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# LEGO Ventures Analysis Proposal

## Investment Decision in Digital Play in Asia

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- The presentation is a summary of potential investment candidates sourced by our team and validated by LEGO Ventures. In addition, each candidate contains a deeper and candidate-specific qualitative analysis based on questions proposed by LEGO Ventures.
- LEGO Ventures is looking to invest in Digital Play in Asia. Digital Play consists of video games, social play experiences, and support services involved in the previous two spaces, such as data protection, servers, digital platforms among others.
- There are two criteria for investment. First, the portfolio company must create products in alignment with LEGO values. The values include no violence, no aggressive/addictive monetization, no toxic competitive experience, and a penchant to stimulate curiosity and promote learning. Second, there are select categories of products, also known as High Interest Themes (HIT), that LEGO Ventures is particularly interested in.
- Investment scope is focused on East Asia as suggested by our team. The size of investment ranges from 500k to 20M USD. LEGO Ventures is not looking to be actively involved in the portfolio company's management.

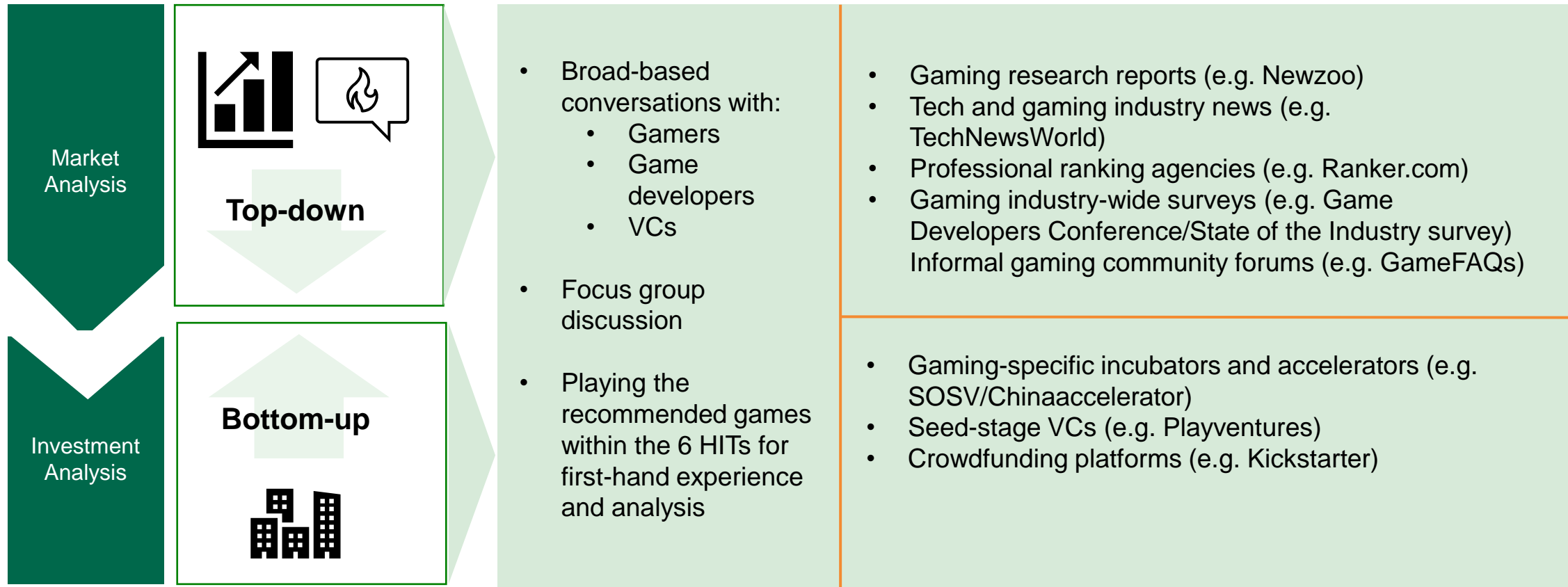
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# Framework and methodologies

# We propose the following approach to analyze whether LEGO should invest in Digital Play in East Asia



Core question	Key factors	Sub factors	Key questions
Where and what should LEGO Ventures invest in East Asia?	Market Analysis	Player demographics	<ul style="list-style-type: none"> <li>• Where is the growth coming from?</li> <li>• What gaming experience appeals to them?</li> </ul>
		Purchasing behavior in East Asia	<ul style="list-style-type: none"> <li>• What do they like to spend money on in game?</li> <li>• What incentivizes purchase?</li> <li>• How much do they spend per purchase?</li> </ul>
		Technological innovation	<ul style="list-style-type: none"> <li>• How does 5G technology affect cloud gaming?</li> <li>• How does machine learning affect gaming?</li> <li>• How can AR/VR be further incorporated into games?</li> </ul>
		Socio-economic conditions	<ul style="list-style-type: none"> <li>• What are some socio-economic conditions to considering when localizing a product for an East Asian audience?</li> </ul>
	HIT Analysis	Screening for HIT in East Asia	<ul style="list-style-type: none"> <li>• Which of the High Interest Themes fit the East Asia market?</li> <li>• Which Digital Play companies in East Asia fit the chosen High Interest Themes?</li> </ul>
	Investment Analysis	Key investors in Digital Play	<ul style="list-style-type: none"> <li>• Who are the existing investors?</li> <li>• Are there relevant transactions done in the industry?</li> <li>• What are the lessons from a few success stories &amp; past failures?</li> </ul>
		Key challenges in investing in East Asian developers	<ul style="list-style-type: none"> <li>• What are the benefits and risks of investing in East Asian developers with an East Asian target market in mind?</li> <li>• Who are the teams with a successful track record?</li> </ul>
		Competitive advantage of LEGO Ventures	<ul style="list-style-type: none"> <li>• What is the value add from VCs compared to existing video game publishers?</li> <li>• Are there any synergies with the LEGO brand?</li> </ul>



**Objective:** Looking for investable digital play developers with focus on the East Asian market and a global mindset.

**Approach:** Bottom-up and top-down analysis to be taken simultaneously as it is important to consider both demographics, trends and available players in the market today. Going bottom-up and top-down help to narrow down the HITs to focus on in the investment mandate.

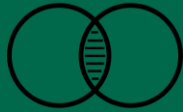
## We propose the following 5 criteria when evaluating investments



### Evaluation criteria

### Key questions

Value alignment



- Are there any explicitly contradictions in the products or the company with LEGO Venture values?

HIT alignment



- Does the company produce products that fall under the HIT categories?

Growth potential



- Do the company products match the overall market trends (player behaviour, demographics, tech innovation) we've seen in East Asia?
- Do the company products exhibit virality?

