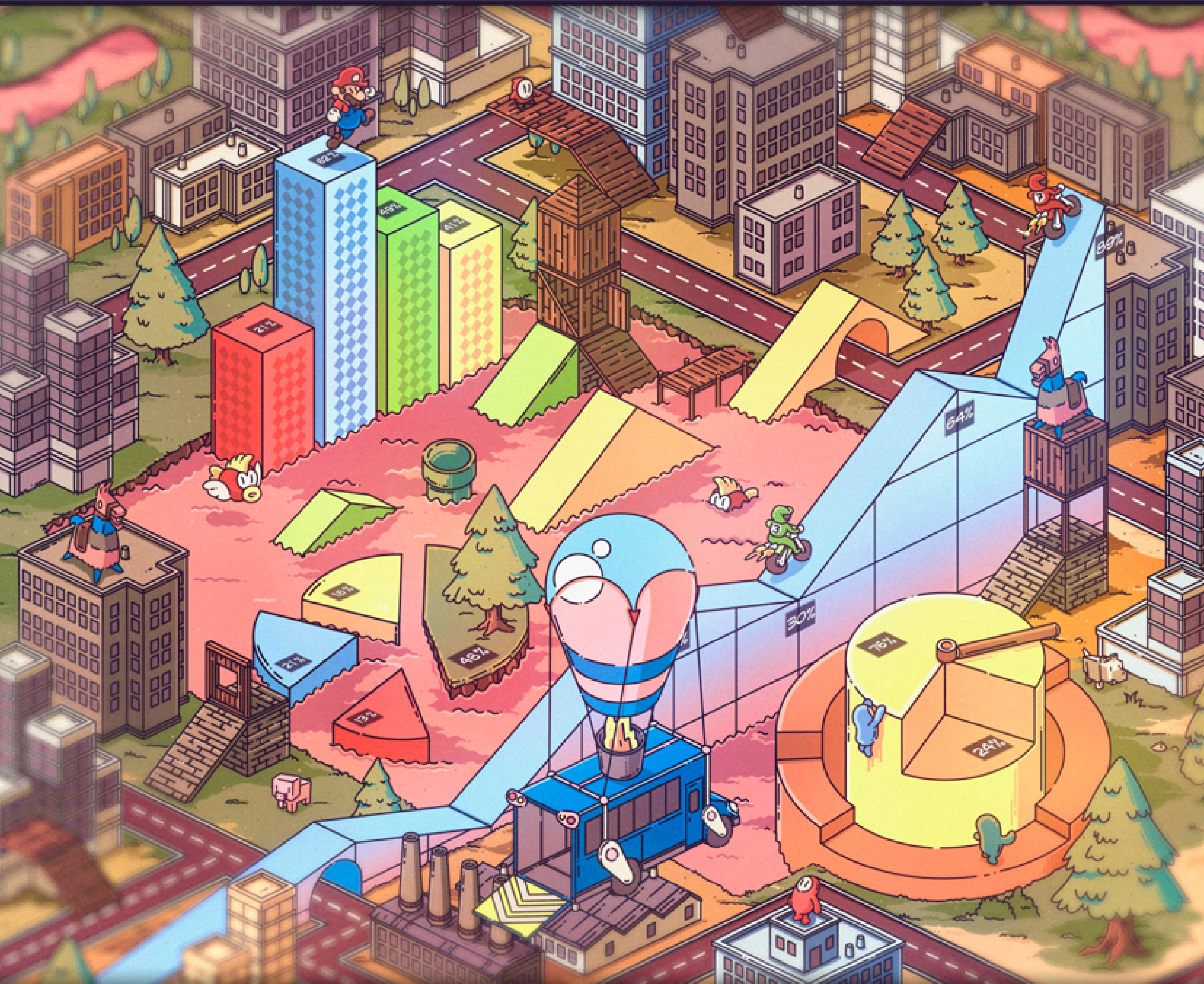
WHITE PAPER ON SPANISH VIDEO GAME DEVELOPMENT

2020 EXECUTIVE SUMMARY



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"A way of making Europe"

INTRODUCTION

One more year, **DEV, the Spanish Association of Video Games and Entertainment Software Producers and Development Companies**, keeps its commitment to the sector it represents by publishing the White Paper on Spanish Video Game Development, the leading report that makes an in-depth analysis of the video game industry in our country and the world.

