



NEXT GAMES™

Q1

Next Games Corporation

BUSINESS REVIEW

January-March 2019



Next Games Corp. Q1 2019: Positive developments - Cost savings materializing, revenue develops as expected, Our World makes record ARPDAU in March

January-March 2019 in short

- Revenue grew 104% to 9.8 million euros (4.8 million)
- Gross profit was 5.6 million euros (2.8 million), 57% of revenue (58%)
- Adjusted Operating Result was -1.3 million euros (-2.1 million)
- EBIT was -2.4 million euros (-2.5 million)
- Product development costs were 2.7 million euros (1.8 million)
- Number of employees was 119 at the end of the quarter (124)
- Resulting from the successful cost savings program, the company aims to achieve monthly savings of approximately 550 thousand euros in salaries, administrative and product development costs, totaling approximately 6.5 million euros annually, compared to the monthly average level of second half of 2018
- At the end of the review period, the company's cash balance was 4.8 million euros, with the addition of a fully unused credit limit of 5 million euros. The company's cash position has started to stabilize as of February 2019 according to plans. The company aims to grow its revenues year on year in 2019 compared to 2018, and due to the renewed cost structure, strives towards remaining cash flow neutral on a continuous basis

(January-March 2018 comparison in brackets)

Key Financial Figures

(EUR 1000)	01-03/2019	01-03/2018
Revenue	9 829	4 788
Gross bookings	9 536	4 747
Gross Profit	5 580	2 761
Operating profit (-loss) (EBIT)	-2 395	-2 506
Adjusted Operating profit	-1 312	-2 065
As percentage of revenue		
Gross profit (%)	57%	58%
Operating result (%)	-24%	-52%
Adjusted EBITDA margin (percent)	-13%	-51%

Gross Bookings is 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.

Gross Profit is Revenue less server expenses, expenses and depreciations related to royalties and license fees, as well as platform cut.

Key Operational Metrics

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

Combined Operational Metrics

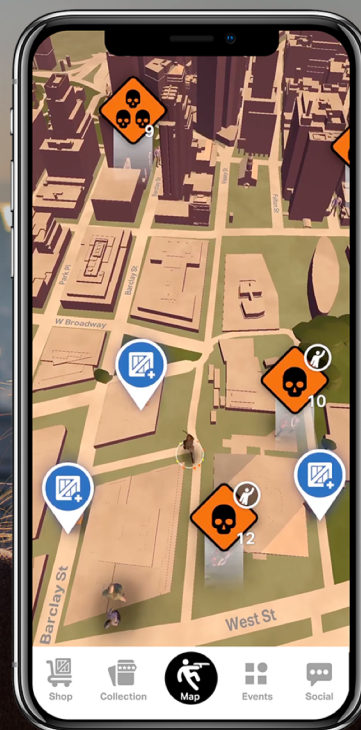
	Jan-Mar 2019	Jan-Mar 2018
DAU	441,735	312,228
MAU	1,711,076	1,017,936
ARPDau (US)	0.27	0.21
ARPDau (EUR)	0.24	0.17

Game Specific Operational Metrics*

TWD: No Man's Land	Jan-Mar 2019	Jan-Mar 2018
DAU	225,048	300,367
MAU	669,181	977,754
ARPDau (US)	0.25	0.21
ARPDau (EUR)	0.22	0.17

TWD: Our World	Jan-Mar 2019	Jan-Mar 2018
DAU	210,693	-
MAU	982,345	-
ARPDau (US)	0.29	-
ARPDau (EUR)	0.26	-

*Includes operational metrics from games that have been globally launched and have a significant impact on the company's financial reporting



Chief Executive Officer Teemu Huuhtanen

The first quarter of 2019 can be described as a beginning of a new era for Next Games as we successfully continued to carry out our turnaround plan by decreasing operating costs and renewing our product development model. The company succeeded in doubling year-on-year revenue, significantly growing both ARPDAU (average revenue per daily active user) and daily active users (DAU), in comparison to Q1 2018, due to the addition of Our World.

