FREE VERSION

2018 GLOBAL GAMES MARKET REPORT

TRENDS, INSIGHTS, AND PROJECTIONS TOWARD 2021

newzoo

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FOREWORD

NEWZOO'S 2018 GLOBAL GAMES MARKET REPORT: GROWTH ACCELERATES

It took more than 35 years for the global games business to grow to $35 billion in 2007, the year that the iPhone was introduced. Since then, the games market has added an extra $100 billion in revenues to arrive at this year's total of $137.9 billion worldwide. The uptake of smartphones has been a key contributor to the accelerated growth of the games market, in terms of both engagement and revenues, but is only one of the many factors that have brought us to where we are today.

The way games are run has changed completely in only 10 years, from both an organizational and a business perspective, regardless of platform. Add to that the ongoing global alignment of distribution channels, franchises, and business models and it becomes clear that this is more than several individual trends happening simultaneously. Ultimately, the consumer has determined the pace of change. No other form of entertainment or media gives as much power to the consumer as games. Today, not only do games empower people to actively participate, but allow them to enjoy their passion for gaming in ways that suit any mood, interest, lifestyle, location, and budget. The viewing experience is part of games' DNA. Almost any new game includes competitive modes that could lead to a professional esports scene, including live events, pro-gamer heroes, and teams with millions of fans.

The global games industry has reinvented itself to maximize consumer engagement and revenue growth on a global scale. It is time to do away with old terminology and re-examine how we segment consumers based on the wide variety of game behavior and preferences. This report features a new segmentation based on engagement in three different dimensions: playing, viewing, and owning.

We trust you will enjoy this free version of our 2018 landmark global games report. Feedback is always appreciated!

"Never in the history of Newzoo have we adjusted our global market forecasts so significantly, and twice in a single year. Upward, that is. This is indicative of the new dimensions of gaming and our industry's ability to offer unique ways to engage. What I find particularly exciting is the impact it's having on other industries, which will only increase in the coming years. While we don't know exactly where the road will lead us, it is certain who the most skillful drivers will be: companies and professionals that dare to move over now and again and let the consumer take over the steering wheel."

PETER WARMAN
Newzoo CEO & Co-Founder

1.

KEY GLOBAL TRENDS

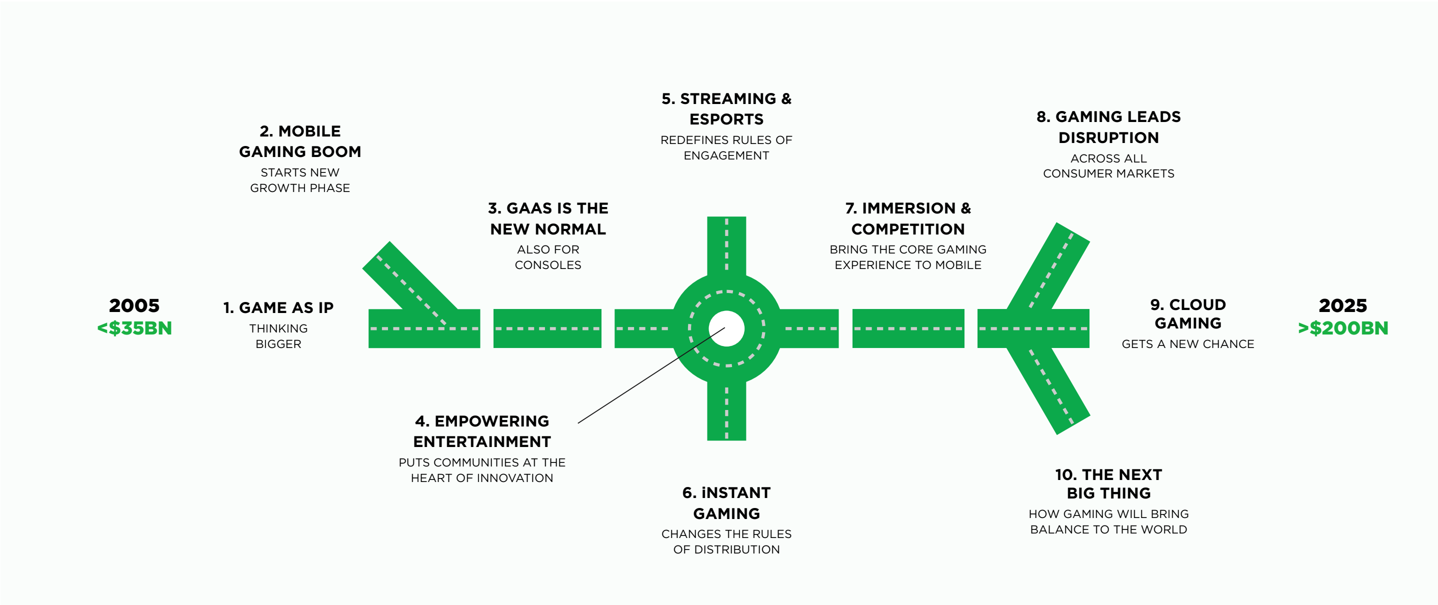
GLOBAL GAMES MARKET TRENDS

INTRODUCTION

WHY GROWTH HAS ACCELERATED

Since the emergence of video games in the 1970s, with games like Pong and home consoles such as the Magnavox Odyssey, the games market took more than 35 years to grow to a $35 billion business in 2007. This year, that same market is expected to generate $137.9 billion in revenues. In only 11 years, an astounding $100 billion of additional value was created. What were the key changes that sparked this accelerated growth? What created the foundation for an even brighter future for the games market and the industry that powers it?

