Ukie Access to Finance Guide

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Introduction – "Hey, listen!"

There are many ways to finance growth for a video games business, and the options available to businesses looking to scale have never been so numerous. Financing in the video games industry has evolved over the years from a primarily publisher-led model to a complex ecosystem including sources such as angel investors, venture capital firms, government funding, project and specialist debt finance, tax credits, distribution platforms and crowdfunding alongside traditional publishers.

This guide aims to cut through the noise, providing an overview of the key sources of finance, how to prepare yourself for it and what to expect from those providing it – the 'quid pro quo'.

"It's dangerous to go alone, take this." – why would a business need external funding?

This is a key question to ask yourself: what do you want to raise money for? The investor or provider of finance is going to be very interested in your answer.

Businesses need funding for a variety of reasons. You might be…

…a work-for-hire studio keen to develop your own game or IP but lacking the time, resource and headspace?

…a start-up with a decent playable vertical slice but need some extra cash to finish the game?

…a later stage studio with a couple of moderately successful games under your belt, looking to knock it out of the park with your next game?

…a game-tech start-up looking to scale and exit within five years?

…something else entirely!?

Figuring out where you are and where you want to get to (and so what you need funding for), is the first step.

"The Cake is a Lie" – go for the funding that's right for you"

It is important to consider what funding may be most appropriate for your business.

Providers of finance generally fall into two main buckets:

- those that are interested in your **game** or **intellectual property**
- those that are interested in your **company**.

Publishers invest in **games** or **IP**. They provide finance to studios (the 'advance') to fund the completion of a game, and may also provide marketing and other services to help promote the game. In return they share in the revenues of the game. For them, it is all about the game (or the underlying IP). They want to see a steady revenue stream, and recoup at least the advance they gave to you. They may have little to no interest in what happens to your company.

Equity investors invest in **companies**. They will be very interested in the game(s) you're developing, but it goes beyond that. A publisher invests in the future revenue stream of a particular game; an equity investor is investing in the future success of a company. The value of a company can be based on the profit it makes – revenue (from royalties paid by publishers, in-app purchases etc.) less costs (rent, staff etc.). In some cases, revenue is the metric. In others, it could be look at the net asset value of the company. It all depends on the type of business. Most equity investors will want, at some point, a return on their investment. This means a sale of the company – or a buyout of those investors. Venture capital usually expect to see a return within five or so years.

Publisher finance and equity finance are usually not interchangeable – they are investing in different things, and they expect different outcomes. Make sure your vision of the future is aligned with theirs.

A note on 'bootstrapping'

For most of the history of the games industry, there were two main ways to finance a games business: publisher funding and 'bootstrapping'.

Bootstrapping means exactly that: pulling yourself up by your own boot straps. It means using your savings, going 'cap in hand' to friends and family and doing work-for-hire to gather the funds needed to launch or grow your business. It is not easy, but the main advantage is huge: you and your co-founders don't have to give away any equity or control. It can also be the only option, particularly at any early stage when finance for growth can be difficult to obtain without a track record. If finance is available, it may not be on attractive terms – reflecting the risk inherent in an early stage business.

Most businesses will involve an element of bootstrapping at the start – the question is how far you can go. For many businesses, it is all about time. Organic growth, without external funding, may get you to where you want to be, but it may take years. Work-for-hire (developing other companies games or IP) pays the bills but it doesn't create value in your company. Getting in some early stage equity funding may mean giving up a share of your business, but that may be worth it if you can turn a five year journey into two or three.

Many investors will expect to see you 'bootstrap' to a certain extent before they invest – to them this shows commitment and 'skin in the game'. Other providers of finance will want to see a track record as well.

Therefore, you may need to be a little bit creative and 'fleet of foot' when it comes to funding at an early stage. You should exhaust all the possible sources of public funding, e.g. the UK Games Fund, as a first port of call. This could be the cheque you need to come up with a playable demo of your game, which then unlocks conversations with publishers, early stage equity investors or other sources of finance (depending on the direction of your business).

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In the end, most forms of finance will involve giving up some level of control or taking on some level of risk. You may have a publishing deal with rights over your game (and sequels) resting with the publisher. You may have given 25% of your equity to a venture capital fund or angel investors. There are a number of different ways to raise money to grow your business, so do read on and explore all the options.

We hope this guide is helpful, not just as a directory of possible sources of funding, but also as a handbook of hints and tips to refer to on an ongoing basis.

The information in this section has been provided by Harbottle and Lewis, a Ukie Partner Member, as at March 2025. Contact the membership team if you have any follow-up questions for them.

Contents

This guide has been prepared by Ukie Partner member, Harbottle & Lewis LLP. This document is intended to be used as an introductory guide only, is not an exhaustive review of the subject matter and does not constitute legal advice from Harbottle & Lewis LLP

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Public Funding

Public funding for games is available from a number of sources, some national, some regional and some for more specific types of content.

Public funding generally falls into two buckets: games-specific and non-games specific.

The most focused of the games-specific funding is the UK Games Fund. Other funds with a specific allocation for games funding and support include the BFI Global Screen Fund, Innovate UK and Creative UK. These should all be looked at by any games studio or business seeking funding.

However, there is a host of non-games specific – often regional – funding, which is often not on people's radar. Many games businesses will qualify for this funding, so do keep an eye out. Colin Macdonald's Games Opportunities Newsletter is a fantastic resource on the latest funding available.

You should also be aware of the distinction between content and 'tools 'n tech'. The UK Games Fund and other similar funds are aimed at supporting the creation of games and content. Innovate UK, on the other hand, is more likely to be relevant for companies developing game-adjacent technology.

A selection of the key sources is as follows:

- UK Games Fund
- Creative UK
- Start-Up Loans
- Innovate UK
- Global Screen Fund
- Northern Ireland Screen fund
- Scottish Enterprise
- Various English/Welsh regionally-focused funding

Businesses that take advantage of any government funding should note that some of these may constitute state aid and so may have an impact on and limit the availability of other state aid (including tax reliefs e.g. VGEC and R&D tax relief). Specialist advice should be taken at the time.

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UK Games Fund

What is the UK Games Fund?

The UK Games Fund was established in 2015 to provide grants to studios to be applied towards the development of a specific game project.

Currently, funding falls into three brackets:

- the **Prototype Fund** – for early stage studios in need of funding to create a prototype, offering up to £30,000 in grants
- the **Content Fund** – for more developed studios, with a prototype, offering up to £150,000 in grants
- **Transfuzer** – for undergraduates / recent graduates looking for a small amount of funding to get them started.

Prototype Fund – what's on offer?

The clue is in the name! The UK Games Fund's Prototype Fund is there to help your company develop a prototype and offers up to £30,000 in grant funding. This grant funding covers approved employment costs of UK-based employees and UK-based contractors paid from April 2024.

Expressions of interest for the next round of funding will open in April 2025, so watch this space!

Prototype Fund – how do I qualify?

- Applications will only be accepted from registered UK-based companies.
- Companies must have fewer than 50 employees.
- The scale of development will be such that our support and grant will represent no more than 50% of the total costs of the project once it has been released.
- Your project must not include gambling elements or mechanisms which could be perceived as such, or any content that we deem to be potentially reputationally damaging (solely at our discretion).
- Games associated with emergent business models with little evidence of success are unlikely to be funded until that evidence base can be demonstrated.
- Your project can already be in development, although we don't support projects that have already fully launched, and do not fund work carried out prior to the grant being offered.
- Projects following an open-development model with a live build available in a pre-release form will still be considered (but typically we don't fund pure DLC development for a title already launched).

- Successful applicants must be able to clearly demonstrate a plan for growth and positive improvement as a result of UKGF support; this could be through new PAYE employees or co-development with freelancers/other companies as contractors

See here for FAQs.

Content Fund – what's on offer?

The UK Games Fund's Content Fund is able to provide grants of between £50,000 and £150,000 to established UK-based companies and solo developers with a game development project.

Applications are currently closed, but watch this space – the UK Government announced on 17 January 2025 that it is providing £5.5m to the UK Games Fund for the financial year 2025/2026. More details on specific funding programmes to be confirmed.

Content Fund – how do I qualify?

