Early Stage Funding
For Gaming Start-ups

Game Developers Conference
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Keiretsu Forum

Three Questions

Have you:

- Funded a game?
- Funded a gaming start-up?
- Plan to in next five years?

Gaming Start-ups

- Many formed each year

- Most begin with work for hire (WFH)

- Most aspire to more than WFH
  - but get stuck in a rut

- Additional funding required to grow
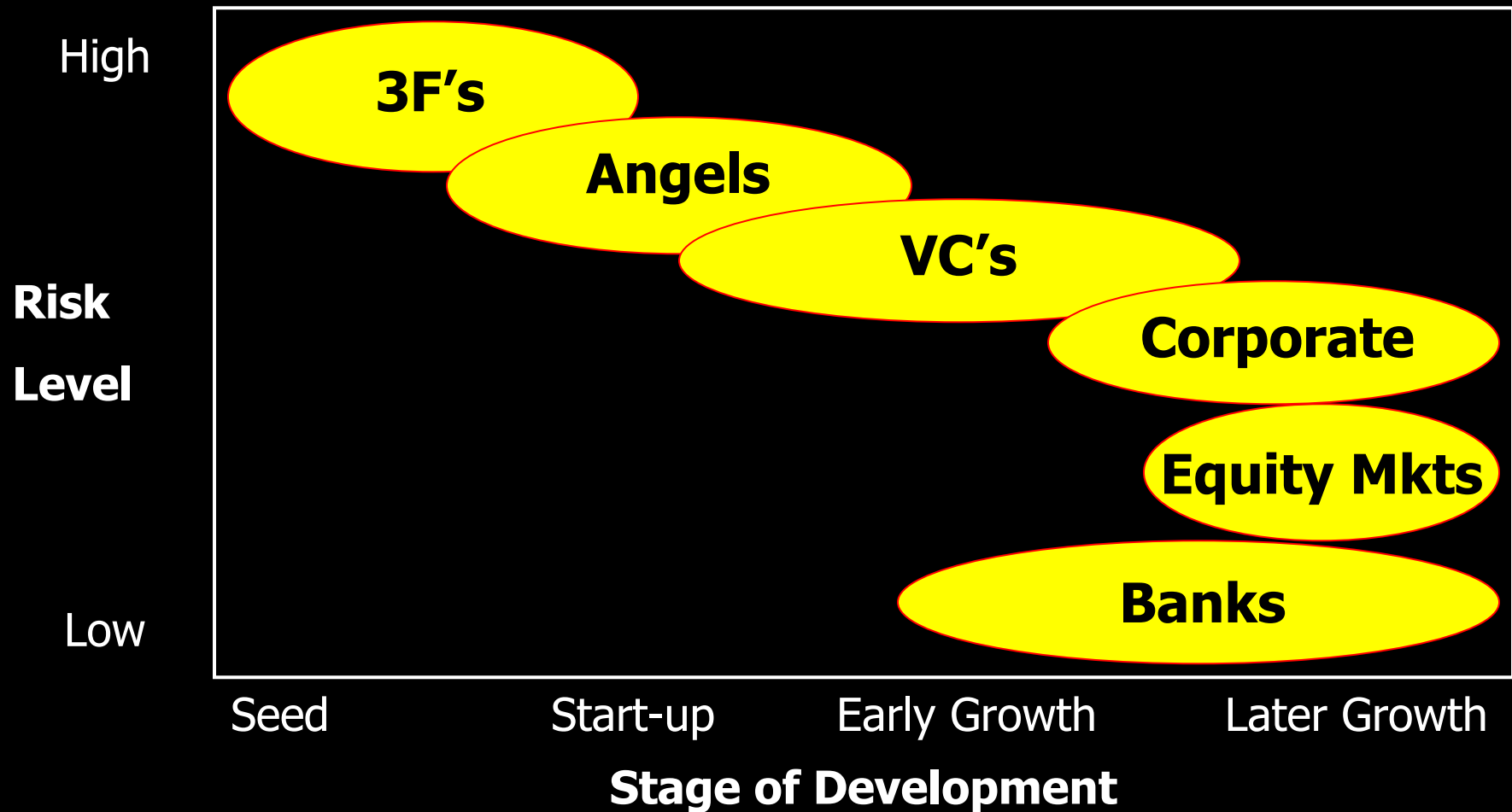
1. Who to approach?
2. How to raise money?

