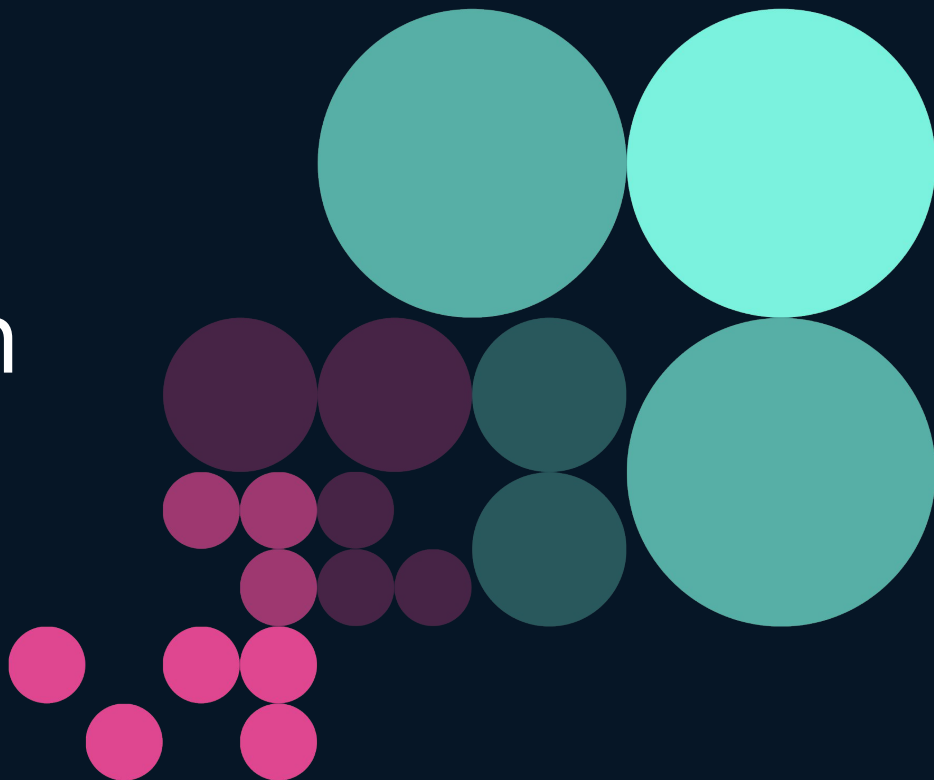


2023: Striving for Elevation



Highlights:

a relatively slow year for deal-making activity

2020	2021	2022	2023
Private Investments			
\$5.9B	\$12.1B	\$10.7B	\$2.7B
362 Deals	567 Deals	551 Deals	403 Deals
M&As*			
\$12.8B	\$38.2B	\$40.8B	\$78.2B
221 Deals	322 Deals	231 Deals	121 Deals (incl. MSFT-ATVI \$68.7B deal)
Public Offerings			
\$15.7B	\$24.5B	\$3.6B	\$4.2B
83 Deals	68 Deals	23 Deals	43 Deals

Note: (*) closed transactions only

2020–2023 Recap: select largest transactions closed to date

M&As

Target Key Investor

Public Takeover

 ACTIVISION BLIZZARD	 Microsoft	\$68 700m
 zynga	 T2	\$12 700m
 ironSource	 unity	\$4 400m

Private M&As

 ZeniMax MEDIA INC.	 Microsoft	\$7 500m
 SCOPELY	 SAVVY GAMES GROUP	\$4 900m
 MOONTON	 NUVERSE	\$4 000m

Private Investments

Target Key Investor

VC

 EPIC GAMES <small>2 rounds</small>	 BAILLIE GIFFORD KKR	\$2 530m
 FORTE	 THE SEA CAPITAL KORA	\$725m
 CODA PARTNERS	 SMASH CAPITAL  INSIGHT  GIC	\$690m

VC/PE

 EPIC GAMES <small>2 rounds</small>	 SONY 	\$2 250m
 sorare	 SoftBank	\$680m
FROM SOFTWARE	 Tencent 腾讯 SONY	\$246m

Public Offerings

Target

IPOs & SPACs

KRAFTON	\$3 750m
 ironSource	\$2 300m
 APPLLOVIN	\$2 000m

PIPEs & Fixed Income

 NetEase Games	\$2 700m
 T2	\$2 700m
 bilibili	\$2 600m

Private Investments: turbulence persists

— The highly inflated activity observed in 2020–22 was corrected, reaching its lowest point by the end of 2023.

— Despite the lower capital amount raised in 2023 (\$2.7B), driven by weaker Late-stage activity, the deal volume remains solid, above the pre-COVID level supported by an infusion of new fresh capital brought in by newly

emerged Early-stage gaming funds (30+ new funds appeared since 2020).

— Looking at 2024, we see a rebound in fundraising activity, with January alone contributing \$1.7B value (incl. Disney's \$1.5B investment in Epic Games and Build a Rocket Boy's \$110m round), suggesting that the worst may be behind us.

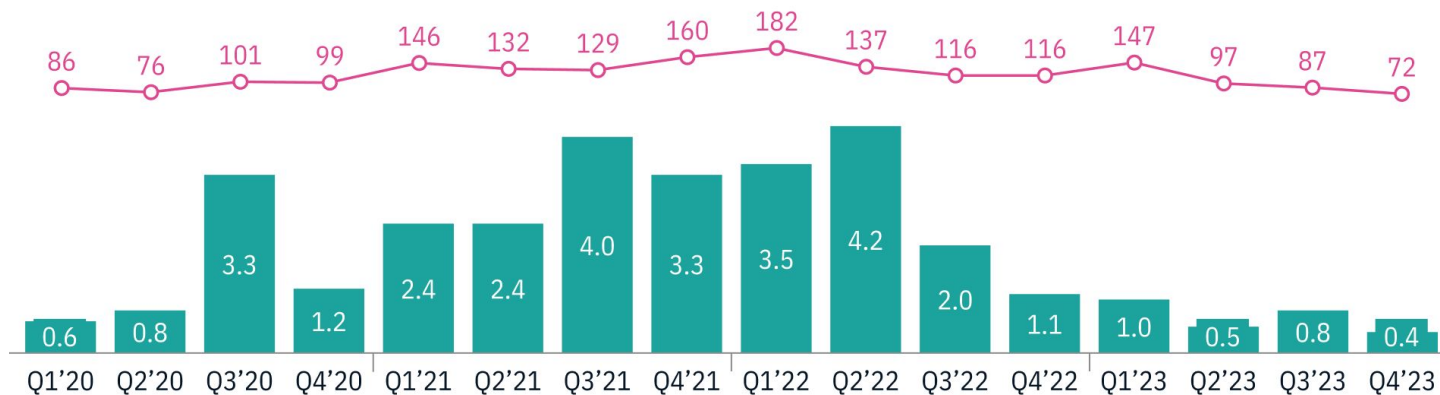
— However, this year, the industry may witness a rise in Late-stage down rounds and shutdowns as numerous studios struggle to show solid performance in conduction with lofty valuations of previous rounds raised in 2020–22.

