

Money Morning, Members Only, Exclusive Report

THE \$3 COMPANY THAT COULD TRIPLE YOUR MONEY ON THE FUTURE OF MOBILE ENTERTAINMENT



Dear *Money Morning* Member,

The best investing opportunities – the kind that can turn a limited stake into windfall returns – are generally unassuming, at first.

In May of 2002, for example, a little-known DVD-by-mail subscription service went public at \$15 per share. By October of that year, it had dropped below \$6 per share.

That company was Netflix (Nasdaq: NFLX) – and if you'd bought into it at that \$6 price, today you'd have a gain of around 24,170% – or \$241,700 on an investment of \$1,000.

These opportunities emerge at the intersection of powerful market trends – like subscription-based services and on-demand video.

Global Payments Inc. (NYSE: GPN) was another small company priced at around \$5 per share in 2001 that grew to more than \$55 per share because of the growth in ecommerce and the digitization of money.

And Avago Technologies (Nasdaq: AVGO) combined the growth in wireless communications and the increased need for enterprise storage to go from less than \$20 per share in 2009 to more than \$127 today.

Companies like these carve out space in niche but expanding markets. And once they catch on, the growth can be explosive – and global.

That's exactly the kind of opportunity we're looking at right now: a uniquely positioned but rapidly growing market that benefits from two massive trends – the mobile revolution, and the mainstreaming of online games...

The opportunity in the mobile gaming market doesn't get as much media focus as mobile e-commerce, digital payments, and social communications. While the big stories in gaming have all been related to console or PC enhancements like Virtual Reality headsets and motion sensor tech.

But there's another story taking shape – and though it might not have the sensationalism the media loves – it's where the real profits will be found...

The Massive Potential of the Mobile Games Market

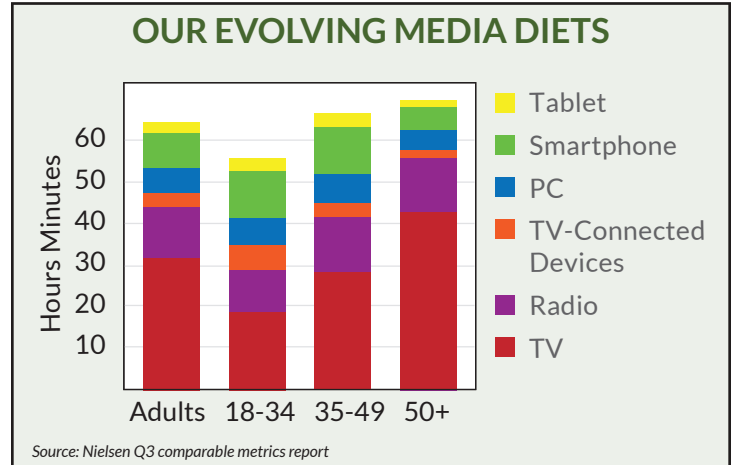
Games are *extremely* popular on mobile devices – so much so that, according to a June, 2015 report from *Venturebeat*, 90% of *all* revenue for Google Play – the app store for Android devices – is being generated by games.

There has also been an enormous amount of funding, consolidation, and investment in this market. In 2015 alone there was, according to funding and venture capital research firm *CB Insights*, \$37.5 Billion in mobile telecom deals, \$14.6 Billion in mobile software and services deals, and \$357.2 million in gaming deals.

Even the power brokers of old media are getting in on the action with cross promotional and branded game title deals – allowing certain companies to effectively broaden the scope of their vertical market and become the potential entertainment giants of the future.

The case for the dramatic expansion of mobile technology hardly needs to be made – gripes about people wandering around lost in their phones are almost outdated now. But it’s important to remember how much room mobile software still has to grow.