Simultaneously as we reduced costs the company's cash position has started to stabilize as of February 2019, according to plans. The company seeks revenue growth year-on-year during 2019 compared to 2018 and as a result from the changes in our operational model, aims to achieve cash flow neutrality and estimates fixed costs, excluding marketing costs, to stabilize on a 1.1 -1.2 million monthly range during the second quarter of 2019.

Our new operating model focuses on reusing existing technology and code, which has the potential to significantly reduce product development times. According to the company's view, it's a priority to stabilize the foundations of the business operations to a new level, followed by negotiating additional financing directed towards future product development needs as well as product launch investments.

The Walking Dead: Our World team has focused on improving technical and monetization performance and the game has played a central role in the company's ARPDAU development. The team has tested a wide range of sales strategies, which has led to an upward trend in sales conversion and revenue. In an effort to explore additional revenue streams for the game, the company has started piloting location-based ads as well as exploring the opportunity to integrate regular video ads in to the game.

The game made a new 0.31 Euro record in average ARPDAU in March as a result of the new sales strategy. Our World's profitability improved throughout the first quarter due to improved gross margin, optimization of product development costs as well as implementing the new operational model. Marketing investments have remained on a level customary to the product and scaling activities have not yet been started during the review period. The game's long term retention will still need some improvements before growing the game is possible.

Blade Runner Nexus continued in soft launch and the focus has been on optimizing the game's first time user experience and early retention. The Walking Dead: No Man's Land key metrics have remained on a stable level and the game as an independent project has continued to operate profitably. Simultaneously the team size has been slightly reduced as the company has directed resources to new projects.

Thanks to adapting our cost structure to a new level and renewing our operational model, Next Games is settling to a new stable foundation. We are in a good position to reconstruct our product portfolio with the help of our more agile product development model.

Teemu Huuhtanen

CEO

Next Games

Revenue and Earnings Development

(EUR 1000)	01-03/2019	01-03/2018
Revenue	9 829	4 788
Cost of Revenue	-4 250	-2 027
Gross Profit	5 580	2 761
Other Operating income	9	34
R&D costs	-2 709	-1 777
Sales and Marketing costs	-4 310	-2 529
Administrative costs	-965	-996
Operating profit (loss) (EBIT)	-2 395	-2 506
Depreciations	736	70
Non cash items: IFRS 2 adjustment	347	371
Adjusted operating result	-1 312	-2 065

During the first quarter the company's revenue grew by 104% from the comparison period and adjusted operating profit increased by 753 thousand euros. Next Games uses adjusted operating profit as a voluntary measurement to EBITDA, as a way of analyzing the operational profitability of the company. Operating profit (EBIT) is adjusted for IFRS 2 Share-based payments, which do not have cash impact, and depreciations. However, depreciations of leases, falling under IFRS 16 standard, are not adjusted from EBIT.

Multiple factors contributed to the growth in revenue, including the increase in the number of daily active users (DAU) and increase of average revenue per daily active user (ARPDau). Both core metrics were on a higher level than they were during the comparison period in 2018. Despite the significant growth in revenue, the company did not reach the desired profitability level. As a result, the company successfully implemented a large-scale cost savings program during the first quarter. The full effect of the cost savings program will materialize during the second quarter.