Product performance



- Are the products continuously engaged in successful live ops, user acquisitions, and IP collaboration?
- How is the product performing financially?

Investment feasibility

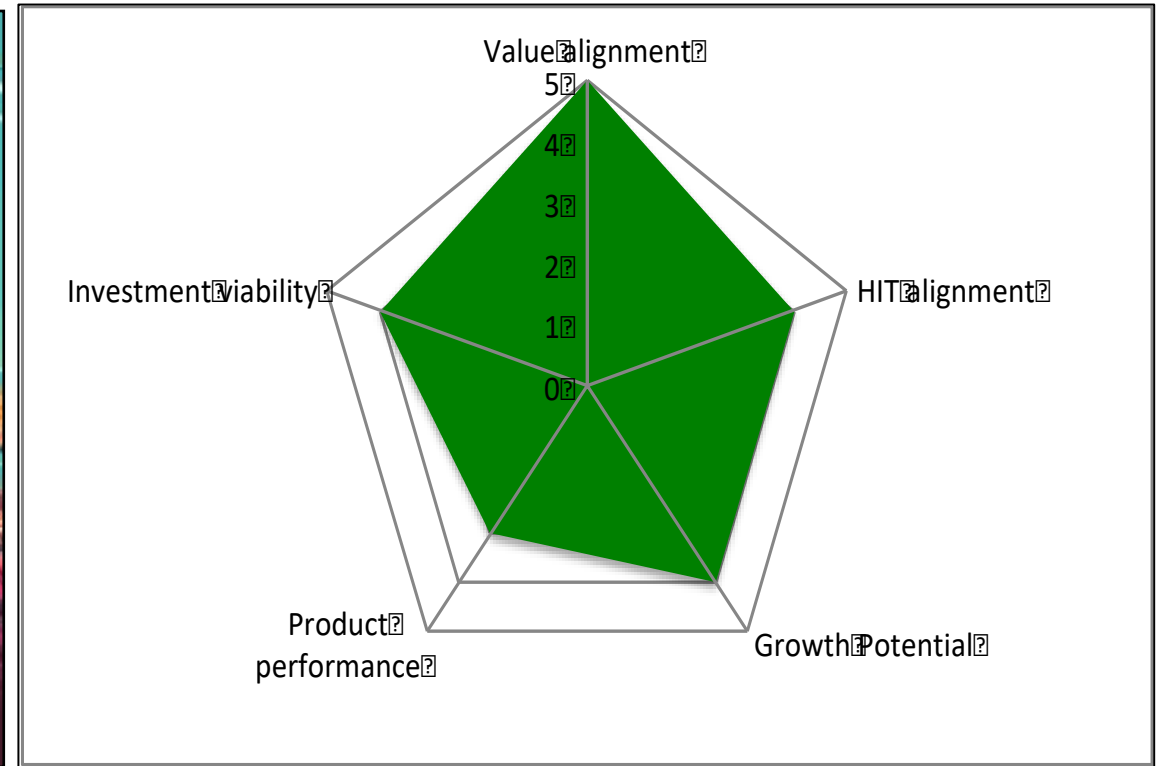


- Do existing shareholders look for investors?
- What is the size of the company?
- Are there any competitors looking to invest in the same company?

# Games for the explorative mind



## Candidate profile



### Comments:

- Strong company leadership, which turned the game's initial abysmal performance, will translate well into the planned sequel of No-Man's Sky 2.
- Strong alignment with LEGO Ventures values. Values promoted include peaceful space exploration, encouraging creativity through sandbox games, and encouraging learning in science through space exploration.
- No Man's Sky fits under multiple HIT – sandbox (primary), story telling with meaning (secondary), social connective experience (secondary).
- The company is still a small private company that is within LEGO Ventures' investment size.
- Monetization of the company's product is still limited to main game and DLC sales, and there remains many unexplored monetization potential.
- **Sources:** [TheVerge](#), [HelloGames official website](#)






# In single player games with a large backstory, success is usually driven by the factors below



- Focus of the analysis
- Not the focus of analysis

## Success factors

## Detailed descriptions

<p>Engaging game design</p> 	<ul style="list-style-type: none"> <li>A game with an enormous world setting requires a good backstory and world design to successfully captivate the audience.</li> <li>Regardless of genre, the gameplay design has to be fun. This is often overlooked in a story-telling game.</li> </ul>
<p>On-time release with quality</p> 	<ul style="list-style-type: none"> <li>Release must be done in a timely fashion to maintain the momentum of “hype”, while not sacrificing quality, which is a core expectation for the target audience.</li> <li>A release schedule or a Product Roadmap must be communicated to the player community transparently and periodically.</li> </ul>
<p>Engaging release journey</p> 	<ul style="list-style-type: none"> <li>The player community must feel that they are part of the game development journey. This involves community management, regular play testing with players, and incorporating player feedback into game design.</li> </ul>
<p>Strong sales at release</p> 	<ul style="list-style-type: none"> <li>Strong story-telling based games generally lacks a multiplayer component. This not only eliminates the desire for players to continuously playing beyond a select time period post release, it also eliminates any opportunity for streaming exposure. For games of the genre to be successful, strong sales during release is necessary.</li> </ul>
<p>Post-release updates</p> 	<ul style="list-style-type: none"> <li>The only proven and reliable monetization model for story-driven games are post-release DLCs. The release content needs to be compelling enough to create demand for DLCs.</li> <li>The released product often catches fire across the globe in different speeds. To facilitate global sales, the marketing and community management team needs to be expanded.</li> </ul>

# Funding helps address the previously highlighted factors in the following manner



## Impact of funding

 Focus of subsequent analysis

Unable to release on time due to lack of personnel and tools

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Absence of community management and marketing personnel to engage player in the product release journey

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Need for marketing budget to promote product through various marketing channels

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Funding required to localize products to different countries and continuously drive sales



Ramps up hiring of key personnel and purchase of tools and licenses

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Staff the marketing and community management team to engage users in an exciting release journey

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Promote product launch through various conventional marketing channels or influencer marketing.

