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Technology, Media and Telecom
Video Games

M | analysis

Video Game Industry Update: Feb. '19

Move over avocado toast, F2P games are the real reason millennials can't afford houses

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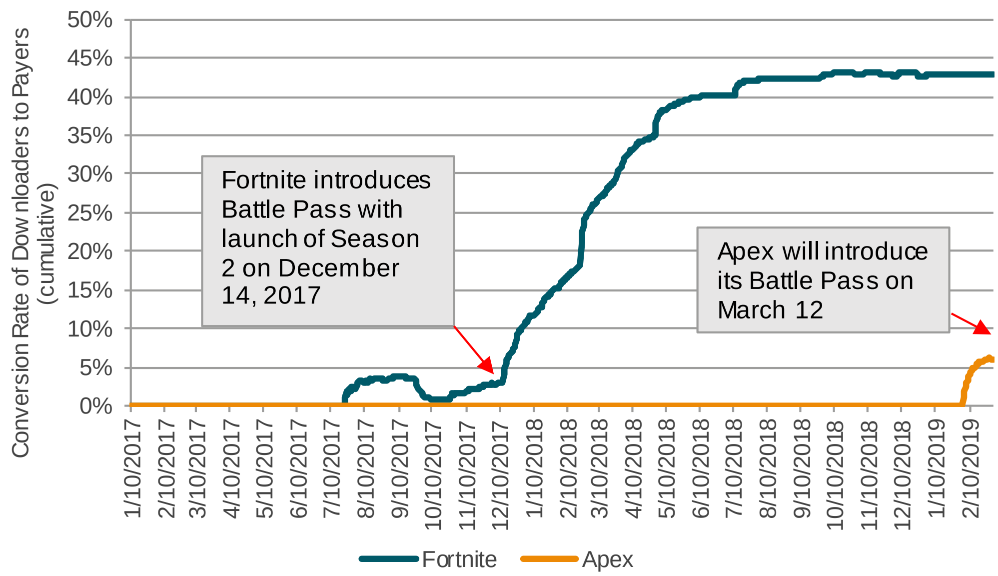


This month, we are doing a deep dive into the free-to-play live services model, we compare and contrast economic models and payer base profiles, and ultimately seek to use Fortnite as a basis for comparison to understand and size Apex Legends.

- **We view the upcoming release of Apex Legends' Battle Pass on March 12 as a very significant event.** Fortnite's Battle Pass was a major catalyst for monetization (see figure above). Based on Apex's reported reach (50 million players) and relatively low conversion of downloaders to payers (6% compared to Fortnite's 43% to date on PlayStation), we view the upcoming release of the Apex battle pass as a potential catalyst to drive deeper conversion of players to payers and another step function in the title's monetization trajectory.
- *Refer to page 3 for a rest-of-industry overview.*

FREE-TO-PLAY DEEP DIVE

- **The power of the free-to-play model is in the removal of barriers to engagement, which creates a massive opportunity to scale, and do so quickly.** Given that the foremost factor in determining monetization capacity for a live services business is engagement, this makes free to play a potentially superior live services model. Fortnite proved this out by having reached total PlayStation payer penetration within our panel of approximately 50% in the year since the battle royale mode began its ascent. Capitalizing on the space that Fortnite effectively created, Apex has garnered engagement at a pace previously never observed in our data. As of the end of February, observed Apex Legends download penetration of all observed PlayStation digital payers in our data had reached 20%. In fact, more individuals in our panel have downloaded Apex Legends than have ever monetized digitally within incumbent franchises Call of Duty, FIFA, and GTA Online, individually.

- **To date, Apex conversion of downloaders to payers is still very limited, but that hasn't prevented it from ramping monetization to levels that are above the likes of Call of Duty and GTA Online on a run-rate basis.** Among observed free downloaders of Apex Legends in our data on PlayStation, only 6% have monetized. Fortnite, meanwhile, has achieved a life-time payer penetration of observed downloaders of 44% to date, though given the advantage of time, that is not comparable to Apex's 6%. Despite Apex Legend's relatively low conversion to payers to date, observed PlayStation and Xbox bookings for the franchise in February were 34% of Fortnite bookings, and exceeded GTA Online bookings and Call of Duty live services bookings in the month by more than 3.5x and 2.5x, respectively.