The measures taken as part of the cost savings program would lead to annual savings in fixed costs of approximately 6.5 million euros. After the achieved cost savings, the company is expecting monthly fixed costs, excluding game marketing investments, to be between 1.1-1.2 million euros during 2019. Table below presents planned cost savings:

k €	Costs on a monthly level			Savings	
	H2 2018	Q1 2019	Q2* 2019	Total	Annualized
Research & Development services	320	70	50	-270	-3,190
Employee expenses	830	820	700	-130	-1,560
Other fixed costs	550	500	400	-150	-1,800
	1,700	1,390	1,150	-550	-6,550

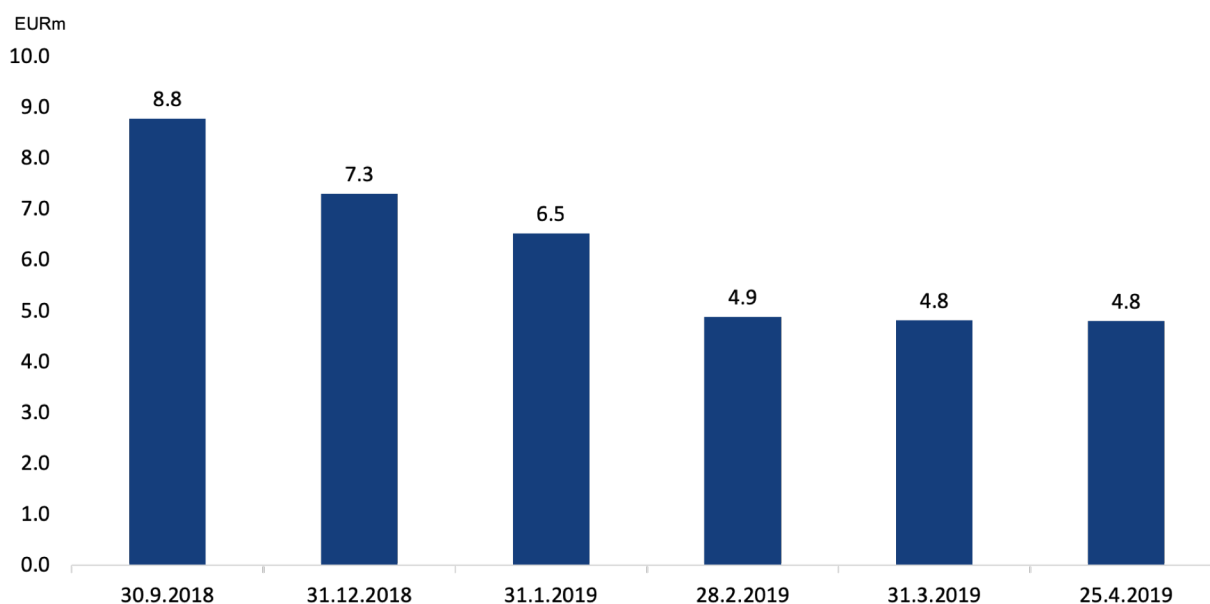
*target

As a result of the consultations with its personnel, the company achieved savings in salaries. The company employed 119 people at the end of the first quarter of 2019, whereas the number of employees was 143 at the end of the fourth quarter of 2018 and 124 at the end of the comparison period in 2018. The company also ended a game project that had proceeded in production phase, which was a major contributing factor to savings in product development. Other minor savings were done across the company's other game projects.

At the end of the review period, the company's cash balance was 4.8 million euros, with the addition of a fully unused credit limit of 5 million euros. During the first quarter, the company's focus was on stabilizing its operational cash flow. As a result of multiple actions taken, including increase in revenue as well as a successful implementation of the cost savings program, the company's cash position has started to stabilize as of February 2019.

The next step for the company is to grow its revenues in 2019 compared to 2018, and due to the renewed cost structure, strive towards remaining consistently cash flow neutral. The graph below outlines the development of the company's cash position from the third quarter of 2018 up until April 2019.

Cash Balance Development



Game and Product Pipeline

The Walking Dead: Our World

The Walking Dead: Our World has focused on improving the technical quality of the game as well as monetization. The team has experimented with a wide range of sales strategies leading to an upward trend in ARPDAU (average revenue per daily active user) as well as daily conversion rates. With the new sales strategy, the average ARPDAU in March increased to record-breaking 0.31 euros. However, the first quarter's ARPDAU remained on a lower level compared to 2018 fourth quarter as the changes in sales strategy were not implemented until during March. In an effort to explore additional revenue streams for the game, the company has started piloting location-based ads in two markets as well as exploring the opportunity to integrate regular video ads in to the game.

