Let’s make a deal—in gaming! Gaming M&A is growing on the back of consolidation, portfolio plays, and game tech

Video game companies, video streamers, and even hyperscalers pursue gaming M&A for talent, tech, and intellectual property to expand portfolios and quickly access new markets.

Chris Arkenberg and Kevin Westcott

VIDEO GAME COMPANIES are thriving, and so is the market for buying and selling them. In 2022, deal flow—the number of gaming deals—accelerated.[1] Deloitte Global predicts that, in 2023, the number of game company mergers and acquisitions (M&A) will increase by around 25%, slightly slower than the estimated 30% quarterly growth in 2022. We anticipate that this year’s larger deals will mainly seek to acquire audiences and IP, while smaller deals will focus more on technologies and Web3 solutions.

Overall deal value in 2023 will likely decline considerably year over year, but only because of a few historically exceptional deals in 2022. However, those exceptional acquisitions could set the bar even higher for competition in the coming year. Even though the year’s total deal value will probably decline, the continued strength in deal volume underscores the importance of gaming to the broader media and entertainment industry.

In a thriving industry, more media and entertainment companies see growth in gaming

Growth in video gaming was already strong and sustained when the COVID-19 pandemic, with its lockdowns and social distancing, gave the industry an additional boost. Now, even with more people returning to public and in-person entertainment options, engagement with games has continued. This is especially true among younger players, who increasingly compete and socialize on multiplayer game services and spend considerable sums on in-game goods and content. Game services, experiences, and business models are innovating, console supply chains are loosening up to meet pent-up demand for next-gen experiences, and many anticipated games that were delayed in 2022 are now set to reach players in the coming year.

Innovation is driving the number of gamers—not to mention revenue—higher. In Deloitte's *2022 digital media trends* survey of 2,009 US consumers, almost all Generation Z, millennials, and even Generation X respondents said they game regularly, averaging 11 hours every week.[2] One market research firm anticipated that 3 billion people worldwide will be habitual game players by the end of 2022. Driven by game sales, subscriptions to game services, and in-game purchases of virtual goods and content, game company revenues hit an estimated US$200 billion for the year.[3]

With the industry doing so well, it's no surprise that competitors and opportunists are lining up for M&A-driven growth opportunities. Game companies are consolidating, competing for access to gaming audiences and IP,[4] and acquiring smaller businesses that provide components and services to the gaming ecosystem.[5] Short of M&A, some are buying up shares in key ecosystem providers.[6] Many media and entertainment companies are looking to expand their portfolios into gaming to keep younger generations under their roof;[7] some of these are buying game companies for their leading franchises, seeking to develop more IP across film, streaming, and games.[8] And new Web3-native disruptors are gathering users around their early metaverse experiences. Their blockchain-based games tilted toward the Web3 metaverse have attracted large amounts of funding,[9] and could offer acquirers an appealing buffet of emerging technologies, new business models, and rare talent.

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If M&A is so attractive to game companies right now, why do we expect 2023's deal values to fall short of 2022's? While the volume of deals should be high, large equity declines across the stock market are lowering game companies' valuations, making them cheaper to buy. This could bring down overall deal value while stoking more acquisitions. However, rising interest rates, looming recessionary pressures, and macroeconomic uncertainty may sideline some potential acquirers, leaving M&A growth opportunities to those with deeper pockets and a longer view of the opportunities. Gaming's overall resilience may also come into question. In the second half of 2022, revenues from gaming services and in-game purchases began to cool, likely due to a combination of tightening wallets and a renewed interest in live, in-person entertainment in the summer months. Analysts will look for revenues to rebound in 2023, but if service subscriptions and in-game purchases remain down, it may signal that 2021 and 2022's numbers were a pandemic-induced bump rather than a permanent rise.

Even so, it's worth noting that some of 2022's deals were so huge that they would be hard to top under any circumstances. The largest-ever video gaming acquisition took place in Q1 2022 (pending regulatory approval), as did two other highly notable multibillion-dollar purchases; the value of these three acquisitions was greater than the total deal value in all of 2021—which itself saw an estimated US$60 billion changing hands across approximately 600 deals.[10] However, such deals may ignite greater competition, consolidation, and concentration as more of the fragmented video game industry is scooped up by a handful of the largest gaming companies—some of which are also the largest hyperscale platform companies.[11] Indeed, 2023 may see stronger moves by deep-pocketed tech behemoths taking stakes in gaming.

THE BOTTOM LINE

In general, M&A activity looks to be heating up, but gaming M&A may be especially active.[12] Although the overall deal value for gaming M&A may be down from 2022 to 2023, it is still likely to be higher than prior years. We expect deal flow for gaming M&A to continue to accelerate, particularly for smaller acquisitions. Game companies will compete for access to increasingly lucrative audiences; they will seek tools and technologies that address existing challenges, such as ensuring fair play and providing moderation in social games; they will also look to reinforce game development and services, such as procedural environment generation, deeper audience analytics, and ad tech. They may also place bets on emerging metaverse and Web3 solutions, despite a potentially lingering "crypto winter"[13] and softening virtual real estate markets.[14]

Content will likely play a notable role as more top gaming companies and leading hyperscale platform players seek to expand their portfolios and stake a claim at the convergence of media IP, gaming, and the young metaverse. Savvy providers are acquiring rights to stories that lend themselves to "cinematic universes" that can be experienced through film, streaming video, and games.[15] Increasingly, we expect more studios to expand their presence across these media.

A growing number of gaming deals will also likely bring the Western and Asian gaming markets closer together.[16] In 2022, a number of acquirers from the United States and European Union took stakes in Asian gaming companies to access Asian players and grab IP that has proved successful in the West. Meanwhile, leading game companies in China, Japan, and South Korea made acquisitions and strategic investments in Western gaming assets. Gaming has become a global business, and game companies going up for sale now attract many other suitors than just competing game companies.

Film and TV studios, major entertainment companies, hyperscale social and platform companies, and private equity, all see opportunities in the gaming industry. Though 2023 may bring many uncertainties, many leaders considering M&A as a growth strategy may view these uncertainties as an opportunity to position their businesses for long-term success.

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