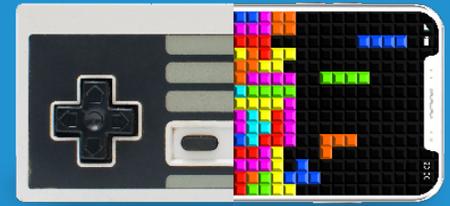


Evolve E-Gaming Index ETF

HERO invests in equity securities of companies listed domestically and globally with business activities in the electronic gaming industry.



As at March 17, 2020

TICKER: HERO (Hedged)

UPDATE:

During this pandemic crisis, global equities have fallen nearly 30% since the peak of the markets on February 19th. HERO has outperformed major equity indices, down -20.0%, fairs better than many of its competitors.

Companies in the portfolio are less affected by this crisis, as revenue for today's gaming manufacturers are mainly generated online with digital purchases. In addition, online viewership of e-gaming is expected to grow.

Take Two Interactive, the owner of Rockstar's Grand Theft Auto and NBA 2K games, has recently reported that consumer spending on in-game purchases was up. Take Two Interactive's online revenue grew 54% YoY and its stock was up +2.6% since the peak of the markets on February 19th.

MACROECONOMIC HIGHLIGHTS:

The eGaming and eSports world did not go unaffected by the growing reality of coronavirus concerns in February.

On February 18, Tencent Esports announced that the top two Honor of Kings competitions – China's King Pro League (KPL) Spring Split and international tournament KPL Global Tour (KPLGT) Spring Split – would move fully online and not be played in front of live audiences due to the coronavirus outbreak. According to the announcement, the decision was made to avoid gathering massive crowds, and ensure the health and safety of fans, players, and related staff.ⁱ

Nintendo announced that the coronavirus was likely to disrupt production of the Nintendo Switch, Joy-Con controllers, and Ring Fit Adventure game. 96% of Nintendo, Sony, and Microsoft consoles are made in China.ⁱⁱ

Sales data released in February showed, however, that Nintendo Switch sales (both unit and dollar) in January 2020 once again outsold the PlayStation 4 and Xbox One. Both of these competitive platforms are at the end of their life with next-gen replacements for this holiday. Overall, hardware spending was down 35% compared to a year earlier. While the Switch once again came out on top, its sales declined year-over-year in part due to an absence of major new game releases in January.ⁱⁱⁱ





The AdColony Mobile Publishing Survey released in February found that 89% of the top-grossing mobile app and game publishers use some form of video ads to monetize their mobile games. A significant number of publishers (68%) also report relying on in-app purchases to monetize, while 35% said they used display ads. Only 2% report using subscriptions for revenue. The survey found that as of 2019, ads account for 63% of total publisher revenue.^{iv}

Several companies held by the Evolve eGaming Index ETF (HERO) reported earnings in February.

Take-Two Interactive reported Q3 results (for the quarter ending December 31) of GAAP net revenue of \$930.1 million. While this performance exceeded previous company predictions, according to Strauss Zelnick, CEO of Take-Two, on an adjusted basis, the earnings fell short of analyst expectations. In large part, this shortfall was due to the massive Q3 the company had a year earlier with the release of Red Dead Redemption 2, which was seven years in the making.

Zelnick said that recurrent consumer spending grew 54% in Q3, thanks to new Diamond Casino & Resort and Diamond Casino Heist updates for Grand Theft Auto Online. As a result, GTA Online is on target for a record year for the fiscal year ending March 2020. Red Dead Online also hit a new peak in player numbers in December after its Moonshiners update, outperforming expectations in the quarter.^v

Also in February, Take-Two announced that Dan Houser, vice president of creative and cofounder of Take-Two's Rockstar Games label, will leave the company effective March 11. Houser's brother Sam, also a cofounder, will remain at Rockstar. Dan was one of the creative forces behind games such as Grand Theft Auto V and Red Dead Redemption 2, which have generated billions of dollars in sales for Take-Two.^{vi}

Ubisoft's reported Q3 sales of US\$1.226 billion, which is down 17.4% year-over-year. The good news, however, is that the company is seeing growth in digital sales. This is especially true for its PC gaming platform Uplay, which now represents 40% of Ubisoft's net bookings on PC. Revenue on Uplay grew 73% in Q3 year-over-year. This growth is due to players continuing to show up for ongoing hits like Rainbow Six: Siege and Assassin's Creed: Odyssey, which were both supported by regular updates that kept monthly active players at a consistent level despite no major new releases in the quarter. "Player recurring investment" (PRI), which includes microtransactions, downloadable content, season passes, and in-game advertising, was also up significantly. This part of Ubisoft's business jumped 7.4% year-over-year to US\$520 million.^{vii}

Esports Arena announced the launch of Esports Arena Series E. The new semi-professional league will debut in May of 2020 in 18 Walmart Supercenters locations, and feature competitive play in Fortnite and Super Smash Bros Ultimate. Esports Arena will provide gaming contracts and sponsorships to 40 competitors, and is looking to expand its footprint of competitive video gaming facilities to 11 additional Walmart Supercenters arenas by April 2020 with the support of Xbox.^{viii}



SOURCES:

- ⁱ <https://esportsobserver.com/china-esports-recap-feb19-2020/>
 - ⁱⁱ <https://venturebeat.com/2020/02/05/nintendo-apologizes-for-switch-production-delays-due-to-coronavirus/>
 - ⁱⁱⁱ <https://venturebeat.com/2020/02/14/nintendo-switch-hardware-sales/>
 - ^{iv} <https://venturebeat.com/2020/02/12/adcolony-89-of-mobile-app-and-game-publishers-use-video-ads/>
 - ^v <https://venturebeat.com/2020/02/06/take-two-interactive-results-lackluster-compared-to-last-years-red-dead-2-bump/>
 - ^{vi} <https://venturebeat.com/2020/02/04/rockstar-cofounder-dan-houser-is-leaving-the-grand-theft-auto-studio/>
 - ^{vii} <https://venturebeat.com/2020/02/06/ubisofts-uplay-revenue-is-up-73-compared-to-last-year/>
 - ^{viii} https://esportsobserver.com/esports-arena-walmart-2020/?mc_cid=83bf8129e0&mc_eid=3d9b307c66
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