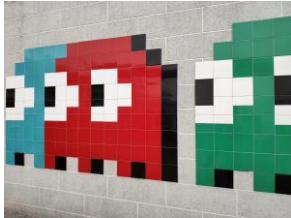




European video games

Where does Europe sit in one of the world's fastest growing entertainment industries?



Is Europe a uniform video games market?

It is a common perception that the European video games sector is a single market. In truth, the industry is far from uniform.

Germany, Austria and Switzerland specialise in browser-based games rendered via an internet client, an increasingly unpopular genre as mobile gaming absorbs casual players interested in short play times and simple [game loops](#). The advent of digital distribution and tech expertise in Eastern Europe account for the region's revival. This is especially true of Poland, which hosts four major listed games companies.

The UK and France are biased towards capital-intensive and highly polished AA and AAA games, gravitating towards the premium end of the market. The result is less focus on mobile or massively multiplayer online games (MMOs). By comparison, the Nordic countries produced highly successful mobile and MMO franchises, including Angry Birds, Clash of Clans and EVE Online.

How extensive is the European market?

Newzoo forecasts \$152bn in worldwide video game revenue in 2019, three times the revenue of television and \$10bn more than film.

At a forecast compound annual growth rate (CAGR) of 9%, video game revenues would equate to a total market size of more than \$196bn by 2022. This is still less than the \$295bn, which subscription and on-demand TV is expected to generate by 2022, but sufficient to be considered pay TV's major rival for screen time.

Western markets represent around 49% of global revenues and Europe has around 30+ listed companies, with an average market cap of c \$200–300m.

Europe still lacks a publisher on the scale of the US and Asia, with France's Ubisoft the closest match. Instead it offers a

fragmented market more suited to innovation and creativity than massive yearly franchises.

How is the video games market evolving?

The current wave of outstanding growth, driven by digital distribution and a capital-light, recurring monetisation model, saw the video games industry overtake both film and television.

Gaming's next evolution is likely to be prompted by next-generation consoles, streaming, subscription, eSports and virtual/augmented reality (VR/AR). Already, eSports platforms like Twitch draw huge crowds. Twitch's dota2ti channel pulled an average of 83,000 concurrent viewers in 2018 and the prize pool for the 2019 Dota 2 championship broke \$30m.

As for VR/AR, it is still mostly an out-of-home enterprise-focused venture (ie virtual education, live concerts). That said, the total immersion of a virtual world delivered via goggles or a headset is often considered the future of gaming.

In the short term, fourth-generation consoles are set for release in 2020, eight years after the last hardware update reinvigorated the market. In addition, a number of streaming services are expected to come online over the next few years.

Edison Insight

'After the broad rebasing of games company share prices seen in H218 (driven by a reassessment of growth prospects for the global technology sector), shares in the European games sector have largely recovered, with price increases of 30–50% since the start of 2019.' Richard Williamson, TMT analyst.

What are the up-and-coming applications?

Two of the three major games console manufacturers have announced new hardware. Microsoft is planning to release the new Xbox in 2020, with Sony's PS5 likely to compete on the same timetable. Nor are these the only tech giants involved in new projects.

Apple revealed plans for its new Arcade subscription service, slated for release this autumn. With 100 curated games for Apple devices, the platform expands the company's mobile gaming reach and opens a previously underserved Mac user base that traditionally lacked access to top tier games.

Epic Games, developer of the hugely popular Fortnite, opened its online digital distribution store as a challenge to Steam's dominant position. Epic's hook is in offering 88% of its revenues to developers, rather than Steam's 70%, in the hopes of attracting exclusives to its platform.

Streaming has featured heavily in this year's announcements. Microsoft released details on its xCloud streaming service in collaboration with Sony. The service will stream game feeds rendered on the company's hardware to player's devices with higher graphical fidelity than the average consumer can muster.

Nvidia is beta testing its own streaming service, GeForce NOW, while Google plans to launch its cloud gaming platform Stadia this year. In addition, Electronic Arts announced Project Atlas and Ubisoft announced its Uplay streaming service.

Which listed European video games companies are notable?

The European market contains many small listed companies and a few large ones. In the \$1bn range, Polish developer CD Projekt (\$5.6bn) is a major player. Its much-anticipated game Cyberpunk and highly praised Witcher 3 title make it a consumer sweetheart. 11bit studios, Ten Square and PlayWay sit closer to the mid-range of the Polish market.

In the UK, service provider [Keywords Studios](#) breaks the \$1bn mark, while Team17, Frontier Developments and Codemasters are in the \$200–400m range.

Surprisingly, despite having the fifth largest games market in Europe, Germany has no quoted games developers, although Sweden has the well-known THQ Nordic and Paradox Interactive.

Game developers and publishers do not represent the entire market. For one, retailers, although hit by digital distribution, are still present in force. Game Digital, one of the leading European retailers in the UK and Spain, was recently bought by Sports Direct.

IP holders are also an important part of the games market, although they may not be directly involved in production. [Games Workshop](#) is a prime example. After the dissolution of the original THQ and subsequent release of its IP from the dissolved company, Games Workshop licensed both its sci-fi and fantasy settings heavily.