

Market Projection Report

Vanguard: Saga of Heroes

Developer: Sigil Games Online
Publisher: Microsoft / Sony Online Entertainment
Release Date: Q4 2006 – Q1 2007 (est.)

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Product Overview

Introduction

Vanguard: Saga of Heroes is a Massively Multiple Online Role-Playing Game, or MMORPG, designed for the PC platform and due to be released in late 2006 or early 2007. The game's developer, Sigil Games Online, describes the game thusly:

Vanguard's purpose is to become the premier third generation massively multiplayer RPG. Given the significant success of games such as EverQuest, Ultima Online, Dark Age of Camelot, and Asheron's Call, it is clear that a strong demand for fantasy based MMORPGs exists. To meet the growing demand for a game that advances the multiplayer fantasy genre, Sigil is using the combined experience and creativity of its team to bring players a new and challenging feature set with deep, involving game content.

Vanguard is a High Fantasy themed Massively Multiplayer Online Role Playing Game (MMORPG) with a heavy focus on character development, an immersive world, player interdependence, and which strives to meet the following goals:

- To lead the next generation of massively multiplayer RPGs by using Sigil's unparalleled expertise and experience in the field. Our team consists of original EverQuest team members, EverQuest expansion team members, as well as team members from EverQuest 2 and EverQuest Online Adventures (PS/2), and other MMOGs.
- To lead the next generation of massively multiplayer RPGs by implementing unparalleled static and dynamic content using advanced approaches including, but not limited to: advanced encounter systems; meaningful travel; a detailed and interesting seamless world; advanced immersive gameplay and graphics, and pre-planned expansions for both the short and long term health of the game. We also have quite a few ideas and preliminary plans that we consider revolutionary. These innovations, although they will be under wraps for some time to come, should take the genre to the next generation and beyond.
- To bring back to the genre a challenging and rewarding environment -- removing tedium and frustration (which we certainly aim to do) does not mean a game necessarily has to be easy.

Source: Official FAQ

Beyond the above, Vanguard is targeted primarily at the “core gamer” of the fantasy MMORPG market. Traditionally, these are both male and female PC gamers, ages 18 – 40, who play an average of 20 – 25 hours per week. Vanguard is designed with many “hard core” gameplay aspects such as strong death penalties, slow character progression, long periods of “downtime” during gameplay, and a heavy focus on grouping. These elements hearken back to “old school” MMORPG gameplay as seen in early games such as Ultima Online, EverQuest, Asheron’s Call, and more recently, Final Fantasy XI. This is in sharp contrast to more recent MMORPGs like World of Warcraft, EverQuest II, and Dungeons & Dragons Online, which have sought to eliminate many of these design decisions and instead appeal to a broader audience, focusing on more casual players (10 – 15 hours per week), offering more action-oriented combat, and providing more solo-friendly experiences.

Gameplay Impressions

In order to gauge the game’s overall quality level, and to get an impression of what a typical new player of Vanguard would experience, I spent approximately 30 hours of time playing the game in the Beta Test, which is currently in Phase 2 and which is soon to start Phase 3. While it’s important to keep in mind that the beta test is not the final version of the game, it is useful in determining the quality of the product, how appealing the game will be to the broader gaming market, and any particular core design aspects that could have an impact on the game’s success.

I approximated a new player’s experience over 30 hours of time in game, not counting additional hours spent outside of the game installing, reading documentation, and dealing with a variety of crashes and bugs that are common to any beta test. In that time I saw only a small portion of the total world, about 7 of 89 zones, taking a character from level 1 to level 14. Currently only about 1/3 of the game’s total launch content is available in beta, so this would project to well over 1000 hours of total content at launch, which should be enough to keep an average MMORPG player interested for approximately 12 months. It’s important to note, however, that a significant percentage of players (20%) play 40 hours per week or more, meaning they will probably be expecting an expansion in less than 12 months in order to keep them interested.

Overall, the game’s quality is very high. I had seen the game previewed before at industry conventions such as E3, but what was available in beta was better than what I had seen to date. The graphics are extremely good, and nearly all of the core gameplay functions – combat, crafting, diplomacy, housing, mounts, and questing – are working well. There are still a number of bugs related to game content, server lag, client stability, and user interface, but these are to be expected at this stage of development. However, there is no guarantee that all of these bugs will be adequately addressed in time for release.