— At the same time, Seed funding for newly opened studios is expected to maintain

momentum, presenting investors with better entry terms.

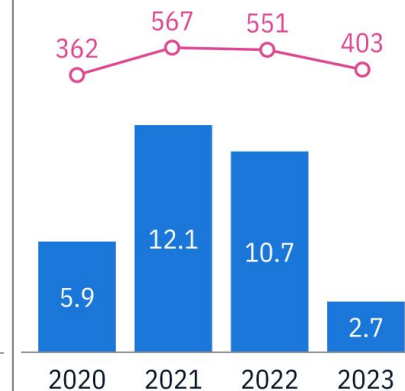
— Investors are seeking strategies for inherent risks tied to content's "hit-driven" nature, which led to a noticeable uptick in the gaming ecosystem area in recent years — a trend likely to persist in the coming years.

Corporate & VC Investment Activity



■ Total Deal Value, \$B ■ Number of Deals

2020–2023 Full Year



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M&As: pulling out of “nose-dive” maneuver

— After reaching a zenith in 2022, M&A activity in 2023 settled at the modest value of ≈\$9.5B (excluding the MSFT-ATVI deal for \$68.7B announced in Jan'22) with 2x times lower number of closed deals vs. average across the previous three years.

— The prevailing uncertainty in the M&A

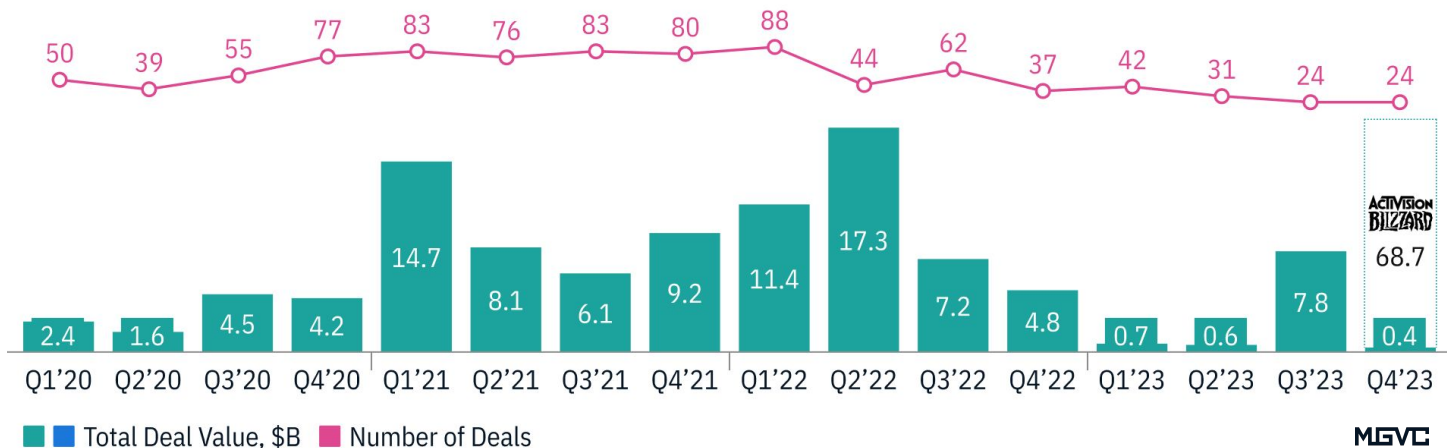
sector centers on continuing the current market slump for another year.

— Looking into 2024, we expect a potential uptick in deal-making activity (recent example: Jagex acquisition by CVC/Haveli for rumored \$1.1Bn), especially if macroeconomic conditions stabilize.

— Recent positive trends in public comps earnings results, massive dry powder of PEs earmarked for gaming sector investments, the convergence of seller-buyer valuation expectations, and the IPO exit window remaining close collectively all point towards a more vibrant M&A environment.

— However, persistent fears of recession, ongoing platform updates (e.g., Google Privacy Sandbox, new App Store guidelines, the Unity Runtime Fee), and policy (antitrust, loot boxes laws) changes may hurt financial investors' appetite.

Closed M&A Activity



2020–2023 Full Year



Public Offerings: first signs of improvement

— Throughout 2020–2021, the gaming industry became increasingly attractive to investors, driven by its substantial growth. Public companies successfully raised PIPEs to fuel aggressive M&A strategies, while numerous businesses pursued public listings to capitalize on market momentum.

— In 2022, the evolving macroeconomic

landscape and restated earnings projections presented significant obstacles for companies seeking to go public (IPOs, SPACs) or secure funding (PIPEs, Debt) at attractive terms.

— After a notable downturn in 2022, public offering activities within the sector remained subdued in 2023, generating just \$4.2B,

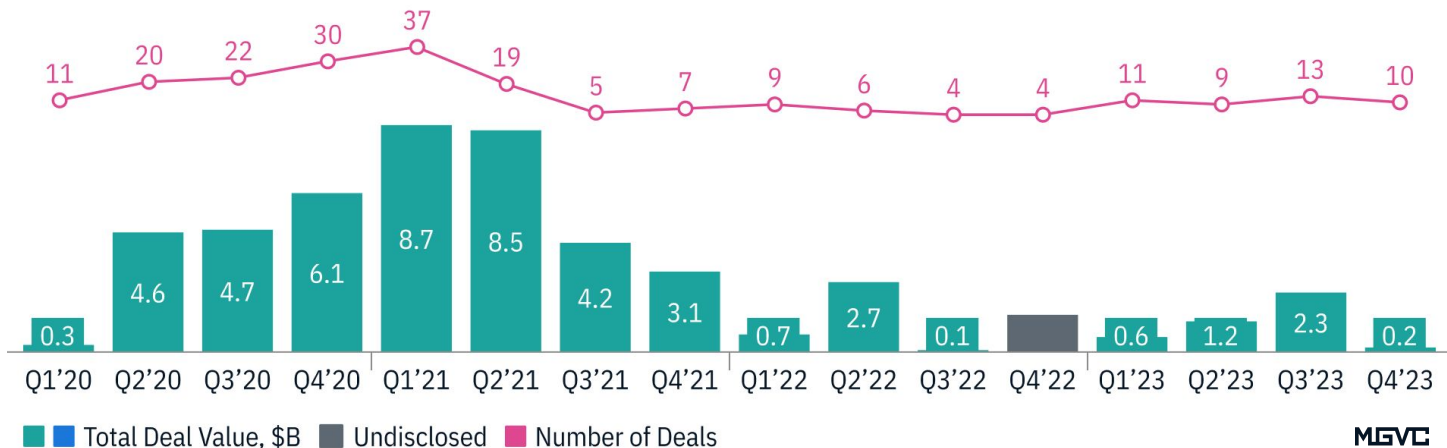
starkly contrasting the \$24.5B raised in 2021, marking a nearly sixfold decrease. However, 2023 indicated moderate recovery with growth in value (+16% YoY) and deal count (+87% YoY).