Although the criteria for the next round of funding is to be confirmed, for the previous round the following requirements applied:

Your company

- you must be a UK registered SME with PAYE employees engaged in games development work in the UK
- the ownership of your company must be explicitly set out and with UK-based founder-directors as significant shareholders
- the total previous grant and other subsidies not exceeding £315,000 over a three-year fiscal period (including any prior funding from the UK Games Fund) in order to comply with UK subsidy control legislation
- you are not presently facing any acute working capital challenges or liabilities that put the business under any unusual levels of risk
- you are able to fully articulate the rationale for all structural aspects of the business and the growth strategy in the context of building and growing a financially-sustainable UK-based games development studio and growing PAYE employment, particularly where there are any non-standard business configurations such as dispersed teams / high levels of contracting

The development approach

- the funding is required to support a mix of existing and/or new employees, alongside a lesser proportion of contracting
- you have a clear explanation of the development approach in terms of the planned physical location/s of work in the UK and access to talent

The project

- you have a prototype in place
- the IP in the project is owned by you or your company or licensed on terms that are aligned with the project's long-term requirements
- your project must not include gambling elements or mechanisms which could be perceived as such, or any content that we deem to be potentially reputationally damaging (solely at our discretion)
- your project is a primary focus of your current development portfolio
- your project is a commercial game for entertainment focus with potential to secure a commercial audience at scale
- the eligible costs are staff and contractor costs for hands-on development activity
- ineligible projects include non-commercial, non-entertainment games, student projects/graduation works, games incapable of obtaining a PEGI rating, corporate/marketing functions (etc)
- there is evidence of an understanding of the target audience and plans to access that audience
- you have a credible funding rationale in terms of scale of the request for grant funding in the context of company finances
- you can demonstrate the additionality of the funding

Leverage

- overall project costs at least double the requested grant
- strong additionality case, with our funding making a demonstrable difference in terms of unlocking additional resources, new relationships, platform or audience access, etc.

There are, in addition to the requirements, preferences that are listed on the UK Games Fund's website.

How do you apply?

Please check the UK Games Fund website for details of how to apply as and when rounds of funding are open.

What are the main terms of a grant?

Successful grantees will receive full payment of grant in advance of commencement, usually within four weeks of contract completion. Grantees will be required to submit monthly update reports on progress. The final report will also include an impact survey and an accountant-certified financial report covering all project spend, both of which are compulsory

The UK Games Fund does not require any ownership of intellectual property or equity stake as part of any grant.

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Prototype Funding / Tranzfuser

The UK Games Fund runs the Prototype Fund, providing smaller grants for studios without a prototype, and Tranzfuser, an innovative talent development programme for graduates.

Please refer to the website links for more details.

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Creative UK

What is Creative UK?

Creative UK is a not-for-profit organisation that provides support for and investment in the UK's creative industries.

Creative UK's stated aim is to invest in talented people and their creative ideas – not only in the games industry but also in the TV, film and digital media industries.

How can Creative UK help your business?

Growth Programmes

Creative UK has a variety of initiatives open at any one time, some of which are aimed specifically at games businesses. Often these will involve selecting a small number of developers, publishers or other businesses and providing a programme of workshops, masterclasses and workshops, like the Games Scale Up programme.

They also run Creative Enterprise: Evolve, a nine-month long programme that prepares screen businesses for growth capital. Currently this is only available for businesses based in England outside of London.

More information on relevant initiatives and programmes can be found here.

Creative Growth Finance Debt Fund

Creative UK also directly provides debt finance to businesses within the creative industries (including video games) via the Creative Growth Finance Debt Fund, a fund established in partnership with Triodos Bank UK.

The key features of the loans on offer are as follows:

- 100% virtual application process
- Loans of £100,000 – £1,000,000
- Capital repayment holiday of 6 months
- Fixed interest rates from 7% – 15%
- Repayment terms up to 4 years
- Initial decision to progress within 3 days
- 5% management fee will be charged on payment of the loan

Eligibility requirements are as follows:

- Your company must be registered in the United Kingdom

- You must operate within the creative industries (by this we mean; Film, TV, Media, Immersive and Video Games, Advertising & Marketing, Digital & Creative Tech, Creative Software Solutions, Fashion, Architecture, Music, Publishing)

- Your most recent annual turnover must have been at least £300,000

- You must have at least one year of accounts filed at Companies House

For more information, click here. To make an expression of interest, click here.

Tax Credit Loans

Creative UK also provide loans secured on future R&D and VGEC tax credit payments. For more information on these loans, please refer to the section of this Guide on Video Games Tax Relief Loans.

For more information on Creative UK's tax credit loans, please click here.

Equity Investments

Creative UK also makes equity investments in businesses. Since 2012 it has invested over £20 million in over 350 creative businesses with an average investment size of £67,000.

Currently Creative UK has a £2 million pot to invest in creative businesses based in the North of Tyne Combined Authority Area via a mix of loans and equity.

For more information, click here.

Start Up Loans

Start-up loans are personal loans designed to help new businesses begin trading, available to individuals looking to start or grow a business (i.e. not limited to the games or creative industries in the UK). They are provided by the Start Up Loans Company, which is funded and backed by the UK Government. Since 2012, Start Up Loans have been provided for over 55,000 business ideas.

The key features are as follows:

- Borrow up to £25,000
- Not borrowed by your business, but by you personally
- £25,000 per founder available (up to a maximum of £100,000 per business)
- Fixed interest rate of 6% per year
- Finance available for up to 5 years
- The loan is unsecured, so there is no need to put forward any assets for security or guarantors to support an application
- No application or early repayment fee
- Free support and guidance on offer to help with your business plan
- Successful applicants also receive up to 12 months of free mentoring

To be eligible, you must:

- be resident in the UK
- be at least 18 years old
- have or plan to start a UK-based business that has been trading for less than 2 years

More details can be found here.

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Innovate UK

What is Innovate UK?

Innovate UK is part of UK Research and Innovation, a non-departmental public body funded by the UK Government, that provides grants to companies for R&I-based projects.

Since 2007, it has invested approximately £2.5 billion across more than 11,000 projects.

More information on Innovate UK can be found here.

What does Innovate UK support?

Innovate UK aims to invest in early stage innovation projects with high potential as well as focusing on sectors it has identified as priorities.

What funding is available?

Innovate UK provides a mix of grants and loans.

Grants are available to businesses of any size and in any sector, with regular competitions offering between £25,000 and £2 million run for projects with high commercial potential.

Certain of the competitions on offer involve loans rather than outright grants.

The current open competitions and programmes can be found here.

Certain of the competitions launched from time to time may be relevant to video games businesses, so it is worth checking the Innovate UK website regularly.

How do you apply?

Applicant need to submit a detailed application form. Each application form has specific rules regarding length and content. Once submitted the application will be evaluated and funding granted on that basis only. More information about the application process can be found here.

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BFI Global Screen Fund

What is the Global Screen Fund?

Aimed at boosting the international competitiveness of UK screen content the Global Screen Fund is designed to boost international development, production, distribution, and promotional opportunities for the UK's independent screen sector and is constructed to help develop and produce projects with international appeal, support the worldwide distribution of UK content, and encourage collaboration with international partners. The Global Screen Fund targets support across the screen sector, including film, TV, documentary, animation and interactive narrative games content. It was launched as an alternative to the European Union's Creative Europe MEDIA programme, which ceased to be available to UK companies after 31 December 2020 due to Brexit.

The Global Screen Fund allocates funding across three strands:

- International Distribution - support for sales and distribution of one or more UK feature films (drama, documentary, animation) in international territories.
- International Business Development – financial support for business strategies that drive international growth and IP development for companies working in film, TV (animation, drama and documentary) and interactive narrative gaming
- International Co-production: support for UK companies to be partners in international productions, sharing IP and revenue on TV (animation and documentary) and film projects with audience potential

Whilst the fund is mainly aimed at the film and television sectors, there are aspects that are relevant to interactive entertainment businesses.

How to apply?

Please click here for more information.

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Northern Ireland Screen fund

What is Northern Ireland Screen

Northern Ireland Screen is the national screen agency for Northern Ireland and it is committed to maximising the economic, cultural and educational value of the screen industries for the benefit of Northern Ireland. With its funding for the video games industry, Northern Ireland Screen aims to develop the digital content sector through the support of Northern Irish talent working in gaming, e-learning, web and mobile. More information on Northern Ireland Screen can be found here.

What funding is available to the video games industry?

