

VCs invested \$4.7B in gaming startups in the first year of the pandemic. Here's the trends in gaming investing for 2022

Predictions about venture capital diverged from reality during the first year of the pandemic, as PitchBook summarised last July. When the stock market crashed in April of 2020, most anticipated that funding activity would slow down amidst the uncertainty of lockdowns, social distancing, and strains on the healthcare system.

Temps de lecture : minute

9 February 2022

However, 2020 proved to be a record year for venture in the U.S., with \$156B invested in startups and \$74B raised by VC funds. Also contrary to what pundits might expect in a downturn, corporate VCs (CVCs) nearly matched their 2018 high water mark, investing \$68B. This trend continued in 2021.

Partially driven by the pandemic itself, gaming startups received a record \$4.7B of investment in 2020, a nearly 193% increase over 2019. We define gaming to include startups developing and publishing game titles, building tools for studios and players, as well as entrepreneurial efforts focused on eSports, including betting. Drivers of this funding and overall trends in the gaming market included:

- The COVID-19 pandemic acted as a tailwind for the industry, with limited safe options for leisure activities resulting in increased gaming consumption among serious and casual gamers alike

- Cloud gaming allows users to stream instead of using dedicated hardware like consoles and PCs, with improved performance stemming from the rollout of 5G networks
- Games are increasingly functioning as social networks, driving greater user retention and opening up new models for monetisation
- The gaming value chain has expanded with the growing popularity of eSports, bringing additional fan bases and channels for brand exposure
- Developers are incorporating features like real-time personalisation and virtual and augmented reality into gaming content to create more immersive experiences

Including data from PitchBook and NVCA's quarterly *Venture Monitor* report, this analysis shares highlights from the U.S. VC industry as a whole, as well as our statistics and observations specific to the gaming startup market based on Touchdown's work with TEGNA Ventures and other corporations.

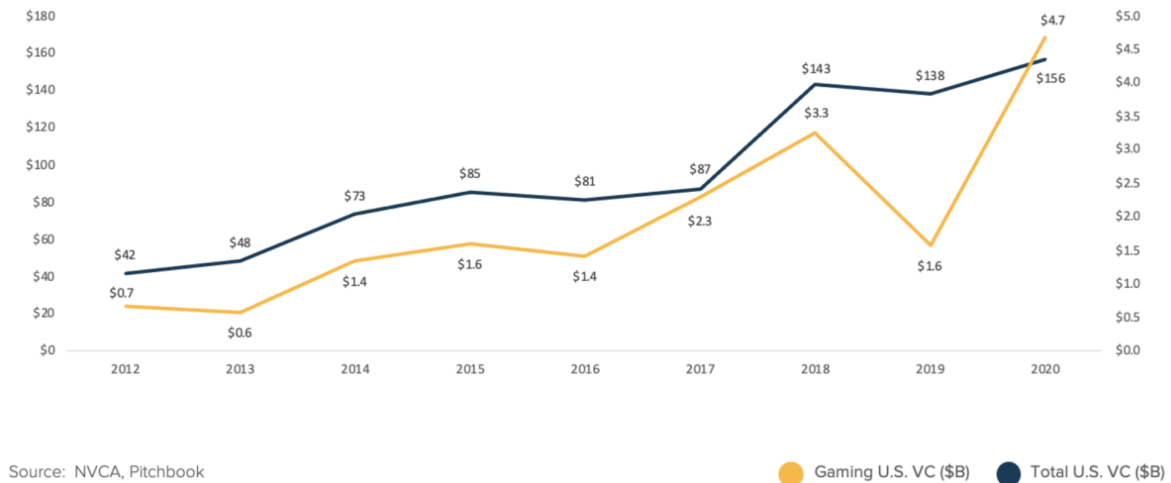
Gaming & VC Funding Highlights

2020 was a record year for VC activity in the U.S., with \$156B invested. However, the total deal count decreased from 2019, indicating that VCs concentrated funding in larger deals for fewer companies.

