



SOCIALIZE ME —

FANTRUST'S FAST FACTS TO HELP YOU TAP TODAY'S BILLION DOLLAR SOCIAL GAMES SECTOR

Hundreds of millions of today's gamers are enjoying light, fun, "snackable" games played within social networks. This fanbase is expected to surge to 250M in 2009 from 50M the previous year. The market for this upstart genre of entertainment is pegged at \$2B. And with low production costs, unlimited free marketing and multiple revenue streams, social games promise big business for years to come.

What is social gaming?

Facebook. MySpace. Hi5. More than social networks, these wildly popular community hubs are also the next generation game consoles.

Social games are casual games that friends play together, typically on social networks rather than on traditional game portals.

Today's social game players tend to be "non-gamers" or casual gamers who play with their friends, rather than compete with strangers. Social games take advantage of existing online relationships to encourage gameplay, relationships that form the backbone of entertainment's most interesting growth market.

Generating real world dollars from virtual goods, advertising and sponsorship, social games represent a powerful business model. And with the cost for building a good social game as low as \$100K, the margins can be astronomical and the barriers to entry non-existent.

Even deal-making isn't necessary. Any company can create and distribute a social game without an official social network partnership. Currently, the leading companies in this space are start-ups, Zynga, Playdom and Playfirst. Zynga heads the pack with more than 150M active users every month and projected revenues of \$200M-plus for this year. When you consider that Facebook itself has 200M active monthly users, you get a sense of Zynga's phenomenal penetration and the popularity of its games. With metrics like these, the company's industry-watchers are citing a \$1B valuation, massive takeover bids – even a possible IPO.

When it comes to the big entertainment companies, EA is investing in social games, digital downloads and other online business models, spending a reported \$150M this year.

The virtual goods market at the heart of these games was pioneered in South Korea by Nexon, and is now taking off in the West largely because of social networks. From mature entertainment companies to rank start-ups, from VC's to analysts, everyone is watching this space – or ignoring it at her peril.



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Market opportunity

- The Financial Times recently reported that the social gaming market is already approaching \$1B in annual revenues. Other industry sources say that this figure represents only consumer revenues – add in advertising and sponsorship, and social gaming revenues are pegged at closer to \$2B for 2010.
- The number of people playing social games on a monthly basis is expected to surge to 250 million by the end of 2009, from 50 million in 2008, by some industry estimates.
- Facebook, which leads social networks in generating virtual goods revenues, is currently testing its virtual currency system with select third-party developers. When this virtual currency system launches, it will simplify the payment process for both players and developers. Developers that use Facebook's virtual currency system should see a surge in transactional sales, due to the simplicity of payment, and Facebook's trusted brand.
- Many top social networks, including MySpace, have joined the OpenSocial network, a move to simplify the development of social games distributed on multiple networks.
- MySpace is repositioning itself as an entertainment destination, with a focus on social gaming.

How is social gaming monetized?

- "Free-to-play" social games typically have three sources of revenue:
 - Microtransactions, where consumers pay for virtual goods and gifts, such as weapons or outfits, for special powers or skills for their avatars, as well as for premium games and higher levels of gameplay.
 - Advertising, where brands pay for access to game players, impressions and click-throughs.
 - Third-party pay, where brands pay for each consumer who completes a product registration or online order form, such as subscribing to Netflix or sending flowers from FTD.
- These transactions occur within the social network game.
- Most games allow players to pay for virtual goods using credit cards, PayPal and mobile phones. Game companies can deploy any number of third-party management systems that encourage and enable players to pay for virtual goods
- 80 percent of the virtual goods revenue on Facebook is collected directly by game vendors and other third parties; unlike iTunes, Facebook does not demand any share of the revenue.
- Microtransaction games use a "real dollars for virtual coins" model; virtual coins can then be spent within the game any number of ways
 - For example, in Zynga's Ghost Racer, users could spend \$20 to upgrade their cars to race faster.
 - Zynga introduced a feature in its Texas Hold 'Em poker game that lets players give chips to their friends and use their chips to buy their friends a virtual drink. On the first day, players sent drinks to each other 200,000 times.
 - (Lil) Green Patch offers players more acreage for their garden if they sign up for offers from sponsor brands.



