



TRIPWIRE
• I N T E R A C T I V E •

“Funding Small Studios”

GDC 2010

What are we really looking at?

- **What are the core funding options?**
 - What do developers need to know about them?
 - What do developers need to know about investors?
- **What do developers need to know about funding?**
 - What do investors actually care about?
 - What do you actually have to offer?
 - What have you already got done?
 - What exactly are you funding?
- **This is aimed at GAME DEVELOPERS**
 - Not hardware, middleware, shareware, shovelware, vaporware...



Credentials – Tripwire

- Mod team 2002-2005, winning “Make Something Unreal”
- Incorporated in Roswell GA in March 2005

- **Red Orchestra: Ostfront 41-45**

- Funded and developed RO, launch on Steam® March 2006
- Destineer published RO in stores world-wide
- 450,000 units sold on PC



- **Killing Floor**

- Bought in, funded and developed Killing Floor in 2008
- Launched KF via Steam® May 2009, Top 10 for 3 months
- Self-published KF in stores in North America

KILLING FLOOR

- **Red Orchestra: Heroes of Stalingrad**

- Funded and in development now

HEROES OF STALINGRAD
RED ORCHESTRA



TRIPWIRE
INTERACTIVE

Credentials – Alan Wilson

- 25-year IT career in Op Risk and large programs
- Includes periods with Investment and Retail Banks
 - Morgan Stanley, JPM Chase, Goldmans

- Amateur historian, tank nut and modder



- Co-founder of Tripwire Interactive

- Designer
- PR & Marketing
- Bizdev
- Financials

- **WARNING: Brits are not always “polite”**



A note on *Bias*

- **We build FPS games (AA/AAA), majoring in online play**
 - Historically for PC
 - Potentially for console
- **Based in the US**
 - Europe and other territories are remote
- **On the “standard” charge-for-a-game model**
 - No free-to-play
 - No subscription model
 - No micro-transactions
 - Tried paid DLC (successfully)

This is NOT an exhaustive romp through the funding minefield



Classic business model: Publisher Funding

- **IP Originator** Creative...
- **Developer** Designs, builds, tests ← **Funding need**
- **Publisher** Finds games, funds development
Ratings, marketing, packaging, selling, admin
- **[Sub-Licensee]** Performs publisher functions in local territory
- **Distributor** Physically moves product
- **Retailer** Games on store shelves
- **Player** The customer – actually pays the money!



Classic cash-flow: Publisher Funding

- **Player buys in store** 100%
- **Retailer takes 30% [\$3,000,000], leaving...** 70% Day 1+
- **Distributor takes 10% [\$1,000,000]...** 60% Monthly?
- **Publisher takes 40% [\$4,000,000]...** 20% Quarterly?
 - Take out production, marketing [\$500,000]... 15% Net 60?
 - Average 70/30 split publisher/developer
- **Developer gets ~15%**
 - Take out recoupment of dev costs, licenses and paying off debts
 - Call it 10% “profit”, if you’re lucky 10% **+6 months**
- **6 months with no money is a long time: cash-flow**
 - *You aren’t just funding development – think about your **real needs***



Rule 1

You aren't just funding DEVELOPMENT

You also have to fund the LAG in CASH-FLOW

You are funding a whole STUDIO



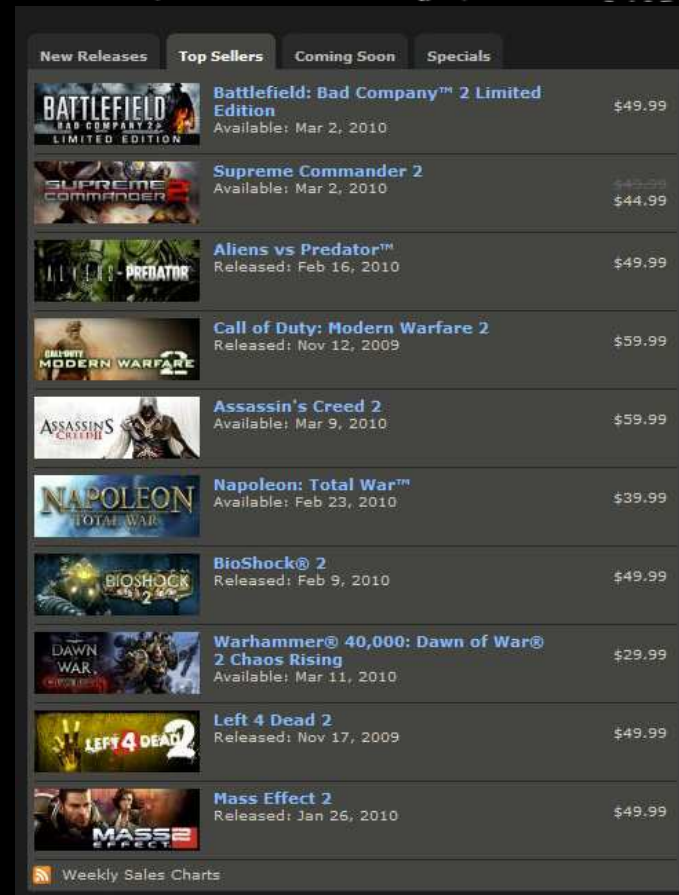
The upshot of the “classic” model right now