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Products can be localized across key markets, with marketing and community management expanded to cover all regions

**Specifically, an engaging release journey requires the following requirements to be satisfied**



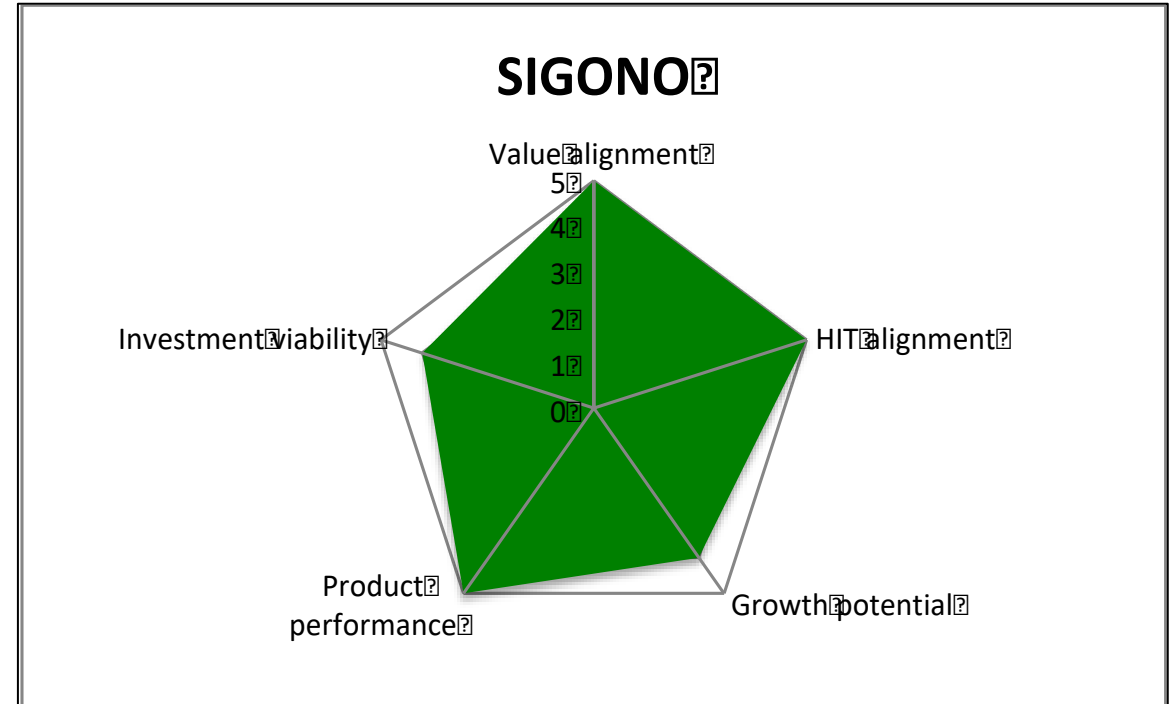
## **Checklist for an engaging release journey**

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- ✓ Dedicated marketing and community management personnel
- ✓ Tools to gather, analyze, and visualize player data
- ✓ Visually exciting and easy to understand Product Roadmap
- ✓ Infrastructure for players to report bugs and leave feedback
- ✓ Transparent and consistent feedback gathering process from the player community
- ✓ Experienced design team in cherry-picking player feedback
- ✓ Exciting release that captures the momentum of the development journey



## Candidate profile



### Comments:

- Founded in 2013, SIGONO is an independent game studio based in Taiwan
- The two founders met at Carnegie Mellon University and shared a belief in games as **a medium for connecting people**
- Setting out with a new mission statement to create **“unique, heartfelt experiences that bring people joy”**, SIGONO released OPUS: The Day We Found Earth in 2016 and OPUS: Rocket of Whisper in 2017
- The two game titles combined for 9.5 million downloads in 2018 and won many game awards in East Asia

## The key strengths that make SIGONO stand out are the following



As a native indie game studio based in Taiwan, SIGONO is comparable to Sunhead Games ([日頭遊戲](#)). SIGONO has a flagship IP product, the OPUS series, that make SIGONO an attractive investment target for LEGO Ventures. Below are further analyses of SIGONO:

**Flagship Intellectual Property (IP)** - Their two most successful games, *OPUS: The Day We Found Earth* and *OPUS: Rocket of Whispers*, were a huge success. They combine for more than 10 million downloads since publishing and even have their own Wikipedia pages ([OPUS: 地球计划](#) and [OPUS: 灵魂之桥](#)). They operate on multi-platforms including iOS, Android, Windows PC, and Nintendo Switch, thus penetrating to different customer segments. The OPUS games incorporated many gaming elements such as adventure, narrative, space exploration, and a fictitious universe that is shared by the OPUS series.

