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Freemium Business Model



Description

□ Fred Wilson, Venture Capitalist

Give your service away for free, possibly ad supported but maybe not, acquire a lot of customers very efficiently through word of mouth, referral networks, organic search marketing, etc., then offer premium priced value added services or an enhanced version of your service to your customer base.

http://avc.com/2006/03/the_freemium_bu/



Freemium Business Model

Description

- ❑ **Combination of Free and Premium**
 - Free software with basic features
 - Premium features would be available at a cost
- ❑ **Free Access increases the customer pool**
- ❑ **Incentives for referrals**

- ❑ **Examples: Dropbox, Wordpress, MailChimp, LinkedIn**



Dating App Market

Description

- ❑ Currently heavily utilizes the freemium model
- ❑ Network economy
- ❑ Has shown tremendous growth over the last several years
 - Shift from online to mobile
- ❑ Currently several large players in the public space:
 - MTCH, LOV, DATE, MEET
 - Companies (especially MTCH) have shown heavy M&A activity
- ❑ However, major challenges exist:
 - Extremely low barriers to entry
 - Rapid evolution of consumer behavior
 - Sensitive to demographics of user base

The above all leads to a [low paid user conversion](#).

Match Group, Inc.

Conversion Statistics

match.com



- As of September 30, 2015, there were 59 million monthly active users (MAU)
- However, only 4.7 million were paid users, a paid user conversation rate of 7.9%.

