

H1'23 Gaming Deals Report

H1'23: Navigating Turbulence

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TaylorWessing | MGVC | WHITE LABEL PFI



Executive Summary

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Highlights:

low start amidst continued challenges




	H1'20		H1'21		H1'22		H1'23
Private Investments							
	\$1.4B	↑237%	\$4.8B	↑59%	\$7.6B	↓81%	\$1.5B
	161 Deals		276 Deals		316 Deals		239 Deals
M&A							
	\$4.0B	↑463%	\$22.7B	↑27%	\$28.7B	↓97%	\$0.9B
	89 Deals		160 Deals		132 Deals		71 Deals
Public Offerings							
	\$4.9B	↑250%	\$17.2B	↓80%	\$3.4B	↓49%	\$1.7B
	31 Deals		56 Deals		15 Deals		20 Deals

Private Investments: continued pressure with early-stage plunge and late-stage on pause

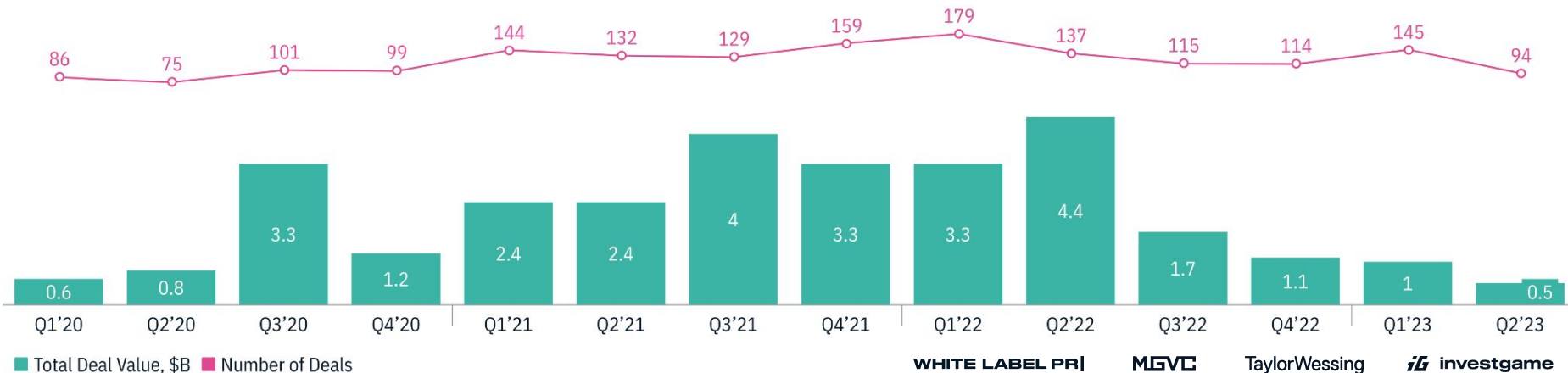
— H1'23 has seen a decline of Private Investments activity, with \$1.5B across 239 deals. This represents a decline of 24% in the number of deals and a significant 5x decline in the overall deal value when compared to the H1'22 (\$7.6B across 316 deals).

— Early-stage continues to be the main contributor as Pre-Seed and Seed rounds are less dependent on the macroeconomic cycles. Nevertheless, the Early-stage market has experienced 3x times contraction in value with only \$904m (vs. \$2.7B in H1'22) and 200 closed deals (-22% vs. H1'22).

— Late-stage VC activity continued to cool off since 2022, with \$0.5B raised across 12 deals in H1'23 (vs. \$2.6B across 27 deals in H1'22). Closed IPO window together with much softer exit valuation levels have notably impacted the attractiveness of late-stage investments.

Target	Deal Type	Deal Size, \$m
	Series C	265
	Series A	55
	Series B	48

Corporate & VC Investments Activity



M&As: exit activity significantly dropped in the first half of 2023

— During H1'23, M&A activity witnessed a substantial decline of 31x in deals value on par with a nearly halved closed deals count compared to vs. H1'22.