The marketing spend levels have remained on a conservative level throughout the quarter and scaling activities were not started yet as the focus has first been put on technical and monetization performance. The game's long term retention will still need some improvements before growing the game is possible. New game events and content was regularly delivered to the game throughout the review period, including special events and missions for season 9 of The Walking Dead TV show.

The Walking Dead: No Man's Land

The Walking Dead: No Man's Land celebrated the second half of season 9 of the show by introducing yet another batch of show-themed missions to engage players. Additionally the game received new content including new characters and weapons. The Walking Dead: No Man's Land key figures have remained on a steady level and the game as an independent project has continued to operate profitably. Simultaneously the team size has been slightly reduced as the company has directed resources to new projects.

Blade Runner Nexus

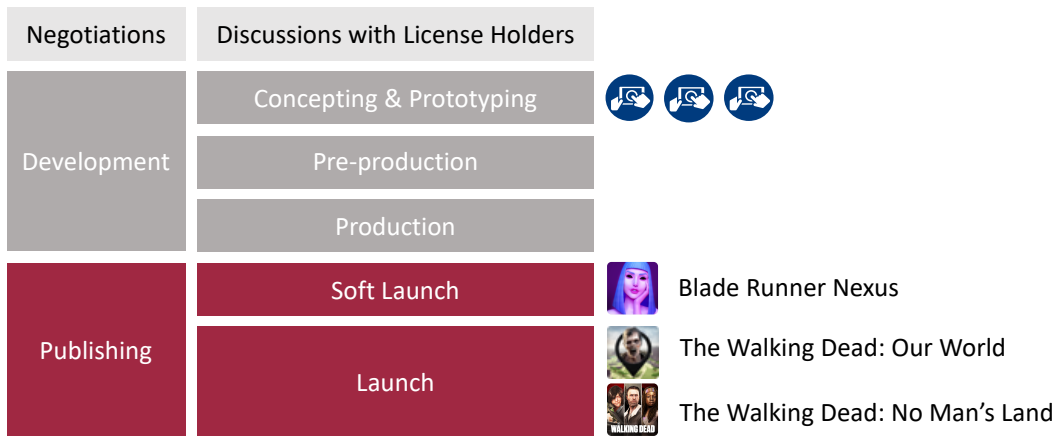
Blade Runner Nexus continued in soft launch during the first quarter. The game was opened in one additional test market, Poland, after the reporting period in April and the game is in soft launch in the previously opened markets Philippines, Australia, Finland and New Zealand, in addition to Poland. The testing and analysis efforts have focused largely on optimizing and improving the game's first time user experience and first days' retention.


Optimizing the game is more complicated due to the depth of the game and the nature of the game mechanics, and thus, the soft launch period and viability assessment will extend over a longer period, in comparison to the company's previously launched products. The volume of acquired users is still relatively low, but according to the company's preliminary view, the CPI (cost per install) is competitive in comparison to competing products in the same genre. Additionally, the acquired players' average playtime is relatively high, which is an encouraging sign of engagement within the core audience.

Unannounced Projects

Currently, the company has two third party licensed games in the concepting and prototyping phase. In addition, the company has put focus into developing the game development operational model. With the new operational model, the company aims to shorten production times and reduce risks at different phases of game development by a renewed testing process and is also looking into possibilities to develop games without a third party licensed IP. The company has examined multiple third party IPs for possible future projects. The company expects to bring a minimum of two games into soft launch during 2020 and keeps its guidance to publish at least one game a year.