— Despite the IPO window remaining closed, the combination of improving earnings results, halted Fed rate hike, and anticipated

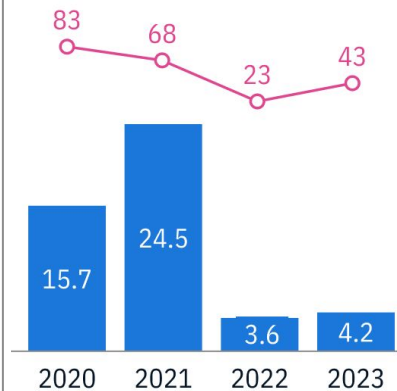
rate cut in mid-2024 signals a potential resurgence in public market activity this year.

— With public listings being on pause for two years, companies increasingly view IPO as an essential tool to provide investor liquidity while retaining operational control, leading to a notable deferred demand that could resurge if market conditions improve.

Public Offerings Activity



2020–2023 Full Year



Gaming

Deals with targets represented
by video game publishers and developers



Highlights: facing pressure

2020	2021	2022	2023
Private Investments			
\$3.4B	\$5.9B	\$4.2B	\$0.9B
152 Deals	255 Deals	151 Deals	169 Deals
M&As*			
\$10.8B	\$33.4B	\$27.1B	\$77.5B
148 Deals	200 Deals	143 Deals	80 Deals (incl. MSFT-ATVI \$68.7B deal)
Public Offerings			
\$10.5B	\$16.4B	\$3.1B	\$3.6B
57 Deals	43 Deals	16 Deals	27 Deals

Note: (*) closed transactions only.

Early-stage Gaming: signs of stabilization

— Rapid market consolidation during 2020–Q1'22 with a record-breaking aggregated exit value of \$75.4B across 508 exits (M&A, Public listings) led to increased interest from LPs and, subsequently, the formation of a new wave of gaming-focused funds (25+ Early-stage funds).

— This increased competition led to inflated rounds in average size (\$4.6m in 2020 vs. \$8m in 2021) and valuations, during which the most significant Early-stage investments were announced — Probably Monsters \$200m, Playco \$100m, Tripledot \$78m.

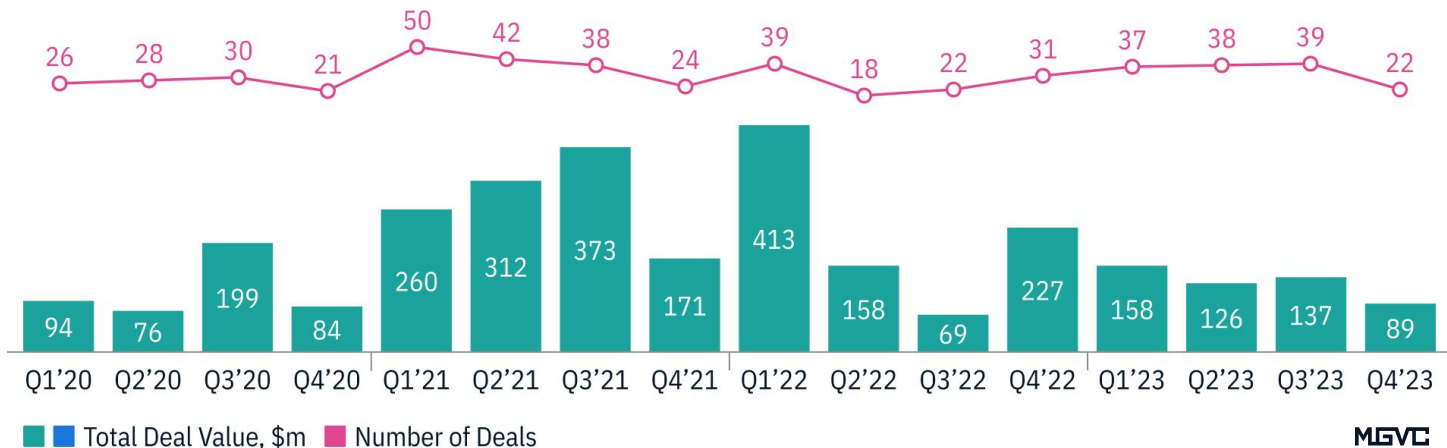
— By mid-2022, the activity has stabilized against the backdrop of changes in the gaming market and the macroeconomy:

the average check amounted to \$13m, and the deal-making activity remained above 2020 (34 avg. deals quarterly in 2023 vs. 26 in 2020). We saw fewer Series A (–61%) and more Seed (+2%) rounds.

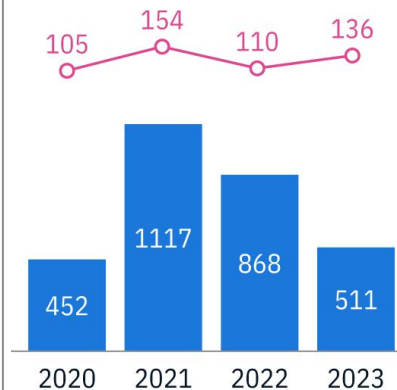
— The gaming market continues to be an exciting and growing one, so new successful startups still emerge:

with Seed rounds being less dependent on the exit environment and the strong attractiveness of the gaming fundamentals, investors will continue to invest in the space. At the same time, Series A startups may find it more challenging to raise subsequent rounds due to a lack of necessary growth track record or relatively high valuation of previous rounds.

Early-stage Gaming Activity



2020–2023 Full Year



Most Active VC Gaming Funds for 2023

Note: (1) based on the internal weighted average ranking system (see p. 23);

(2) based on investments in Gaming with the disclosed deal value (no web3 gaming deals included)