The game does a fairly good job of leading a new player through the initial experiences of the game, making them acquainted with various aspects of the game and leading the player through a variety of initial content. The game is somewhat solo-friendly for certain classes, although the introduction of death penalties after level 7 makes solo play significantly more difficult, and almost all of the dungeon-related quests require grouping to complete at the appropriate level.

The beta test is currently very limited, with no more than 100 people on at any given time. Most of these appear to be experienced players who have been playing the game for months and have accumulated several different characters. Most of them seem to enjoy

the game, and are generally very positive, but they've also created a sort-of "bubble" effect, where like-minded beta testers, who have been selected by Sigil in advance to be predisposed to the type of gameplay Vanguard offers, reinforce each other's opinions. There is much discussion and debate on the game's beta boards with other beta testers who, frustrated with some of the game's design issues, have begun playing the game less and less or even stopped playing altogether.

In the end, the beta test confirmed by previously held opinion that the game would appeal primarily to the hard core MMORPG gamer, and not so much to the more casual MMORPG audience. However, my expectations were raised with respect to how **much** the hard core will like Vanguard, assuming all the bugs are fixed and sufficient content is added before release. Also, the game is not as totally off-putting to the casual MMORPG gamer as I had initially feared, but there are still some critical design issues to address if Vanguard hopes to reach a broader audience and maximize its potential subscriber base.

Product Strengths & Weaknesses

Product Strengths

- Excellent graphics. High graphical quality is generally a strong factor in an MMORPG's success, and Vanguard certainly delivers.
- Fantasy theme. The MMORPG market is over 90% fantasy-based, a testament to the genre's popularity relative to others.
- Strong developer pedigree. The main personalities behind Vanguard, Brad McQuaid and Jeff Butler, played primary roles in the development of EverQuest, one of the previous big names in the MMORPG market. Also, several of their key lead designers have MMORPG development experience, including EverQuest, EverQuest II, EverQuest Online Adventures, Earth & Beyond, and Star Wars Galaxies.
- Content, content, content. A major factor in the success of World of Warcraft was delivering far more content than any other MMORPG to date at launch. If Vanguard can deliver on a promise of 750 – 1000 hours of content and an expansion every 9 – 12 months, it should be able to keep many players subscribed to the game for years, particularly with their large number of classes (17) and races (24).

Product Weaknesses

- High system requirements. I beta tested the game on a 2.8 GHz Pentium 4, with 1GB RAM and an ATI Radeon 256MB X850XT AGP graphics card. These are well within the product's target system, but game was still very laggy, and graphics had to be reduced to ensure adequate gameplay. This may be an issue that can be addressed with further optimization during beta, but even still, the game will be geared to high-level gaming systems that core gamers typically have. This will be okay for the target audience of core gamers, but it will limit the product's appeal.
- Highly competitive market picture. There are close to 100 MMORPGs currently active, and close to 100 more known to be in development. Of those released, there are about 30 major titles, and over those in development, about 30 more that are expected to be major titles. Even if you further limit the market to 3D fantasy-themed

MMORPGs that are directly comparable to Vanguard, you're talking about 10 currently released titles and 10 more currently in development. World of Warcraft currently dominates the market, with some 6.6 million subscribers worldwide.

- Long development time. Vanguard is now in its fourth year of development, and that number will be close to five by the time the product is released. While some MMORPGs have benefited from long development times (World of Warcraft), most have suffered from it, as it indicated ongoing design and production problems (Horizons, Shadowbane). Perhaps more importantly, prolonged hype about the game has led to unrealistic expectations from consumers, and some have even developed "product fatigue" when it comes to discussion of Vanguard. However, Vanguard should not be rushed to market; it needs the necessary time to release a quality product, even if that takes another 9 – 12 months.
- Harsh death penalties and non-solo-friendly gameplay. While the core design aspects of Vanguard should be respected, as many are necessary for the game to appeal to its core MMORPG gamer audience, there are issues that make the game unusually difficult to play and could turn off even traditional core MMORPG players unless they are changed before release. The two most contentious issues are the harsh death penalties in game, specifically "corpse runs", and the relatively limited amount of solo content, which according to Sigil's statements only account for 20% of the total game content. It is my belief that if corpse runs were eliminated entirely, and if more of the game's dungeons were made solo friendly, the game could potentially attract hundreds of thousands of additional subscribers, without alienating the base of hard core players.

