by 8.2 million euros, and was -2.1 million euros (-10.3). Our costs remained on the expected level and we strongly believe that we will be able to reach our cost savings target going forward. Decline in daily active users contributed to our revenue development. Our revenue grew 13% from the comparison period and gross profit was two percentage points higher. It is important to also note that the revenue level during the comparison period was significantly higher due to the launch of The Walking Dead: Our World in July 2018. Additionally, we have carried out an extensive renewal of our operations during 2019, while simultaneously succeeded in growing our revenue and maintaining a balanced profitability trend.

The combined average revenue per daily active user (ARPDau) from our live games developed positively in comparison to the third quarter of 2018 and grew 22.7 percent from 0.22 to 0.27 euros. The Walking Dead: Our World had a major impact in this, as the game's ARPDau improved by 56.5 percent from the third quarter of 2018. Number of daily active users (DAU) decreased from the third quarter of 2018. The comparison period was affected by Our World's global launch in July 2018. The launch had a significant temporary effect in the number of users as the company made significant investments in growing the game during its first weeks.

The Walking Dead: Our World team has focused on renewing the game's first time user experience, which is expected to have a positive impact on the game's early retention towards the end of 2019. Provided that the retention figures improve and the game's ARPDau remains stable, we will have an opportunity to carefully scale the game's marketing investments and pursue increasing the number of daily active users. We have also continued the soft launch of Blade Runner Nexus and focused on testing the game's usability and finalizing functionalities. Preliminary results have been promising. Development of the Stranger Things game continued according to plans and the project nears the end of pre-production phase. Our goal is to launch the game according to the original plans during 2020.

We have continued our focus on renewing our product portfolio and succeeded in bringing multiple projects into the prototyping and concepting phase thanks to our renewed game development process. It is important for the company to have several projects in the pipeline to ensure successful global launches of products, as it is typical for the mobile games industry that only a portion of games will pass through the testing phases to global launch.

After the conclusion of our successful rights offering in October and with multiple promising game concepts, we are excited to work towards the end of 2019. We will focus on developing and publishing games faster, more efficiently and with a more controlled risk level.

Teemu Huuhtanen
CEO, Next Games

Business Outlook 2019 (unchanged)

The company seeks moderate revenue growth during 2019 compared to 2018 and, as a result from the changes in its cost structure, strives towards remaining cash flow neutral in the longer term. As part of cost restructuring, the company estimates it will achieve monthly savings of approximately 550 thousand euros in salaries, administrative costs and product development costs, totalling approximately 6.5 million euros on a yearly basis as compared to the second half of 2018.

Basis for Outlook

The company's estimates are based on the assumption that *The Walking Dead: No Man's Land* and *The Walking Dead: Our World* maintain their current revenue levels. In addition, the outlook is based on game development staying on schedule and on target of launching one game per year.

January-September 2019 Audiocast

Next Games holds an audiocast and phone conference in English on November 1 2019 at 10.30 EEST. You can join the audiocast by using the following link: <https://nxtg.ms/Q32019eng>

More information about the audiocast and phone conference: <https://nxtg.ms/32ZjXC>

Next Games in Short

Next Games is the first publicly listed mobile game developer and publisher in Finland, specializing in games based on entertainment franchises, such as movies, TV series or books. The developers of the critically acclaimed *The Walking Dead* games redefines the way franchise entertainment transforms into highly engaging service-based mobile games. In summer 2018, Next Games launched *The Walking Dead: Our World*, which utilizes cutting edge AR technology and is powered by Google Maps. Currently Next Games is working on multiple new games based on popular entertainment franchises including, *Blade Runner Nexus*, for the popular *Blade Runner* franchise and a mobile game based on Netflix's *Stranger Things*.