The White Paper, **this year celebrating its seventh edition**, is aimed at development studios, current and future professionals, public entities, and also national and international private investors as well as the entire society. This is an excellent tool to get in-depth knowledge of the video game industry and market in Spain and to collect as much information as possible to make decisions and create investment and public support plans for the coming years.

This edition of the report was also made thanks to information provided by Spanish video game development studios through a comprehensive survey done in 2020.

The document proposes recommendations to the government from the sector with the goal of pointing out aspects to be improved or implemented to ensure a prosperous and competitive future for our industry.

Thanks to its creativity and know-how, the video game development industry is constantly evolving and represents a goldmine of opportunities that any company, public administration, or private investor should take into consideration.

THREE MEASURES TO STIMULATE THE ECONOMY IN THE SPANISH VIDEO GAME DEVELOPMENT INDUSTRY IN 2021

1 - Establish a fiscal incentive for video game production

a. **What to do?** Amend Article 36 of the Corporate Income Tax Law to incorporate a new Section 3 so that the video game industry has tax incentives for production and acquisition of international projects, like what the audiovisual industry already receives.

b. **Why?** The main European countries around us (France, Italy, Belgium, and the United Kingdom) have implemented this measure, which is increasing the number of productions, attracting large investments, and establishing a significant multiplier effect.

c. **Impact:** To attract major international productions to Spain and improve the attractiveness of the industry to private investors.

2 - Design the "Spain, Europe's Audiovisual Hub" Plan to create a turning point in the Spanish video game industry.

a. **What to do?** Establish four strategic lines of aid:

   I. **Creation of a network of incubators and accelerators managed by industry professionals:** to drive creation and consolidation of incubation and acceleration initiatives that can absorb a large amount of young professionals or students who, after their studies, decide to launch a project on their own. Participation from experienced industry professionals who can act as mentors is needed.

   II. **Aid to developers:** aimed at encouraging new developments. In order to promote the capillarity of these funds, it is necessary to establish different categories of aid so that it reaches large studios as well as medium-sized and small ones.

   III. **Aid for publishers:** establish help for the creation and consolidation of companies responsible for publishing and distributing games in Spain and abroad.

IV. **Promotion of serious games:** promote projects linked to educational, public, or business areas and that make use of tools from video games as well as from Virtual Reality or Augmented Reality, aimed at specific objectives.

b. **Why?** 2021 and the years to come are looking like a unique opportunity for the Spanish economy as well as our video game sector. The Plan will mobilise public resources amounting to nearly 1.265 billion euros over the period 2021-2025, coming from General State Budgets and European Union funds.

c. **Impact:** Establish a path to accompany video game companies throughout their life cycle: provide professional guidance for new entrepreneurial projects in the sector; promote growth and consolidation of small and micro-companies and the launch of new projects; encourage the presence of publishers in Spain who can take new projects to international markets; favour the application of technologies and tools from video games in other industries, in education, and in the public sector.

3 - Encourage the employment of young professionals, with special attention on women

a. **What to do?** Launch initiatives to facilitate doing curricular internships in companies. Establish allowances in Social Security quotas for new employment for high-skilled professionals. Design Social Security quotas for self-employed professionals that take into account long production periods without billing or income. Promote equality plans in companies in the sector that promote the employment of women and their professional growth on an equal footing.

b. **Why?** Current offers for employment and curricular internships are insufficient to cover the large number of graduate and post-graduate students in video games. Companies need mechanisms to facilitate employment opportunities. Mechanisms are also needed for professionals who work as freelancers, as a production cycle can easily exceed two years. In addition, the presence of women in the industry remains a challenge, as female employment only reaches 18.5%, which is in contrast to the balance there is in regard to gamers (42% are women).

