



Source: FactSet

Market Data (US\$, unless otherwise noted)

Price (as of July 23/19)	C\$0.60
Market Capitalization	25.4
Net Debt (as of Dec. 31/18)	4.3
Enterprise Value	29.7
Shares O/S (Basic)	55.5
Shares O/S (FD)	65.1
Avg. Daily Volume (M)	0.073
52 Week Range	C\$0.71 / C\$0.25
Dividend Yield	0.0%

Management

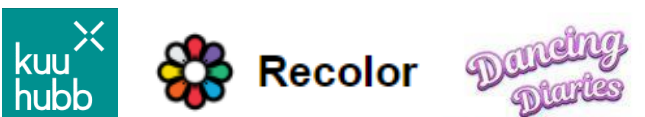
CEO	Jouni Keränen
CIO	Christian Kolster
COO	Pasi Piipponen
CFO Kuuhubb Oy	Arsi Rosengren

Top Institutional Ownership	% Held
Fidelity (Canada) Asset Management ULC	12.6%

Total Insider Ownership	29.4%
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Business Description

Kuuhubb is a publicly listed mobile game development and publishing company, targeting the female audience with bespoke mobile experiences. Kuuhubb’s vision is to become a top player in the women’s mobile gaming market. Kuuhubb creates games and apps that are designed to help its female audience relax, express and entertain themselves. Through games and partnerships, Kuuhubb explores new lifestyle trends that can be converted into games and apps.



What are Colouring Apps? Filling in the Details; Non-Dilutive Financing to Drive Growth

Highlights

- **Colouring Apps.** Despite the highly competitive landscape of mobile gaming, colouring apps have taken a disruptive approach by innovating a traditional yet timeless experience, while also targeting an underserved group of users. The purpose of this report is to take a deep dive into the industry and more specifically, understand the level of competition that is faced by the companies operating within this niche.
- **Target Market.** Middle-aged women with college degrees are the predominant target market for colouring apps. These types of apps can be deemed as high potential because female gamers are mainly underserved. While most gaming apps focus on traditional male interests such as action or adventure, relatively fewer accommodate the needs and interests of women.
- **Mobile Global Games Market.** As seen in Exhibit 2, only about 64% of the U.S. population will be active mobile gamers by 2020. However, Exhibit 3 shows that mobile games occupy ~25% of all apps available in the iOS app store. The aggregate effect of the saturated mobile gaming market and the low penetration of mobile users has made the industry extremely competitive.
- **Key Industry Players.** The key players in the colouring app segment include Kuuhubb (Recolor), TFG (Colorfy), AppsX (Unicorn) and Pixite (Pigment). We provide an in-depth competitive analysis of the main players.

Catalysts

- We believe FQ419 (Jun) will mark the bottom in terms of quarterly revenue. With the steady release of new products, we see a return to growth in FQ1/20 (Sept) and then increasing sequentially throughout F2020.
- The recent non-dilutive financing discussed in the report will provide increased marketing spend that should drive a return to growth for KUU.

Valuation

KUU is trading at a significant discount to its peers - both Global/Nordic gaming and global social apps. Global and Nordic gaming apps are trading at 2019 EV/Sales of 5.0x/3.0x – valuing KUU in the C\$0.75-1.25 range. Comparable global social apps are trading on average (excl. FB) at a multiple of US\$67/MAU – valuing KUU in the C\$4-5 range.