Rank ¹	Venture Capital Fund	Deals	Deal Value ² \$m	Lead Deals	Lead Deals Value ² \$m	Select Lead Deals
Ranking by Number of Deals						
1	Sisu Game Ventures	16	42	9	22.9	Multiscription, Chamo Games
2	BITKRAFT Ventures	18	290.7	7	47.2	Luda Project, Infinite Canvas
3	Andreessen Horowitz (a16z)	12	164.5	8	70.4	CCP Games, Pahdo Labs
4-5	The Games Fund	9	25.8	8	17.8	Zakazane, Red Rover
4-5	GEM Capital	9	20.8	8	15.8	Sad Cat Studios, Made on Earth Games
6	vgames	9	11.2	7	5	PeerPlay, Frantic Games
7	Griffin Gaming Partners	10	171.8	6	57.3	Eloelo, Blackstorm
8	Makers Fund	8	53.9	5	32.9	Noodle Cat Games, Genpop Interactive
9	London Venture Partners	7	5.4	5	5.4	Jam & Tea Studios, Look North World
10	Lumikai	5	34	3	9.4	BuyStars, Giga Fun Studios
Ranking by Deals Value						
1	Lightspeed Ventures	3	162.3	3	162.3	Inworld AI, Believer Entertainment
2	Andreessen Horowitz (a16z)	12	164.5	8	70.4	CCP Games, Pahdo Labs
3	Griffin Gaming Partners	10	171.8	6	57.3	Eloelo, Blackstorm
4	BITKRAFT Ventures	18	290.7	7	47.2	Luda Project, Infinite Canvas
5	Makers Fund	8	53.9	5	32.9	Noodle Cat Games, Genpop Interactive
6	Sisu Game Ventures	16	42	9	22.9	Multiscription, Chamo Games
7	Hiro Capital	3	26	2	20	Telltale Games, Noodle Cat Games
8	Sequoia Capital	3	20	1	20	Mayhem Studios
9	The Games Fund	9	25.8	8	17.8	Zakazane, Red Rover
10	GEM Capital	9	20.8	8	15.8	Sad Cat Studios, Made on Earth Games

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Late-stage Gaming: early success and late struggle

— With the rapid increase of megadeals (\$1B+) in gaming M&A, totaling \$116B across 18 transactions in 2020–2022, which notably affect substantial Late-stage rounds elevating the overall deal value — such as Epic Games' \$4.8B (2020–22), Roblox's \$670m (2020–2021), Scopely's \$540m (2020), and Dream Games' \$460m (2021–22) — investing in Late-stage gaming

companies emerged as an attractive opportunity for PE firms and Late-stage VCs.

— The Late-stage fundraising encountered significant challenges starting H2'22, with rising interest rates, a closed IPO window, and lower exit multiples. This resulted in a downturn, with 2022–23 experiencing the least substantial Late-stage activity compared to 2020–21 (29 deals

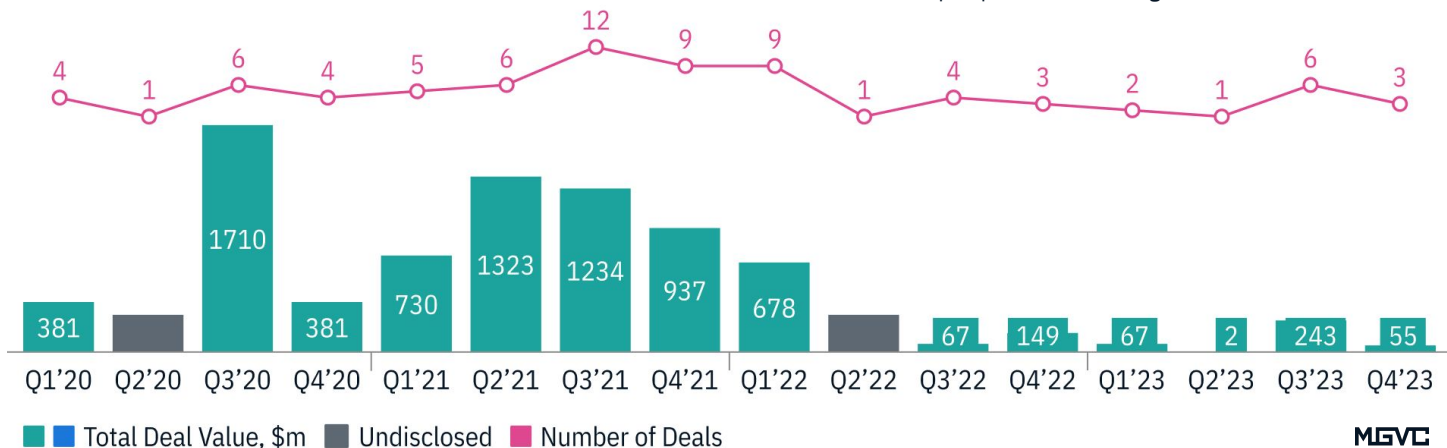
vs. 47 deals, \$1.3B deals value vs. \$6.7B, respectively).

— Only a few companies that raised funds before 2022 achieved significant results and successfully secured new rounds (e.g., Epic Games' \$1.5B, rumored to be at a 30% lower valuation). Consequently, the gap between studios and Late-stage VCs widened as uncertainty regarding exit prospects and challenges

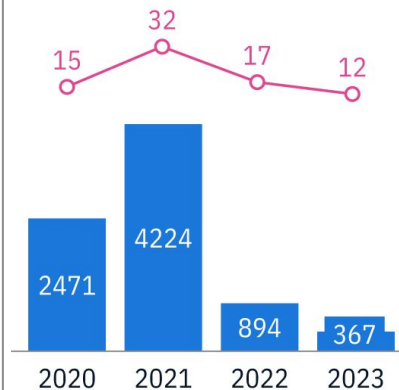
in the public market rendered Late-stage rounds a less attractive option for VCs.

— Nonetheless, 2024 might become a turning point. We expect a modest growth of Late-stage investments with generally improving public markets and improving earnings of strategic investors, opening up opportunities for M&As.

Late-stage Gaming Activity



2020–2023 Full Year



Corporate Gaming: the shift from pure solo investments to co-investments

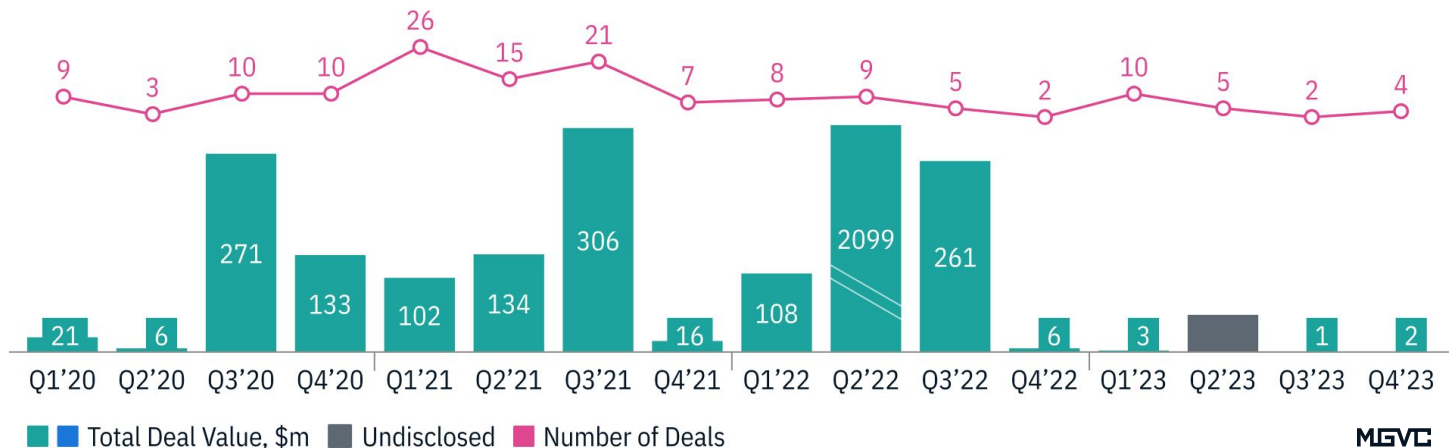
— Despite a notable decline in the deal value in 2023, the deal count remains close to 2022. In 2023, there was a substantial shift among Asian investors towards co-investment with gaming VCs. This move aims to diversify Corporate risks and secure additional support for the growth of invested studios (e.g., Sony, Krafton, Tencent, LEGO co-investing with VCs and PEs).

