

Fundraising 101 for the Game Sector

Paul Heydon

Managing Director, Avista Partners

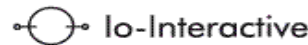
Who am I?

Paul Heydon

**Managing Director
Avista Partners**

- Advisor and Investor based in London for over 13 years
- Strong game sector experience, knowledge and relationships
- Advised on transactions in the game sector with a total value of over \$1 billion advising many companies including:

&



- Shareholder in:



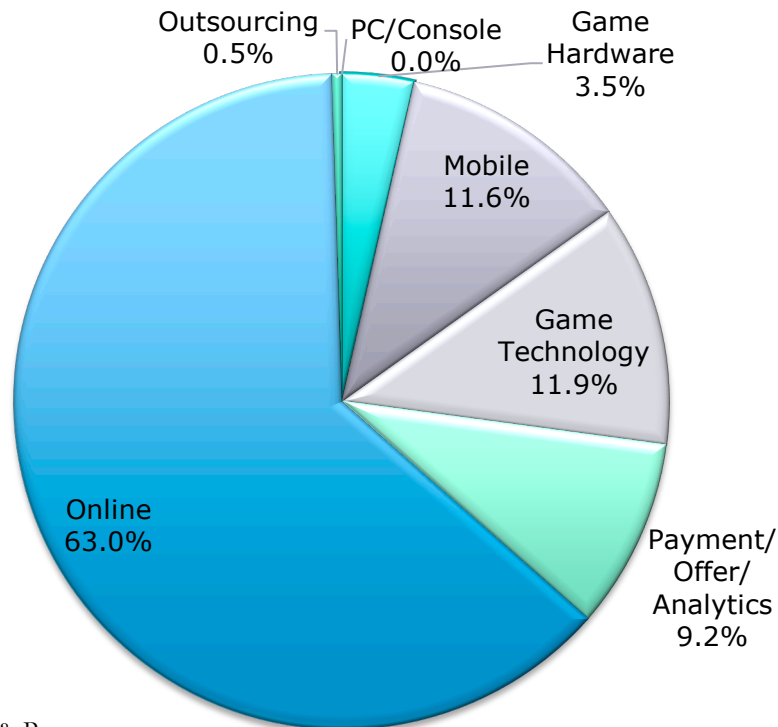
**Partner
London Venture
Partners**

Agenda

- VC's and games: summary
- Fastest growing game sector
- Why raise money
- Funding readiness
- How much to raise
- Types of potential investors
- How to raise the funding

VC's are investing where in games?

