



 EMERGING TECH RESEARCH

Launch Report: Gaming

VC trends and industry overview

Q4
2022

REPORT PREVIEW

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the PitchBook Platform.





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Vertical overview

In the 1960s, a group of students at the Massachusetts Institute of Technology created Spacewar!, an early computer game inspired by science fiction novels. In the 50-plus years since, the gaming industry has experienced tremendous growth and innovation. Simple 2D experiences in games such as [Atari](#)'s Pong and The Oregon Trail have given way to hyperrealistic, ever-expanding virtual worlds, such as [Microsoft](#)'s Flight Simulator series and [Activision](#)'s Call of Duty. The mid-1980s saw the introduction of [Nintendo](#)'s Entertainment System and was followed by industry-wide headwinds in the 1990s. In the decades since, gaming has grown into one of the most dominant and popular forms of entertainment, with more than 3 billion gamers globally and more than \$180 billion in revenue in 2022.¹ The 21st century saw the introduction of massively multiplayer online role-playing games; expanded internet capabilities; improvements in computing power; and near-ubiquitous consoles from Xbox, [Nintendo](#), and [Sony](#). Today, esports trophies are handmade by luxury jewelers, the world's biggest musicians perform virtual concerts in video game arenas, and more hours are spent watching others play video games than are spent watching [Netflix](#), [Hulu](#), and [HBO](#) combined.²

For much of the past 15 years, video game demand has proven to be highly resilient. During the 2008 global financial crisis (GFC), gamers spent more hours playing games week-over-week than they did during the years preceding the meltdown.³ With the COVID-19 pandemic barely in the rearview mirror, the gaming industry has once again demonstrated growth during trying times. Looking ahead, industry participants are focused on capturing their share of the next billion consumers who will find their way to video games amid favorable demographic shifts, expanded smartphone utilization, and improving internet infrastructure.

1: "The Games Market in 2022: The Year in Numbers," Newzoo, Tom Wijman, December 21, 2022.

2: "Gaming as a Cultural Force Just Stepped to the Forefront of Entertainment," Adweek, Paul Traeger, n.d., accessed February 9, 2023.

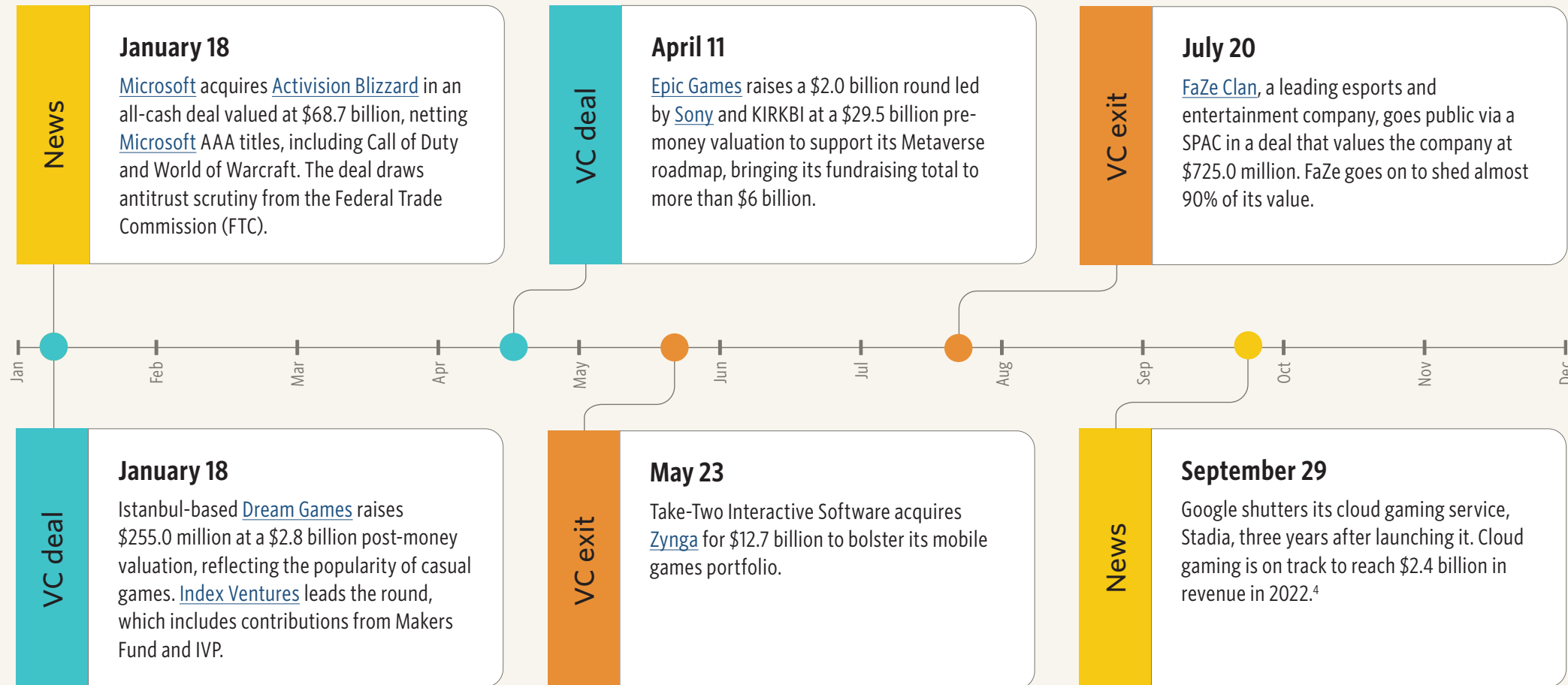
3: "Video Game Engagement at All-Time High During Recession," Nielsen, July 2009.