— In 2024, we foresee a continued reduction in solo investments by Strategics, primarily attributed to turbulent cash flows, optimizing fixed costs, and eventually “carving out” in-house project development. Many gaming comps consider “outsourcing” the development of new IPs via WFH contracts (fixed to flexible costs switch), making minority investments into promising

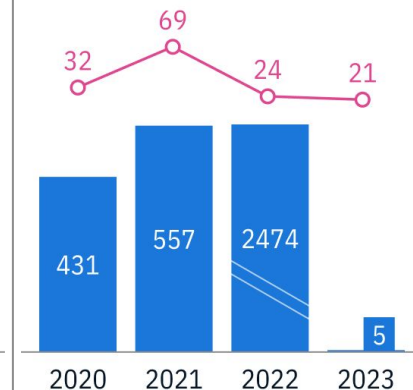
studios, strengthening its P&L, and securing options to acquire new IPs after the successful launch of game releases.

— Corporate funds are open to sharing risks with VCs, considering the elevated risks of Early-stage investments. Concurrently, VCs are diversifying their risk exposure through IP due diligence conducted by Strategics and reducing the capital invested.

Corporate Gaming Activity



2020–2023 Full Year



Gaming: closed VC deals by targets geo 2023

EASTERN EUROPE

Early-stage VC: 4 deals, \$7.1m

NORTH AMERICA

Early-stage VC: 51 deals, \$284.6m

Late-stage VC: 4 deals, \$122.5m

Corporate: 2 deals

WESTERN EUROPE

Early-stage VC: 28 deals, \$94.5m

Late-stage VC: 3 deals, \$84m

Corporate: 8 deals, \$4.9m

MENAT

Early-stage VC: 25 deals, \$33.8m

Late-stage VC: 1 deal, \$100m

Corporate: 1 deal

ASIA

Early-stage VC: 19 deals, \$89.5m

Late-stage VC: 3 deals, \$33.4m

Corporate: 10 deals

LATIN AMERICA

Early-stage VC: 2 deals

AFRICA

Early-stage VC: 2 deals

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

OCEANIA

Early-stage VC: 5 deals, \$1.2m

AI in gaming: evolution, not disruption

— Despite widespread excitement surrounding AI and what it gives and will bring to the market, artificial intelligence has been a longstanding theme in the gaming industry. To better understand the trend growth, we tracked all deals with the targets either involved in AI technology development or claimed to be working closely with AI tech

during the development.

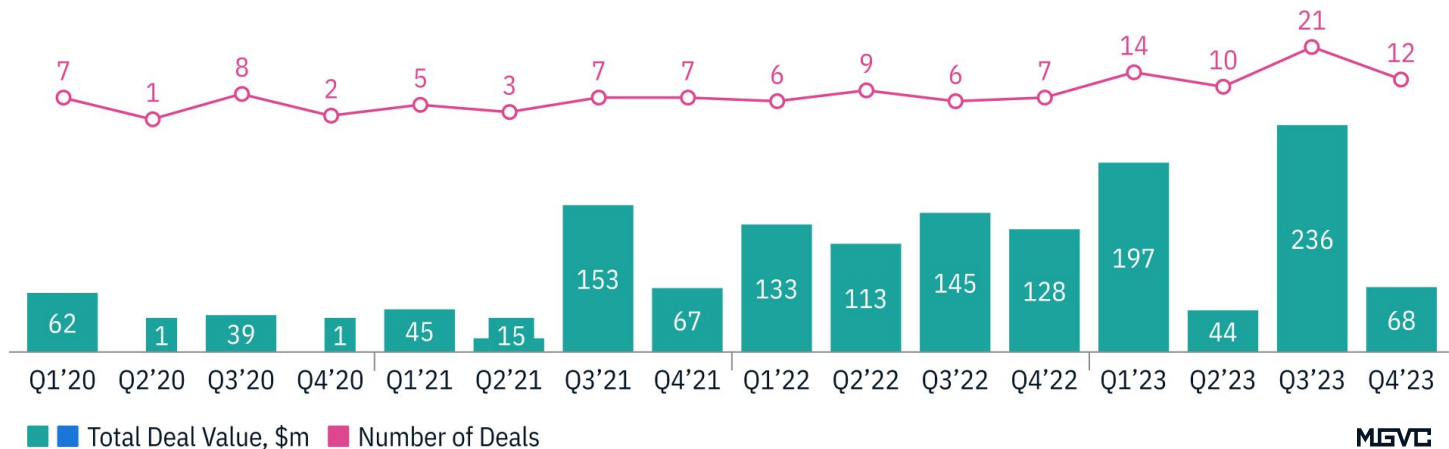
— Since 2020, we haven't seen any quarter without at least one deal involving AI. But 2023 was groundbreaking regarding the deal count, showing more transactions than two prior years. This was driven by the new disruptive neural networks like ChatGPT and Midjourney, which influenced many industries besides gaming.

— On the one hand, it seems like the rise and the fall of web3 taught the market to be more cautious about trends and novelties. On the other hand, drawing a parallel between the current surge and the earlier blockchain gaming boom might be wrong.

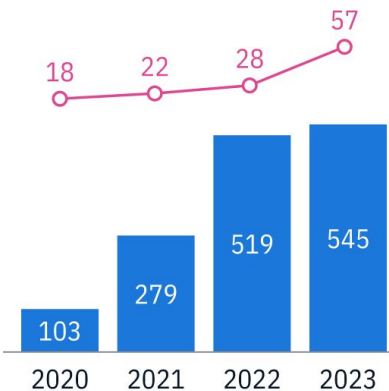
— First, unlike blockchain, AI tech has been steadily moving towards the mainstream,

not suddenly booming. Second, AI can be implemented in the traditional production process and doesn't require the invention of new gameplay mechanics. And most important, the business model is different: there is no rush for short-term profits on NFT sales and token launch. It's a long-term investment to cut the production cost and improve development efficiency.