— In the current volatile macroeconomic environment, strategic investors are more focused on internal “housekeeping”:

1. Reviewing their current portfolio of studios, diverting some assets.

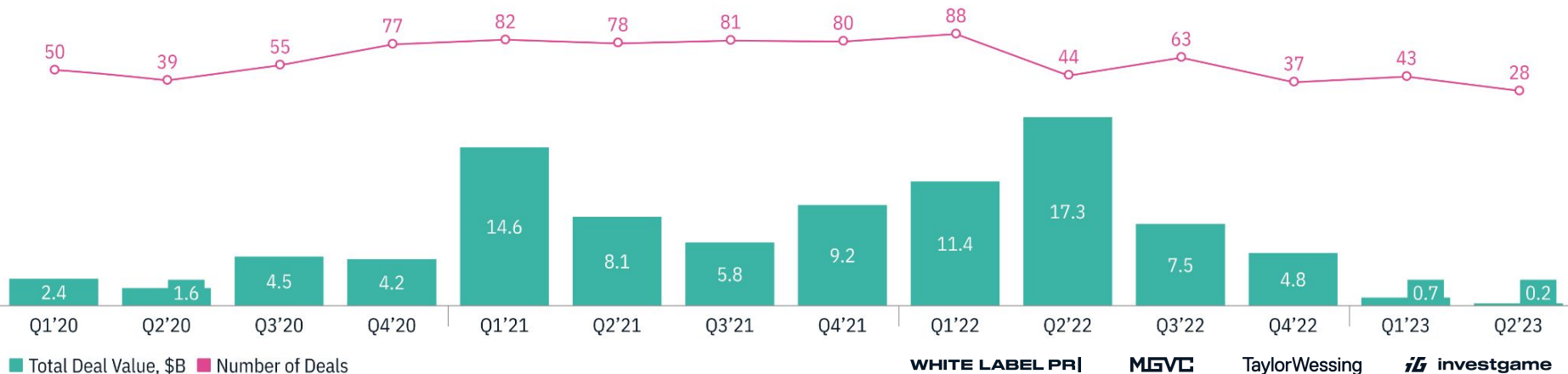
2. We saw many companies announcing mass layoffs or even going through comprehensive restructuring like Embracer.

— As valuations of public gaming companies dropped making them less competitive, financial sponsors have become more active with Savvy Games Group acquisition of Scopely for \$4.9B.

— Q3'23 will see a jump in value as both Scopely and Rovio (\$0.8B) deals were closed, as well as Activision Blizzard (\$68.7B) might be approved in the quarter.

Target	Deal Type	Deal Size, \$m
Magic Leap	Control	450
NEXON	Minority	122
ByteDance	Minority	100

Closed M&As Activity



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Public Offerings: remain muted, with early signs of improvement

— Public Offerings continue to experience headwinds, with public listings and share issuances becoming increasingly rare in recent times.

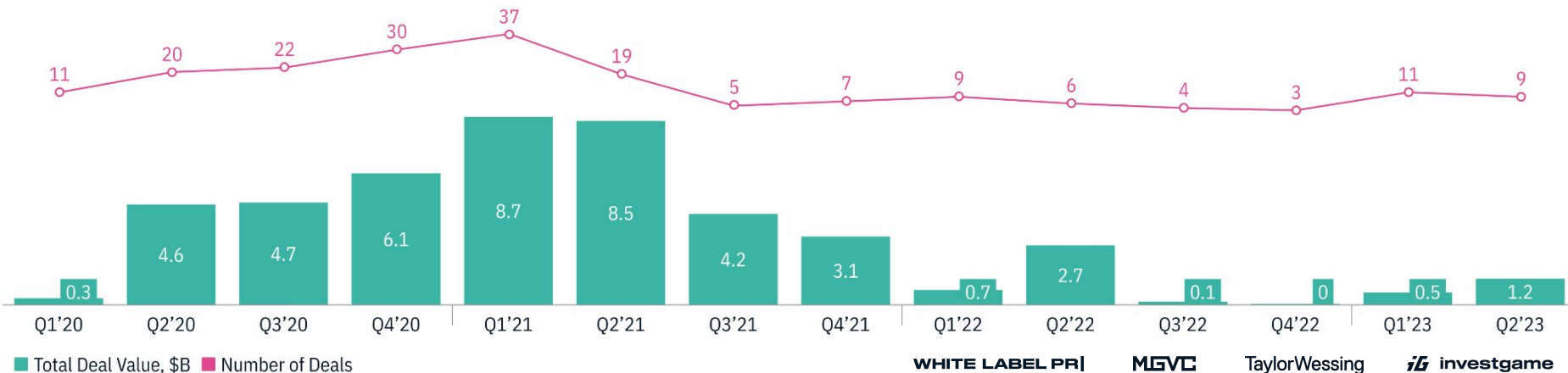
— Private companies choose to postpone listing, while many public comps started buyback programs or became takeover targets.