- Over **\$2.1bn** raised in VC funds in 2011 globally

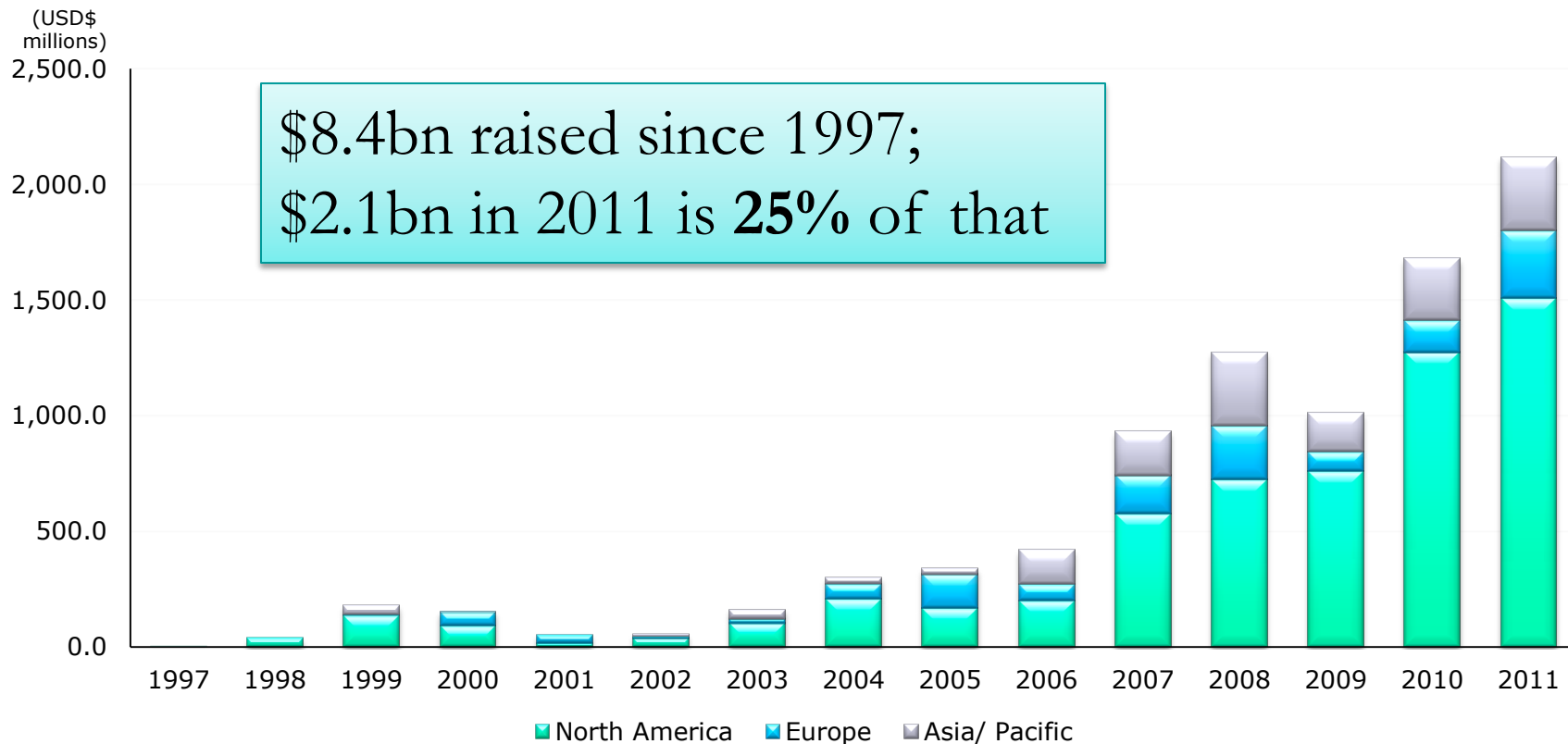


Source: Capital IQ, Company Filings, Brokers & Press

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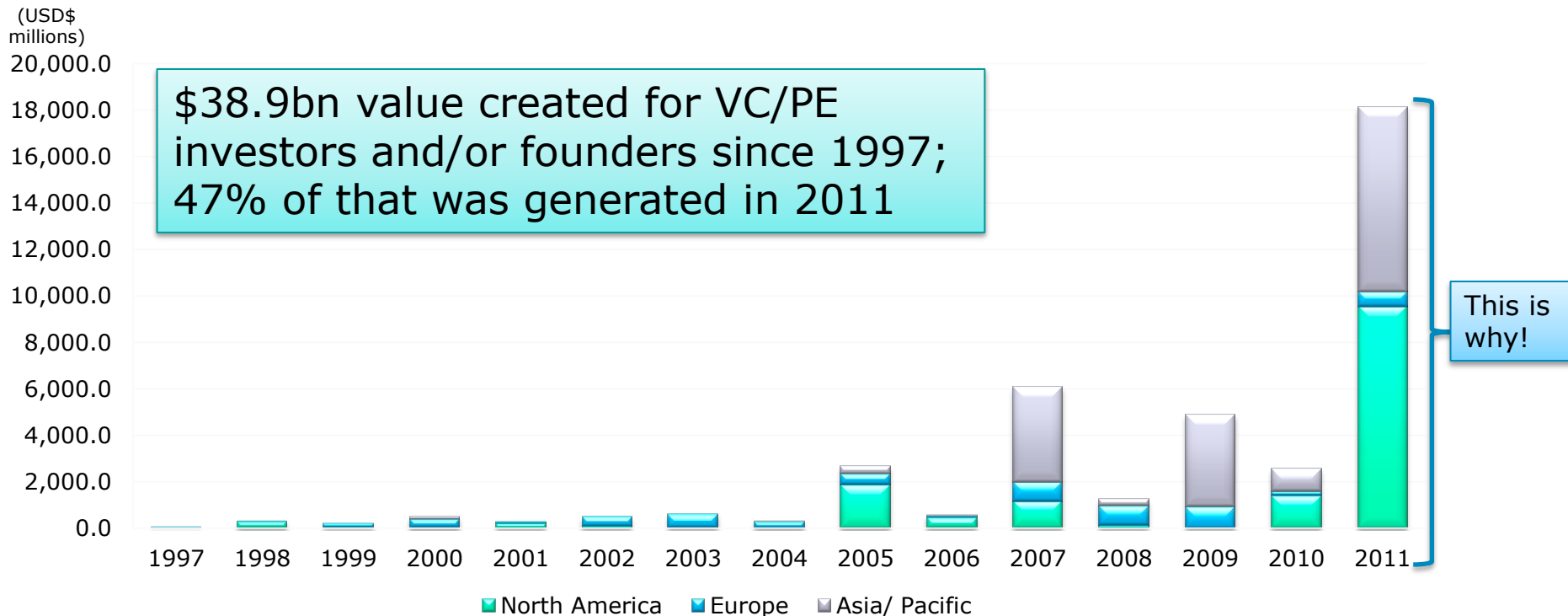
- \$2.1bn.....wow!.....thats a lot of money
- How compare to previous years?

Historical Global Fundraising



- Why are VC's investing so much now?

Global Exits/IPO's in Game Sector



What is the fastest growing game sector?