- **Funding for “large” games - \$1m+ - is brutal to find**
 - Budgets escalating with the technology and user expectations
 - Sequels get insanely expensive under the drive to do “more”
- **Publically-quoted publishers can’t afford major losses**
 - EA loses \$234m in Q1 09, \$750m on the year (to Dec 09) (on \$3.5Bn)
 - THQ loses \$430m on \$830m (08), \$102m on \$871 (to Dec 09)
 - Take 2 makes \$100m on \$1.5Bn (08), loses \$138m on \$970 (Oct 09)
 - Atari de-listed from NASDAQ in ‘08
 - Midway – Chapter 11 and oblivion in ‘09
- **They become ever more “risk averse”**
 - Only fund “sure things”
 - Like GTA IV, CoD series and so on (which are so cheap...?!)



Talking of “sure things” ...

- What are the top-selling games?
 - Guess what – they are 80% **SEQUELS!**
 - Plus one revamp (AvP)
 - And one “series” (Total War)
- Now you know why Publishers want your IP
 - **THAT** is where they get their reward



The screenshot shows a 'Top Sellers' list with the following items:

Game Title	Release Date	Price
Battlefield: Bad Company™ 2 Limited Edition	Available: Mar 2, 2010	\$49.99
Supreme Commander 2	Available: Mar 2, 2010	\$44.99
Aliens vs Predator™	Released: Feb 16, 2010	\$49.99
Call of Duty: Modern Warfare 2	Released: Nov 12, 2009	\$59.99
Assassin's Creed 2	Available: Mar 9, 2010	\$59.99
Napoleon: Total War™	Available: Feb 23, 2010	\$39.99
BioShock® 2	Released: Feb 9, 2010	\$49.99
Warhammer® 40,000: Dawn of War® 2 Chaos Rising	Available: Mar 11, 2010	\$29.99
Left 4 Dead 2	Released: Nov 17, 2009	\$49.99
Mass Effect 2	Released: Jan 26, 2010	\$49.99

Weekly Sales Charts



What has this really got to do with Developers?

- **Developers need funds (cash) to produce a game AND more**
 - Traditionally, the *Publisher* puts up loads of money over 2-4 years
 - But only 20% of games (1 in 5) make a profit
- **What has the Developer put in?**
 - Time?
 - Ideas?
 - Money?
- **More importantly... what will YOU lose if it goes wrong?**
 - Respect?
 - Job?
 - The work you put in?
 - A bit of money or your car?
 - ALL your money and your house?
- **The Publisher will lose ALL THE MONEY.**
- **So who is actually taking the RISK?**



Financial Risk Rant

- **Traditionally, Publishers take ALL the risk**
 - So why shouldn't they get most of the money?
 - And all your IP?
- **If you do not understand Financial Risk**
 - How can you criticize those who take your risks?
- **If you have not personally taken that Financial Risk**
 - Do you really have the right to criticize those who do?
- **Without someone to take Financial Risk**
 - There is NO "Indie Gaming Scene"
 - There isn't much games business, period.



Rule 2

SOMEONE is expected to take Financial Risk

This means CASH

**SOMEONE has to be prepared to LOSE MONEY
In the (vain) hope they will make a RETURN**



Funding Options

If you aren't taking any risk...

...then you do not matter to those who are

Core Funding Options

- **Retail Banks**
- **Angel/investor clubs**
- **Venture Capital**
- **Publishers**
- **[Investment Banks: only if you want millions for an IPO]**

- **Know your target:**
 - What is it they are actually looking for?
 - What scale of returns?
 - When do they want it?
 - How will they get it?
 - And what are they willing to risk?

- **“Willing to risk” means “Able to lose the whole lot”**



Some Golden Rules

- **Don't ever lie**
 - And don't argue, either
- **And keep the b/s down – be *believable***
- **Investors like...**
 - History – previous successes
 - Stable businesses
 - Sound business minds
 - Other investors
- **And you MUST believe it yourself**



What is the FIRST source of funds?