Agenda

- **Who To Approach?**

- How To Raise Money?

- Appendix: The Pitch

Who to Approach?

- Founders, Friends, Family
- Professional Investors:
    1. Angel investors
    2. Venture Capitalists
    3. Corporate Investors (Later)
- Equity Markets (IPO's)
- Banks for loans (Unlikely)

Investor Focus

High

Risk

Level

Low

3F's
Angels
VC's
Corporate
Equity Mkts
Banks

Seed   Start-up   Early Growth   Later Growth

Stage of Development

Who Are 3F's?

- Founder's personal savings (you)
- Friends and family ("love money")
  - Helps if well endowed
- 3F's back vast majority of start-ups
- Personal funds, sweat equity, internally generated funds...
- ...lowers cost of capital / retains ownership

What's going on in 2009?

3 F's are confronted by:

- Declining investment / real estate values
- Potential loss of jobs and income
- Risk of family members in jeopardy
- Greatly reduced retirement asset values
- **Fear and uncertainty**

Angel
Investors

Who Are Angels?

- Successful business people

- Invest own money

- Long term investors (5-7 years)

- Enjoy assisting entrepreneurs

- Seek return commensurate with risk

- Invest alone or in angel groups

The Funding Gap

Stage	Pre-Seed	Seed/Start-Up	Funding Gap	Early VC	Later VC
Source	Founder Friends and Family	Individual Angels	Angel Groups	Venture Funds	
Amount Invested	$25k to $100k	$100k to $500k	$500k to $2m and up	$2m to $5m and up	

$26B in 57,000 deals   **$30B in 3,952 deals**

Angels in Bay Area

Organization	Invested 2007 ($m)
Keiretsu Forum	33.4
Band of Angels	6.5
Angels Forum	5.0
Life Science Angels	4.5
Golden Gate Angels	2.5
Sand Hill Angels	1.0
North Bay Angels	0.5

Source: SF Business Times

Member Funded Companies - Examples

What's going on in 2009?

Angels are confronted by:

- Declining investment / real estate values
- Potential loss of jobs and income
- Risk of family members in jeopardy
- Greatly reduced retirement asset values
- **Fear and uncertainty**
- **Anger and Greed**

VC

The new superhero
of the modern world.

What are VC's?

- Financial intermediary takes limited partner capital / **invests** into private companies

- Takes active role in **monitoring** and helping

- Primary goal: maximize financial return by **exiting** investments through sale or IPO

- Activities: **investing, monitoring, exiting**

Do They Invest In Games?

Yes, **but** most VC's:

- Avoid seed and start up rounds
- Concentrate on Core IT and Health Care
- Avoid "creative risk"
- Want proof of market **BEFORE** investing
- Seek clear path to exit (sale or IPO)

What's going on in 2009?

VC's wary:
- Current portfolios in jeopardy
- Fundraising stagnant
- LP's don't want capital calls
- Strategic buyers internally distracted
- IPO markets closed
- **Fear and uncertainty**
- **Firms folding/exiting Media**