Game Development Pipeline Q1 2019



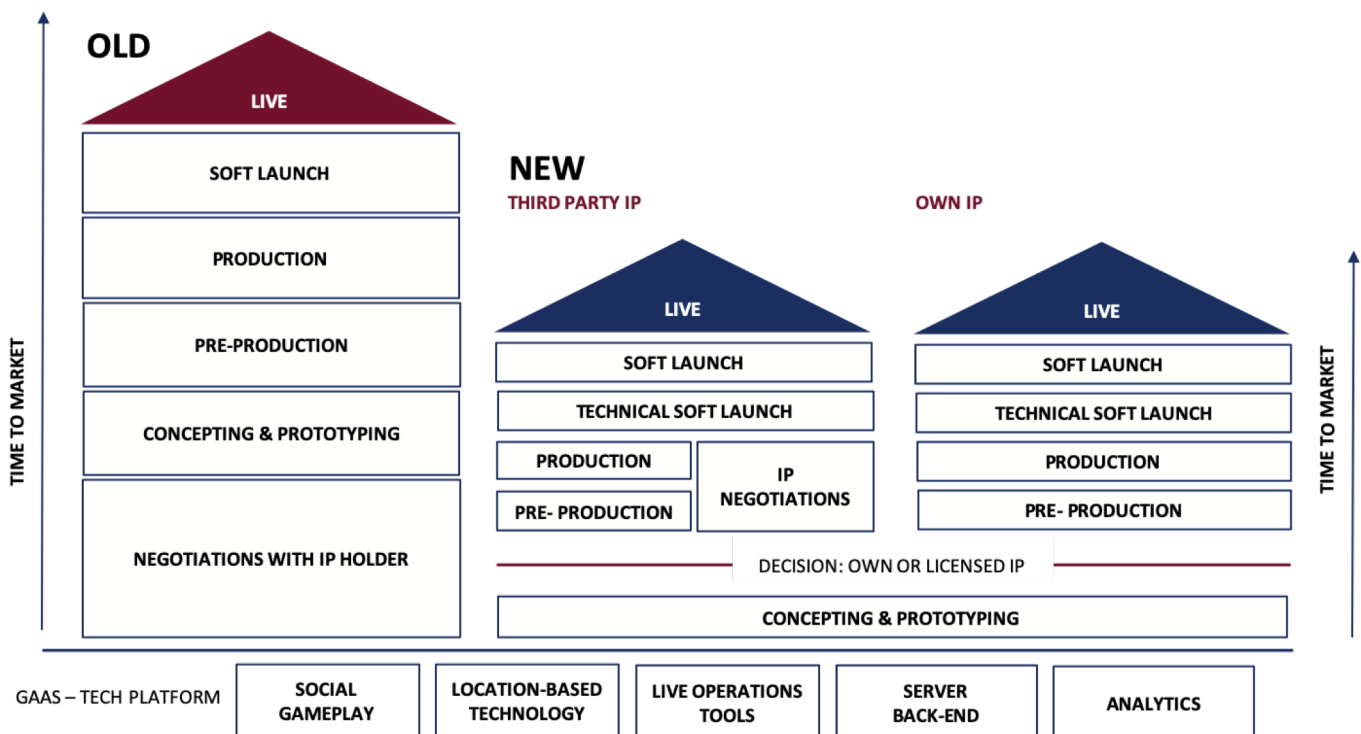
 = 1 game in specific phase



Strategy and Business Outlook

During the first quarter of 2019, the company has heavily renewed its operational model. With the new operational model, Next Games has invested into the reusability of existing technology and code, and the company believes that it is possible to significantly decrease the development time of new products with these measures. Next Games’ strategy is still to develop games based on entertainment franchises, such as movies, TV series or books. However, with the new operational model, the possibility of developing products without a third party brand is not excluded, if the company during the testing process sees an opportunity for this and no added value would come from third party IPs to the project from e.g. a marketing perspective.

With the new operational model, starting from the next half-year business review, Next Games renews the way the company illustrates game development phases. The chart below depicts the existing game development pipeline (on the left) and the renewed game development pipeline (on the right) including the process for both third party and own IP games side by side.



