

A STUDY FOR CITY OF HELSINKI

BEST PRACTICES

for young **GAME**
START-UPS
to **RISE** private
INVESTMENTS



18.8.2022



start-up



team



funding



market



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process.*

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1. BACKGROUND

During last 5-10 years, Finnish game companies have been very successful in attracting private investment to their businesses. The Finnish game industry has a reputation as a good investment target and inside the Finnish game industry ecosystem there is a lot of tacit knowledge on how to attract investments. However, knowledge on raising investment has not so far been shared systematically from one company to another. Since the game industry is a unique investment environment, general investment guides¹ rarely offer all the required industry-specific information.

The primary purpose of this study is to equip you, as a founder of a game industry start-up company, with necessary basic background information about investment processes and investor requirements and best practices for raising private funding. This is not a guidance document for game development.

This study was assigned to Neogames Finland by the City of Helsinki.

2. METHODOLOGY

To map current investment trends in the Finnish games industry, the authors of this study interviewed six private investors who have invested in Finnish game developer studios and six Finnish game industry start-ups that successfully raised private funding between 2020-2021.

In addition, this study is based on presentations from the March 2022 Get Funded event, organized by Neogames Finland, providing an overview of public and private funding opportunities for game developer studios in Finland in 2022.

3. INTRODUCTION

Young entrepreneurs, especially inexperienced ones, often consider a lack of available cash and/or access to further investment as their most demanding challenge. However, a closer look typically reveals some fundamental problems in the business construction that require attention before the company is ready for investment.

Getting investment for a company whose founders do not have previous game industry experience or convincing previous track records from other related industries is always highly challenging. Yet, it is possible, especially if the team has done their background work properly. **Raising investment requires a solid and scalable² business plan and a firm understanding of the current situation in a well-defined market segment.**

The main focus of this study is to introduce requirements and best practices for rising private funding to young entrepreneurs who already meet the basic requirements of game development.

This study approaches the investment process from two perspectives; an investor's point of view and a game company's point of view. It covers topics from key business requirements, defining return expectations, ways of approaching investors and how to pitch a company to them. At the end of the study, we introduce best practices to company documentation and governance.

¹) See, for example, Ohjelmistoyrittäjän sijoitusopas 2012:

https://teknologiateollisuus.fi/sites/default/files/file_attachments/rahoitusopas_2012_uusi.pdf

²) Scalability from an investor point of view means that profits must be multiplied regarding the project costs



4. ANGEL INVESTORS OR VENTURE CAPITAL INVESTMENT?

Business angels are individuals or groups of investors who are investing their own money, usually in exchange for convertible debt or ownership equity. Typically business angels investments are smaller than VC investments and targeted at early-stage start-ups that are not eligible for VC investment due to their small size. Angel investors usually make their investments for the first funding rounds (pre-seed / seed). The size of an angel investment is from €50k up to several hundred of thousands. If everything goes as planned, an angel investment can lead, at a later stage, to a venture capital investment offering angel investors a possibility to make an exit.

Sometimes business angels have first-hand experience of the business they are investing in. Therefore, they can also give advice, support in scaling and growing the business and help to find investors for the next investment round through their networks.

Business angels can have an individual interest or know how in a certain target audience, geographical area, value base, customer business, business to business etc. Therefore, a company looking for seed investment from a business angel should find out first what kind of angels they should be reaching out to. In Finland, business angels are organized under **FIBAN**, the Finnish Business Angels Network (<https://fiban.org/>) that represents over 650 business angels. Some of them are also active in the game industry.

It is worthwhile considering what are the most suitable investment/funding methods for the company. For trendy business ideas, there is quite a lot of VC money available and also specific game industry VCs too. Public funding opportunities³ that are available in Finland can also be used to leverage private investments.

Venture Capitals (VC) firms raise money from banks, corporations and investment funds. VCs are, typically, professional investors who invest in a portfolio of new companies, provide hands-on guidance, and leverage their professional networks to help them.

Vcs usually require a board seat in the company they invest in. VCs can invest in different stages of the company, sometimes even at the pre-seed phase, but, typically, VCs join the investor pool after the initial investment round. VC Investments are high-risk/high-return investments and focus on emerging companies and scale-ups. In case of a business failure, VC money is not paid back as e.g. a bank loan. Many of the VCs prefer a long term investment strategy, meaning that they are ready to invest several rounds into a company if it seems to be successful. Therefore, sometimes new funds of the VC are already partly allocated for a follow up to previous investments. There are different size of VC funds, starting from €100 million to several billions.

A VC always aims for an exit within a specific time period after the initial investment. The exit may happen, for instance, by merger and acquisition (M&A) when another company acquires the investee⁴ or by an initial public offering (IPO) when the investee is listed in the stock market.

³) E.g. Business Finland funding for the Game Industry: <https://www.businessfinland.fi/en/for-finnish-customers/services/funding/tempo-funding/game-business-funding>

⁴) Investee: a company that has been given money in order to make a profit or get an advantage

In Finland, there are several active games industry-focused VC funds:

- **SISU Game Ventures** (<https://sisu.vc/>) and **Play Ventures** (<https://www.playventures.vc/>) dominate the local game industry VC scene. Both of them are early-stage VC investors. At the end of 2021, Sisu Game Ventures had 51, and Play Ventures had 28 game companies in their portfolio. They often attract business angels to invest with them, and vice versa.
- **Nordic Game Fund Management** has invested in 4 Finnish studios: <https://nordicgameventures.com/#i>
- Finnish mobile game giants are making their own direct investments in other Finnish companies. For example, **Supercell** has an investment arm, Supercell Ventures, but their investment philosophy is quite different to usual VC investors: <https://supercell.com/en/investments/>