In comparison, investors increased capital allocations and deal volume to the gaming sector, with \$4.7B invested across 237 transactions in 218 unique companies. Although deal volume increased only modestly from

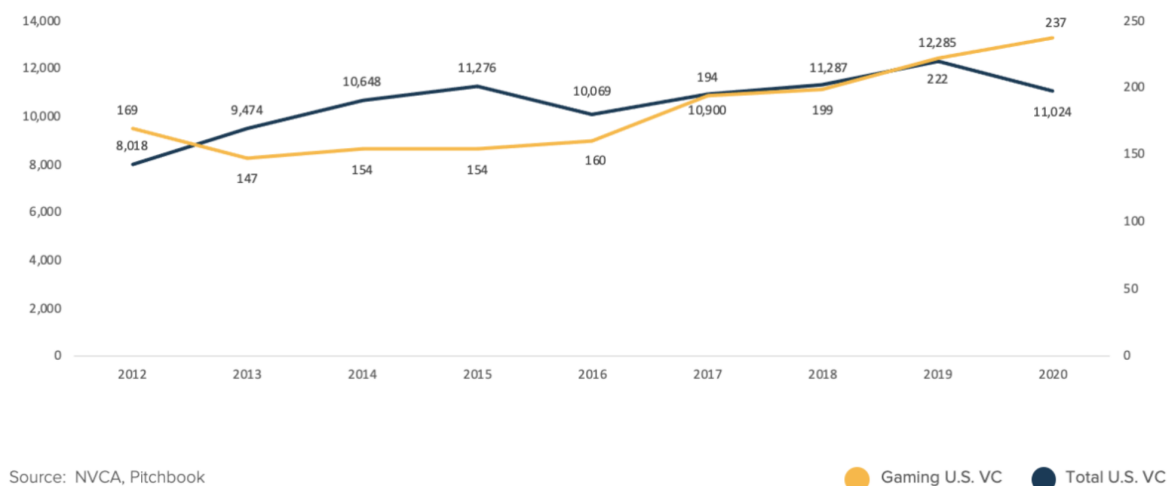
2019, median deal size increased 43% from 2019 to 2020. With the gaming industry recently surpassing the market size for both music and video entertainment combined, generalist venture capital firms such as Andreessen Horowitz, Index Ventures, and NfX are becoming increasingly active in the space.

GAMING VS TOTAL VC DEAL VALUE (U.S.)



Here is the gaming deal count compared to the overall U.S. market:

GAMING VS TOTAL VC DEAL COUNT (U.S.)



After a significant dip in overall VC funding in the gaming sector in 2019, total capital invested rebounded significantly in 2020, nearly tripling year-over-year. This increase was likely driven at least in part by increased consumer engagement with gaming during lockdowns caused by the global pandemic. While this tailwind could wane in post-pandemic society, early 2021 data shows that consumer demand for mobile gaming has continued to grow.