Revenue and Earnings Development

July-September 2019

Revenue in July-September was 7.8 million euros (13.4 million euros), a decrease of 42% from the comparison period. Decline in daily active users impacted revenue development, and the revenue was significantly higher during the comparison period due to the global launch of The Walking Dead: Our World in July 2018 and the increase of its daily active user number. Both EBITDA and EBIT improved significantly from the comparison period. EBITDA increased by 8.2 million euros and was -1.1 million euros (-9.3 million euros). EBIT was -2.1 million euros (-10.3 million euros).

Gross profit increased by 1 percentage point and was 56% (55%). Gross profit was impacted by the significant investments in marketing during the comparison period in July 2018. The company renewed its cost structure earlier in 2019 and the costs have remained on the expected level. Despite the improved gross profit, EBIT was impacted by the decline in revenues due to a decrease in the number of daily active users.

Costs on a monthly level

	H2	Q1	Q2	Q3	Actualized savings on a monthly level	Original annualized target
k€	2018	2019	2019	2019		
Research & Development services	320	70	40	70	-250	-3,180
Employee expenses	830	820	660	560	-270	-1,560
Other fixed costs	550	500	480	450	-100	-1,800
	1,700	1,390	1,180	1,080	-620	-6,540

January-September 2019

January-September 2019 revenue was 27.0 million euros (23.9 million euros). Even though growth slowed down during the third quarter, revenue was still 13% higher than during the comparison period in January-September 2018. The company's EBIT improved by 9.7 million euros and was -5,6 million euros (-15.3 million euros). Gross profit percentage was 58%, whereas in the comparison period it was 56%. EBITDA improved 11.5 million euros and was only -2.6 million euros (-14.1 million euros).

Game and Product Pipeline

The combined daily active users number (DAU) declined from the third quarter of 2018, since the Our World global launch occurred in July 2018 and had an impact on the DAU. The launch had a significant temporary effect on the number of daily active users as the company made considerable investments into growing the game during its first weeks. ARPDAU development has been very positive during the reporting period and the combined ARPDAU figure has increased by 22.7% from 0.22 euros to 0.27 euros. The major contributing factor to the increase was the Our World game which has successfully increased its ARPDAU by 56.5% compared to the third quarter of 2018.

Combined Key Operational Metrics

Definitions related to key operational metrics can be found at the end of this document.

	07-09/2018	10-12/2018	01-03/2019	04-06/2019	07-09/2019
Gross Bookings (k€)	13,787	11,552	9,536	8,971	7,864
DAU	668,566	482,814	441,735	349,993	295,509
MAU	2,919,031	1,505,995	1,670,936	1,161,302	1,013,796
ARPDAU (USD)	0.26	0.30	0.27	0.31	0.30
ARPDAU (EUR)	0.22	0.27	0.24	0.28	0.27

The Walking Dead: No Man's Land

The Walking Dead: No Man's Land team focused on a new game update, which was released for the 10th season of the TV show and to celebrate the game's fourth birthday. The update was released after the reporting period, and it was received positively by the players. The game's ARPDAU decreased compared to the third quarter of 2018, but remained on a satisfactory and typical level for the year 2019, even though the amount of daily active users decreased during the reporting period.