Several global game industry specific funds have also invested in Finnish game companies. One example would be **Makers Fund** which had 4 Finnish Game Companies in its portfolio by the end of 2021: <https://makersfund.com/>

When you, as a founder of a game company, consider raising investment funding, you should, in particular, focus on the following questions:

1. **What is the most suitable type of investment/funding for your company?** For example, there is often a lot of VC funding available for trending business ideas and, as mentioned, even from game industry-specific Venture Capital investors.
2. **Who are the investors that are potentially interested in your business?**
 - a. **Business angels** can have individual interests or specific know-how in certain fields. If you are looking for investment from a group of angels, it is good to start by convincing one of them.
 - b. **VCs.** It is good to start by checking their investment portfolio to see what type on investments they have done. However, quite often, investors also want to have diversity in their portfolio and don't make too many similar investments. Still, it is quite easy to find information on the investor preferences, for example, other developers, or directly from VCs. VCs can also attract business angels along with them and vice versa.
3. **How does the chosen type of funding work with other funding instruments?** For example, some Finnish public funding opportunities⁵ can be used to leverage private investment.

Initially, all private investors want to get their money back and, preferably, generously multiplied. Different investors have different expectations for Return of Investment (ROI), but, generally, the minimum satisfactory ROI is considered to be around 3 the value of investment.*

⁵) E.g. Business Finland funding for Game Industry:

<https://www.businessfinland.fi/en/for-finnish-customers/services/funding/tempo-funding/game-business-funding>

5. WHAT ARE THE KEY REQUIREMENTS FOR A GAME COMPANY TO RAISE INVESTMENT?

It is self-evident that a game company looking for investment needs to be able to execute a high quality and competitive product/game to gain success. As already mentioned before, it is quite common that young game developers consider that the most critical issue that hinders their game development is a lack of money. However, it is very important to explore what is the **level of business competence of the company, which is, in addition to pure game development skills, an essential requirement for funding**. Private investors are expecting a 3-10-fold profit for their investment within a certain timeline. **That means that a game company looking for investment needs to identify itself as a growth company. Investor money is never a gift and investors are not patrons.** The game company must be able to create and present a convincing plan, not only a profitable but also scalable business in their case.

The competition is tough in the game industry, therefore it is also advisable to benchmark situations in different market segments and identify opportunities in areas, where the competition is not so tight. By offering an individual unique solution, a company has an opportunity to succeed. Competition in the market is not a bad thing in itself, it proves that there is demand from the customer side. On the other hand, market disruptions, when the success is hard to predict, can offer new opportunities for small companies, that are, per se, more agile than big corporations. Cloud games, NFT, user generated content, and metaverse (to mention some) are possible new disruptions. It is worthwhile estimating what are the realistic opportunities for the entrepreneur to succeed in competition in the market they are aiming to. More about investors' requirements and expectations are included in the following chapters 6.2. and 6.4.

The key requirements for a game company to raise investment can be summed up as follows.

1. You must have a **team that is able to execute a high-quality and competitive product/game** with a high potential for financial success.
2. Your company **must have a business approach**, in addition to pure game development skills.
3. **You must identify your company as a growth company.**



6. HOW DOES AN INVESTOR SEE A GAME COMPANY AS AN INVESTMENT TARGET?

In this chapter, we cover rising private funding from an investor's point of view.

Both the investor interviews and the closed investment rounds underlined the fact that there is a relatively large amount of funding available for and invested in the Finnish game industry.

While game markets are becoming more mature, game development is becoming more professional. Now, more game developer studios have better business experience than before. In addition, existing creative and technological know-how is making game companies better in growing and scaling up. Consequently, the gap between investor expectations and Finnish game entrepreneurs' professional level has decreased significantly in recent years.

The table on following page provides a rough estimate of the investments made from 2020 to Q2/2022. This trend seems to continue as some significant investments were made in early 2022. The data below is based on public sources.



COMPANY	INVESTMENT IN €	INVESTORS	MONTH /YEAR
Mainframe Industries	8 million	Andreessen Horowitz, Riot Games	03/2020
Reworks	4 million	EQT Ventures	04/2020
Superplus Games	3.8 million		04/2020
Lightheart Games	1.3 million	Sisu Game Ventures, Galaxy EOS VC fund, Angel Investors	04/2020
Nitro games	4.3 million	Nordiskfilm	04/2020
Dazzle Rocks	6.4 million	Galaxy interactive, Spintop Ventures, Sisu Game Ventures	05/2020
MyGamez	1.5 million	Fingersoft & SmallGiant	05/2020
4Good Games	not public	Angel investors	06/2020
Traplight Games	8 million	EQT Ventures, Play Ventures, Initial capital, and Hearcore Capital	07/2020
Metacore	25 million	Supercell	09/2020
Savage Game Studios	4.2 million	Makers Fund, Play Ventures. Existing investors, including NetEase Capital, Makers Fund, Kowloon Nights and Angel investors	01/2021
Redhill Games	17.5 million	NetEase Capital, Makers Fund, Kowloon Nights	02/2021
Lightheart Games	6.5 million	Makers Fund, Galaxy Interactive and Sisu Game Ventures	04/2021
Yousician	26.5 million	True Ventures Amazon's Alexa Fund, MPL Ventures and Angel investors	04/2021
Metacore Games	170 million	Supercell (Credit line)	05/2021
Noice	4.8 million	Angel investors	05/2021
Quicksave	1.4 million	Konvoy Ventures, Sisu Game Ventures, Raptor Group, and Lago Innovation.	06/2021
Boom Corporation	1.7 million	Vgames as main investor	06/2021
Order of Meta	1.4 million	Play Ventures, Initial Capital and Angek investor.	10/2021
HypeHype (Frogmind)	13 million	Supercell	11/2021
Mainframe Industries	17.3 million	Andreessen Horowitz., Twitch Interactive , Dreamhaven Inc. Riot Games an angel investors.	12/2021
Yahaha	48.9 million	"round 1" was led by 5Y Capital; "round 2" was led by HillHouse, and "round 3" was led by Coatue. Early investors participated in subsequent rounds, and other backers include ZhenFund, Bertelsmann Asia Investments, BiliBili and Xiaomi.	01/2022
Social First	2.4 million	Play Ventures, as well as a separate syndicate led by Play Ventures partner Joakim Achrén.	01/2022
Return Entertainment	5.3 million	Bitkraft Ventures led the round, with participation from Sisu Game Ventures, Vgames, 1Up Fund, and SMOK Ventures.	02/2022

