



In this issue:

- Spectator mania
- A \$15bn compatible universe
- ESPN, Facebook, Disney – all battling for the eSports market

Profiting from a patent on fun

Eoin Treacy, Investment Director



In this month's issue I'm going to introduce you to the fastest rising online market in the world today.

You may not know much about it. You may never even have heard of it.

But that's what I'm here for. And that's why you read *Frontier Tech Investor*. To get clued up early on opportunities about to really ignite.

As you'll see, if I'm right about this month's recommendation, you could see a 350+% return from an all-consuming

entertainment revolution.

To get your head around the opportunity, imagine how rich you would be if you held the patent to football.

Ruminate on that for a moment.

Football is the most popular sport in the world. It is played in every country by millions of people, every day. Hundreds of millions of people pay to attend games or watch them on the TV or at the pub. They buy merchandise whether that is a jersey, beer cozy, towel, hat, scarf, mug, underpants, keychain, etc.

Aside from the weather, football

is one of the primary topics of conversation for most men and because it is such a great leveller it is something we can all talk about.

Very simply it is one of the most compelling and engaging forms of entertainment humanity has come up with and it has persisted for almost two centuries precisely because of how entertaining it is.

If you owned the patent to football, every time a competitive game was arranged you'd get a fraction of the takings because people are playing your game. You'd get a royalty from every piece of merchandise for every team



and you'd be in a position to dictate the rules of the game so you can ensure the best possible entertainment experience for viewers.

It's not an exaggeration to think you would be among the wealthiest people in the world because you came up with the world's favourite game.

In fact, the 2016/17 season was a landmark for the UK's Premier League as the global

The reason new sports are minting new stars is because of their niche appeal but also because of the entertainment value they provide. Today we tend to think of sport as athleticism but the original meaning of the word sport was *to have fun*.

Increasingly, it is the "having fun" element that is drawing the interest of consumers and viewers.

preference to Netflix and YouTube... and we are currently debating on whether to sign up for Hulu and/or Crunchyroll.

My eldest daughter is an avid gamer and once school work and fencing practice is done, she spends most of her evenings playing online games with kids in her class. Her group of friends play conventional sports but they are more interested in *watching* live streams of games.

That may seem like an alien concept to you, but is it any less understandable than watching a downhill skier on your TV?

Plus, there is an additional element to games that is particularly attractive to kids. It will never be possible for the vast majority of people to be able to bend a ball like Beckham or to have the stature of Peter Crouch to jump higher than everyone else to head the ball. It is also very unlikely that a woman will ever play in the Premier League. However, for avid gamers, watching what professional players do and studying their tactics gives a very clear route to getting better results from their games.

In Los Angeles it is not at all uncommon today for kids to ask for a Fortnite tutor and at \$20 an hour, the education costs can ramp up quickly. A sensationalist article in August claimed games were cited as responsible for 5% of all UK divorces this year. Dig a little deeper and it was online addiction – which, as you might imagine, is not quite the

How well you can curl a ball with your foot or how well you can strike the tennis ball could soon matter less than how deftly you can wiggle your thumbs.

market leader with record revenue of £4.5 billion. Every one of the 20 clubs set a new annual revenue record. Additionally, they managed to improve profitability because revenue growth was faster than salary growth. That's a major turnaround from a decade ago when 60% of the Premier League were making operating losses. The simple conclusion is sport is back on to a winning formula and it's not just football.

The trend towards professionalism in sports remains on a strong growth trajectory. The old staples of professional footballer, tennis player, race car driver or boxer are still going strong but it is now possible to be highly successful as a professional skateboarder, surfer, skydiver, MMA fighter or poker player.

Spectator mania

So let's ask ourselves: what's the one thing all these games and players have in common? They rely on a physical location for the event to take place. In that regard, conventional sports are very much based in the glorious analogue age which is receding swiftly into the past.

Just like everything else the future is digital.

How well you can curl a ball with your foot or how well you can strike the tennis ball could soon matter less than how deftly you can wiggle your thumbs.

