

Unity (NYSE: U)

Back in 2004, three friends in Denmark started a gaming company called Over the Edge Entertainment. One year later, their inaugural game was a flop, and as these things go, from the ashes of their business, the team discovered that they had developed a valuable tool for making computer games.

Fast-forward to March 2008. Steve Jobs unveiled Apple's App Store, and the catalyst for Unity was born. From that moment, it became a critical tool in the development of apps loved and used the world over.

Two years later, Unity launched its Asset Store, which allowed developers to buy and sell artwork, audio, and other game creations and, in doing so, created a complete developer ecosystem.

Today, Unity powers more than 50% of new mobile, PC, and console games. It has 1.5 million monthly active developers and 93 of the top 100 game development studios by revenue as customers. They estimate that their market opportunity in the gaming industry will grow to over \$16 billion in 2025, up from \$12 billion today.

Every month there are 5 billion downloads of apps made with Unity. According to their S-1 filing, there are "37 million engineers and technicians around the world". They estimate the current market opportunity in these non-gaming industries to be approximately \$17 billion.

Then there is augmented reality and virtual reality, or AR and VR. I

believe that this technology will slingshot into all our lives in the next year or so, especially when Apple launches their Glasses. Think of how the iPhone brought apps to the masses. Unity is the leading platform for creating AR and VR applications, which they believe will be a massive opportunity.

There are many numbers to like, such as revenue from existing customers one year later, known as dollar-based net expansion rate, which is an incredible 138%. Customers worth more than \$100,000 were up 32% year on year, 79% gross margin, and globally diversified revenue, to name but a few.

There is intense competition in Epic's Unreal Engine, which has captured the market's top end, and the recently-listed Roblox, which has captivated a younger audience.

The reason that I will not be buying soon after this pitch, however, comes down to culture and reports that CEO John Riccitiello repeatedly sexually harassed a female colleague. I can't comment on whether the allegations are true — indeed, his 92% approval rating on Glassdoor would suggest he's liked — but I would prefer that there was a little more clarity around the matter. Riccitiello was previously CEO of video game publisher Electronic Arts, so he has the right experience for the job. Clearly, the board has decided to leave him in the role.

With all of this said, Unity is in prime position to capture a greater share of three expanding markets: gaming, non-gaming and VR. I think it will become a far more valuable business in the course of that journey than it is today.