Nowadays, there are also **more game industry-focused investors**, so-called “wise money”, than before. All of the interviewed investees preferred games industry-specific investors and deemed them to be more desirable than general investors.

Based on investor interviews, despite the rapid growth of the games industry investment scene and the value of investments, the Finnish investment scene is not considered to be overheated. The only exception may include the investment wave to the blockchain, NFT, metaverse and web 3.0 sectors in 2021 that decreased rapidly in early 2022.

Furthermore, there are more and more **second-round entrepreneurs** in Finland who are already experienced in running a game company, maybe even as an entrepreneur. These second-round start-ups are usually desirable investment targets, as other successful Finnish second-round game companies have proved their investment potential. In some cases, there has even been competition between investors, and a game company has been able to choose the most appealing one.

Several acquisitions made to Finnish second round game companies are a proof of investors’ interest towards new experienced entrepreneurs. Even though acquired studios are sometimes closed, those entrepreneurs often continue in the game industry as investors or as new entrepreneurs, whilst some of the experienced employees are founding new studios. While the game industry is in growth in Finland and suffering a lack of employees, it is quite easy to find new job opportunities for all game industry professionals.

Often experienced entrepreneurs with previous success are less afraid of failure and braver in founding more divergent and risk-taking start-ups. In addition, some second-round entrepreneurs have potentially more own capital to invest (due to previous exits), making them more patient with growing business, as there is no rush to make an exit.

So-called **first-round entrepreneurs** (with no previous experience in the game industry, except for their education) have a much more challenging position in the investment markets. Especially for young entrepreneurs, the thresholds for private investment are often hard to achieve. However, **young industry talent can offer novel, ground-breaking angles to the markets and a high level of ambition and commitment to product development**. One opportunity for the first-rounders is to team up with more experienced founders.

Game industry consolidation and market maturation have increased the competition between game companies. Thus, game developers want to differ in a very crowded market, and naturally, game industry investors are looking for opportunities also outside the traditional game business core. NFT and web 3.0 are prominent examples of that, but also new technological platforms and solutions, new service models and combinations of them. However, there is still room and interest for traditional F2P games with new twists and combinations of existing genres and mechanics.

Sustainability and social responsibility are increasingly important factors impacting investment decisions. Compared with many traditional industries, the game industry is relatively sustainable from environmental aspects per se. In addition, diversity, equality and company culture are often considered in investment decisions. All of these are building blocks of a better industry.

6.1. WHAT ARE INVESTORS' ROI EXPECTATIONS?

All private investors want to get back the money they invested, preferably generously multiplied. You have to understand investors' expectations for return to investment (ROI) and remember that different investors have different expectations for ROI.

Generally speaking, the minimum satisfactory ROI is about three times the value of the original investment. On average, **investors expect their investment to be multiplied 3-10 times within 5-10 years. This is THE scenario that you must be able to match with a convincing plan and convince investors that you have the realistic potential to execute THE plan.**

It is a necessity that the company seeking investment is a growth company that is building a scalable business. For that reason, investors often prefer service (e.g. F2P) and subscription-based business models. It is highly challenging to succeed in selling separate premium titles enough to enable hockey stick growth. And when there are justified reasons to expect big enough sales, production costs are often too high for most investors to consider an investment.

To be able to raise more funding, a VC needs to have at least a few (2-3/10) big success stories in their investment portfolio, and, so far, the Finnish game industry has been able to provide those success stories. Some VCs expect one single investment (among all the other investments they have made for a particular fund) to have the potential returns of the size of their entire fund.

Business failure and losing the investment is an accepted risk from the investors' point of view. More important is a credible opportunity for growth. Some investors, especially game industry-specific ones, see their portfolio companies as a family and are willing to support promising entrepreneurs as part of the industry ecosystem. Funds focused on the game industry can also bring other forms of added value for game companies (e.g. industry contacts), in addition to money.



6.2. WHAT ARE THE INVESTMENT STRATEGIES FOR DIFFERENT STAGES OF THE BUSINESS LIFECYCLE?

There are different investors and funding tools for different stages of the business lifecycle. Often, in particular business angels, but also some VCs, are focusing on funding for early-stage start-ups. The first investments can be relatively small (i.e. €50k), specifically with business angels. First-stage investments with VCs can typically vary between €50k and €2M. The prices of company stakes have risen over recent years. A couple of years ago, a €50k investment often equalled a 10% stake from the company. Nowadays the investment for a 10% stake is substantially higher.

Some investors invest even before the company has a product. In those cases, a team must be experienced, and, preferably, the investor already knows the founders. Usually, investors require a proven success and/or proof of concept or a highly impressive demo before they are ready to invest.