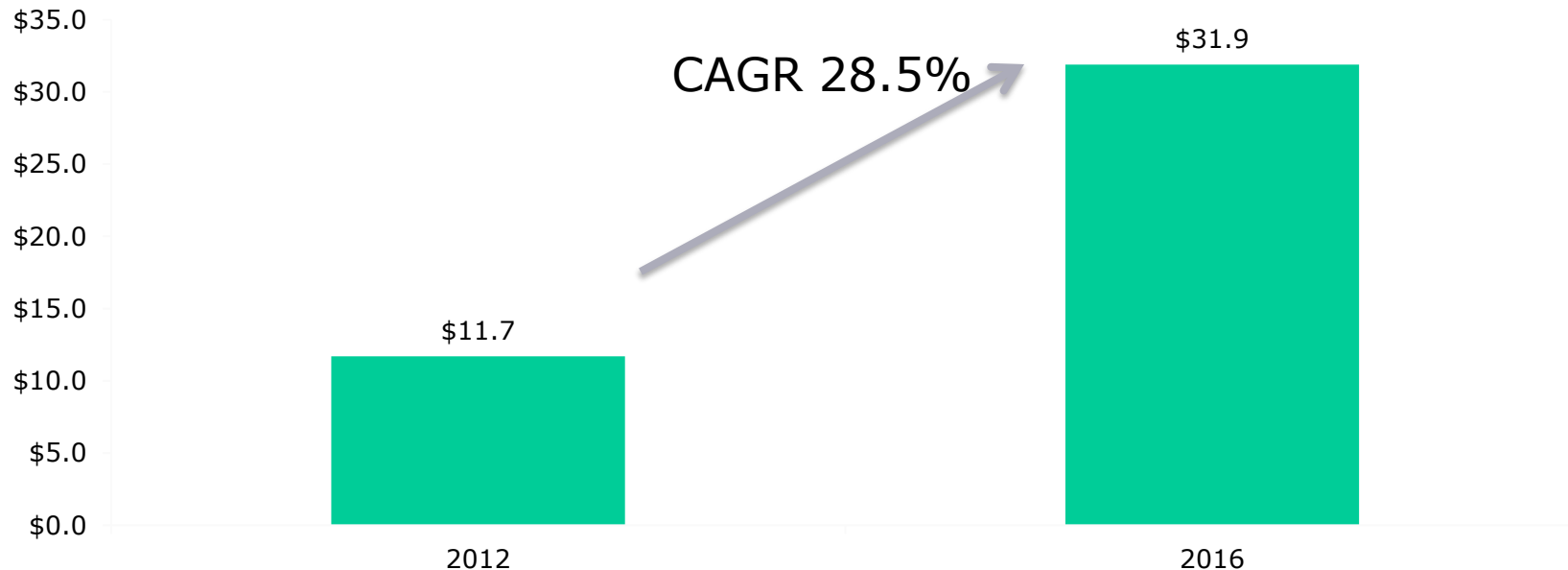
● Mobile!

● Ever heard of:

- Draw Something?
- Scaled to 10m+ DAU/ 35m+ MAU in 6 weeks
- Led to \$183m acquisition of OMGPOP by Zynga.
- Deal went from 1st call to close in < 3 weeks

Mobile Game Market Size

(Billions \$ USD)

