

MicroCap Review

FALL 2019

The Official Magazine of the MicroCap Stock Market Since 2006



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Coloring Apps and Match-3 Games; Taking Mobile Apps to New Levels

COLORING APPS

Despite the highly competitive landscape of mobile gaming, colouring apps have taken a disruptive approach by innovating a traditional yet timeless experience, while also targeting an underserved group of users. The purpose of this overview is to highlight the industry and more specifically, understand the level of competition that is faced by the companies operating within this niche.

Middle-aged women with college degrees are the predominant target market for colouring apps. These types of apps can be deemed as high potential because female gamers are mainly underserved. While most gaming apps focus on traditional male interests such as action or adventure, relatively fewer accommodate the needs and interests of women.

We estimate that the Coloring App market is in the \$90-100M range in size. The key players in the colouring app segment include Kuuhubb (Recolor), TFG (Colorfy), AppsX (Unicorn) and Pixite (Pigment). The major-



■ BY RALPH GARCEA, P.ENG, MBA

ity of the companies analyzed compete on a pricing basis. There was a wider variation when it came to the prices of the upgrades. From a quality perspective, there was less differentiation. The drivers of value were simply different shades of colour, as well as level of convenience and community engagement on social media. Leading apps such as Colorfy or Recolor have developed a strong moat through a first-mover advantage and scale grown over time.

MATCH-3 GAMES

Match-3 games, also known as tile-match games are a type of video game puzzle. The primary objective is to meet a certain criterion that enables the tiles to disappear. They operate on both Android and iOS platforms. A particular trend that should be noted,

however, is the growing presence of women in mobile gaming. Exhibit 2 shows that 69% of Match-3 players are female, higher than any other genre. Some companies have taken note of this demand. Candy Crush Saga adopted bright, colourful aesthetics and a gender-neutral theme to effectively appeal to women and ultimately increase sales at staggering amounts.

Unlike coloring apps, Match-3 games is a multi-billion dollar market. Key players include King (Candy Crush), Playrix (Township, Gardenscapes), Jam City (Cookie Jam), and Rovio (Angry Birds). There has been some recent consolidation in the segment with Playtika acquiring Seriously Digital Entertainment Oy (the publisher of the Best Friends mobile game) for ~US\$275M, and Zynga acquiring Small Giant Games Oy for ~US\$650M. Seriously and Small Giant are Helsinki-based and

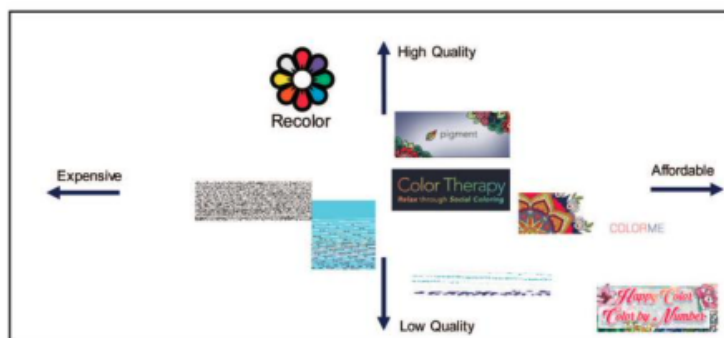


Exhibit 1 - Affordability vs. Value Positioning Map

Source: FMG Estimates; "Quality" refers to quality of images, User Interface (UI), and coloring experience



Exhibit 2 - % of Gamers Who Are Female by Genre

Source: HubSpot

share similar Match-3 strategies as Kuuhubb, building their own Match-3 engines and changing the meta-game layers.

Considering how many games there are these days in the app stores, it's worth noting that only 20 games have made it to the so called "Billion Dollar Club" (games with lifetime revenues exceeding \$1 billion). According to PocketGamer (list) there are three Match-3 games: Disney Tsum Tsum (Casual, Japanese markets), Candy Crush Saga (Casual, Worldwide) and Puzzle & Dragons (Midcore RPG, Japanese markets). However, we believe Playrix's Gardenscapes should be in the list too, which according to a Gamesindustry.biz article, Gardenscapes had made \$880M by October 2018. The article is about a year old and the game has been steadily grossing \$30M/month, which would make it a fourth Match-3 game that has grossed over \$1B lifetime (we estimate that Homescapes is pretty close to the \$1B level also).