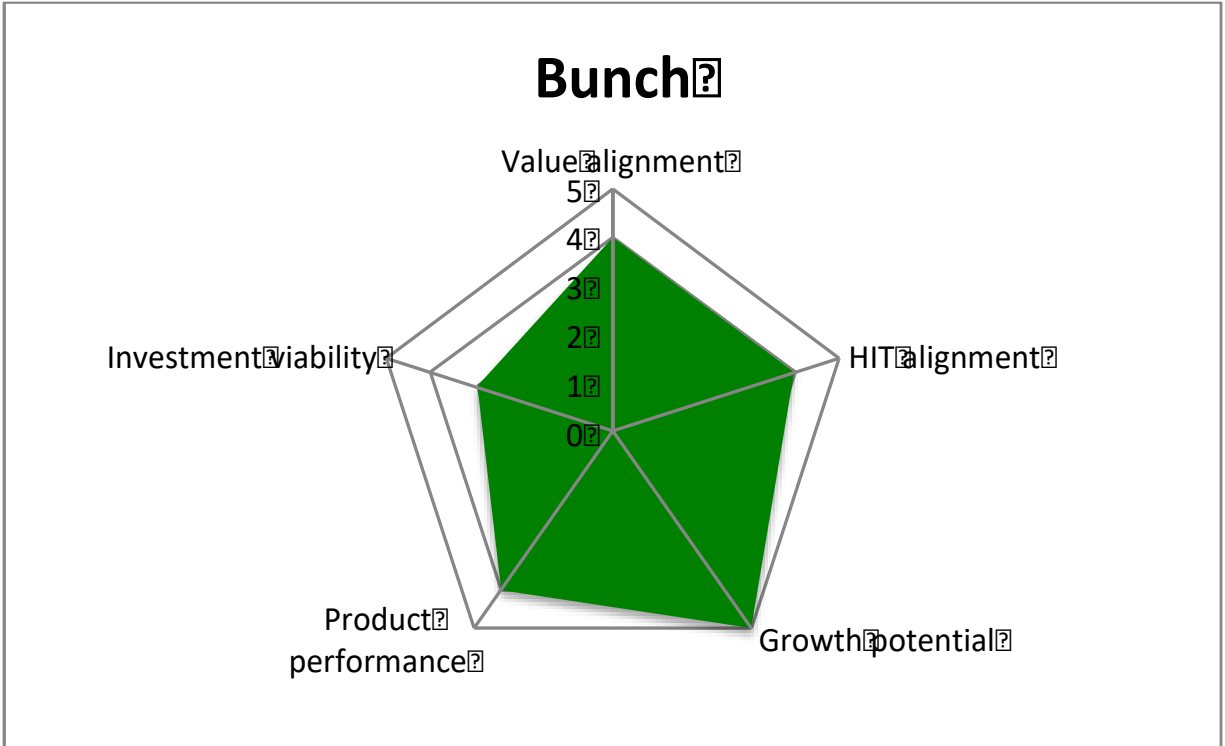
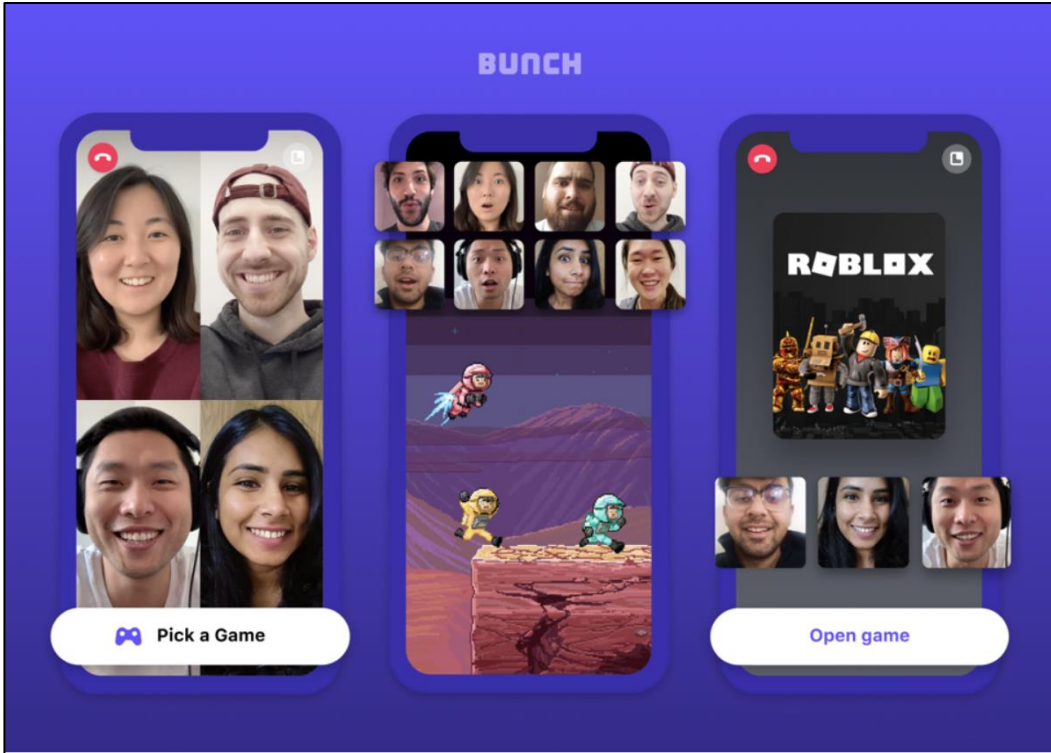
**Strong Founder Team** – The two founders met while they studied at Carnegie Mellon University, one of the most reputable institutions for computer science. Their technical competencies are self-explanatory with further demonstration through the quality of their game products.

**Company Vision Alignment with LEGO** – The two founders started the game studio because they shared the same vision that game is **a medium for connecting people**. After developing three casual games, SIGONO turned their focus to games with a meaning behind. They had a mission statement saying that they want to create **“unique, heartfelt experiences that bring people joy”**.

# Connective social experiences



## Candidate profile



### Comments:

- Founded in 2017, it is a video chat app for multiplayer mobile games, similar to **Discord**.
- Its number of monthly active users has grown 50 times over since March, reaching north of a million, 2 million apps installed.
- 60% of Bunch's users are female
- Bunch has raised a \$20 million Series A in September 2020 from gaming companies (Ubisoft, EA,...) Total fund raised to date is \$25 million.

Sources: [The Wrap](#) [Forbes](#) [Deal Room](#)



# We foresee strong opportunities for connective experience in the East Asian market



## Opportunities in East Asia

## Detailed descriptions

**Demand for connective experience in East Asia**



- Growth in demand for connective experience in East Asia owing to increase time spent on mobile gaming, accelerated by increased reliance in digital social experience post COVID.