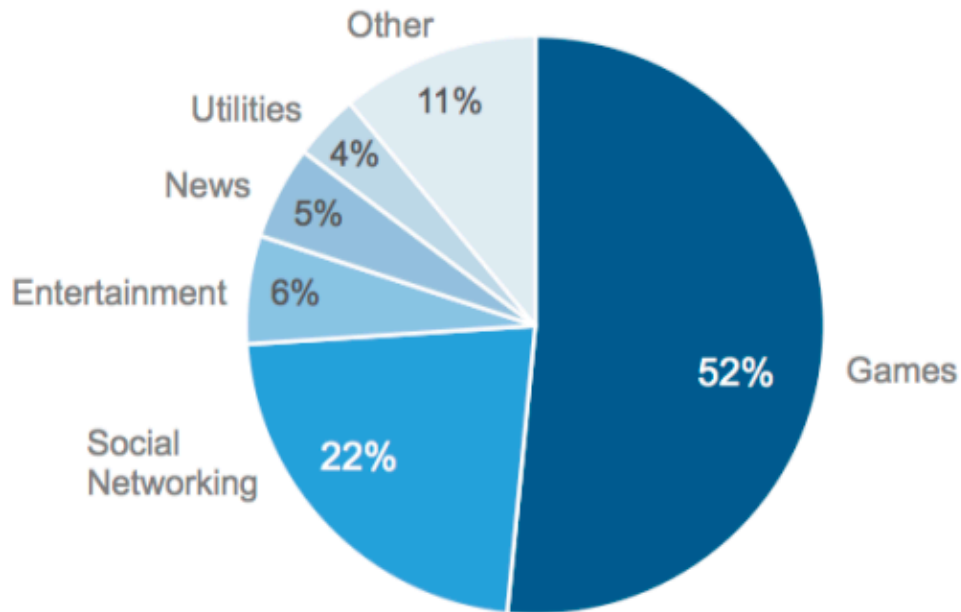


\$31.9 bn total addressable market for Mobile Games by 2016

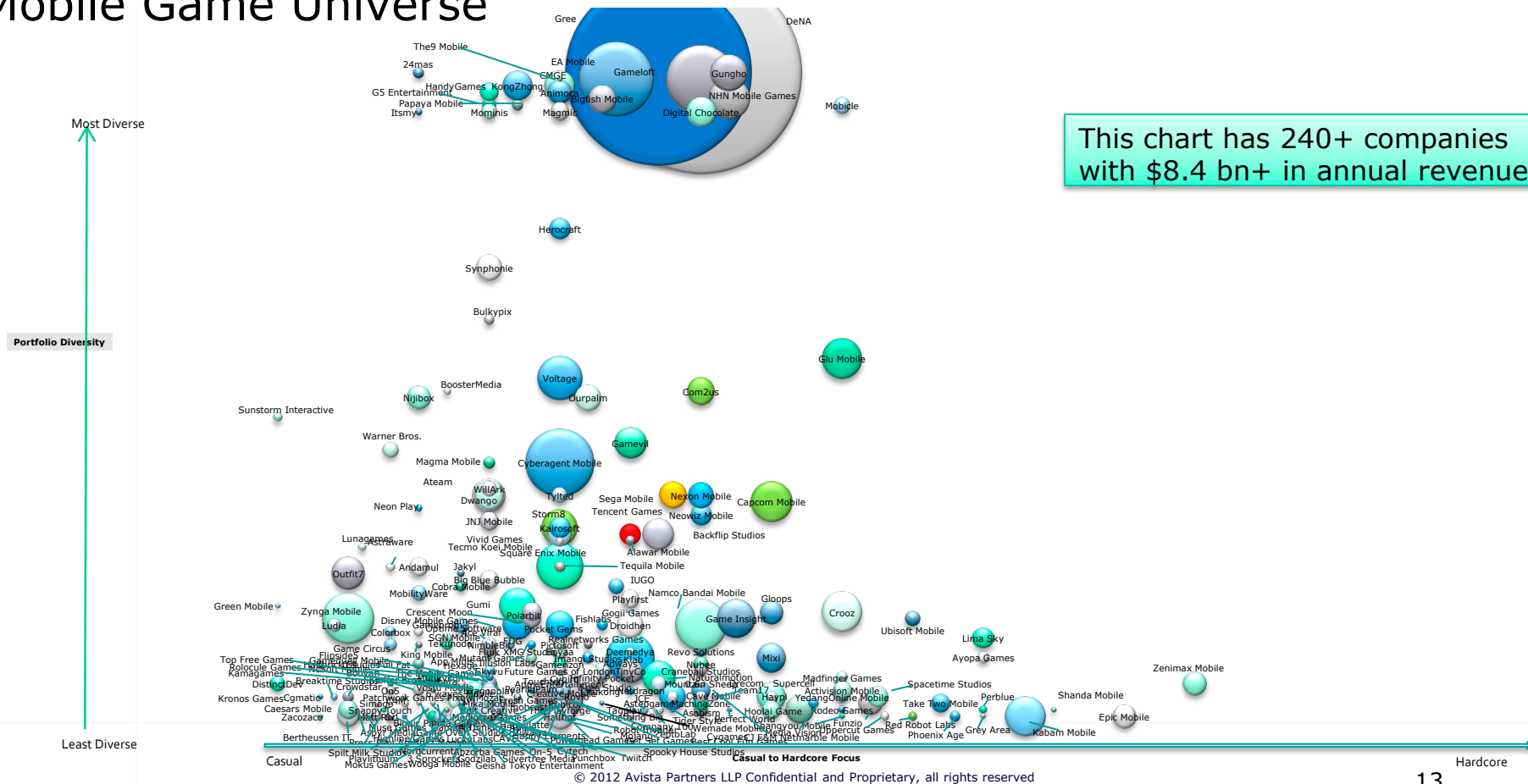
Source: Gartner, IDC, Magid, Flurry & Goldman Sachs research estimates from "Mobile Monetization: Does the shift in traffic pay?" by Goldman Sachs June 4, 2012

#1 Activity on Mobile is Games!