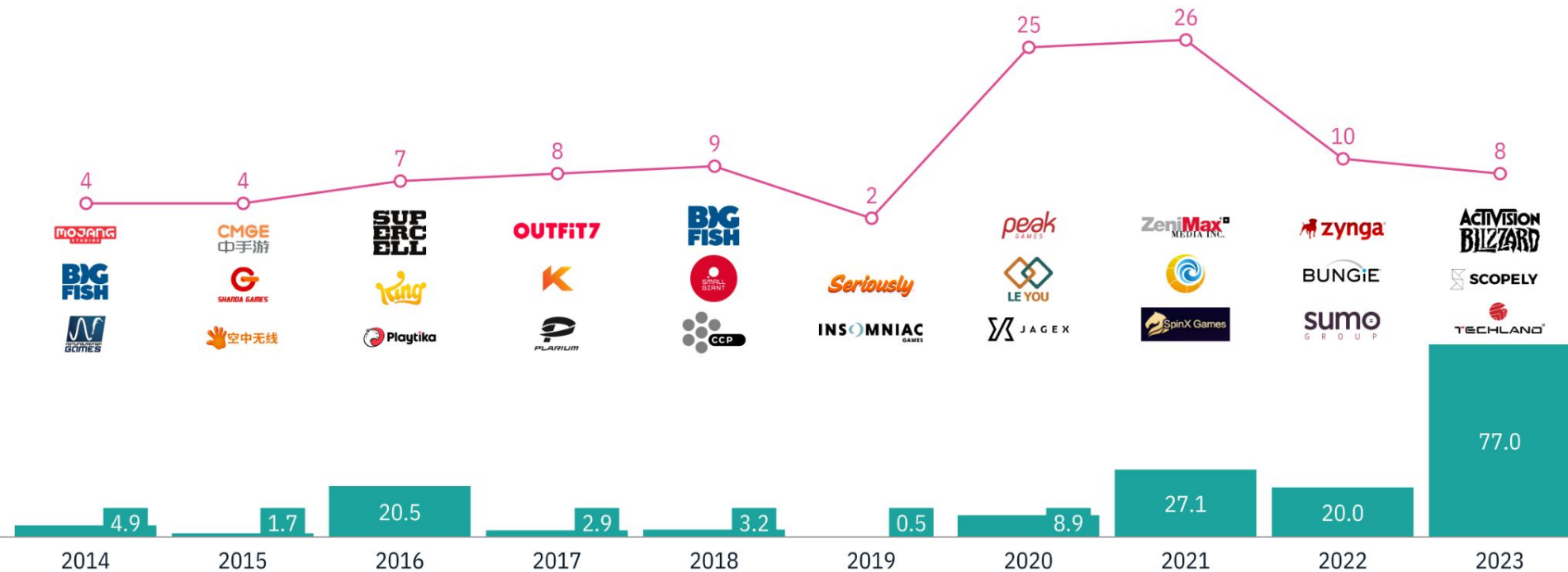
Closed AI deals



2020–2023 Full Year



Decade in Gaming: closed M&A deals with \$100m+ EV



■ Total deal value, \$B ■ Number of Deals

Ecosystem

Deals with targets represented by other sectors in the gaming industry



Platform & Tech: the end of consolidation

— Methodology: InvestGame classifies Platforms as any resources/tools for communications with or between the players. Tech includes companies built around technical solutions related to the gaming industry.

— During the rapid growth of the gaming industry in 2020–21, investment activity

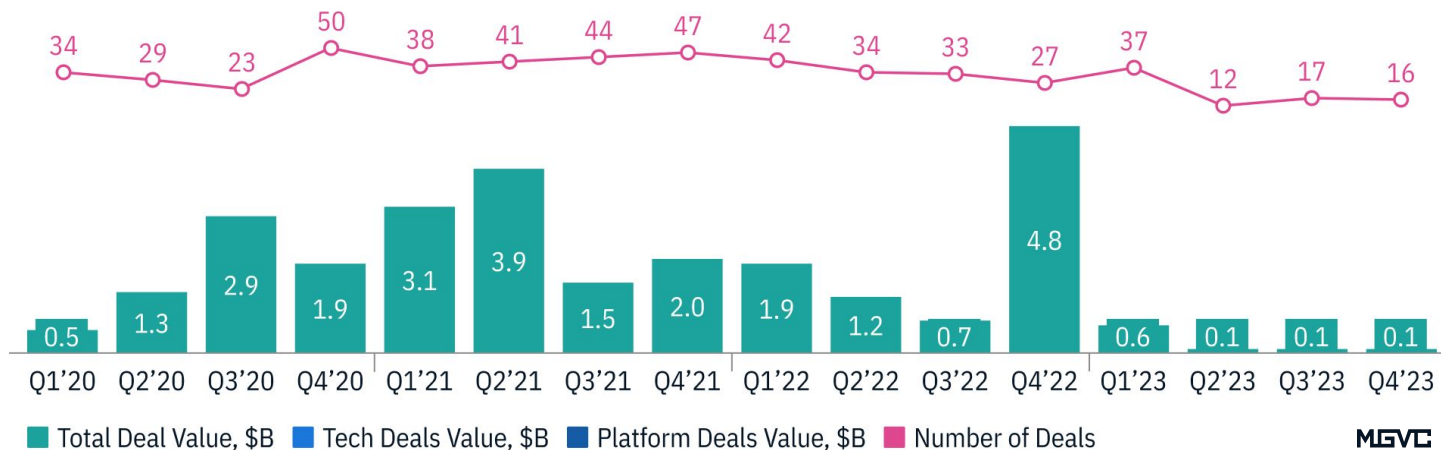
in Platforms & Tech surged, with a combined total value of closed deals reaching \$17.1B across 306 transactions. Notably, almost 75% was contributed by a series of megadeals, with 5 Platform deals surpassing \$5.6B in total value and Tech deals exceeding \$7.2B across five transactions.

— During 2022–23, investment activity

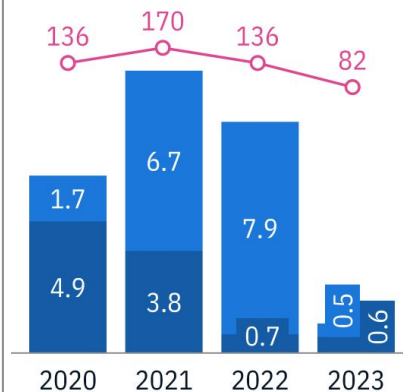
declined when attracting new audiences (for Platforms) and entering the market (for Tech) became increasingly challenging compared to the gaming sector. Notably, only one megadeal was observed during this period: IronSource's merger with Unity for \$4.4B, aimed at synergies between businesses and to effectively compete with large competitors.

— With the current state of the sector and a high dependence on discovering new high-growth products, we foresee that the trend of AI-related deals (29 deals in 2023) will be one of the critical drivers of future growth. There is a high potential to witness the emergence of a new Platform or Tech Unicorn.