Young people today are conditioned to consume their entertainment online. In the Treacy home, we recently ditched cable TV entirely in



same thing – that contributed to that figure. However, it is a testament to the popularity of games that they used the link to gaming rather than any other online activity to gain clicks.

It’s a platform game

One of Amazon’s most interesting acquisitions was the video game streaming app Twitch, which is now the most popular of all video game streaming services. At any given time, Twitch has 1 million active users. That works out at 15 million daily average users and 2.2 million monthly broadcasters.

Twitch is the primary avenue through which game enthusiasts consume game play and is therefore the equivalent of Wembley or Twickenham for the gaming community. Amazon paid \$970 million for Twitch in 2014 but, despite its growth, the company represents a negligible proportion of the parent company’s earnings.

Twitch is a big player in the online gaming venue market but it is not the only one. There is also YouTube, Douyu and Huya. Those latter two are Chinese venues and they highlight that it is Asia that represents the real growth engine for eSports. The billions of people living in Asia do not have a history of professional sports outside of cricket in India but are massive sports fans nonetheless.

Additionally, there is no getting around the fact that the smaller stature of many people is not a

particularly conducive feature to becoming an international force in professional sports. However, online gaming is more about mental flexibility, reaction times and strategy so it is attractive to people who possess those attributes rather than agility, height and muscularity.

Goldman Sachs estimates that in 2018 the monthly audience for eSports will be 167 million people. That’s larger than Major League Baseball and the National Hockey League.

Putting that into even sharper perspective... the recent boxing match between Gennady Golovkin and Saul Alvarez in Las Vegas was the highest profile bout the sport could make. Both boxers have large followings and the fight got the big billing. It was advertised ceaselessly on US TV and broadcast on a channel almost everyone has – HBO. The pay-per-view numbers are reported to be around just 1.1 million.

viewership numbers.

It seems like a long time ago (and when I look at the calendar, it was!) but I remember playing Diablo 2 on Battle.net just as soon as we got broadband in the late 1990s. It was a free for all and you quickly learned that if you didn’t want to look foolish, you had better get good quickly. In fact, it is still running and is still free.

However, that is not a business model and it may have taken 20 years but gaming companies are developing a way to make (a lot of) money from online gaming. To make this point, let me introduce you to two people.

Chris MoneyMaker was blessed with a name that set him up to be a champion. In 2003, as a rank amateur (and after a marathon session) he beat 893 other players to win the World Series of Poker for a prize of \$2.5 million.

Goldman Sachs estimates that in 2018 the monthly audience for eSports will be 167 million people. That’s larger than Major League Baseball and the National Hockey League.

There are approximately 2.2 billion people in the world who play games on a regular basis and right now eSports represent about 5% of that total. Goldman estimates that by 2022 the eSports audience will be 276 million, which is similar to the size of American football

That sparked wild interest in poker playing because it demonstrated that you did not have to be a professional to succeed and it coincided with the birth of online poker playing. By 2006 the prize money had grown to \$12 million and poker was suddenly a



spectator sport.

Richard Tyler Blevins (Ninja) is by far the most popular Twitch streamer. He began his professional gaming career in 2009 playing Halo 3 and moved between various eSports teams. However, his big break came when he started playing Fortnite in September 2017, right around the time that the game was exploding in popularity.

Today he has 11 million Twitch followers and an average of 43,000 people tune in to every one of his live streams. One of his best viewer totals was 628,000 concurrent people tuning in to his game. In September he became the first eSportsman to grace the cover of ESPN The Magazine and is being heralded as “gaming’s first crossover star”.

It’s about time I talked a little about Fortnite to highlight just how important it is for the gaming sector. Subscribers to another of my newsletters, *Trigger Point Trader*, were party to a quick 198.5% profit when I tipped Turtle Beach, the premier gaming headset maker, back in May. I’ve also been following that “buy the breakout” strategy with *Frontier Tech Investor* when I bought Illumina and Garmin. I’m deploying it again this month with my recommendation in the eSports sector.