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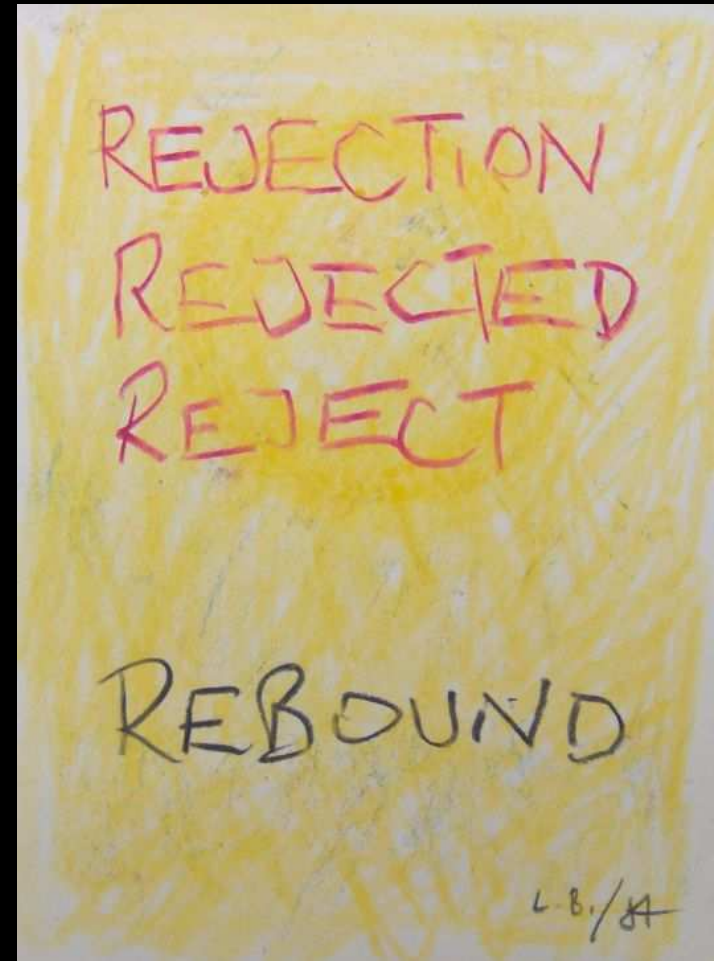
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Get Organized

Being Oganized Interferes With My Creativity

Product or Company?

- Product funding:
  - Great team
  - Compelling concept
  - Fund a single product (or IP)

- **Company funding**

Reasons For Rejection

1. Lack of management talent
2. Insufficient growth potential
3. Overpriced equity
4. Lack of information:

   - Entrepreneur
   - Key personnel

Company Funding

1. Great team

2. Big opportunity/tailwinds

3. Investable plan

   and

4. Be well prepared for fundraising

5. Bootstrap in the interim

1. Great Team

- Track records
- Reputation:
  - **Great gameplay**
  - **Reliable developers**
- Right team for opportunity
- Committed/Passionate

Unknown Worlds

Natural Selection

• A top Half Life mod.
• Half Life engine
• 2 million downloads
• 2 billion player minutes

Natural Selection 2

• Experienced team
• Proprietary engine
• Bootstrapping development
• Coming summer 2009

2. Big Oppty/Tailwinds

- Community/common interest networks
- User generated content
- Episodic/evergreen
- Platform/channel agnostic
- Downloadable/mobile
- Real time, server side development
- Etc.

Mindfuse

Advanced Casual Online Games

Re-skinnable Platform

First Game: Gatheryn

- Large-scale, fully distributed, client-server side

- Integrated proprietary & licensed software

- Faster time-to-market at lower total devt. cost

- Long-lasting formats with continuous expansion

- Dynamic, massively social, persistent

- Gameplay with social/community features

- State of art e commerce & payments backend

Coming summer 2009
Sign up for the beta

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Le Merle Group

3. Investable Plan

- Pitch first – iterate/synthesize
- Write plan second:
  - You not "committee"
  - Powerful executive summary
  - Keep rest simple/short
- Have others read it
- Listen & iterate

4. Prepared For Fundraising

- Watch other CEO's pitch

- Talk to others: "been there, done that"

- Get buzz going early:
  - **Reputation for great gameplay**
  - **Reputation as reliable developer**

- Know most common questions/answers

- When you start fundraising, really start

5. Bootstrap in Interim

Bootstrapping - Pre

- After hours & weekend work
- Concept development
- Prototypes and playable demo's
- Low cost games (iPhone, casual etc.)
- Company formation work
- Planning and meetings
- 3F fund raising
- Deferred compensation / sweat equity