VALUATION

We note that KUU is trading at a significant discount to its peers - both Global/Nordic gaming and global social apps. Global and Nordic gaming apps are trading at 2019 EV/Sales of 5.0x/3.0x - valuing KUU in the C\$0.75-1.25 range. Comparable global social apps are trading on average (excl. FB) at a

Exhibit 3 - Key Players in the Match-3 Segment

Company	Notable Apps	Apps Monthly Downloads (M)	Apps Monthly Revs (\$M)
	Candy Crush Saga Bubble Witch Saga Pet Rescue Saga	20.9	\$98.6
	Township Homescapes Gardenscapes Fishdom	30.1	\$96.5
	Toon Blast Toy Blast Lost Jewels Lost Bubble	2.4	\$34.1
	Cookie Jam Genies and Gems Juice Jam	1.5	\$10.2
	Angry Birds Pop! Angry Birds Match Angry Birds Blast Fruit Nibblers	1.4	\$6.0
	Dancing Diaries Tiles & Tales	Coming Soon	Coming Soon

Source: Sensor Tower July 2019

	FB-US	SPOT-US	SNAP-US	TWTR-US	WB-US	GLUU-US	ZNGA-US	ST-ONE	NYTGM-FI	GREN-ONE	KUU-CA
Market Cap (USD)	\$118.3	\$24.1	\$21.1	\$12.3	\$9.0	\$0.6	\$5.4	\$0.788	\$0.029	\$0.094	\$309
MAU (M)	2.4B	217M	370M*	330M	402M	19M	85M	4.2M	1.3M	8.2M	1.1
Revenue/MAU (USD)	\$216	\$111	\$56	\$36	\$20	\$33	\$63	\$186	\$26	\$12	\$4.4
Average Value/MAU (excl. FB)											\$4.7
Implied KUU valuation (USD)											\$4.7

Exhibit 4 - Global Social Media Apps Valuation using MAU

Source: Factset, Consensus Estimates (as of August 27/19)

multiple of US\$67/MAU - valuing KUU in the C\$4-5 range. ■

About the Author

Mr. Garcea co-founded Focus Merchant Group in September 2018 and has more than 23 years experience in senior analyst positions at major domestic and international firms. He was a top-ranked research analyst, well regarded for the depth and breadth of knowledge he brings to bear on his coverage of technology, gaming, and industrial companies across a broad range of market capitalizations. Over

the years, he has received top three rankings from Brendan Woods, Greenwich, Starmine and Thomson Reuters surveys. One of Mr. Garcea's consulting clients currently is Kuuhubb Inc. (KUU-TSXV).

Note: This article is not an attempt to provide investment advice. The content is purely the author's personal opinions and should not be considered advice of any kind. Investors are advised to conduct their own research or seek the advice of a registered investment professional.

Ralph Garcea does not own shares of Kuuhubb Inc.

Kuuhubb Inc.



Jouni Keränen, CEO

Kuuhubb is a publicly listed company focusing on mobile games and esports. Our mobile game development and publishing division is targeting the female audience with bespoke mobile experiences. Kuuhubb's esports is engaging with a rapidly growing audience of esports enthusiasts through omnichannel networks. Our mission is to become a top player in women's mobile gaming, while building a leading global esports ecosystem.

Kuuhubb's vision is to create games and apps that will have our female audience relax, express and entertain themselves every day. Through our games, we explore new lifestyle trends that can be converted into games and apps. In addition, Kuuhubb offers global esports fans an unforgettable world-class esports experience through social media, TV and events with its Tier one team – Cr4zy.

GLOBAL GAMING KNOW-HOW

Kuuhubb has an international team of 70+ professionals in the fields of management, finance, business development, user acquisition, publishing, production, game development, game art, illustration, customer service, and live operations. Kuuhubb is led by co-founder and CEO Jouni Keränen, a Finn fluent in Mandarin Chinese and over 18 years of international game and app industry experience, with particular in-depth knowledge of the online games industry and market in China and elsewhere in Asia - which are areas of focus for Kuuhubb in its business plans going forward.

UNIQUE GROWTH STRATEGY WITH A STRONG PORTFOLIO

Discover, acquire, develop, integrate, grow

user base, monetize, and partner with us. KuuHubb's growth strategy enables the company to find the next billion dollar hit game or app. A return to robust revenue growth led by Recolor, MyHospital, and upcoming new product launches – with titles including: Recolor by Numbers, Incolour, Dancing Diaries, and Tiles & Tales.