**Product differentiation**



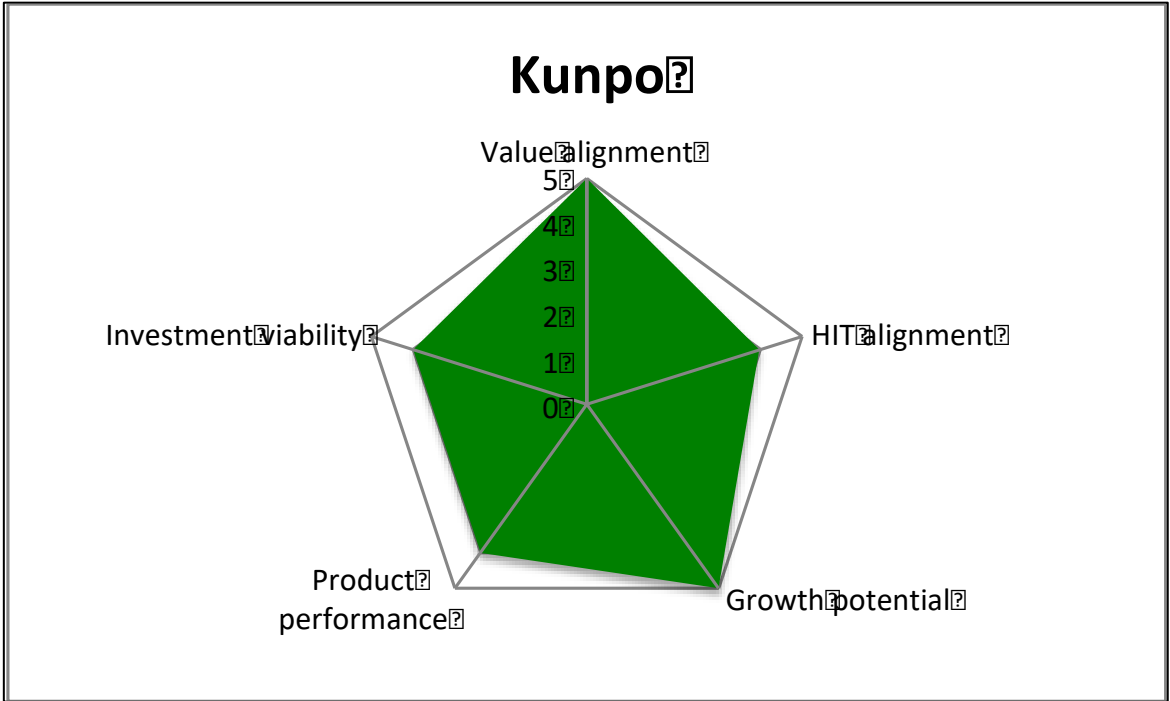
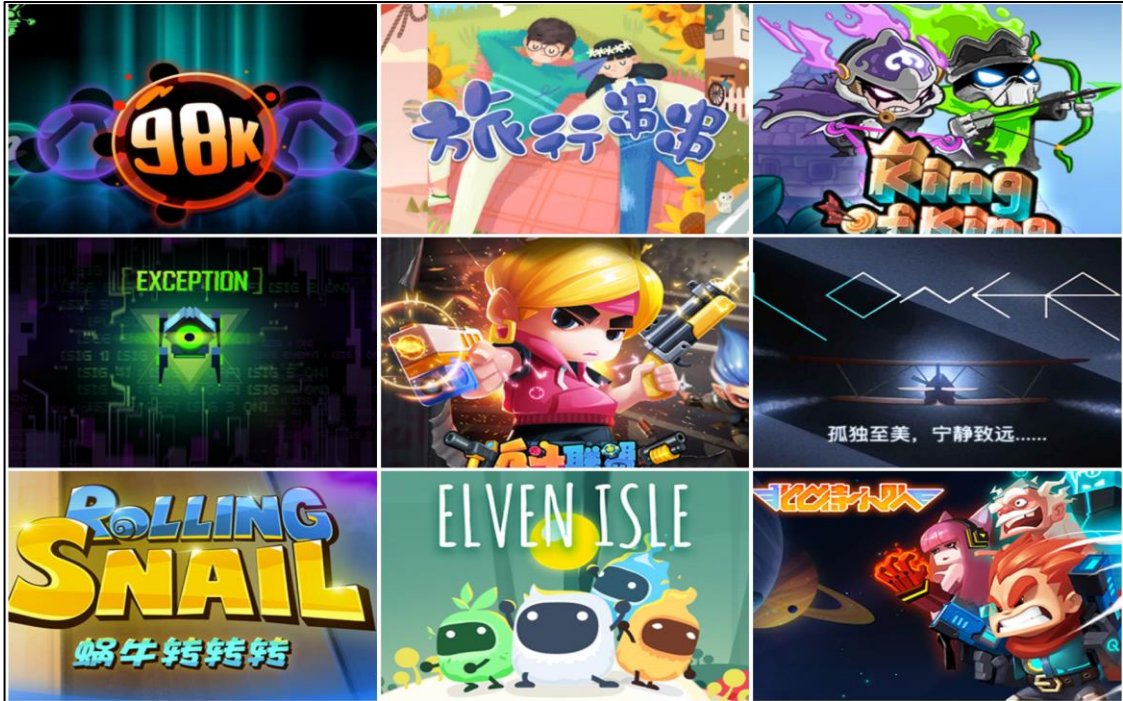
- Bunch targets the younger demographic through less aggressive monetization. We believe this not only is a better monetization model but it also aligns better with LEGO Venture's values.

**Potential for growth**



- **Tailwinds:** Potential integration of VR and AR features increase the appeal for connectivity within gaming platforms
- **Headwinds:** Rising trend of embedding social platforms within games, such as the ones developed by homegrown games or technology war.

## Candidate profile



### Comments:

- Founded in 2007, [Kunpo Games \(蓝飞互娱\)](#) is both a game developer and a game publisher based in China
- The team is dedicated to **focus on game quality** rather than on revenue maximization
- Their game graphics are at industry-leading level
- Some of the game titles like 《Loner》 and 《旅行串串》 have built-in meaning or thought-inspiring themes that fit the HIT of LEGO Ventures

## Kunpo can turn its products into a mass success with the following catalysts

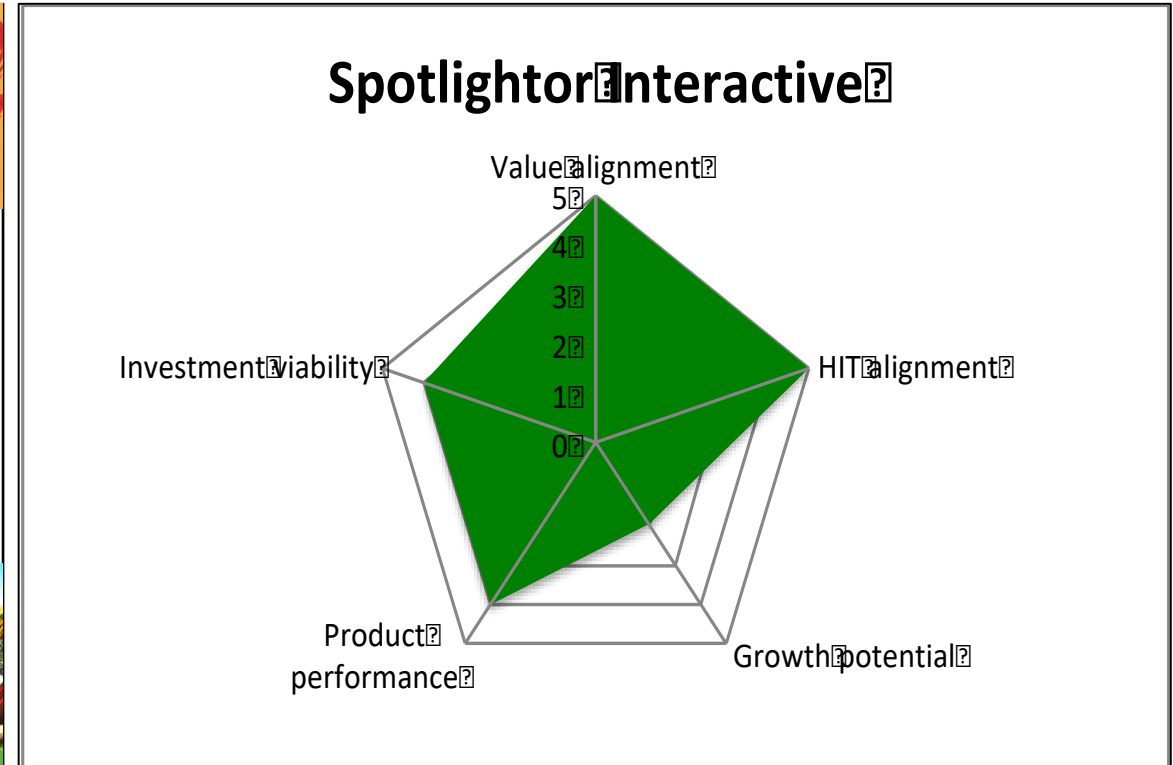


a) The team has done many different types of games with small – medium level success. We see the potential for them to reach a mass success with the following catalysts.