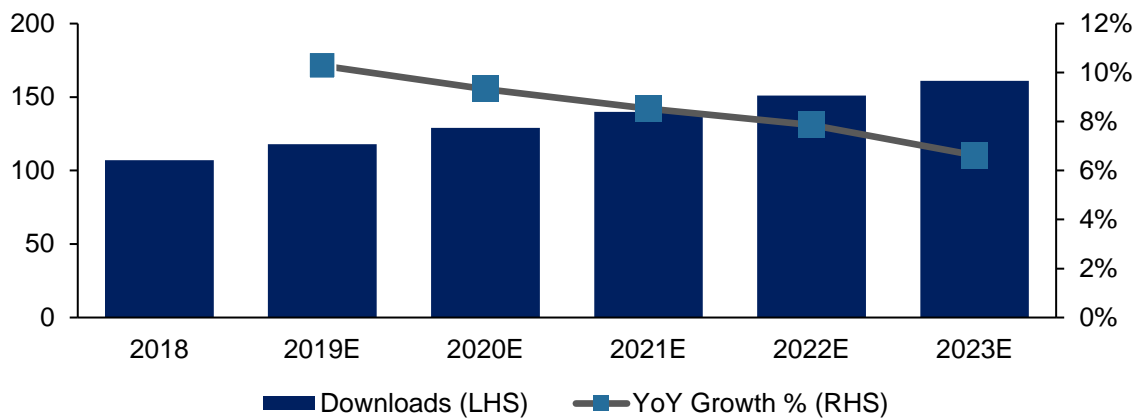
OVERVIEW OF MOBILE APPLICATIONS

In North America and many other developed countries, smart phones have become a necessity rather than a luxury. By 2020, the number of smartphone users worldwide is expected to increase to 2.87B from 1.57B in 2014, representing a 9% compounded annual growth rate (CAGR). As a result, mobile applications have also experienced tremendous growth in recent years.

What Are They? Mobile applications, or apps for short, are software platforms that are downloaded and used on mobile devices such as smartphones or tablet computers. The success of these software platforms can be mainly attributed to their compelling value proposition: a convenient, affordable and multi-faceted source of entertainment that fits in the palm of your hand. Applications also attend to the social media and lifestyle needs of many users. For instance, platforms such as Snapchat or Facebook allow individuals to stay connected with others, while banking apps give them the ability to easily check their cash balance and transfer funds when needed.

Exhibit 1 – Mobile Apps Purchased on iOS and Google Stores Globally

(Downloads in billions)

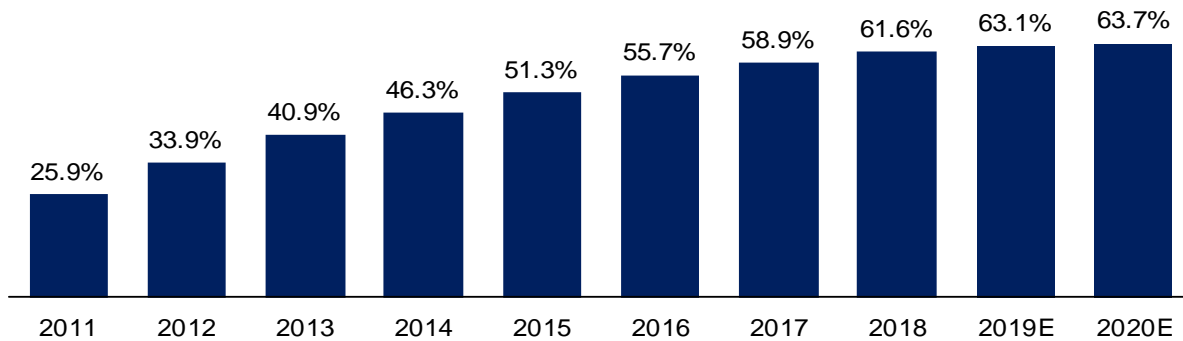


Source: Statista

MOBILE GAMING

A prevalent form of mobile applications belongs in gaming. Due to the significant growth in phone users, it has been perceived as a profitable industry to enter by many developers. Unfortunately, this idea has not been historically justified. The app market has seen an excess amount of gaming-related applications due to low barriers of entry, but relatively insufficient demand by users.

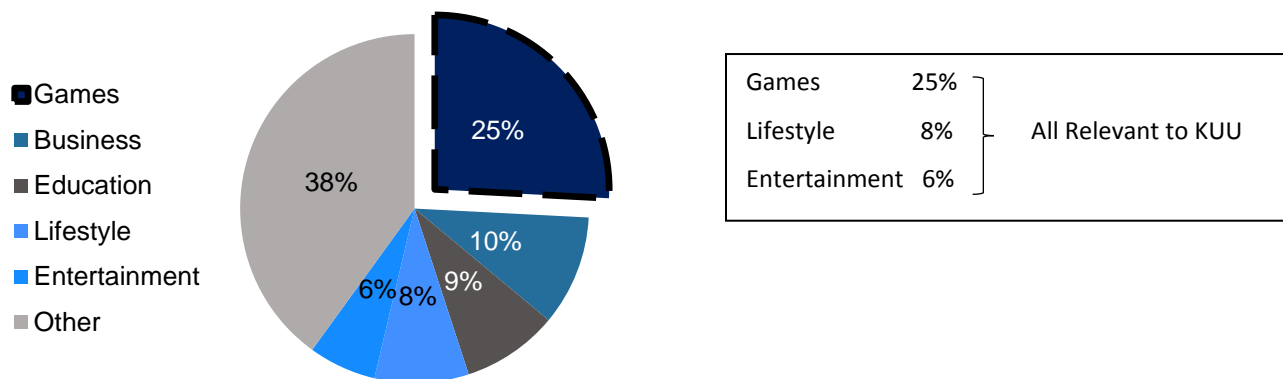
Exhibit 2 – Percentage of Mobile Gamers Within U.S. Population