- **You.**
 - Your cash
 - Your credit cards
 - Your night job
 - Your mortgage/car/house
 - Your life insurance policy, 401K, life savings
- **Friends, Family and, traditionally, “Fools”**
- **Work for someone else!**
 - And plough that profit back in
- **Use your free time**
 - STUDENTS AND MODDERS TAKE NOTE
- **And very smart cash-flow management**



Rule 3

**If YOU won't take the risk,
how can you expect anyone ELSE to?**

Corollary to Rule 3

Please only risk what you are willing to lose!



Retail Banks

- **Financial institutions with a presence in every town**
 - Bank of America, BB&T, Wells Fargo, HSBC and all the rest
- **Risk averse: they actually don't take risks**
 - *[Well, only when it involves \$1,000,000,000,000]*
- **“Lend” money, rather than “invest”**
 - \$10K up to \$1m, short-term (months)
 - No interest in owning the company or the IP
- **Expect strong collateral AND history**
 - Car, house, 401K, intelligent child
 - Strong balance sheet, saleable assets and a P&L history
 - Will only get involved with startups on personal guarantees
 - They understand secured lending
- **Will bail out to protect their money, calling in loans**
- **Easy to find and get access to!**



Angel/Investor Clubs

- **Moderately wealthy individuals/groups**
- **Take risks in sectors they understand well**
 - Or they don't understand but seem "cool" – rich FF&F
 - Like a strong personal track record/history
 - Wary of start-ups, unless they have been involved in "grooming"
- **Put up investment capital, looking for a solid return**
 - Will invest in a single project (game/IP) or the company
 - \$50K up to perhaps \$1m
 - Looking for 3-5x return in 3-5 years, can be revenue or sale of equity
- ***Either* need to be individual specialists in the field**
 - Or they act in packs and will follow someone else who "understands"
 - Money follows money – they tend to invest with "friends"
- **Usually accessible through websites (for a fee)**
 - or by reference from a friendly CPA, lawyer or other "trusted advisor"
 - Look out for local "incubators", often based around colleges (GA Tech)



Venture Capital

- **Specialist investment firms with sizable funds**
- **Take risks in sectors they understand well**
 - Also tend to be looking for “the next big paradigm shift”, “disruptive tech”
 - Some specialize in start-ups/seed-corn, others like growth companies
 - React well to a strong (personal) history
- **Put up investment capital, looking for a solid return**
 - \$50K up to perhaps \$5m
 - Expect part-ownership of the company, not the IP
 - Looking for 5x in relatively short time – 3 years – based off selling their equity
- ***Either* need to be specialists in the field**
 - *Or* they will follow a VC who “leads”
- **Normally need to be introduced by reference**
 - from a friendly CPA or lawyer, another VC, or a “trusted advisor”
- **25 investments (total US) in 2009, \$150m value (PWC via Gamasutra)**



Publishers

- **Games publishers, big and small**
- **Provide development funding for a title**
 - Fund any “believable” development budget
 - Will be looking at previous sales – either the company or the team
 - Can be start-up or established company
 - Expect to take ownership of the IP
 - Very unlikely to fund “an idea” – needs to be concrete
- **Will also pay advances against sales**
 - When it is small enough and for a product they want enough
 - When the product is far enough through development
- **Often already have a view of what they want**
 - “To fit the portfolio”
- **Easy to find, hard to get air-time with**
 - Random submissions not worth it – get in front of them



Rule 4: Golden Rule

There has to be a HOOK when you present to people

**COLLATERAL for loans
Something they KNOW or WANT
SOMEONE they trust to lead**



What is missing for most developers?

- **Some history**
- **Something to show**
- **Something “new”, “disruptive” with a new buzz-phrase**
- **Suitable contacts**
- **YOU CANNOT GO FROM ZERO TO HERO IN ONE STEP**
- **You have to take some first steps on your own...**



What first steps?

- **Create something - tangible**
- **The obvious one: a playable demo of your game**
- **A personal track-record**
 - What games have YOU created?
 - Senior role “Marketing assistant” does NOT count
 - Successful sales of a game
- **And do something with that track record**
 - Become known – be “somebody”
 - Network – but do NOT waste people’s time!
 - PR – “press relations”
 - Create a fan-base
 - Get to know the local investment community EARLY
- **But this takes MONEY and TIME**



On the subject of TIME...

- **FFF can engage quickly**
 - Just cash in the pension, 401K etc and hand it over 😊
- **Retail banks can engage loans quite quickly**
 - 2-3 months
 - IF you have 2-3 years of P&L
 - IF you have collateral
- **Angels & VCs do NOT engage quickly**
 - 2-3 YEARS to break in to the circle
 - 6-12 months to actively engage and deliver funds
 - Term Sheet, Negotiation, Due Diligence, yadda yadda



Rule 5

You MUST create TIME for yourself.

If you need cash NOW, then you are too late.