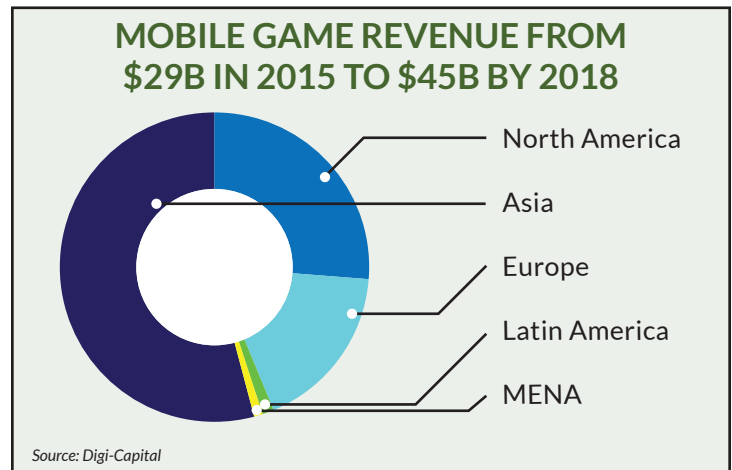
In January of this year, mobile commerce infrastructure developer Signal issued a report that 60% of all time spent on digital media was via mobile devices. And Nielsen just reported that millennials in the U.S. average 3 hours and 14 minutes a week on tablets, and 11 hours and 54 minutes a week on smartphones. That compares to 2 hours 35 minutes and 8 hours 55 minutes, respectively, for U.S. adults.



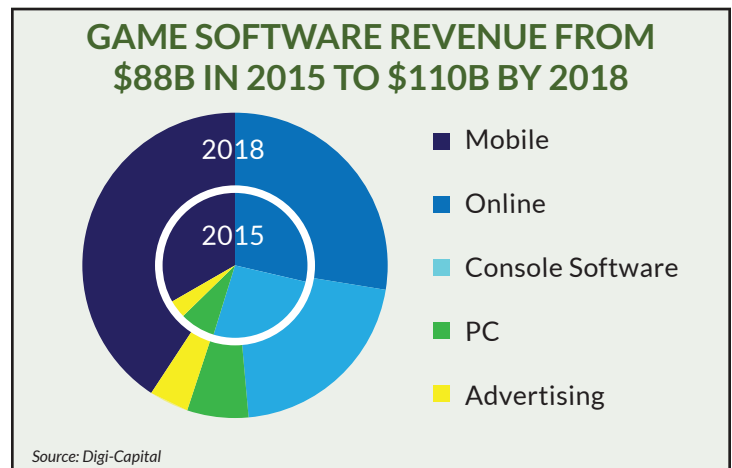
That doesn’t even account for the massive growth outside of the US. In China, for example, Nielsen reported in September that 71% of urban, online shopping took place on smartphones. And in South Korea, business intelligence firm L2 reported in 2015 that 81% of consumers have a smartphone. That compares to 48.4% in Japan.

This comparatively rapid growth of mobile adoption in developing countries has to do with the ability to “leapfrog” older, and more entrenched infrastructure that impedes the same scale of progress in developed countries like the US, Japan and Western Europe.

That partially explains why consumers in Asia tend to lead the way in terms of the adoption of new technology. And this certainly holds true with mobile gaming. *Mashable* report that people living in Asia account for more than half of the 1.5 billion total users who play games on mobile devices.



In 2015, mobile gaming did some leapfrogging of its own in the U.S. by replacing consoles to become the biggest slice of the total \$88 billion gaming market. Nielsen reports that 115.2 million Americans play games on smartphones (an increase of 10% since 2013), and revenues for mobile gaming on the whole are projected to hit \$45 billion by 2018, according to a report from investment bank Digi-Capital.



So while much of the media is fixated on the most exciting “next big thing” like virtual reality –which may actually become *more* feasible when applied to mobile devices with products like Google’s *cardboard* VR viewer – the expansion of mobile gaming is what the data tells us to watch.

All of this is not to say every company competing in the mobile gaming space will take off. The market is still very competitive, but we’ve identified one very small-cap company that has the potential to double, triple, and even potentially quadruple your initial investment by 2018.

The Best Way to Profit from The Mobile Gaming Surge

The amount of collaboration, M&A activity, and innovation in the mobile gaming market right now is staggering, and Glu Mobile (Nasdaq: GLUU) is right at the center of it all...

And (at the time of this writing) Glu Mobile stock is trading for less than \$3.10 a share.