Northern Ireland's two main funding streams are:

- **Project Development Funding** which is available for development of video game projects for international markets and distribution. Northern Ireland Screen will invest (via a recoupable loan) (1) 90% of the budget for projects with a budget of up to £10,000; (2) 75% of the budget for projects with a budget of between £10,000 and £20,000 and (3) 50% of the budget for projects over £20,000 up to a maximum of £100,000.

- **Project Production Funding** which is available to companies working in the video games sector to assist in completing budgets on productions which are almost fully financed. Northern Ireland Screen can invest (via a recoupable loan) a maximum of £500,000 up to a ceiling of 25% of the overall project budget.

Eligibility requirements

Project Development Funding is available to independent production companies based in Northern Ireland and European production companies which have an office and staff based in Northern Ireland.

Project Production Funding is available to all legally incorporated companies who: (1) can fulfil the British Cultural Test (more information on this can be found here); (2) have 65% of their funding already in place; and (3) can demonstrate their project has clear possibilities for commercial exploitation (such as having an experienced publisher attached to the project).

How do you apply?

Initially, projects are encouraged to email Northern Ireland Screen Fund to discuss the proposed project. Information on contact details and what further details may be required can be found here.

Scottish Enterprise

This is by far the most substantial government funding for video game studios in Scotland. Scottish Enterprise runs a variety of programmes for companies that want to set up in Scotland. The most applicable for video game studios are:

- the regional selective assistance program (which can award up to 35% of an entity's operating costs);
- the R&D grant which funds research and development;
- SMART, which provides funding to novel research and development projects in two stages (feasibility studies for early stage developments and R&D project grants for later stage developments); and
- Scottish seed fund (run by the Scottish Investment Bank) which awards funding to early-stage Scottish start-ups.

Examples of studios that have received Scottish Enterprise funding include: (1) Rockstar North (who received R&D grant funding) and (2) Blazing Griffin (who received matched seed funding from the Scottish Investment Bank). More information on these funding streams can be found on the Scottish Enterprise website here.

Various English/Welsh regionally-focused funding

Depending on where it is based, your video games businesses may be eligible to receive funding from bodies that focus on boosting the economy in their region, such as Screen Yorkshire and Creative Wales and S4C in Wales. Creative Wales in particular have a recurring Development Fund that a number of Welsh games companies have benefitted from.

It is always worth checking, according to where you are based, if there is any regional funding that you may be able to benefit from.

Private Sector Grants / Funding

In addition to Government-sponsored sources of funding, the private sector has produced certain funds and grants to support the games industry, such as Epic MegaGrants.

This is a growing source of finance in the industry: either successful companies or founders who've 'been there, done that' wanting to encourage particular types of games, development on a particular engine or another specialism. Watch this space.

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Epic MegaGrants

Epic Games has a $100 million fund to support game developers, enterprise professionals, media and entertainment creators, students, educators, and tool developers doing amazing things with Unreal Engine or enhancing open-source capabilities for the 3D graphics community. This is generally only available for projects that use Epic's Unreal Engine, although if you are looking to port across a project built in another engine or toolset to Unreal Engine, then you may be eligible to apply.

In addition, if you want to develop a project that enhances open source 3D content creation, whether or not it integrates with or relates to Unreal Engine, you may also be eligible.

Key features of the grants are as follows:

- Grants range from $5,000 to $500,000 and cover game development, architecture projects, film production, academic uses and software tool development.
- Grants up to $25,000 will be paid in a single tranche; amounts over $25,000 will be paid in instalments.
- You retain all IP rights.
- No repayment of funds is required.

For more information click here, and to apply click here.

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Tax Reliefs

Video Games Expenditure Credit (replacing Video Games Tax Relief)

What is Video Games Expenditure Credit (VGEC)?

VGEC is a valuable incentive that allows video games studios to claim a cash repayment or tax relief from the Government after they have spent money on developing a video game. It is one of a number of Creative Sector Tax Reliefs in the UK.

VGEC replaced a previous tax relief called Video Games Tax Relief (**VGTR**). VGEC will come into force from 1 April 2025 and, from this date, any companies wanting to claim relief will need to use VGEC, which may be claimed on expenditure incurred from 1 January 2024. However, existing projects that are ongoing can claim VGTR until April 2027.

How can VGEC help your studio?

VGEC can provide valuable finance for your studio. Potentially, it can also help you to unlock other finance – there are lenders out there that will provide debt to your business using future VGEC receipts as security.

What is the value of the VGEC?

VGEC has a headline rate of 34% i.e. it is a taxable expenditure credit calculated as 34% of 'qualifying expenditure'. This 'qualifying expenditure' must be used or consumed in the UK and directly related to the development and production of eligible video games within the UK. (unlike VGTR which includes the European Economic Area (EEA)). The credit will be treated as income and therefore be subject to corporation tax (currently 25%) meaning that, in reality, the rate will be 25.5% of qualifying expenditure, capped at 80% of total expenditure, giving an effective rate of 20.4%.

Maximising the value of the VGEC

It is important and worthwhile to take advice from an expert on how to maximise the value of the VGEC for your game. With the help of experienced advisers who understand the fine details of the VGEC rules and have experience of dealing with HMRC (whose rules are not always written down!), you may be able to obtain a meaningful increase in the value of your VGEC claim.

How does your studio/game qualify for VGEC?

The following main criteria need to be met:

- You must use a company to claim the VGEC (individuals, partnerships and Limited Liability Partnerships (LLPs) cannot make claims). The company is called a 'video games development company' or 'VGDC'.

- The VGDC must be subject to UK corporation tax.

- The VGDC must be directly involved in the production of the video game. It must:

  - be responsible for the design, production and testing of the game;
  - be actively engaged in the planning and decision-making during this process; and
  - directly negotiate, pay and contract for the rights, goods and services relating to the game.

- The video game must be certified as British by the British Film Institute (**BFI**). This means that the video game must pass a Cultural Test. The test is points based, and a video game only requires 16 out of a possible 31 points in order to pass. This is a relatively low threshold and means that many games can pass. The test is administered by the BFI, who are very helpful in providing guidance and assistance. Further details about the Cultural Test are set out below.
- The video game must be intended for supply to the general public.
- The video game should not fall foul of any of the agreed exclusions, which include games made with a primary purpose of advertising, promotional purposes, gambling or games that contain any pornographic or other extreme material.
- There must be a minimum of 10% 'core' expenditure 'used or consumed' in the UK. Core expenditure covers the designing, producing, and testing, but does not include expenditure on developing the initial concept, debugging or post-completion maintenance work.

Is there a limit on qualifying spend?

No, there is no limit on how much qualifying spend can be incurred. This means that the VGEC is available however high the qualifying spend.

Is there a minimum spend threshold?

No, there is no minimum spend threshold. This means that games companies developing low budget games can qualify for the VGEC.

Can the VGDC sub-contract to other companies?

Yes, the VGDC can sub-contract work, however all subcontracting must be on a 'used or consumed' basis in the UK. If you are claiming for a game under VGTR until April 2027, you will still be subject to the VGTR cap of £1 million and you can claim for subcontracting costs in the EEA.

How does the relief interact with the R&D tax relief and other state aids?

VGEC cannot be claimed in respect of any expenditure that can qualify (or has already qualified) for R&D relief.

However, with the right advice and structuring from experts, there may be ways for studios to take advantage of both VGEC and R&D tax relief.

Where can I find out more?

Feel free to contact Mark Phillips or Kostya Lobov for any further details about VGEC or VGTR.

Also, HMRC has issued helpful guidance on VGEC, which is found here.

The BFI's website page and guidance notes on the Cultural Test are found here.

The Cultural Test

The test is broken down into four sections:

Cultural content: 16 points available

This measures the British or European content of the videogame. Points are awarded for:

- the setting of the video game in the UK or the EEA (or an undetermined location, such as a fictional world);
- the lead characters being British or EEA citizens or residents (or characters from an undetermined location);
- the video game being based on a British or European subject matter; and
- the dialogue being mainly in the English language (or one of the UK's six indigenous minority languages).

Cultural contribution: 4 points available

This section measures the British cultural impact of the video game. Points are awarded for those elements of the game which demonstrate British creativity, British heritage or cultural diversity.

Cultural hubs: 3 points available

This section measures the use of the UK's video game development facilities. Points are awarded for the use of UK facilities for concept development, storyboarding, programming, design, music recording, audio production or voice recording.