- **We estimate Apex Legends contributed $60 million to EA live services bookings in the month since launch.** Trailing 30-day Apex Legends bookings have exceeded observed peak trailing 30-day bookings for GTA Online (which occurred following the Doomsday Heist update) and exceeded peak 30-day Call of Duty franchise live services bookings. Our data suggests Apex Legends contributed nearly 43% of EA's domestic live services in the month of February, meaning it was approximately 75% incremental to total domestic live services bookings.

  Our approximation of Apex bookings is based on a comparison to estimated historical Fortnite, GTA Online, and Call of Duty live services bookings. A less conservative analysis based on the company's reported 50 million players since launch, our observed payer conversion rate of 6%, and our observed average revenue per paying user in February of $36 can suggest first-month bookings well in excess of $60 million. However, this less conservative analysis would assume no duplication of players across platforms, that conversion rates globally are as high as they are domestically, and that average spend metrics globally are as high as observed domestic levels, all of which seem optimistic or aggressive in our view.

- **So far, Apex monetization is impressively close to Fortnite's in terms of spend in the initial days after download and in terms of run-rate average spend per payer.** Average spend per payer appears nearly on par with Fortnite on a trailing 7-day basis, and spend characteristics appear nearly in line in the initial days after download. We will have to wait to see how these metrics change as the Apex Legends download base matures, especially after the release of the Battle Pass, to assess the staying power of these spenders. We would still operate under the assumption that Apex lifetime monetization per engaged player will be materially lower than Fortnite's, primarily as a function of lower incentive for cosmetics and emotes in a first-person shooter in comparison to a third-person shooter, but to date, the title is monetizing at exceptional levels. Exiting the month, trailing seven-day average spend per payer for Apex was roughly $20, with ARPPU for the month reaching $36 on PlayStation.

- **Fortnite is an excellent example of the benefits of a more agile and frequent-content-update live services model.** This is apparent in live services spend characteristics between Fortnite and live services such as Call of Duty, FIFA Ultimate Team, and GTA Online. Based on our data, 31% of all Fortnite spenders, and amazingly 14% of all downloaders, have spent more than $150 in-game life-to-date. Above we mentioned Fortnite's PlayStation download penetration was approximately 50%. Therefore, approximately 7% of all individuals in our panel who have transacted on PlayStation have spent more than $150 on Fortnite to-date.

This is a remarkably heavy skew to the high end of monetization per payer. By comparison, approximately 11% of Call of Duty's digital transaction base (life-to-date) has spent more than $150 in live services spend, and similarly 15% of GTA's base. Ultimate Team appears the nearest comp, with approximately 28% of digital spenders having breached the $150 threshold of lifetime spend, though FIFA Ultimate Team may experience a material "whale benefit." When considering full-game purchases in digital spend, the percentage of payers who reach $150 dilutes even further: 7%, 8%, and 11% for Call of Duty, GTA, and FIFA, respectively.

- **Fortnite's model of content updates (and by extension, Apex's model) has several strengths that drive a feedback cycle of engagement.** First is the Battle Pass. From a player perspective, the value of the Battle Pass increases with playtime, as the best items require a progression to unlock. This naturally draws engagement out over a period rather than it being frontloaded with a new season's content release. The regular cadence of content updates with Fortnite's seasons combined with the low barrier to entry for each season (a Battle Pass costs about $10) drives consistent, recurring spend that can result in significant lifetime values: the median lifetime spend of a Fortnite payer in our PlayStation panel is $70, with the upper third of payers having spent upwards of $135. On top of the Battle Pass, content updates, thematic in-game events and so called "metaverse" events like the Marshmello concert promote further, consistent engagement.

