



ASX Release

31 July 2017

Animoca Brands 2Q17 Report

Animoca Brands Corporation Limited (ASX: **AB1**) (the **Company** or **Animoca Brands**) has today released its Appendix 4C for the three-month period from 1 April 2017 to 30 June 2017.

Key points

- Total revenues for 2Q17 of A\$1.5m, 17% lower than 2Q16
- Cumulative app downloads grew to ~293 million (a 4.6% increase on 1Q17)
- Completed rationalisation of cost base, expected to result in a A\$3m run-rate reduction in expenses by the end of 2017
- Signed non-binding term sheet for sale of 13 games, with up to ~A\$3.63m in consideration, including ~A\$1.75m in cash upfront
- Company reiterates its target of achieving a profitable business by the end of 4Q17

Financial Update

Revenues and expenses

Total revenues for 2Q17 were A\$1.5m (a 17% decrease on 2Q16). IAP and Advertising revenues continued to perform broadly in-line with the company's expectations. Service revenues were below budget due to Management's decision following the business review initially announced on 28 April 2017 to suspend certain lower-margin projects and reduce the Company's cost base. In addition, the reduction of staffing levels resulted in some projects slated for 2Q17 release to be pushed into 3Q17.

While 2Q17 revenues came in lower than expected, the Company is confident in the revenue outlook following the planned release of 22 new games in 3Q17. During the same period last year, the launch of 22 new titles supported revenue growth to A\$2.2m in 3Q16.

Payments for advertising and marketing costs of A\$1.3m in 2Q17 were 60% higher than in 2Q16 as a result of significant development activity during the quarter. Following the completion of the recent development phase and the release of the new games in 3Q17, these expenses are expected to moderate in the coming quarters.

Receivables

Cash receipts from customers totalled A\$1.9m, in line with 1Q17. Receivables reached A\$2.7m, reflecting lower than expected cash collections. The majority of the outstanding receivables balance comprises three major accounts with whom the Company has long-standing business relationships and reliable credit histories with the Company. In particular, the Company expects to collect a large receivable amount of approximately US\$0.9m (A\$1.2m) in 3Q17, which was delayed in the present quarter.

Cash outlook

The Company ended the quarter with A\$0.87m in cash, a decrease of A\$3.6m from 1Q17. This was driven by one-off restructuring costs as well as the lower than expected collections. As noted above, the company expects cash collection to improve in 3Q17. Additionally, following the restructuring of the business, cash operating costs are expected to be lower in the second half of the year than in the first half.



The Company expects an upfront cash inflow of approximately A\$1.75m in 3Q17 following its entry into a term sheet for the sale of part of its games portfolio to Maple Media LLC, as detailed in today's ASX Announcement "Sale of 13 Games to Maple Media for up to A\$3.63m in cash". The sale will provide the Company with a near-term material inflow of cash to significantly strengthen its balance sheet, enabling it to focus on achieving profitable growth in line with its new strategic focus.

While the Company's cash balance weakened during the quarter, the combination of the expected improvement in receivables collection, the expected inflow of A\$1.75m from Maple Media, and the planned launch of 22 new titles during 3Q17, give the Directors confidence that the cash balance of the Company is adequate to fund operations for the foreseeable future.

Operational Update

Strategic partial portfolio sale

The Company has entered into a non-binding term sheet to sell 13 games titles (**Games**), with the option to divest a further 2 titles from the Company. All Games to be sold as part of the transaction comprise the non-core component of the TicBits acquisition completed on 8 July 2016. Collectively, these games contributed approximately ~A\$0.4m (~10%) of total 1H17 revenue.

The Company will receive an upfront cash consideration of ~A\$1.75m payable upon deal closing, which is anticipated to be in August 2017, and further deferred payments of up to a total ~A\$1.9m are payable subject to revenue hurdles in 2018 and 2019.

The sale of the Games will provide the Company with a material inflow of cash, and significantly strengthen the balance sheet, enabling it to focus on its strategic goal of profitable growth following the Company's recent cost reduction programme.

The transaction follows a comprehensive review of the Company's portfolio, and is in line with its renewed strategy of leveraging and streamlining its portfolio of mid-core gaming titles to achieve a more sustainable business in the future.

Portfolio Performance and Downloads

Total downloads continued to grow, reaching 293.3m by the end of 2Q17, with an average 4.5m new users downloading an app each month. The Company also continued to develop and grow its valuable app portfolio, now totalling 507 apps

Monthly average users (MAUs) were 8.0m, a decrease of 3.0m on 1Q17 as a result of changes to the Google search algorithm, resulting in a broad reduction in organic discovery, and a lower number of new apps. The Company is currently adapting its strategies to the new search algorithm, and a much larger pipeline of releases is planned for 3Q17.