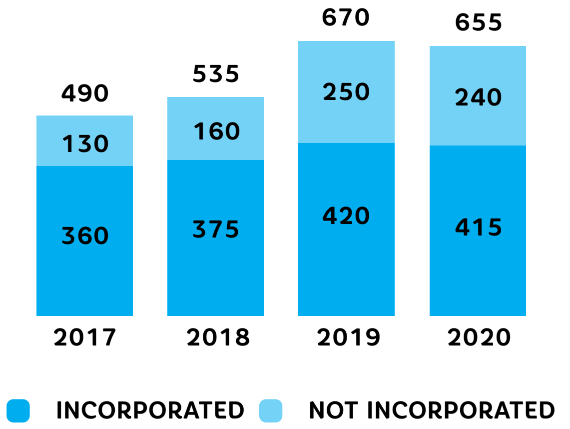
c. **Impact:** Greater job opportunities compared to the alternative of entrepreneurship without sufficient vocation and entrepreneurial knowledge. More internship opportunities in companies, increasing the professionalisation and employability of students. Increase of female professionals in the industry with equal working conditions.

BUSINESS COMPOSITION

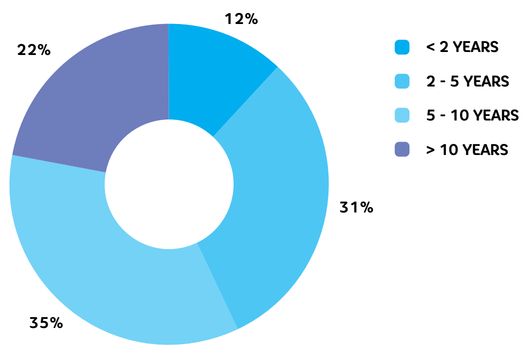
Spain has **655 active studios**, of which **415 are established as companies** or other legal entities. To these numbers up to 140 companies should be added that have not highlighted any activity, placing them in a situation of risk of disappearing.

The sector is still dominated by young companies, between 2 and 10 years of age, which, in total, make up 66% of the Spanish business fabric while **only 22% have been around for more than 10 years**.

