

GAMR™ | Investment CASE

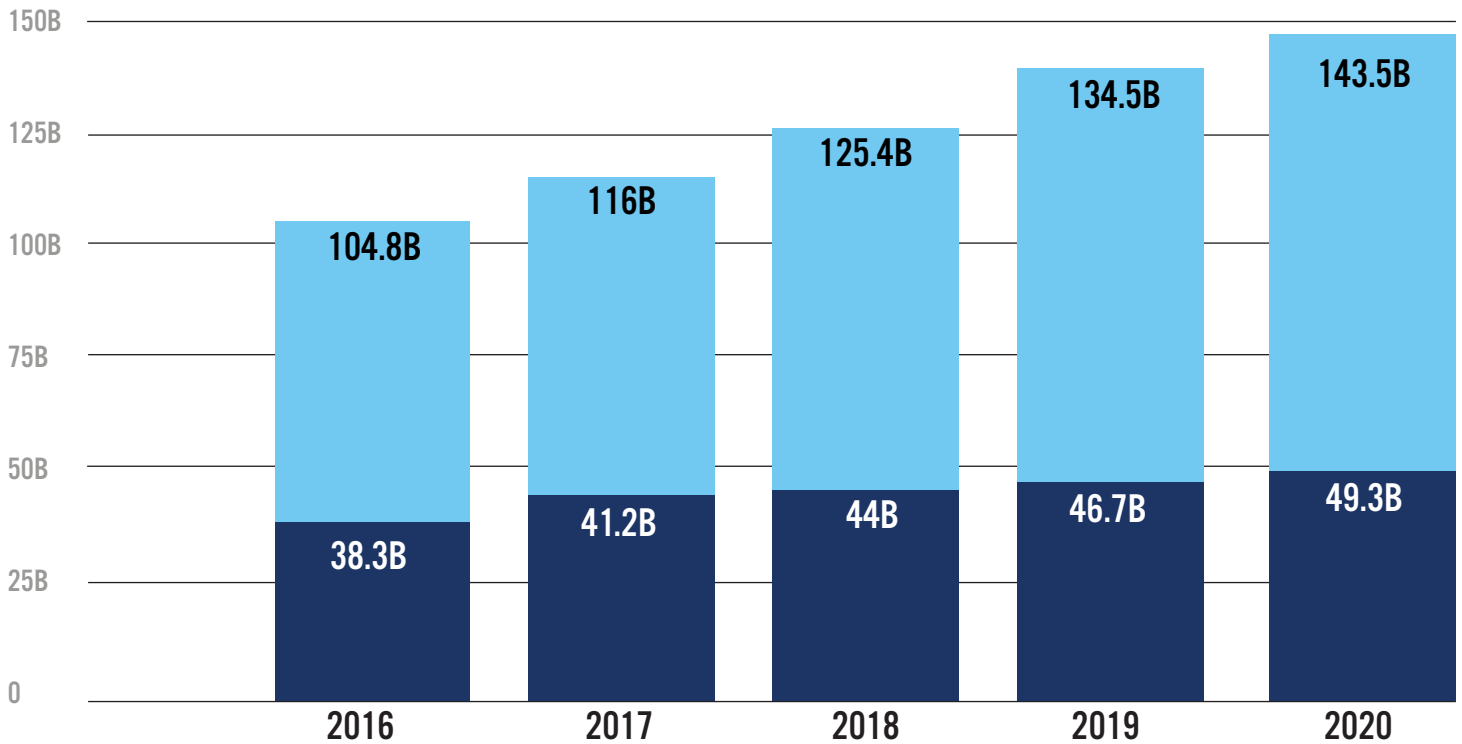


INTRO

The video game industry has come a long way from the advent of Pong in the 1970s. Consistently adapting to changing consumer preferences and product cycles, gaming companies have grown to encompass some of the most sophisticated aspects of technology. The growth of mobile gaming, the emergence of e-sports, and the digital distribution of games are allowing video game companies to expand their margins and their global consumer base. Get in the game with the ETFMG Video Game Tech ETF.

VIDEO GAME VS FILM REVENUE

Video Games Movies



Source

Video Games: <https://newzoo.com/insights/articles/new-gaming-boom-newzoo-ups-its-2017-global-games-market-estimate-to-116-0bn-growing-to-143-5bn-in-2020/>
 Movies: <https://blogs.worldbank.org/category/tags/nollywood>

HIGHEST GROSSING MEDIA: VIDEO GAMES

Despite the ubiquitous success of film, television, music, and books in entertainment, the single highest grossing media of all time is now a video game. The video game hailing the top-spot has sold nearly 90 million copies and has grossed \$6 billion – more than double the revenues of iconic films Avatar and Star Wars.¹ While domestic box office sales declined 5.8% in 2017, sales increased 15% in the gaming industry last year.^{1,2} Discussed in a 2018 report from an industry analyst at Cowen, a paradigm shift in media is being fueled by the momentous growth and profitability of video games. Even as consumers move away from traditional, static media, video games continue to innovate and evolve as interactive technologies improve, such as virtual reality, advanced graphics, and mobile gaming. The industry boasts a strong growth proposition, fueled by competition, consumer demand, and constant innovation.



REDEFINING THE VALUE CHAIN

There once was a time when almost all game revenue was accumulated through the purchase of physical games in a retail store. In the last two decades, the gaming industry has undergone massive growth by increasing diversity in the underlying business models. Video game technology is becoming increasingly accessible to the broader market, including emerging economies, with the introduction of new monetization models offering more affordable and more expensive “deluxe” options.