  The success of the Battle Pass relative to traditional live services models may be psychological as well: players see very little immediate reward in terms of content by purchasing into each season; rather, what is purchased is the ability to earn the content through a player's own commitment and skill rather than buying a skin outright. Given that skins from previous seasons can never be earned again and the time required to unlock the most exclusive skins, there is some sense of urgency to buy into each season and not miss out on content before it is too late. Although we don't directly observe Battle Pass purchases in our data, as it is purchased within the Fortnite shop for 950 V-Bucks, the 1000 V-Buck transaction makes up 62% of all virtual currency transactions, and we assume a majority of these currency purchases were used for Battle Passes.

  For these reasons we view the reception of Apex's pending Battle Pass launch on March 12 as a highly material event for the franchise and for EA.

INDUSTRY UPDATE

- **Cumulative unique, digital payers for Anthem on console at launch day were 67% greater than those observed for Battlefield V at launch, benefitting from presales during the beta period.** However, similar to the Battlefield V launch, we have already begun to observe steep discounting of the title. Further, technical issues appear to remain a persistent and material problem post-launch, with some crashes and errors being severe enough to drive refunds.

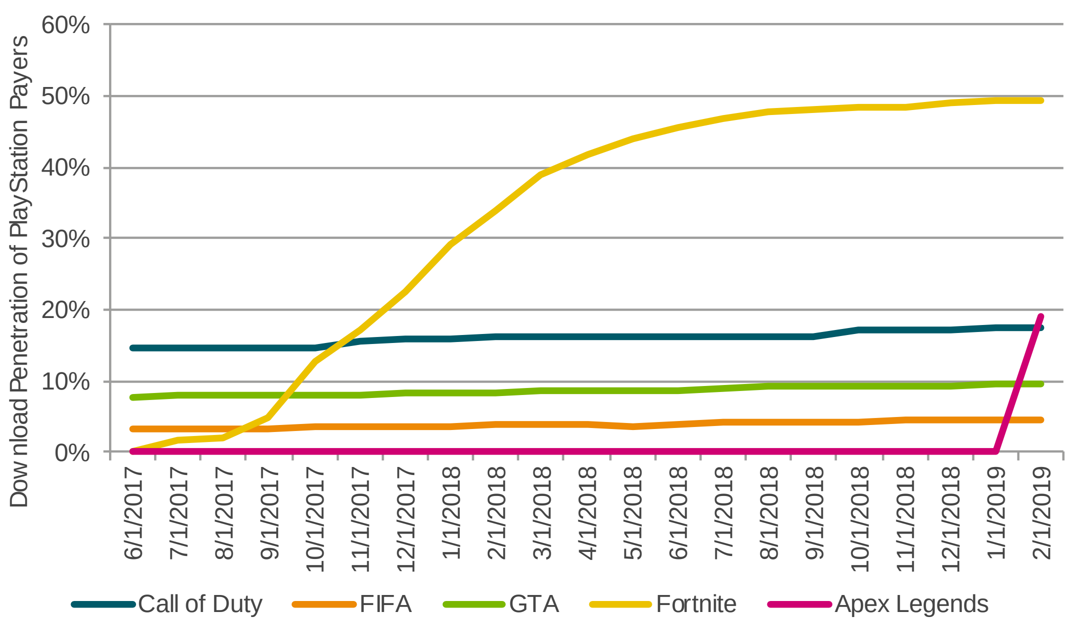
- **Far Cry: New Dawn cumulative launch day unit indications were 25% of Far Cry 5's. Presales for the Division 2 are currently tracking at more than 2x comparable presales pre-launch for Far Cry 5.** We will provide additional detail when we provide our initial FQ4 preview for Ubisoft.

- **We continued to observe both Y/Y payer and bookings declines for Call of Duty's live services business.** From January to February, monthly console live services bookings declines accelerated from a 33% Y/Y decline in January to a 38% Y/Y observed decline in February. Both observed MTX and DLC bookings were down Y/Y in February, by 37% and 43%, respectively. With the release of Apex Legends, Black Ops 4 has dropped to the No. 4 battle royale title by daily viewership in our Twitch data.

