

Creating Company Value

Dan Lee Rogers

Game Developer's Conference

April 2009

How did we get our data?

- Interviews
- Public filings – Annual reports, etc.
- Press releases
- Investigation

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Why?

Angel Studios

by Take Two

(2002) \$28M

Luxoflux

by Activision

(2002) \$9M



Why?

Shiny

by Atari

(2002) \$47M

Black Box

by EA

(2002) \$14M



Why?

Angel Studios

by Take Two

(2002) \$28M

Black Box

by EA

(2002) \$14M



Why?

Rare

by Microsoft

(2002) \$375M

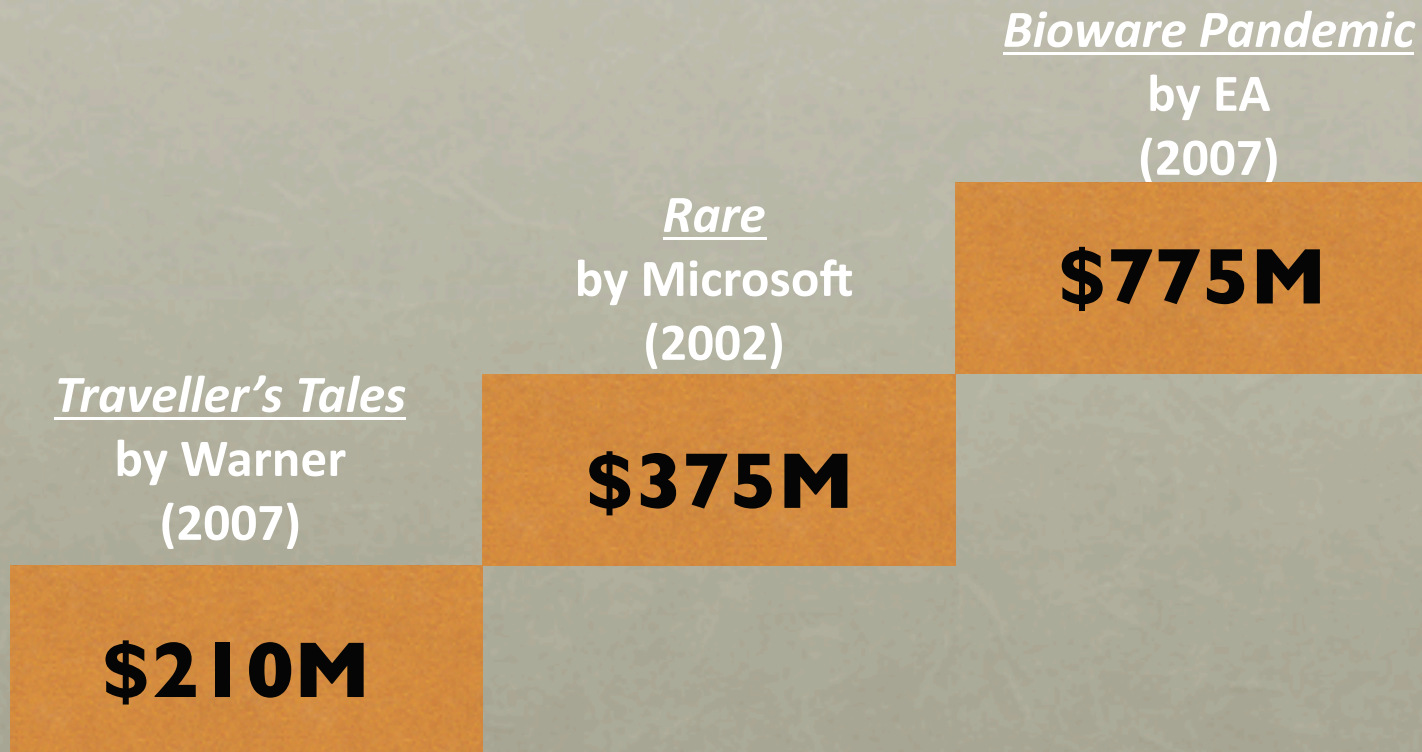
Traveller's Tales

by Warner

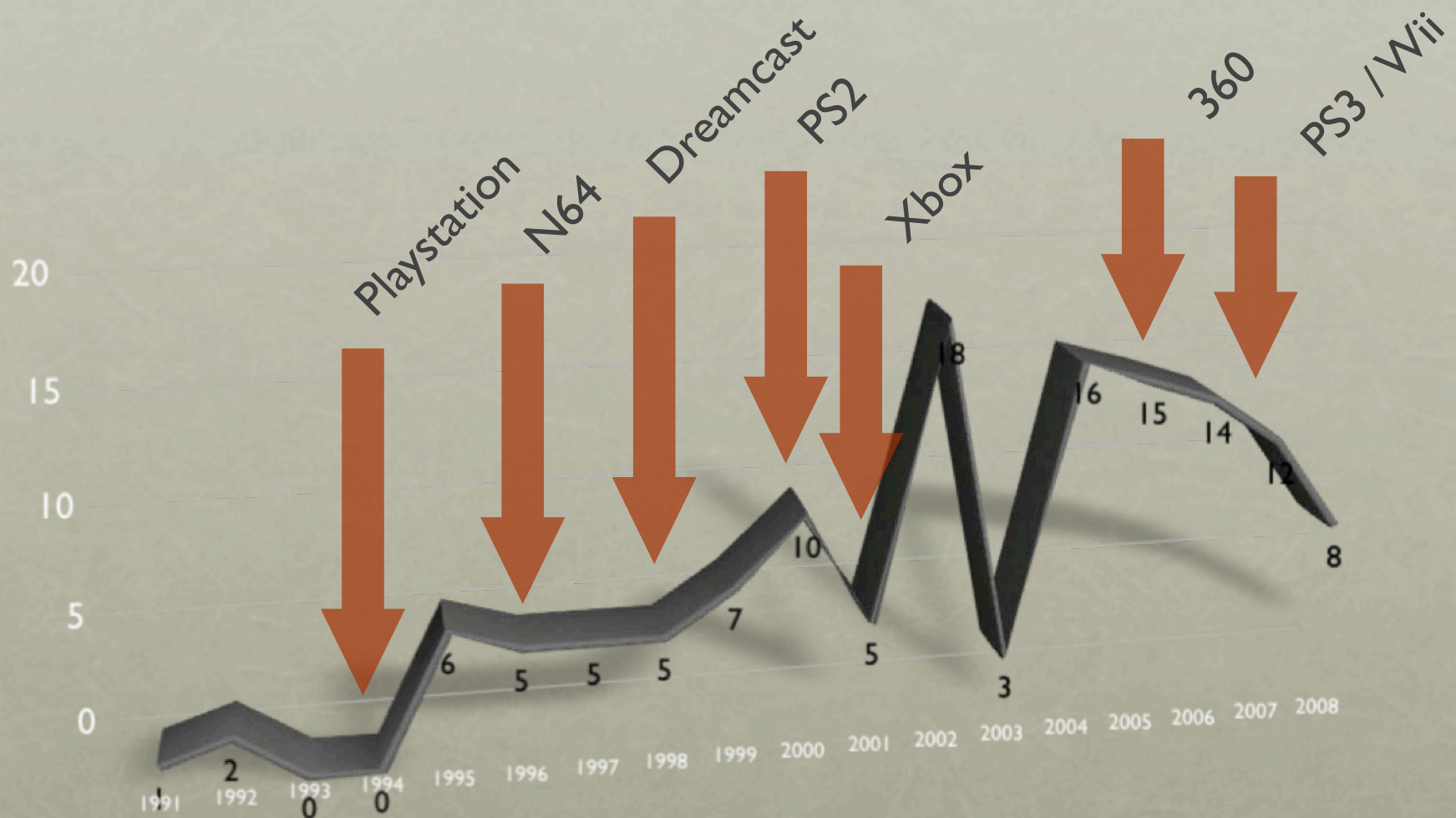
(2007) \$210M



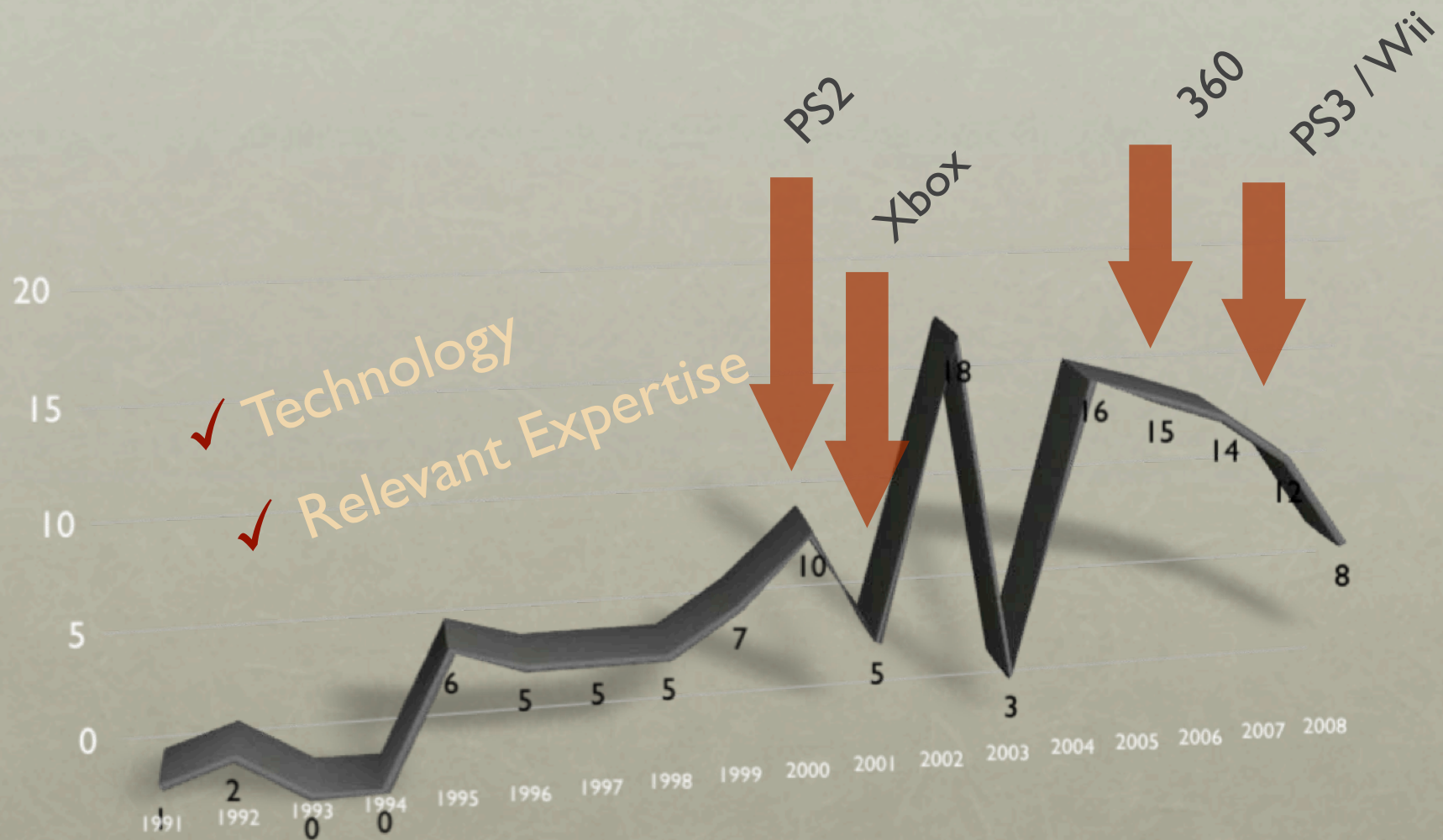
Why?