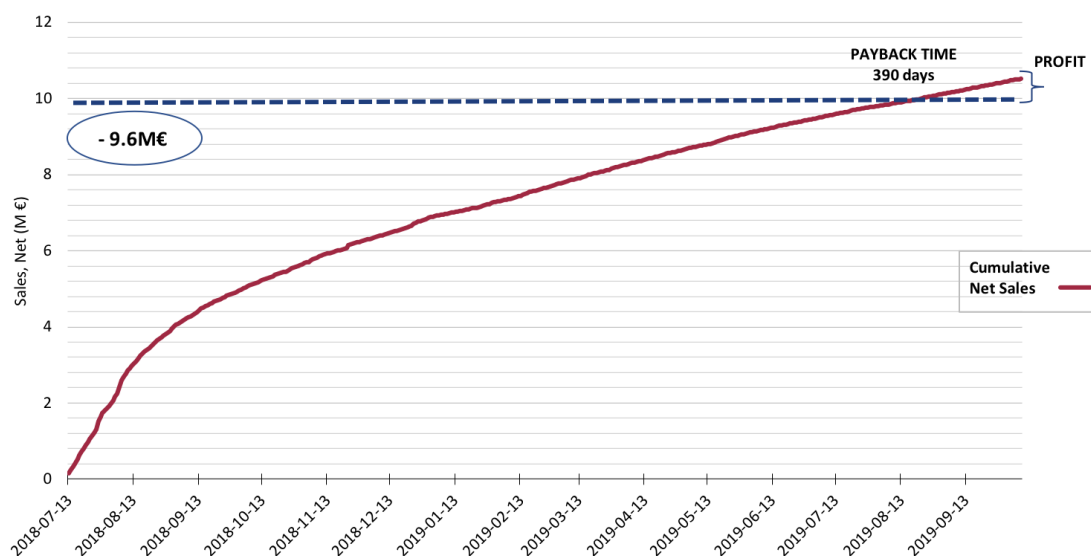
TWD: No Man's Land	07-09/2018	10-12/2018	01-03/2019	04-06/2019	07-09/2019
Gross Bookings (k€)	5,534	5,727	4,547	3,753	3,366
DAU	274,752	253,339	225,048	189,852	162,940
MAU	799,919	728,296	669,181	539,948	479,144
ARPDAU (USD)	0.26	0.28	0.25	0.24	0.23
ARPDAU (EUR)	0.24	0.25	0.22	0.22	0.21

The Walking Dead: Our World

Next Games has succeeded in increasing The Walking Dead: Our World's ARPDAU by 56.5% compared to the third quarter of 2018. Gross sales however has declined due to a decrease in daily active users as the game has had challenges in upkeeping retention numbers. The team has focused on renewing the game's first time user experience and assumes the changes will have a favorable effect on the game's early retention towards the end of 2019. Provided there is a successful increase in retention and ARPDAU remains stable, the company has an opportunity to consider controlled upscaling of its marketing investments and strive to increase the game's active user number.

In the third quarter of 2018, the company reported that the nearly 10 million euro marketing investments' payback time had increased from the estimated 120 days. The user cohorts acquired with the game's launch investments, had generated back their acquisition investment by August 2019. The payback time for these initial cohorts was therefore eventually 390 days, which caused a significant challenge for the company's cash balance. Our World as an independent project has been profitable since the fourth quarter of 2018.

Payback time of the initial investment made into The Walking Dead: Our World



Graphic: The company invested 9.6 million euros into the user acquisition of The Walking Dead: Our World during the weeks following the launch. The players acquired through the launch investments generated back the invested amount in 390 days instead of the originally estimated 120 days.

TWD: Our World	07-09/2018	10-12/2018	01-03/2019	04-06/2019	07-09/2019
Gross Bookings (k€)	8,219	5,793	4,961	5,200	4,473
DAU	386,109	222,943	210,693	154,936	127,078
MAU	2,096,120	758,542	982,345	602,486	528,751
ARPDAU (USD)	0.27	0.31	0.29	0.41*	0.40
ARPDAU (EUR)	0.23	0.28	0.26	0.37*	0.36

*ARPDAU includes In App Purchases- and Ad-revenue since Jun 11, 2019.

Blade Runner

Blade Runner Nexus' soft launch continued with a focus on usability testing with promising results. The game's testing was continued by various user group tests, that aimed at gathering insights from key markets. With the implemented improvements as well as clearly improved preliminary results, the company continues testing and finalizing the games functionalities.

Stranger Things

The Stranger Things game is nearing the end of pre-production phase. The focus has been to reuse existing technical components, which increases productivity and reduces the game's time to market. The development team grew with some additional team members and the team size is now close to optimal with regards to completion of the production phases. The company plans to launch the game according to the original plans in 2020.

Unannounced Projects

The company has invested in renewing its game development process as part of the company's turnaround plan. The goal for the new operating model is to decrease time to market for the company's products and reduce the risk involved in different stages of the development. The company has succeeded in starting multiple prototypes and concepts and continued discussions with significant global licence holders for potential future projects.