Worldwide Sessions per Category



Mobile Game Universe

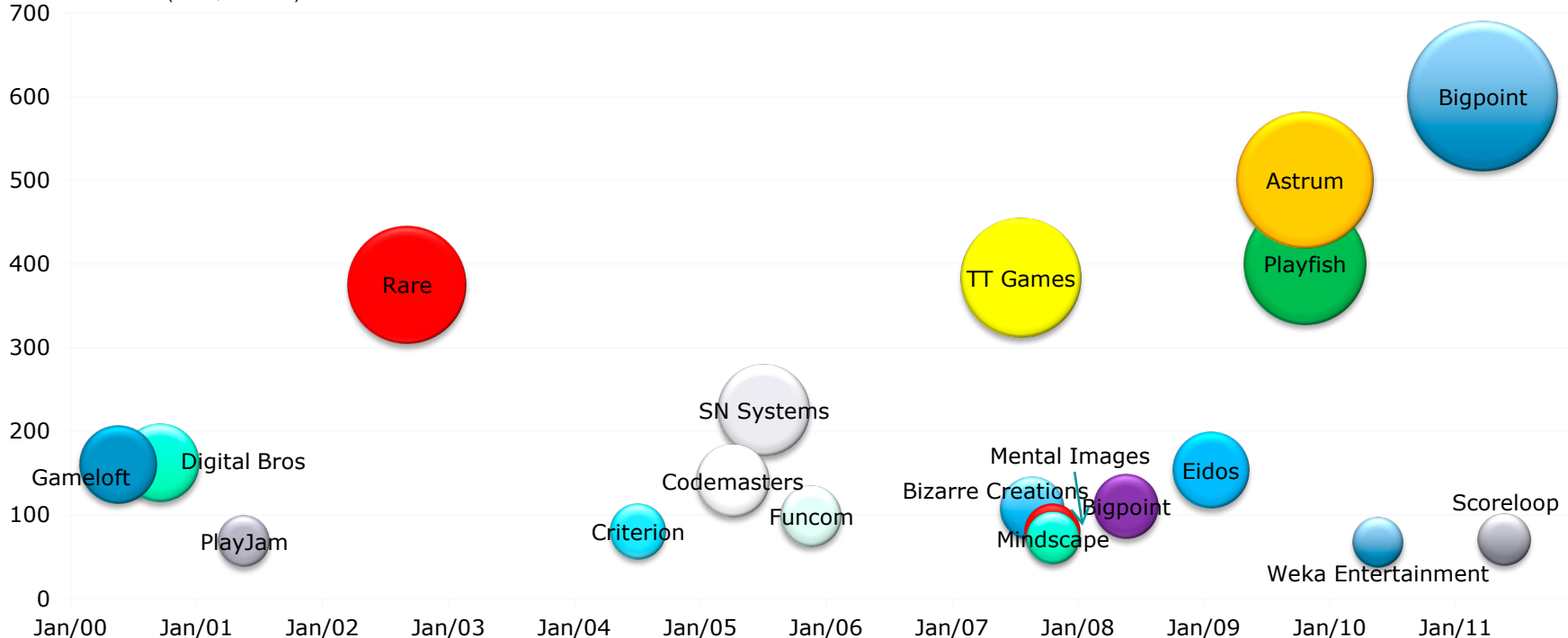


Game sector is Big

- VC's want **Big** exits with **Big** returns within 5-10 years
- Game sector is **Big**
 - \$94bn total market cap for all public companies
 - \$2.1bn funds raised in 2011
 - \$18bn+ total Exits/ IPO's in 2011
- Sector is hot now thanks to Nexon (\$6.3bn mkt cap), DeNA (\$4bn mkt cap) & Gree (\$4.4bn mkt cap)

Largest Europe IPOs/ Exit

Exit/ IPO Deal Value (USD\$ millions)



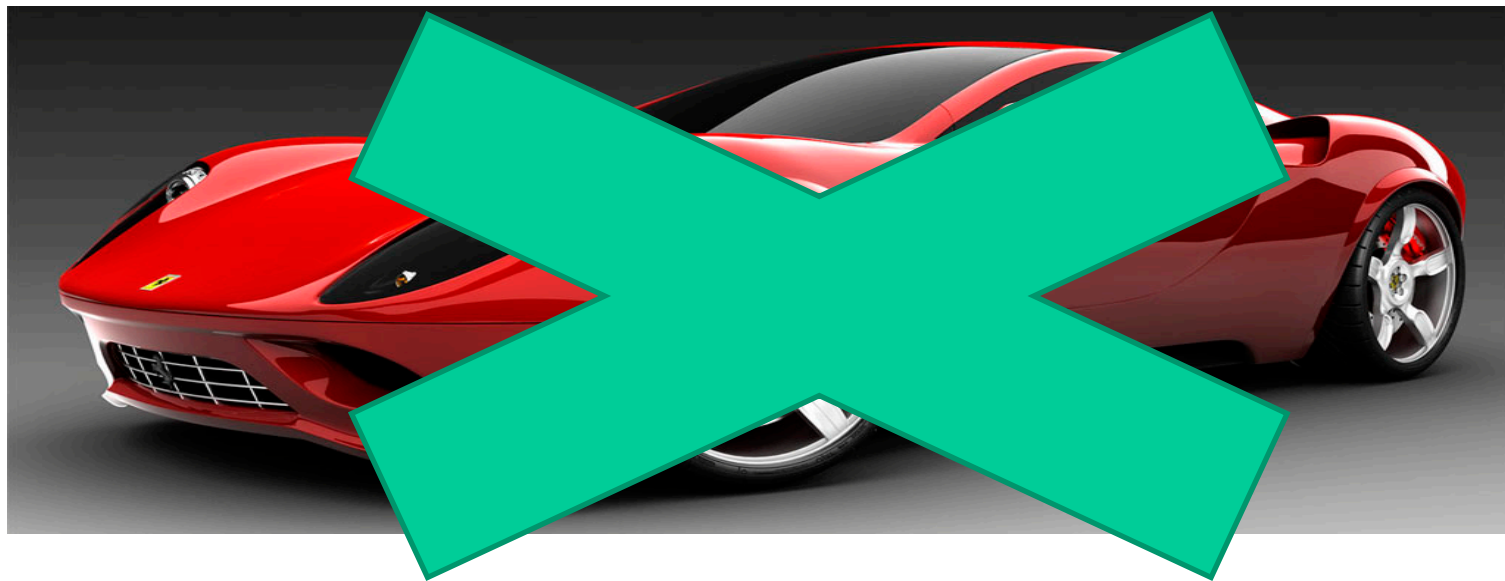
Total Value Creation: \$5.3bn in Europe since 1997

Source: Capital IQ, Company Filings, Brokers & Press

Why raise money?

Wrong Answer

- Buy a Ferrari



Interesting Answers

- to hire people/ management team
- to start a company
- to acquire a company
- to make a great game

Best Answers

- To build the most profitable game company
- To scale my company as fast as possible
- Want an investor whom can bring money and value add
- To disrupt the game sector with our new technology or games; change the world
- To build the best game publishing platform
- To be the biggest game company globally

● Think Very **Big!**

Use of funds

•Good uses:

- Recruit best talent
- Accelerate growth with marketing campaigns & customer acquisition
- Build a diversified game portfolio and more content for current games
- Take some risks without worrying about cash flow constantly

•Bad uses:

- Pay off mortgage or debt
- Tired of low salary
- Build a cool game

Readiness to raise money

Your company should have most if not all of the following:



Content

Already developed one great game or more?



Diversified Portfolio

More than one game now or in your future pipeline?



Financials

Growing revenues? Profitable now or within 12 months? Cash flow positive now or within 12 months?



Management

Mgmt team in place now or how soon? Strong track record?