	2Q16	1Q17	2Q17
Monthly Average Users (MAU)	10.3m	11.0m	8.0m
Average MAUs	6.2m	6.9m	4.5m
Total apps	441	496	507
New apps in portfolio	8	15	11
Total Revenue	A\$1.8m	A\$2.2m	A\$1.5m
Average monthly revenue	A\$0.6m	A\$0.7m	A\$0.5m
Total downloads	219.9m	280.6m	293.3m



Cost optimisation

During the quarter, the Company completed a restructure of its cost base following the completion of key title development. This restructure has delivered a reduction in the Company's near-term resource requirements, with the Company reducing staffing levels accordingly. Headcount reductions related to the review were largely complete by the end of June. The Company expects the annualised cost savings from these measures to exceed A\$3.0m, with the full impact of these savings to be realised by the end of 2017.

Outlook

The execution of a non-binding term sheet with Maple Media to sell the Games is a pleasing development in line with the Company's narrowed strategic focus.

Going forward, the Company is focused on further optimisation of its valuable portfolio and the realisation of the cost reductions, with the overriding strategic objective of achieving profitability by the end of 4Q17.

-ENDS

For more information:

About Animoca Brands

Animoca Brands (ASX: AB1) publishes globally a broad portfolio of mobile games and subscription products including several games and e-books based on popular intellectual properties such as Garfield, Thomas & Friends™, Ever After High and Doraemon. The Company's games have been downloaded over 293m times. Animoca Brands is based in Hong Kong. For more information visit www.animocabrands.com or get updates by following Animoca Brands on [Facebook](#), [Twitter](#) or [Google +](#).

Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Name of entity

Animoca Brands Corporation Limited

ABN

29 122 921 813

Quarter ended ("current quarter")

30 June 2017

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (..6....months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	1,877	3,751
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	-	-
(c) advertising and marketing	(1,347)	(1,413)
(d) leased assets	-	-
(e) staff costs	(1,651)	(3,208)
(f) administration and corporate costs	(1,541)	(2,880)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	5	6
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	(956)	(1,619)
1.9 Net cash from / (used in) operating activities	(3,613)	(5,363)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	-	(3)
(b) businesses (see item 10)	11	(11)
(c) investments	3	26

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (..6....months) \$A'000
	(d) intellectual property	-	-
	(e) other non-current assets	(8)	(7)
2.2	Proceeds from disposal of:		
	(a) property, plant and equipment	-	-
	(b) businesses (see item 10)	-	-
	(c) investments	-	-
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	6	5

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	-	5,208
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	-	(348)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	-	4,860

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of quarter/year to date	4,575	1,527
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(3,613)	(5,363)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (..6....months) \$A'000
4.3	Net cash from / (used in) investing activities (item 2.6 above)	6	5
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	4,860
4.5	Effect of movement in exchange rates on cash held	48	(13)
4.6	Cash and cash equivalents at end of quarter	1,016	1,016

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	867	4,435
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details) Share Investments	149	140
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	1,016	4,575

6.	Payments to directors of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to these parties included in item 1.2	14
6.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	-
6.3	Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2	
Director fees paid		

7.	Payments to related entities of the entity and their associates	Current quarter \$A'000
7.1	Aggregate amount of payments to these parties included in item 1.2	82
7.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	-
7.3	Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	
These items comprise payments for the use of office equipment and shared office services provided by Outblaze Ltd.		

8.	Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1	Loan facilities	-	-
8.2	Credit standby arrangements	-	-
8.3	Other (please specify)	-	-
8.4	Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		


9.	Estimated cash outflows for next quarter	\$A'000
9.1	Research and development	(337)
9.2	Product manufacturing and operating costs	(854)
9.3	Advertising and marketing	(857)
9.4	Leased assets	-
9.5	Staff costs	(1,158)
9.6	Administration and corporate costs	(734)
9.7	Other (provide details if material)	-
9.8	Total estimated cash outflows	(3,940)

10.	Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1	Name of entity	-	-
10.2	Place of incorporation or registration	-	-
10.3	Consideration for acquisition or disposal	-	-
10.4	Total net assets	-	-
10.5	Nature of business	-	-

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here:


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(Director/Company secretary)

Date: 31 July 2017

Print name: Dr Nigel Finch

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.