GLU MOBILE FUNDING			
Round	Investors	Date	Funding
IPO (Valuation: \$325M)	Public 0 mentions on	Mar 9, 2007	\$84M
Series D	GGV Capital, Globespan Capital Partners, New Enterprise Associates, Scale Venture Partners, Sienna Ventures and Time Warner Investments 0 mentions on	Jul 18, 2005	\$27.7M
Series C	Globespan Capital Partners, New Enterprise Associates, Scale Venture Partners and Sienna Ventures 0 mentions on	Jul 23, 2004	\$20M
Series B	Globespan Capital Partners, New Enterprise Associates and Sienna Ventures 0 mentions on	Apr 4, 2003	\$4.5M
Series A - II	New Enterprise Associates and Sienna Ventures 0 mentions on	Mar 10, 2003	\$1M
Series A	New Enterprise Associates, and Sienna Ventures 0 mentions on	Mar 19, 2002	\$3M

Glu Mobile develops and publishes all kinds of mobile entertainment, but its core focus right now is on games. It has over 100 applications available globally through 90 mobile carriers accessible to more than 800 million subscribers.

The company publishes original titles and entertainment products that build on established brands like, Cartoon Network, Nickelodeon, Atari, FOX Sports and Twentieth Century Fox.

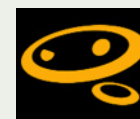
Glu also partners with sports organizations like the MLB for their “Tap Sports: Baseball” title, and celebrity heavyweights like Kim Kardashian – for the top selling game, “Hollywood” – Katy Perry, Kendall and Kyle Jenner, and Taylor Swift.

Prior to its IPO in 2007, Glu Mobile had accumulated \$52.6 million in venture capital funding from six major investors including GGV Capital, Globespan Capital Partners, New Enterprise Associates, Scale Venture Partners, Sienna Ventures and Time Warner Investments.

Glu competes with companies like Chinese Internet up-and-comer Tencent Holdings Limited (OTCMKTS: TCEHY) – who also took a 14.6% stake in the company for \$126 million – as well as Activision, Electronic Arts, Gameloft, GungHo Online Entertainment, King Digital Entertainment, Nexon, Warner Brothers, Zynga, Kabam, Machine Zone, Rovio, Storm 8/Team Lava and Supercell.

This might look like a crowded field but GLUU distinguishes itself by having become a prolific venture capital investor in its own right. Glu Mobile has invested in or acquired eight other gaming companies since early 2008.

Glu made a strategic investment of \$7.5 million on January 21st. The company bought into an app called QuizUp, developed by the Icelandic company, Plain Vanilla Games.



GLU MOBILE AT A GLANCE

Ticker – Nasdaq: GLUU

Recent Price – \$3.05

Market Cap – \$286 M

Institutional Ownership – 54%

Money Morning Price Target – \$9

GLU MOBILE INVESTMENTS

Date	Company	Funding	Round
Jan. 15, 2008	Superscape		Acquired
Aug 21, 2011	Blammo Games		Acquired
Aug 21, 2011	Griptonite Games		Acquired
Aug 5, 2012	GameSpy		Acquired - II
Feb 9, 2013	BeeCave Games	\$1.4M	Seed Capital
Apr 30, 2014	PlayFirst		Acquired
Aug 1, 2014	Cie Games		Acquired
Jan 21, 2016	Plain Vanilla Games	\$7.5M	Series C

QuizUp has over 40 million subscribers, but Plain Vanilla has sought out Glu's expertise to help them monetize this user base. The company seems to be so committed to a partnership with Glu Mobile that it included in the deal a call option to acquire Plain Vanilla in its entirety within fifteen months.

Given Glu Mobile's innovative monetization approach, the acquisition of 40 Million new users is a very smart (and bullish move...

A (Real) Revenue Model for The Digital Age

As the mobile revolution has taken off, one major disruption it has caused has been in digital advertising. Digital display advertising has proven to be less reliable and very clunky on mobile. At the same time, the proliferation of ad blocker software has dealt a blow to digital advertising on the whole.

But one area where ads have proven to be much more effective is when they are embedded in mobile games.

According to a 2013 report from MediaBrix – a company focused on increasing receptivity to mobile ads – video ads in mobile games have a 91% completion rate. That means players don't opt to skip the ad before it's finished. And gaming ads have an average 3% click through rate – Much higher than the industry average of around .1% (according to Doubleclick).