Competitive Overview

Current Releases

A number of currently active MMORPGs will be directly competing with Vanguard for subscribers. The following list is not comprehensive; it addresses only the primary competitive titles Vanguard will be up against in the North American and European markets:

- World of Warcraft (Blizzard) – Currently has 2.8 million subscribers in NA + EU (6.6 million worldwide) and growing, and owns over 50% of the total worldwide MMORPG subscription market. While WoW is the dominant player, it will not have a major impact on Vanguard's success, as Vanguard is targeting more traditional MMORPG players, whereas WoW appeals to a broader casual MMORPG audience. However, simply due to its sheer numbers, there will be some cannibalization of subscribers between WoW and Vanguard.
- Final Fantasy XI (Square-Enix) – Currently has approximately 250,000 subscribers in NA + EU (500,000 worldwide) and falling, and is one of the last MMORPGs to feature particularly hardcore gameplay. It's unclear just how much of FFXI's subscribers would find Vanguard appealing.
- EverQuest (SOE) – Still has over 200,000 subscribers in NA + EU and falling, and represents Vanguard's primary rival for the hardcore MMORPG segment. Vanguard is also seen as an indirect successor to EQ, so comparisons between the two games will be inevitable.
- EverQuest II (SOE) – Currently has 175,000 subscribers in NA + EU, and growing. EQII was the direct successor to EQ, although like WoW it attempts to appeal more to the casual player than the traditional EQ experience. Visually Vanguard and EQII are very similar, so expect comparisons to this title as well.
- Dark Age of Camelot (EA Mythic) – Currently has approximately 125,000 subscribers in NA + EU and falling, primarily due to competition from World of Warcraft. DAoC is still a major fantasy title, but it is primarily PvP-focused, which is not Vanguard's main appeal. Most of DAoC's other players have left for WoW, so I do not expect strong cannibalization from DAoC.
- Lineage II (NCSoft) – Currently has 90,000 subscribers in NA + EU (1.3 million worldwide); although worldwide numbers are in decline, it has been growing slightly in other markets. Lineage II is less hardcore in some respects to Vanguard, but it is not as casual friendly as, say, World of Warcraft.

- Dungeons & Dragons Online (Turbine) – Recently released, DDO is believed to have close to 90,000 subscribers in NA + EU, but it's too soon to tell if it's growing or shrinking. Not a major competitor to Vanguard, as it offers a very different MMORPG experience.
- Ultima Online (EA) – Old and venerable, UO still maintains some 60,000 subscribers in NA + EU (135,000 worldwide), despite its dated graphics and limited interface. However, quite a few UO players are old school hardcore gamers, and may be attracted by Vanguard if they haven't found WoW's "easier" gameplay appealing.

Future Releases

The risk to Vanguard's subscriber base from future titles is far greater than it is from current ones, as the future is much more difficult to predict. The following list only covers major titles that are expected to compete with Vanguard in the next 2 years; a 7-year projection is impossible to make. It's quite possible that a direct competitor to Vanguard is either currently in development or could be developed later in response to Vanguard that could have a major impact on Vanguard's subscriber base in the outlying years.

- The Lord of the Rings Online (Turbine) – Due out in November 2006, LotRO has the benefit of a strong IP name behind it, but not much else. Turbine's previous MMORPGs have not been big hits, but LotRO certainly has potential.
- SUN: Soul of the Ultimate Nation (Webzen) – Due out Q3 – Q4 2006, SUN has strong graphical appeal and an innovative instancing system that allows players to control the difficulty of the game while balancing the corresponding rewards. It's unclear if Webzen can successfully translate the game from the Asian market to North America, but they are going to make a strong push to do it.
- Gods & Heroes: Rome Rising (Perpetual) – Due out in Q4 2006, this title is also being published by Sony Online Entertainment, and could provide a nice contrast with Vanguard. Gods & Heroes offers an innovative combat system and the ability for players to hire NPC characters to team up with during adventures.
- Age of Conan: Hyborian Adventures (Funcom) – Due out in Q4 2006, this title has generated a lot of interest, with a very popular IP and the promise of grand, sweeping battles, mounted combat, and player-run towns and sieges. However, it's too early to tell if Funcom can really deliver a quality MMORPG product; their previous attempt, Anarchy Online, was a spectacular failure.
- Warhammer Online: Age of Reckoning (EA Mythic) – Due out in Q3 – Q4 2007, this game has generated a substantial amount of buzz, and is expected to potentially rival World of Warcraft in its appeal. Mythic was recently acquired by EA, who is putting a lot of money behind Warhammer Online, and indicates that they are serious about getting back into the MMORPG business. While Warhammer's appeal may be more to current WoW players than potential Vanguard players, it could have an impact.
- Darkfall Online (Aventurine) – Due out sometime in 2007, Darkfall is one of the few upcoming games making a play for the more traditional core MMORPG gamer. However, Darkfall is also focusing on open PvP, something that is not a part of Vanguard's design, and newcomer developer Aventurine has little experience in this market. It's worth keeping an eye on, but probably not a major competitor.

