

# Contagious Gaming Betting on Zynga's Farm

✖ It's been three months since we first looked at Contagious Gaming (TSXV: CNS). We said we'd re-visit the company as it hit milestones executing on its business plan. Three recent news items show the company is hitting those milestones.

Contagious develops software solutions for regulated gaming and lottery markets. Online gaming does not include non-regulated online video games like *Call of Duty* or *Halo*, but it includes regulated games like bingo, lotteries, scratch-and-win, casino games and poker.

In 2012, the regulated betting segment accounted for \$58 billion of the total global gross gambling yield, and is forecast to reach \$70 billion in 2016. The global regulated market (including betting, poker, casino, bingo, gaming machines and lotteries) is forecast to reach \$533 billion in 2017 (Background and third party links for statistics are here). This is a massive market for CNS to attack.

Contagious has two different business segments, one being a platform, the other for in-match betting.

In the platform segment Contagious is a software developer supplying code to GTECH and Scientific Games. Both GTECH and Scientific Games include Contagious' engine as part of their respective bids on new projects, which means Contagious is always on the winning side. The winning bidder then layers its skin on top of Contagious' engine together with all the other software pieces for the end client.

GoalTime is Contagious' second business segment, which is based upon "in-game pari-mutuel betting". Pari-mutuel betting is like the racetrack where all the bettors' bets go into one

pool. The winner of the bets gets what's left after the house gets paid first. Under this business mode, GoalTime makes sure that Contagious as the house gets a rake on every bet made through its platform.

The "in-game" part allows serious or casual sporting event observers to bet on various elements of the match as it progresses. This sounds a bit dull in writing but is quite exciting live, creating an environment in which continued small bets can be made and revenue generated for CNS.

[Click here](#) for a video description of GoalTime.

The first piece of recent news dovetails with our comment last April that, "GoalTime's penetration should increase with better marketing". To help drive that penetration Contagious recently announced that the GoalTime app is available in the UK on the iOS app store as "PlayGoalTime." The app delivers the full GoalTime experience to users directly on their iOS devices, which allows for the mobile experience. This is a small but important step to broaden the bottom of the retail pyramid. As Peter Glancy, Contagious' CEO simply said: "The addition of the Goal Time app will allow us to increase our user base."

The second piece of recent news is from May/15 when the company announced a Letter of Intent to acquire Digitote Limited and Digitote Software GmbH Deutschland for €5,000,000 (then CDN\$6,800,000), to be paid through a combination of common shares of Contagious Gaming, cash and a vendor take-back. There has been no news on this since.

It is not currently possible to say what impact Digitote could have on CNS' operations or share price since no *pro formas* or additional news has been released. We will need information as to the price at which the CNS shares will issue, the amount of cash to be paid by CNS to the Digitote shareholders, the terms under which CNS will have to raise that cash to pay the

Digitote shareholders, whether there will be adjustments related to movements in the Canadian dollar and the nature of the vendor take-back, as well as disclosure on Digitote's operations and financial statements. Those items should be disclosed when the LOI is converted to a definitive share purchase agreement or when the acquisition closes. Until then, we know that Digitote must be of some reasonable size to justify the purchase price.

The third piece of news involves the farm, or really, Farmville. Look at this July 14/15 press release from CNS. It seems to be an open secret on The Street that the "major social gaming content publisher" in that press release is Zynga Inc.

Zynga is a world-famous developer of social games. According to the company, since 2007 more than one billion people have played one of its games like *FarmVille*, *Zynga Poker*, *Empires & Allies*, *Dawn of Titans*, and *Words With Friends*. In Q1 2015, Zynga had roughly USD\$183 million of revenue, adjusted to USD\$167M on a non-GAAP basis. Anyway you measure it, Zynga is one of the world's largest social gaming companies.

By extending the Zynga contract, Contagious earns itself another million dollars in revenue and, perhaps more importantly, earns a major badge of validation. Getting a one year contract is one thing – getting another full year extension represents a higher level of success.

Contagious offers the usual macro risks of legislative change and currency movements due to operating in different jurisdictions. Also, management's tendency to disappear, showing an unwillingness to communicate with its own shareholders, needs to be addressed. The investor relations materials are weak despite having good people running that end of the business. The Digitote deal, if it closes, must be structured to ensure a long-term win for the existing shareholders and for those new shareholders resulting from the

Digitote deal. Finally, CNS needs to show significant organic revenue growth at reasonable margins to defend its market valuation.

The next major milestone should be the release of the quarterly financial statements or an update as to Digitote. We'll re-visit Contagious when either of those events take place.