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- Other social games depend on advertising for revenue.
 - Some insiders claim that social game ad monetization generates as much as \$1 per player over the lifetime of gameplay and with the top 5 games on Facebook alone reaching from 5M to 50M monthly average users each, this can add up fast to some big ad dollars.
 - Game companies can take advantage of a number of other kinds of successful start-ups: social advertising networks and reward companies that monetize this space.
 - And of course a few top social game companies themselves are spending millions to advertise their games within social networks, which is good news for the likes of Facebook and MySpace.
- Some developers create and sell iPhone versions of their social games.
 - Playdom's current #1 game, Mobsters, has an in-game banner driving players to the iPhone version of the game, sold for \$0.99. Players of the iPhone game can also purchase "favor points" within the iPhone application; these favor points can be used to acquire virtual goods.
 - EA promotes and sells the iPhone version of its Scrabble game for \$4.99.

Ultimately, the relationship between social games, casual games and console games is set to come full circle. Facebook technology, for example, is making social games increasingly playable on multiple platforms, including on the web, iPhone and Xbox 360. And with the launch of version 3.0 of the iPhone software, mobile virtual goods trading has even more potential and will tap exponentially more players.

What do the fans play?

When it comes to video games, 5M players make for a hit title. With social games the player numbers for a runaway hit are more like 50M. This underscores the scale of the so-called free-to-play market.

Social games tend to be virtual worlds and multiplayer experiences, which is no surprise in a social networking environment, where individuals come together to collaborate, socialize, connect, share – and of course compete.

- Farming and mob crime games lead the pack. Fans also love running their own tiny, digital restaurants and cafes.
- Four of today's top 10 Facebook games feature farms or pets.
- In the leading social game Farmville, just launched in June 2009, 54M monthly average users now operate miniature farms, dealing with everything from weather to crop yields to animal blight, as they increase their holdings or succumb to competition in Zynga's fierce little world of animated pastures. And that's just the Facebook fanbase!
- The top two MySpace games, Playdom's Mobsters and Zynga's Mafia Wars, generate combined monthly average users of more than 25M, each with their own underworld scores to settle and enemies to whack. Any chance this Lilliputian crime-spree will slow? With another 25M playing Mafia Wars on Facebook, *fuhgeddaboutit!*



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Great games depend on a balance between gameplay and game economies, which for many players are one and the same. In other words, the economy is part of the fun, the engagement and the experience.

What makes for all of this addictive play? Ultimately, it is the crack combination of social elements, multiple levels and resource/time/money management features that drive players back to social networks to play and maintain their worlds and characters multiple times a day.

Getting started with FanTrust

You can get in to the social games business or deepen your existing social game ventures with our trusted guidance.

- Successful monetization can only begin when social networking users know about your social game so promotion is critical but doesn't need to be costly. Almost all developers cite difficulty in standing out amongst thousands of applications. You will need a balance of in-game and other innovative marketing to make your mark.
- With the right mix of gameplay and game-transactions, content creators, broadcasters and publishers can leverage their trusted brands when creating, promoting and generating social game revenues. Translating your brand to the world of social games will be key to your success.
- Game developers without a known brand can partner with social game distributors to build game audience and revenues. These social game distributors can also manage transactions and collection of payment. You will need the right partner and deal terms that blend revenue-shares and marketing to achieve your goals.

FanTrust will work with you to craft your winning strategy, establish your valuable business development relationships and build your profitable fan base, as you capitalize on social games for years to come.

For more about social games, including key metrics, demographics and business risks, email us to receive your next FanTrust whitepaper.

ABOUT FANTRUST ENTERTAINMENT STRATEGIES

FanTrust helps entertainment companies grow in a digital world, positioning our clients for new revenues, investors, partners and fans.