Closed Platform & Tech deals



2020–2023 Full Year



Blockchain in Gaming: not thriving, but alive

— The plummeting of investment and M&A activity in web3 gaming has been analyzed many times and is still being discussed. We also had a deep dive on that topic made by Naavik for our [2020–2022 Report](#) and highly recommend you to read it.

— This time, we focus not on what we have lost but on what is left on the market. Though 4.4x times lower than 2022, 2023 is still 19.5x higher than 2020 in total deal value. The number of deals shows a similar dynamic.

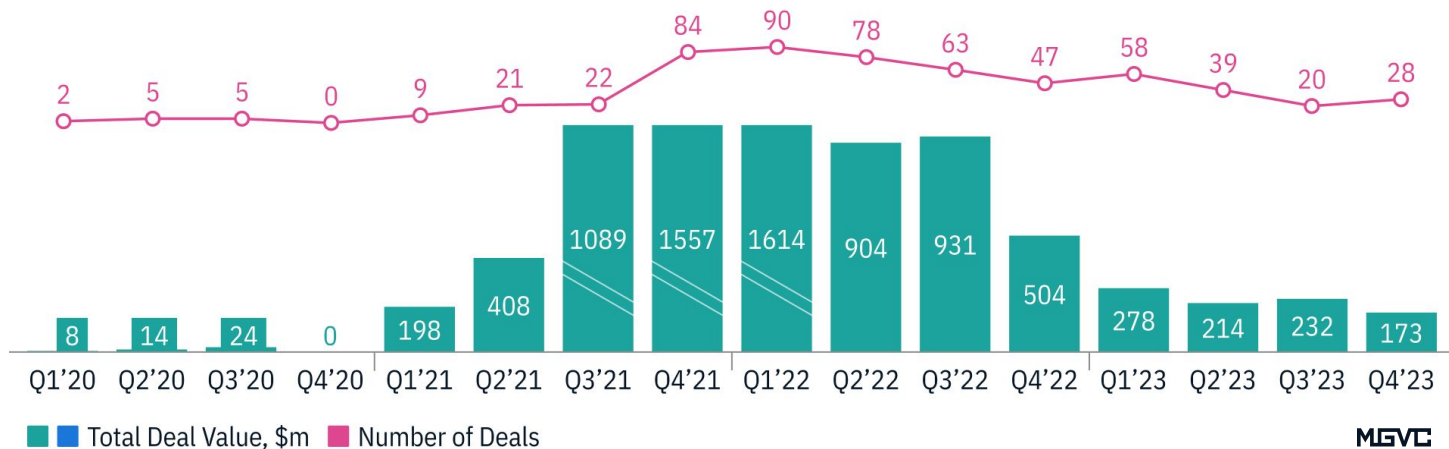
— Once the market understood that the rapidly growing profits of web3

games were a short-term phenomenon that couldn't be sustained for long, many investors stopped their blockchain initiatives. However, quite a few VCs and Strategic investors keep allocating their resources to blockchain in gaming.

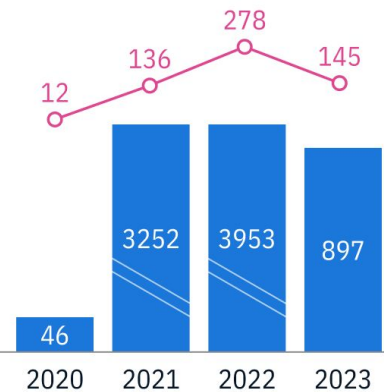
— As a result, 2023 turned web3 into a more niche market: fewer developers, more

selective investors, and lower rounds. Apart from the crypto winter's end, there are still more challenges to bring web3 to the mainstream: lowering the entry barrier for new players, solving regulatory problems, and, most importantly, turning innovative tech into an engaging gaming experience.

Closed web3 deals



2020–2023 Full Year



Esports: struggling more than others

— Esports has been a part of the gaming industry for many years. During the lockdown, it gained a new surge in popularity, bringing more audience and showing significant growth in viewership. However, there was a generally unanswered question on how to monetize this audience.

— 2022 was a peak in Esports' investment activity; we saw one of the most important deals in Esports — Saudi Arabia Public Investment Fund spent \$1.05B to acquire ESL Gaming, one of the world's most prominent and most influential Esports organizers. Saudi Arabia became the Esports capital for some disciplines, especially Dota 2. Additionally, in 2022, FaZe Clan

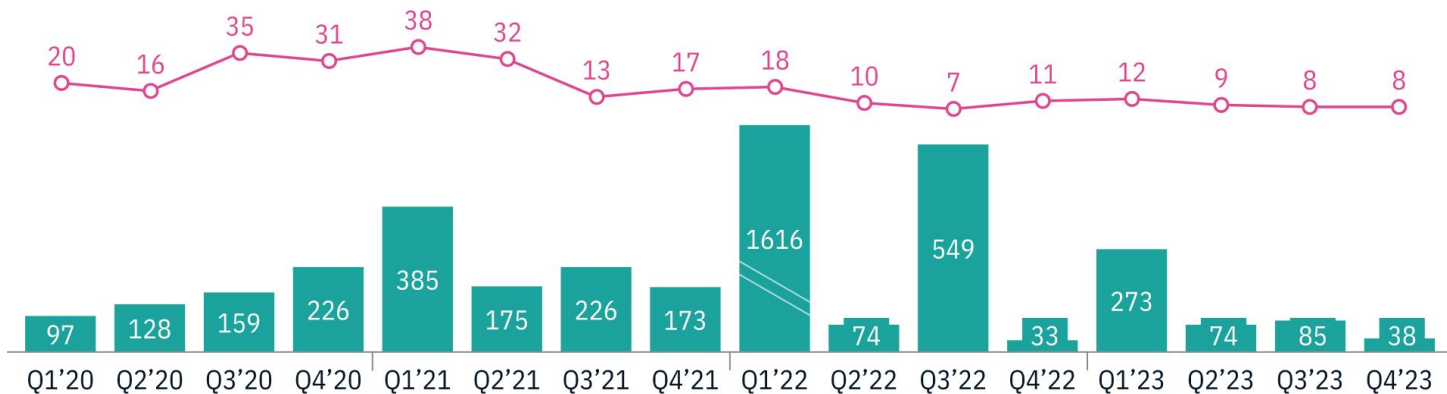
went public through SPAC with a valuation of \$725m, but it was eventually acquired for \$18.5m in 2023.

— From Q4'22, we see that the Esports industry eventually failed to build an effective business model that could monetize its sudden growth and make it the foundation for future development. Limited opportunities to monetize its user base

and, as a result, little Revenue led to the start of a considerable Esports market downturn.