To put current and future trends into perspective, we look back at the fundamental changes that have reshaped the industry in recent years. As we look toward the future, we foresee games playing an increasingly impactful role in disrupting and reshaping traditional industries, from implementing individual game mechanics to an array of mergers and acquisitions crossing the boundaries of traditional industries.



GLOBAL GAMES MARKET TRENDS

1. GAMES AS IP - THINKING BIGGER
2. MOBILE GAMING - START OF A NEW GROWTH PHASE
3. GAMES AS A SERVICE IS THE NEW NORMAL - ALSO FOR CONSOLES
4. **GAMING GIVES POWER TO CONSUMERS TO ACCELERATE CHANGE**

GAMING GIVES POWER TO CONSUMERS TO ACCELERATE CHANGE

GAMING COMPANIES PUT COMMUNITIES IN THE DRIVER'S SEAT

As companies shift focus toward keeping gamers, viewers, and creators engaged while continuously providing opportunities to spend money, the most successful companies put communities at the center of their strategy and daily operations.

Last year, we introduced the term "game enthusiast" to replace gamer, as gaming now encapsulates lean-forward playing (intensely or casually), lean-back viewing (content created by peers or provided by the professional gaming scene), creating unique content (influencers), sharing (streaming live or on demand), and owning hardware. This marks another step forward for gaming, in line with other hobbies like sports or movies where fandom is not limited to those who actively participate.

This year, we are adjusting our player segmentation to reflect this global trend. Our new segmentation considers playing, viewing, and owning as part of the game experience. It segments people based on how they engage with the various ways to enjoy gaming content and how important they consider gaming in their day-to-day lives.

THE (LEGAL) BATTLE FOR PLAYERS AND PLAY TIME

In 2017, we saw game publishers threatening to shut down startups or fan-made projects, or to sue rival companies that could potentially lure players away from their games. This is a side effect of GAAS, where game companies are competing for the attention and time of gamers. The damage done by a rival company copying a successful formula can be tremendous if the business model is based on ongoing monetization. This legal battle will only intensify in 2018 and the years beyond, given the growing importance of players and the community.

GLOBAL GAMES MARKET TRENDS

HYPER-CASUAL GAMES UNLOCK VALUE IN SOCIAL NETWORKS

THE IMPORTANCE OF IN-APP ADVERTISING IN EMERGING MARKETS

The number of gamers has grown to more than 2.3 billion globally, and nearly 95% of them play mobile games. The number of people with access to the internet in emerging markets has grown dramatically in the past years, due to the global expansion of Chinese smartphone manufacturers offering affordable smartphones and local government investment in mobile internet infrastructure. Yet, many gamers in these mobile-first regions do not have much disposable income to spend on (mobile) games, resulting in considerably lower average spend per paying gamer. Instead, these gamers "pay" with their time and most revenue in these regions is generated through in-app advertising.

INSTANT GAMING CHANGES THE RULES OF DISTRIBUTION

For the most casual gamers, even downloading an app is sometimes a bridge too far. Since last year, social media platforms are experimenting with games that can be played instantly, without the need to download. Facebook was an early mover with Instant Games, which opened to third-party developers in March 2018, and Google was quick to follow. The practice is already commonplace among social networks in Asian countries, where Tencent in China, Kakao in South Korea, and LINE in Japan all offer instant, integrated game experiences directly in their apps.

The trend is beneficial for all parties involved. Casual gamers get to try games immediately and the integration with the network allows for quick and easy setup for social games. Developers get exposure to the massive user base of the platform. The social networks themselves benefit from increased engagement on their platform and get a cut of every transaction in these games. This last benefit is crucial, as it allows these social networks to fulfill the role of distributor previously reserved for app stores.

GLOBAL GAMES MARKET TRENDS

7. **IMMERSION AND COMPETITION BRING THE CORE GAMING EXPERIENCE TO MOBILE**
8. GAMING DRIVES INNOVATION ACROSS CONSUMER MARKETS

IMMERSION AND COMPETITION BRING THE CORE GAMING EXPERIENCE TO MOBILE

THE RISE OF IMMERSIVE AND COMPETITIVE GAMING ON MOBILE

In the past year, mobile skeptics were proven wrong once again as publishers managed to create games for mobile in genres considered too complex for mobile screens and controls. Several games were launched to success that could rival the immersive experience of role-playing games or the competitiveness of a multiplayer online battle arena game (MOBA).

Launched at the end of 2015, Tencent's Honor of Kings was the highest-grossing mobile game in 2017 and boasts 200 million monthly active users in China alone. By limiting the time spent per match and the number of abilities flying on screen at one time, Tencent created a mobile MOBA experience that rivals PC MOBAs in competitiveness. Netmarble's Lineage II: Revolution offered an immersive massive multiplayer experience with stunning visuals, but limited the typical grind associated with MMO-RPGs with an auto-play mechanic that lets players focus on other tasks while playing the game. This year, Fortnite for iOS and PUBG Mobile show that Western markets are equally ready for core gaming experiences on mobile.

