



753,424 years culminating in this one pure-play stock

Sam Volkering, Editor



Dear reader,

In 1986 the world changed.

It changed when the Nintendo Entertainment

System was released to the North American market. The world's most influential home gaming console would spark the explosive growth of an industry that continues to this day.

The "NES" was a game changer. It was and will always be one of the most significant pieces of technology ever made.

People think of the PC, the iPod, iPhone, TV, the radio, the Walkman when they think of game-changing technologies. The NES doesn't get mentioned all that

much, but it should.

The NES brought the arcade into the home on a global scale no other console was able to achieve. It even changed the way in which we interact as a society.

Four years after the release of the NES, Nintendo launched the very first Nintendo World Championships. There would be regional events, with winners proceeding on to the NWC to be held at Universal Studios, Los Angeles, on 7-9 December 1990.

The competitors would play against each other on a NES with a custom cartridge that would enable them to play Super Mario Bros. Rad Racer and Tetris. The highest scorer would be the winner.

The NWC was huge. And the winners of each age category would walk away with a US\$10,000 savings bond, a car, a TV and a special Mario trophy.

This was the birth of esports.

In 1990, people didn't really think of the idea of this kind of tournament becoming a mainstream, mass-market opportunity. After all, the age categories of the NWC were 11 and under, 12 to 17, and 18+.

In other words, it was really a tournament for kids. Those origins and that idea of tournament game playing being for kids is something that's stuck around a long time.

Perhaps it's a generational thing, but those kids that grew up on



the Nintendos and Playstations of the 90s and into the 2000s, are now some of the biggest earners in sport.

And yes, I say sport, because esports has all the hallmarks of other competitive sport competitions. It requires, high-level hand-eye coordination, necessitates problem solving and fast decision making, requires focus, concentration, training and practice, and a competitive streak.

The consideration that it's not as physical as something like football is fair, but that doesn't remove the elite nature of what esports has become.

What a lot of investors fail to see, is that esports is also one of the fastest growing opportunities in the world.

The global gaming market is booming and there's no signs of it slowing down. PWC forecasts that gaming will draw in revenues of over \$30 billion by 2023, and within the gaming market esports is easily the fastest growing segment.

The money that now floats around the esports world is quite something to behold. It makes the NWC US\$10,000 prize money look like peanuts.

In the full 2019 year, the top 100 esports earners all earnt more than US\$250,000. The top 46 all made over US\$500,000. And the top 16 are all on more than US\$1 million in prize money earnings alone.

There are also 21 games that have delivered over US\$1 million in prize money for players.

Fortnite, the mega-popular game from Epic Games, paid out more than US\$71 million in prize money across various tournaments in 2019.

But this isn't just an opportunity about the players. Like all popular sports it's about the fans and the viewers.

More and more people every year are deciding to spend time watching esports. Watching like you might watch the football at the weekend. This has also seen a dramatic rise in 2020 with lockdowns and forced time spent at home.

More than 6.6 billion hours of esports videos worldwide was consumed in 2019.

That's around 753,424 years spent watching esports... in just one year!

Or another way of thinking about it – it's like every single person in the UK watching at least 100 hours of esports video content in 2019.

The thing is, when you've got that much attention (and growing) focused on any kind of sport, you know that big business is coming hunting for revenues and profits as well.

Estimates are that esports' total audience will top 646 million by 2023. To give that some perspective, the English Premier League, one of the world's most

watched and valuable sports competitions, had a cumulative global audience of 3.2 billion across all its programming for its 2018/19 season.

Clearly esports has some way to get to that size – but let's not forget that competition like the Premier League has a bit of a head start. The first English football game broadcast on TV was in 1937. Whereas the Electronic Sports League (ESL) was only founded in 2000.

If you aren't convinced there's an esports revolution underway, hopefully some of this raw data proves that this is the biggest, fastest growing opportunity in sports there is right now.

And what makes it so thrilling for investors is the plethora of hot opportunities to get into esports companies before the mass market switches on to the fact that in time, esports may become the most lucrative sports market on the planet.

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I think that the rise of esports is one of the world's biggest mega trends that is simply not being recognised by the world's markets. It's still seen as niche, as just a recreational pastime and not a legitimate opportunity to make big profits.

That's changing, and the next two years in particular are going to see rapid change in this industry



as it matures and starts to attract big money from traditional sports companies and advertisers.

That's why we're bringing you an out-and-out esports opportunity. It's involved in everything from teams to hosting tournaments and game development.

Gfinity Plc (LSE:GFIN) trades for 3.35 pence and has a market cap of approximately £25.6 million at the time of writing.