Fortnite is a different kind of game. The closest analogy is that it is like *Lord of the Flies*, or the cult Japanese movie *Battle Royale*, in that the aim of the

game is to be the last person standing at the end of the melee. It’s free to play, completely online and available on every platform from consoles to mobile and PC.

Its in-game currency are “V bucks” and these can be used to buy skins (outfits for your character) and emotes (cosmetic

development of active player groups supporting the eSports sector. There is a good reason why games companies are such avid supporters of eSports – it stretches the revenue stream for a game from about 18 months to years.

The most popular eSports games like League of Legends,

It is only a matter of time before live streams of teams competing for big money will be on every form of media imaginable.

gestures your character can perform). These cosmetic changes to a player’s character have been a massive money spinner for Epic Games with revenues from Fortnite totting up in the billions. It has even set up a \$100 million prize fund for eSports teams playing the game to compete for.

I think it is quite likely that Fortnite will do for eSports what Chris MoneyMaker did for online poker. In other words, it is only a matter of time before live streams of teams competing for big money will be on every form of media imaginable.

The in-app revolution

Computer game companies own the games they produce. They own the characters, the storyline, the graphics and the rules of the game. They are responsible for the evolution of the player experience and they are fostering the

Hearthstone, StarCraft and Dota 2 have been around for more than five years and are still going strong. Normally, a new game comes out and sales blossom but quickly peak, which leads to discounting about a year later.

However, with the evolution of in-game purchases and updated content the longevity of games is being stretched. eSports are an important part of keeping people engaged with the game because, if they are still playing, they are more likely to spend money on in-app purchases.

That said, there is a right way and wrong way to do in-app purchases. Electronic Arts (EA) does it the wrong way. For a number of its games you have to buy the title and then pay more to access different parts of the game. That really ticks consumers off because it involuntarily forces them to pay more to complete the game.



EA has been the butt of derisory memes all over the internet. It is slowly learning from that miscalculation. Other companies rely on the enthusiasm players have for their characters and their desire for individuality to create demand for additional optional content. That is something both Epic Games and Activision Blizzard excel at.

Less than a year ago, French game publisher Ubisoft reported it makes more from in-app purchases than the games themselves. That kind of statistic changes how businesses operate. It takes what was an inherently cyclical business model and changes it into something that is a lot easier to model. Generally speaking when the financial markets see that kind of transition they respond by accepting a higher multiple on earnings because the visibility on future potential is so much better.

sells us Office 365 once and we rely on it indefinitely.

Computer games are nowhere near as essential to us as a Word, Excel and PowerPoint but there is no denying that the strength of in-app purchases is that they boost revenue to a title with little in the way of additional outlay from the company.

The reason I am writing to you about eSports this month is two-fold. The first is an important event occurred last week that has changed the gaming sector forever...

And the second is the recommendation I am making is just breaking out of its most recent range.

A \$15bn compatible universe

Our first computer at home was an Amstrad CPC 464. And

play together has been a key characteristic of the gaming world until last week.

Fortnite is available on every platform and it is wildly popular. However, Sony refused to allow cross-play on its PS4 console. That meant if a group of friends were playing together, the person with a PS4 could not play in the same game as their friends. That did not apply to any other platform, meaning that Nintendo, PC and mobile players could all play together.

Sony caved to player demands for cross-play to be enabled and that represents a major change in the balance of power in the gaming sector in favour of the game originator rather than the console producers.

Right now, eSports is a \$900 million revenue spinner but Bank of America Merrill Lynch estimates it's a \$15 billion opportunity. As I mentioned earlier, viewership is currently around 5% of gamers but in South Korea it is around 18% – with almost 1 in 10 people being an avid fan.

Right now, eSports is a \$900 million revenue spinner but Bank of America Merrill Lynch estimates it's a \$15 billion opportunity.

If eSports fandom increases at anything close to the pace with which South Korean popular culture and K-pop is overtaking the world, then a \$15 billion revenue estimate is not at all beyond the realm of the possible.