POF

okcupid



- It is rumored that Tinder has a paid user conversation of 3-5%

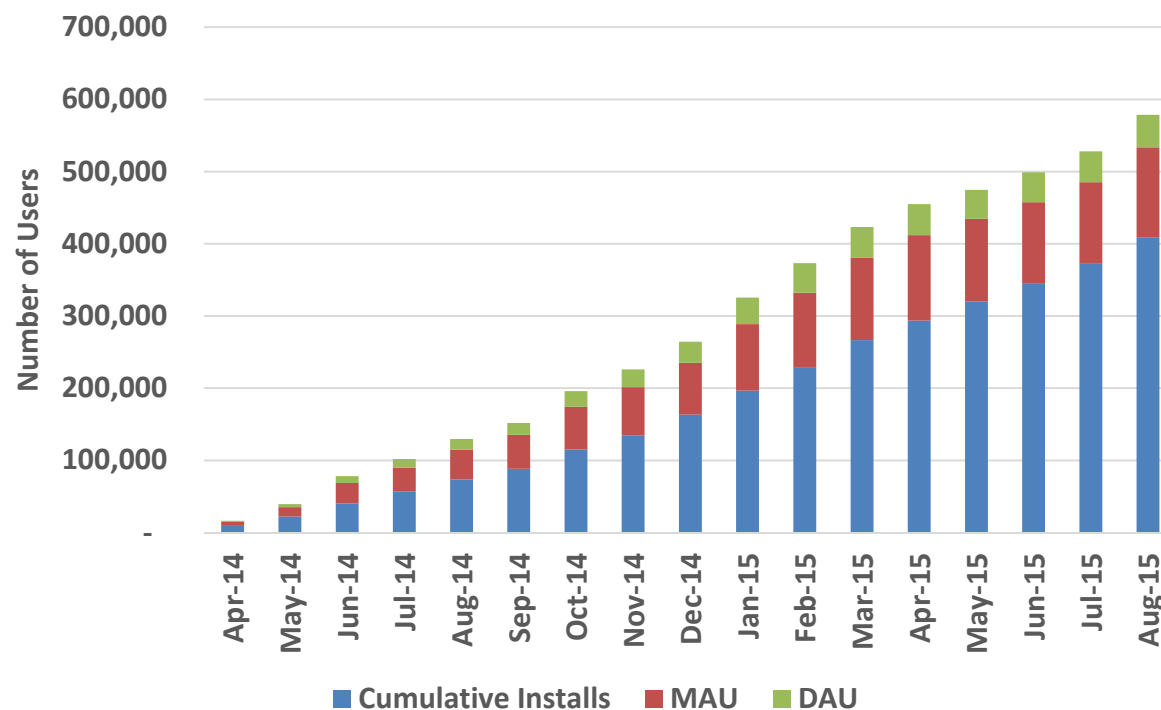
OurTime.com



User Demographics

Current Client

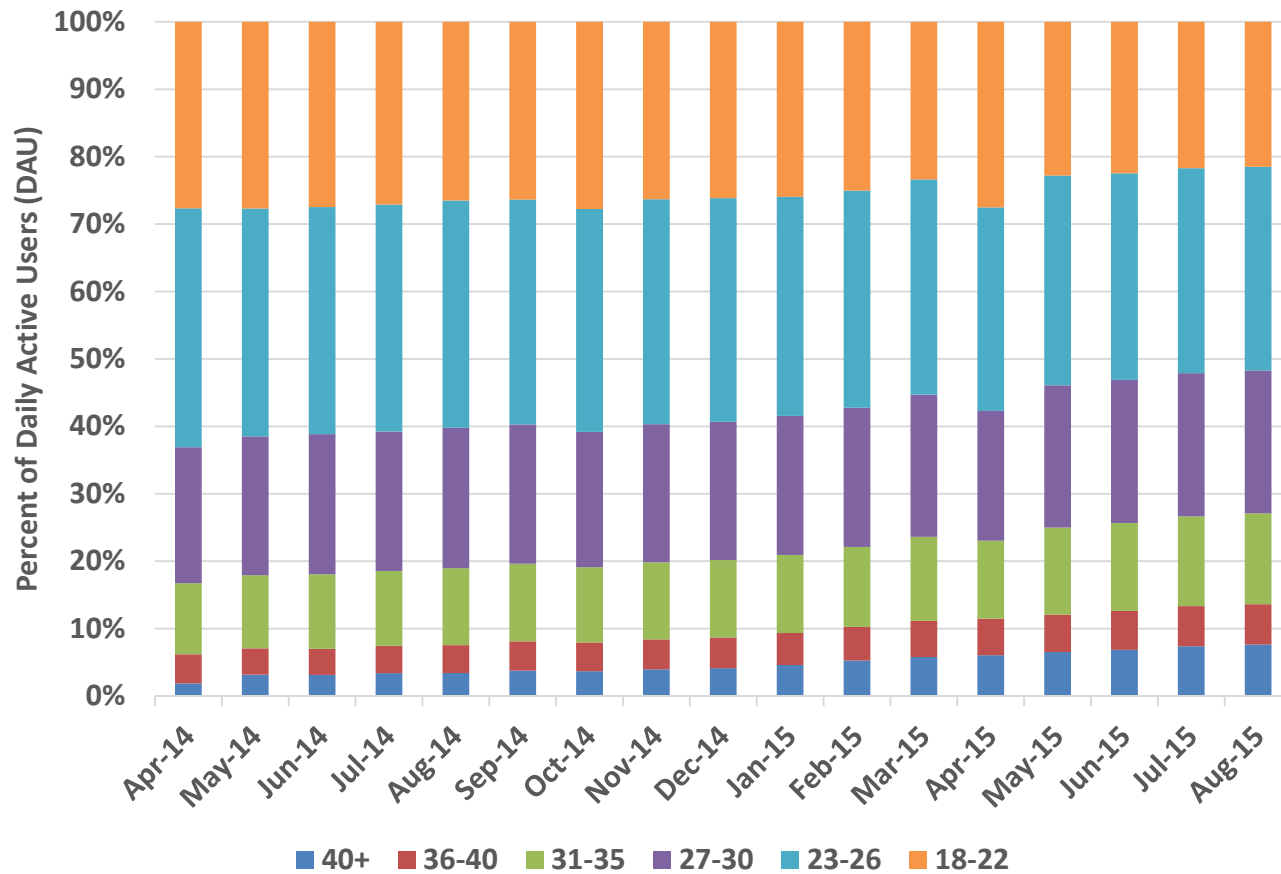
- ❑ Launched a dating app in April of 2014; had over 500 thousand downloads in first 18 months



- ❑ However, the majority of installations were not retained as MAUs.