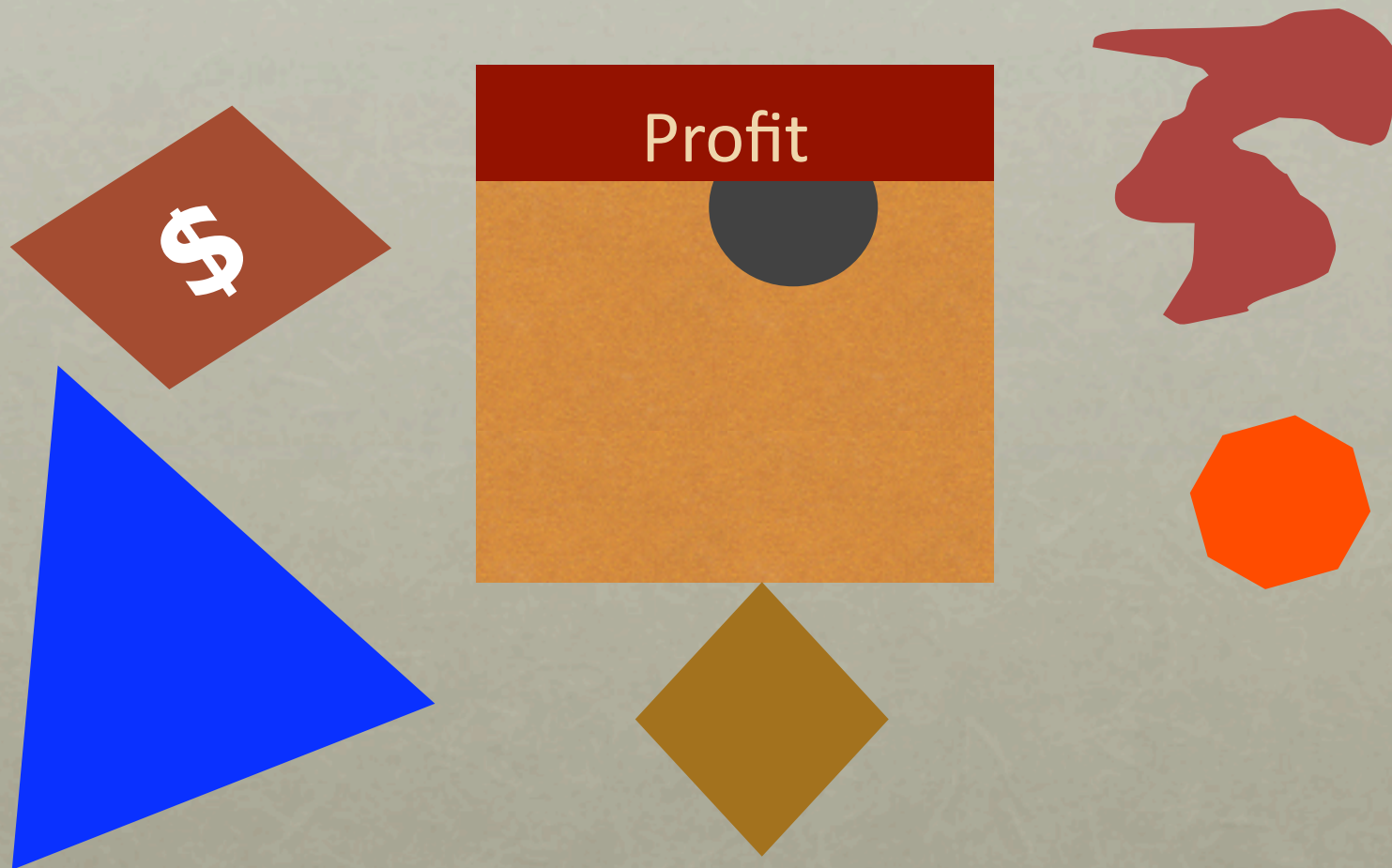
Acquisitions by Year



Acquisitions by Year



Thinking like a publisher



Developer

Rule Number 1

PUBLISHERS DON'T THINK LIKE DEVELOPERS.

Publishers are concerned with their profit...
not yours



Let's talk
about me!

Until your profit affects theirs...

Looking for a strategic purpose and value...

“Activision continues to grow and drive greater value for our shareholders by broadening our portfolio and entering new gaming categories with strong global appeal.”

Activision CEO Robert Kotick on acquisition of Bizarre Creations

Developer

Rule Number 2

YOU ARE NOT THE CENTER OF A PUBLISHER'S
UNIVERSE.

Big Questions Publishers Wrestle With...

Executive

- How do we grow our business?
- How do we keep the competition from devouring us?
- How do we come out with the next Halo/Grand Theft Auto/World of Warcraft?

Middle

- How do we keep our current projects on time and on budget?
- How do I keep from being fired?

Why Publishers Buy Developers

“We will continue to evaluate potential acquisition candidates as to the benefit they bring to us” Activision

2007 Annual Report

*Relationships are important, but strategic value
trumps.*

Developer

Rule Number 3

PUBLISHERS BUY DEVELOPERS BECAUSE THEY
NEED THEM—NOT BECAUSE THEY WANT
THEM.

What Publishers Said They Were Looking For...

- Development Expertise
- Financial Growth
- Competitive Advantage
- Proprietary Tech
- Intellectual Property

**Franchise
Acquisitions**

**Development
Expertise
Acquisitions**

**Strategic Value
Acquisitions**

IP Acquisitions

Looking For Development Expertise ...

“Vicarious Visions’ talented development team and proprietary technology combined with our internal systems and capabilities will play a key role in Activision’s continued leadership on next-generation platforms.” Kathy Varbeck, Activision

Looking For Development Expertise...

“These acquisitions have further enabled us to implement our multi-platform development strategy by bolstering our internal product development capabilities for console systems...”