Personnel: 8 points available

This section measures the use of personnel with creative input into the video game. Points will be awarded for the use of UK or EEA citizens or residents in key video game development roles including the project leaders, scriptwriters, composers, artists, programmers, and designers.

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R&D Tax Relief

What is Research & Development (R&D) tax relief?

The Research & Development Expenditure Credit (**RDEC**) aims to incentivise innovation and increase spending on R&D in industries such as the games industry through relief from corporation tax. It either allows qualifying expenditure to be deducted from taxable income or, in the case of loss making companies, a cash rebate to be claimed from HMRC.

For R&D tax relief to be available, the company must be undertaking development activities that seek to achieve an advancement in a field of science or technology. The project must aim to create an advance in the overall field, not just for your business. This does not apply if the advance sought is in, the arts, humanities or social sciences, including economics.

How can R&D tax relief help your studio?

The RDEC provides a credit rate of 20% on eligible R&D expenditure. For companies with taxable profits greater than £50,000, the credit is taxable, therefore at the 25% corporation tax rate, the net cash benefit is 15%.

For loss making studios, the credit is repayable following the deduction of a 19% notional tax, providing a cash benefit of 16.2%.

R&D tax relief can generally only be claimed for expenditure within the last two accounting periods.

What activities can qualify for R&D tax relief?

For tax purposes, R&D takes place when a project seeks to achieve an advance in overall knowledge or capability in a field of science or technology.

It should be borne in mind that an activity that is eligible for R&D tax relief does not always need to result in a viable solution. Expenditure on activity that seeks a solution, but ultimately fails, can also form part of an R&D claim.

The criteria for qualifying costs and activities are purposely broad. HMRC stipulates that the important criterion is not 'what' is produced but 'how' it is produced. HMRC has confirmed, however, that no matter how original, a game storyline will not qualify as a scientific or technological advance, and therefore expenditure on the storyline will not qualify for R&D tax relief.

HMRC has provided the following example of the application of R&D tax relief in the context of the games industry:

> "*A company realised that each object on a game's screen had to be programmed in respect of its interaction with all the other objects. As the game became more complex, more objects were introduced and the amount of code required rose exponentially. The solution was to programme the properties of each object. When the objects interacted, a separate code was no longer required as the inherent properties produced the outcomes. The qualifying expenditure on developing this innovative code would qualify for R&D relief.*"

Very small companies dealing in subcontracted work may qualify if the work undertaken is sufficiently innovative, even if the larger contractor's project does not qualify.

What costs will qualify?

Costs incurred in respect of direct and externally provided staff, subcontracted R&D, consumables, software, trials, prototyping and independent research costs may all qualify for R&D relief.

How does R&D tax relief interact with other reliefs and state aids?

Where RDEC is claimed on a project, that project cannot claim Video Games Expenditure Credit (**VGEC**). This means that if a studio chooses to claim VGEC, the same expenditure on a project would not qualify for RDEC.

However, with the right advice and structuring, there can be ways for studios to take advantage of both VGEC and R&D tax relief. This is a complicated area and we recommend you take legal and accountancy advice.

How to claim the R&D tax relief

You can claim R&D relief by entering the total qualifying expenditure on the full Company Tax Return form, CT600. As part of your R&D submission you will be required to submit an Additional Information Form (AIF) including various pieces of information including company details, details of expenditure and project details among other information. This can include demonstrating that the expenditure was incurred because the company has addressed a technological uncertainty and attempted to overcome.

Many businesses are deterred from making a claim due to the intensive reporting procedure and potential for further investigation from HMRC. However, there are specialist R&D advisers who can assist with assessing whether a business undertakes qualifying R&D and with identifying potential expenditure to be included in the claim.

Where can I find out more?

HMRC provides further guidance here:
http://www.hmrc.gov.uk/gds/cird/attachments/rdsimpleguide.pdf

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Debt Finance

Video Games Tax Relief Loans

What is a video games tax relief loan?

This is a loan provided by a bank or another lender secured by the proceeds of the Video Games Expenditure Credit (**VGEC**). In other words, the bank or lender lends the video game development company money in the knowledge that its loan should be repaid from the proceeds of the VGEC.

How can a VGEC loan help your studio?

A potential timing issue for your studio is that, under the VGEC rules, you will need to incur expenditure on your game before you can claim VGEC, which means that the VGEC proceeds could arrive too late to be used towards that particular game expenditure. One solution to this issue is to obtain a VGEC loan. This allows your studio to access the value of the VGEC earlier than if you were to wait for payment by HMRC, so that it can help with your cashflow and should mean that you can use the proceeds of the loan towards the costs of your game. In addition, it may help you to unlock other finance, as third party investors may be incentivised to invest in your game if they can see that you have already raised around 20% of your game's finance from a bank or other financier.

What are the fees involved with a VGEC loan?

The bank or lender will charge interest and/or a fee for providing the loan. However, as the risk to the bank or lender is relatively low, the interest or fee should not be too high.

Typically there are also legal and accountancy fees involved with a VGEC loan, so it is important to assess the level of the total fees and make sure that the burden of incurring them is outweighed by the benefits of the loan.

How quickly can you put a VGEC loan in place?

Lenders tend to move quickly and typically a loan arrangement can be put in place (and the loan paid to you) within 1-3 weeks of the start of the process.

What information will you need to provide to the VGEC lender?

The requirements of lenders vary, but typically you will need at the very least:

- an Interim Certificate (a certificate granted by the British Film Institute that demonstrates that your game will pass the Cultural Test);
- an opinion or a letter from your accountant that sets out the anticipated VGEC proceeds; and
- certain information relating to the production and financing of the game, such as the composition of the finance for the game.

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Is there anything else to consider?

Certain VGEC lenders may also be willing to provide other finance (in addition to a VGEC loan), such as a loan against a grant awarded by the UK Games Fund.

Where can I find out more?

Feel free to contact Mark Phillips, Edward Lane or Kostya Lobov for further information about VGEC loans.

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Project Finance

What is Project Finance?

Project finance is usually provided in the form of a loan to a special purpose company established to develop one game. The proceeds of the finance must be spent on the game. The finance is usually only recoupable by the project financier from the revenues arising from the game.

How can Project Finance help your studio?

Project Finance can be beneficial as it provides a cornerstone of the finance plan for your game, which apart from being valuable in itself, may help you to unlock other finance, as third party investors may be incentivised to invest if they can see that you already have a project financier willing to invest on the basis that the game has commercial potential.

Project financiers would typically allow your studio to retain the IP in your game (although note the third bullet point below under ***What information and security will you need to provide to the project financier?*** Below).

What are the fees/costs associated with Project Finance?

The project financier usually charges a fee from the budget of the game and/or a premium on its finance which is payable from the game's revenues. Typically there are also legal fees involved with obtaining Project Finance, and the project financier will usually expect its legal fees to be paid for from the budget of the game. In certain instances, the project financier may also request a revenue share from the game. You should take advice on any deal proposed by a project financier, as there is usually room for negotiation of the financial terms.

How easy is it to find Project Finance?

Project Finance is long-established and a very important source of finance in the feature film and television industries, but less so for the video games industry. However, there are financiers out there that are open to considering games projects.

In order to secure Project Finance, you will likely need to demonstrate the strong commercial potential of the project (e.g. through sales forecasts, your track record, examples of previous similar successful projects and any other relevant factors).

What information and security will you need to provide to the project financier?

If a project financier agrees to provide finance, its requirements will vary, but typically it would need:

- you to set up a special purpose vehicle so that the game assets are ring-fenced in that vehicle;
- extensive information about the budget, finance, production schedule, marketing plans and all other aspects of the production and exploitation of the game;

- to take security (in the form of a charge or similar) over the game assets, which means that if you fail to complete the game or are otherwise in material breach of your obligations, it would be able to take ownership of the game IP and assets (in practice this is rare); and

- its funding (plus any premium) to be recouped in full before your studio or any other financiers begin to receive any revenues from the game i.e. the project financier is normally repaid in first position.

As the requirements of project financiers can be complicated, it is important to seek legal advice.

Where can I find out more?

Feel free to contact Mark Phillips or Kostya Lobov for further information about Project Finance.

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Specialist Finance Providers / Velocity Capital

What is velocity capital?

This is a type of funding that allows mobile game studios that have games generating revenues to borrow against those revenues in order to utilise the revenues they have earned before they are paid out by the App Store.

How can velocity capital benefit your studio?