- **As comps become less challenging, GTA Online declines lessen.** GTA Online saw its historically toughest comparison in December and a 50% Y/Y decline in observed bookings as a result. In February, the declines decelerated materially to a 19% Y/Y decline. Content road maps have not been released for GTA Online or Red Dead Online, which we view as the primary factor in understanding Rockstar's likely live services trajectory. Until we see a significant content update and event for Red Dead Online, we continue to view extrapolation of Red Dead Online bookings as not particularly telling relative to franchise potential.
- **NBA 2K live services bookings remained strong through February.** Unique live services payer indications on console grew 61% Y/Y in February, an acceleration from a growth of 42% Y/Y observed in January. This is likely a function of easier comps as we progress deeper into 2019 against year-ago underperformance during late-Winter and Spring.
- **Payer growth for FIFA Ultimate Team remained steady in February.** We observe continued mid-single-digits growth in unique payers for FIFA Ultimate Team on console in February, in line with the previous quarter and management commentary. FIFA Ultimate Team trends look positive and engagement seems to be healthy.

Almost 50% of our PlayStation payer panel has downloaded Fortnite, and in its first month available, Apex Legends was downloaded by almost 20% of our PlayStation panel. In comparison, this is greater penetration than the lifetime live services engagement of Call of Duty, GTA, and FIFA franchises.

Figure 1: Download Penetration of PlayStation Payer Panel by Title



Source: M Science Digital Purchase Data

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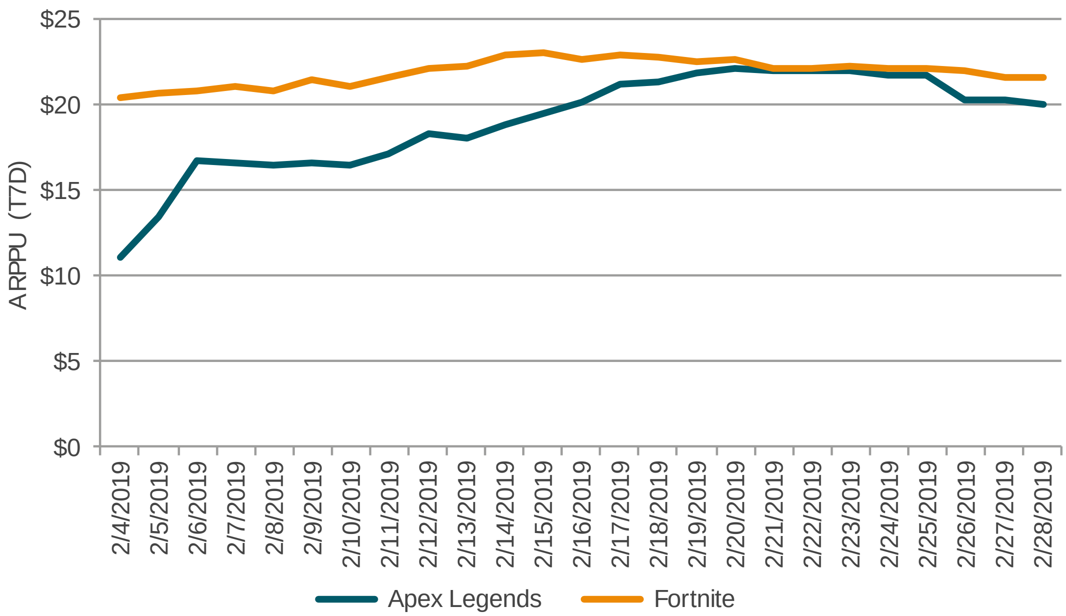
Trailing 7-day player spend for Apex Legends has approached levels similar to Fortnite's player spend.