Furthermore, in particular, VC investors often prefer a **long-term investment strategy** where they are potentially part of the following investment rounds. In later investment rounds, the company's track record plays a significant role.

Most game industry investors require that they have leverage in the company they invest in. VCs often presume a board seat. Business angels do not necessarily demand a board seat but require other ways to participate in discussions regarding the company's future.



6.3. HOW IS THE GAME COMPANY'S VALUE DEFINED, AND WHAT ARE OTHER REQUIREMENTS FOR INVESTMENT?

Each investor has their own preferences on the key elements in making investment decisions. Conflicting investor advice and requirements can sometimes be confusing for a game developer. **For this reason, you should always carefully consider how to fit the individual requirements of each investor in your unique case. However, in general, you should be able to answer the most common investor requirements** listed below:

A good TEAM is energetic, ambitious, efficient, experienced or otherwise convincing.

- Investors seek growth, meaning indies and lifestyle entrepreneurs are not usually considered to be potential investment targets. However, it is crucial to keep in mind that in the games industry, **in addition to business orientation, creativity is as essential. The team must have the ability to create novel solutions and content.**
- **The team must have a solid vision, concept and understanding of what they are aiming at and, naturally, enough proven skills to execute it.** It's good to articulate the vision extremely clearly and keep in mind that **investors want to see their exit path in it.**
- Having a potential team does not mean that only experienced (senior) game developers are valued. Young talents can bring fresh ideas and touches to game development with a high ambition to learn.
- What are the **gaps in the skills of the team**, and what is the plan to solve those?

A good GAME has the right timing, a clear market opportunity and unique selling points, promising progress in product development and good metrics. You must demonstrate proven knowledge of the targeted genre.

- A game that is already on the markets or at a **soft launch provides good** information about the game's potential and the team's capability. It also shows the developers' ability to estimate and analyse game data and market feedback and assess their plans to improve their internal processes, the product itself or its marketing.
- Having already had **success with the game is not always a requirement because predicting the future is often challenging**, especially with a new type of game. Sometimes investors even hope that a company fails fast with their first game so that founders can learn from it and move onwards.
- Over the past few years, **PC, console and premium games have not been the most fundable** from the private investors' point of view. In most cases, they are not as scalable as service-based mobile games, and on PC and console, development costs tend to be higher than on mobile.
- Especially since mobile game markets are becoming increasingly saturated, and many games are similar, it is important to keep in mind that **investors are looking for something new and different** (a unique selling point). You should be able to explain **the company's unique selling points and game, and why NOW is the best time for your company to access and succeed in a specific market with that game.** Timing is essential because even the most experienced team can't succeed if there isn't a big enough market or enough room in the market. Team flexibility/agility and an open attitude with the ability to execute can help to find the right timing and market fit.
- **Often the innovation comes from different combos, so bringing a new twist can be an opportunity to access the market and success. It is always good to examine other successful products/games and ponder if there is something to learn.** Some investors prefer specific genres and expect the developer to have previous experience in that genre. All in all, **you should always be pitching the whole company, not just a single game or product**, unless the developer is building a platform or larger service. Pitching a game is more useful when a company is looking for a publisher.

A good **BUSINESS CONCEPT** combines promising analytics data from a soft launch with good KPIs, organic growth in UA and a good demo with a good vision for the future and, preferably, a new twist on a business model, organic growth in UA.

- A solid business plan with credible growth opportunities is one of the most essential requirements for investment.⁶ You must be able to **describe what kind of gap in the market the company and game are aiming to fill and convince investors that they can succeed and compete in the target market.**
- You need to know your numbers, key market data and game metrics. Despite how convincing your core team and vision are, **realistic excels and calculations, including risk assessments, matter. To be able to present those numbers, a game developer has to understand their markets and genre.** Analyzing the market data and progress of, for example, game genres can give information to support estimating timing and market opportunities, but also the situation of competition in that segment. If the segment has the major dominance of a few other companies, it is challenging for a newcomer to compete, especially if the marketing/UA budgets are limited.
- Even if the investment decision would not rely only on game metrics, it is good to show that you understand the process. **It is not only about the numbers in metrics; it is more about how the developer looks at numbers and how the data points of the development process are evaluated.**
- You need to be able to estimate **how much resources the game development process, shipping the game and marketing the game in a reasonable timeframe takes. Company burn rates must be calculated realistically with decent salaries.** Over the last couple of years, salary levels have been on the rise, and, in the future, inflation rates are likely to affect wages and overheads. Big teams rapidly expand the costs of production.

Other common requirements to keep in mind are smooth communication with investors, the ability to listen and learn, and being a good match for the investor portfolio. You must be open to discussion and (critical) feedback from investors and be able to utilize that in your business operations and development processes.

In the end, matching the investor requirements is always about balance. One might think that the ideal first-round investment case combines an experienced team with a proven track record, already demonstrated early success of the company and a clearly visible road towards further growth. However, typically in those cases, the company valuation is already quite high, and multiple investors are willing to make an early investment in the company. Both business angels and venture capital investors are risk investors, meaning that they are ready to take risks.

⁶) Regarding company valuation, also see:

<https://www.angelcapitalassociation.org/blog/after-20-years-updating-the-berkus-method-of-valuation/>

6.4. BEST PRACTICES TO REACH OUT TO INVESTORS

Some investors admitted that 9/10 of companies that received investment from them are from their own network. It is worth reminding that the Finnish game community is relatively small, so raising awareness of one's studio and its games inside it is relatively easy. The **best-case scenario is that you start building investor relationships well before you begin pitching for investment.**

A warm recommendation from a relevant industry influencer who believes in your team and your vision is precious. However, a recommendation from an investor that could be right for the company, but decided not to invest, is not always a good recommendation. Industry events and open pitching opportunities are a good way to raise awareness about your existence.