Velocity capital is a cash flow tool which means you may only have to wait 7 days or less instead of 30 to 60 days to receive the revenues earned from your mobile game.

Certain providers also offer other services such as advice on a studio's user acquisition strategy, which may be an additional benefit.

How does it work?

As the typical App Store payment terms are 30 to 60 days, velocity capital providers will verify the revenue data produced by a mobile game and pay out to the owner of that game within a shorter period (usually within 7 days). The payment usually takes the form of a loan. The game revenues, once paid out by the App Store, will be used to repay the loan and any interest or coupon element.

What are the key terms of the funding?

Typically, the velocity capital provider will often charge a fixed fee of around 5% (this rate may vary) of the revenues to be paid by the App Store.

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Publishers

Background

Historically, funding from publishers was by far the main source of finance for UK games studios. Today, it remains a crucial part of the funding ecosystem, even if many studios have become less reliant on publishers than in the past. This is due, in part, to the availability of new, alternative sources of finance and the emergence of self-publishing.

What can you expect from a publishing deal?

This really depends on the publisher involved, as there are many different types of publisher (traditional, mobile, online, indie etc.), and many different approaches taken to a publishing deal. You should always seek advice when entering into a publishing deal.

It also obviously depends on bargaining power.

At one end of the spectrum, if a large publisher with operations in a number of territories has approached your studio to develop a game based on IP owned by the publisher, it will likely fully fund the development of the game, usually providing its funding over the course of development upon your studio achieving certain milestones. In return, it may require your studio to transfer all IP in the game to the publisher or else seek to licence the game and the underlying IP across multiple formats (including even non-games exploitation, such as film, books or other media). It may agree to grant your studio a share of the revenues arising from the game sales, but often only after it has recouped its funding in full.

At the other end of the spectrum, if your studio has approached an indie publisher with a proposal to develop a game based on IP owned by your studio which is already partly developed and/or partly financed, and where less funding is required, the publisher may agree to much more 'pro studio' terms. This may mean that not only can you retain the IP in the game and but you may be able to limit the licence provided to the publisher to specific formats. More generally, you should be able to negotiate much more favourable financial and other terms.

As you might expect, there are a variety of positions between these two poles – perhaps the publisher will require an exclusive licence of the IP subject to certain terms, but you will retain ownership in the IP itself. What happens to the IP developed in the game is critical, and should be a key focus for you.

Publishers can also facilitate access to platform exclusivity deals, e.g. Xbox Game Pass, which could bring with them sizeable upfront payments. These payments can go a long way towards recouping the publisher's costs and therefore brings forward the milestone when you start receiving your revenue share. It's important to remember that some publishers can not only fund your game, they can also assist with marketing, localisation/translation etc and potentially open doors.

Considering terms in publishing deals

In between these two ends of the spectrum, there are many other deal types and variables that you might come across (and market standards change quickly), so it is important to take advice on the terms. The deal that you are able to negotiate will depend on various factors, including the clout of the parties involved, the importance of the project to the publisher, the deal precedents of the publisher, what else the publisher is offering other than finance (see below: *What other support can publishers offer?*) and how well you and your lawyers negotiate!

There are many key issues and pitfalls to watch out for. Some examples are:

- what rights (if any) should the publisher have in relation to DLC, 'games as a service', ports or sequels?
- are the revenue share / royalty definitions (and permitted deductions) market standard, fair and reasonable?
- what protections do you have if the publisher decides to cancel development halfway through the process?
- what rights do you have to end the agreement if the process is not working out as planned?
- what obligations does the publisher have to market the game and to make sure that it is fully exploited?
- how should the Video Games Expenditure Credit be treated?

These are just a few examples and there are many other issues to consider.

At what stage does a publisher become involved?

A publisher may consider becoming involved in your game at an early stage (e.g. before the start of full development) or it may come on board at a much later stage (e.g. when there is an alpha or beta version of the game available). At a later stage, the focus of the publisher may be more on providing assistance with marketing and distribution than development. In the current market, indie publishers tend to become involved later in the development process, and you should be aware that the timing of when a publishing deal is signed will affect a number of financial and other aspects of the deal.

How much funding does a publisher provide?

The amount of funding that a publisher may offer a studio can vary enormously from a few thousand to many millions of pounds.

Certain publishers will fund the full development, marketing and distribution of a game, others may only fund marketing or distribution. There are also deals where the publisher funds only part of the development and the studio or another financier provides the balance of the funding.

Many publishers are open to considering deals with start-ups as well as proven studios.

Will a publisher require you to transfer to it your intellectual property rights in the game?

It depends on the publisher and the deal you are entering into as to whether the publisher will require you to transfer the game's IP to the publisher. It has become more standard for publishers to allow studios to retain the game's IP, where the IP has been conceived and created by the studio, although as noted, the extent to which the publisher will be licensed rights to different types of exploitation will depend on several factors, in particular, the amount of funding or percentage of the budget.

Separate from IP, publishers may be interested not only in your game but also in your company – some may ask for a 'right of first refusal' or other priority right to subscribe for shares in your company. Think very carefully about agreeing to this, as it may act as a deterrent to other investors.

What other support can publishers offer?

Other than providing finance, publishers may be able to provide your studio with a range of other support and services, for example:

- marketing and PR services
- distribution support
- QA and localisation
- development services
- analytics
- business development/agency services

The value of these services must be taken into account when evaluating a potential publishing deal. In the best circumstances, a publisher can become a valuable long-term partner for your studio.

Where can I find out more?

Feel free to contact Mark Phillips or Kostya Lobov for further information about publishing deals.

Ukie represents most of the main publishers in the UK. If you would like to speak to a publisher drop sam.collins@ukie.org.uk a line.

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Equity Investment

Taking on equity investment – selling or issuing shares in your company to outside investors – is a milestone for any businesses. It brings a host of opportunities as well as challenges, and it comes in many different forms. This section of the guide will cover the most common forms as well as the all-important SEIS and EIS tax reliefs.

Before we dive into the detail, it is worth bearing a few overarching points in mind when seeking equity investment.

- **Equity is expensive** – the more you can grow your business via bootstrapping, debt or other means before taking in equity, the better. This is down to the fact that the more your business is worth, the less of the pie you will have to give away in exchange for equity investment.

- **Look beyond the money –** each type of equity investor will offer something different. An angel investor may not be able to write a very large cheque, but may have industry relationships that could be crucial to your studio's growth. Equally a venture capital investor may be able to offer strategic guidance and advice based on their numerous other investments, as well as cash. Don't be afraid to ask investors what else they are bringing to the table.

- **Don't scrimp on the term sheet –** it is crucial to ensure that there is a clear and reasonably detailed term sheet in place with any investor. It is better to hammer out all the points upfront rather than risk falling out weeks down the line when both you and the investor have spent time and money on negotiations. Always take advice before you sign a term sheet.

- **What strings are attached –** unlike many other forms of finance mentioned in this guide, taking on equity is likely to change how you operate your business day-to-day. The extent to which things change depends on the type of investor and how much equity you are giving away. It is important to be clear on what the investor is expecting in return for its investment – will it expect a board seat, some oversight over the development process, a veto on key decisions, access to information and/or general involvement in the business? Will it expect to realise an exit within a defined time period?

- **Get your ducks (and your docs) in a row –** an equity investment will involve a greater degree of scrutiny over your business than you will have been used to. Investors may require a due diligence exercise to be conducted. It is therefore a very good idea to make sure you have looked under the bonnet of your business well before you agree terms with an investor and tie up any loose ends. For example, are there contracts in place with key counterparties, contractors and employees (particularly ensuring that IP developed by these people is transferred to the your company), does the company own the right domain names and trademarks? If an issue comes up during a deal, this could delay or derail the process – or lead to the investor asking for better terms. See below section on Investment Readiness for more details.

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SEIS and EIS tax relief

What are SEIS and EIS?

The Seed Enterprise Investment Scheme (**SEIS**) and the Enterprise Investment Scheme (**EIS**) are government approved schemes which provide significant tax reliefs to UK tax-paying individuals who invest in early stage UK companies by subscribing for shares. These have recently been extended to run until April 2035.

In a nutshell, investors are able to claim back a material portion of their investment into an SEIS / EIS qualifying company against their income tax bill. EIS investors benefit from a 30% tax deduction – this means that an investment of £10,000 would in fact cost them just £7,000. They can also benefit from 0% capital gains tax, if certain conditions are satisfied.