It is important for the company to have several projects in the pipeline to ensure successful global launches of products as it is typical for the mobile games industry that only a portion of games will pass through the testing phases to global launch. With the renewed processes, the company will continue to have multiple different prototypes and concepts in development. These concept and prototypes are created, iterated as well as rejected and approved in a fast pace. Due to this, the company will no longer report the number of concepts and prototypes, as there is a significant number of them and the number fluctuates at a fast pace. The company continues to report the number and phase of its games from pre-production phase onwards.

Game Development Pipeline Q3 2019



Staff and Management

At the end of the reporting period, Next Games had 105 (143) employees on average. 17% of the staff worked on The Walking Dead: No Man's Land, 29% on The Walking Dead: Our World, 41% in new projects and 13% in administrative tasks.

The General Meeting resolved changes in the composition of the Board of Directors, described below in "Resolutions passed by the Extraordinary General Meeting".

Resolutions passed by the Extraordinary General Meeting

The Extraordinary General Meeting of Next Games was held in Helsinki on 25 September 2019. The General Meeting approved all proposals of the Board of Directors and made necessary General Meeting's resolutions to implement the rights offering announced by the company on 4 September 2019.

The General Meeting resolved in accordance with the proposal of the Board of Directors to elect Nicholas Seibert to the Board of Directors of the Company to replace Joakim Achrén for a term starting at the end of the General Meeting and ending at the end of the next Annual General Meeting. Following this, the composition of the Company's Board of Directors will be as follows: Petri Niemi (chairman), Elina Anckar, Nicholas Seibert, Xenophon Lategan, Peter Levin and Jari Ovaskainen.

The General Meeting resolved to authorise the Board of Directors to decide on the issuance of a maximum of 10,000,000 share (approximately 53.7% of all registered shares in the company) carried out in accordance with the shareholders' pre-emptive subscription rights.

Additionally, the General Meeting resolved to authorise the Board of Directors to decide on a share issue and/or issue of option rights entitling to shares in accordance with the Board of Director's proposal. Pursuant to the authorisation, a maximum of 1,500,000 shares may be issued in one or more tranches, corresponding to approximately 8.1% of all registered shares in the company on the date of the notice convening the General Meeting. The authorisation would be valid until 25 September 2024. The authorisation does not revoke prior authorisations of the Board of Directors to decide on the issuance of shares and/or option rights entitling to shares.

Events After the Reporting Period

Pursuant to the authorization by the General Meeting, the Board of Directors of the company resolved on 25 September 2019 on a rights offering of approximately 8 million euros, in which a total of 9,298,430 shares were offered. The rights offering ended on 16 October 2019 and the shares offered were subscribed for in full. A total of 3,928,234 shares were subscribed for pursuant to the exercise of subscription rights and 430,100 shares were subscribed for without subscription rights, i.e. a total of 4,358,334 shares, representing approximately 46.9 percent of the offer shares.

Subscriptions pursuant to the subscription commitments from Jari Ovaskainen and AMC Network Ventures LLC amount to 4,940,096 shares in addition to their pro rata subscriptions, representing approximately 53.1 percent of the offer shares. On 22 October 2019 the Board of Directors of Next Games approved all subscriptions and trading in the offer shares commenced on 23 October 2019. As a result of the offering, the number of shares in the company will increase by 9,298,430 shares from 18,610,270 shares to 27,908,700 shares.

Upcoming Events

- Financial Statement Bulletin for financial year 2019 on Friday 28 February 2020
- Next Games' Annual Report 2019 is scheduled to be published in calendar week 11, 2019 at the latest.

Helsinki 1 November, 2019

Board of Directors
Next Games Corporation

Statements are made in this report, which describe, inter alia, the current beliefs and expectations of the management of Next Games regarding the future plans and objectives concerning future activities and goals of Next Games. All such statements involve risks and uncertainties, which may cause the achievements of Next Games to differ materially from what has been expressed or implied in such statements.