When there is a connection to an investor, with an introduction or with a meeting tool, scheduled meetings with investors are a good way to pitch the deck. Most of the pitches don't lead to investment directly, but meeting different kinds of investors is invaluable for gaining practice in the art of pitching. More about pitching on chapter 8.



6.5. WHAT TO DO WHEN YOUR COMPANY FACES TROUBLE?

Competition in the game industry is extremely high. This means that to succeed, one has to take a risk. In practice, things do not always proceed as wished. **If and when the company faces troubles, it is in investors' interest to support them. Therefore, you should not hide the challenges and problems you face from your investors. It is crucial to be able to analyse even difficult situations openly.** Problems between team members can be especially very challenging to tackle.

If an additional investment can help to cross the gap, it might be something to consider. However, if the additional investment seems only to prolong the inevitable death of the company, it is not an option. **Bankruptcy is not a catastrophe. It is the risk that investors are aware of and ready to take while making investment decisions.** However, it is crucial that you take care of the bankruptcy process well, as it secures you, as a serial **entrepreneur, a possibility for new cooperation with the same investor later on with a new start-up.**



7. GAME COMPANIES' EXPERIENCES ON RAISING PRIVATE INVESTMENTS

This chapter covers raising private funding from game developers' point of view. All interviewed companies had previous experience with raising investments, at least from seed and/or angel funding. The majority (18/23) of the founders, who closed investment deals during the last two years, had previous experience of raising private money either from a current company or from a previous company.

7.1. HOW LONG DOES IT TAKE TO CLOSE AN INVESTMENT ROUND?

You should have good investor connections before starting pitching for investment. It can sometimes be hard to define a clear starting point for the money raising.

Many of the interviewed developers feel that game developer **should always be thinking of the following investment round** (keeping in mind that this can take your focus out of actual product/game development). After the seed round is completed, the focus should already be on the next round. A long-term investment strategy is also essential on the scale-up game developer side.

For an experienced second-round studio, it may take only one to four months from the first email to get a term sheet and another month to close the deal for an early-stage investment. However, **in most cases, the whole process quickly takes from half a year to one year. You should always be prepared that the process may take longer than expected.** Developers can also radically impact the time it takes to close investment decisions. Good company governance practices and, in particular, **meticulous documentation can shorten the time dramatically.** More about the company governance later in this study in chapter 8.

You should start raising investment early enough, before your company runs out of money, or there is only a short runway left. If closing the investment round takes longer than expected, the only way to keep the company afloat is to minimize the company's burn rate.

In an ideal case, the developer can make investors compete on who can participate in the funding round. This requires excellent awareness of the company among investors and a vast number of investor meetings.

7.2. HOW TO GET INFORMATION REGARDING POTENTIAL INVESTORS AND REACH THEM OUT?

Game industry events, networking opportunities, meeting tools and dinners are good ways to meet investors for the first time. Public pitching events are an opportunity to practice and increase awareness of the company, but, usually, pitching events do not lead directly to investment. SLUSH might be an exception.

As mentioned earlier, it is good to start growing the industry network already when entering the game industry. You should begin building investor relations way before you start looking for actual investment. The Finnish game industry community and fellow developers can always support and provide advice in game development and business. Fellow developers can also give information on potential investors, and, in some cases, they can even make introductions. Therefore, it is useful to also convince people around you about your company's potential.

LinkedIn, [Crunchbase](#) and news of closed deals⁷⁾ are advisable ways to identify potential investors.

It is good to remember that since the game industry community is quite tight, even on a global scale, all contact can be relevant and also become an investor later.

Too aggressive pitching and chasing are never recommendable. Good relationships do not have to be focused just on raising money. Discussions about the game industry at a general level are also a good way to start creating and maintaining investor relationships. It is highly advisable to find out what kind of focus investors have and which of them are suitable matches for you. You should **first focus on finding a lead investor.**

⁷⁾ See Chapter 6. Table 1.

7.3. HOW TO DEFINE THE VALUE OF YOUR OWN GAME COMPANY AND GAME?

It is challenging for a game developer to define the value of an early-stage game company, especially before any numbers from i.e., a soft launch or previous track record is available.⁸ Therefore, some developers allow the investors to carry out the valuation for them, but it is good to have some sort of one's own estimation.

When you have actual game metrics available, estimations become easier. Some developers define their pre-valuation based on the funding they need to achieve their next product development and marketing milestones. However, you must justify your estimate for valuation somehow. One way to do that is to **compare market data of similar games (benchmarks) to estimate the financial potential of the current version of a game**. Also, you can benchmark investments to other companies of the same kind to get guidance on your valuation.

Naturally, you need to consider how significant stake of your company you are willing to give to investors and at what stage. It is particularly important that you do not dilute your company's value too much at the beginning. Angel investments are suitable for first investment rounds as they do not dilute the company value as much in the beginning as VC funding. It means that companies do not have to give away too big a share of the company at too low a price. Too big stakes given out at the beginning can cause problems with the cap table⁹ during later investment rounds.

A good demo can help to build credence and promising soft launch numbers do that even more. All in all, you should remember that the valuation must be rational. €20 million valuation for an early-stage company might not be justifiable.

⁸) Regarding company valuation see also:

<https://www.angelcapitalassociation.org/blog/after-20-years-updating-the-berkus-method-of-valuation/>

⁹) Cap table, see: <https://corporatefinanceinstitute.com/resources/knowledge/valuation/cap-table-guide-template/>



7.4. HOW TO BUILD A LONG-TERM INVESTMENT STRATEGY FOR A GAME COMPANY?

Early-stage game developers often do not have long-term investment strategies. In the beginning, game companies often look for an **investor that can support them in product and business development, in addition to actual funding**. After all, you need to have some sort of long-term plan for your business and production, so why not plan that together with your investor. It is good to remember that even long-term plans can be modified and changed later. There are many examples of even 180 degree new pivots in the games industry.