Adobe estimates ad blocking software now costs publishers over \$20 billion annually, and Apple is allowing ad blocking software on its new iOS9 mobile operating system. Reaching the more tech savvy gaming consumer audience is certainly even more difficult. According to the report from Signal, ad blocking software is used by 26% of visitors to video game websites.

But blocking ads *within* games requires more sophisticated software than basic ad blocker. And it's much simpler to simply get rid of ads by paying a small premium – for which they also get more extensive gameplay options functionality and advanced features.

This is the "freemium" model that is employed by the most successful mobile app developers. According to the *Venturebeat* report, freemium apps make up 98% of all revenue generated in mobile apps.

Glu Mobile can also drive traffic to ads or sell additional products and services by exchanging "virtual goods" like premium access, trials of new apps, or virtual currency. In other words they can incentivize a desired action, like watching an ad, subscribing to service or taking a survey in exchange for the ability for tokens to purchase additional gaming features such as weapons, modifications to characters, etc. And these exchanges are often maximized through high volume, but low cost-to-consumer "micro-transactions".

"With over 40 million registered users and counting, QuizUp is a global trivia phenomena that is developing into an interest-based social network. I look forward to joining QuizUp's Board of Directors and sharing Glu's deep expertise in advertising, in-app purchase optimization, analytics and user acquisition... In addition to cross-selling opportunities between Glu's games and QuizUp's user-generated interest groups, we are excited that Plain Vanilla is in development with NBC around what we expect will be an innovative new game show."

~Glu Mobile CEO, Niccolo de Masi

Source: Gamesindustry.biz

GLUU Could Still Be a Takeover Target

Glu Mobile's purchase of Plain Vanilla's QuizUp players is an example of buying market share to achieve "scale" – becoming larger to apportion your costs over a much bigger chunk of revenue.

This drives a tremendous amount of buyout deals throughout the gaming market, including everything from retailers to pre-public game companies. Here are just a few examples...

GameStop Corp. (NYSE: GME), the "go-to retailer" for gamers seeking console titles and other accessories, recently outbid Sycamore Partners' Hot Topic to buy ThinkGeek, an online retailer of pop culture-themed apparel, toys, and gadgets.

For GameStop, the deal lets it move beyond its core gaming appeal and to get into online shopping.

Sega Holdings Co. Ltd. – once a huge name in the gaming industry – went on a buying binge early last year.

After rolling up losses because of its Dreamcast video-gaming system, Sega exited the console business and started acting as a third-party software developer. Then – in an attempt to stay relevant – Sega's mobile division announced a trio of investments designed to give it a foothold in the Western market.

It bought Demiurge Studios and is purchasing large stakes in Ignited Artists and Space Ape Games.

Demiurge, a game developer based in Cambridge, Mass., was founded in 2002 and transitioned to mobile gaming six years later.

In March, Nintendo Co. Ltd. (ADR) (OTCMKTS: NTDOY) snagged a \$181 million stake in DeNA Co. Ltd. Tokyo (OTCMKTS: DNACF) as a way to bring popular game franchises such as *Super Mario Bros.* and *Pokémon* to smartphones, which Nintendo itself never managed to do.

M&A in the gaming market "has become increasingly strategic, such as the recent Nintendo and DeNA deal combining shareholding with commercial partnership to pivot into mobile," Digi-Capital Managing Director Tim Merel told Mergers & Acquisitions. "Similarly, acquisitions to move into new game genres are on the rise."

As an example, Merel cited the \$150 million purchase of Seattle mobile-games company Z2 by King Digital Entertainment Plc. (NYSE: KING). Z2 is backed by Madrona Venture Group and known for titles such as *Battle Nations* and *Metalstorm*.

Even Amazon.com Inc. (Nasdaq: AMZN) has been shopping for gamers. Last year, Amazon bought Double Helix Games LLC, an Irvine, Calif.-based studio known for the game *Killer Instinct*, for an undisclosed price.

Glu's 800 million subscribers will absolutely make it an attractive takeover target to companies like these – and while it's trading around \$3 a share, it must look like a fantastic deal.

But whether it gets bought out or not, Glu Mobile will be a force in the rapidly expanding mobile entertainment market. It's only a matter of time before investors catch on.

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