Source: Statista

As seen in Exhibit 2, only about 64% of the U.S. population will be active mobile gamers by 2020. However, Exhibit 3 shows that mobile games occupy a staggering 25% of all apps available in the iOS app store. The aggregate effect of the saturated mobile gaming market and the low penetration of mobile users has made the industry extremely competitive.

Exhibit 3 – Percent of All Apps by Category in iOS Market in 2017





Source: Statista

COLOURING APPS = STRESS RELIEF

Background. In recent years, the mobile gaming market has seen the rise of colouring apps. These platforms are based on the same premise as colouring books, but are packed within the lightweight and convenient mobile device. The rationale for these apps is that they provide the same sense of stress-relief and relaxation as their physical book counterparts, but in an easily accessible fashion. The apps were launched shortly after colouring books became a significant trend for adult women in 2015. During that same year, physical colouring book sales surged, while innovative minds created the mobile platforms to capitalize on the trend.

Target Market. Middle-aged women with college degrees are the predominant target market for colouring apps. These types of applications can be deemed as high potential because female gamers are mainly underserved. While most gaming apps focus on traditional male interests such as action or adventure, relatively fewer accommodate the needs and interests of women.

Exhibit 4 – Colouring Apps Market Drivers

<p>Stress Relief</p> 	<p>Videos games and colouring books provide a source of relaxation for people who face constant pressure from family, school and work. With the employment rate dropping, and school enrolment and the number of working professionals increasing, stress is expected to continue rising within the North American population. The increase in stress levels should eventually lead to greater demand for colouring apps.</p>
<p>Underserved Female Gamers</p> 	<p>Lack of games produced specifically for women has led to a shortage in supply to meet the demands of this market. With 48% of all gamers identifying as female, the lack of attention towards this large customer base should drive strong and stable revenue growth for colouring apps.</p>

Source: Forbes, Company Filings, The Verge

The key players in the colouring app segment include Kuuhubb (Recolor), TFG (Colorfy), AppsX (Unicorn) and Pixite (Pigment). We provide an in-depth competitive analysis of the main players.

Exhibit 5 – Key Industry Players

App Name	Market Position	Monthly Downloads (000s)	Monthly Revenue (\$000s)	Initial Price	Upgrade Range
Colorfy	1	1300	2030	Free	\$0.99 - \$99.99
Unicorn	2	700	740	Free	\$2.99 - \$49.99
Recolor	3	340	550	Free	\$1.99 - \$108.71
Pigment	4	220	409	Free	\$2.99 - \$39.99
Color Therapy	5	205	205	Free	\$2.99 - \$39.99
Colorfly	6	60	70	Free	\$0.99 - \$2.99
Happy Color	7	3800	60	Fee	\$1.99 - \$4.99
ColorMe	8	25	10	Free	\$0.99 - \$4.49

Source: Sensor Tower June 2019

Exhibit 6 – Total Market Statistics

Forecasted Assumptions					
Total Monthly Downloads (000s)	Total Monthly Revenue (\$000s)	Total Yearly Downloads (000s)	Total Yearly Revenue (\$000s)	Average Initial Price	Upgrade Price Range
6550	4074	78 600	48 888	Free	\$0.99 - \$108.71

Source: Sensor Tower - June 2019, FMG estimates

According to Sensor Tower, the colouring app segment market share leader is Colorfy and the total market size is over \$48M on an annual revenue basis. However, if we assume that Sensor Tower typically shows (net) revenues after platform commissions (ie., only 70% of overall revenue) and that the Top 8 represent 80% of the market, we have grossed up the Sensor Tower estimate proportionately – bringing the total market estimate to ~\$90-100M.