— Disparity between reported actual results and previously communicated financial estimates has led to a significant correction in the valuation of public comps making PIPEs an expensive instrument.

— US public market has shown some early signs of recovery, whereas European markets continue to struggle and recovery may take longer time.

Target	Deal Type	Deal Size, \$m
T2	Fixed Income	1000
bilibili	PIPE	409
POPREACH	Fixed Income	115

Public Offerings Activity



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Gaming

Deals with targets represented
by video game publishers and/or developers

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Highlights:

gaming deal activity hitting the bottom line

	H1'20		H1'21		H1'22		H1'23
Private Investments							
	\$0.6B	↑396%	\$2.9B	↑21%	\$3.5B	↓90%	\$0.3B
	71 Deals		144 Deals		84 Deals		90 Deals
M&As							
	\$3.5B	↑494%	\$20.7B	↑2%	\$21.1B	↓99%	\$0.3B
	59 Deals		101 Deals		81 Deals		46 Deals
Public Offerings							
	\$3.7B	↑163%	\$9.6B	↓69%	\$3.0B	↓57%	\$1.3B
	21 Deals		35 Deals		9 Deals		13 Deals

Early-stage Gaming: activity above pre-Covid times, and shift in mindsets

– VC deal making activity remains stable with number of early-stage rounds exceeding 73 deals in H1'23 (vs. 58 in H1'22).




– This half-year we've seen less large size rounds, which led to over 2x times shrink in amount raised (\$269m) vs. previous two periods (\$574m in H1'22; \$572m in H1'21).

– Many VCs have focused on supporting existing studios with follow-on/extension rounds and bridges rather than making sizeable investments into newcomers.

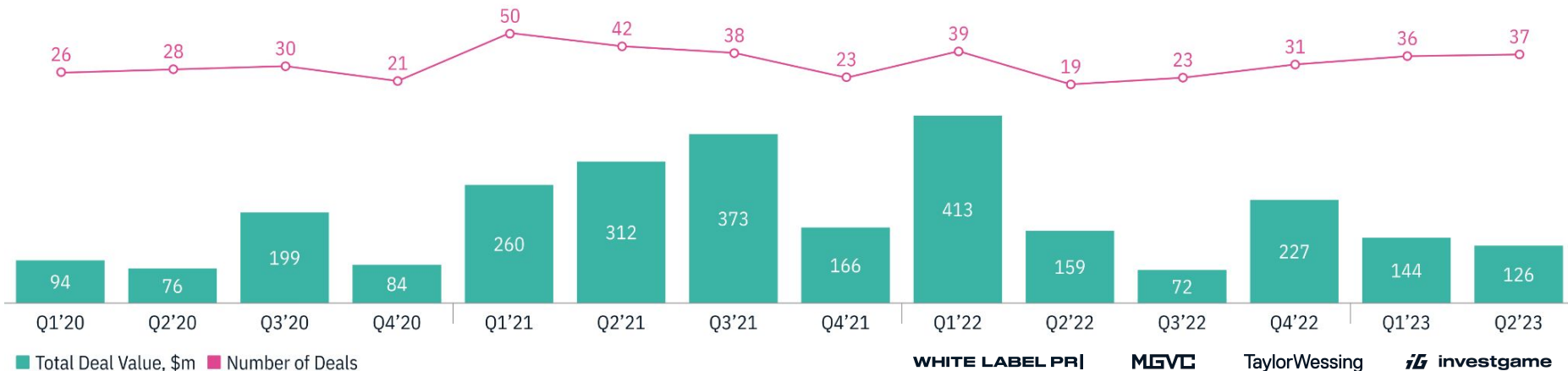
– Startups have shifted a mindset from “growth at all costs” to prioritizing profitability and extending runway periods.

– Despite the prevailing circumstances, there remains a huge amount of unallocated capital yet to be invested, and we anticipate early-stage VC activity to pick up through the end of the year.

– Fundraising activity has significantly dropped and pivoted towards experienced managers with only a few funds announcing successful closings recently.