Activision 2007 Annual Report

Development Expertise Acquisitions

<u>Studio</u>	<u>Publisher</u>	<u>Year</u>	<u>Amount</u>	<u>Reason</u>
Headgate	Sierra	1996	\$8-10M Est.	Golf
Reflections	GT	1998	2.28M Stock	Racing/Auto
Access Software	Microsoft	1999	NA	Golf
Rainbow Studios	THQ	1999	\$44M	Vehicle/physics / mature
Black Box	EA	2002	\$14M Est.	Racing
Angel Studios	Take Two	2002	\$28M	Racing +
Vicarious Visions	Activision	2005	\$5M +	Handheld
Beenox	Activision	2005	\$1M Est.	Conversions

Looking for IP...

“Smart M&A brings new creative teams and intellectual properties which can be leveraged by the unique strength of EA’s global infrastructure...”

Electronic Arts 2008 Annual Report

Looking for IP...

“The acquisition [of Illusions Software] reflects our strategic focus on owning high-value intellectual property as we continue to expand our portfolio of triple A titles.” Ben Felder, CEO Take Two

Looking for IP...

“The acquisition of Big Huge Games underscores our strategy of expanding both internal development capabilities and our portfolio of owned intellectual properties.” THQ 2008 Annual Report

Intellectual Property Acquisitions

2"

<u>Studio</u>	<u>Publisher</u>	<u>Year</u>	<u>Amount</u>	<u>Reason</u>
Papyrus	Sierra	1995	\$40M	NASCAR
Redstorm	Ubi	2000	\$55M	Tom Clancy
Shiny	Infogrames	2002	\$47M	The Matrix
Harmonix*	MTV	2006	\$175M	Music/Patents
Traveller's Tales*	Warner	2007	\$210M	Lego

Looking For Franchises...

“This acquisition provides Activision with an early leadership position in music-based gaming, which we expect will be one of the fastest growing genres in the coming years”

Activision 2007 Annual Report on the acquisition of RedOctane

Franchise Acquisitions

21

<u>Studio</u>	<u>Publisher</u>	<u>Year</u>	<u>Amount</u>	<u>Reason</u>
Papyrus	Sierra	1995	\$40M	NASCAR
Maxis	EA	1997	\$125M	Sim City +
Westwood	EA	1998	\$122M	Command and Conquer
DICE	EA	2004	\$93M	Battlefield
RedOctane	Activision	2006	\$99M	Guitar Hero

Looking for Strategic Purpose and Value...

“Rare has a reputation for developing very solid, high-quality franchises, something that’s been really lacking for the Xbox.” IDC

Looking for Strategic Purpose and Value...

“We completed the acquisition of Bioware and Pandemic Studios, which together brought to EA 10 new intellectual properties and added to our team of incredibly talented people...” Electronic Arts 2008 Annual Report

Strategic Purpose and Value Acquisitions

<u>Studio</u>	<u>Publisher</u>	<u>Year</u>	<u>Amount</u>	<u>Reason</u>
Rare	Microsoft	2002	\$375M	Credibility
Lionhead	Microsoft	2006	NA	Credibility
Bioware and Pandemic	EA	2007	\$775M	Substantial Growth
Traveller's Tales	Warner	2007	\$210M	Proven Development Plus License
Harmonix	MTV	2007	\$175M	Strategic Genre

Looking closer at

Strategic Acquisitions

Studio

- Rare - \$350M
- Bioware/Pandemic - \$775M
- Traveller's Tales - \$210M
- Harmonix - \$175M

Characteristics

- ✓ Strengthens Market **Position**
- ✓ Increases **Profit**
- ✓ Increases **Stockholder confidence**

Looking closer at

Franchise Acquisitions

Studio

- Maxis - \$125M
- Westwood - \$122M
- Digital Illusions - \$93M
- RedOctane - \$99M

Characteristics

- ✓ Strengthens Market **Position**
- ✓ Increases **Profit**
- ✓ Increases **Stockholder confidence**

Looking closer at **IP Acquisitions**

Studio

- Papyrus - \$40M
- Redstorm - \$55M
- Shiny - \$47M

Characteristics

- ✓ Strengthens Market **Position**
- ? Increases **Profit**
- ? Increases **Stockholder confidence**

Looking closer at

Development Expertise Acquisitions

Studio

- Rainbow - \$44M
- Black Box - \$14M
- Angel - \$28M
- IndieBuilt - \$18.5M
- Avalanche - \$30M

