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Zattikka Raises $20 Million in an AIM IPO

Cash Used to Effect Three Acquisitions
Founders/Shareholders Receive $14 Million in Cash

Overview

Zattikka, with its main operations in San Francisco, California, and Austin, Texas, raised $20 million in its recent IPO on the London Stock Exchange's Alternative Investment Market (AIM).

Simultaneous with the IPO, the Company completed three acquisitions, valued at $47 million, where the founders/shareholders of the acquired companies received $14 million in cash plus $12 million in notes, due in 2013, and $13 million in shares, for a 36% stake in the AIM-listed public Company, and the potential for deferred consideration of up to $10 million in cash based upon the achievement of 2012/13 performance targets. The acquired companies had net assets of $2 million.

Zattikka's three Founders identified the online and mobile, social/casual, interactive games entertainment market as highly fragmented and experiencing rapid growth, which they plan to capitalize on by effecting acquisitions and accelerating organic growth, with the goal of becoming a large-scale, diverse games developer and publisher across key digital platforms, geographically focused on the U.S., China and Europe. The Company was formed specifically to effect the initial acquisitions of Hattrick, Concept Art House and Sneaky Games. The Founders retained a 6% stake in the AIM-listed public Company.

Hattrick was founded in 1997 and is based in Sweden with 23 employees. Hattrick's original game is free-to-play online where the player is a soccer manager who creates a club, builds a team and competes against others in real-time. Hattrick's second game is a community-based, music industry role-playing game where players strive for fame in a virtual music industry. Both are upgradable via subscriptions.

Concept Art House was founded in 2005 and is based in San Francisco, California with 13 employees and has a substantial presence in Shanghai, China with 116 employees. Concept Art House undertakes project-based art and design work for game developers and utilizes a revenue-sharing business model.

Sneaky Games was founded in 2009 and is based in Austin, Texas with 20 employees. Their three games are all social, mid-core fantasy role-playing games, one of which was commissioned by NBC Universal's Syfy Channel, designed around their weekly programming, where revenue is shared. Sneaky Games utilizes a 'freemium' business model, which seeks to engage users so that they return on a regular basis, converting some to paying players who purchase virtual goods to enhance the experience.

Zattikka is the successor to U.K.-based, online games company Expedite 5, which developed its own Social Network Analytic Platform (SNAP), a cloud-based analytics and metrics platform. SNAP is capable of reporting on any game, regardless of the platform, collecting granular metrics data as games are played; allowing for aggregation, storage and reporting of that data in real-time. SNAP allows the product development team to analyze the success of individual game features, based upon actual user behavior, and identifies areas of the game for improvement in order to enhance user engagement, retention, virality and monetization. The Company estimates that for every 10 games published, it will collect 250 million pieces of data per day. Zattikka's CEO was a Director of Autonomy (now part of HP) and one of the Non-Executive Directors was their COO and General Counsel, therefore, the integration of SNAP across all of the Company's games and the 'Big Data' implications of SNAP are core to the future strategy.

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Key Listing Metrics

- $20.0m gross was raised in the AIM IPO, $15.1m net of offering costs

- Offering costs amounted to 24.8% of the gross capital raised
  - Change of Nomad/Broker and acquisition complexities accounted for ½ of offering costs
  - Undertaken on a 'best efforts' basis, as opposed to being underwritten
    - Broking commission of 5.0%
    - Corporate finance fee of £250k ($400k)
    - 18-month warrant over 1.0% of the enlarged share capital at the IPO price

- The aggregate acquisition consideration consisted of:
  - $14.1m of cash
  - $12.6m in shares
  - $12.1m of 5% notes, due in 2013 or convertible into shares at the holder's option
  - $10.3m of deferred consideration, in cash, based upon 2012/13 performance targets
  - Less $1.7m of net assets

- Valuation of:
  - $37.1m, assuming no deferred consideration is earned
  - $47.4m, assuming the maximum deferred consideration is earned

- Trailing revenue multiple of 3.0 or 3.8
- Trailing P/E ratio of 9.8 or 12.5
- Trailing EBITDA multiple of 7.9 or 10.1

- Opening market capitalization of $34.8m
- Free float of 46%

Key Financial Metrics

(in USD millions)	Y/E 12/31/09[1]	Y/E 12/31/10	Y/E 12/31/11[2]	Δ '09 - '10	Δ '10 - '11
Revenue	$6.9	$9.5	$12.4	+38%	+31%
Cost of Goods Sold	0.2	1.1	2.0	+450%	+82%
Administrative Expenses	3.5	5.7	5.9	+63%	+4%
Operating Income	3.2	2.7	4.5	-16%	+67%
Interest Expense	0.0	0.1	0.2	N/A	N/A
Tax Benefit/Expense[3]	0.0	-0.1	0.5	N/A	N/A
Net Income	3.2	2.7	3.8	-16%	+41%
EBITDA	3.4	3.0	4.7	-12%	+57%
Total Assets	3.6	4.7	6.5	+31%	+38%

Since the IPO completed within nine months of the latest audited financial statements, unaudited, comparative, stub period financials were not required and the Company chose to not provide updated management accounts.

[1] Only includes Hattrick since Concept Art House and Sneaky Games were immaterial during 2009.
[2] Extrapolated, for comparative purposes, based upon the audited results for the nine-months ended September 30, 2011.
[3] From a financial perspective, Hattrick is the most significant of the three acquired companies and is incorporated in Gibraltar. Hattrick was exempt from Gibraltar corporation tax through 2010; however, the Gibraltar corporation tax rate is now 10%.

