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4 August 2025



capAI plc

(the "**Company**" and, together with its subsidiaries and subsidiary undertakings, the "**Group**" or "**capAI**")

Execution of Heads of Terms for Game42

capAI (LSE: CPAI) is pleased to announce that it has entered into non-binding heads of terms ("**HOTs**") with R42 Group LLC ("**R42**") in relation to Game42, an AI-driven book-to-game platform that converts written content into immersive, interactive gameplay experiences ("**Game42**").

The proposed transaction, which remains subject to receipt of regulatory approval and entry into an agreed form of definitive licence and option agreement ("**LOA**"), would support the ongoing buildout of capMedia, the Company's dedicated AI-powered media division.

Game42 remains under active development by R42, with delivery of a minimum viable product ("**MVP**") targeted by 31 December 2025. The licence and option rights that would be granted to capAI under the LOA would only become effective upon formal delivery of a completion notice (the "**Completion Notice**") confirming the platform is ready for commercialisation.

Further details are provided below.

About Game42

Game42 is a next-generation generative artificial intelligence ("**AI**") platform that transforms written content into immersive, interactive game experiences. It combines intelligent narrative adaptation, procedural level design, dynamic dialogue systems, and AI-powered character rendering. The platform is designed to serve independent authors, content studios, and intellectual property ("**IP**") holders by significantly reducing the cost, complexity, and development time of traditional game production.

By leveraging generative AI, Game42 allows creators to produce high-quality game assets and storylines with minimal technical overhead, enabling literary IP to be rapidly adapted into playable formats. The platform is strategically positioned within one of the fastest-growing segments of the entertainment market.

The AI in gaming segment, valued at US 3.28 billion in 2024, is projected to grow to US 51.26 billion by 2033, representing a compound annual growth rate ("**CAGR**") of 36.1%.^[1]

Market Opportunity and Disruption Potential

The global entertainment and media industry is projected to grow from about US 3.0 trillion in 2024 to US 3.5 trillion by 2029, led by advertising, live events, and video games, with AI-driven personalisation and digital formats increasingly central. PwC's *Global Entertainment & Media Outlook 2025-2029* highlights the expanding opportunity across creative and immersive sectors.^[2]

Within this ecosystem, gaming is one of the largest and faster-growing consumer content verticals. The global gaming market is projected to grow from US 269 billion in 2025 to over US 435 billion by

2030, with a CAGR of approximately 10.4% according to *Mordor Intelligence*.^[3]

An alternative projection from *Grand View Research* suggests the market could reach US 505 billion by 2030, driven by growth in mobile, cloud, AR/VR, and esports, with creator tools and generative AI emerging as additional catalysts.^[4]

In parallel, the AI in gaming segment, valued at US 3.28 billion in 2024, is forecast to reach US 51.26 billion by 2033, representing a CAGR of 36.1%, and highlighting the transformative impact of AI-assisted production, automation, and interactive storytelling.¹

These trends, from scalable game automation to story-to-interactive adaptation, signal a fundamental shift in how games are conceived, developed, and monetised. Game42 is built to unlock this opportunity, offering a platform that compresses production timelines, lowers development costs, and seamlessly extends literary IP into a high-growth interactive medium.

Proposed Transaction Structure and Conditions

The proposed transaction is subject to regulatory clearance. Upon receiving such regulatory clearance, the Company and R42 intend to execute an agreed form LOA pursuant to the previously announced strategic alliance between the two parties.

Subject to any amendments necessary to reflect the fact that Game42 is in development and has not yet reached MVP status, the HOTs mirror the structure announced on 7 July 2025 for Author42.

The terms of the proposed transaction specified in the HOTs (which would only be effective on receipt of regulatory clearance and entry by the parties into the agreed form LOA) include, *inter alia*:

- Since Game42 is still in development by R42, any rights granted to capAI shall only commence upon delivery of the Completion Notice by R42 to capAI.
- The Completion Notice shall confirm, in good faith and in consultation with the capAI / R42 Alliance Steering Committee, that Game42 meets the mutually agreed MVP criteria and is functionally complete and ready for commercialisation.
- R42 shall use commercially reasonable efforts to deliver the Completion Notice by 31 December 2025, it being acknowledged by the Parties that this is a non-binding estimate subject to development progress.
- If the Completion Notice has not been delivered by 30 June 2026, either party may terminate the LOA with immediate effect by written notice to the other party, without liability, save in respect of any clauses that are normally expressed to survive termination.
- capAI shall be granted an exclusive worldwide licence for a 12-month period to operate the Game42 platform, commencing only upon capAI's receipt of the Completion Notice (the "**Licence Period**"), which carries no upfront payment or consideration, giving capAI operational freedom without initial capital outlay.
- capAI shall retain full commercial and operational control and shall be entitled to 100% of revenue generated under the licence.
- During the Licence Period, capAI shall commercially advance Game42 in good faith, including maintaining a dedicated development team, overseen via the capAI / R42 Alliance Steering Committee.
- capAI has the right, but not the obligation, to acquire 100% of the Game42 IP (including any enhancements or derivative works) at any time during the Licence Period ("**Option**"); R42 cannot oblige capAI to exercise the Option.
- If the Option is exercised by capAI, capAI shall issue £2 million in new ordinary shares to R42, with the number of new ordinary shares calculated based on a volume-weighted average price (VWAP) over a defined pricing period prior to exercise.
- To preserve regulatory flexibility, should the issuance of such new ordinary shares exceed applicable thresholds or require prior shareholder approval, capAI and R42 may agree to settle part or all of the consideration in the form of unsecured convertible loan notes carrying a 10% non-compounding interest rate on equivalent terms.
- As further consideration, to the extent the Option is exercised by capAI, R42 shall also be entitled to 20% of any net proceeds from a future monetisation, sale, or liquidity event involving all or substantially all of the Game42 IP.
- If capAI does not exercise the Option within the Licence Period, all rights revert to R42, including any improvements or derivative works created by capAI.

This structure provides capAI with commercial flexibility during development while securing long-term strategic value alignment with R42.

Governance and Related Party Considerations

The HOTs have been entered into within the framework of the strategic alliance between capAI and R42. Professor Ronjon Nag, Executive Director of capAI and Founder of R42, has recused himself from all negotiations and approvals relating to the proposed transaction from capAI's perspective. The Company's board of directors has implemented appropriate governance protocols, including

independent review of the terms.

Management Commentary

Richard Edwards, Executive Chairman of capAI, commented:

"Game42 is expected to build on the early momentum of Author42 and take capAI into the high-growth gaming sector; one of the most dynamic segments in global media. This initiative reflects our model of combining capital discipline with breakthrough AI innovation. As Game42 reaches MVP and moves toward commercialisation, we see meaningful potential to reshape how interactive content is created, distributed, and monetised. We will keep the market updated as regards regulatory clearance, which is necessary before we can enter into the agreed form LOA with R42."

Professor Ronjon Nag, Executive Director of capAI, added:

"Our strategic alliance continues to deliver high-impact platform opportunities, and Game42 is no exception. By automating and accelerating game development workflows, it unlocks new creative and commercial frontiers for authors, IP holders, and players alike. This is precisely the kind of scalable AI-native business our strategic alliance was built to launch."

The Company will provide further updates as regulatory clearance is obtained and the LOA is executed.

For the purposes of UK MAR, the person responsible for arranging release of this Announcement on behalf of capAI is Richard Edwards, Executive Chairman.

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This Announcement may include forward-looking statements, which are based on current expectations and projections about future events, including about the Group's operations, strategy, financial performance, development milestones, and the future prospects of its business divisions, including capMedia Inc and the Game42 platform. These statements may include, without limitation, any statements preceded by, followed by or including words such as "target", "believe", "expect", "aim", "intend", "may", "anticipate", "estimate", "plan", "project", "will", "can have", "likely", "should", "would", "could" and any other words and terms of similar meaning or the negative thereof.

Forward-looking statements are based on current expectations and are subject to various risks and uncertainties that could cause actual outcomes to differ materially. These risks include, but are not limited to: successful execution of definitive agreements; regulatory approvals; development timelines; market acceptance; technological shifts; and broader economic conditions. No representation or warranty is made or will be made that any forward-looking statement will come to pass, and no assurance can be given that any forward-looking statement will prove accurate. Except as required by law, capAI undertakes no obligation to revise or update any forward-looking statement. The forward-looking statements in this Announcement speak only as at the date of this Announcement.

[1] <https://www.grandviewresearch.com/industry-analysis/ai-gaming-market-report>

[2] <https://www.pwc.com/gx/en/news-room/press-releases/2025/pwc-global-entertainment-media-outlook.html>

[3] <https://www.mordorintelligence.com/industry-reports/global-gaming-market>

[4] <https://www.grandviewresearch.com/industry-analysis/gaming-industry>

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