Don't break employment regulations
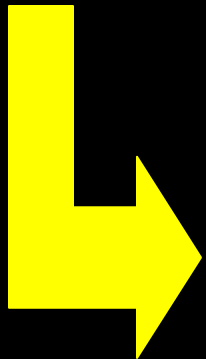
Bootstrapping - Post

- Work for hire contracts
- Publisher deals on first game
- Distribution deals
- Carve outs of defined economics
- Skinny teams, outsourced work
- Contingent or equity based compensation
- Deferred compensation
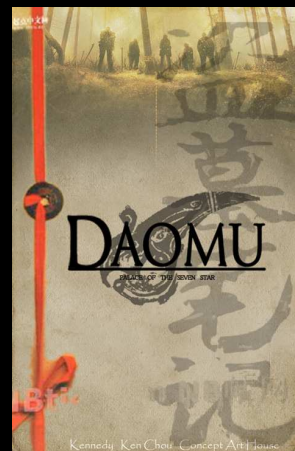- **Watch every penny**

Concept Art House

2d & 3d
Art Outsourcing

Original IP

Telltale Games

WFH - Publisher - Distributor ➡ Episodic IP

Disadvantages of Bootstrapping

- Not enough cash to grow at desired rate
- Team distracted from vision
- Hard to compete
- Not capturing sales, share, leadership
- **Death by a thousand cuts**

Key Takeaways

- Multiple sources of funding exist
- But 2009 a bad year to start looking
- Keys are stick to the fundamentals...
- ...invest time in getting prepared...
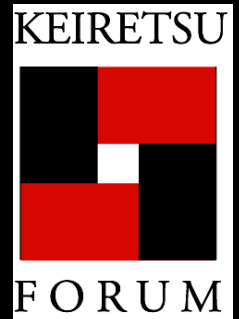- ...and bootstrap in the interim

Good Luck
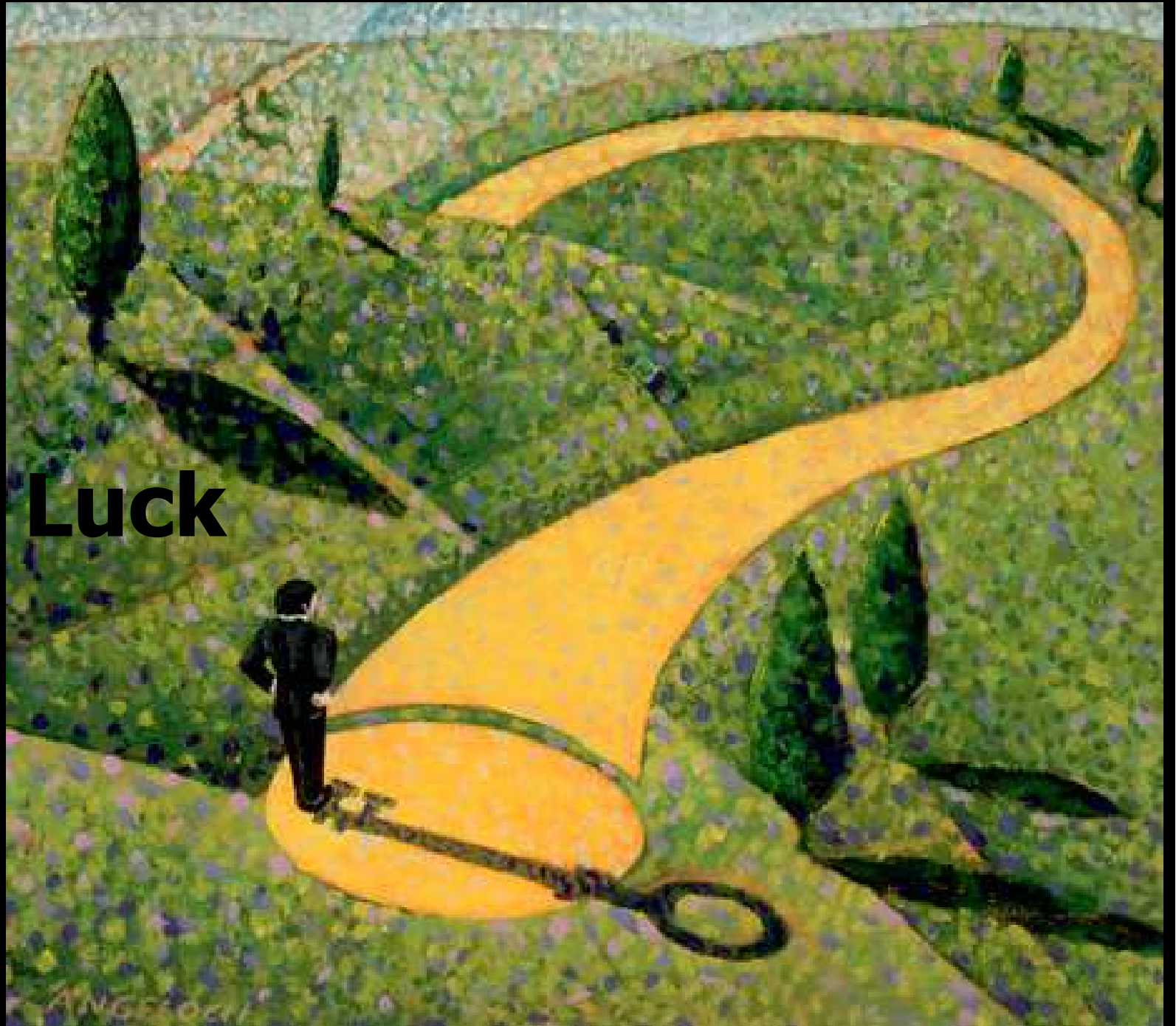
What Next?