Target	Deal Type	Deal Size, \$m
	Series A	55
	Series A	20
	Seed round	12

Early-stage Gaming Activity



Most Active VC Gaming Funds for H1'23

Note: (1) based on the internal weighted average ranking system (see p. 17);

(2) based on investments in Gaming with the disclosed deal value (exclude Web3 gaming deals included)

Rank ¹	Venture Capital Fund	Lead Deals	Lead Deals Value ² \$m	Deals	Deal Value ² \$m	Select Lead Deals
By number of deals						
1	Andreessen Horowitz (a16z)	8	105	10	224	CCP Games, PLAII Labs
2	vgames	6	9	7	15	PeerPlay, Frantic Games
3	BITKRAFT Ventures	4	37	9	168	Avalon Corp, HyperPlay
4	Makers Fund	5	26	7	66	Genpop Interactive, Strider
5	Gem Capital	6	15	7	20	n/a
6	Griffin Gaming Partners	5	39	5	39	BlackStorm, HyperPlay, Nexus
7	Play Ventures	4	20	5	30	Redemption Games, Scenario
8	Ludus Venture	3	5	4	7	Paxie Games, Fortune Mine
9	The Games Fund	3	10	3	10	Red Rover, Spektra Games
10	Hiro Capital	2	8	3	14	Telltale Games, Lightfox Games
By deals value						
1	Andreessen Horowitz (a16z)	8	105	10	224	CCP Games, PLAII Labs
2	BITKRAFT Ventures	4	37	9	168	Avalon Corp, HyperPlay
3	Makers Fund	5	26	7	66	Genpop Interactive, Strider
4	Lightspeed Ventures	1	55	1	55	Believer Entertainment
5	Griffin Gaming Partners	5	39	5	39	Grand-Attic, Hardball Games, Nexus
6	Play Ventures	4	20	5	30	Redemption Games, Scenario
7	Sequoia Capital	1	20	3	20	Mayhem Studios
8	Gem Capital	6	15	7	20	n/a
9	vgames	6	9	7	15	PeerPlay, Frantic Games
10	The Games Fund	3	10	3	10	Red Rover, Spektra Games

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Late-stage Gaming: Activity remains muted as less feasible exit options

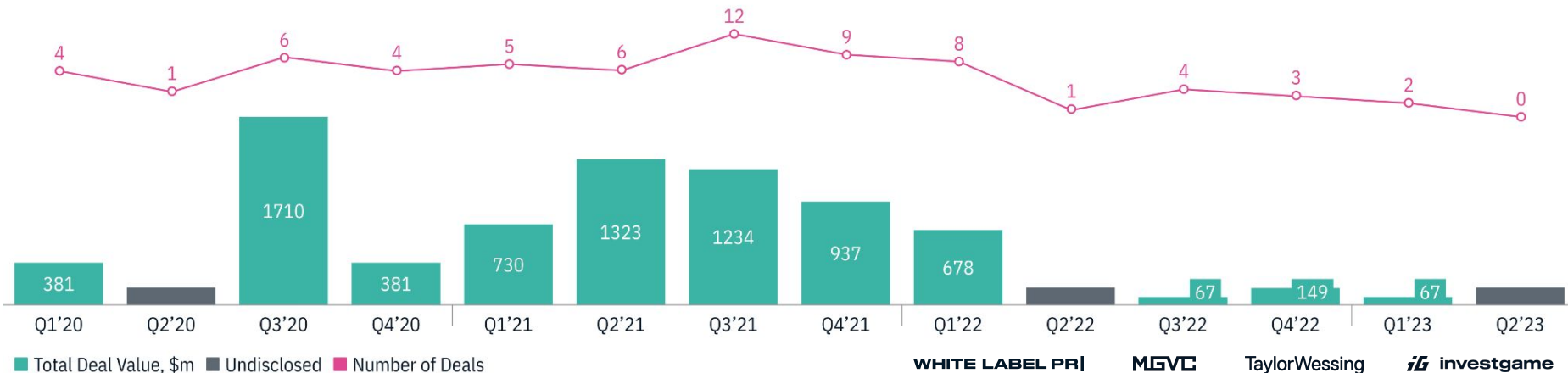
— Starting Q2'22, a downward trend in deal-making activity has endured, primarily driven by a lack of feasible exit avenues for VCs at the later stage. Ongoing public market challenges and a shrinking strategic buyers universe made late-stage rounds more risky and less attractive by ROI.