Here is the challenge with investing in gaming: many of the biggest companies are privately held. Epic Games (producer of Fortnite) Riot Gaming (producer

One of the reasons Microsoft has been trending persistently higher for the last couple of years is because it went from relying on lumpy sales of software to a subscription-based model about three years ago. Now, instead of having to sell each new iteration of Windows and having to prove to us all again why we need to own it, it

the reason my dad bought it was it because it came with 12 free games. However, the most popular computer at the time was the Commodore 64, with the result that it was impossible for us to swap games with lots of our friends. That same difficulty of one person having a different system to another and therefore being unable to either share or



of League of Legends) and Valve (producer of DOTA 2 (Defense of the Ancients 2)) are all privately held. That's one of the main characteristics of gaming – it is possible for individuals to get a game up and running by sheer hard graft and turn it into a company without ever having to go to the public markets for

remained on the stockmarket, which has led to it being the largest of game publishers with the greatest market cap in the sector. With such a strong base of highly popular titles, it is well positioned to command the evolving eSports sector.

Activision Blizzard does not

subscription. It's been going strong since 1994.

One of its most endearing qualities is that what is going on in the virtual world continues when you are not playing, so that when you come back you need to catch up with everyone else who has been playing. That helps to create better engagement and the most recent iteration of the title, Battle of Azeroth, was released in August and set a record of 3.4 million sales, at \$15 a month, on the first day.

In a very literal sense, Activision Blizzard owns the patent on this sport. That is a rare and lucrative position to be in.

support. It narrows the field in terms of potential investment opportunities.

However, there is one company that has a clear lead when it comes to the games that are acquiring large eSports followings. It published all 14 versions of Call of Duty. It is the producer of StarCraft, which is one of the original eSports titles. It also produces Hearthstone, Overwatch and Skylanders. In fact, it is looking like Overwatch was created for the express purpose of creating an eSports league. That company is Activision Blizzard.

The company is the result of the merger between Activision and Vivendi's gaming arm which owned Blizzard Entertainment. In 2012 the company bought out Vivendi's shareholding and it now trades as an independent entity.

Due to the fact that it has grown through mergers, it has

publish games under its own name but rather under a series of studios that maintain responsibility for their individual games. That helps the company to deliver games unique to individual studios and helps to broaden the breadth of its offering.

Call of Duty and Overwatch are third-person games, which means the camera angle is right behind the shooter you command. However, they also incorporate some elements of first-person shooter games where the camera angle is through the eyes of your character. StarCraft is what is referred to as MOBA (massive online battle arena) where your strategy and mental agility are required to prosper.

Blizzard Entertainment was the originator of MMORPGs (massively multiplayer online role-playing games) with the release of Warcraft, which from the onset required a

What encouraged a lot of players back to the game was the fact that they no longer had to pay for previous content but got the benefit of access to all the previous content when they signed up for the new iteration. There is that breakthrough business model at work again. That's a nice bonus but of course also helps to keep people engaged for longer so they sustain their subscription.

Rather than focus on the playability of Warcraft, or the popularity of StarCraft among South Korea's eSports players, or the attraction of indulging one's escapism with Call of Duty, let's focus on the drive to make Overwatch an eSports staple.

ESPN, Facebook, Disney - all battling for the eSports market

Activision Blizzard sold 12 franchises for teams at \$20 million each last year. The company is the IP owner so by selling franchises it gives an



opportunity to teams to build a following, create their own merchandising and logos and to kick back a proportion of the revenue on each sale. In a very literal sense, Activision Blizzard owns the patent on this sport.

That is a rare and lucrative position to be in.

With those new teams came a two-year streaming deal with Twitch, which ESPN valued at \$90 million. Elsewhere Tencent’s League of Legends signed a \$300 million five-year deal with BAMTech and ESPN, Disney (which owns ESPN) and Facebook have also signed eSports deals. That means just about all games’ manufacturers have exposure to eSports but Activision Blizzard has the greatest because of the breadth of its offering.

There have been Overwatch tournaments running since it is inception, but the launch of the Overwatch League followed up with the launch of a Call of Duty League is expected to generate in the region of \$100 million in 2018. Serious money.