MOBILE PORTS TO BOOST OR REVIVE POPULAR GAME FRANCHISES

Now that publishers have established that mechanics from PC and console games can be successfully adapted to mobile screens, ports to mobile are becoming increasingly popular. Games based on popular franchises or IP are launched on mobile to either attract attention for upcoming larger releases, such as Pokémon Quest in anticipation of two Pokémon games launching on Switch later this year. Publishers can also benefit from the popularity of their franchise in regions where mobile gaming is the preferred gaming method, or even to reinvigorate a dying franchise, such as the upcoming Maplestory M or recently announced Command & Conquer: Rivals.

Due to the success of core gaming genres, these ports are not limited to certain genres. Instead, mechanically complex genres such as MOBAs, massive multiplayer RPGs, sports games, and fighting games are all launching on mobile.

GLOBAL GAMES MARKET TRENDS

9. CLOUD GAMING GETS A NEW CHANCE
10. **THE NEXT BIG THING - SUBSCRIPTION-BASED GAMING IS THE START OF A NEW BUSINESS MODEL**

THE NEXT BIG THING - SUBSCRIPTION-BASED GAMING IS THE START OF A NEW BUSINESS MODEL

SUBSCRIPTION-BASED GAMING BREAKS $60 AAA PRICING ON CONSOLE

Console publishers are likely to take the lead in a new phenomenon that goes hand in hand with GAAS: subscription-based gaming. Sony, Microsoft, and Nintendo, platform owners who already control the hardware and the distribution channel for content and services, are especially well-positioned to offer game subscription services. By including latest releases in the Xbox Game Pass and acquiring several development studios for exclusive rights on its latest titles, Microsoft has taken a first step in that direction, which could have an equally fundamental impact on the games industry as it did on the music industry. Traditional game publishers are also experimenting with subscription services, including offering access to older titles in their back catalogs. Several startups and other established firms active in the games space also offer game subscription services, including services based on streaming technology, where pre-installation is no longer required to play games.

PC PUBLISHERS EAGER TO BECOME LESS DEPENDENT ON STEAM

Being the first to offer a digital distribution platform, Valve's Steam has had a firm grip on digital distribution for PC games for the past 15 years and is the largest distribution platform for PC games.

Eager to become less dependent on Steam, publishers have launched their own PC platforms in the past years to various degrees of success, offering their games exclusively on those platforms. At the same time, new challenger platforms are offering alternatives to Steam, often by focusing on a specific aspect that Steam lacks, such as strong curation of games, offering classic game titles, or offering cloud streaming. Publishers and challenger platforms alike are now competing for developers (and thus games) on their platforms as they look to compete in the ever-growing market for subscription-based gaming.

2.

NEW SEGMENTATION

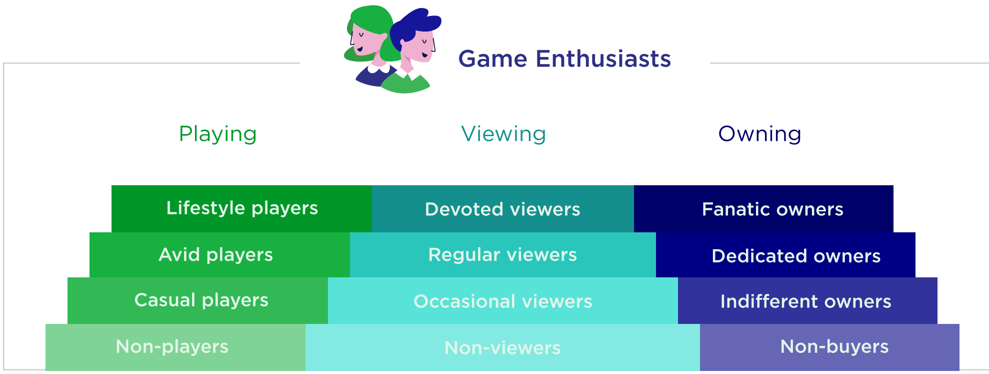
A NEW SEGMENTATION THAT PROFILES ALL GAME ENTHUSIASTS

Gaming has evolved into an all-around entertainment phenomenon. If you add up all playing and viewing hours, gaming is the world's favorite pastime. Buying and owning physical products that are specifically developed for gaming adds to the possibilities for consumers to enjoy their passion for games. How a person divides his or her time and/or money over playing, viewing, and owning differs greatly. An additional overlying dimension is how actively people share or engage with gaming content and discussions on social networks and other (online) communities.

To reflect this changing engagement in the games market, we are introducing a new way of segmenting game enthusiasts, regardless of platform and content. For this purpose, we performed extensive research in 28 countries/markets simultaneously, allowing in-depth profiling of all segments. We will continue to build on this concept in upcoming reports and quarterly updates.

THE VARIOUS TYPES OF GAME ENTHUSIASTS

By combining these levels of engagement, we can identify types among game enthusiasts. At the heart of these segments is the community that creates and shares gaming experiences. In total, the new segmentation allows us to identify and size 64 potential types of game enthusiasts.



3.