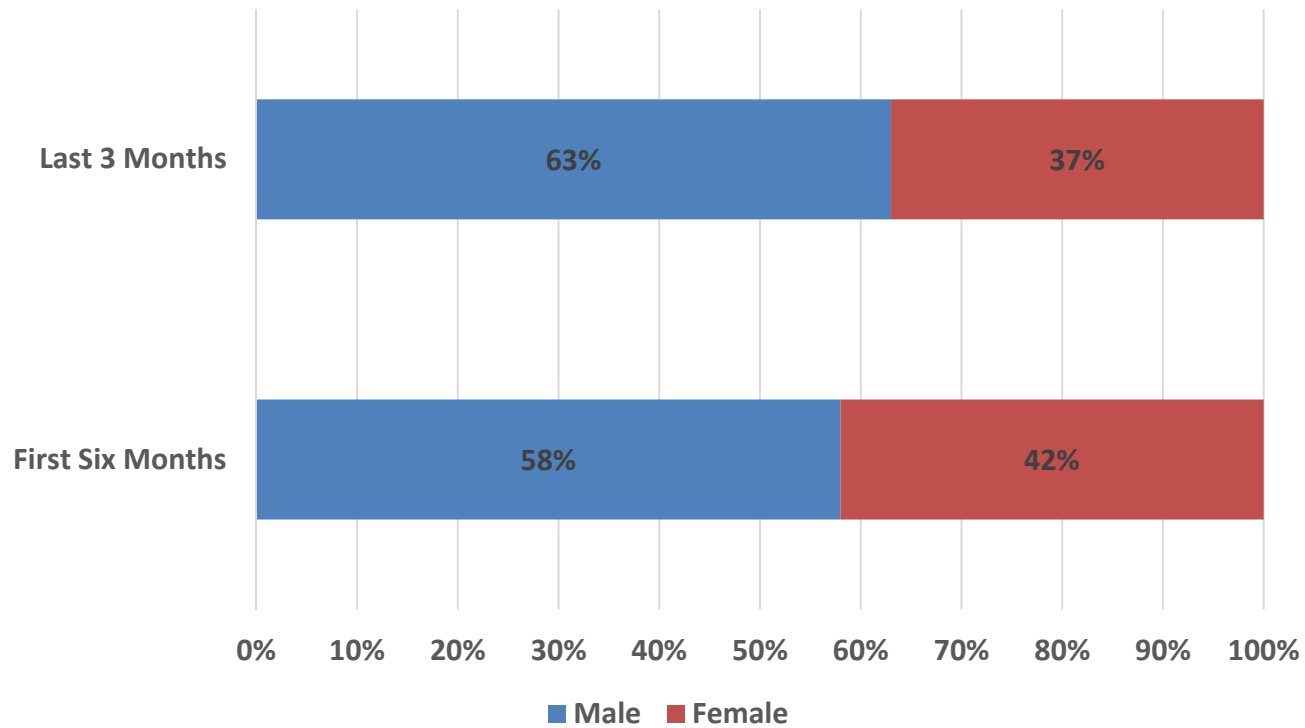
Low Retention...WHY?

