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Checklist for Video Game Studios

Pitching your business is a demanding challenge regardless of which industry you are operating in. It is arguably particularly challenging in the video games industry however. The success of a game is often very uncertain – it may be hard to quantify realistic financial goals and to communicate those may be even more difficult. Even though video games have been around for several decades now, the industry is often thought of as rather young, immature and uncertain. When it comes to the e-sport industry segment of the video games industry, this is even more true.

The fact that the industry is young presents many growth opportunities for investors, but high growth potential usually comes with higher levels of risk. Companies within the video games industry have historically yielded amazing economic returns, especially with the pandemic partly boosted by lockdowns and social distancing. This development has brought the level of interest among investors to new heights.

This checklist is for anyone in a position to present an idea, a game or a game developing business to potential investors. We aim to give the reader the tools and insights needed to be able to maximize the chance of a successful presentation.

The checklist is created in collaboration with EG Invest.
Cover photo: Anna Hugosson

A journey from idea to IPO

Running a company requires money. In contrast to mature companies, start-ups are unlikely to manage to finance the operation solely from own revenue. Some companies do not have any revenue during the first years of their operations, while other companies might have revenue from day one. Young companies usually need injections in the form of funding, to develop and expand or even to survive. There are two main ways, either you lend money and in return the lender receives an interest, or you sell shares of your company in return for equity and the return for investors is a future, higher value of those shares. Depending on the maturity of your company there are different ways available, and people in different positions might be interested in listening to you. The following is a brief overview of different stages and options in start-up fundraising.

Idea stage

It is in this stage that you found your company. You have a great idea for a game and you start developing sketches of the storyline and simple renders. You might still be the only person who knows about your plan and hence the sole, 100% owner of the company. You live off your savings and put in some starting capital from your own pocket to buy some hardware for the company.

Co-founder stage

After a while you might bring in co-founders on the journey by letting them invest in the company. Let's presume that you agree that the company is worth 100,000 EURO and that you offer your co-founder the chance to become a 50% owner. You issue new shares, and your co-founder buys the newly issued shares for 100,000 EURO. This brings new equity to the company, and you now own 50% each of the company valued at a post money valuation of 200,000 EURO. Together you will continue programming the first versions of the game.

Source: https://blog.adioma.com/how-funding-works-splitting-equity-infographic/

Family and friends stage

You have a promising business model, and development is on-going. You spend a lot of time on developing and coding your game and your co-founder must take care of all of the administration (besides programming) most of the time. You wish you had some more money in the company bank account so you could hire and pay the salary for another programmer. You ask your supportive friends and family who either believe in you or are kind enough to support you either way. However, they do not do it for free, they are not philanthropists, and they want a small share of the company in return. Now we go through the same procedure, valuation, issuance of new shares and purchase of those shares. Or your friends and family offer to lend you money. Your uncle agrees on a pre-money valuation of 950,000 EURO and becomes a five percent owner of the company by buying newly issued shares for 50,000 EURO.

Seed round

The game development process is going well, and each month you are getting closer and closer to launch. At the same time hype is starting to build as you spend more and more time at industry fairs and on forums. By showcasing your game, more people have their eyes opened to your soon highly-anticipated game release.

You plan to organize a seed round for angel investors. In a nutshell angel investors are people with a lot of money who want to invest in promising businesses. You plan to use the funds from this round to expand your programming team, move into a new, bigger office and hire a dedicated marketing expert. You and the group of angel investors agree on a pre-money valuation of 1,500,000 EURO. After the round you and your co-founder own 35% each, you uncle owns four percent and the angel investors own at total of 26% of the company.

Pros:
– Angel investors are likely to offer mentorship alongside capital
– Angel investors are willing to take risks on business idea as they anticipate heavy return on investment

Cons:
– Angel investors provide lower investment capital to business ideas compared to venture capitalists.