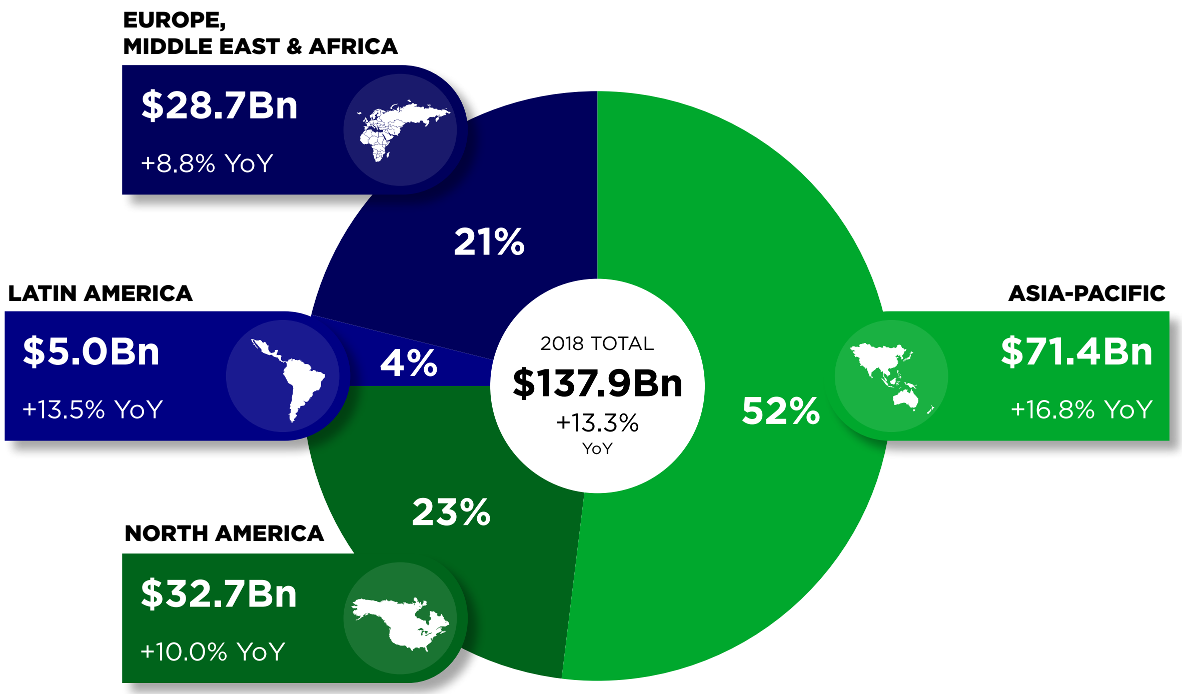
THE GLOBAL GAMES MARKET

GLOBAL GAMES MARKET 2018

PER REGION

THE GLOBAL GAMES MARKET

PER REGION



The Asia-Pacific region will generate $71.4 billion this year, or 52% of total global game revenues. This represents a +16.8% year-on-year increase. The share of total revenues claimed by the Asia-Pacific region has increased slightly over the past years due to continued growth in smartphone gaming, for which the region has, by far, the largest player base.

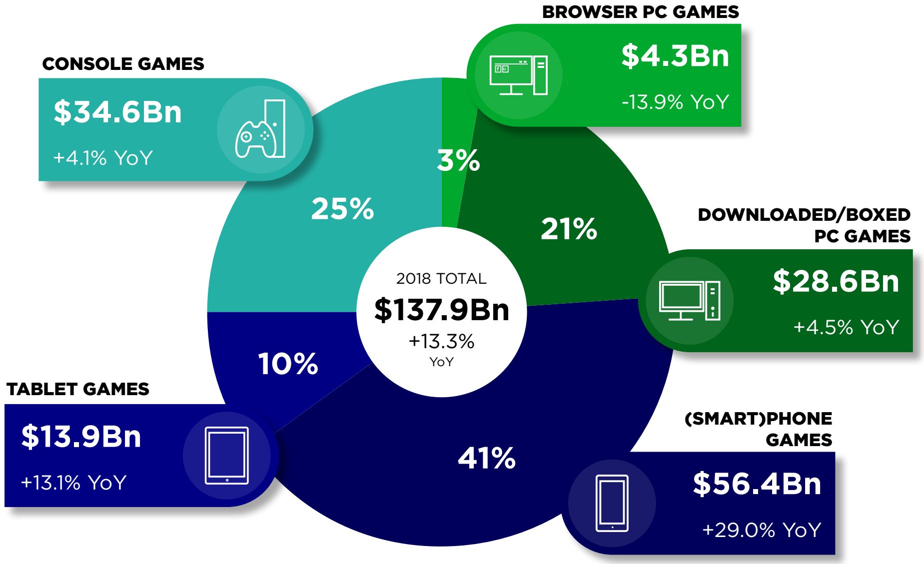
North America remains the second-largest region, taking 23% of the global games market. Total revenues in North America will increase year on year by +10.0% to reach $32.7 billion. Growth in EMEA's diverse markets is lagging slightly behind North America, as the uptake of mobile gaming has been slower. As a result, the EMEA region represents 21% of the market, equal to $28.7 billion. Latin America will grow to $5.0 billion in game revenues this year, taking 4% of the market. Growth in the coming years will cement Asia-Pacific as the largest region by game revenues, as the fastest-growing markets in the coming three years will be India and various countries in Southeast Asia. The largest single market will continue to be China, which will reach $50.7 billion in 2021.