- **Reputation:** The games developed by the team is known for their quality in the market. Therefore, there is a group of fans following the team.
- **Increasing focus on monetization:** Though having a strong base in developing good-quality game, Kunpo suffers from its loss-making financial position before 2019. In 2019, given the success of "Virus War (消滅病毒)," the management team learned that they should focus not just on quality but also the lifetime of the product and monetization model.
- **Adding "social" component to the game:** Kunpo adds social component to its latest game (like asking for help from friends to play the game in 旅行串串)
- **Increasing interest alignment in the development team:** Kunpo developed an internal approach to align the interests of the company and the development team on a game by asking leading team member to invest in the game development and encourage other team members to invest (10-30% of their salary).
- **Low cost model to test market reaction:** Kunpo mainly focus on developing WeChat game, which has lower development costs comparing to App game. If one game hits the market, the team can increase the investment, converting it to an App game.

# Games with meaning

## Candidate profile



### Comments:

- Founded in 2009, [Spotlightor Interactive](#) is an independent game studio based in Beijing
- Dedicated to creating innovative games while providing unique experiences and **meaningful insights** to the players
- Candleman **became popular on Steam**, receiving 93% “Good” rating from 667 purchasers
- The meaning behind Candleman is **thought-provoking**: a reflection story of sacrificing oneself for the benefits of others
- The other games are also meaningful – one educational game and two other adventure games that reflect on, respectively, work-life balance and the intense job of deliveryman

## We believe Spotlightor Interactive, or puzzle adventure games in general, can reach wider success with the following methods



a) Spotlightor is a representative of many indie studios' situation in China – they have launched 1-2 highly reviewed games but the audience reach is still quite limited. What are some potential catalysts that can help them reach a wider success?

China represents a market with over 550 m smartphones, hence very attractive for mobile gaming and quite easy to access for indie publishers. Averagely each phone has 5 game installed, however they are less likely to become engage to a game. In order to increase popularity they can:

### **Distribution**

- Optimize app store attractiveness. Make name, price, graphic and review attractive for the first time purchaser
- Promotion through social media. Social media and texting apps (Wechat, Facebook...) are good platform to promote games throughout different target segments
- Leverage on new cloud streaming trends

### **Product popularity**

- Build an engaging plot. Some games such as Exhaust are too simplistic, they lack of a plot hence the user has not curiosity to see what is next.
- M&A with an AAA studios will improve the product quality, increase complexity.
- Build games on successful media titles (e.g., Pokemon, Dragon Ball...)

### **Social component**

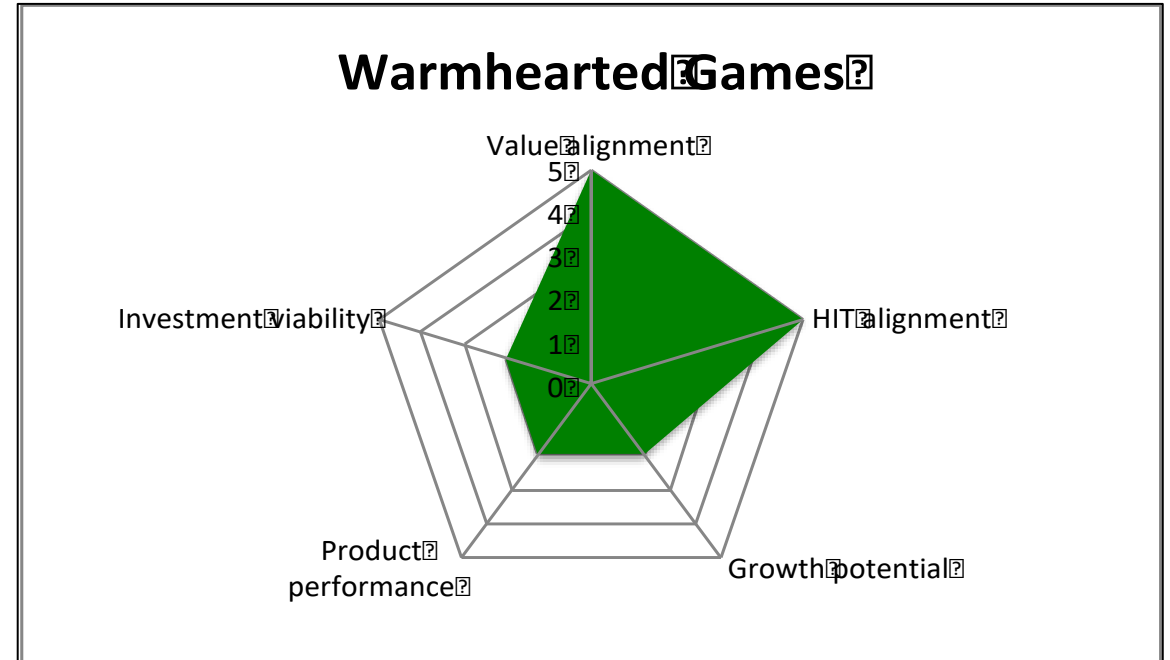
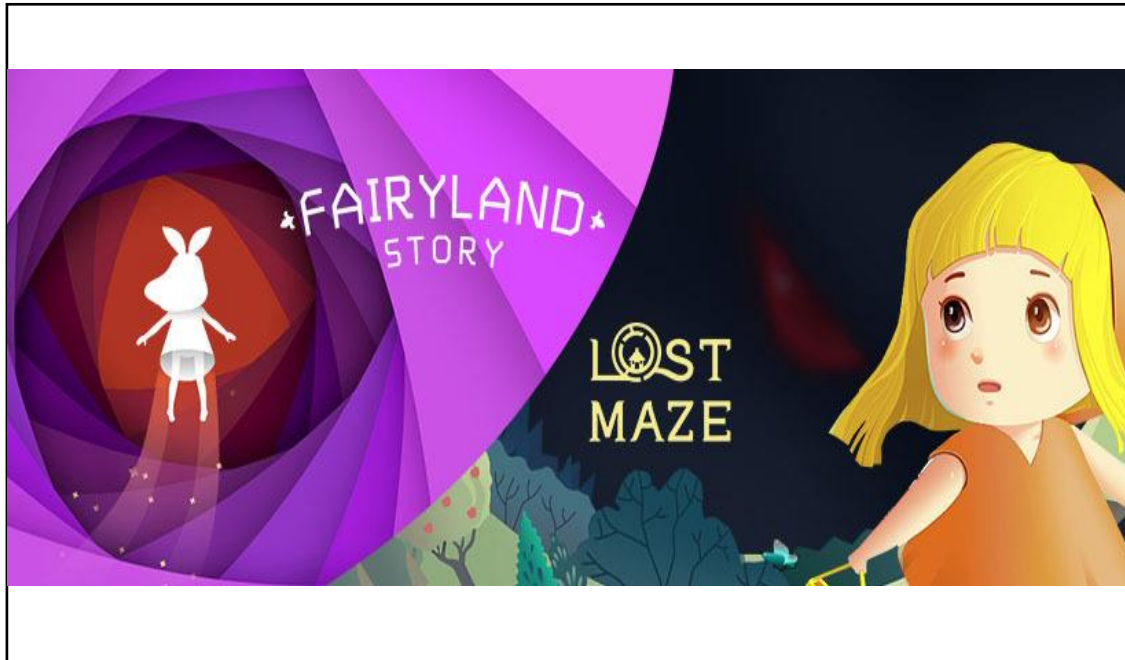
- Leverage on social gaming. Make the games available on social platform, streaming gaming such as Roblox.