Keep in mind that the investors, **in particular VC, who you are negotiating with, might be willing to carry out several investment rounds on the same company if there is enough potential**. If the investor later decides that they are not willing to invest more, it may be a negative sign also for the other investors considering new investments in your company.

7.5. SHOULD YOU APPLY FOR A LOAN OR PITCH FOR INVESTMENT?

When comparing loan-based funding to investment funding, game developers appreciate the knowledge, support and valuable contacts that investors can bring to the company. Private investment was estimated to increase the company's potential of success.

It is often quite challenging to get a bank loan, especially as a young entrepreneur. Many game developers also consider loans to be unnecessarily risky due to personal guarantees and responsibilities in case of bankruptcy. Business Finland loans are different, as those can be negotiated to be transformed into a subsidy afterwards if the company gets into financial troubles. However, if you have an already successful product, you can consider taking a loan to cover, i.e., UA costs.



8. HOW TO PITCH?

The primary purpose of a pitch is to make an investor interested in hearing more and giving an opportunity for the next meeting. The pitch may include a description of the team, their ambition, goals and vision. Your vision must be brave, but not sur- or unrealistic. To be taken seriously as a growth company, you have to be able to communicate your vision clearly in the pitch. Furthermore, when a team is forced to compress their business idea, vision and product concept into a format of a pitch, it supports cohesion and a shared understanding of what kind of company they are building and where they are going as a company.

Very rarely, if ever, investors decide to invest in a company only based on a pitch deck. Usually, they ask for further knowledge and information on the company before making an investment decision. When a game is already on the markets, investors may sometimes ask for deeper data on it. However, you should evaluate if you trust the investor enough to give *them access to very detailed data before the deal is made.*

An excellent way **to evaluate and test a pitch is to show it to your industry peers and even to investors.**



8.1. WHAT IS THE IMPACT AND PURPOSE OF A PITCH?

Some of the interviewed companies found the value of their pitch to be very high for closing funding and speeded up the whole process leading to it. **Ultimately, the impact of a pitch is to have the opportunity to continue negotiations further meeting by meeting.** So, it is not necessary to include everything at the first pitching opportunity. However, it is also a great tool for building industry network and awareness in it.

The most important purpose of the first pitch is that it opens (or continues) discussions with an investor. It is a tool for you to find an investor advocate (inside the fund or syndicate) who is able and willing to convince other partners about your company's potential as an investment target.

8.2. THE DEFINITION OF A GOOD PITCH

There are several different definitions for a good pitch, but none of those is absolutely right for all. You need to define, what are the important factors for you in your unique case.

Generally, a good pitch is clear, analytical, plausible, dynamic, and presented smoothly with a solid narrative. Even though Finns could, in general, enhance their sales and presentation skills, **the pitch must not be just a hollow sales speech.**

In addition to a good pitch deck, you must be able to provide a trusted and skilful impression of yourself and your team. A good pitch clearly and convincingly explains the **company's vision and your ability to execute it.** Your (*in some sense realistic*) expectations for growth also talk about **your ambition level.**

Below are several key points of a good pitch. Please notice that you should always include a **business and growth angle or vision.**

- ✓ How your company differentiates itself (unique selling point)?
- ✓ What exactly is your target group? How does your company understand your target audience?
- ✓ What is your go-to market strategy?
- ✓ Making a game is never enough. What are your business abilities?
- ✓ What is your business strategy? What is your vision for growing into a major business?
- ✓ Who are in your team and what are your history and skills? What other skills would you potentially need?
- ✓ What does your company need from an investor? How will the invested money be used?
- ✓ Existing data of the product(s), if any, should be presented.

There should always be time for feedback and questions after or during the pitch. You should **be open to feedback and listen, consider afterwards if it is relevant in your case, and then make a decision on possible changes to the pitch.**

It is often a challenge to make a pitch compact enough. **Your deck does not have to include all the points listed, but it is good to be able to answer these questions when asked.**

It is important to **consider updating and tailoring the pitch deck for each investor individually.** You **do not have to include everything for everyone during the first pitching opportunity.** Some developers say that they re-evaluate their pitch each time they pitch for the same investor (or it might look like there has been no progress). Some always go with the same pitch deck. Still, both can raise funding. When setting up a meeting for a pitch, you should ask if an investor(s) has any preferences regarding the focus of the pitch.

The **right attitude is crucial** for a developer in a relationship with investors. You must be open to feedback and be able to learn from it. You must **be able to answer critical questions about you, your team, your game and your company without being defensive.** It is essential that you are modest and respectful. **Mutual trust is the key element.** Investor relationships often last longer than the average marriage. Naturally, mutual trust and good relationships are also essential in mergers and acquisitions.

9. CURRENT INVESTMENT ENVIRONMENT AND TRENDS

More private money is available in the Finnish game industry than ever before. However, the requirements for game developers willing to raise funding are also higher than before. While some companies are raising large investment rounds, the raising of funding is very challenging for others.

Although the amount of potential and new companies is decreasing a little, there is still a good amount of potential investment targets in the Finnish game industry. It remains to be seen how many serial game industry entrepreneurs are still willing to continue in the industry and found new start-ups in future. There is also a minor concern regarding the decreasing number of young start-ups.