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KEIRETSU

FORUM

Agenda

- Who To Approach?

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The Pitch

1. Use the 10/20/30 rule
2. Know your message
3. Know your audience
4. Know your timing
5. Tell good stories:
   - Passionate
   - Personalized
   - Entertaining

1. 10/20/30 Rule

- ## 10 Slides
- ## 20 Minutes
- ## 30 Point Font:
  - ### This is 30 point

Source: Guy Kawasaki

2a. Know Your Message

- Your pitch: executive summary:
  - Kept simple
  - Kept short
- Delivered with passion
- Focused on investor proposition

2b. Know Your Message

1. Problem
2. Solution
3. Business model
4. Underlying magic/technology
5. Marketing & sales
6. Competition
7. Team
8. Projections & milestones
9. Status & timeline
10. Financial deal and likely exits

3. Know Your Audience

- Family, Friends, Angels, VC's?:
  - Do your research
- Their needs/wants:
  - You as their solution
- Listen carefully
- Don't let down your guard:
  - Watch out for "informal last question"

Angels vs. VC's

| Area	Angels	VCs
Personnel	Entrepreneurs	Investors
Firms Funded	Small, early stage	Large, Mature
Due Diligence Done	Minimal	Extensive
Location of investment	Of concern	Not important
Contract used	Simple	Comprehensive
Monitoring	Active, hands-on	Strategic
Exits	Of lesser concern	Highly important
Rate of return	Of lesser concern	Highly important

4. Know Your Timing

Only:

- 10 minute pitch
- 10 minutes questions

5. Tell Good Stories

Stories that are:

- Passionate, Personalized, Entertaining

- Support you core message

- Make your pitch simple and clear
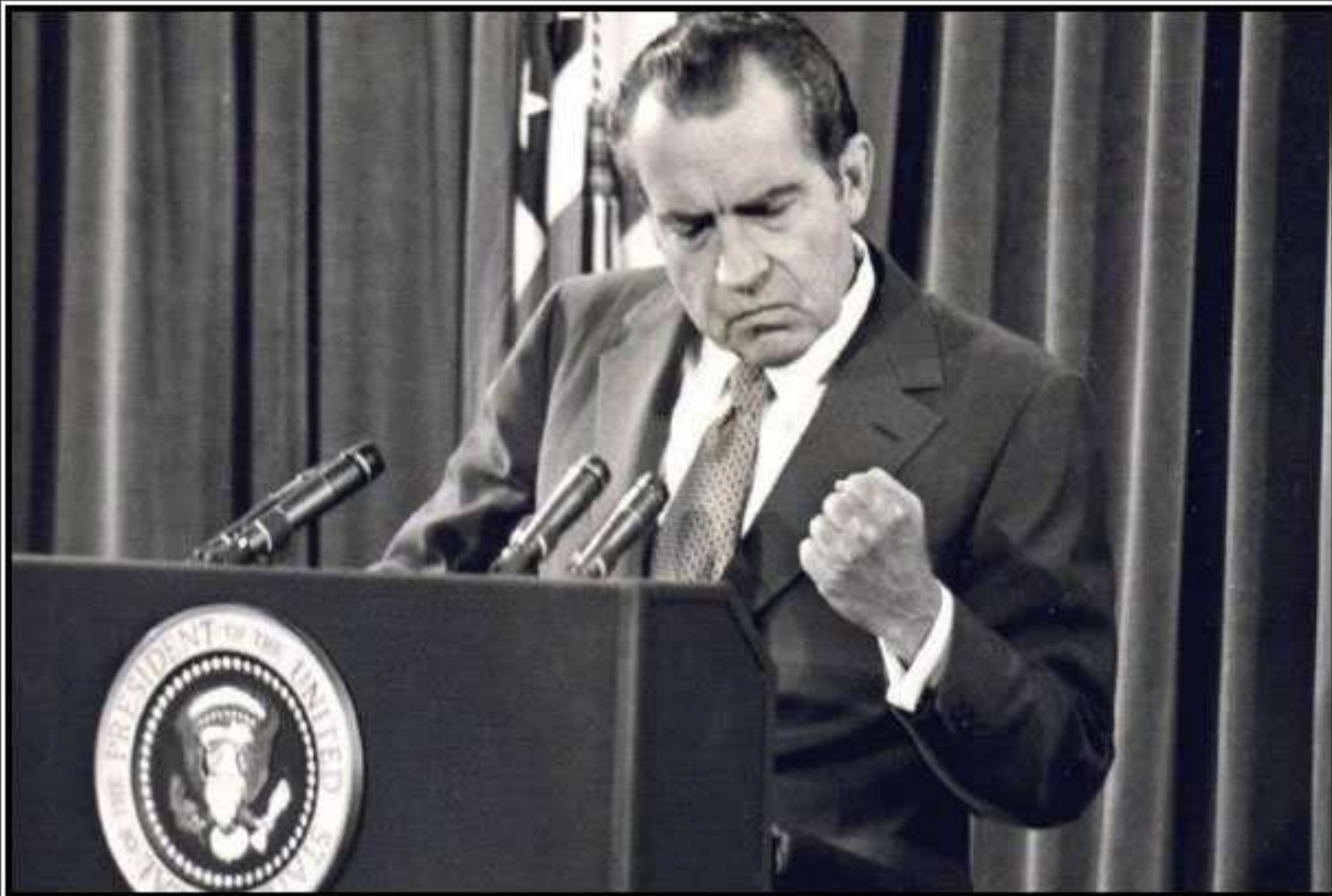
SUCCESS

It feels SO GOOD.

CONCEPT ART HOUSE PRESENTS:

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A FAN FAVORITE AT BLIZZCON, NOW AT GDC!

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Blizzcon 2008: Grand prize winner sponsored by Brady Games

Register at http://www.conceptarthouse.com/contest or send an email to portrait@conceptarthouse.com and include your name, email address, company and title.

We'll draw a random winner from all eligible entrants on 5/1/2009. Winners will be notified via email. Official rules are posted at http://www.conceptarthouse.com/contest/rules.