GLOBAL GAMES MARKET 2018

PER SEGMENT

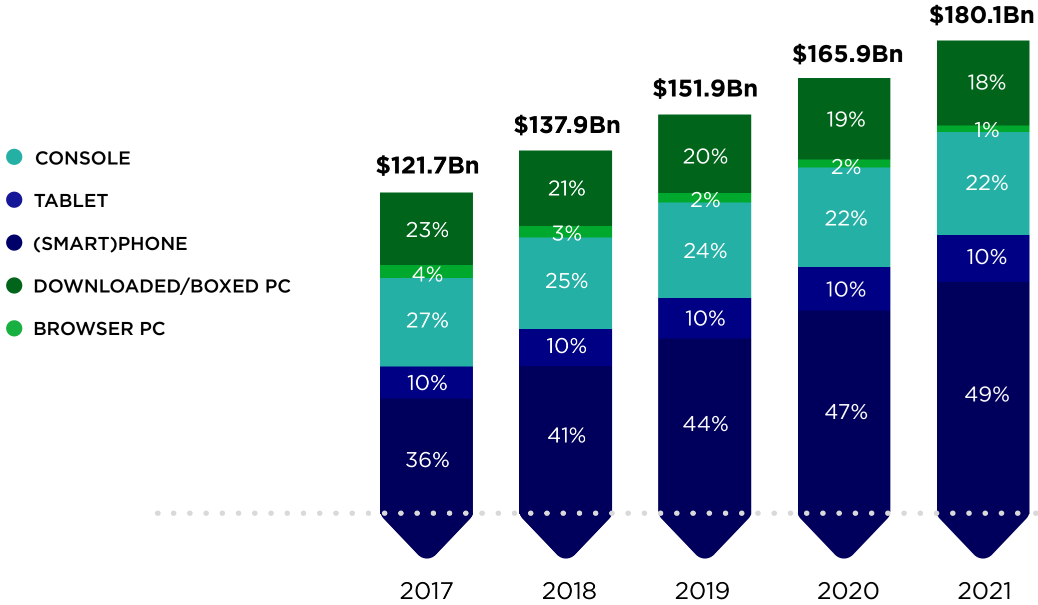
THE GLOBAL GAMES MARKET

PER SEGMENT



SEGMENT BREAKDOWN OF GLOBAL GAMES REVENUES

TOWARD 2021



Mobile gaming is the largest segment in 2018, claiming more than half of all global game revenues for the first time. Combined, smartphone and tablet gaming will generate $70.3 billion, accounting for 51% of the total global market. The segment also has the most players with 2.2 billion, the majority of whom are gaming on smartphones.

The gaming industry is in a healthy state as both console and PC games are also growing. Console is the second-largest segment with revenues of $34.6 billion in 2018. This will grow to $39.0 billion in 2021 with a CAGR (2017-2021) of +4.1%. The overall PC segment will generate $32.9 billion in 2018 and is the third-largest segment. Growth in downloaded/boxed PC games is offset by declining browser PC revenues, as browser gamers have largely transitioned to mobile. Browser PC revenues will continue to decline with a CAGR (2017-2021) of -16.1% to $2.5 billion in 2021.

4.