It can therefore be important (or even critical) for individual investors, such as angels, to be able to claim SEIS/EIS tax relief on their investment. Institutional investors (e.g. venture capital funds and trade investors) will not be able to benefit from these reliefs, although some venture capital funds have EIS funds (effectively pools of individuals) that can benefit.

SEIS and EIS each have a similar objective – to encourage investment in high-risk, early stage UK companies – and a similar outcome – tax relief for the investor – but differ in the companies they cover and the scale of the tax relief on offer. In general, SEIS is targeted at very early stage companies whereas EIS is targeted more at medium sized start-ups. They can, however, be used together as part of the same investment into the same company.

Although it is the individual investor that directly benefits from these tax reliefs, the company raising the investment will also benefit. This is because the tax reliefs reduce the cost for the investors to invest (as they effectively get a material portion of their investment back from HMRC), which makes the investment more attractive. This means, if your company qualifies for SEIS / EIS, you may find it easier to attract the investment in the first place and demand better terms from the investors.

More information on qualifying criteria is below.

How can SEIS and EIS help your studio?

For any young business in the games sector, SEIS and EIS are important to understand, as the reliefs they offer will often be a key incentive for a potential investor to provide early stage equity investment into your studio. Many investors will treat SEIS / EIS qualification as a condition of their investment.

If you plan to raise equity investment from individuals, it is therefore critical to have considered whether the reliefs will be available and possibly (if not ideally) received advance assurance from HMRC (see below).

Is the SEIS or EIS investor investing in a special purpose company?

Studios will often set up a special purpose company for each new game project, in particular due to the need to optimise the video games tax relief that may be available. As a practical point, it is important to consider whether the SEIS/EIS investor is investing in a special purpose company that you have established solely to develop and exploit one game, or a company that intends to develop numerous games. This is likely to have a material impact on the availability of tax relief and, accordingly, the deal that you reach with the investor.

If you are seeking SEIS or EIS finance for a special purpose company established to develop and exploit a single game then you should take specialist advice because there are some restrictions on the use of SEIS and EIS finance in this context.

The 'risk to capital' condition

The Seed Enterprise Investment Scheme (SEIS) and the Enterprise Investment Scheme (EIS) are subject to a 'risk to capital' condition.

The 'risk to capital' condition has two limbs:

1. the company in which the investment is made must have the objective to **grow and develop** over the long term; and
2. the investment must carry a **significant risk** that the investor will lose more capital than they gain as a return (including any tax relief).

HMRC has published guidance (which includes various worked examples) to help companies and investors answer this question. The guidance is available here: https://www.gov.uk/hmrc-internal-manuals/venture-capital-schemes-manual/vcm8500, and the answers to the questions below summarise the key elements of it.

The general theme from the guidance is that HMRC is seeking to ensure that SEIS and EIS are only used to raise capital that is truly at risk (and not protected or secured by the investee company in any way). HMRC has said that it will take an holistic and (according to the guidance) "reasonable" view (taking into account sector/industry standard practice) in assessing whether the condition has been met.
The guidance makes clear that companies established for the sole purpose of developing and producing one specific project which will be completed within a fixed timeframe are unlikely to qualify. Instead, it expects a qualifying company to re-invest capital with a view to expanding its business (such as by increasing revenues, expanding its employee or customer base or building a brand) over a period beyond the EIS and SEIS minimum holding periods of 3 years.

For a games studio, this requirement is likely to translate into a development company that is raising money either for a slate of projects (and which does not intend to return funds to investors based on the performance of a game in a single format but re-invests any profits from a successful game into the development of sequels or new formats or other new projects) or a 'game as a service' where the studio's intention is to continually develop and evolve a single game over the long-term with a view to expanding its appeal and growing its revenue generation. We are not aware that the 'game as a service' model has been tested with HMRC following the introduction of the risk to capital condition, but applying HMRC's guidance provides sound arguments that such a model should not fall foul of the condition merely because it involves the development and exploitation of a single game, provided that profit from the game is re-invested in the continued development and improvement of the game. It is likely, however, that any business plan submitted to HMRC (as part of a submission for advance assurance that the studio will qualify for SEIS and/or EIS relief) would need to provide a contingency plan for any 'game as a service' that was not commercially successful and which did not therefore merit further investment. In such a case, the studio's business plan would need to contemplate investment in new projects (rather than winding up the company and distributing assets (after payment of any liabilities) to shareholders).

What are the other key points to know about SEIS and EIS?

A summary of the key points is as follows:

Main rules that apply to both SEIS and EIS

- SEIS and EIS are tax reliefs that benefit the individual investor – not the company receiving finance.

- Only eligible UK tax paying individuals can benefit from the relief. If you are seeking to raise finance from an individual investor that does not pay tax in the UK or a company or other legal entity, SEIS and EIS relief will not apply.

- SEIS and EIS reliefs will generally not be available to founders or management of the fundraising company.

- The investors' investment must take the form of full-risk ordinary shares (and not the form of debt, convertible debt or other structure).

- The business that is carried on by the fundraising company must "qualify" under the specific rules (e.g. a video game development company will generally qualify). This is the area that most often requires specialist advice.

- The relief is only available for investment into the company in return for the issue by the company of new shares and will not be available in respect of the purchase price paid on the purchase of existing shares sold by a person who has held those shares.

- The shares in the fundraising company that are subscribed for by the investor must be:

    - full risk ordinary shares; and

    - held for 3 years,

  or the reliefs will be not apply.

Main rules that apply specifically to SEIS

- The fundraising company must have fewer than 25 employees, gross assets of no more than £350,000 and must be no more than 3 years old.

- The maximum amount a company can raise under SEIS is £250,000 capped at £200,000 per individual investor per tax year.

- The investor can offset up to 50% of the investment against his/her income tax liability (e.g. for an investment of £100k the investor could offset £50k against its income tax liability, which means only £50k of the investment is at risk, assuming the investor has an income tax liability of at least £50k).

- No capital gains tax will apply to the sale of the shares in the company held for at least 3 years.

- The investor can set off any loss on its investment against its income tax liability.

Rules that apply specifically to EIS

- The fundraising company must have fewer than 250 employees, gross assets of no more than £15 million before any shares are issued (and not more than £16 million immediately afterwards) and must be no more than 7 years old.

- The maximum a company can raise under EIS is £5,000,000 each year with a maximum of £12,000,000 in the company's lifetime, capped at £1,000,000 per individual investor per tax year.

- The investor can offset up to 30% of its investment cost against its income tax liability (e.g. for an investment of £100k it could offset £30k against its income tax liability, which means only £70k of the investment is at risk, assuming that the investor has an income tax liability of at least £30k).

- No capital gains tax will apply to the sale of the shares in the company held for at least 3 years.

- The investor can set off any loss on its investment against its income tax liability.

Advance Assurance

HMRC operates an "Advance Assurance" process for companies seeking SEIS and EIS eligibility through which it will assess a company and business for SEIS or EIS eligibility and, if successful, provide an initial, non-binding, indicative certificate to the company. Although the certificate is of limited legal force, it is frequently requested by more sophisticated angel investors as a condition of their investment.

As part of this process, applicant companies typically submit their articles of association and, if relevant, shareholders' agreement to HMRC and so it is important that companies take legal and tax advice in connection with these documents to ensure that they comply with the SEIS or EIS rules (as applicable).

Where can I find out more?

There is a plethora of online guides and resources relating to SEIS and EIS. We suggest looking at the HMRC advice as a starting point, which is available here and here.

The rules are complex so we suggest that you seek specialist advice if you wish to establish an EIS or SEIS.

Feel free to contact Mark Phillips or Edward Lane for further information about EIS or SEIS.

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Business Angels

What are business angels?

The terms "business angels" or "angel investors" are normally used to describe high-net worth individuals who invest in early stage businesses. Over the past decade, encouraged by the significant tax reliefs available through SEIS and EIS, it has become increasingly common for early stage companies to seek their initial rounds of finance from business angels as well as from the well-trodden 'family and friends' route.

How can business angels help your studio?

The benefits for a company seeking finance from a business angel rather than a larger institutional investor such as a venture capital fund are several:

- You can normally obtain better terms from a business angel than from an institutional investor (such as a venture capital fund). This applies not just to the fundamental valuation of the company but also to any rights or protections that may be requested from an investor (such as veto rights over certain decisions by the company or giving the investor a seat on the board). This is usually because angels will individually take a relatively small stake in your company (and so have less bargaining power), and are generally investing at a very early stage, often via SEIS or EIS.