The sizes of investment rounds (A, B, C) have increased. In the top cases, even the A-round can now be as high as €20-100 million. To some extent, investment rounds are now more about defining the establishment status of the company than rules set in stone. For example, in the pre-seed phase, not much data is expected from a developer. It is estimated that there are many early and late-stage investments, but little between. There seems to be a difference in the definitions of investment rounds between the US and Europe.

Nowadays, most platforms are easy to access and developing a mobile game does not require too many technical skills or big budgets. Still, most money comes from games based on F2P service models. Those are also the markets where the competition is most severe, and a few industry giants dominate the markets due to ongoing rapid consolidation. Successful mobile free-to-play companies are so advanced on so many levels, from game development to business, that there are not many realistic opportunities for young and small start-ups to compete with them. Due to skyrocketing costs of user acquisition in mobile games, interviewed developers consider private investments to be a necessity, enabling you to execute UA at levels needed for success.

The PC & console side is still mainly publisher-driven, but many interviewed developers saw its potential to rise as an investment target. PC and console (for example, Nintendo Switch) offer better opportunities for young developers to succeed and learn game development than mobiles.

Web 3.0, cryptocurrencies, blockchain, NFTs and metaverse are the main buzzwords of early 2022. Both investors and game developers considered **metaverse and NFT investment and markets to be overheated**, but they had not observed similar signs from other game industry sectors. It will be interesting to see how **NFT, Metaverse, HTML 5 and cloud gaming can potentially disturb established marketplaces and what opportunities they can offer developers**.¹⁰

¹⁰) See: <https://neogames.fi/egdf-neogames-finland-released-play-to-earn-discussion-paper/>



TRENDS

Game companies are frustrated with the **similarity of successful game titles and the current lack of diversity among top-grossing games**. Still, both game companies and investors considered **the** focus on different genres, new game mechanics and new combinations in genres and game mechanics to be an opportunity for success. For small developers, developing new original IPs is a great opportunity.

Regarding the current investment potential of different genres. Social gaming and user-generated content are still of high interest among experts. Cloud gaming and streaming services have already been trending for a while and continue to be relevant. Some investors interviewed also mentioned relaxation games, and even VR games as interesting to some investors.

As the prices of user acquisition are so high in free-to-play games, many developers are seeking VC money directly, instead of business angels, already for the first funding round. It's good to remember that user-generated content, social features and player engagement give good (and low price) support in user acquisition.

Regarding geographical markets, China is still an interesting emerging market, but obviously very difficult (e.g. a very limited amount of approvals for new titles) at the moment. During investor interviews, Brazil and India were identified as potential emerging markets.

Even when there are apparent trends in game industry investments, investors make their own decisions. Naturally, they are also keen to see new opening opportunities besides the trending buzzwords.

10. COMPANY DOCUMENTATION & GOVERNANCE

It is recommended for a game (or any) company to take good care of the company documentation and governance. It might often feel unnecessary or not of high priority when a start-up is in the rush of game development and raising money. However, **well-done paperwork hastens all financing (private and public) processes dramatically**. Even though, business angels often do not have tight documentation requirements, at the latest in the following phases of investments, **when VCs are coming along, well done and documented governance is necessary**. It takes a great deal more effort to fix and create documentation and contracts afterwards. Well-organized and precise documents are easy to find and take care of. Since developing games is a global business, and so are often partners and investors, it is wise to **have all documentation in English** from the beginning.

Below are some key good corporate governance practices you should pay attention to.¹¹ A more comprehensive due diligence review and transaction documentation are required at a later stage (for example, the VC stage).

- **Due diligence (DD) review:**
 - ✓ Covering, for example: legal (e.g. privacy policy and terms and conditions), financial, tax, commercial, technology, etc.
 - ✓ **DD review is usually required by investors** (financing), the purchaser (M&A) and the company/arranging bank (IPO).
- **Documentation:**
 - ✓ Covering, for example: investment/subscription agreements, shareholders' agreement, share purchase agreements, corporate documentation, employees' contracts etc.
 - ✓ **It is highly recommended to bring in legal experts early to all contracts and investment and all partner deal making processes to have/make term sheets wisely from the developer's point of view.**
- **Decision making**
 - ✓ It is wise to document all company decision-making. A company should keep meeting minutes, sign and store them accordingly.
 - ✓ It should be set clearly on paper who has a legal right and obligation to make decisions. VC funding often comes with board seats and veto rights for VC representatives.

¹¹⁾ Get Funded Event March 8-9 2022 Ada Korhonen & Anders Floman, Avance Attorneys.

The company needs to focus on documentation relating to capitalization and equity instruments (share/option issuances, convertible loans, warrants, etc.). A buyer/investor must have certainty that the instruments have been validly issued, that the capitalization table is complete and up to date, that applicable drag-along rights apply in an exit, etc.

You should always utilize actual legal advisors while signing a contract. However, as a founder, you also need to have a basic understanding of legal perspectives on game development. You must be able to advise lawyers on their priorities and aims. Lawyers defend game developers *per se*, but not all legal experts have the necessary experience in the game industry. Therefore, it might be challenging to see what points in agreements have real relevance for game developer studios. If you, as a founder (and lawyer), do not have that kind of experience, you should seek knowledge from industry veterans or **law firms that already have game industry experience.**

11. CONCLUSION

Fundamental problems in business construction and -strategy, not a lack of available cash or access to investment, are usually the most demanding challenge hindering young entrepreneurs from successfully running a business and growing as a company.

A game company looking for investment must identify itself as a growth company. The company has to have a scalable and convincing business plan and realistic potential to execute the plan. On average, investors expect their investment to be multiplied 3-10 times in 5-10 years. Check chapter 6 for other investor requirements for a game company.