— Furthermore, a disconnect in entry valuation expectations and the absence of notable growth track records for gaming studios have posed challenges for investors in identifying interesting late-stage targets.

— Engagement typically lags public markets by several quarters, making public offerings activity a potential indicator of the timing for an anticipated recovery.

Target	Deal Type	Deal Size, \$m
	Series B+	40
Carry1st	Series B	27







Late-stage Gaming Activity



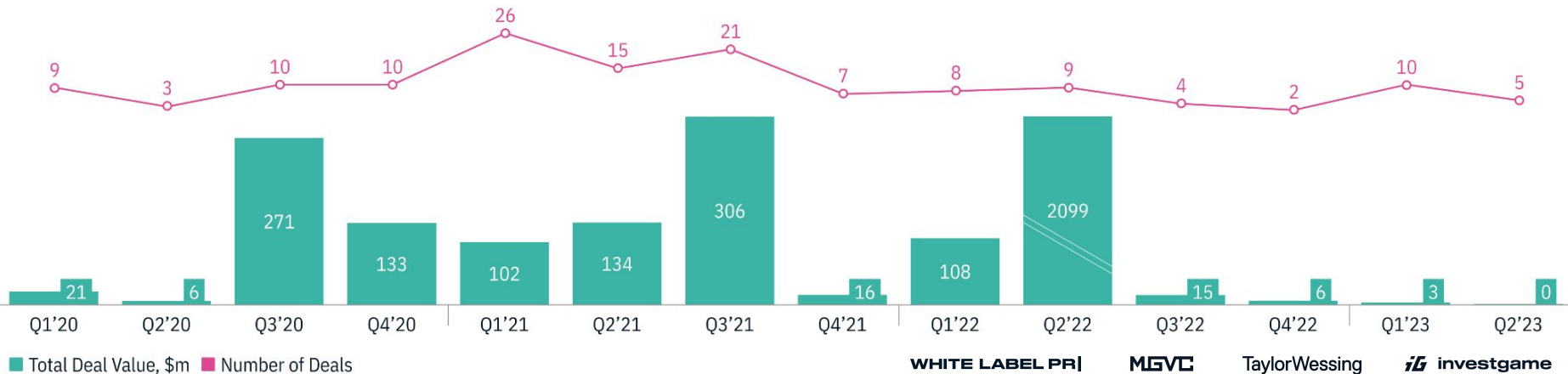
Corporate: active players altering their strategies

— In H1'23, corporate investment activity in gaming remained nearly comparable to H1'22 in terms of the number of deals (15 vs. 17). However, when it comes to deal value, it falls significantly behind, even after excluding the \$2B round by Epic Games in Apr'22.

— Given the shift in strategy by the most active strategics towards prioritizing profitability through costs optimization, carve-outs of non-core assets, and hiring freezes, we expect that corporate investment activity will remain at a subdued level in the upcoming quarters.

Target	Investors	Deal Size, \$m
		Undisclosed
		Undisclosed
		Undisclosed

Corporate Gaming Activity



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Gaming: closed VC deals by targets geo H1'23

EASTERN EUROPE
Early-stage VC: 2 deals, \$1.1m

WESTERN EUROPE
Early-stage VC: 15 deals, \$57.4m
Late-stage VC: 1 deal, \$40 m
Corporate: 6 deals, \$3.3m

NORTH AMERICA
Early-stage VC: 24 deals, \$138.7m
Corporate: 2 deals

ASIA
Early-stage VC: 11 deals, \$45.5m
Corporate: 7 deals, \$0.1m

MENA
Early-stage VC: 15 deals, \$26.8m

LATIN AMERICA
Early-stage VC: 2 deals

AFRICA
Late-stage VC: 1 deal, \$27m

OCEANIA
Early-stage VC: 4 deals

Appendix




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Appendix A: VC-backed startups' follow-up funding and exits