POINTS OF DIFFERENTIATION

Affordability. A primary value proposition of software applications is their affordability. As a result, colouring app users have a high sensitivity to the price of an app or any associated upgrades. Furthermore, the market also faces external pricing pressure from physical colouring books, which are inherently cheap by nature. Exhibit 7 demonstrates the significant impact of price on the success of apps. As shown, there are much more users on free apps compared to their paid counterparts (~3x as many users). It is for such reason that many applications, including the entire colouring app market, employ a freemium business model. This provides users a free app download but with priced upgrades.

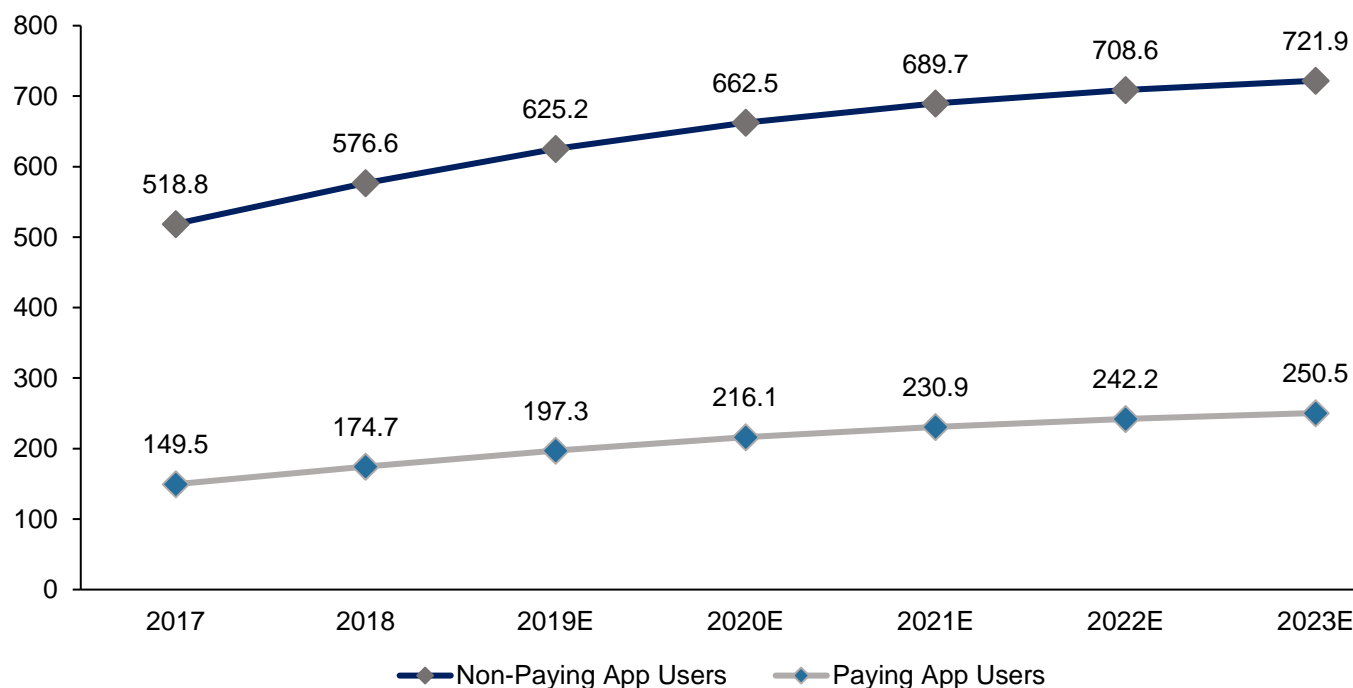
Optionality. Apps with a variety of colours, drawing templates and other forms of entertainment are bound to compel users and create growth potential. A trade-off of this benefit is an increased amount of in-app upgrades, which bolsters required customer spending.

Convenience. Another main reason why apps are successful is the convenience they offer to users. However, apps such as Recolor for example do not offer the full and convenient coloring experience without internet connection. This greatly impedes the ability for users to fully enjoy the experience. An inadequate amount of convenience significantly decreases downloads and subsequent revenues.