In 2022, global VC for gaming companies totaled \$13.3 billion, a decrease from \$16.6 billion in 2021, the industry's first contraction since 2018. 2022 represents a correction from the spike in funding, accelerated by the pandemic, that drove an increase in VC activity from \$3.9 billion in 2019, to \$7.4 billion in 2020, and to more than \$16 billion in 2021. Despite this contraction, 2022's total deal value is nearly quadruple that of 2019 and 1.5x its total deal volume. Although VC funding is evenly distributed between early- and late-stage VC, the content segment has proven to be the impetus for most late-stage funding. Early-stage funding is skewed toward emergent technologies, such as Web3 infrastructure and generative artificial intelligence (AI), in addition to gaming content. Deal value is also flowing to startups helping content and intellectual property (IP) owners monetize gamers.

Gaming startups are not immune to global and macroeconomic headwinds. Supply chain issues have interrupted console development and title releases, antitrust concerns are impacting M&A opportunities, and the breakneck pace of game development has brought scrutiny to challenging working conditions. Nevertheless, the creator economy and the value of user-generated content (UGC) continue to expand. Generative AI and other emerging technologies have the potential to accelerate game development, and the Metaverse, Web3, and virtual reality/augmented reality (VR/AR) gaming represent largely untapped potential for the industry.



Q1-Q3 2022 timeline



Q4 VC deal count summary

185

total deals

-30.5%

QoQ growth

-62.1%

YoY growth

Q4 VC deal value summary

\$1.1B

total deal value

-59.5%

QoQ growth

-82.0%

YoY growth

4: "Cloud Gaming Revenues to Hit \$2.4 Billion in 2022, up +74% Year-on-Year; Revenues Will Triple by 2025," Newzoo, Guilherme Fernandes, October 12, 2022.