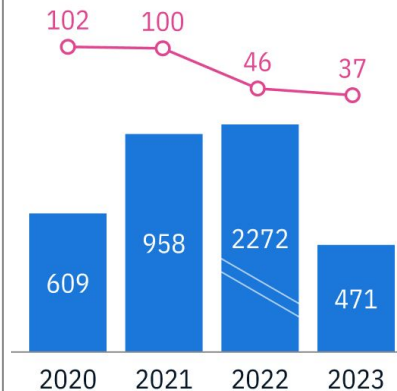
— However, the interest in Esports remains strong, as it continues to captivate millions of audiences. Consequently, we may anticipate an increase in deals from investors in the MENAT region who aim to draw audiences to this region.

Closed Esports deals



■ Total Deal Value, \$m ■ Number of Deals

2020–2023 Full Year



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Replay 2023

Our partner, **TAYLOR WESSING**, international legal advisor to the games industry provides insight on key trends impacting deal flow and investment in 2023



Playing on Hard Mode: increased regulation makes an impact

In 2023, increased regulation became a key theme in the gaming industry, particularly regarding Big Tech's role.

Regulators are scrutinizing tech acquisitions and market abuse more closely, extending across all tech sectors, including gaming. Governments are imposing additional regulations to address perceived risks and harms caused by technology, impacting the gaming sector as well.

These trends are expected to persist and could hinder deal flow and growth if the industry fails to adapt.

Microsoft x Activision Blizzard

Microsoft's \$68.7B acquisition of Activision Blizzard concluded after a lengthy regulatory battle with the Competition and Markets Authority (CMA) and the Federal Trade Commission. The deal was approved after Microsoft made concessions regarding cloud gaming.

The case was unusual, as challenges to "vertical mergers" are relatively rare. However, the CMA's tough stance illustrated regulators' reluctance to approve Big Tech acquisitions without addressing concerns early and effectively. We discussed the deal in [more detail](#) with InvestGame back in October.

Growing antitrust troubles

Concerns are growing that this stricter approach to merger review may stifle start-up culture if M&A exits become more challenging. Deal-makers need to engage regulators effectively to navigate these challenges.

Beyond mega-mergers, antitrust laws are increasingly applied in the tech and gaming sectors, leading to legal battles such as Epic vs. Apple and Google. Sony has also faced class action lawsuits for alleged abuse of dominance. New legislation such as the EU Digital Markets Act and the UK Digital Markets, Competition and Consumer Bill will further increase the regulatory focus here.

Developments in China

As 2023 ended, the Chinese government proposed significant new rules to limit consumer spending and ban reward mechanics aimed at extending engagement in games.

This news caused significant market volatility, wiping out over \$80B from the share prices of Chinese gaming companies like Tencent and NetEase. While the proposed rule change seems to have been dropped, the episode underscored the regulatory unpredictability in the world's second-largest gaming market.

Generative AI: game-changer or IP infringer?

2023 was the year of GenAI. Recent advancements in AI are seen by many as a real paradigm shift in the digital economy — a new iPhone moment.

In the games industry, GenAI offers vast potential for developers to reduce the time and expense of game development. But it also brings real concerns and uncertainties around intellectual property, privacy and potential job losses.

This is a fast-moving area, and it will be some time before a clear international legal framework is settled.

But that has not slowed strategic investment, which has accelerated quickly through 2023, both in and outside the games industry. Highlights in gaming include the Roblox acquisition of Speechly, a real-time AI voice moderation startup, and the \$50m fundraising by Inworld AI to drive forward their AI-based non-playable character engine.

What are the legal issues?

As we move into 2024, investor and developer interest in AI opportunities is only likely to increase. This underlines the legal risks.

AI tools are trained by running large data sets through algorithms in order to empower them to generate ostensibly original content.

However, there are concerns the foundation of generative AI is inherently infringing of the copyright in those data sets, and the legal position remains unclear. There are also issues around IP ownership in any works which are created using GenAI.

Much of the current investment into AI is ultimately being done on faith that the law will develop favourably for AI businesses. However, that remains to be seen.

Palworld vs Pokémon

The overnight success of Palworld in early 2024 has underlined a number of the issues around GenAI. Many commentators have noted striking similarities to Nintendo's Pokémon IP and have queried the extent of GenAI usage in its development, particularly given the very small team at Pocketpair. While no conclusive evidence has yet been advanced for these assertions, Nintendo has announced it is investigating.

It is clear that the field of GenAI, particularly its application in the games industry, offers vast opportunity but also brings risk. How exactly these risks play out in the coming years remains hard to predict. At the moment, it is probably dangerous to go alone... so take advice!



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To learn more about the gaming team at Taylor Wessing, click [here](#).

The 4th edition of the Taylor Wessing Play Guide is an overview of the legal issues facing the games industry, based on our long-held expertise in the sector. Click [here](#) to access.

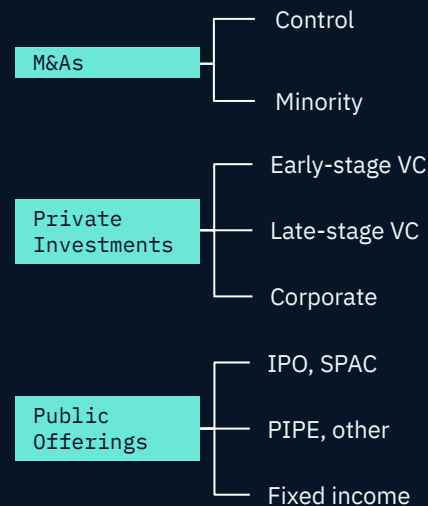
Methodology & Glossary

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. 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 we can't guarantee accuracy and completeness. 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

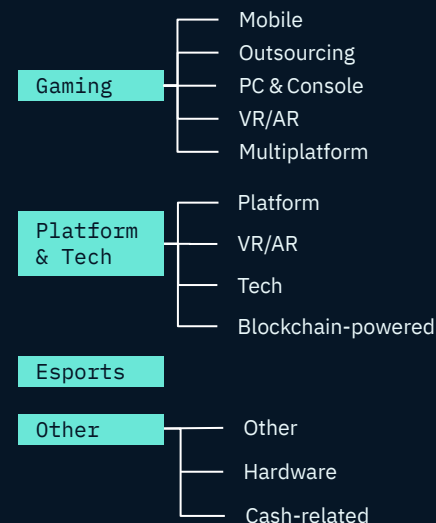
— Corporate Investments — investments with a lead investor being a corporation

— IPOs — the process of a company going public, including IPOs, SPACs, and direct listings

— PIPE, other — private investment in public equity, direct share issue, and other transactions with publicly traded stock

— Fixed income — debt-related instrument with fixed payments and interest payments

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.

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 prioritize 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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We would love to thank our dear friends at [MGVC](#) and [Taylor Wessing](#) for supporting this report. Please note that this support did not affect the integrity or fairness of the data and analysis.

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