Evolution of the number of active studios registered in Spain

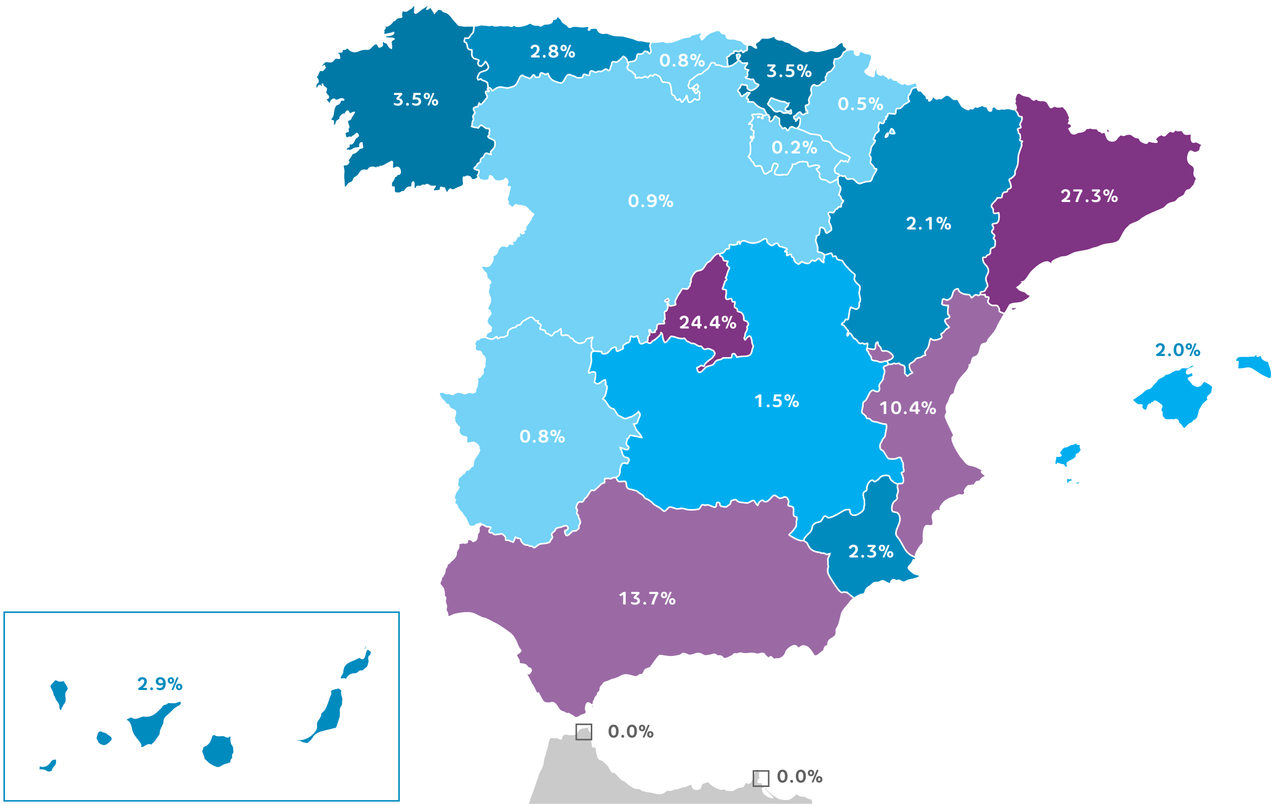


How old the companies are



Catalonia and Madrid continue to be the engines of development in our country, home to 27.3% and 24.4% of the studios, respectively. They are followed by Andalusia (13.7%) and Valencia (10.4%).

Distribution of active studios by autonomous communities

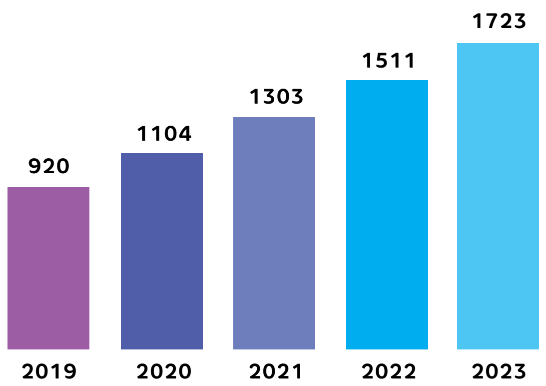


BILLING AND EMPLOYMENT IN THE SECTOR

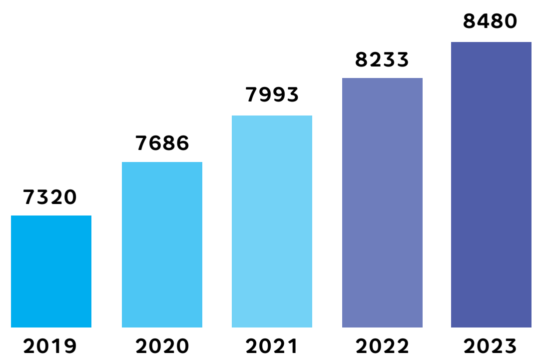
The Spanish video game production industry **billed 920 million euros in 2019, up 13% from 2018**. Likewise, **it increased its workforce in 2019 by 6.1%, reaching 7,320 professionals**.

According to forecasts, billing is expected to grow at an annual rate of 17% (CAGR 2019-2023), which implies exceeding **1.7 billion euros in 2023**. Similarly, we can estimate employment growth at an annual compound rate (CAGR 2019-2023) of 4.5%, reaching **8,500 direct jobs in 2023**.

Expected evolution of billing in the sector (M€)

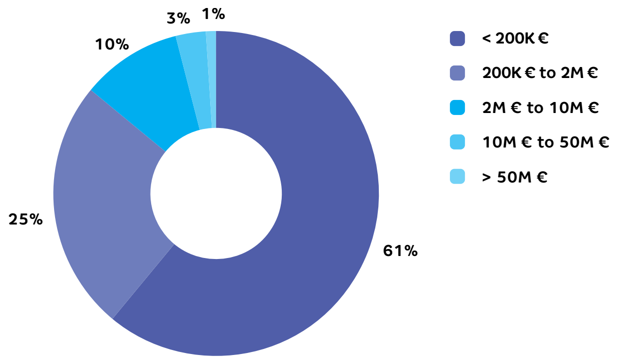


Expected evolution of employment in the sector

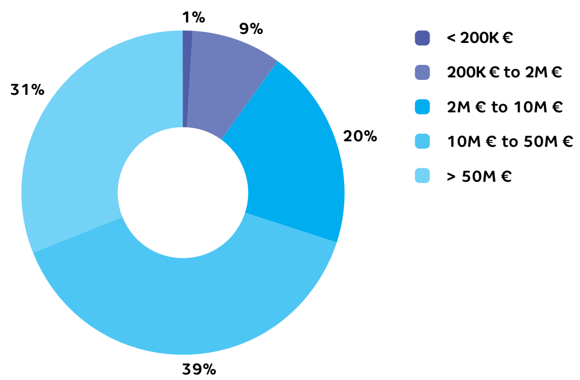


However, Spain continues to be a country with many studios billing below two million euros per year. Up to 86% of firms fall into this category, although it is important to note that 61% of the total industry has billing that falls below 200,000 euros per year. **Only 4% of Spanish studios have a business volume above 10 million euros**. Their importance as tractors in the sector is evident when noting that their business volume is equal to 70% of the entire industry.