REGIONAL OVERVIEW

TOP 20 COUNTRIES/MARKETS

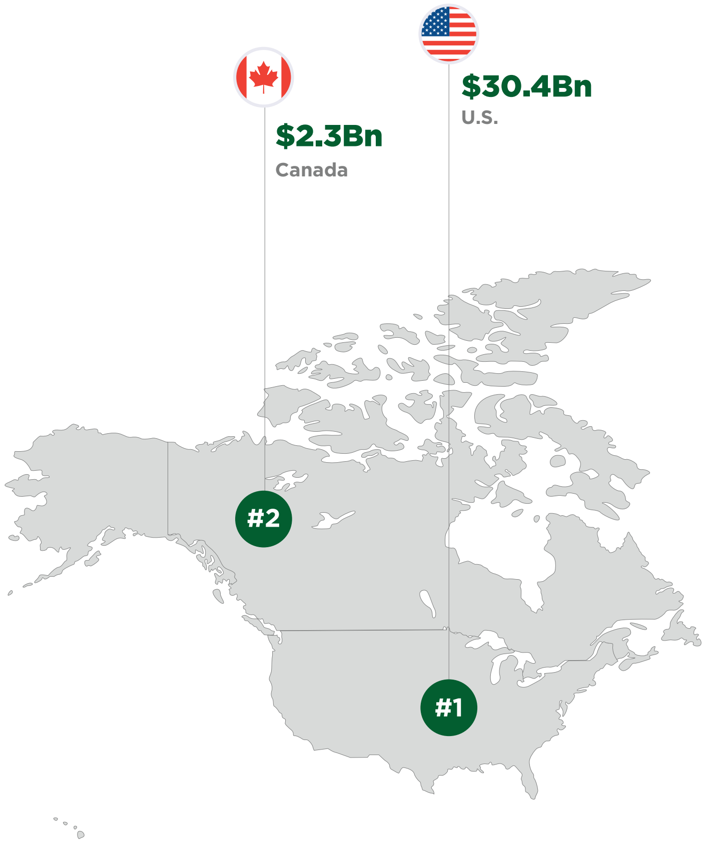
BY GAME REVENUES IN 2018

RANK	COUNTRY/MARKET	POPOLUATION	ONLINE POPULATION	TOTAL REVENUES
1	CHINA	1,415M	850M	$37,945M
2	UNITED STATES	327M	265M	$30,411M
3	JAPAN	127M	121M	$19,231M
4	SOUTH KOREA	51M	48M	$5,647M
5	GERMANY	82M	76M	$4,687M
6	UNITED KINGDOM	67M	64M	$4,453M
7	FRANCE	65M	58M	$3,131M
8	CANADA	37M	34M	$2,303M
9	SPAIN	46M	39M	$2,032M
10	ITALY	59M	40M	$2,017M
11	RUSSIA	144M	113M	$1,669M
12	MEXICO	131M	86M	$1,606M
13	BRAZIL	211M	142M	$1,484M
14	AUSTRALIA	25M	23M	$1,269M
15	TAIWAN, CHINA	24M	20M	$1,268M
16	INDIA	1,354M	481M	$1,169M
17	INDONESIA	267M	82M	$1,130M
18	TURKEY	82M	53M	$878M
19	SAUDI ARABIA	34M	26M	$761M
20	THAILAND	69M	38M	$692M