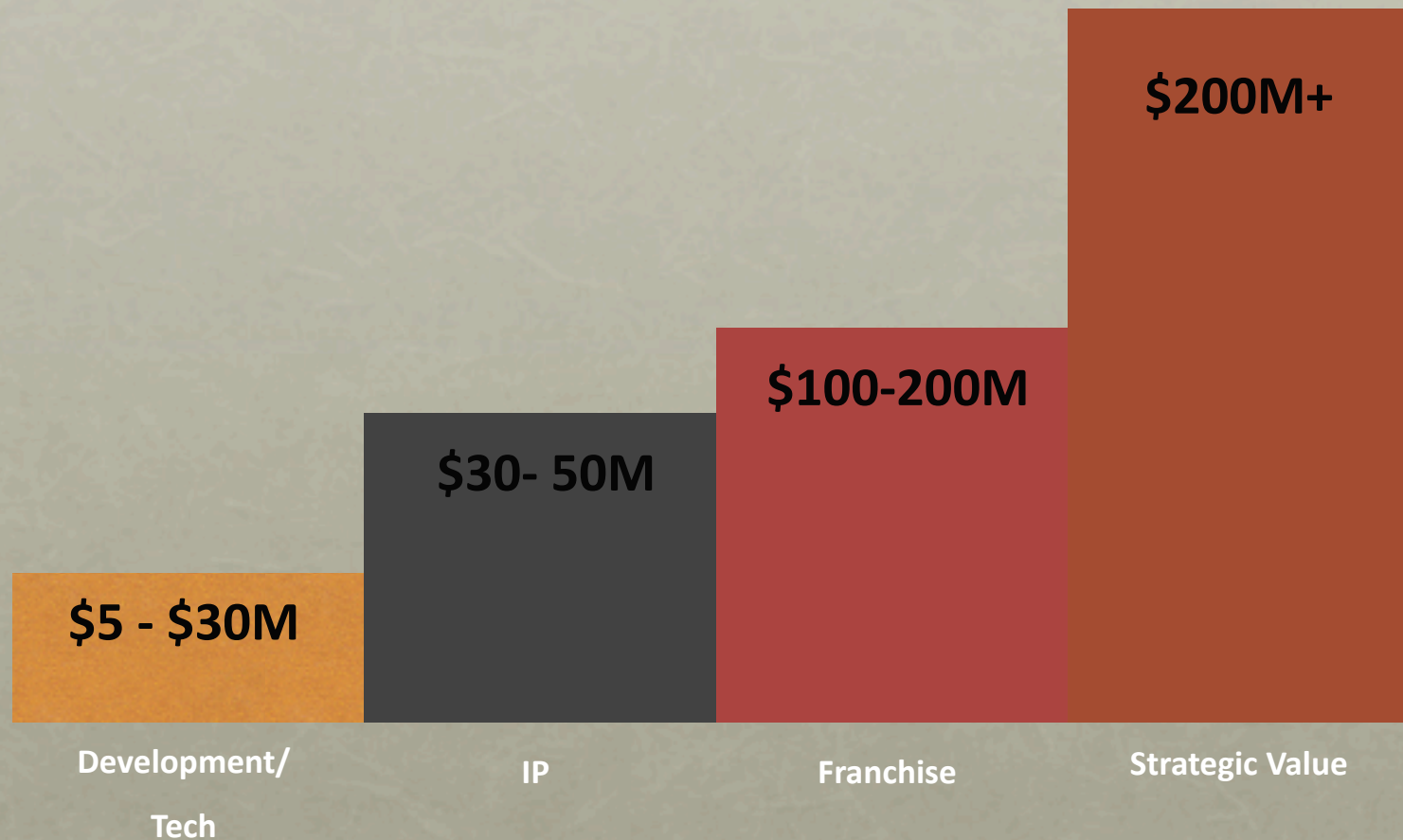
Characteristics

- ! Strengthens Market Position
- ! Increases Profit
- ! Increases Stockholder confidence

Other Relevant Factors

- Eating What They Cook
- Strategic Beachhead (Location)
- High-Speed Growth
- Fortuitous Opportunity
- Defensive Move (Bailout)

Valuing Acquisitions



Measuring Your Value

- Comparative Value
 - Employees
 - Assets
- Strategic Value
 - Revenue
 - IP
 - Franchised Properties

Increasing Your Value

- Revenue Stream
- Intellectual Property
- Real Property
- Employees (watch for point of diminishing returns)

Decreasing Your Value

- Debt
- Other Liabilities and Entanglements
 - Legal Issues
 - Real Estate (restrictive obligations)
 - Other Long Term Obligations

Thank you

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