

Gaming Eats the World: Interactive Entertainment & the Metaverse



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Gaming consolidation hit new heights in 2022, with a trio of large-scale acquisitions announced in close succession in January: Take-Two's \$12.7 billion acquisition of Zynga, Microsoft's \$68.7 acquisition of Activision, and Sony's \$3.6 billion acquisition of Bungie. LionTree advised Take-Two on the first of these deals, combining Take-Two's console and PC portfolio with Zynga's mobile franchises to create one of the largest publicly traded interactive entertainment companies in the world.

Acquirers continue to ascribe strategic importance in gaining meaningful scale and content in mobile, even amidst an uncertain macro environment. There is tremendous intangible value, for example, in Take-Two leveraging Zynga's mobile development expertise to create cross-platform experiences for its existing IP — and in Microsoft populating Xbox Game Pass with iconic IP like Activision Blizzard's Call of Duty, Diablo, Starcraft, and World of Warcraft. And while the Zynga deal officially closed in May, the Activision deal still awaits key regulatory decisions. The FTC announced in December that it would seek to block the deal, and the ultimate outcome will be a seminal one for the industry — defining how large technology platforms are able to approach adjacent markets strategically.

Media and technology incumbents have long been aware of the massive TAM and growth prospects in gaming, and they're now increasingly looking to gaming as a catalyst to drive engagement on their own platforms, both in and out of the metaverse. Microsoft's organic and inorganic investments into gaming are clear, Meta has bolstered its capabilities with several acquisitions of VR game developers, Amazon continues to experiment with Prime Gaming and Luna — and we're beginning to bear witness to new entrants toying with gaming as a horizontal industry. In March, LionTree advised Next Games on its sale to Netflix, the latter of which has been on an acquisition spree of gaming studios including Night School Studio, Boss Fight Entertainment, and Spry Fox. Gaming companies have prioritized the mastery of engagement and retention optimization, and players like Netflix see the industry as a natural way to both create new and augment existing revenue streams.

Gaming also shows signs of being relatively resilient to market downturns. This past year, rising inflation drove negative pressure on U.S. consumer discretionary spend, inclusive of mobile gaming and other industries. However, when we look at a 2019-2022 CAGR across pockets of consumer spend, mobile gaming proved to be quite resilient — coming out at a 16% CAGR, above every other bucket of discretionary spend and relative to single-digit CAGRs for massive industries like clothing, restaurant, and hospitality. This resilience can partially be attributed to the backdrop of the pandemic driving a significant uplift in gaming spend in 2020 and 2021, as consumers actively sought out new content with which to engage. And while the current macroeconomic picture implies that price-sensitive players will spend less than they would have in a healthier economy, player engagement and player count continue to grow across the globe. Game developers who are able to optimize their monetization and retention models over the months to come should be well-positioned to capitalize on an eventual rebound in the economy, with industry experts expecting positive growth in 2023, albeit at a lower rate than that which we witnessed at the height of the pandemic.

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Investors also view gaming as an industry whose innovation and technology ultimately end up influencing media and adjacent industries deeply, leading to the industry closing nearly \$28 billion in private capital raise volume since 2020. LionTree is a strategic partner to Griffin Gaming Partners, which established itself this year as one of the world's leading investment firms singularly focused on the video gaming industry, now with nearly \$1.2 billion in assets under management and over 70 investments across its Fund I and Fund II. Griffin's access to deal flow of around 2,000 companies/year spans traditional gaming developers across mobile, PC, and console, traditional gaming platforms and infrastructure, along with the same verticals across web3 gaming. LionTree's advisory expertise and deeply rooted relationships combine with Griffin's extensive access to investment deal flow to create a robust source of data and insights that we believe will serve our clients for years to come.