b) For studios specializes in puzzle-adventure games, what are some of the key strengths they can bring to broader digital play that increases their investment value?

- Ease of adaptation to mobile and new platforms. However 5G will bring more and more AAA games easy to run on a smartphone.
- Wide target audience. Non violent content, ease of use widen adoption among different age and target groups (kids, commuters, workers during pause...)
- Fit into short timeframe. Given time restrictions (90 minutes) indie games can fit multiple rounds into the current Chinese government restrictions



## Candidate profile



### Comments:

- Founded by a couple in 2015, Warm Hearted Games (暖心游戏) is an independent game studio based in China
- The founders have a vision of creating **meaningful, heart-healing** games that do not focus on revenue boosting
- The two game titles, Lost Maze (谜途) and Fairyland Story (飞越仙境), both received great feedbacks from the players since published
- The story behind Fairyland Story is **a fantasy-like journey** experienced by a disabled young girl who is on her wheelchair

## Warm Hearted Games stands out as a good investment candidate because of the following reasons



Warm Hearted Games is yet another typical indie game studio in China. It may not be a suitable candidate for financial investment, but it could be a good one for strategic investment. Below are the analyses:

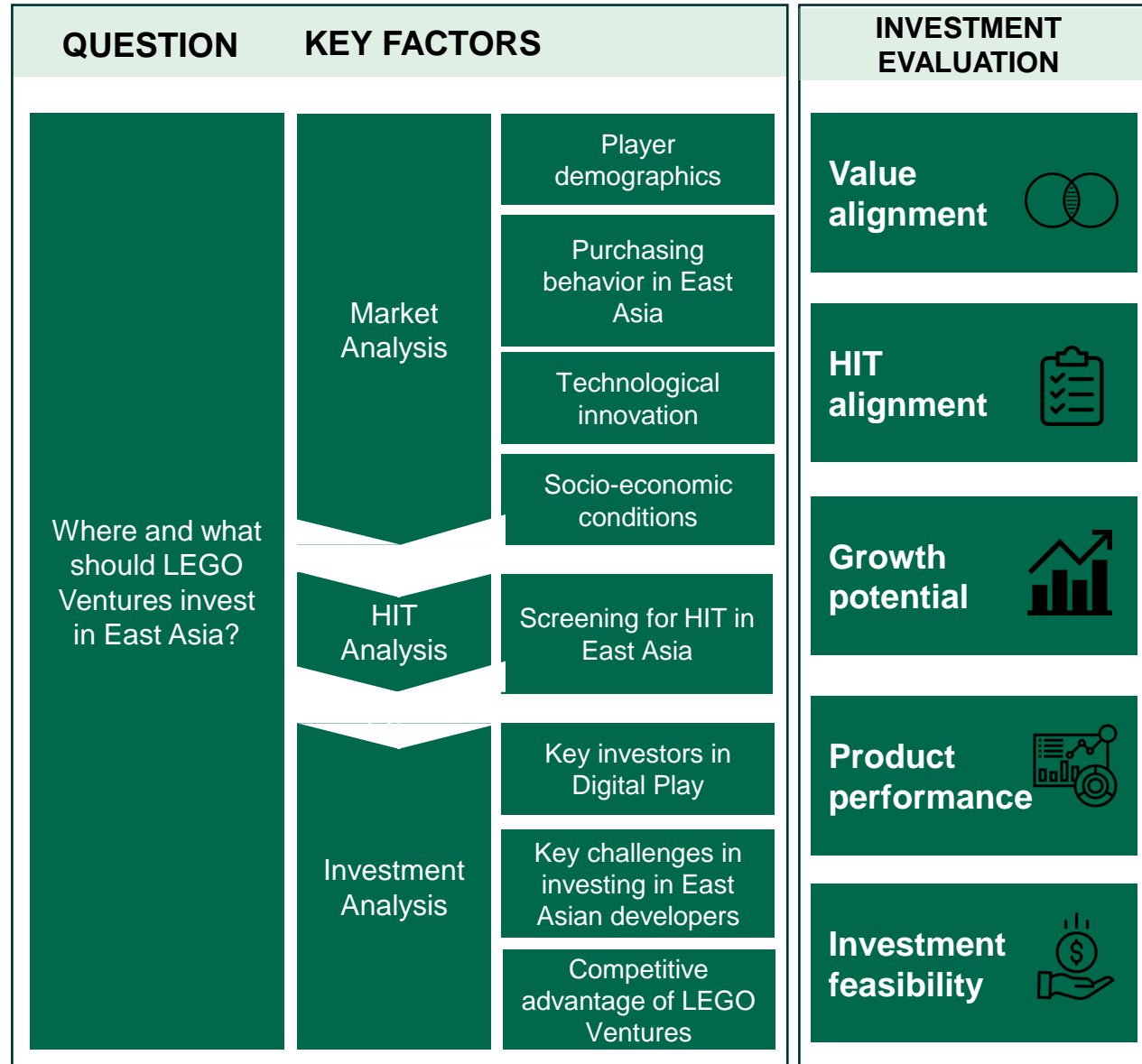
**Complementary Team** – The founder team is interesting in that the two founders are a married couple. The husband used to work as a game developer at a large gaming company in Shanghai (巨人游戏). The wife studied in the US and worked as an interactive/graphic designer. Their combined skillsets make up the minimum viable product for game development. The fact that they are a couple also eliminates some of the potential team-dynamic issues observed in other founder teams.

**Track Record** – The two games developed by Warm Hearted Games were a success, both of which were recommended by Apple Store in the front page. According to [TapTap](#), LOST MAZE has a rating of 7.1 stars and 12,132 followers, while Fairyland Story has a rating of 6.6 stars and 142,465 followers. Warm Hearted Games partners with well-established game publisher 柠檬酱 for game publishing and marketing.