Distribution of companies by billing



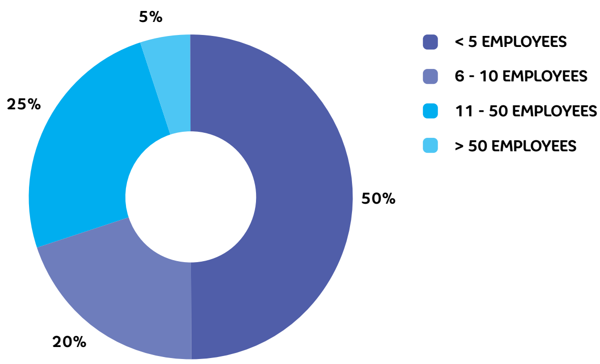
Distribution of billing according to company size



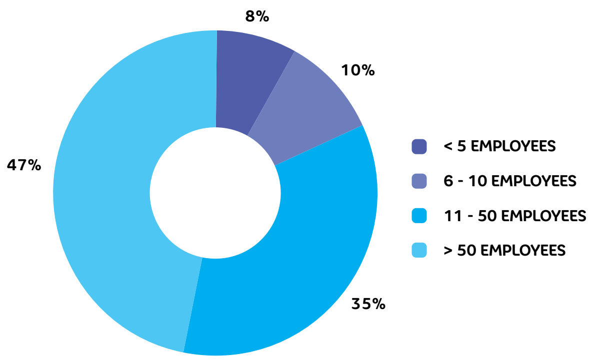
Likewise, **half of the companies have fewer than five employees**. Forty-five percent have a staff of between 6 and 50 employees. The big deficit in the national industry, the large studios, is again evident. Companies with more than 50 workers account for only 5% of the total industry.

This situation is reversed when the role these big companies play in creating employment is assessed. Forty-seven percent of Spanish video game developers are employed by these firms, while studios with less than five people only account for 8% of the workforce.

Distribution of companies by number of employees

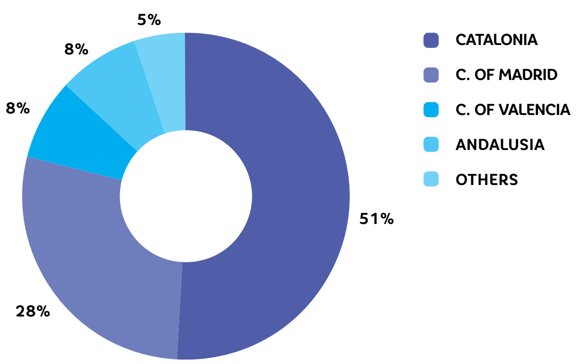


Distribution of employment by company size

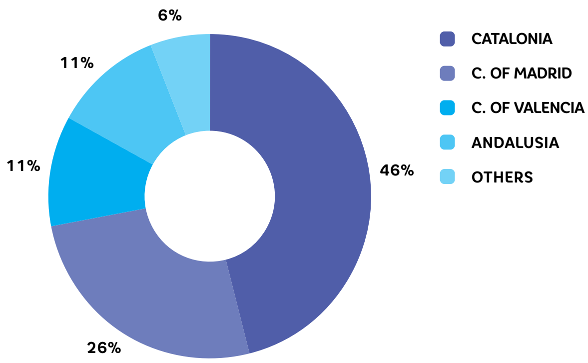


The split between Madrid and Catalonia in terms of the number of companies registered goes in favour of the second when analysing billing and employment distribution. **Companies based in Catalonia account for 51% of industry billing**, followed by those in Madrid, with 28%, and the Community of Valencia and Andalusia, both with 8%. In terms of employment, Catalonia remains the main magnet. This community is home to 46% of workers associated with video games, compared to 26% who live in Madrid or 11% who are in the Community of Valencia and Andalusia.