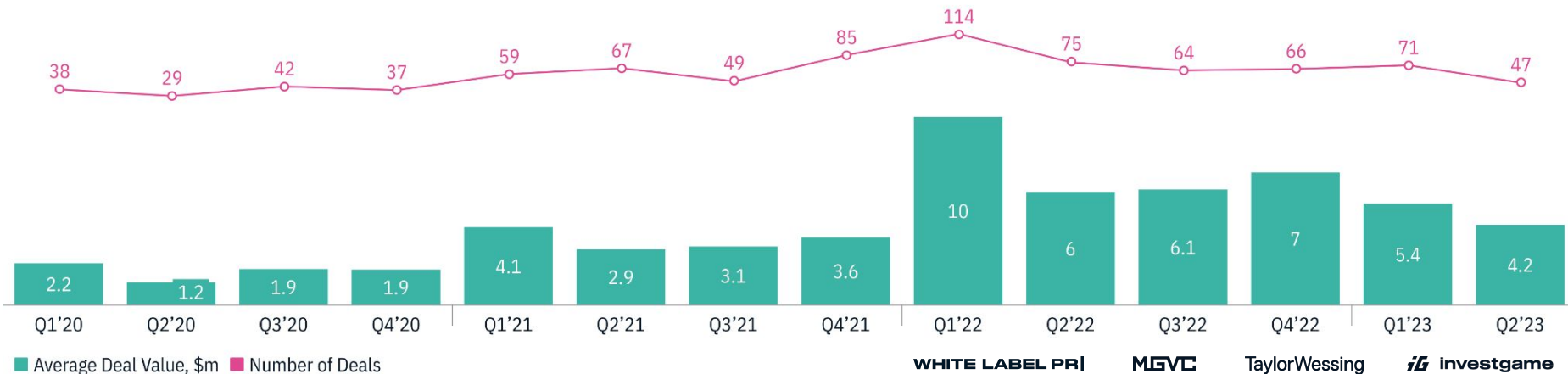
— Based on our data, over 800 companies received first investments between H1'20 to H1'23. The cumulative value of first funding rounds stands at \$4B, out of which over 300 startups raised \$0.9B between Q1'20–Q3'21. Notably, the average deal value has almost doubled, climbing from \$2.2m in Q1'20 to \$4.2m in Q2'23.

— More than 100 companies that secured their initial investment between Q1'20 and Q3'21, subsequently received follow-on investments, indicating that approximately 1/3 of startups obtained additional funding within next 18 months period.

— Out of those 100 companies, only 8 were acquired, implying only 3% exit ratio within 18 months following the early-stage round.

Target	Date	Seed Funding, \$m
	Q1'22	450
	Q1'22	150
	Q4'22	55

Average Pre-Seed, Seed VC Round Size* *Note: (*) only including startups that disclosed values of their initial investments (pre-Seed, Seed) received between H1'20 and H1'23*



Appendix B: AI Hype in Gaming

— To better understand whether the rapid development of AI tech and achievements of ChatGPT, Midjourney, Inworld AI and many others startups have left a substantial impact on the gaming deal activity, we tracked all deals with targets being involved in AI.

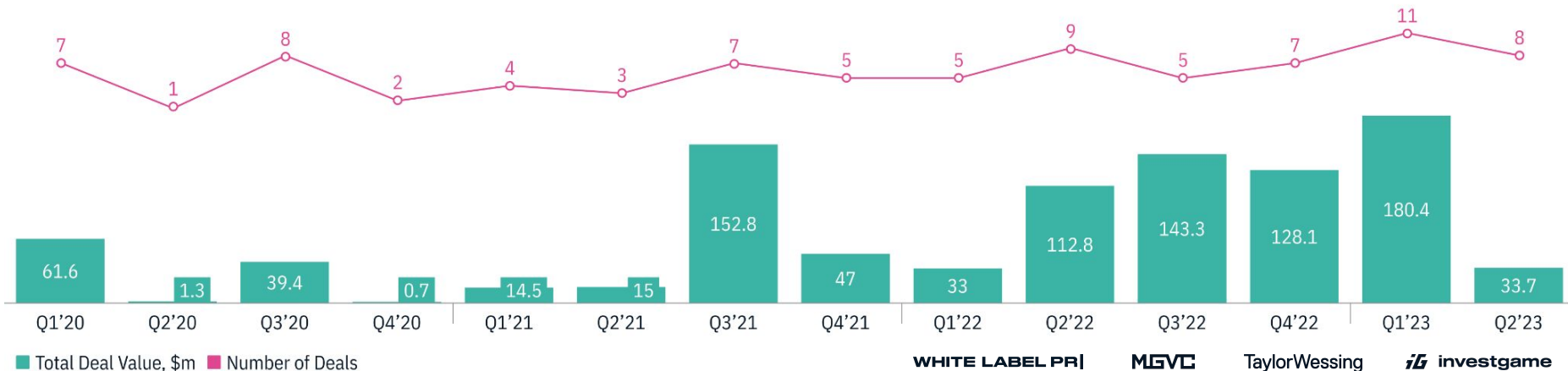
— Investments in AI gaming companies are showing modest increase, accompanied by a relatively average trendline at present. During H1'23, there were 19 deals worth \$214.1m, compared to \$145.8m across 14 deals in H1'22, 7 deals worth \$29.5m in H1'21, and 8 deals worth \$62.9m in H1'20.