- You may be able to find a business angel who acts as an advisor or mentor as well as an investor. Business angels invest in companies for a broad range of reasons and not all are driven purely by the financial return on their investment. There are many business angels therefore who enjoy advising growing businesses using their own professional experience and background. This advice, which is usually "free" (on top of the shares they receive in the company for the financial investment) can be invaluable to your studio – particularly at the early stage of its growth.

- Business angels can usually close their investment rounds quickly as, being private investors, they will not require the same internal approval process and paperwork as an institutional investor may have. The difference between a 1 month process and a 3 month process can have a major impact on a growing studio with tight cashflow.

How to find business angels?

The biggest issue with business angels is finding them! Traditionally business angels have invested in sectors other than games (such as technology and online services companies). For games companies therefore, a continuing challenge is to find angel investors who are active in the sector – especially when they rarely advertise themselves in public. The most effective way of finding business angels is to simply broaden your network as much as possible by attending industry-focussed events or conferences and seeking referrals from more seasoned players in the industry who may just refer you to the right contact.

Some business angels operate in "clubs" or "syndicates", e.g. the interactive entertainment-focused TGF (The Games Fund), The Games Angels and women-only network PlayCap. The angels in these groups act together so a company is likely to be able to raise a larger amount in a single process. The downside however is that these groups can sometimes act as a mini-institution and therefore lose the speed, flexibility and 'softer' approach of a more typical angel. Your lawyer may be able to direct you to clubs or syndicates of angels.

What should you expect from the process of raising funds from a business angel?

With the recent boom in angel investment in the UK, investors have become much more sophisticated and therefore more discerning of potential companies looking to fundraise. This has had several knock-on consequences:

- Companies raising funds from angels should treat the process akin to raising funds from an institutional investor. In other words, companies should be as prepared as possible for their interactions with the angel investor as it is frequently a highly competitive environment. The companies who are successful at this stage are normally those who have spent time refining and finalising their business plan and pitch presentation.

- Sophisticated angels typically require enhanced legal protections and paperwork as part of their investment. Companies may therefore be presented by business angels with a legal term sheet which proposes a package of rights and obligations between the parties. Although usually not legally binding, you should never sign or agree to a term sheet without consulting legal advisers.

- On the flipside, you should consider what else you should expect from your investors aside from their cash – do they have a black book of industry contacts and so can open doors for you?

- Many UK angels now insist that companies they invest in are SEIS and/or EIS eligible. Companies should therefore be familiar with the SEIS and EIS reliefs and their eligibility status.

Where can I find out more?

Feel free to contact Mark Phillips or Edward Lane for further information about business angels.

Venture Capital and Private Equity

What is venture capital?

In its broadest sense, the term "venture capital" can mean any source of finance from investors seeking a return on their investment (including even angel investors). However, most people understand the term to refer to institutional funds whose main business it is to invest money in a portfolio of early stage or growth businesses with a view to realising an exit after a certain period (typically between three to seven years) to achieve a return.

How can venture capital help your studio and what are the main considerations?

Bringing on a venture capital fund as an investor in your business has many risks and challenges, as well as opportunities. Here are some of the key things to think about.

- **Right timing** – generally, funds look to invest at least £1 million in a business, although there are some specialist funds that will write smaller cheques for very early stage companies. With such a sum, a fund will usually only invest in a business (or founder(s)) with a track record or some market data that verifies that the business is past the 'idea' stage. For games companies therefore, especially those that have only recently formed, there is little point approaching funds at the 'concept and design' stage and you should wait until you can show the fund tangible evidence of your progress in executing your idea (such as statistics on market traction, alpha/beta version etc.).

- **Business plan** – integral to your pitch to the fund will be a detailed business plan that the fund will expect you to have prepared containing comprehensive coverage of your financial figures including a breakdown of costs, revenues and cashflow for the business, use of the investment funds and expected further fundraisings required not just for the current year but three to five years into the future. You should expect the fund to very carefully scrutinise your numbers!

- **Term sheet** – a fund that is interested in investing in your business will likely provide you with a term sheet setting out a summary of the key commercial and legal points of the deal. Although usually non-binding, it is important that you take legal advice before signing as it can be difficult to renegotiate these points later in the process. The most important term in this will be the proposed valuation of your company which will inform the shareholding stake that the investor will take. Do not be afraid to negotiate any part of the term sheet (within reason) – investors will expect it and it would be odd if you did not question any part of it.

- **Due diligence** – once a term sheet is agreed, a fund will likely begin a process of asking a long list of detailed questions about your business in a process known as 'due diligence'. If you are new to the process, the number and repetitive nature of the questions can feel overwhelming at first. However, from the investor's perspective, it is trying to cover all its bases and flush out any areas of risk in the business. For this reason, some businesses seeking to raise money from venture capital funds perform a "house-keeping" exercise with external advisors in the run-up to the process. This way, you can resolve problems head-on and not on the back foot and facilitate a cleaner and therefore smoother due diligence exercise for the fund.

- **Take a step back…** - remember that bringing on a major investor into your company will usually require you to concede a certain amount of control or influence over your company. You should try and pre-empt any sensitive issues at the term sheet stage and therefore discuss and agree a common approach with the investor so that there are no surprises further down the line. Getting rid of an unhappy shareholder is difficult so it is important for you to understand exactly how your arrangements will work with the investor going forwards. It is critical to understand the quid pro quo for the investor's cash – are you giving them any consent or veto rights (i.e. the ability of the investor to veto or prevent you from taking certain actions or making certain decisions), and if so do these cover the day-to-day running of the business? Each type of investor will expect something different and so you should always take advice.

What is private equity?

'Private equity' is another term with many different meanings, however, in the investment context, the term is usually used to refer to 'private equity funds'. These funds differ from venture capital funds in that they normally buy established companies outright (or at least a majority shareholding) rather than investing in minority shareholdings. Growing games companies are therefore unlikely to cross paths with 'private equity funds' until they are much more established.

Private equity funds will tend to hold investments for a period of at least 3 – 5 years and so, like venture capital funds, be very focused on their exit (i.e. their ability to sell their stake in a portfolio company and recoup their investment and make a return). This may mean that a condition of their investment is that they can require you to sell at the same time as them.

Like venture capital funds, they will expect certain protections and control over key decisions (such as incurring high levels of debt or issuing more shares). However, they tend not to want oversight over day-to-day involvement in or management of your business. Whilst they will usually seek to have a representative on the board of your company, they are there to monitor and generally not to instigate operational changes. However, the approach of each fund is different.

Where can I find out more?

Feel free to contact Mark Phillips or Edward Lane for further information about Venture Capital and Private Equity.

Accelerators/Incubators

What are accelerators?

Accelerators are organisations that provide various forms of both financial and non-financial support to early stage businesses, with the aim of helping to “accelerate” the business and improve its chances of attracting investment at a later stage.

What forms of support do accelerators supply?

Accelerators sometimes provide equity funding (i.e. funding for shares) or grant funding and, often more importantly, non-financial assistance to companies. The main types of non-financial assistance that an accelerator can provide include: (1) the provision of subsidised office space; (2) software or hardware for the development of technology or IP; (3) marketing and advertising services; (4) introductions to other investors and people who may help further grow the business; and (5) mentoring support.

How can an accelerator help your studio or business?

An accelerator can help a studio or other business that is at the early stage of its development and needs advice on its future plans and any or all of the forms of support outlined above.

Accelerators that are known to have funded games businesses in the past include Techstars London, Seedcamp, Founders Factory, Entrepreneur First, Microsoft Ventures and Y Combinator. In addition, Creative England, Indie Lab and UKIE provides accelerator programmes for games companies with advice from experts and opportunities to pitch to investors on offer.

Please contact Mark Phillips or Edward Lane for more details.

How does an accelerator work?

Most accelerators operate rounds of scheduled events and support activities that run for a fixed duration (typically around three months) and so applicants will need to apply for their services in these set windows. Studios interested in applying to an accelerator should note that the terms of any cash injections are usually non-negotiable. A studio chosen to participate by an accelerator will often work onsite at the accelerator’s premises for the duration of the programme. This allows the entity to get the most benefit from the mentoring, support, introductions, lectures, and the other benefits the accelerator provides. Finally, normally the key factor in the selection process is down to the willingness of the founders to receive advice and adapt the business accordingly.