NAM

2018^{E} GAME REVENUES

TOP COUNTRIES BASED ON GAME REVENUES



$32.7Bn
2018 Revenues Generated in NAM

+10.0%
2017-2018 YoY Growth

23.7%

Share of 2018 Global Revenues

363,721,000
Population

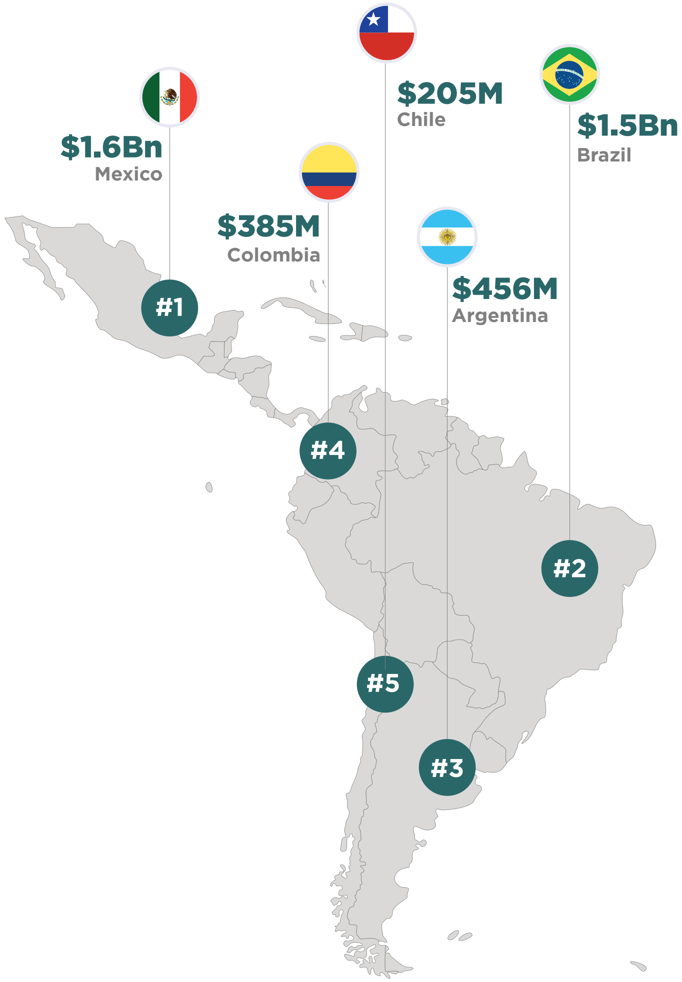
298,884,000
Online Population

199,868,000
Gamers

LATAM

2018E GAME REVENUES

TOP COUNTRIES BASED ON GAME REVENUES



$5.0Bn
2018 Revenues Generated in LATAM

+13.5%
2017-2018 YoY Growth

3.6%

Share of 2018 Global Revenues

650,580,000
Population

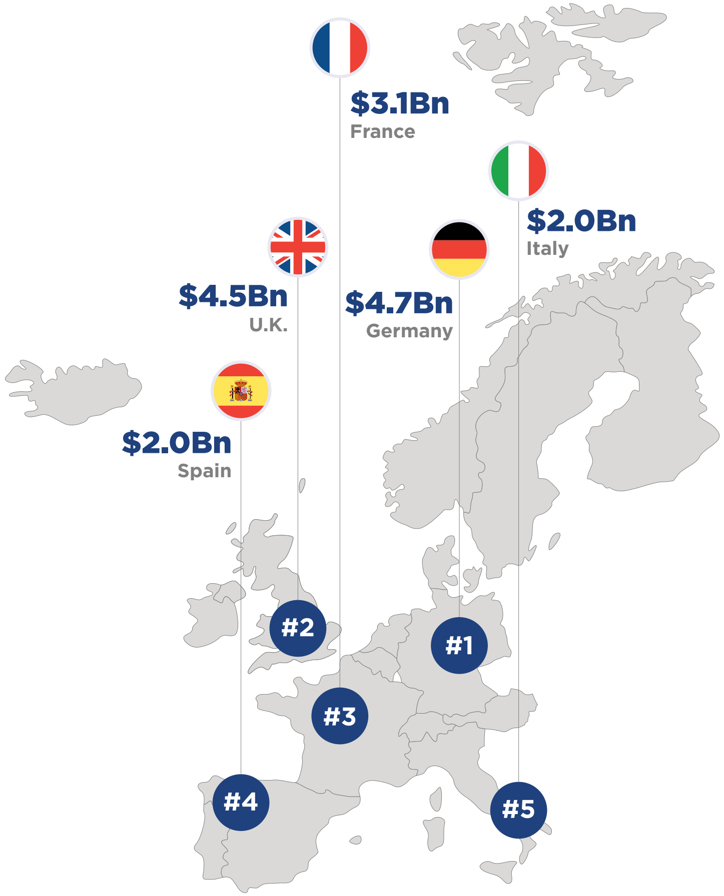
411,319,000
Online Population

234,050,000
Gamers

W-EU

2018E GAME REVENUES

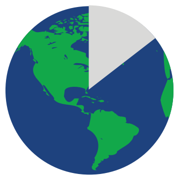
TOP COUNTRIES BASED ON GAME REVENUES



$20.0Bn
2018 Revenues Generated in W-EU

+5.6%
2017-2018 YoY Growth

14.5%



Share of 2018 Global Revenues

408,943,000
Population

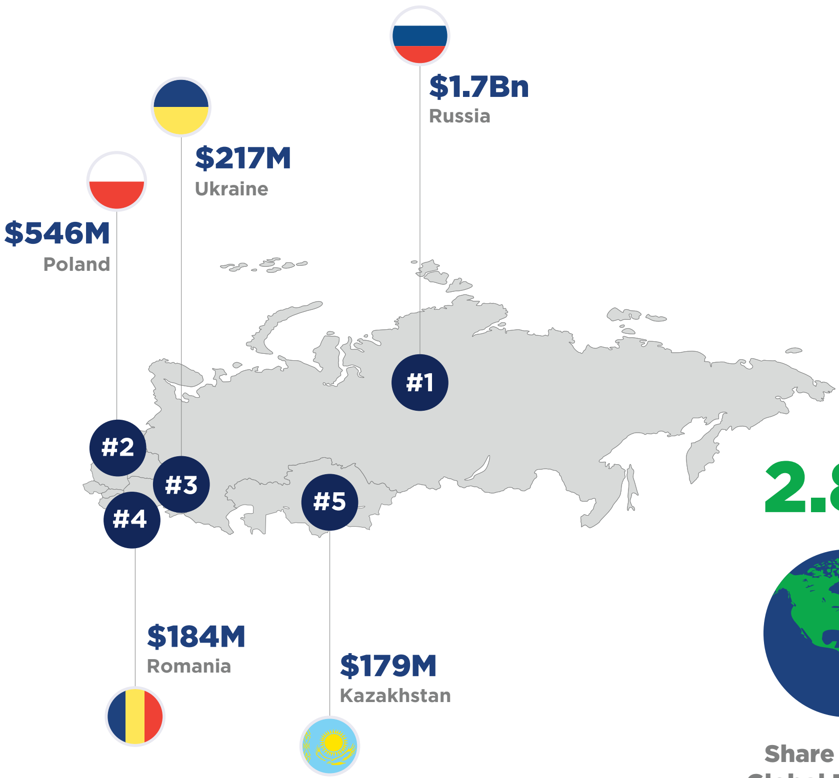
357,477,000
Online Population

206,961,000
Gamers

E-EU

2018E GAME REVENUES

TOP COUNTRIES BASED ON GAME REVENUES



$3.9Bn
2018 Revenues Generated in E-EU

+9.1%
2017-2018 YoY Growth

2.8%

Share of 2018 Global Revenues

352,962,000
Population

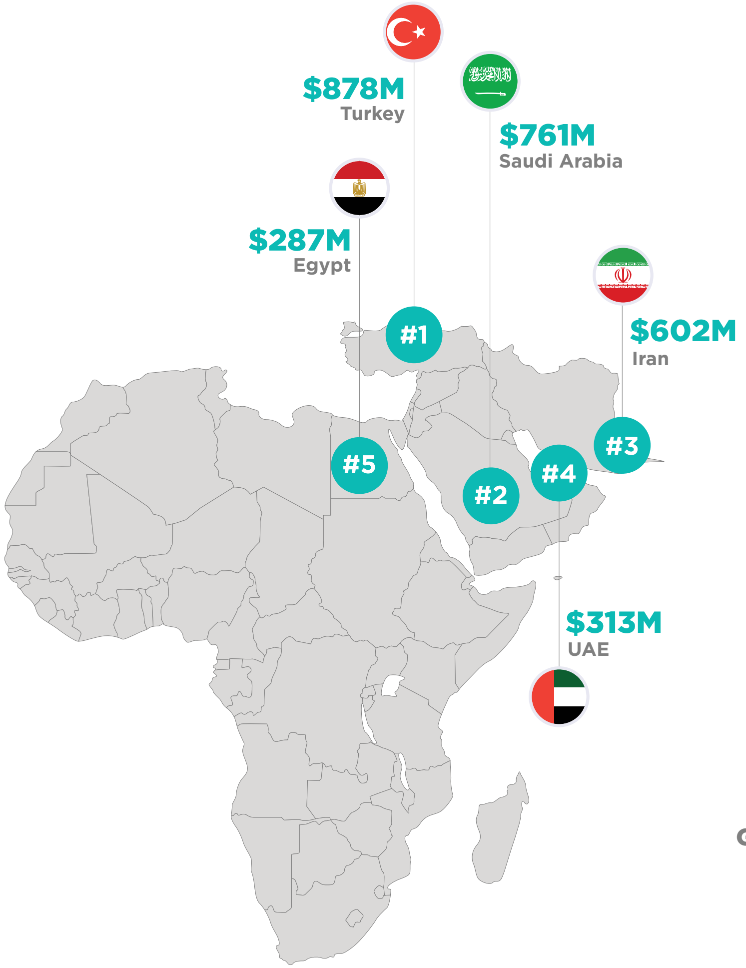
264,977,000
Online Population

147,140,000
Gamers

MEA

2018^E GAME REVENUES

TOP COUNTRIES BASED ON GAME REVENUES



$4.9Bn
2018 Revenues Generated in MEA

+23.6%
2017-2018 YoY Growth

3.6%

Share of 2018 Global Revenues

1,716,242,000
Population

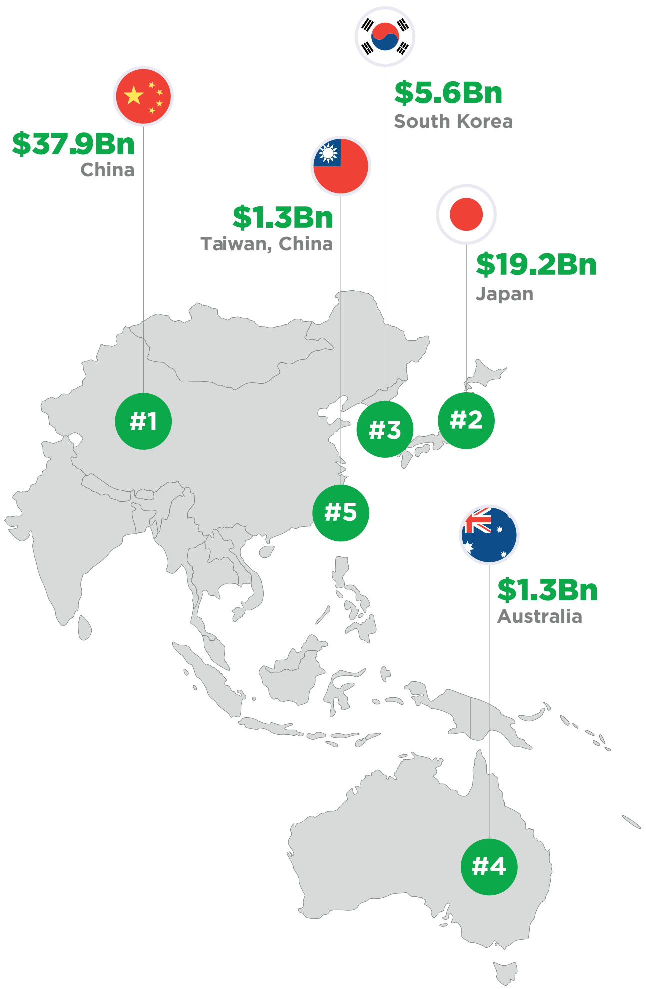
601,417,000
Online Population

330,696,000
Gamers