- Other unnamed MMORPG projects – A variety of studios have MMORPG products in the works that could potentially compete with Vanguard, or they could be targeted at a completely different genre. Developers of these titles include the well-respected BioWare, new startup Red5Studios (composed of ex-Blizzard employees), a John Romero MMORPG, a Tom Hall MMORPG, and new projects in the pipeline from traditionally strong development studios like NCSoft, Sony Online Entertainment, and Square-Enix.

Market Projections

Potential Market Size

The largest variable in trying to project Vanguard's potential subscriber base is determining accurately what the true potential "market" for Vanguard is. The total number of MMORPG subscriptions in North America and Europe is estimated at 6 million, with about 2.8 million of that owned by World of Warcraft. However, I believe Vanguard is targeted at a much smaller segment of that market; specifically, hardcore fantasy MMORPG gamers who would enjoy an "old style" MMORPG in the tradition of, say, EverQuest. The rest of the market has moved away from this segment in recent years, but Sigil believes this leaves a smaller but important portion of the market eager for a game that appeals to them.

One method of estimating this market is to ask the following question: what is the peak number of subscribers who have **ever** played this sort of game? To answer that, we have to decide what qualifies as such a game and what does not. I've chosen to look at Ultima Online, EverQuest, Final Fantasy XI, Lineage II, and Asheron's Call. The peak for these 5 games combined came in approximately September 2004, where they reached approximately 1 million subscribers in NA + EU combined. EverQuest, the largest MMORPG outside of Asia at that time, held 55% of that total. However, it is likely that many of those subscribers played those games simply because there were not other, more appealing MMORPGs like World of Warcraft out yet, and they didn't really enjoy the hard core experience.

If you look at how many people currently play those games, and add in EverQuest II, you arrive at a figure of between 750,000 and 800,000 subscribers. This number is not likely to grow substantially, as gamers attracted to such gameplay have had the opportunity to play them for close to 10 years now, and newer games like World of Warcraft are bringing in new, more casual players.

Based on the above numbers, it is my current estimate that the number of "core gamers" that would potentially find Vanguard appealing is 800,000 subscribers.

Subscriber Projections

The next question that must be addressed is simple: given a potential market of 800,000 total subscribers, what is a realistic share of that market that Vanguard is likely to achieve, assuming a stable, quality product as discussed earlier?

I have made projections of four possible scenarios: a "bad" scenario where Vanguard meets my minimal expectations of 150,000 subscribers (assuming a stable, quality

product), and subsequent scenarios representing market shares of 30%, 40%, and 50% of the total “core gamer” fantasy MMORPG market.

I was requested to provide projections for total subscriber-years for Vanguard over 7 years. I feel is extremely difficult to do, as it is impossible to predict what the future competitive picture will look like, and an estimate is increasingly error-prone in later years. However, based on how previous retail MMORPGs have performed, I have attempted to make a good faith attempt at such an estimate.

These projections assume that the maximum number of subscribers is reached within the first 12 months, and are averaged over the first year. That level of subscribers is then held for the next 3 years, whereupon it begins to decline rapidly at a rate of 40% per year for the last 3 years, reflecting increasing competition. Evidence shows that MMOGs decline towards the end of their lives fairly rapidly, but when that occurs is driven more by the competition in the marketplace than the age of the game itself.

Minimal Projection – 150,000 Subscribers

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Total
End-of-year Subscribers	150,000	150,000	150,000	150,000	90,000	54,000	32,400	
Average Subscribers	75,000	150,000	150,000	150,000	120,000	72,000	43,200	760,200

30% Projection – 240,000 Subscribers

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Total
End-of-year Subscribers	240,000	240,000	240,000	240,000	144,000	86,400	51,840	
Average Subscribers	120,000	240,000	240,000	240,000	192,000	115,200	69,120	1,216,320

40% Projection – 320,000 Subscribers

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Total
End-of-year Subscribers	320,000	320,000	320,000	320,000	192,000	115,200	69,120	
Average Subscribers	160,000	320,000	320,000	320,000	256,000	153,600	92,160	1,621,760