“Accelerators” and “Incubators”

Although the terms “accelerators” and “incubators” are often used interchangeably there are a few differences in how they operate and their aims. One key difference is that incubators may be run as non-profits designed to help start-ups find their footing through shared space and costs to help boost the local economy. Accelerators are run for profit by taking an equity stake in each company they host (although this can also apply to some “incubators”). As well as this, accelerators are usually time limited programmes, while incubators sometimes do not have any time limit on how long a company can continue to use the services.

Taking advice

As accelerators are generally and incubators can be profit-seeking businesses (and/or businesses looking to recoup their investment and make a return on their investment), care should be taken when reviewing and accepting a place on an accelerator to ensure that you are comfortable giving away the amount of equity the accelerator or incubator is asking for. It may be a good idea, depending on your budget, to seek legal advice to make sure you are protecting yourself properly.

Where can you find out more?

Feel free to contact Mark Phillips or Edward Lane if you need any further information on Accelerators.

Crowdfunding

What is crowdfunding?

Crowdfunding refers to the process of raising finance from the public typically through an online platform that will charge a commission based on the amount raised. Almost all types of crowdfunding involve the creator of a project (or the company seeking the finance) creating an online "campaign" page on the chosen platform which sets out details including a description of their project or business, how funds will be used, timing of when products (such as a game) will be completed and background on the individuals behind the project.

What are the main types of crowdfunding?

There are currently broadly three types of crowdfunding:

- **Donation-based crowdfunding** (e.g. *Kickstarter, indiegogo*) – this is the most popular form of crowdfunding where the individual providing the finance to the creator of a project is technically donating its money to the project by way of a gift. No contract is formed between the project creator and the project "backer". However, it has become almost standard for projects to offer rewards to their backers such that despite the legal position, the platforms generally offer a pre-order system where the backers only provide finance in the expectation of receiving their reward. For games studios, the rewards typically range from a downloadable version of the game itself to DLC, exclusive art books, posters or other physical merchandise to the chance for a backer to have something they submit incorporated into the game in some way (e.g. having an NPC named after them).

- **Equity crowdfunding** (e.g. *Crowdcube, Seedrs*) – in this form of crowdfunding, a company seeking to raise finance offers shares in itself to potential investors at a set price. This arrangement involves a much greater degree of formality and paperwork for all involved including investment agreements between the company and its investors, disclosure of business plans and budgets and long-form terms and conditions between all parties including the platform. Compared to donation-based crowdfunding, the audience is typically much more focussed on the financial development of the company and the chances of a sale of its shares to a third party at a higher valuation within a number of years.

- **Debt crowdfunding** (e.g. *Funding Circle*) – debt crowdfunding is similar to equity crowdfunding because the people providing the finance are looking for a return on their investment. In this case, as a loan, the company would be required to pay interest out to the investor over a defined period before repaying the loan at the end.

How can crowdfunding help your studio and what are the main considerations?

Crowdfunding poses particular issues to think about including the following:

- **Organisation and planning** – despite the informal looking nature of many platforms and campaigns, the reality is that the most successful fundraisings are achieved by the companies that invest the most time and energy planning and implementing their crowdfunding campaign and product. Many companies now plan their campaigns six months in advance and for a games company having something more than concept art or a design document is frequently required.

- **Marketing** – as a crowdfunding campaign relies on its exposure to an audience that needs to be brought to the webpage, an effective marketing strategy should form a critical part of the planning process. Discovery of the campaign through the online platform will invariably be limited so many companies now invest money advertising their campaign on relevant sites and affiliate links.

- **Public nature** – the online and open nature of the platforms means that although a successful fundraising can bring in positive publicity and attention, the details of a negative fundraising will be forever freely accessible on the internet. This "public trial" of your business or game idea raises the stakes of any fundraising campaign which can add, not insignificantly, to the stress of a crowdfunding process.

- **Managing your backers** – whichever type of platform you use, any backer of your project will become a stakeholder in your project. It is therefore important not to underestimate the importance of managing the relationship with your stakeholders both during the campaign and after.

- **Is your game suitable?** – certain games lend themselves more easily than others to crowdfunding. For example, a game that is based on established IP (e.g. a previously successful game, a film or a stage play) that has an existing fan base.

- **Pledge threshold** – on most crowdfunding platforms you are required to reach your specified threshold of pledges and, if you do not, you may not be able to receive any of the funding. For this reason the trust and confidence of would-be backers has taken a knock and it may be wise to consider whether you are likely to hit your investment target using this fundraising method

Where can I find out more?

Feel free to contact Mark Phillips or Edward Lane for further information about crowdfunding.

Investment readiness

It can seem a long road to signing that term sheet – or even just that first handshake – with an investor. From that point on, it should all be plain sailing – right? Well, maybe.

A lot can go wrong in the course of an investment process, and you can do a lot ahead of time to put yourself in the best possible position. The same goes for getting a publishing deal.

Most investors will want to do a certain amount of 'due diligence' on your business. This will involve a review of your financials, your tax affairs and the legal aspects of your business to check that there aren't any issues that might give them cause for caution. A classic concern is ownership of IP. Many people – employees, freelancers – may be involved in the creation of a game, and if there is a question mark over ownership this could be fatal to an investment.

Being 'investment ready' is about taking a look under the bonnet of your business, in good time ahead of an investment or publishing deal, to check everything is running smoothly.

What are the key things to consider?

- **"I used to be an adventurer like you…" –** speak to as many people who have been through the process of raising finance as possible. Build a network. Other people may have hints and tips to share, investors to introduce or under-the-radar sources of public funding they've found.

- **Identify potential issues** – do you have trademarks protecting key brands or logos? Do you have signed contracts with every freelancer working on your game? Do you have any potential disputes bubbling up that could be resolved now?

- **Get your docs in a row –** when you get to an investment process, the investor will ask – as part of the due diligence process – for a lot of documents. Share registers, employment contracts, IP assignments or licences, your privacy policy etc. Make sure you have these in one place, complete and fully signed.

- **"Gather your party before venturing forth" –** businesses are all about people. In particular, for an investor looking to back your company (rather than your game), the team is almost more important than the game or IP. You will have key people that you rely on – consider whether now (before an investment) is a good time to incentivise them. Make sure your key employees and freelancers are on proper contracts. Make sure they're happy and excited about the business. Consider incentives for the really key ones. EMI (Enterprise Management Incentive) options are tax-advantaged options for employees. You can use them to give your key people 'skin in the game' – a real share in the success of your business. As part of granting EMI options, it is usual to agree a valuation of your company with HMRC. The earlier you do this the better, as the valuation you are likely to be able to justify will be lower.

- **"Thank you Mario, but our princess is in another castle!" –** Practice makes perfect. The first investor you speak to is unlikely to be the investor that cuts you a cheque. Ideally you would be speaking to a number of investors. These conversations will involve an element of salesmanship.

You will be pitching you and your business. You will get better over time. Try to meet those investors you are less enthused about first – this will give you valuable practice.

- **Do your research** – you need to know who you're dealing with, and what they're interested in. Every publisher has its own areas of interest, whether that's genre, platform etc. Likewise, investors will have their preferences – certain venture capital funds are only interested in technology or service providers in the games industry, rather than developers themselves. Spend the time figuring out who is most likely to be interested in what you've got to offer.

- **Keep as many cards in your hand as you can –** deals are all about bargaining power. The worse position to be in is weeks away from running out of cash and only one investor in the mix – you are not going to be able to negotiate any terms. Start looking to raise well in advance of the end of your cash runway, and keep a number of conversations with investors live. Consider engaging a corporate finance adviser – these are specialist advisers who work with companies to raise money, and can prove valuable in sparking and maintaining investor interest.

- **Build momentum** – anything you can do to show momentum is going to help in conversations with investors and publishers. Have you built a community around your game? How many Steam wishlists do you have? Is there a buzz around your game?

Being 'investment ready' is also about you. Taking on investment can be a laborious process. It can involve many months of meetings with investors. You have funding to find but also a business to run. Make sure you don't take your eye off the ball when it comes to the day-to-day running of the business and, if there is more than one of you managing your company, consider if one of you should focus on the fundraise and the other on the business.