

Niko's 2015 Predictions for China's Digital Games Industry

2015 will be an exciting time for the multibillion-dollar digital games industry in China. We're going to see a number of developments in the coming year, including changes in gamer preferences, company ownership patterns, and hardware availability. These trends will create opportunity for companies able to discern and anticipate the upcoming shifts. Because one thing is still constant: the market is enormous. In China alone, 515 million people are expected to play mobile, PC online, and console games.

First, there will be growth in both PC online and mobile gaming, with mobile growing more sharply. Among PC online games, MMORPGs (massively multiplayer online role-playing games) and MOBAs (massive online battle arenas) will remain popular, as will FPS games (first-person shooters) like CounterStrike and sports games like FIFA Online 3, which has 500,000 PCU (peak concurrent users). That said, the growth of PC online games will be slower than in past years, as more companies will be shifting their focus towards mobile games. As more and more Chinese gain access to the mobile Internet and smartphones or tablets, the mobile games market will continue to expand and eclipse the traditionally more hardcore PC online games market.

While revenue from mobile games is rising, growth in sales of smartphones is slowing. According to MIIT data, in 2014, 452 million smartphones were sold, down from 579 million in 2013. Additionally, the increasing availability of 4G smartphones (250 million expected sales in 2015) is placing further downward pressure on 2G and 3G sales. Also significant is the rise in Chinese-brand smartphones — generally lower-cost alternatives to the more expensive foreign phones — as we watch the quality improve over time.

Related to this shift towards mobile, we are seeing more and more successful mobile games that are based on pre-existing intellectual property (IP), such as cartoon characters or other popular figures from entertainment franchises. This makes sense when one considers that the shift towards mobile, whose users form a larger, generally less hardcore gamer base, would induce a growing preference for simple games with familiar characters. Falling out of favor are TCGs (trading card games), but games from other genres, such as first-person shooters and MMORPGs, will stay popular.

Tencent will remain the leader for both PC online and mobile games. Giant, which declared it will go private after years as a publicly traded company, will be turning their attention almost exclusively to mobile. There is still activity beyond mobile, however. Alibaba, going against the grain, is focusing more on the TV-based gaming, with a current emphasis on Android-based OTT consoles.

Until very recently, foreign consoles have been banned in China. The consoles that lead globally, PlayStation and Xbox, are just now beginning to enter the market, and may find themselves competing with domestic products, such as the one rumored to be in development by Alibaba. The most important driver for demand of the newly legal game consoles will be the availability of high-quality, AAA console game titles. For years, in the absence of foreign consoles, Chinese gamers have embraced playing PC online, free-to-play (F2P) games. These games are operated as online services rather than packaged products that can be easily pirated. We foresee that when game developers distribute console games

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they will employ a similar online services model that is more secure and more in line with Chinese gamers' expectations than traditional packaged discs. But as of this writing, very few titles for console games have been approved and the market still awaits the official launch of PS4 in China.

Companies within China's games industry also have been in flux, with a number of high-profile transactions making headlines. The sales of Chinese news site 17173.com and the related 7th Road game development studio, as well as Shanda's sale of its 18.2% stake in its game company and Chen Tianqiao's unloading of most of its positions, indicate uncertainty and opportunity in this market. Giant, Shanda, and Perfect World are going private, ostensibly to allow their owners to retain more control over the companies. In the console and TV-based gaming segment, BestTV (partner of Microsoft for Xbox One in China) merged with Oriental Pearl Culture Development (partner of Sony Computer Entertainment for PS4 in China) under the ownership of Shanghai Media Group, leading to Xbox One and PS4 to be distributed by one entity. In addition, China's 2014 games market enjoyed mergers and acquisitions valued at 32.4 billion RMB (\$5.2 billion), up from 16.3 billion RMB (\$2.6 billion) in 2013. However we expect them to slow in the upcoming year, due to the high saturation of companies in the mobile market and the fact that there are fewer top-quality companies available to acquire.

Finally, there is a trend towards more and more e-sports tournaments. Major tournaments are being held in China, South Korea, and Taiwan. The appetite for these events among Chinese gamers continues to grow, creating new opportunities for publicity and exposure. The popularity of e-sports also is a driver for young gamers to play more PC online games, to aspire to become professional gamers themselves one day.

In conclusion, the introduction of console hardware is going to have a definite impact on the market. Niko Partners will be watching for the emergence of high quality console games to drive demand for the newly legalized devices. But of the three platform segments — PC online, console, and mobile — we predict mobile games will have the fastest growth, and we anticipate a decline in M&A, fewer smartphone sales than in 2014, and the continuing diversification of game genres for both mobile and PC online games.

Niko Partners is the leader in Asian games market intelligence. For additional insights and advice on how to best position your company and your product to enter this dynamic and growing market, get in touch at nikopartners.com or lisa@nikopartners.com.

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