Consolidation and competition are currently very tight in the games industry. One option is to look for opportunities outside the traditional game business core, i.e. new technological platforms and solutions, service and business models and combinations of those. See chapter 9 for more information on current investment trends.

Game company founders should **start building their contact network within the industry community and with investors as early as possible.** The Finnish game developers community is tight, fair and inclusive, and community members can share great advice and contacts with newcomers. It is pretty challenging for a first-round games industry start-up to raise their first investment round, and one opportunity is to team up with more experienced founders. See chapter 7 for more best practices from game developers who have successfully closed investment funding.

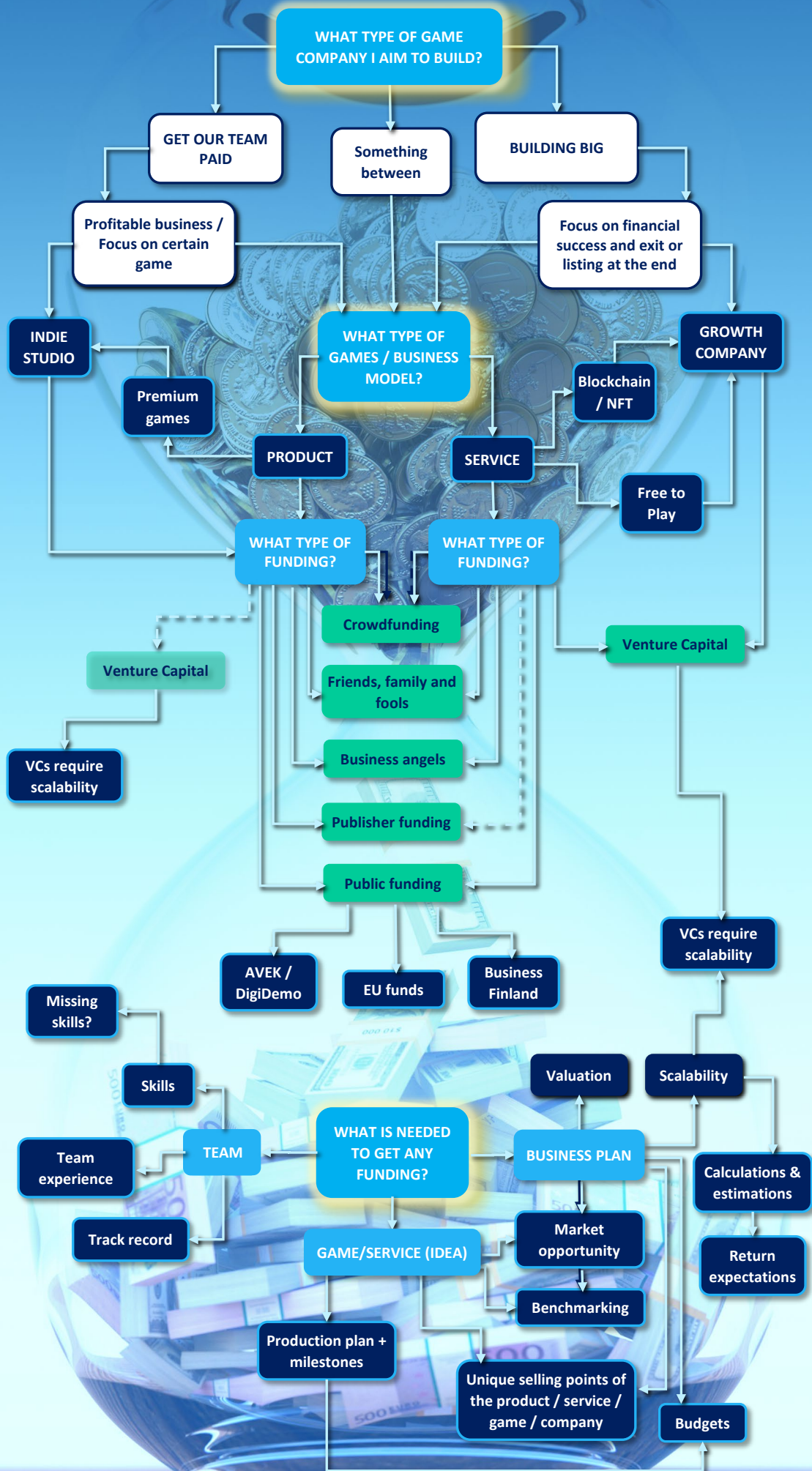
LinkedIn, [Crunchbase](#) and news of closed deals are advisable ways to identify potential investors for pitching. For more information on how to pitch, see chapter 8.

Raising money might take longer than expected, and developers should be prepared for that. Good governance can shorten the processing time dramatically. See chapter 10 for more information on that.

When it comes to company valuation, **comparing the market data of similar games (benchmarks) can support developers in making realistic estimations of the financial potential of the game.**

The following *flowchart* assembles the key points of raising private investment.

I HAVE GAME START-UP AND I NEED FUNDING.
HOW DO I PROCEED?



INTERVIEWS

VCs and Business Angels

Sisu Ventures / Samuli Syvähuoko / Founding Partner

Makers Fund / Alli Ottarsson / Principal

Aream / Julian Au / Investment Banking

Angel Investor / Sonja Ängeslevä

Maki Ventures / Ilkka Kivimäki / Partner

Play Ventures / Harri Manninen / Founding Partner

Game Companies

Redhill Games / Matias Myllyrinne / CEO

Mainframe Industries / Sulka Haro / CPO

Dazzle Rocks / Stella Wang / CEO

Metacore / Aki Järvilehto / COO

Boom Corp / Minna Eloranta / CEO

Quicksave / Elina Arponen / CEO