In recent years, the mobile gaming market has seen the rise of colouring apps. The rationale for these apps is that they provide the same sense of stress-relief and relaxation as their physical book counterparts, but in an easily accessible fashion. We estimate the market size to be in the \$90-100M range, with the key players including KuuHubb (Recolor), TFG (Colorfy), AppsX (Unicorn) and Pixite (Pigment).

Match-3 games, also known as tile-match games, are a type of video game puzzle. The primary objective is to meet a certain criterion that enables the tiles to disappear. Unlike the coloring app segment,

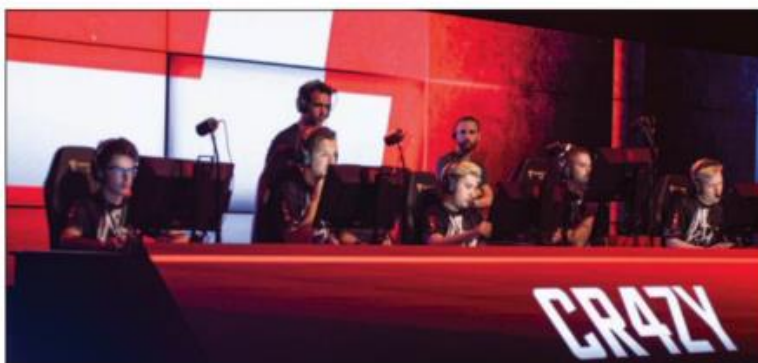
Match-3 is a multi-billion dollar market. Key players include King (Candy Crush), Playrix (Gardenscapes), Jam City (Cookie Jam), and Rovio (Angry Birds).

ARE YOU CRAZY FOR ESPORTS?



In addition, KuuHubb has invested in a Counter-Strike: Global Offensive (CS:GO) esports franchise called Cr4zy (@gocr4zy). esports is a high growth, high barrier to entry industry. Over US\$4.5B was invested through ~ 70 deals in 2018. According to PitchBook, a handful of startups have already raised a total of \$65 million in VC backing this year, including a \$10.8 million financing for ReKTGlobal, a provider of esports infrastructure services. The essential value of the eSports industry is the core demographics – including a global fan base of ~380M in 2018, with 37% males aged 21 to 35, and 16% females aged 21 to 35.

www.stocknewsnow.com



There is a handful of established esports brands and those are well funded or co-owned by athletes, billionaires or celebrities. Of the US\$234M in investments made to team organizations in the last two years, over 50% has gone to the top 10, and are reaching 14x revenue valuations.

CRAZY AT A GLANCE:

Significant portion of team valuations are based on world ranking. Cr4zy has hit the Top #14 out of 700+ CS:GO teams in the world. Participated in 75 esports tournaments in 2018-19

- UML League Champion, Dreamhack runner-up
- 2019 CS:GO Major participant in Berlin; Cr4zy has qualified to the Legends stage through the Challengers stage (guaranteeing a Top 16 finish)

- Media reach of 1.5M+ followers; combining organizations, players and our influencer content creators
- 400K+ hours of produced content watched by our fans and followers. ■

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The material contains forward-looking statements. In addition, from time to time, we or our representatives may make forward-looking statements orally or in writing. We base these forward-looking statements on our expectations and projections about future events, which we derive from the information currently available to us. Such forward-looking statements relate to future events or our future performance, including our financial performance and projections; our growth in revenue and earnings; and our business prospects and opportunities. You can identify forward-looking statements by those that are not historical in nature, particularly those that use terminology such as "may," "should," "expect," "anticipate," "contemplates," "intends," "believes," "plans," "projects," "predicts," "potential," or "hopes" or the negative of these or similar terms. In evaluating these forward-looking statements, you should consider various factors, including our ability to change the direction of the Company; our ability to keep pace with new technology and changing market needs; and the competitive environment of our business. These and other factors may cause our actual results to differ materially from any forward-looking statement. Forward-looking statements are only predictions. The forward-looking events discussed in this document and other statements made from time to time by us or our representatives, may not occur, and actual events and results may differ materially and are subject to risks, uncertainties and assumptions about us. We are not obligated to publicly update or revise any forward-looking statement, whether as a result of uncertainties and assumptions, the forward-looking events discussed in this document and other statements made from time to time by us or our representatives might not occur.

The company paid consideration to SNN or its affiliates for this article.