Customers/ Partners

Signed deals with strategic customers or partners? How many strategic deals in pipeline?



Business Model

Is business model unique yet scalable?



Analytics

Growing DAU, MAU, DARPAU, ARPU & ARPPU, Lifetime, Lifetime Value, Cohorts, K-factor? Diversified playing & paying user base amongst multiple countries

Which Type of Investors

- Round size and purpose will determine potential investors to approach
 - **Seed** (< €2m) - angel investors, strategic investors, govt. funding, crowdfunding sites, incubators and select VC's
 - **Early Stage/ Series A** (€2m- 10m) - VC's & strategic investors
 - **Growth Stage/ Series B+** (> €10m) - VC's (growth equity), private equity and strategic investors

Other considerations

- #1 focus should be growing your company
- Be realistic on size of your funding round
- Raise enough to execute your plan; not more
- Fast growing and profitable companies may also have option for current shareholder liquidity

Crowdfunding sites

- **Key benefit:** donation only so no equity dilution or interest cost
- Considerations:
 - Donations come with zero value add
 - Project funding only; not company funding
- [Kickstarter](#) – all or nothing. 8-10% fees. For Americans only now.
- [Indiegogo](#) – flexible/ fixed campaigns. 4-16% fees
- Many others

Incubators

- **Key benefit:** small investment, mentorship and networking
- Considerations:
 - Pick the right incubator which will give the best value add for you and your strategy
- Europe: [Seedcamp](#), [HackFwd](#), [Startupbootcamp](#), [Springboard](#) and others
- USA: [Y Combinator](#), [TechStars](#), [General Assembly](#), [Founder Institute](#), [500 Startups](#), [Dreamit Ventures](#) and many others

Angel Investors

- Network!; start with whom you know and their network direct & [Linkedin](#)
 - Try friends, family, ex-colleagues, lawyers, etc.
 - Dial for dollars
- Many countries have some angel networks that invest as a group or individuals
- [AngelList](#) – growing list of top angel & VC investors

Government Funding

- Federal programs to invest in companies in technology or provide grants
- Regional programs to invest in local companies or provide grants or low interest loans or tax credits
- Benchmarks have been set in Finland with [Tekes](#) and in Quebec with [Investissement Québec](#)
- Time consuming to apply for and can be restrictive
- But in some cases it's the best initial money as no dilution

Venture Capital Firms

- Look up the venture capital association for your country for a list of firms
- Also try [European Venture Capital Association](#)
- Some of the more active firms recently:
 - [Google Ventures](#) – Rumble Entertainment, SCVNGR, ngmoco, Bionic Panda Games, Appyzoo, Pocket Change, Airy Labs, Kabam, Machinima & Zynga
 - [Intel Capital](#) – Cloud Union, Xfire, Gaikai, SNSplus, Crowdstar, Kabam, Omek & Vostu
 - [Sequoia Capital](#) – Unity Technologies, Humble Bundle, XY Brothers, Punchbox, Chukong & Pocket Gems
 - [Accel Partners](#) – Supercell, Tiny Speck, raptr, Vostu & Dragonplay
 - [IDInvest Partners](#) – Pretty Simple Games, Kobojo, Plumbee, Grand Cru, Mediastay, Ifeelgoods & Appsfire
 - [London Venture Partners](#) – Supercell, Grey Area Labs, Applifier & PlayJam