Plan a long way ahead...



You have to FUND “first steps”

What is the FIRST source of funds?

- **You.**
 - Your cash
 - Your credit cards
 - Your night job
 - Your mortgage/car/house
 - Your life insurance policy, 401K, life savings
- **Friends, Family and, traditionally, “Fools”**
- **Work for someone else!**
 - And plough that profit back in
- **Use your free time**
 - STUDENTS AND MODDERS TAKE NOTE
- **And very smart cash-flow management**



- **This was NOT just a throwaway slide!**
- **It all starts with YOU**



Rule 6: The Bitter Truth

YOU will be the first source of money

You have to do it yourself

YOU have to take the risk



How did we take the “first steps”?

- **The Red Orchestra mod was developed in “spare time”**
- **The engine license came from winning MSU 2005**
- **The development budget for Red Orchestra: Ostfront 41-45**
 - Was reduced to bare bones
 - Staff worked for peanuts and promises *[apologize to IGDA later]*
 - And it became a “death march”
- **The “cash” came from**
 - Contractors deferring payments in return for back end
 - MSU winnings (\$50K)
 - Friends, Family and Fools
 - The owners put everything on the line (and then some)
 - Pushed the cash flow to the limit

I am NOT saying this is a good thing in general – level of risk?



Tripwire – Funding to date

- **2002-2005: Mod Team**
 - No money
 - Mod team working part-time
 - Some team members quit jobs and took the risk
- **2005-2006: Development of Red Orchestra: Ostfront 41-45**
 - “Our” money, scraped together
 - Steam distribution, plus world-wide at retail
 - Sold 450,000 units to date on PC
- **2006-today**
 - Re-invest the profits...
 - And sales advances to fund Killing Floor and Heroes
 - Use Retail Banking facilities to extend cash-flow where needed
 - Bring in advances against future sales
 - Use the profits from Killing Floor to fund Heroes and... ?



Why did we do it this way?

- **Publishers**

- Wanted to own our IP and we weren't prepared to give it up
- Back-end royalty rates were miserable
- Their support for the product was rubbish

- **Angels**

- Either wanted \$10K just to present to them (big lunch, that) *or*
- They initially professed excitement, but then vanished again

- **Vulture Capitalists**

- Very hard to find the “right ones”
- Either didn't get it, or were busy looking for the “next paradigm shift”
- Those that *were* interested wouldn't “lead”
- And 25 deals in total in 2009?

- **Retail Banks**

- Standard banking – line of credit, credit cards and so on



Funding Small Studios

- **Publishers still provide the bulk of development funding**
- **YOU are most likely to provide the rest**
 - Leveraging friends, family, fools, retail banks etc
 - Beg, borrow, steal
 - To all the students out there: you have time NOW – use it
- **YOU have to provide the first steps ON YOUR OWN**
- **Find “trusted advisors” – find the right potential partners**
 - Your CPA and lawyer can help locally
 - Be very careful and very professional
 - Talk to developers who have succeeded
- **Yes, you are going to need Big Steel Ones**
- **Look for money BEFORE you need it**
- **Cash-flow, cash-flow, cash-flow**
- **And understand the *Investor’s* view of Risk**



The take-aways

Rule 1: You aren't just funding DEVELOPMENT

Rule 2: SOMEONE is expected to take Financial Risk

Rule 3: If YOU won't take the risk, how can you expect anyone ELSE to?

Rule 4: There has to be a HOOK when you present to people

Rule 5: You MUST create TIME for yourself

Rule 6: YOU will be the first source of money

- **Without cash in hand, you're dead in the water**
- **Whoever controls your funding, controls your future**
- **The Key Question: Risk vs. Reward**
 - Do you REALLY want to take the risks *or* would you rather someone else did?
- **That is what the publishers do**
 - THEY take the risks, so you don't have to



Montrose's toast: a final view on *risk*

**He either fears his fate too much,
Or his desserts are small,
That dares not put it to the touch
To gain or lose it all.**

– James Graham, Earl of Montrose, 1612-1650

Royalist general in the English Civil War

Risked it all, with great success, in multiple battles, 1644-1645

Hanged, 21st May 1650 for being on the wrong side in the first place...



What haven't we covered?

- **I didn't say "Business Plan" once**
 - If you don't grasp cash-flow and risk, don't bother to write one
 - ... you'll never get it read.
- **Free-to-play and other monetization trickery**
- **Low-budget games**
- **Other sources of money**
 - Government hand-outs (aka "grants")
 - Tax credits
 - Letters of credit
 - Completion bonds (not really a source of money, but can help)
 - "Indie Fund" – just announced
- **Open floor: the title was "Funding Small Studios"**
 - What else do YOU want to raise/talk about?



Thank you for listening



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