Game on: self-publishing is key to attracting VC money for mobile gaming studios

More than 80% of mobile gaming studios that were acquired since January 2020 self-published their games, Pollen VC analysis finds

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Fintech lender **Pollen VC**, a leading provider of credit facilities to app and game developers, today reveals what the top priority should be for mobile gaming startups looking to build sufficient value to become an M&A target or attract a public investor base in the future.

Analysing mobile gaming industry deal data from **InvestGame** (excluding Chinese studios and acquirers) between January 2020 until the end of March 2021, Pollen VC found that on a total reported deal value of **$6.73 billion** across 22 transactions by value:

- **83%** (17 transactions) were acquisitions of studios whose primary business model was to self-publish their own games.
- **15%** (4 transactions) were third party publishers; and just
- **2%** (1 transaction) was a studio whose route to market was via a third party publisher.

Martin Macmillan, CEO and co-founder at Pollen VC, said: "It's clear from this data that when founders are thinking about what sort of studio they want to be, taking the decision to self-publish is key if they want to build a company that can become valuable enough to be acquired or to list on a major stock market (IPO) - the main exit routes for VCs with an eye on producing returns for their LPs."

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POLLEN VC

Self-publishing, which involves taking on the full financial responsibility of the production, distribution and marketing of a game, has historically been difficult for indie studios. In the old physical world of console and PC games, publishers would have borne the cost of advances to build games, handle manufacturing of boxed games and distribution into retail stores across the globe, taking significant financial resources. But in the democratized world of the app stores, the model has changed significantly as the barriers to self publishing have disappeared and virtually any developer can reach a global audience through publishing directly on the stores, and acquiring a global user base using Facebook and Google ads.

In mobile gaming today, working with third party publishers can derisk the process by outsourcing user acquisition and monetization and accessing capital for user acquisition. A good publisher will also have a track record and platform contacts that can increase the chances of getting featured on the app stores. On the downside, they look for a substantial percentage of future revenues and often a degree of control of the game design and mechanics, which some founders believe is disproportionate to the value added.

But self-publishing, while hard to get right, is the preferred route for most ambitious founders today. A confluence of trends is behind this as the market continues to evolve rapidly.

"On the one hand, user acquisition is becoming more algorithmically driven rather than relying on the human touch, whilst monetization is becoming easier to optimize with technologies like header bidding and AI-based dynamic pricing platforms for in-app purchases. Even automated production of ad creatives is now possible from a variety of

providers.", added **Martin Macmillan.** "It's clear that incremental improvements in all of these areas are eroding the value that a traditional publisher once provided."

At the same time, ambitious gaming startups looking to scale before becoming cash generative have more access these days to innovative financing solutions, like that offered by Pollen VC. UA can be a capital intensive business and typically, a large part of the publisher's role is fronting the balance sheet to fund this. But increased access to debt capital - accounts receivables (AR) financing and revenue-based loans - is making it possible for founders to finance user acquisition themselves rather than effectively "renting" the balance sheet of a publisher in exchange for a revenue share, typically in the region of 50% after the costs of UA are factored in.

"Pollen VC is being approached by an increasing number of studios who have previously worked with third-party publishers who are now looking to self-publish their next game, taking user acquisition in-house and seeking debt capital to fund their UA spending", comments **Martin Macmillan**. "Our clients can scale their games without giving away a revenue share and importantly maintain their position as the publisher of the game which boosts their chances of a successful exit."

Key takeaways for ambitious studios

Venture capital financing in the mobile gaming industry is red hot and there are more specialist gaming venture capital firms raising and deploying capital than ever before. In February 2021, **GamesOne** released a list of the top VC funds dedicated to gaming. They had assets under management of $1.577 billion. Many new funds have also been launched in the last 12 months, such as **Lumikai**, a fund focusing on Indian gaming startups.

Founders looking to grab the attention of these VC investors should study the business models of those studios that were involved in recent M&A deals. Self-publishing means keeping control of the business financially and creatively.

Using a third-party publisher can be a way of learning the ropes for developers who have aspirations to self-publish. It is a valid strategy for those with gaps in their knowledge and abilities, or in certain geographies, but the aspiration should ultimately be to self-publish future titles.

For founders who are content to outsource UA, monetization and financing then working with the right publisher can be a great option of bringing great games to market, but it's important to understand your horizons upfront and plan accordingly to avoid disappointment.

About Pollen VC

Pollen VC provides flexible credit facilities to app and game developers using a data-driven lending model which is designed from the ground up for the app economy. Based in San Francisco and London, we help developers all over the world to take control of their finances and grow their business in a capital efficient way. Our team includes structured credit, capital markets and performance marketing specialists with in-depth knowledge of the mobile app and gaming market and the growth challenges faced.

Pollen VC is backed by a group of leading private and institutional fintech investors, and has diverse sources of liquidity spanning private and institutional capital providers in Europe and North America.

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