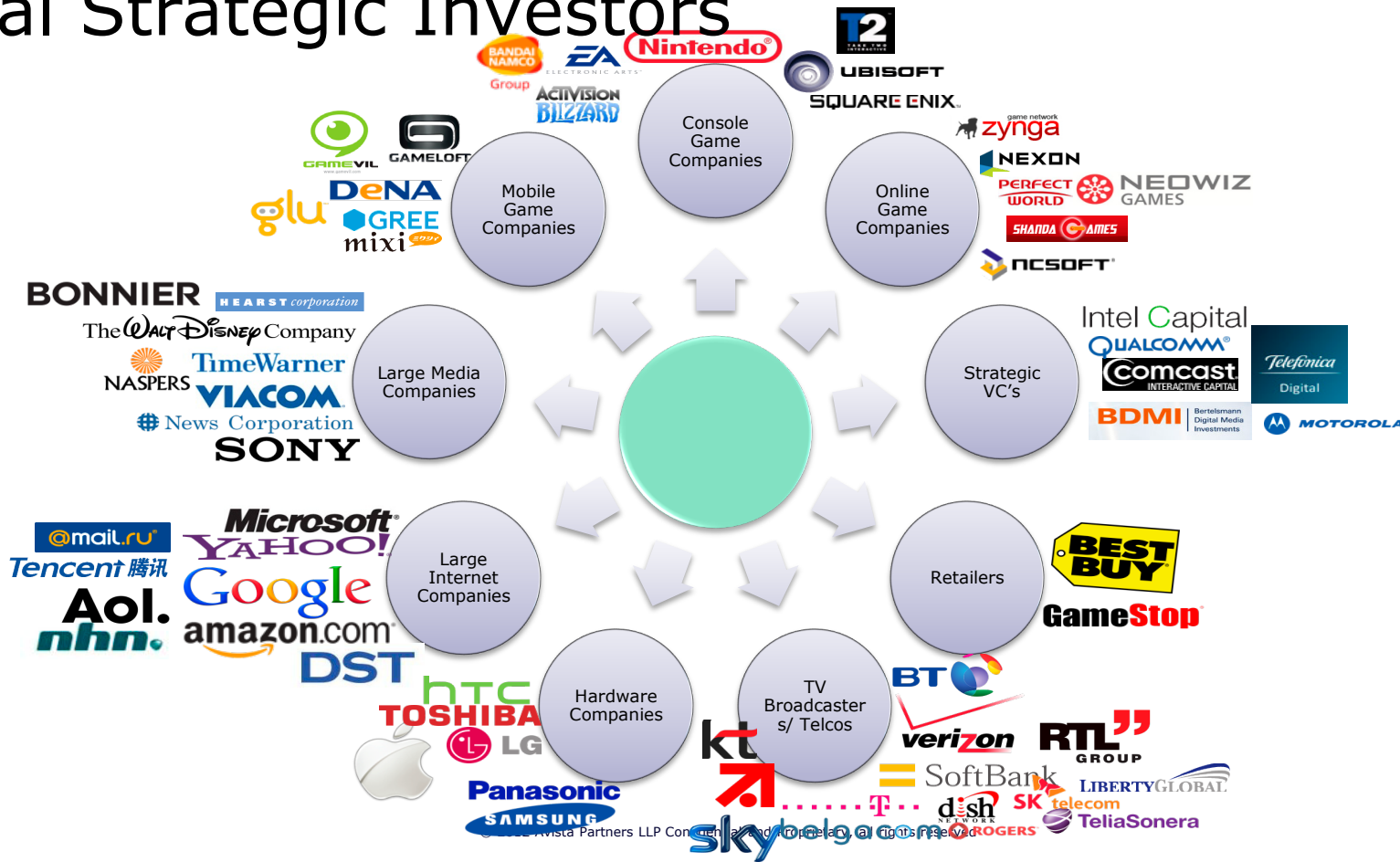
Private Equity/ Growth Equity Firms

- Speak to local firms in your country
- Also try EVCA
- Some of the more active firms recently :
 - [Providence Equity](#) – Zenimax Media
 - [Insight Venture Partners](#) – 6waves Lolapps, Spacetime Studios & Jagex
 - [Raine Group](#) – Jagex
 - [North Bridge Growth Equity](#) – Spil Games
 - [TA Associates](#) – Bigpoint
 - [Summit Partners](#) - Bigpoint
 - [DST](#) – Zynga, Mail.ru (Astrum Online)

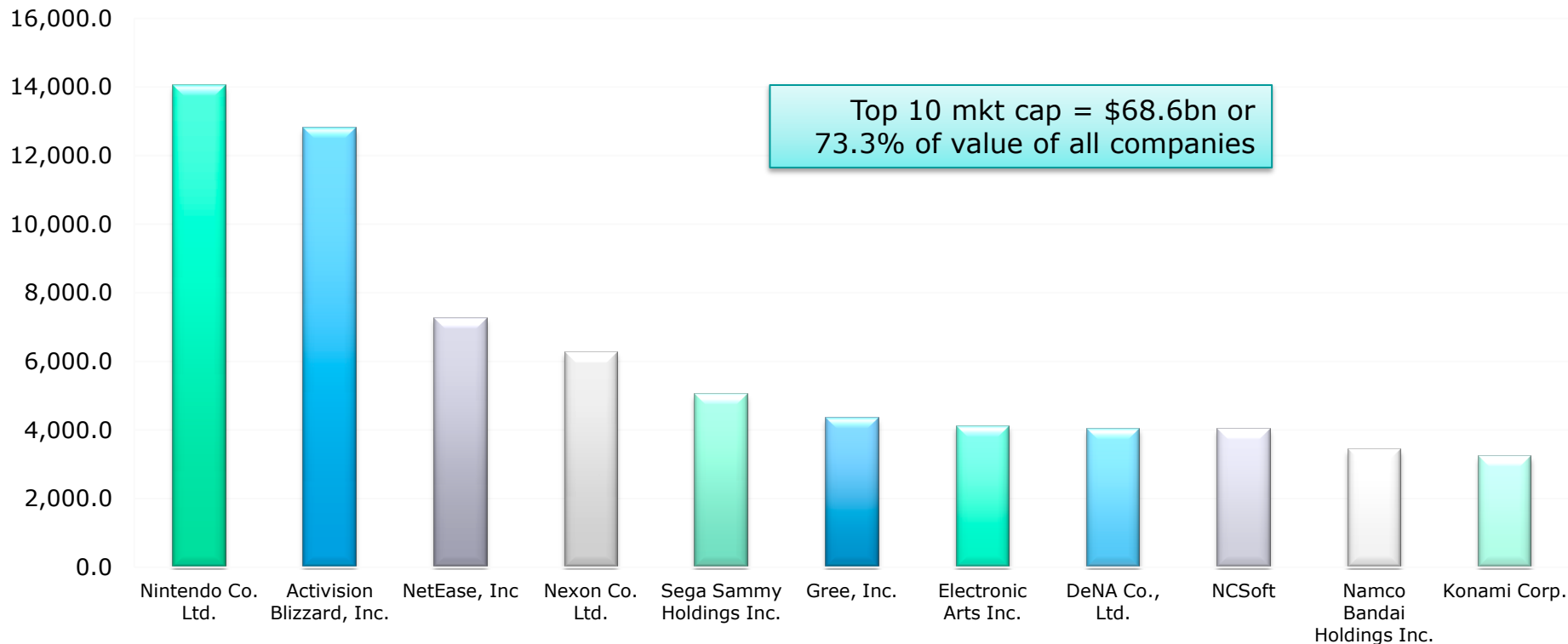
Strategic Investors

- Consider any firm which can bring value add including
 - Publishers, Content/ IP Owners, Licensees/ Distribution Partners, Technology
- Share options can be used to secure content or publishing deals
- On zero cash deals then keep any stock options very low as an overall % of your cap table