In-game add-ons and recurring subscription payments topping single-point purchases are propelling continued and sustainable growth within the industry. Some of these new monetization models include:

Digital Add-On Content

Keeps users engaged and spending on their favorite games long after the initial purchase. Includes micro-transactions and expansion packs

Gaming Subscriptions

Increasingly, gamers are choosing to make smaller payments on a recurring basis for access to wide range of games instead of one large lump-sum for a single game.

Free to Play Games

F2P games, typically played on PCs or mobile devices, are paid for by optional add-ons and/or in-app advertising.



CHANGING THE GAME: ESPORTS, CLOUD GAMING, AND VIRTUAL REALITY

E-sports are a relatively new segment of the entertainment-software market, but have already captured an audience exceeding 350 million viewers.⁴ With viewership expected to top that of most major sports leagues (namely, the NHL, NBA, and MBL⁵), e-sports is attracting a growing share of advertising revenue, placing game software and hardware makers in a position for growth. NewZoo predicts that this market will grow from \$660 million in 2017 to \$1.5 billion in 2020.

On trend with community gaming, the increasing preference for multiplayer gaming is pushing momentum in the cloud gaming industry. Cloud gaming allows gamers access to supercomputers that can render high-end games, exceeding the processing power that normal hardware players are capable of. The games can be streamed directly to any device with an internet connection, anywhere, anytime. Global average fixed broadband speeds are forecast to rise to 53 Mbps in 2021 vs. 27.5 Mbps in 2016, according to Cisco, expanding access to more online multiplayer offerings, and ultimately catalyzing video game sales growth. Online multiplayer games are keeping users engaged for longer playing sessions and driving spending on in-game content. Research and Markets' Global Cloud Gaming 2017-2021 Report forecasts a compound-annual-growth-rate (CAGR) of 28.86% in the market over the analysis period.

Last but not least, gamers seeking to literally "get their heads in the game" won't have to wait much longer with the advancements being made in virtual reality. BI Intelligence analysis predicts that mainstream adoption of the technology may not occur until 2021, but gaming is likely to be one of the earliest uses for VR. And it's clear that there's a demand: Greenlight Insights' 2016 Virtual Reality Consumer Report found that 61% of respondents were interested in using VR technology for gaming.⁶ While the technology is still in its infancy and widespread adoption has yet to take place, Variant Market Research forecasts that the VR gaming market will grow at a CAGR of 29.5% from 2016 to 2024, when it will be valued at \$43.4 billion.⁷



**PlayStation®
Network**



XBOX LIVE



STEAM®



**NINTENDO
NETWORK**

Not only do digital downloads make a wide variety of gaming experiences possible, they also offer consumer convenience, accessibility, and flexibility in pricing, and promotional programs that reach international gamers. The percentage of digitally downloaded video games rose from 31% in 2010 to 74% in 2016.⁸ This is expected to climb to nearly 93% by 2021.⁹ Increasingly digitalized video game distribution coupled with robust growth in the global number of connected devices is another way in which gaming companies are tapping into the larger global markets. An added benefit is that digital connectivity makes it easier and less costly to distribute content, placing video game companies in a favorable position in the value chain to capture profits and margins.

DIGITAL NETWORK: GLOBAL EXPANSION



GAMIFICATION OF EDUCATION

The link between learning and playing is longstanding and predates the digital era by thousands of years.¹⁰ Unsurprisingly, video games are increasingly being adopted into classrooms worldwide, integrating a structured, goal-oriented, and fun way to learn. According to the Global Education Gamification Market 2016-2020 Report, the educational gaming market is expected to rise from its 2015 \$93 million level to \$1.2 billion by 2020. That's a CAGR of 68% over the forecasting period.¹¹ The growing body of research that supports the effectiveness of game-based learning coupled with fading resistance to learning games in the education segment are strong catalysts behind the growth of the global game-based learning market.¹²

Carefully consider the Fund's investment objectives, risk factors, charges, and expenses before investing. This and additional information can be found in the Fund's prospectus, which may be obtained by calling 1-844-ETF-MGRS (1-844-383-6477), or by visiting www.etfmfgfunds.com. Read the prospectus carefully before investing.

Investing involves risk, including the possible loss of principal. Shares of any ETF are bought and sold at market price (not NAV), may trade at a discount or premium to NAV and are not individually redeemed from the Fund. Brokerage commissions will reduce returns. Narrowly focused investments typically exhibit higher volatility. Video Game Tech Companies face intense competition, both domestically and internationally, may have limited product lines, markets, financial resources or personnel, may have products that face rapid obsolescence, and are heavily dependent on the protection of patent and intellectual property rights. Video Game Tech Companies are also subject to increasing regulatory constraints, particularly with respect to cybersecurity and privacy. Such factors may adversely affect the profitability and value of such companies. Investments in foreign securities involve political, economic and currency risks, greater volatility and differences in accounting methods. The Fund is non-diversified, meaning it may concentrate its assets in fewer individual holdings than a diversified fund. Investments in smaller companies tend to have limited liquidity and greater price volatility than large-capitalization companies.

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The EEFund Video Game Tech™ Index provides a benchmark for investors interested in tracking companies actively involved in the electronic gaming industry including the entertainment, education and simulation segments. The Index uses a market capitalization weighted allocation across the pure play and non-pure play sectors and a set weight for the conglomerate sector as well as an equal weighted allocation methodology for all components within each sector allocation. The index was created and is maintained by EEFund Management. You cannot invest directly in an index.

ETF Managers Group LLC is the investment adviser to the Fund.

The Fund is distributed by ETFMG Financial LLC.

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