

## Todd Bonner Interview 02

**Marin Katusa:** Todd, I really want you to explain the advantage that your company has, because of your track record and when you started, when you compare it to any North American developer of games.

**Todd Bonner:** I think we have a total cost advantage. We have the highest quality, lowest cost, I believe, independent in all of Asia, and possibly globally.

**Marin Katusa:** Why is that?

**Todd Bonner:** It's a function of our history. We started out with a joint venture with Epic Games. We gave them 40% of our equity. We started making many of their famous products in our studio, through an outsourcing relationship.

**Marin Katusa:** Working on games like Fortnite, and all of these big games.

**Todd Bonner:** Various games. I shouldn't speak directly about the titles, but their titles are Gears of War, Fortnite, Infinity Blade, which is a famous game.

**Marin Katusa:** All massive, like \$5 million a day earners.

**Todd Bonner:** Multi-billion dollar franchises, and we've made some of the art in our studios, in constant interaction with them.

**Marin Katusa:** Explain your studio advantage that you have.

**Todd Bonner:** I think it started out with a pure cost advantage. Chinese art is actually brilliant. Chinese programmers are brilliant. Working with these groups in the proper context, we start with the video game school. We had the most advanced video game training school in China.

**Marin Katusa:** Explain this. In China, you're known as the Harvard of video games. You have over 30,000 applicants.

**Todd Bonner:** In those days, we were accepting only a fraction, less than 5% - maybe 2% or 3% - of all of the applicants. And today, I think 30% to 40% of our studio has been nurtured in our video game schools. This is necessary. It was necessary to create a video game school, to get developers up to standard, to be able to work on these AAA titles.

If we didn't do that, we would have failed. We're doing the same thing now in Southeast Asia, I should add. We've started a new video game school in Thailand. That will cover all of the Southeast Asian developers.

**Marin Katusa:** it doesn't matter what industry you're in. I want to really emphasize this to investors. Whether you're in mining, or you're an online advertiser, or you're in the pharmaceuticals; every industry, the success depends on being on the lowest cost quartile of production.

Rising Fire, which you've spent about \$65 million and many, many years to develop, with incredible IP. What would that game equivalent cost, if you were to develop it in, say California?

**Todd Bonner:** Our whole portfolio, which is 3,000 man-years, cost about \$65 million. That's nine video games. Rising Fire, right now, is less than \$20 million U.S. So, I think that ultimately,

we're very efficient in making - this is a 700 man-year product right now, at the moment. Of course, it's still in development.

**Marin Katusa:** So, the equivalent product that you produce, what would it cost? Rising Fire.

**Todd Bonner:** \$300 million? Maybe more. \$400 million?

**Marin Katusa:** You can see how the economics now, is a complete advantage. Now, what happens if the California studio says "Yeah, but we're a California studio. We're the Silicon Valley. Our art and design is better." What do you say to that?

**Todd Bonner:** I would say that's inaccurate. I think we've already proven that we can reach any global standard, because we do. We've worked on 20 to 30 AAA titles, globally.

**Marin Katusa:** And AAA means?

**Todd Bonner:** Very well-known franchises, ones that make hundreds of millions of dollars or more.

**Marin Katusa:** A year.

**Todd Bonner:** A year. So, I think there's no question that the Chinese have reached the art standard. The design standard, I think, might be what you were referring to. But the fact is that the Chinese market has a certain culture to it. Our Chinese designers are more adept, I would say, than western designers, at designing for that market.

**Marin Katusa:** Let's talk about catalysts, now. You're launching Rising Fire, in a collaboration with Tencent. What do you expect, internally?

**Todd Bonner:** What I expect is, a typical successful product in China – of course, I mentioned earlier our game that made \$60 million, and we self-published that game, on a \$3.5 million development cost. I would expect – I'm not giving future projections – but a successful product in China makes somewhere between \$3 to \$5 million a day. And a mild success would be \$1 or \$2 million a day, something like that.

And the duration of these games, the longevity is quite long. It's years. It's not months.

**Marin Katusa:** What is mindboggling for me is we're talking about a few months of recovery on your investment. That's unheard of, in any sector.

**Todd Bonner:** Yes. Of course, we multiply by the chances that the game will succeed. It's a polynomial. But with a large enough portfolio, with a good, good cost advantage, that's I think, a long-term strategy. You don't rely on hits, and all of those.

**Marin Katusa:** Can one argue that Tencent, who is the largest distributor of games in China, who is the center of the chessboard, the gorilla in the room, it's kind of like trying to do a deal with Steven Spielberg, when it comes to a movie? You kind of have a good a good sense that if Steven Spielberg wants to direct your movie or produce your movie, it's going to be a success.

What type of data advantage does Tencent have, to give you confidence that Rising Fire will be a hit?

**Todd Bonner:** Tencent is basically, on order of magnitude, bigger than the next biggest successful monolithic video game company. They're huge.

**Marin Katusa:** They're bigger than Sony. They're bigger than everyone.

**Todd Bonner:** They have the best data analysis, the best. They're amazing people. The staff is incredible, at every level. Working with these guys is honestly a pleasure. And although passionate, I would say they work long hours, work very smart. They hire the most brilliant people, in their company. That's why they're so successful. They can choose any video game they want.

**Marin Katusa:** Why did they choose Rising Fire?

**Todd Bonner:** I think it's because they like the idea of combining two genres; the genre of shooting games, which they've already had huge success in. Their game CrossFire made, I think up to \$1.5 billion a year, at huge margins.

And that was a game that they tuned to market. It was a game that they had to basically make that game successful, by trial and error.

**Marin Katusa:** They adapted it to the market needs.

**Todd Bonner:** Yeah. Another game called Negan, which is a PVE game, their own title, their own IP, they also initially had a difficult launch for two years. And they tuned that to market, \$530 million in its peak year. It made \$400-something million last year, I think.

They're able to do that. They're able to, obviously with the Wii chat platform. With their platform distributed 700 million users, they can lower the customer acquisition costs dramatically. So, working with them, if you can work with them, that's the company you want to work with.

**Marin Katusa:** What's interesting, when you see all of these restrictions coming on Facebook, on advertisements and all of these things, it's just a matter of time before they try to come into this market; the Facebooks, the Amazons. They're already making the moves.

But the IP value in your company, what can you explain to my subscribers? What is the IP value?

**Todd Bonner:** The idea is to make a franchise. These games, if they're successful, last a decade. The cash streams last at least a decade. Then, they diminish after that. But they still generate cash flow, if they're successful.

And then, of course, there's all of the other stuff. The licensing out to others, around the world. To Brazil and Russia, and other places like that. That also generates capital. And the crypto collectibles, and the in-game advertising, which we're trying to deploy in these video games. It's tremendous.

A successful video game product is worth anywhere between \$1 and \$10 billion. That's what we're striving for. Fortnite's cost load -

**Marin Katusa:** Fortnite already has a valuation north of \$15 billion.

**Todd Bonner:** It may be even undervalued, at that. Fortnite will make the next version of Fortnite. It will be here ten years later. It will still go. Epic is extremely valuable. They're amazing developers.

**Marin Katusa:** Todd, this is fascinating. I'm very excited about the launch of Rising Fire.

**Todd Bonner:** Thank you. I am, too. Thank you so much for your time, sir.