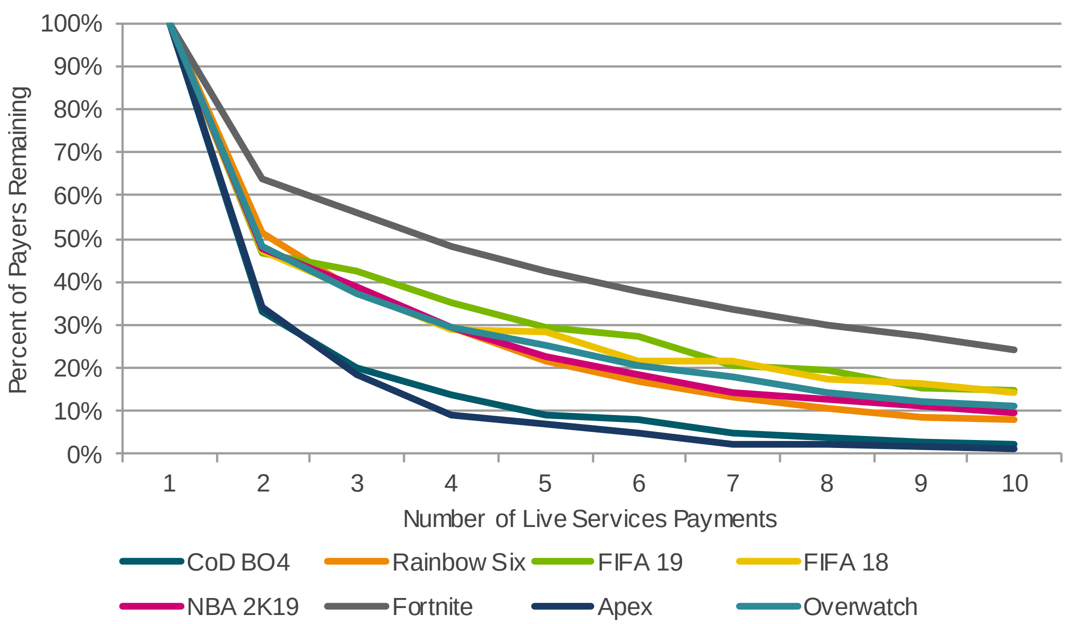
Figure 2: Fortnite, Apex Legends T7D ARPPU (PlayStation, Domestic)



Source: M Science Digital Purchase Data

Fortnite's content update model encourages recurring engagement and payment. We can observe this effect in the flatter retention curve for Fortnite compared to other live services businesses.

Figure 3: Retention of Live Services Payers (PlayStation, Domestic)