Gaming landscape

- 1 Development
- 2 Operations
- 3 Access
- 4 Content
- 5 Experience

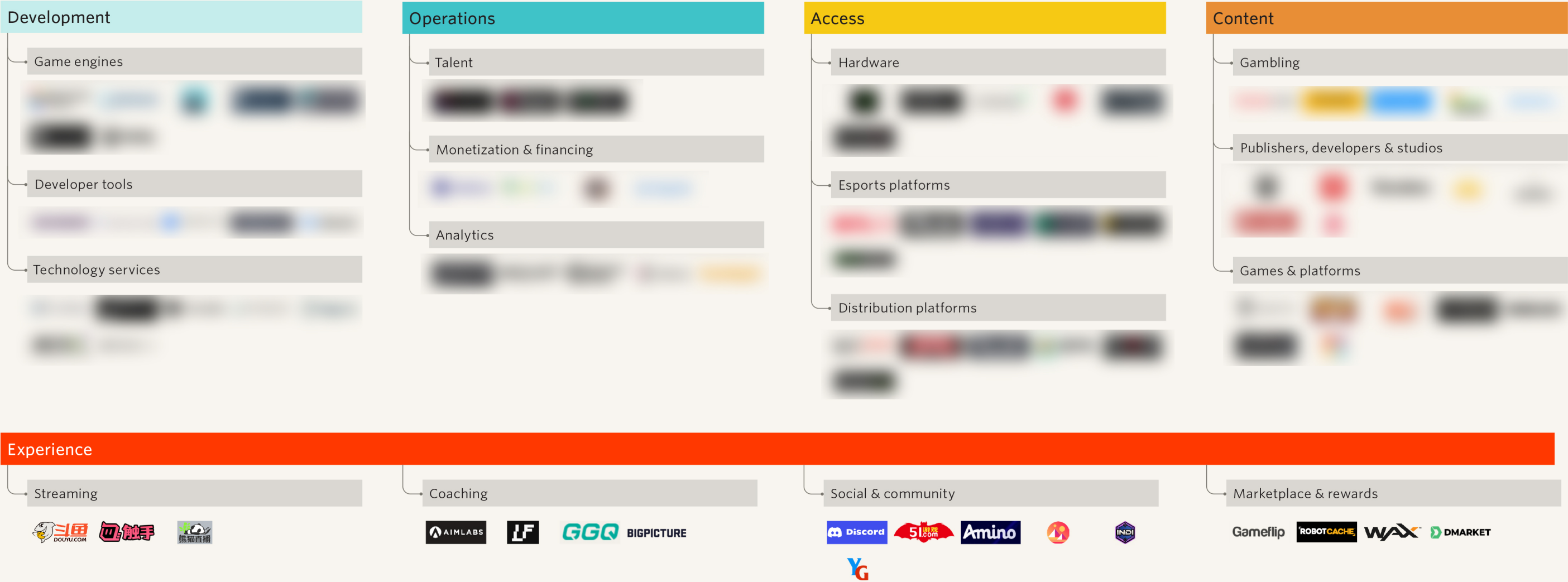




Gaming VC ecosystem market map



Market map is a representative overview of venture-backed or growth-stage providers in each segment. Companies listed have received venture capital or other notable private investments.