Changing Demographics



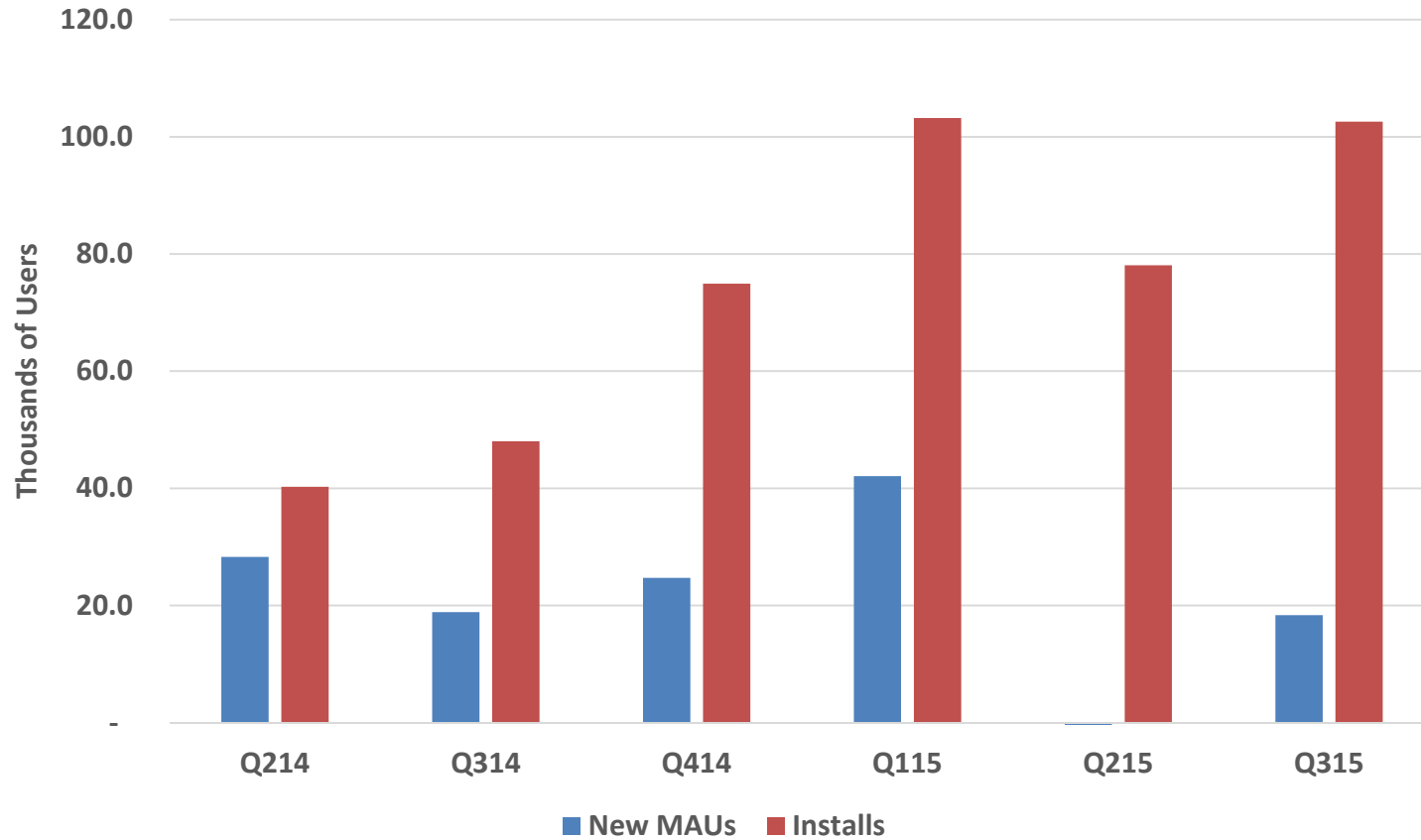
Low Retention...WHY?

Changing Demographics



Low Retention...WHY?

Seasonality



Game Development Co.

Company Description



- ❑ We were engaged to value the Company's intangible assets following the purchase of a company.
- ❑ Company's products are MMO's or mass multiplayer online video games
- ❑ MMO examples:
 - World of Warcraft – Blizzard Entertainment
 - Everquest – Daybreak Game Company
 - League of Legends – Riot Games
 - Guild Wars - ArenaNet
 - Star Wars: Old Republic - BioWare
 - Eve Online – CCP Games

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Game Pricing Structure 1



□ Game Pricing Structure 1 – Premium to Freemium

- New MMO's had subscription based model with initial software purchase
 - Revenues: initial software purchase
 - Revenues: monthly subscription cost x number of users
- Additional content was created and sold (Expansion Packs or DLC – downloadable content)
 - Revenues: initial software purchase
- After some years on the market, the video game would turn into freemium model. Free to play model with restrictions on certain areas (# of player slots, no access to expansion packs, etc.)
 - Revenues: in-application purchases of items, customizations, resources, areas, etc.

Game Development Co.

Game Pricing Structure 2



□ Game Pricing Structure 2 - Freemium

- Free to play model with restrictions on certain areas (# of player slots, no access to expansion packs, etc.)
 - Revenues: in-application purchases of items, customizations, resources, areas, etc.

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Game Valuations



□ What is the value of each game? Function of its:

- Economic Life
 - Customer base
 - New content creation
- Profit Margins
 - In-application purchases
 - New content creation

Game Development Co.



Valuation Results

- ❑ Management expected another 5 years of revenues from Game 1-3
- ❑ Old games are valuable from healthy cash flows

Game	Indicated Life	Terminal EBITDA Margins	Tax Rate	Indicated Value (\$000s)	Value Results
1	5	35.0%	40.0%	3,420	Old game but healthy cash flows
2	5	19.8%	40.0%	730	Old game but with higher operating costs
3	5	7.0%	40.0%	610	Low margins from universe copyright payments
4	10	22.0%	40.0%	3,470	Relatively new game, expected growth continues



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