Next Games believes that the location technology, built on top of Google Maps, is a good platform to build multiple games on. In addition, the company has developed a shared technology platform for games. The technology platform’s purpose is to offer a shared backend solution and tools for all the company’s games. This makes it possible to reuse the code across projects and reduce the time and effort spent on developing the basics for each game. The company is also looking into possible collaborative models and opportunities to further develop and productize its technology platform with multiple potential partners during 2019.

Next Games is also in the process of renewing its game development process to become more agile and bringing new testing practices to the first stages of game development. Thus, the company would have a possibility to better handle risks on the portfolio level and assess risks and challenges earlier in the product development process. The company continues to hold on to its target to publish one new game yearly, but strives to bring more prototypes to the testing phase.

The company seeks revenue growth during 2019 compared to 2018 and as a result from the changes in the operational model, strives towards remaining consistently cash flow neutral and estimates fixed costs, excluding marketing costs, to stabilize on a 1.1 -1.2 million monthly range during the second quarter 2019.

The company's new operating model focuses on reusing existing technology and code, which has the potential to significantly reduce product development times. According to the company's view, it's a priority to stabilize the foundations of the business operations to a new level, followed by negotiating additional financing directed towards future product development needs as well as product launch investments.

Staff and Management

At the end of the reporting period, Next Games had 119 (124) employees. On average, the company employed 130 (122) people during the reporting period.

At the end of the first quarter 2019, 11% of employees was working on The Walking Dead: No Man's Land, 26% on The Walking Dead: our World, 50% was working on new projects, and 13% of staff worked in general administration.

Emmi Kuusikko, the company's Chief Product Officer and member of Next Games Management Team, stepped down from her role in February 2019. As of 15 February, 2019 the Management Team has consisted of Teemu HUUHTANEN (CEO), Annina Salvén (CFO), Saara Bergström (CMO), Kalle Hiitola (CTO) and Joonas Viitala (COO). The members of the Management Team report to the CEO, Teemu HUUHTANEN.

Certain Quarterly Financial Information

1000 EUR	Mar-31	Jun-30	Sep-30	Dec-31	Mar-31
Revenue, gross bookings and gross Margin	2018	2018	2018	2018	2019
Revenue	4,788	5,689	13,435	11,333	9,829
Gross bookings	4,747	5,702	13,787	11,552	9,536
Gross Profit	2,761	3,273	7,410	7,850	5,580
Operating profit and adjusted Operating Profit					
Operating profit (loss)	-2,506	-2,448	-10,342	-1,618	-2,395
Depreciation and amortisation	70	70	772	742	736
IFRS 2 Share-based payments	371	371	371	371	347
Adjusted operating profit (loss)	-2,065	-2,007	-9,199	-506	-1,312
As percentage of revenue					
Gross Profit (%)	58 %	58 %	55 %	69 %	57 %
Operating profit margin (%)	-52 %	-43 %	-77 %	-14 %	-24 %
Adjusted Operating Profit (%)	-43 %	-35 %	-68 %	-4 %	-13 %
DAU	312,228	306,492	668,566	482,814	441,735
MAU	1,017,936	979,599	3,205,333	1,506,242	1,711,076
ARPPDAU (USD)	0.21	0.24	0.26	0.30	0.27
ARPPDAU (EUR)	0.17	0.20	0.22	0.27	0.24

Upcoming Events

Annual General Meeting 2019

Next Games' Annual General Meeting 2019 will be held on Tuesday 21 May, 2019 from 10.00 a.m. onwards at Maxim, Kluuvikatu 1, 00100 Helsinki. Read more: www.nextgames.com/agm2019

Business Reviews

26 July, 2019 - Half-year Review for January-June 2019

1 November, 2019 - Business Review for January-September 2019

Helsinki 26 April, 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.

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 the 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.

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.

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.

Adjusted Operating Profit Operating profit (EBIT) is adjusted for 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.

Equity Ratio

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

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.



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