APAC

2018E GAME REVENUES

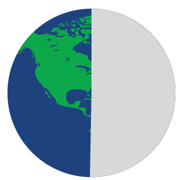
TOP COUNTRIES/MARKETS BASED ON GAME REVENUES



$71.4Bn
2018 Revenues Generated in APAC

+16.8%
2017-2018 YoY Growth

51.8%



Share of 2018 Global Revenues

4,098,006,000
Population

1,944,417,000
Online Population

1,234,243,000
Gamers

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THE INDUSTRY STANDARD FOR UNDERSTANDING AND SIZING THE GLOBAL GAMES MARKET

MARKET
FORECASTS

Trends, revenue, and gamer forecasts per segment, consumer insights, globally, regionally, and per country. Also includes our new gaming enthusiast segmentation.

ANNUAL REPORT
123 pages

QUARTELY UPDATE
16 pages

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Tableau & XLS

+

+

Client support
included

REPORT CONTENT SUMMARY

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Top 50 Countries/Markets by Game Revenues

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Revenues per segment | 2017-2021
Gamers per segment | 2017-2021

COUNTRY MARKET OVERVIEW
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Demographics of gamers per segment

SPECIAL FOCUS TOPICS:
Game Enthusiast Segmentation, Mobile Device Specs and Growth, Battle Royal Fever: The Rise of PUBG and Fortnite

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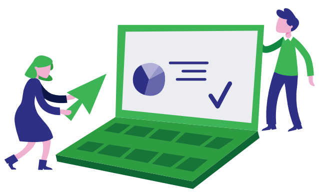

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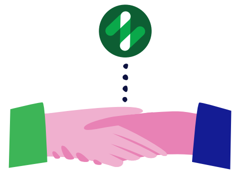

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