Initial public offering (IPO)

Your first game launch went terrifically and you are now a reputable game studio. You have already started planning and developing sequels. You initiate discussions with investment banks to act as support with administrative work and to act as corner investors in the upcoming IPO. In the IPO new shares will be issued and the company will hopefully receive a large chunk of money. The IPO will enable anyone to become an owner of the company by buying shares on the stock exchange.

Pitching to investors

PHOTO: ANNA HUGOSSON

Knowing whom you are pitching to

The goal of the pitch is usually to find funding, but the approach to where you seek it is quite different. Typically, you will be pitching to either an investor or a publisher. The difference between these are important to understand. A publisher will help you fund a specific project, usually in return for a share of the revenue. By contrast, an investor will supply financial and, in some cases, intellectual resources such as knowledge and network opportunities when investing in your company. Do not underestimate the power of a good first impression: small things such as dressing properly when meeting investment bankers or sharing game stories with publishers will matter and increase your chances of getting funded.

Figure out the needs

Before going into the meeting room, you need to carefully read up on who you are pitching to. The more research you have done the easier the pitch will be – try to figure out what they want and focus on that. There is no need to try to pitch a horror game to a publisher whose main expertise is educational games or to pitch a mobile game to a publisher focused solely on console games. You also need to carefully plan what aspects of the business model to focus on and present to the audience. There would typically be more focus on financials and details of revenue models for example when talking to investors with little technical knowledge about game development. On the other hand, when talking to a game publisher you may go into more technical detail about the games.

Have a clear unique selling point

Sell your strengths – less is usually more. Pitch presentations the size of a lawbook tend to make people lose interest. Practice a six seconds answer to "What are you working on?". As silly as it sounds, this is fantastic and boosts confidence. A good answer to that first question can often be a lead-in to the real 30 second elevator pitch.

Present a budget and forecast that you can stand behind and defend

Making budgets are hard but very important. Putting time and effort into making a budget and revenue forecast you can justify and defend is much better then copying one off the internet that in the end is most likely going to result in a big "no".

A playable build is king

A great idea is hard to sell without something to help visualize it. If you are unable to present a playable build, try to show something. This could be a short video or even a GIF of some gameplay. Be creative!

Come prepared

This may seem obvious but all too often the awkward situation occurs where a laptop runs out of battery or a presentation file turned out to be corrupt. Do a test run before pitching. And bring a printed one-pager you can leave after the pitch containing your unique selling point and business card attached to it – if you are able to attach game codes to test the game it scores an extra point.

Familiarize yourself with the finance industry

It goes without saying that the main reason for talking to investors is to raise money. You can't raise money without talking about valuation, revenue models, costs, burn rate, KPIs and other important financial aspects of running companies. Some of the most important terms to be aware of and be comfortable talking about are the following:

Important terms

Burn rate	This financial KPI reflects the rate at which a company is spending money on a weekly, monthly or annual basis.
Current ratio	Current ratio reflects an organization's ability to pay all its financial obligations in one year.
Discounted cash flow	The discounted cash flow (DCF) model uses the present value of forecast future earnings to value a company.
EV/EBITDA or EBIT	Enterprise value to earnings before interest, taxation, depreciation, and amortization. This is a more sophisticated version of the PE ratio, and is calculated at the company level rather than at the "per share" level.
Net profit margin	This metric shows how efficient a company is at generating profit compared to its revenue.
OCF	Operating cashflow (OCF) shows the total amount of money generated by a company's daily business operations.
PE ratio	Price-to-earnings ratio means how many times higher the value of a company is than its yearly revenue
Price to sales	Dividing a company's market value by its annual revenue is a quick and easy way to compare stocks within an industry
Return on equity	This KPI indicates the capacity of a business to use shareholder's investments efficiently, generating high profits.
Sales growth	This financial metric displays the change in total sales generated over a certain period.
Working capital	The working capital KPI measures an organization's assets currently available to meet short-term financial obligations.

The checklist is brought to you by:

The Baltic Game Industry – Empowering a Booster for Regional Development (BGI) aims toward boosting the game industry in the Baltic Sea region (BSR), increasing the capacity for innovation and transferring the game industry in the region into a global player with worldwide competitiveness.

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