— However, unlike the surge seen in blockchain gaming, the number of deals in AI hasn't exhibited such a prominent growth in comparison to previous years. Yet, with the substantial increase in allocated funds, we do anticipate a noticeable upswing in deal activity during the latter half of the year.

We see following drivers of AI in gaming:

1. Potential simplification of game development, and, as a result, a decrease in total development costs and its acceleration.
2. Potential ability to connect generative AI to create individual gameplay for each player, which increases replay value and user retention.

Closed AI Deals



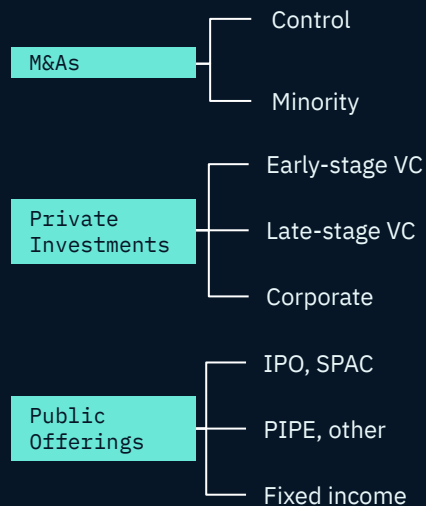
Methodology & Glossary

InvestGame tracks closed transactions (unless otherwise noted) in the Video Games industry, with target companies having core business operations related to the Video Games market. Please note that we do not track pure gambling, betting, and non-gaming blockchain/Web3 companies.

The private data contained in this report is based on information from sources believed to be reliable, but accuracy and completeness cannot be guaranteed. Sources include public media, our business partners, data provider S&P Capital IQ, and market insights.

The information, opinions, estimates, and forecasts contained herein are as of the date hereof and are subject to change without prior notification. We seek to update our research as appropriate.

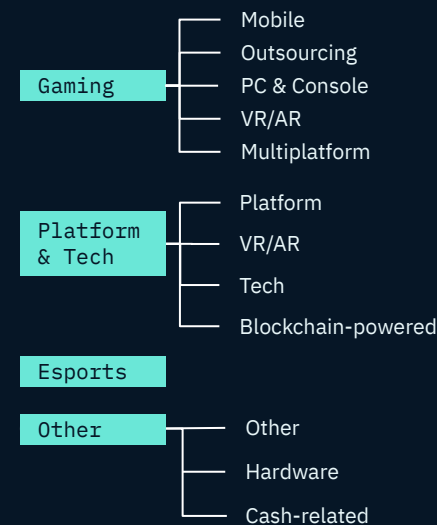
Deal Types Overview



Deal Type Terms Glossary

- Control M&As—mergers and acquisitions resulting in the change of control (50%+ ownership)
- Minority M&As—sale of a minority stake in the business
- Early-stage VC—pre-Seed, Seed, and Series A rounds with a lead VC fund
- Late-stage VC—Series B, Series C, and later-lettered venture rounds
- Corporate Investments—investments with a lead investor being corporation
- IPOs—the process of company going public including IPOs, SPACs, and direct listings
- Fixed-income—debt-related instrument with fixed payments and interest payments
- PIPE, other—private investment in public equity, direct share issue, and other transactions with publicly traded stock

Target's Sector Overview



VC Ratings Calculation

For both the Deals Number and Deal Value lists, we prioritize as follows:

- 60%—lead deals number / value;
- 40%—total number / value of deals.

Since the funds do not usually disclose publicly their individual participation in a particular round (even if some occasionally do), we do not take into account the exact cuts. We prioritise the overall number and the sum of the deals while still placing importance on the value and the count of lead deals.

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