Source: M Science Digital Purchase Data

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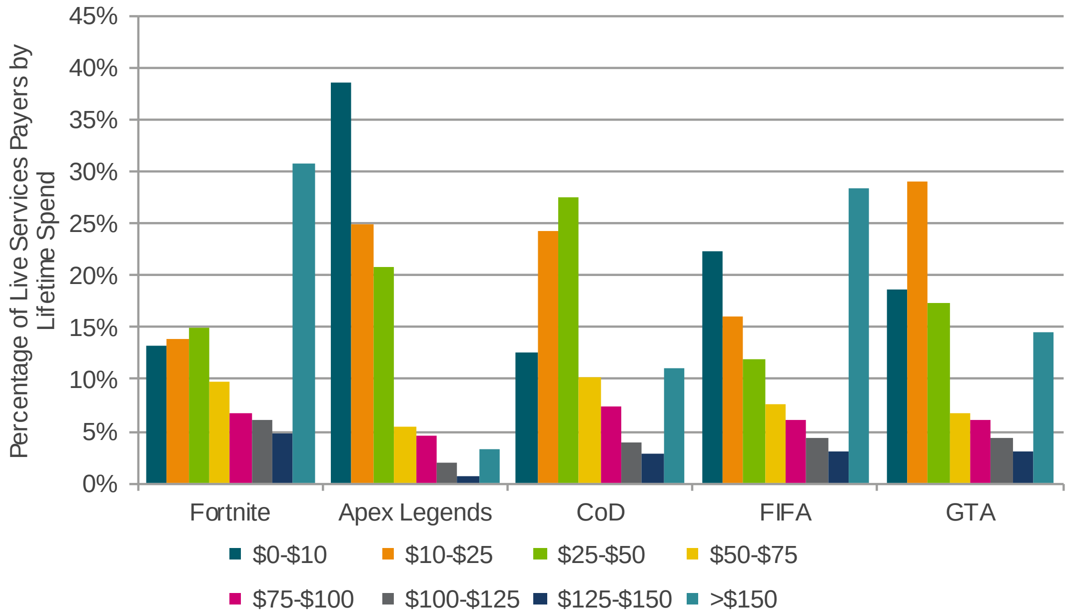
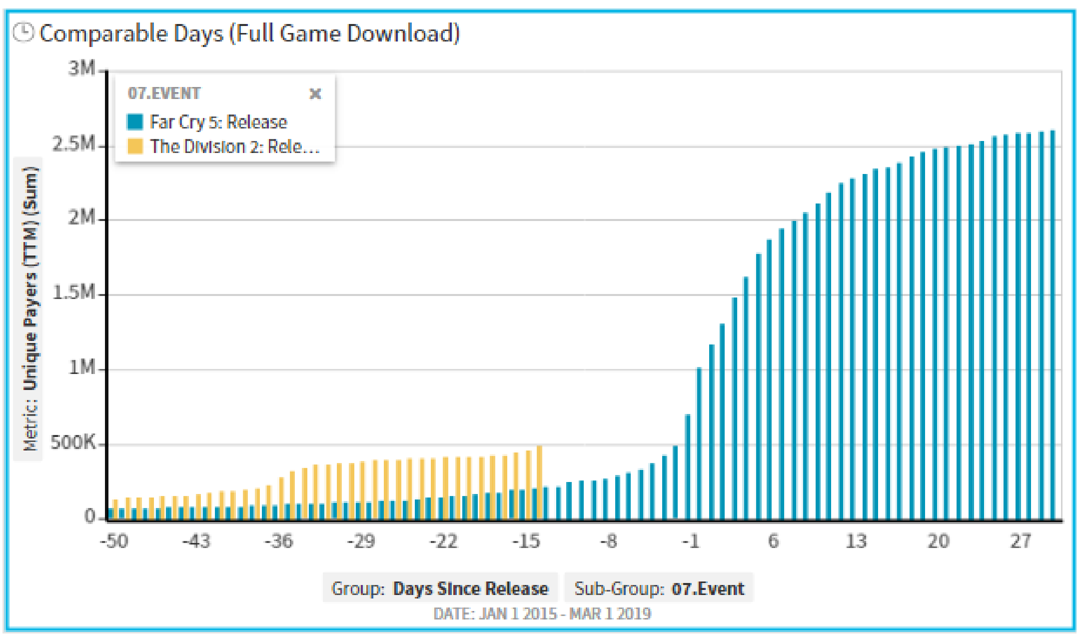
Figure 4: Live Services Payer Lifetime Spend Breakdown by Franchise (PS, Domestic)