Alternative Performance Measures

Definitions of Key Operational Metrics and Alternative Performance Measurements

Next Games presents certain financial performance measures on a non-IFRS basis as alternative performance measures (APMs). The APMs exclude certain non-operational or non-cash valuation items affecting comparability and are provided to reflect the underlying business performance and to enhance comparability between reporting periods. The APMs should not be considered as a substitute for performance measures in accordance with IFRS.

New alternative performance measures as at 1.1.2019

Next Games will include Adjusted Operating Profit as a new alternative performance measure where Operating Profit (EBIT) is adjusted for IFRS 2 Share-based payments, which does not have cash impact, and depreciations. However, depreciations of leases, falling under IFRS 16 standard, are not adjusted from EBIT. The company includes also the corresponding margin, as a new APM in its financial reporting.

Unlike the Adjusted Operating Profit reported earlier, for which IFRS 2 Share-based payments were not adjusted, the new alternative performance measurement highlights operational profitability in a better way as the measurement is adjusted for the impact of non-revenue generating projects and items and as such is more informative as a measurement of operational cash flow.

Therefore the new APM is considered to complement other performance measures and provide valuable information to investors and will be included in financial reporting from Q1 2019 onwards. Adjusted EBITDA and Adjusted EBIT, which have been included as APMs in Next Game's financial reporting in 2018, will no longer be reported from Q1 2019 onwards.

Calculation of Key Financial Ratios

Gross Bookings A non IFRS Financial Measure, defined as the total amount paid by our users for virtual items in a given reporting period. It does not include deferrals, and thus it is Revenue adjusted with the change (+/-) in deferred revenue.

Gross Profit Revenue adjusted for (+/-) server expenses, expenses and depreciations related to royalties and license fees, as well as platform cut (Google and Apple).

Adjusted Operating Profit Operating profit (EBIT) is adjusted for IFRS 2 share-based payments which don't have cash impact and also depreciations for capitalized items relating to product developments and licenses according to IAS 38. However, depreciations of premises, falling under IFRS 16 standard, are not adjusted from EBIT. Adjusted operating profit % is also presented as a non IFRS Financial Measure.

EBITDA Operating profit (EBIT) is adjusted for depreciations and amortizations, including IFRS 16 depreciations. In order to be comparable to other game companies, Next Games represents EBITDA in income statement.

Equity Ratio

$$\frac{\text{Capital and reserves total}}{\text{Total Assets - Advances Received}} \times 100$$

Current Ratio

$$\frac{\text{Current assets}}{\text{Current liabilities}}$$

Earnings per share (EPS), undiluted = Profit (loss) for the financial year divided by the average number of outstanding shares during the financial year. The indicator has been calculated using the adjusted number of shares after the share issue without consideration to the Company's shareholders. The Board of Directors of the Company decided on the share issue on 23 February 2017 in connection with the arrangements relating to the listing

Earnings per share (EPS), diluted = Profit (loss) for the financial year divided by the average number of outstanding shares during the financial year after adding the number of shares with potential dilution effect. The indicator has been calculated using the adjusted number of shares after the share issue without consideration to the Company's shareholders. The Board of Directors of the Company decided on the share issue on 23 February 2017 in connection with the arrangements relating to the listing.

Key operational metrics

DAU (Daily Active Users). A user is counted as a daily active user if they sign in to the game at least once during a 24-hour period. Average DAU is calculated by adding the total number of active players as of the end of each day in a given period, and dividing by the number of days in the period. DAU is a key measure for player network engagement.

MAU (Monthly Active Users). A user is counted as a monthly active user if they sign in to the game at least once during a 30-day period. Average MAU is calculated by adding the total number of active players as of the end of each month in a given period and dividing by the number of months in the period. MAU is a key measure of the overall size of the player network.

ARPDau (Average Revenue Per Daily Active User). ARPDau is calculated by dividing daily gross bookings by daily active users (DAU). ARPDau is an important measure of monetization as it places sales in relation to player volume.



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