**Value Alignment with LEGO Ventures** – Both games fit the Digital Play with Meaning. Fairyland Story has a thought-provoking storyline that talks about how a little girl sitting in her wheelchair fantasizes herself flying through the fairyland. The healing story promotes the awareness for caring for others in need. The founders believe that besides material richness, mindful contentment is also important (Source Article: <https://zhuanlan.zhihu.com/p/136540518>).

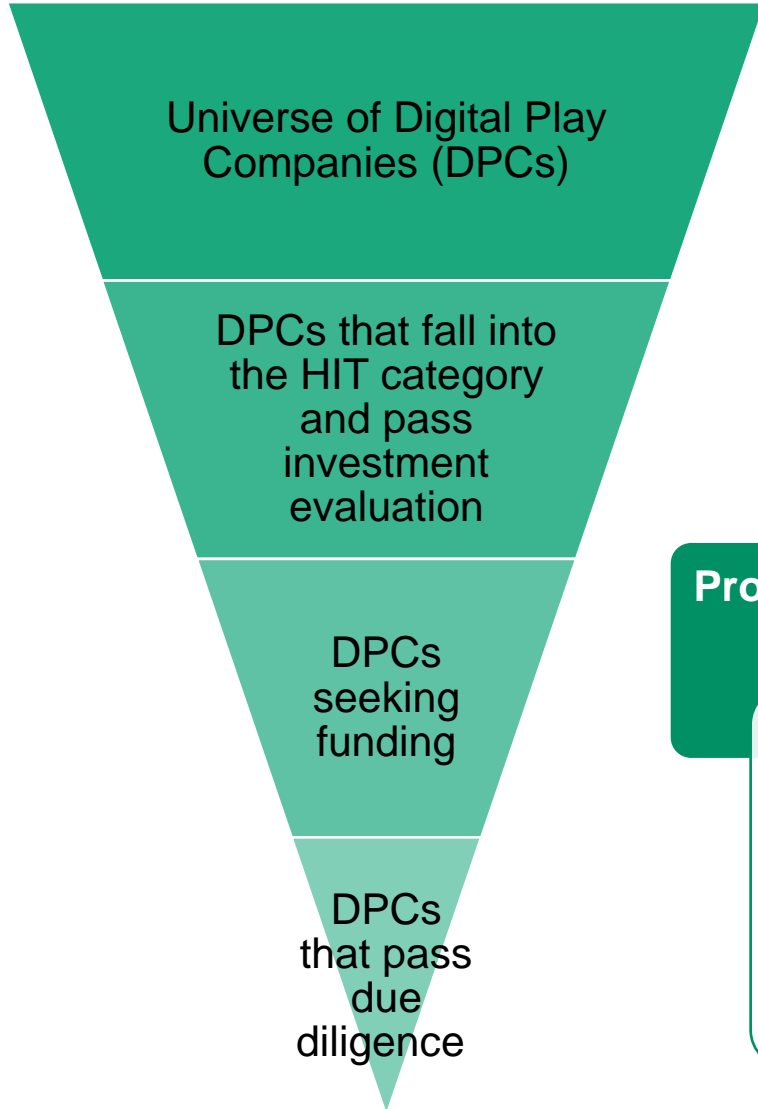


# Our analysis can be summarized as a funneled approach to narrow down potential investments followed by a consistent evaluation criteria applied across all shortlisted candidates

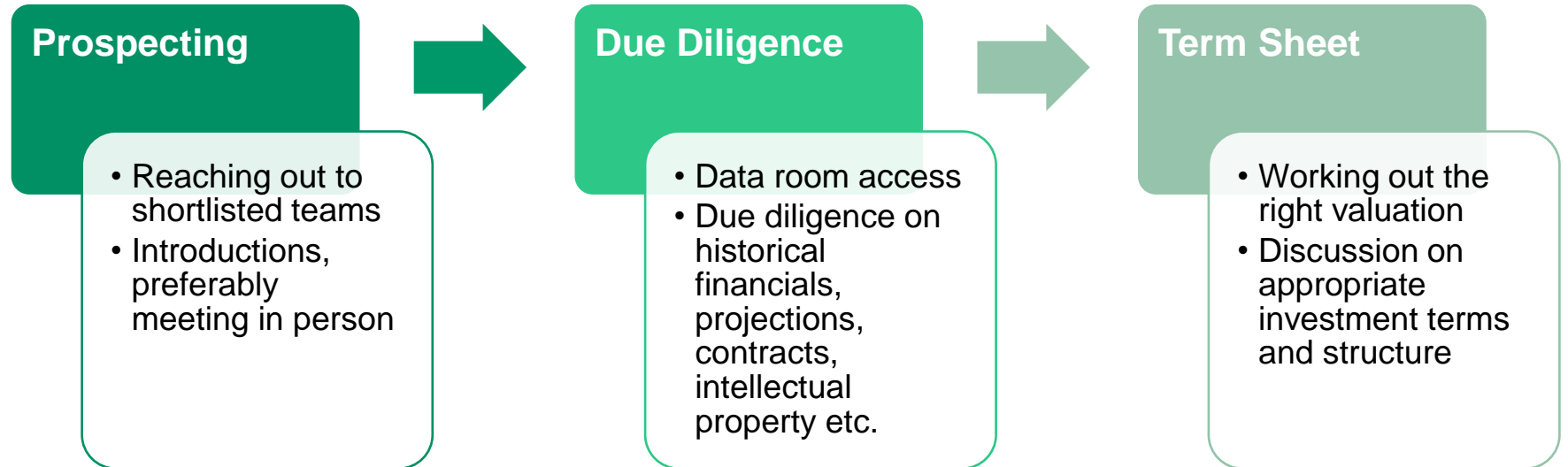


- The team, together with LEGO Ventures, has devised a step-by-step approach in answering the key question: **Where and what should LEGO Ventures invest in East Asia?**
- One **key objective** is to look for investable digital play developers with focus on the East Asian market and a global mindset.
- **A bottom-up and top-down analysis** was conducted to simultaneously narrow down the **HITs**.
- The team then took a **deep dive into individual digital play companies** that fit the HIT buckets against a set of investment evaluation criteria. We also looked at the key success factors and impact of funding.
- With the filters, the team managed to present the LEGO Ventures team with a shortlist of companies that are investable and worth looking at.

# We propose the following next steps to finalize our investment recommendations



- As the team has narrowed down on the HIT focus and sifted through specific companies, the next steps would be to further narrow down the digital play companies that are seeking funding and are investment-worthy.
- This will require a series of process, including prospecting and due diligence, as next steps.
- Upon passing the due diligence, LEGO Ventures and the target company can work out the right investment valuation.





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