Social Media Marketing. Apps such as Recolor and Colorfy differentiate themselves by interacting with their community of users. This is done through social media platforms such as Facebook and Instagram, where companies will post content to promote their apps. For example, Recolor released and advertised a series of Hunger Games themed drawings to take advantage of the popularity of the movie amongst teenagers and ultimately increase downloads from that age group. In addition, Recolor's Barbie campaigns were appealing to a wider age group of users (young users + older users, nostalgia value). Barbie was similarly advertised in-app and on social media and was a very popular campaign that brought in new users.

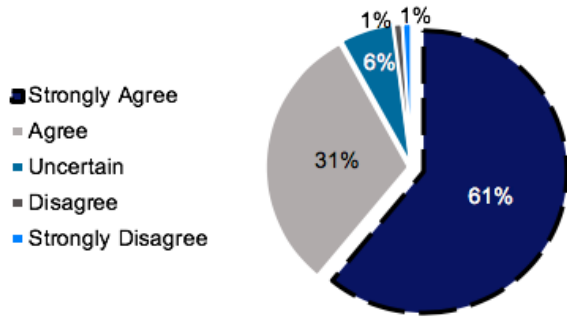
Exhibit 7 – Non-Paying vs Paying App Users

(In Millions)



Source: Statista

Exhibit 8 – How Important is Social Media Marketing



61% of Global Marketers believe in the importance of social media marketing, suggesting its crucial role in a business' success

Source: HubSpot

COMPETITIVE ANALYSIS




















The majority of the companies analyzed compete on a pricing basis. There was a wider variation when it came to the prices of the upgrades. From a quality perspective, there was less differentiation. The drivers of value were simply different shades of colour, as well as level of convenience and community engagement on social media. This observation is mainly due to the nature of the service offered by these applications. Like physical colouring books, apps can only impress customers through the different pictures offered by their respective programs. Other than that, it is only pricing that causes variances in which product the customer decides to use. Given this knowledge and the fact that the market is mature, it can be concluded that small or new players have little ability to experience download and customer growth and ultimately capture market share. Leading apps such as Colorfy or Recolor have developed a strong moat through a first-mover advantage and scale grown over time.

Exhibit 9 – Affordability vs. Value Positioning Map



Source: FMG Estimates; "Quality" refers to quality of images, User Interface (UI), and coloring experience

Exhibit 10 – Qualitative Analysis Chart on Four Largest Industry Players

	Community Engagement	Free Options Range	Strong App Speed	Alignment with Customer Trends
 Recolor <i>Helsinki, Finland</i>	 Active and large following on in-app community, Facebook and Instagram	 Reasonable access to colours and some drawings	 Reasonable loading speed	 Constant flow of new drawings based on popular culture
 Colorfy <i>São Paulo, Brazil</i>	 Active and large following on Instagram and other social media	 Little available drawings but decent "draw your own" option	 Reasonable loading speed	 Drawings are basic and not inspired by popular trends
 Unicorn <i>Riga, Latvia</i>	 No followers on Instagram or any social footprint	 Limited options with free trial	 App speed is strong and consistent	 Generic drawing templates provided
Pixite Pigment <i>San Diego, U.S.</i>	 Runs app tutorials on Instagram and has Facebook presence	 Limited options with free trial	 Reasonable loading speed	 Constant updates daily; Disney content aimed at children; Marvel more for teenagers

Source: FMG Estimates

Industry Summary. The mobile gaming industry is intensely competitive due to the multitude of players vying for a comparatively smaller number of users. However, the businesses operating within the colouring app segment have differentiated themselves within the broader landscape. By targeting female gamers, these companies have found a niche group of underserved customers. However, new entrants must be aware of the mature nature of this market. For the time being, the leaders are here to stay and are expected to hold on to their thriving positions.

VALUATION

KUU is trading at a significant discount to its peers - both Global/Nordic gaming and global social apps. Global and Nordic gaming apps are trading at 2019 EV/Sales of 5.0x/3.0x – valuing KUU in the C\$0.75-1.25 range. Comparable global social apps are trading on average (excl. FB) at a multiple of US\$67/MAU – valuing KUU in the C\$4-5 range.