Professional sports team owners are already getting into this arena because they do not want to miss out on the opportunity for growth it represents. Major League Baseball and National Basketball Association team owners are now seeding eSports teams and there is discussion about introducing eSports into the 2024 Olympic Games.

Premier League football clubs are also rumoured to be making

moves into esports, with Ruud Gullit becoming a spokesman for its rising popularity:

“You can reach people, the whole world through this game (FIFA) and that is important for teams like Chelsea,” the former Chelsea player-manager told AFP at a Betting on Football conference at Stamford Bridge.

“In Holland all the Eredivisie teams have an eteam player, there is a competition and it is watched by more people on TV than the Dutch second division. The exposure is unbelievable.”

One of the most attractive aspects of the sector for advertisers is 45% of fans are in the 18-24 age group, with another 15% between 13-17

up with a dedicated strategy to build out the franchise for some of its more popular games.

The second is this is a growing sector which has been dominated by privately held companies so when it comes to investing, there are only a limited number of plays on the sector and by buying now we are getting in ahead of the crowd.

Take exchange-traded fund (ETF) interest in gaming as an example. The ETFMG Video Game Tech ETF (GAMR) has about \$130 million under management right now but is up approximately 98% since debuting in 2016. That’s an anomaly because other ETFs that offer pure plays on emerging technologies have been much more successful at

That means just about all games’ manufacturers have exposure to eSports but Activision Blizzard has the greatest because of the breadth of its offering.

and 22% between 25-34. That represents a significant growth runway as spending and ad revenue.

Buy Activision Blizzard for a potential 350+% profit

I am recommending you buy Activision Blizzard for two primary reasons. The first is that it has an already large position in the sector, which it is backing

attracting assets.

For example, the Robotics ETF has \$4.3 billion under management and the Cybersecurity ETF has \$2.6 billion. However, gaming beats both those industries on revenue; \$122 billion versus \$39 billion and \$83 billion respectively, but is comparatively unloved by investors.

That is not a condition I expect



to persist for much longer. Considering how many catalysts for wider public awareness of eSports and by extension gaming are going to be in the media over the coming year, this dislocation in the market is likely to be unwound in spectacular fashion.

It occurs to me that the majority of people interested in games and eSports are under 35 but the majority of investors are over 35, so they probably don't believe in the profit potential this sector has. Just ruminate on the fact that games have a higher turnover than Hollywood.

I recommend buying Activision Blizzard up to \$90 and my 12-month target is \$200. The company has a number of growth streams ranging from ramping its existing games, bringing out iterations and promoting competitive leagues for Overwatch and Call of Duty in particular.

This is truly virgin territory and the company is likely to represent a significant piece of the expanding eSports revenue pie over the course of the next few years. If the weight of money I expect starts to flow

Action to take:	buy Activision Blizzard
Ticker:	ATVI:US
Price as of 02/10/2018:	\$83.29
Buy up to:	\$90
52-week high/low:	\$84.68/\$57.29
Market cap:	\$63.4 billion

Figures accurate as of last market close 02/10/2018



into the ETF sector as exposure rises, then it is quite possible for my target to be hit relatively quickly.

The risk is that League of Legends or Fortnite gain a bigger share of eSports revenues. I believe it is only a matter of time before all games become free to play because companies will monetise in-game purchases.

For example, in-game cheering was permitted on Twitch in 2016. It allows individual fans to send “bits” (pretty animated

emojis icons) to a player they admire in real time. It's a fresh iteration of the in-game purchases that characterise games today. For a big company like Activision Blizzard, that could be a big transition and it represents the biggest risk to the share price in my opinion.

Over the next five years, considering the growth of the sector and its long-term potential to become a staple in many people's entertainment time, I expect the share to trade towards \$400.