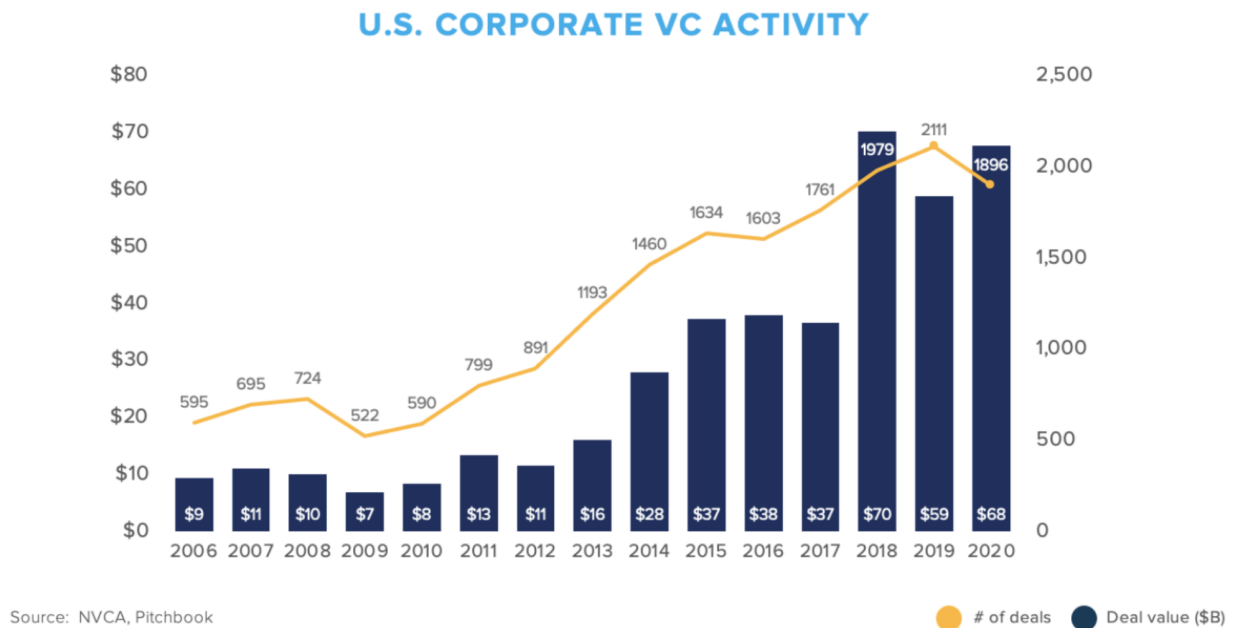
The intersection of games and social networks is also contributing to user stickiness in the gaming sector, as games are increasingly becoming a way to connect with others and not just solo entertainment. A recent report from Facebook shows 2020 growth of live-streaming via platforms like Facebook Gaming, YouTube Gaming, and Twitch — demonstrating that a sense of community and social engagement have become more important for gamers. Another trend that could continue to drive VC interest in gaming startups is the use of enabling technologies like cloud gaming, edge computing, and low latency 5G wireless networks. Making games accessible via the cloud instead of through hardware consoles opens the gaming market to anyone with a mobile device, and platforms that leverage edge computing and 5G enable high-fidelity streaming experiences for end users.

Large technology companies in adjacent industries also increasingly recognise the value of games in attracting and retaining users, with companies such as Zoom, Netflix, and Peloton all making forays into gaming in recent months.

CVC Highlights

In CVC, corporate funds deployed 48% by dollar value and participated in 26% of deals in the U.S. in 2020. As shown in the chart below, the \$68B invested by corporations was nearly \$10B more than 2019, which suggests CVCs stayed in the market despite economic uncertainty, as my

colleague Scott Lenet forecasted in *this post* from 2019.



CVCs are an important source of capital for gaming startups, particularly in game development and publishing. For startups in this part of the gaming ecosystem, the resources, expertise, and marketing reach of big corporations can help significantly with distribution and scale. The following CVCs were some of the most active in 2020:

- Tencent made 31 gaming investments, primarily in mobile game developers, from its Win-Win Fund and other vehicles.
- Riot Games participated in four gaming investments in 2020, mostly focused on game studios and mobile gaming applications.
- HP Tech Ventures invested in three gaming deals in 2020, including the Series A and Series B of Parsec, a low-latency game streaming

platform.

Notable gaming deals and exits

- Online gaming platform Roblox went public in March 2021 via direct listing, at a valuation of \$42B. The company had raised a \$520 million Series H round of funding just two months prior.
- Communication platform Discord raised a \$100M Series H round in December 2020, with plans to use the funding to continue developing more features for both paid and free users. Discord began as a solution to enable communication among friends while playing games online, and has since expanded to facilitate communication via text, voice, and video across a variety of social communities.
- Interactive entertainment platform Scopely raised a \$340M Series E round in October 2020 to fuel its M&A strategy and to expand its product offerings.

Gaming innovation in the news

- Netflix is taking on gaming — In a move to continue its dominance in the world of streaming entertainment, Netflix has announced it will offer games on its platform within the next year.
- “The United States of Play” — Recent data released by the Entertainment Software Association demonstrates the continued

growth of the U.S. gaming population, up from 214 million in 2020 to 227 million today.

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This article was originally published on [ParlayMe](#).

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