Gfinity is an out-and-out esports business. Its main focus of the business includes advisory services connecting esports to game publishers today, sports rights holders, commercial and media companies, brands and of course, consumers.

It does this through esports tournaments, providing content to platforms, community building and engagement (social and streaming communities) advisory services and game and experience development for publishers.

A good example of how Gfinity integrates into the world of esports is to look at a number of its partnerships.

In particular, its partnership with the English Premier League and Formula 1.

In its 2019 financial year it was appointed as the inaugural tournament operator of the ePremier League programme.

And then in the 2019/20 year, Gfinity announced it had been reappointed to be the

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Tournament Operator for the second season of the ePL (ePremier League).

This tournament is based around the FIFA 20 game developed and launched by EA Sports, part of the Electronic Arts (NASDAQ:EA) company.

Gfinity is also a longstanding partner of Formula 1 and has delivered multiple seasons of the Formula 1 Esports Series.

It's working with IndyCar to develop esports strategy for that series, Microsoft on Forza and Halo tournaments, and is even working with Amazon, having delivered a celebrity-based "Twitch Prime Crown Cup".

Gfinity is entrenched in esports and related content.

More recently it announced a launch of an all-new virtual motorsports website, racinggames.gg, which will bring together news, content, fan engagement all around the various virtual racing esports leagues and competitions that are now spread all over the world.

In May it signed another extension to deliver the Formula 1 Esports Series in 2020 and 2021 as well as the 2022 qualifying events. It will also utilise its Gfinity Arena in London for live broadcast of

events and broadcast shows.

I see Gfinity as growing into one of the world's most significant esports tournament operators, content creators and media companies. Its speciality is linking the traditional sports world into the esports world with engaging content and events. Its experience with the Premier League and Formula 1 is testament to that.

Its media side of the business as well is going from strength to strength. In an August update it explained,

Gfinity Digital Media is one of the fastest-growing revenue streams for the Company. Since the partnership with Venatus was implemented in mid-April 2020, it had delivered close to £200,000 through on-site advertising by the end of July. In addition, Gfinity Digital Media has been selected to deliver a growing number of repeat advertising campaigns for high-profile publishers, with a strong pipeline of direct campaigns already secured and running in August.

The announcement continues,

Overall, Gfinity Digital Media is expected to generate revenues of £2 million in the financial year ending 30 June 2021, supporting



<p><i>the Company's target of moving into profitability in Q1 of 2021</i></p> <p>But of course it's early stage, so what kind of financial shape is Gfinity in? And is it heading in the right direction?</p> <p>Gfinity's most recent available financials are the first half results to 31 December 2019. During this period Gfinity recorded a 300% increase in gross profits to £2 million compared to the same period for the year before.</p> <p>It did see a fall in revenues down 20% but managed to improve its adjusted operating loss, from a loss of £4.4 million the prior year to a loss of £2.4 million.</p> <p>The company still aims to be profitable by Q1 2021. Based on current performance, particularly of its digital media division, that looks like it's on track.</p> <p>The impact of Covid-19 can't be missed here too. It's had an impact on the use of its Gfinity Arena, albeit not shut it down as the demand for content has been strong during the period of lockdown.</p> <p>As the company explains,</p> <p><i>The Group believes the business can withstand the anticipated operational disruption caused by the COVID-19 virus. While physical events have been postponed at the Gfinity Arena, the Company has seen a significant increase in the number of sports rights holders and media companies in particular looking for</i></p>	<p><i>virtual gaming solutions and content. The Gfinity Arena is still being used for limited broadcast events, in line with all Government social distancing guidelines. This is being monitored daily.</i></p> <p><i>The Company is already seeing increased levels of engagement with its digital platforms due to the restrictions placed on the movement of people across the globe</i></p> <p>Gfinity also managed to raise £2.1 million in a capital raise in April as the market... and its stock price... was tanking.</p> <p>Which brings us to some of the risks involved here...</p> <h3>Risks</h3> <p>Gfinity stock has been on a tumble since late 2017 when it hit lofty heights of over 31 pence a share. Should the stock return to those values from here, that would be a 825% rise from current prices.</p> <p>In fact, during the March market crash, Gfinity traded as low as 0.30p.</p> <p>Incredibly, it became one of the most traded stocks in the market, seeing wild volatility as investors jumped in and out of the stock. In the period across March, April, May, June and July it wasn't uncommon to see Gfinity stock trade in volumes up around the tens of millions in a day's trading.</p> <p>Today the stock has bounced for those crazy lows and is now</p>	<p>trading around 3.35p and at a value that I think reflects a great entry point for new investors now that some of that wild volatility has calmed down.</p> <p>I see the growth potential for Gfinity coming out of lockdowns and restrictions as significant.</p> <p>I do believe that should Gfinity break even and become profitable in the next two years, it has every chance of heading back to the kinds of values it saw in 2017 within our long-range time horizon of three to five years.</p> <p>That I see as a by-product of coming out of the Covid-19 crisis that's plagued 2020 and also because of the growth potential of the esports industry.</p> <p>But of course there are a lot of considerations to think about. For a start, while the esports trend is certainly one that's on the up, the Gfinity price has been counter to that overall esports trend.</p> <p>Heading to the market for capital raises only goes towards diluting existing holdings, and while a capital raise was recently undertaken, there's no certainty it won't seek another capital raise to fuel its ongoing progress.</p> <p>That could hurt the stock price and dilute holdings. Gfinity has done multiple capital raises before, and I wouldn't rule out another before it can be self-sustainable from operating profits.</p> <p>Furthermore, Gfinity is currently central to growing tournaments like ePL and Formula 1 esports.</p>
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And while these are long-standing relationships, they aren't long-term contracts – they tend to be one or two years at most.