Distribution of billing by autonomous community



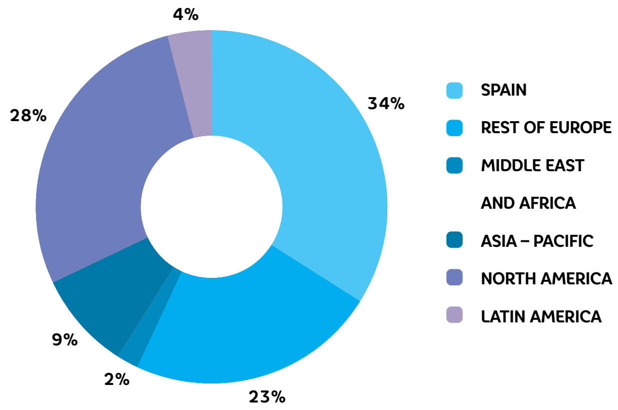
Distribution of employment by autonomous community



INTERNATIONAL ACTIVITY

The video game production industry is a high exporter, given that **66% of revenue comes from international markets**. Taking into account the dominant position of the Asia-Pacific region in global consumption of video games, there is a large growth margin for Spanish companies directing their efforts toward this market.

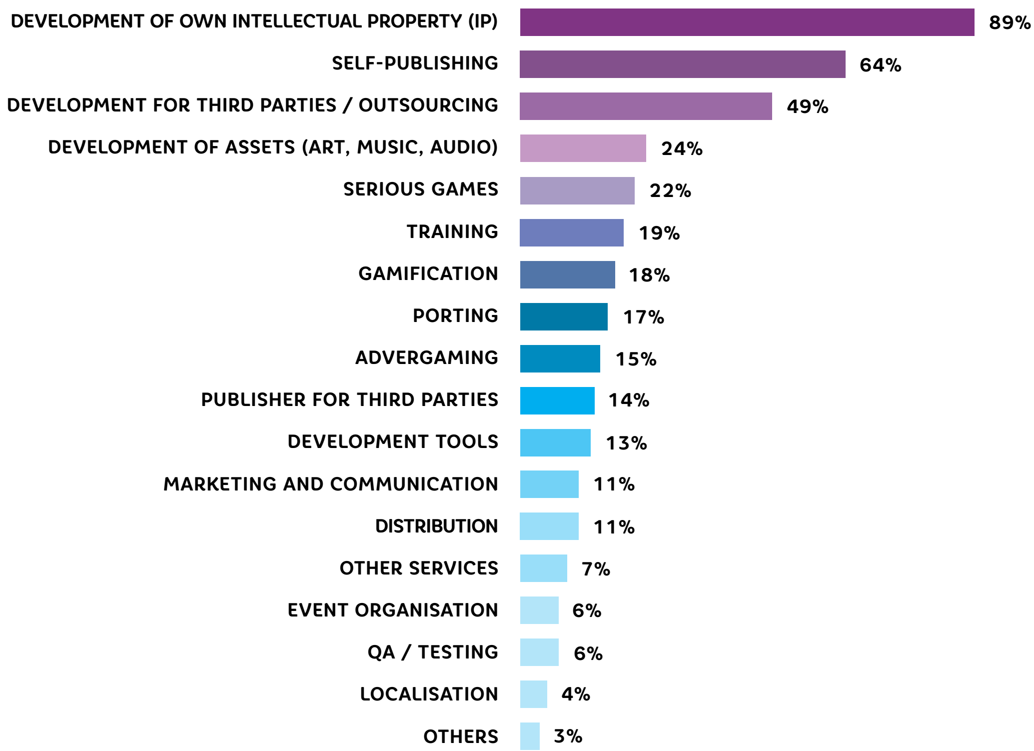
Distribution of billing by regions



BUSINESS ACTIVITY AND MODELS

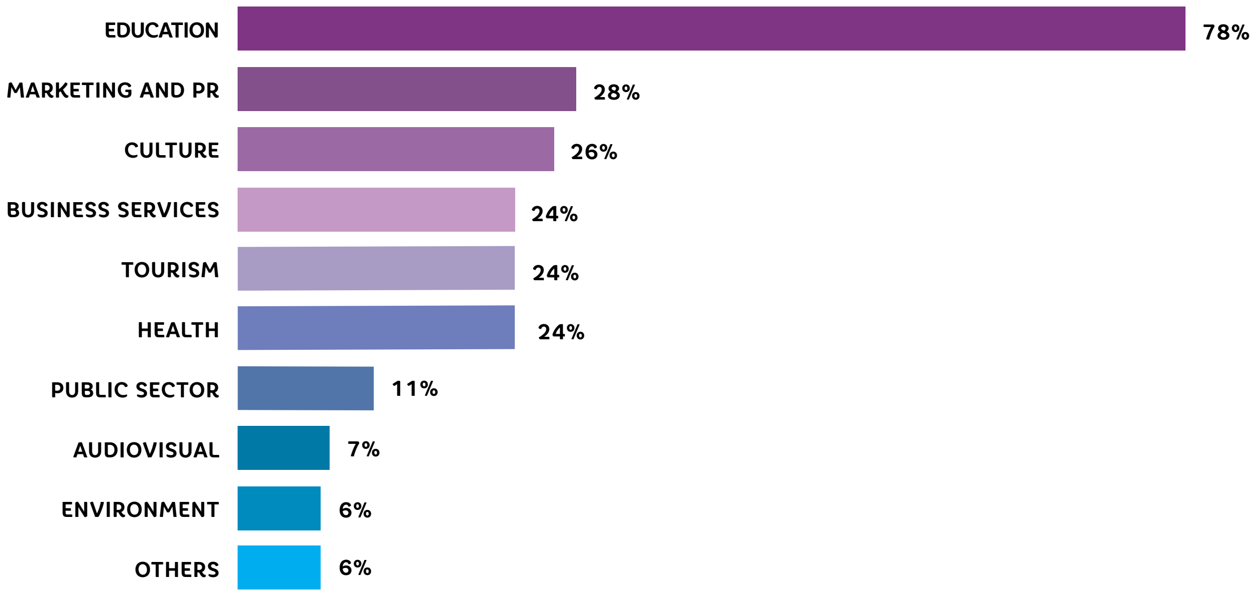
89% of companies develop their own intellectual property (IP). On the other hand, 49% develop video games on assignment. Fourteen percent publish games from third parties, while 64% bet on self-publishing.