Global Strategic Investors



Strategic Investors: Top 10 Game companies



Note: USD\$ millions and as at 14 August, 2012

Source: Capital IQ

Fundraising for a game company

- Key issues are likely to be:
 - Timing
 - Pre-money Valuation
 - Terms
 - Management of the transaction process vis-à-vis ongoing business/commercial milestones
 - Staff communication
 - Choice of financial & legal advisors
- A successful outcome will be enhanced by
 - Anticipation and consideration of major issues prior to start of process
 - The creation of a disciplined and empowered fundraising team
 - Proper use of advisors
 - Independent Board Member with sector experience

Key Requirements for a Financial Advisor

- Raising money for game companies is as much an art as a science where relevant experience is invaluable

Very important

- Relevant transaction experience
- Relationship with potential investors
- Strong industry knowledge

Typical Timetable for a VC round

Proposed timetable		Week of																								
Task	Responsibility	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	
Write Info Memo																										
due diligence (legal, financial and business)	AP/L/AC																									
drafting of Info Memo	AP/MP																									
interim review of Info Memo	AP/MP/L																									
finalise Info Memo	AP/MP/L																									
Investors																										
review of list	AP/MP																									
contact investors	AP																									
Management presentations	AP/MP																									
drafting of presentation																										
finalise presentation																										
practise presentations																										
Investor conversations	AP/MP																									
Conference calls																										
investor presentations																										
followup meetings at Clients office																										
Deadline for term sheets																										
Review of term sheets	AP/MP																									
Short list and select preferred investors to negotiate with	AP/MP																									
Select investors for syndicate	AP/MP																									
Finalise terms sheet	AP/MP/L																									
Investor Due diligence	AP/MP/L/AC																									
Finalise subscription & shareholders agreement	AP/MP/L																									
Finalise legal documents and complete transaction	AP/MP/L																									

Key:

AP Avista Partners
 MP Client
 L Lawyers
 AC Accountants

Plan for 6 months; can be longer or shorter depending on demand

Execution Risks

- Leakage
- Loss of key team member(s)
- Delay in future pipeline
- Monthly financial projections/ milestones not being met during process
- Economic downturn

Once term sheet is signed do not do anything that could potentially have a negative impact on the business until the deal closes. Focus on closing the deal!

Executive Summary for a VC round

- 5 pages max!
- Key sections:
 - Business Description
 - Background
 - Management & Board Member Bios
 - Products/Services
 - Proprietary Technologies
 - Market Opportunity
 - Distribution Channels
 - Competition
 - Awards/ Recognition
 - Financials
 - Use of Proceeds

Management Presentation for a VC round

- Plan on 1 hour for an initial presentation including Q&A
- Key sections:
 - Mission Statement
 - Team
 - Problem you are addressing & Your solution
 - Demo of Product/Service
 - Market Opportunity
 - Business Model
 - Proprietary Technology/ Advantage
 - Competition
 - Marketing Plan
 - Metrics to date
 - Key Financials
 - Use of Proceeds
 - Exit Strategy
- Leave 15 min at end for Q&A
- Discuss next steps

Financial Model

- Build from the bottom up; not top down
- Use reasonable assumptions
- Include historical financials and operating metrics for investors to benchmark against
- Key part is revenue build
 - Customer acquisition funnel; how does yours work?
 - Which customers will pay what amount
 - How often will they pay
 - Lifetime & lifetime value

Term Sheet Tips

- Everything is negotiable; >1 term sheet = more leverage for you
- Experienced advisors will make a difference here
- For seed round in Europe use documents from [Seedsummit](#)
- **Timing is everything**
 - Push too hard for a term sheet too fast and investors will walk
 - Push at right time and multiple term sheets will appear

The Term Sheet: Key terms

- Valuation/ Dilution: \$\$ being invested for X%
- Primary/ Secondary
- Liquidation Preference
- Voting rights
- Board
- Right of First Refusal and Co-Sale Right
- Stock Options – only allocate % needed until next round
- Exclusivity Period

Due Diligence for a VC round

- Transparency is key; failure to do so will ensure a failed deal
- Investor due diligence is to ensure:
 - Everything that you have stated to date is true
 - There are no surprises
 - Key contracts are solid legally
 - All IP is owned by the company
 - Financial assumptions are realistic

Shareholders Agreement for a VC round

- Can be very long
 - Work with a lawyer experienced in VC funding
- An extension of the term sheet
- Additional key sections
 - Matters requiring consent
 - Indemnity
 - Management restrictive covenants
 - Share option plan for current and future employees

Closing

- **Push for closing ASAP after term sheet is signed**
 - Push the investors and their lawyer(s)
 - Push your lawyer(s)
- Post closing:
 - Then start executing on the plan you sold investors on
 - Agree with investors on content and timing for press release; may be the most important news in the company history

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<http://bit.ly/pheydon>

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