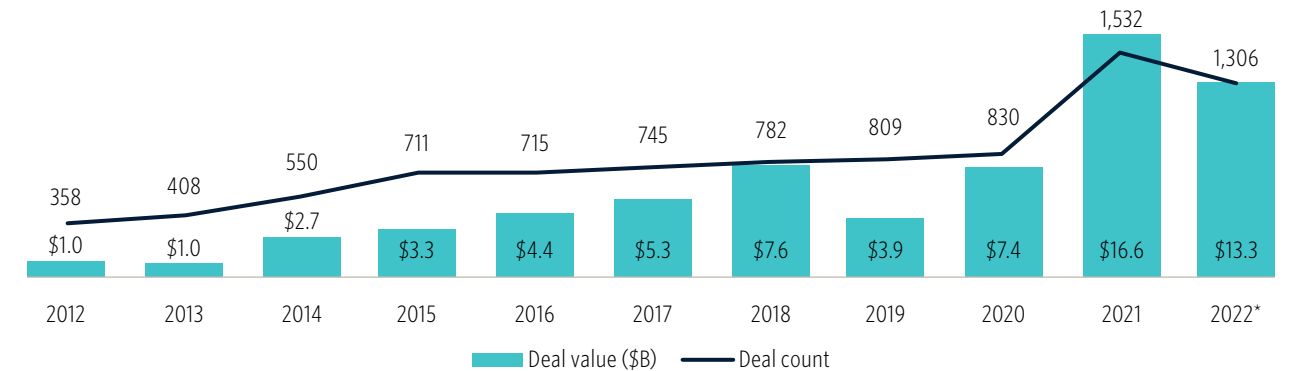


VC activity

VC activity in 2022 reflects a nuanced investment landscape. 2022's total deal value, \$13.3 billion, represents a considerable increase from 2019 (\$3.9 billion) and 2020 (\$7.9 billion) but a step back from the previous year's record-breaking deal flow. 2021 represented a step-function increase across the industry, increasing everything from server traffic to microtransactions, and VC activity was no different. Both overall deal value (\$16.6 billion) and volume (1,535 deals) shattered previous records. In 2022, however, the vast majority of deal value and volume occurred during the first half of the year. Q1 and Q2 accounted for \$9.6 billion in deal value and 855 deals, compared with \$3.7 billion in deal value and 451 deals in the third and fourth quarters. Notable VC deals in 2022 include [Epic Games](#)' \$2.0 billion round in April, [Polygon](#)'s \$450.0 million raise in February, [Mysten Labs](#)' \$300.0 million Series B in August, and [Dream Games](#)' \$255.0 million Series C in January.

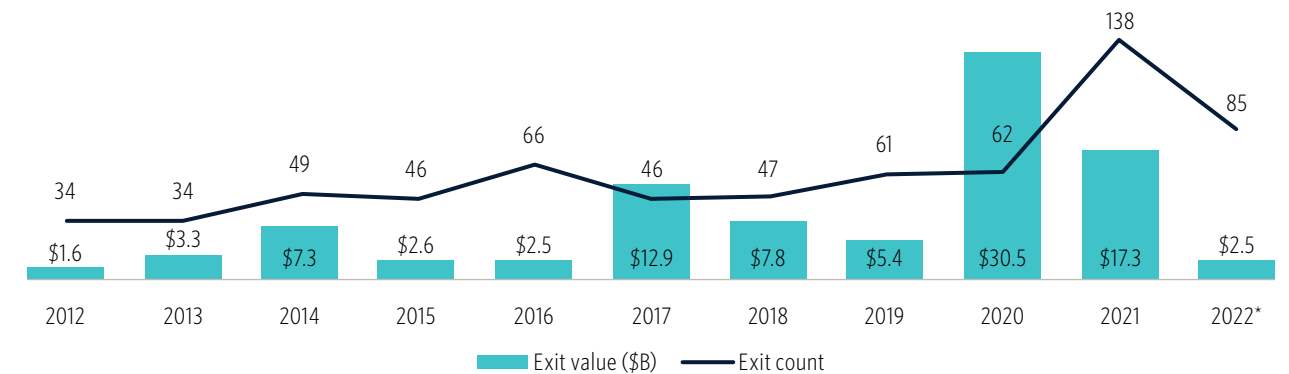
Macroeconomic uncertainty and regulatory scrutiny have weighed on deal and exit activity. Exit value has fallen precipitously from \$30.5 billion in 2020 to \$2.5 billion in 2022, the lowest such figure since 2016, which had \$2.5 billion in exit value. Exit counts, however, remain above historic marks. 2022 saw 85 exits, down from 138 in 2021 but up from an average of 55 exits between 2016 and 2019. Gaming was also significantly impacted by the broader slowdown in public listings, and the industry's only IPOs were [Azerion](#)'s exit via a SPAC at a \$1.6 billion valuation and [Skonec Entertainment](#)'s \$10.8 million exit, both of which occurred in February. M&A proved to be the primary driver of exit activity, and notable deals included [ReKTGlobal](#)'s acquisition for \$470.0 million, [ironSource](#)'s purchase of [Tapjoy](#) for \$400.0 million, and [Admix](#)'s \$300.0 million acquisition.

Gaming VC deal activity



Source: PitchBook | Geography: Global | *As of December 31, 2022

Gaming VC exit activity



Source: PitchBook | Geography: Global | *As of December 31, 2022

About PitchBook Emerging Tech Research

Independent, objective and timely market intel

As the private markets continue to grow in complexity and competition, it's essential for investors to understand the industries, sectors and companies driving the asset class.

Our Emerging Tech Research provides detailed analysis of nascent tech sectors so you can better navigate the changing markets you operate in—and pursue new opportunities with confidence.

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