Exhibit 11 – Global Gaming/Social Comparables

	Ticker	Price (Local)	Mkt Cap. (US\$)	LTM Rev (US\$)	EV/Sales			EV/EBITDA			P/E		
					2018	2019	2020	2018	2019	2020	2018	2019	2020
KuuHubb Inc	KUU-CA	0.60	23	15	1.6	1.8	NM	NM	NM	NM	NM	NM	NM
Tencent Holdings Ltd.	700-HKG	365.60	445,470	48,363	9.7	8.0	6.3	26.0	21.8	18.4	38.0	32.6	27.0
Activision Blizzard, Inc.	ATVI	45.92	35,175	7,332	4.6	5.2	4.7	12.8	14.7	12.5	17.7	21.3	18.0
Electronic Arts Inc.	EA	88.22	26,145	4,932	4.6	4.4	4.1	13.8	13.2	11.7	17.4	19.4	17.3
Netmarble Corp.	251270-KR	91600.00	6,666	1,912	2.8	2.4	2.2	18.2	14.4	11.2	40.7	30.4	23.4
KONAMI HOLDINGS CORP	9766-JP	4570.00	6,069	2,368	1.9	1.8	1.8	7.8	7.5	6.4	18.1	17.4	14.9
Zynga Inc. Class A	ZNGA	6.25	5,846	964	5.8	3.8	3.4	29.4	20.4	16.4	57.1	26.9	23.2
Capcom Co., Ltd.	9697-JP	2202.00	2,760	902	2.0	2.2	2.0	9.1	7.9	7.2	19.1	16.7	15.6
Gungho Online Entertainment, Inc.	3765-JP	2898.00	2,554	950	1.4	1.1	1.2	4.7	3.5	4.4	12.4	8.9	11.2
Pearl Abyss Corp.	263750-KR	173500.00	1,918	101	NM	NM	2.7	NM	NM	6.6	NM	NM	9.9
Glu Mobile Inc.	GLUU	7.21	1,047	381	2.7	2.4	2.0	NM	NM	12.6	NM	NM	14.5
Rovio Entertainment Oyj	ROVIO-HEL	6.43	570	360	NM	NM	NM	NM	NM	NM	NM	19.5	15.1
Facebook, Inc. Class A	FB	202.36	577,634	58,949	9.6	7.7	6.4	16.0	15.2	12.4	26.7	27.6	21.7
Twitter, Inc.	TWTR	37.90	29,131	3,164	8.5	7.3	6.4	21.4	19.4	16.6	44.1	35.0	34.2
Match Group, Inc.	MTCH	76.34	21,461	1,787	13.9	11.9	10.3	36.7	31.2	25.7	47.4	42.6	36.4
Snap, Inc. Class A	SNAP	14.83	20,117	1,396	16.1	11.4	8.5	NM	NM	NM	NM	NM	NM
ANGI Homeservices Inc Class A	ANGI	13.67	6,924	NM	6.3	5.2	4.2	NM	24.6	17.9	NM	NM	NM
Meet Group Inc	MEET	3.42	258	190	1.6	1.3	1.2	8.9	7.1	6.3	NM	NM	NM
theScore, Inc. Class A	SCR-CA	0.37	93	22	3.7	3.6	2.8	NM	NM	NM	NM	NM	NM
Averages:					5.9	5.0	4.1	17.1	15.5	12.4	30.8	24.9	20.2