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Shareholder Base

Zattikka is the successor to U.K.-based online games company Expedite 5. The founders and other shareholders of Expedite 5 received 1.4 million shares in connection with the IPO and the founders and other shareholders of Hattrick, Concept Art House and Sneaky Games received an aggregate of 8.0 million shares. These relative shareholdings are presented retrospectively in the table below so as to illustrate the eventual ownership stakes and related dilutive effect of the 12.6 million shares issued for cash in the IPO, leaving the Company with 22.0 million shares outstanding.

Shareholder	Pre-IPO %	Post-IPO %
Founders/Shareholders of Hattrick, Concept Art House and Sneaky Games	85.3	36.2[4]
Founders of the Company	14.7	6.2[4]
London Institutional Investor (Fund Manager)	-	18.7
London Institutional Investor (Fund Manager) and Private Client Broker	-	11.5
London Private Equity Group	-	7.2
London Institutional Investor (Fund Manager)	-	3.6
London Institutional Investor (Fund Manager)	-	3.2
Other New U.K. Investors	-	13.4
Totals	100.0	100.0

Beyond the obvious benefits of creating $14 million of immediate liquidity for the founders and other shareholders of the three acquired companies and providing general working capital, the Company has new U.K.-based investors from which to create additional post-IPO liquidity and general access to the London capital markets for future financings. The increased profile from being public should enhance the Company's marketing and business development efforts and enable it to more easily execute on its 'buy-and-build' strategy, most likely with the use of shares. Finally, the Company put in place a limited long-term incentive plan, similar to a share option plan, which could be expanded to include other employees and Board members and used as an incentive to attract new employees and Board members.

Board of Directors and Corporate Governance

The Company's Board consists of three Executive Directors (CEO, President and CFO), a Non-Executive Chairman and five Non-Executive Directors (four of whom are Independent); all with solid resumes and a good blend of complementary experiences and skill sets. The Company established an Audit Committee and a Remuneration Committee, each consisting of three members, all of whom are Independent, except for the Non-Executive Chairman being a member of the Remuneration Committee. The Company's Board intends to meet at least four times each year.

The Company also established an Executive Board, which is also led by the Non-Executive Chairman, and includes all three of the Executive Directors. The Company's Executive Board intends to meet at least monthly.

Companies listed on AIM are not required to comply with the U.K. Corporate Governance Code (the Combined Code), which is mandatory for companies listed on the London Stock Exchange's Main Market; however, the Company intends to observe the requirements of the Combined Code to the extent considered appropriate in light of the Company's size, stage-of-development and resources. The Company also intends to follow the Corporate Governance Guidelines for Smaller Quoted Companies, which are published by the Quoted Companies Alliance.

[4] Subject to a 12-month lock-in and customary orderly market provisions for a further 12 months.

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Legal Considerations

Even though the Company considers its main country of operation to be the U.S., since the Company is incorporated in the U.K. and its 'place of central management and control' is in the U.K., the three significant differences between U.S. and U.K. corporate law automatically apply as follows:

1. Pre-emption rights (i.e. anti-dilution) – Shareholders must be offered the opportunity to participate in the issuance of additional shares for cash.[5]

2. Notifiable Interests – Shareholders are required to notify the Company of, and the Company is required to publicly announce, holdings at or above the 3% level and whenever a full percentage point is breached in either direction.

3. Takeovers (i.e. mandatory offer) – If any party, or parties acting in concert, accumulates a holding of 30% or more, they must make a cash offer to the other shareholders at the highest price they paid for the Company's shares during the last 12 months.

The IPO was not subject to Regulation S of the U.S. Securities Act of 1933; therefore, the shares are eligible for dematerialization and trading within CREST, the most common electronic system for the holding and transfer of shares in the U.K. As such, it was not necessary to appoint a Depository and create Depository Interests, as would be the case for a company domiciled outside the U.K. or one of its Crown Dependencies, the Channel Islands or Isle of Man.

Accounting Considerations

Since the Company is incorporated in the U.K., it is required to report using IFRS. While British pounds Sterling is the functional currency for Expedite 5 and Hattrick, both companies chose to adopt the U.S. Dollar as their reporting currency, an accounting policy that will be followed by the Company when it prepares its first set of financial statements. The functional and reporting currency for Concept Art House and Sneaky Games is the U.S. Dollar.

The U.K. Member Firm of an international accountancy network acted as Reporting Accountant and the U.K. Member Firm of another international accountancy network acted as Auditor, except for Hattrick, which was audited by the Gibraltar Member Firm of an entirely different international accountancy network. Since the IPO completed within nine months of the latest audited financial statements, unaudited, comparative, stub period financials were not required and the Company chose to not provide updated management accounts.

An unaudited pro forma statement of net assets is never required in connection with an AIM IPO but was provided to illustrate the pre-IPO positions of the acquired companies, the net proceeds from the IPO and the impact of the cash paid, notes issued and deferred consideration recorded to effect the acquisitions.

Other

The Company's Nomad did not require the preparation of any Experts' Reports; however, certain information contained in the Admission Document was sourced from third parties, which the Company believes was accurately reproduced and no material facts were omitted.

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[5] It is customary for AIM-listed companies to have a standing authorization from their shareholders for the issuance of shares for cash of up to 10% of the then outstanding shares over a 12-month period. This flexibility increases the certainty and speed of small capital raises and reduces transaction costs, since further communications with, and approvals from, shareholders are not required.