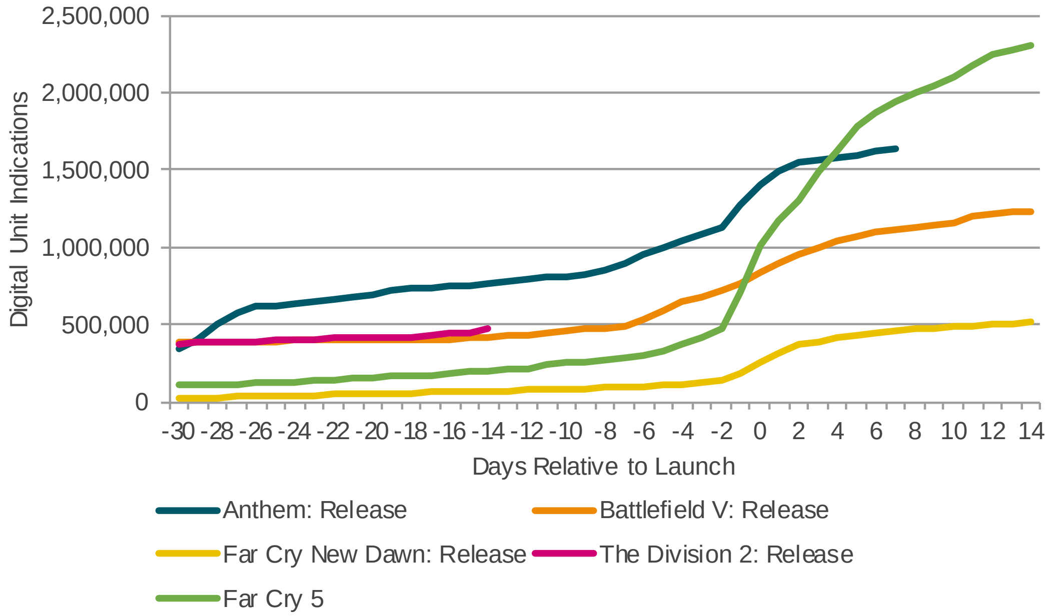
Source: M Science Digital Purchase Data

Figure 5: The Division 2 Presales Indications (PlayStation and Xbox, Domestic)



Source: M Science Digital Purchase Data

Figure 6: Digital Presales and Launch Sales Indications (PlayStation and Xbox, Domestic)



Source: M Science Digital Purchase Data

Figure 7: Upcoming Release Slate

Release Date	Title	Publisher	Platform			
			Xbox	PlayStation	PC	Switch
5-Oct	Assassin's Creed Odyssey	Ubisoft	✓	✓	✓	
5-Oct	Super Mario Party	Nintendo				✓
12-Oct	Call of Duty: Black Ops 4	Activision	✓	✓	✓	
26-Oct	Red Dead Redemption 2	Take-Two	✓	✓		
14-Nov	Fallout 76	Bethesda Softworks	✓	✓	✓	
16-Nov	Pokemon: Let's Go, Eevee!	Nintendo				✓
16-Nov	Pokemon: Let's Go, Pikachu!	Nintendo				✓
20-Nov	Battlefield V	EA	✓	✓	✓	
7-Dec	Super Smash Bros. Ultimate	Nintendo				✓
15-Feb	Far Cry New Dawn	Ubisoft	✓	✓	✓	
22-Feb	Anthem	EA	✓	✓	✓	
15-Mar	The Division 2	Ubisoft	✓	✓	✓	

Source: M Science

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INDUSTRY COVERAGE		
Consumer – US, Europe		
Auto Retail	Hardline	Softline Retail
Casinos	Home Furnishings	Specialty Retail
Cruiselines	Lodging	Theme Parks & Ski Resorts
Department Stores	Motorsports	UK Food Delivery & Restaurants
Discounters/Off-Price	Rental Cars	UK Grocers
Grocers	Restaurants	UK Retail
		UK Real Estate
TMT – US, Asia		
Cable/Satellite	Digital Media Services	Semiconductors
China Internet	Domain Registration	Telecom
Cloud Infrastructure	Internet/E-Commerce	Video Games
Consumer Technology	Payments	
Industrials – US, Europe		
Airlines	Electric Vehicles	

DIFFERENTIATED DATA		
Proprietary Data	Cruiselines	Global Smartphone Activations
Receipts	Casinos	Mobile Transactions
Consumer Spending Panels (US, Europe)	Web Technology Usage Global Travel	China Online Media & Entertainment
IP Survey	Inventory Management	Wireless Retailer Point-of-Sale
WHOIS	Real Estate	Number Portability
Vehicle Registrations	Weather	Semiconductor Equipment Sell-In
Airline Pricing	US & China Handsets	Global Video Games
	Conversational Data	

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