Medical



Company	Ticker	Rec Date	Price Then	Price Now	Gain/loss %
Autodesk	ADSK	19/07/17	\$108.83	\$155.50	42.88
Abcam	ABC	07/03/17	907.5p	1440p	60.18
Illumina	ILMN	04/09/17	\$207.15	\$366.54	76.88
PureTech Health	PRTC-L	09/01/18	155.75p	161.00p	3.37
Agios	AGIO	06/03/18	\$84.23	\$76.53	-7.85
Becton Dickinson and Co	BDX	03/05/18	\$221.35	\$264.38	20.12
Canopy Growth Corp	WEED:CN	21/03/18	C\$33.11	C\$63.98	93.23
Advanced Oncotherapy	AVO	03/07/18	48p	42p	-12.50
Boiquest	BOE:LN	07/08/18	430p	470p	6.82
Aurora Cannabis	ACB-T	19/09/18	C\$12.35	C\$12.46	0.89

Technology



Company	Ticker	Rec Date	Price Then	Price Now	Gain/loss %
IBM	IBM LN	07/06/16	\$153.33	\$153.00	7.46
SAIC	SAIC US	05/07/16	\$58.20	\$78.90	40.36
Garmin	GRMN US	02/08/16	\$55.75	\$69.85	33.60
2U INC	TWOU:US	06/02/17	\$33.25	\$74.28	123.40
Cisco Systems Inc.	CSCO:US	03/04/17	\$33.80	\$48.87	49.97
Microsoft	MSFT	31/07/17	\$73.04	\$115.61	61.12
Northrup Grumman	NOC US	06/07/17	\$301.66	\$318.50	6.61
Intel Corp	INTC	06/06/18	\$56.60	\$46.45	-18.03
Activision Blizzard	ATVI:US	02/10/18	\$83.29	\$83.29	0

Energy



Company	Ticker	Rec Date	Price Then	Price Now	Gain/loss %
Orocobre Ltd	ORE.AX	07/04/16	A\$ 2.92	A\$ 4.43	51.71
Ormat Technologies	ORA on NYSE	06/06/17	\$58.79	\$54.40	-6.46
Smart Metering Systems	SMS LN	03/10/17	735.5p	646p	-11.46
Sherritt International Corp	S CN	06/02/18	C\$1.18	C\$0.81	-31.36

Moonshot



Company	Ticker	Rec Date	Price Then	Price Now	Gain/loss %
SolarWindow	WNDW	07/04/16	\$3.96	\$1.92	-51.52
Alkane Resources Ltd	ALK:AU	05/09/16	AU\$ 0.31	AU\$ 0.24	-21.31
Haydale Graphene Industries	HAYD	02/5/17	178.5p	36.00p	-79.83
Superconductor Tech Inc	SCON	28/03/17	\$9.60	\$1.92	-80.00

For the full portfolio including live prices, please visit the *Frontier Tech Investor* subscriber area. [You can view that by following this link.](#)

Risk warning

Your capital is at risk when you invest in shares – you can lose some or all of your money, so never risk more than you can afford to lose. Bid/offer spreads, commissions, fees and other charges can reduce returns from investments. The Frontier Tech Investor portfolio is not intended to represent the exact price at which you could buy or sell a share. Our reference price is the closing price the day before issue is published. Sometimes readers will achieve better entry/exit prices; sometimes worse. All gains are gross, and returns will be affected by dealing costs and taxes. Profits from share dealing are a form of capital gain and subject to taxation. Tax treatment depends on individual circumstances and may be subject to change in the future. The information and opinions expressed do not necessarily reflect the views of other editors/contributors of Southbank Investment Research Ltd. Small cap shares - Shares recommended may be small company shares. These can be relatively illiquid meaning they are hard to trade and can have a large bid/offer spread. If you need to sell soon after you bought, you might get back less than you paid. This makes them riskier than other investments. Small companies may not pay a dividend. Full details of our complaints procedure and terms & conditions can be found on our website southbankresearch.com Investment Director: Eoin Treacy. Frontier Tech Investor is issued by Southbank Investment Research Ltd. Registered in England and Wales No 9539630. VAT No GB629 7287 94. Registered Office: 2nd Floor, Crowne House, 56-58 Southwark Street, London, SE1 1UN. Southbank Investment Research Ltd is authorised and regulated by the Financial Conduct Authority. FCA No 706697. <https://register.fca.org.uk/>. ISSN 2398-2470. © 2017 Southbank Investment Research Ltd.