Ongoing success will depend on its ability to maintain these partnerships and continue to expand its portfolio of partnerships and esports expansion leagues and opportunities.

If it were to be replaced by either the ePL or Formula 1 as tournament provider for ongoing seasons, while it might not hit it financially too hard, it would be the kind of news that would drag the stock price back, hit its reputation and clout and likely its view from investors.

That also raises the point Gfinity is in a world with big multinationals like EA, Activision Blizzard and Epic Games which are heavily invested in esports and could look to be more active in the areas that Gfinity operates in, rather than seek out partners like Gfinity.

That's a catch-22 because there's competition risk from these giants, but also potential that at the right time, Gfinity may prove to be an attractive takeover target from the likes of EA or Activision.

Financially it still does make a loss, and there's no guarantee it'll get to profitability in Q1 2021. If it doesn't hit its target of breakeven in 2021 and can't get to profitability in that period, the market is going to hit Gfinity. Missing that well-documented goal could set the company back and could also see

the stock price fall.

But all up, considering the risk, I think Gfinity makes a compelling pure play into esports at this level.

I have faith in the company achieving its target of profitability in Q1 2021, and that getting in before that catalyst is the right move to make.

Buying instructions

Gfinity Plc (LSE:GFIN) trades for 3.35 pence and has a market cap of approximately £25.6 million at the time of writing.

It trades on the London Stock Exchange on the AIM sub-market. Volumes in Gfinity are quite high with average trading volume around 5.7 million per day. In monetary terms, it's up near £200,000 per day in volume, so it's highly traded, but the values aren't huge.

We would consider it to still be an illiquid stock in that sense because of the money value of the average daily trades.

Hence, after publication of the recommendation we could see a short-term spike in the stock price. Again, it's important to stick within our buy limits so you are not overpaying for the stock and limiting your potential upside.

Regards,

Sam Volkering
Editor, *Frontier Tech Investor*

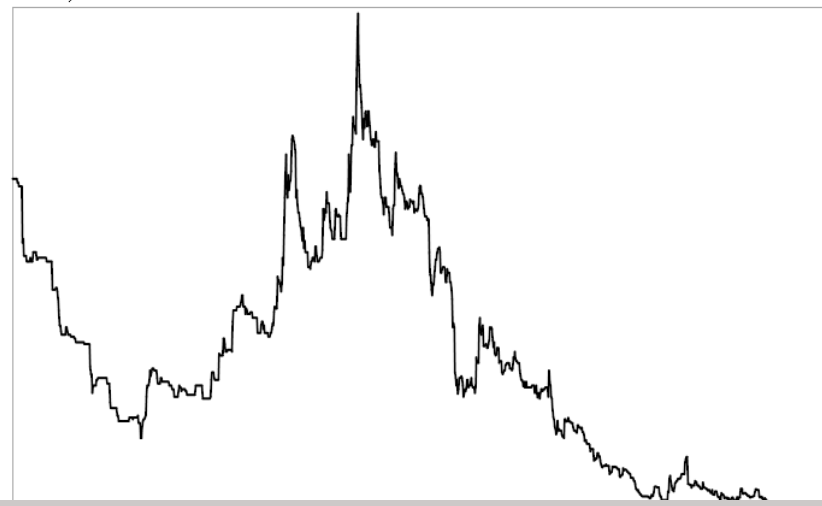
Action to take:

Ticker:
Price as of 08.10.20:
Buy up to:
Market cap:
52-week high/low:

Buy Gfinity Plc (LSE:GFIN)

GFIN LN
3.35 GBp
4.15 GBp
£25.6 million
0.30/4.72 GBp

Gfinity



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