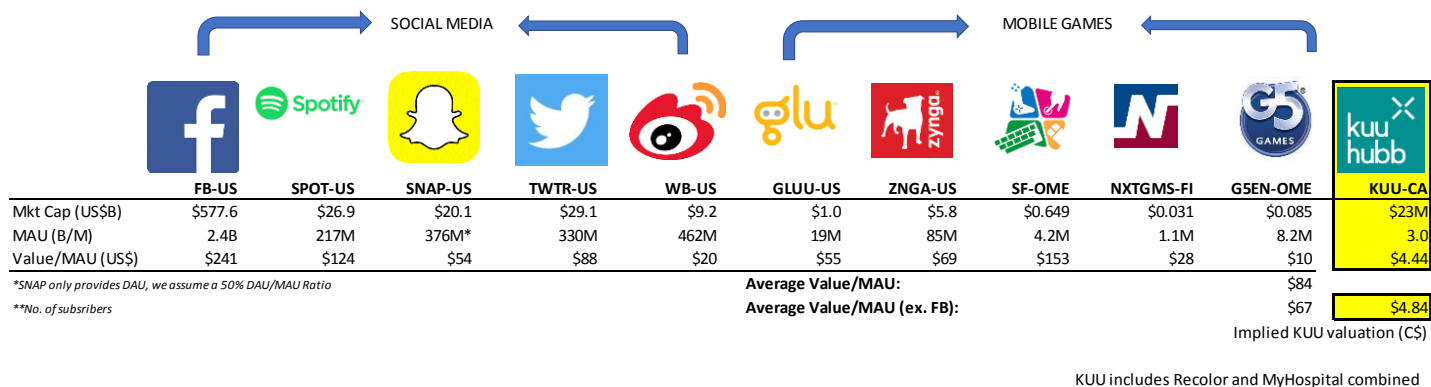
Source: Factset, Consensus Estimates (as of July 23/19)

Exhibit 12 – Nordic Gaming Comparables

	Ticker	Price (Local)	Mkt Cap. (US\$)	LTM Rev (US\$)	EV/Sales			EV/EBITDA			P/E		
					2018	2019	2020	2018	2019	2020	2018	2019	2020
KuuHubb Inc	KUU-CA	0.60	23	15	NM	1.6	1.8	NM	NM	NM	NM	NM	NM
THQ Nordic AB Class B	THQN.B-SE	221.40	2,401	574	3.4	3.5	3.0	12.4	10.3	8.5	36.5	28.4	23.6
Paradox Interactive AB	PDX-SE	153.00	1,708	123	14.0	11.7	9.5	24.3	19.5	15.3	45.7	37.5	29.8
Rovio Entertainment Oyj	ROVIO-FI	6.43	570	331	1.4	1.3	1.2	8.3	8.4	7.2	20.7	19.5	15.1
Stillfront Group AB	SF-SE	235.00	649	159	4.5	3.2	2.7	12.3	8.4	6.8	31.3	17.8	13.6
Funcom SE	FUNCOM-NO	14.63	131	37	6.9	NM	NM	16.2	NM	NM	23.6	NM	NM
Remedy Entertainment Oy	REMEDY-FI	10.00	134	17	4.1	NM	NM	29.0	NM	NM	NM	NM	17.5
G5 Entertainment AB	G5EN-SE	89.65	85	154	0.5	0.6	0.5	2.9	2.7	2.6	6.2	6.5	6.5
MAG Interactive AB	MAGI-SE	13.20	37	26	0.8	1.0	0.9	20.6	NM	NM	NM	NM	NM
Starbreeze AB	STAR.B-SE	1.29	44	32	2.6	NM	NM	NM	NM	NM	NM	NM	NM
Next Games Corp	NXTGMS-FI	1.49	31	37	0.7	0.6	0.4	NM	NM	NM	NM	NM	NM
Bublar Group AB	BUBL-SE	3.80	16	1	NM	NM	NM	NM	NM	NM	NM	NM	NM
Toadman Interactive AB	TOAD-SE	15.30	27	8	NM	NM	NM	NM	NM	NM	NM	NM	NM
WeAreQiiwi Interactive AB	QIIWI-SE	13.80	12	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Nitro Games Plc	NITRO-SE	10.05	4	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Gaming Corps AB	GCOR-SE	0.16	5	2	NM	NM	NM	NM	NM	NM	NM	NM	NM
5th Planet Games A/S	FIVEPG-NO	0.88	5	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Gold Town Games AB	GTG-SE	1.75	3	2	NM	NM	NM	NM	NM	NM	NM	NM	NM
Star Vault AB Class B	STVA.B-SE	0.06	1	0	NM	NM	NM	NM	NM	NM	NM	NM	NM
Three Gates AB	GATE-SE	1.00	1	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Averages:					4.0	3.0	2.5	15.7	9.9	8.1	27.3	21.9	17.7

Source: Factset, Consensus Estimates (as of July 23/19)

Exhibit 13 – Global Social Media Apps Valuation using MAU



We note that the industry continues to consolidate as seen by some recent acquisitions:

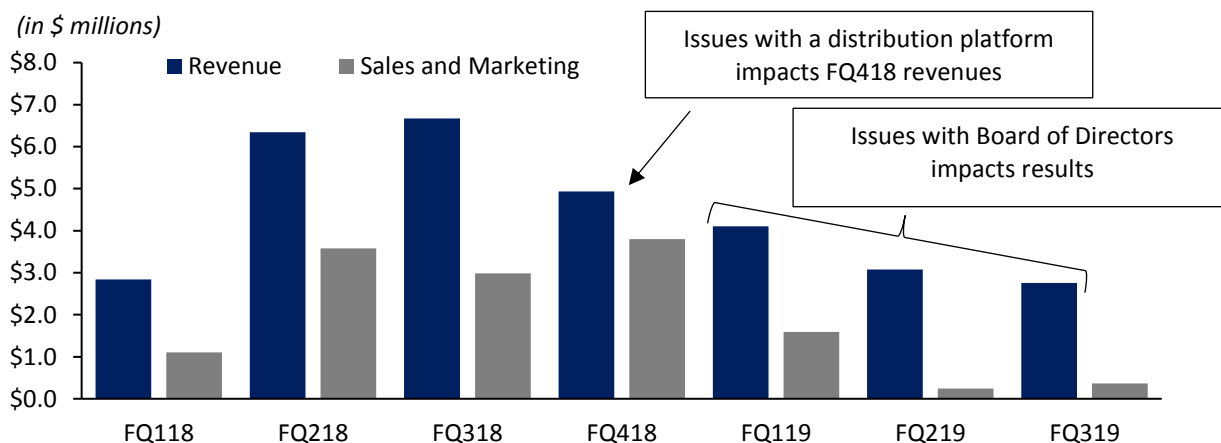
Stillfront Group AB (SF-SE) acquired KIXEYE for US\$120M in cash and contingent payout, valuing KIXEYE at an EV/Sales of 8.9x and EV/EBITDA of 17.6x. The transaction was aligned with Stillfront’s communicated expansion strategy and strengthens its market position. KIXEYE is a leading developer and publisher of massively multiplayer online real-time strategy games (MMORTS) for PC and mobile devices with four live games and ~US\$850M lifetime bookings.

Twitch has acquired the esports-focused social platform Bebo for ~\$25M. The deal includes Bebo’s staff of ten people and its IP. According to gamesindustry.biz, Bebo was focused on organising amateur esports tournaments, which were all played on Twitch. The Bebo team will now work on Twitch’s own esports push, and particularly Twitch Rivals.

Immortals Gaming Club acquired holding company Infinite Esports & Entertainment (IEE) in a deal valued at over \$100M. IEE has a number of esports subsidiaries, most prominent among them OpTic Gaming and the Overwatch League’s Houston Outlaws team.

Non-dilutive financing to drive growth near-term. KUU recently announced the closing of a non-dilutive debt financing of €1.1M (~C\$1.6M). The debt facility has a two-year term, bearing an annual interest rate of 7%, to be paid quarterly. The maturity date is June 28, 2021 at which time the principal is due. There are no warrants or convertible features associated with this financing. This non-dilutive financing will primarily be used for marketing initiatives to grow KUU’s user base and revenues.

Exhibit 14 – Historical Revenue vs Marketing Spend



Source: Kuuhubb reports

SUMMARY

Kuuhubb's strategy to focus on the female audience is based on key insights made by its experienced management team:

- There is a shortage of apps and games that are appealing to the female audience;
- Mobile games are roughly equally appealing to both men and women: 52% of men and 48% of women play mobile games;
- Women are more open to complete their first mobile purchase;
- Female audiences cost considerably less to acquire compared to the heavily-competed male segments.

To execute on its growth plan, Kuuhubb has established a highly experienced team of 70 professionals in the fields of management, finance, business development, user acquisition, publishing, production, game development, graphical art, content, customer service, live operations etc.

Kuuhubb's growth strategy looks to discover, acquire, develop, integrate, grow user base, monetize and partner - enabling the Company to find the next multi-million dollar hit game or app. We believe FQ419 (Jun) will mark the bottom in terms of quarterly revenue. With the steady release of new products, we see a return to growth in FQ1/20 (Sept) and then increasing sequentially throughout F2020.

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