50% Projection – 400,000 Subscribers

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Total
End-of-year Subscribers	400,000	400,000	400,000	400,000	240,000	144,000	86,400	
Average Subscribers	200,000	400,000	400,000	400,000	320,000	192,000	115,200	2,027,200

Given the above figures, I believe the 50% projection is overly optimistic. World of Warcraft has approximately 53.0% of the total MMOG market, but only 47% of the NA + EU market. EverQuest at the height of its popularity only had approximately 55% of the “core gamer” MMORPG market. Only EverQuest has achieved over 2 million subscriber years in 7 years in that target market. For Vanguard to achieve such a market share, it would have to really hit a home run.

Similarly, I believe the projection of 150K subscribers (representing less than 20% of the target market) is similarly unlikely. This was my lower-end estimate based on what I saw of the game at E3, before I had the chance to gauge the game’s quality in the beta test. It is still a useful guideline, if only to show that even a modest success can generate a substantial amount of revenue.

When I was first asked to estimate the total number of subscriber years for Vanguard over 7 years, I provided a broad range of 900K – 2.2M subscriber years. Subsequently, I narrowed that further to 1.1M – 1.9M subscriber years. **Based on the analysis provided above, I can offer with 90% confidence my estimate that Vanguard will accumulate a total of 1.2M – 1.6M subscriber years over 7 years.**

Supplemental Projections

I was also asked to provide some additional projections to help evaluate the market potential for Vanguard. I’ve attempted to answer the following questions to the best of my ability, based upon my research and analysis of the MMORPG market.

- How many boxes will be sold in the first year?

The answer to this question is based on conversion rates for the number of subscribers outlined above. According to my research, a “good” MMORPG will achieve 50% conversion; a “great” one 80%, and a “bad” one 30% or less. Assuming Vanguard is either “good” or “great”, one calculates a rather large range of anywhere between 300K and 800K box sales in the first year. If one splits the difference, a reasonable estimate would be 550K – 560K box sales.

- What percent of current EQ1 players, current EQ2 players, current beta users (85,000), retired EQ1 players, and retired EQ2 players will buy the box?

These are almost impossible questions to answer. The number of retired EQ1 and EQ2 players is unknown! Over 2.5 million EQ1 boxes and expansions had been sold as of March 2004. It was stated at that time that some 250,000 new subscribers try

EQ1 every year, but it's impossible to know how many of those are old "retired" players coming back. One would have to estimate somewhere between 1 million and 2 million "retired" EQ1 subscribers. Most of those who have quit probably have done so because they don't like EQ1's gameplay, so it seems unlikely that they would find Vanguard's gameplay appealing, especially if they're now playing World of Warcraft.

It's probably safe to assume that nearly all current EQ1 and EQ2 players will buy Vanguard, just to try it out and see if it's worth all the hype. That would make for at least 375K box sales.

The number of current beta users is not 85,000; that's probably counting all the codes that were sent out in Computer Gaming World, which will be let into the beta test in stages once Beta 3 starts sometime in the next few weeks.

- What is the probability Vanguard achieves 10%, 20%, and 40% as much success as World of Warcraft is currently enjoying?

Again, this is a very difficult question to answer, since it requires estimating outside of my 90% confidence range. Assuming the NA + EU market:

10% of 2.8 million subscribers – 280,000 subscribers – 90 in 100 (90%)

20% of 2.8 million subscribers – 560,000 subscribers – 30 in 100 (3%)

40% of 2.8 million subscribers – 1.12 million subscribers – 1 in 100 (1%)

- What are the odds Vanguard does not attain more than 500K, 750K, and 1M subscriber years in 6 years, assuming healthy expansion packs and gold SKUs?

Again, difficult to answer anything outside my 90% confidence range, but based on the analysis I provided earlier:

Over 1M subscriber years – 92 in 100 (92%)

Over 750K subscriber years – 95 in 100 (95%)

Over 500K subscriber years – 98 in 100 (98%)

Conclusions

Final Analysis

Vanguard: Saga of Heroes is targeted at a “core” fantasy MMORPG gamer market segment, which is estimated at approximately 800,000 subscribers in North America and Europe combined. Assuming a good launch with a stable, quality product, I estimate with 90% confidence that Vanguard will sell 400,000 – 800,000 boxes in the first year, will achieve 240,000 – 320,000 subscribers in the first year, and will accumulate a total of 1.2 million – 1.6 million subscriber years over 7 years.