Typology of activities done (% of companies)



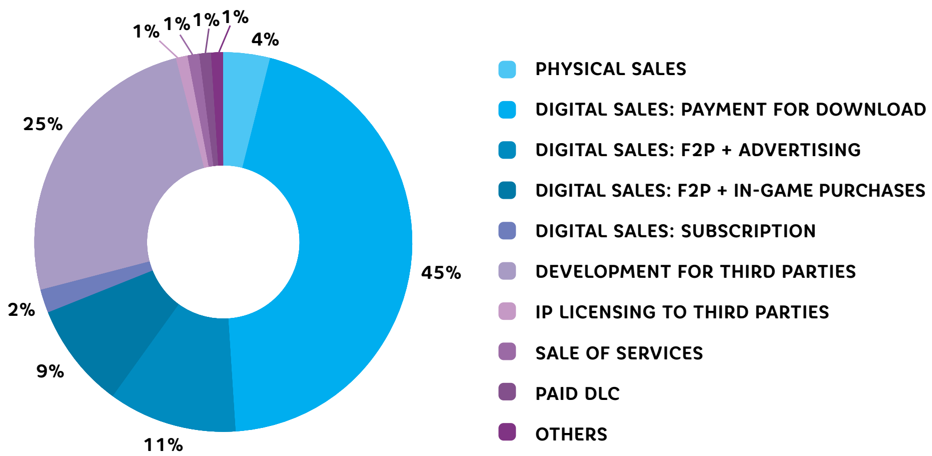
At present, just over one out of every five Spanish studios have published serious games, where the educational sector remains the main client.

Sectors targeted by serious games



Internet continues its consolidation as the main sales channel for Spanish video games. **Sixty-seven percent of games are sold in some online manner** (in all their variants, from full games to F2P with in-game purchases, with advertising, or by subscription). The physical video game accounts for only 4% of the studios' billing. Development for third parties is an activity developed by one in four Spanish companies.

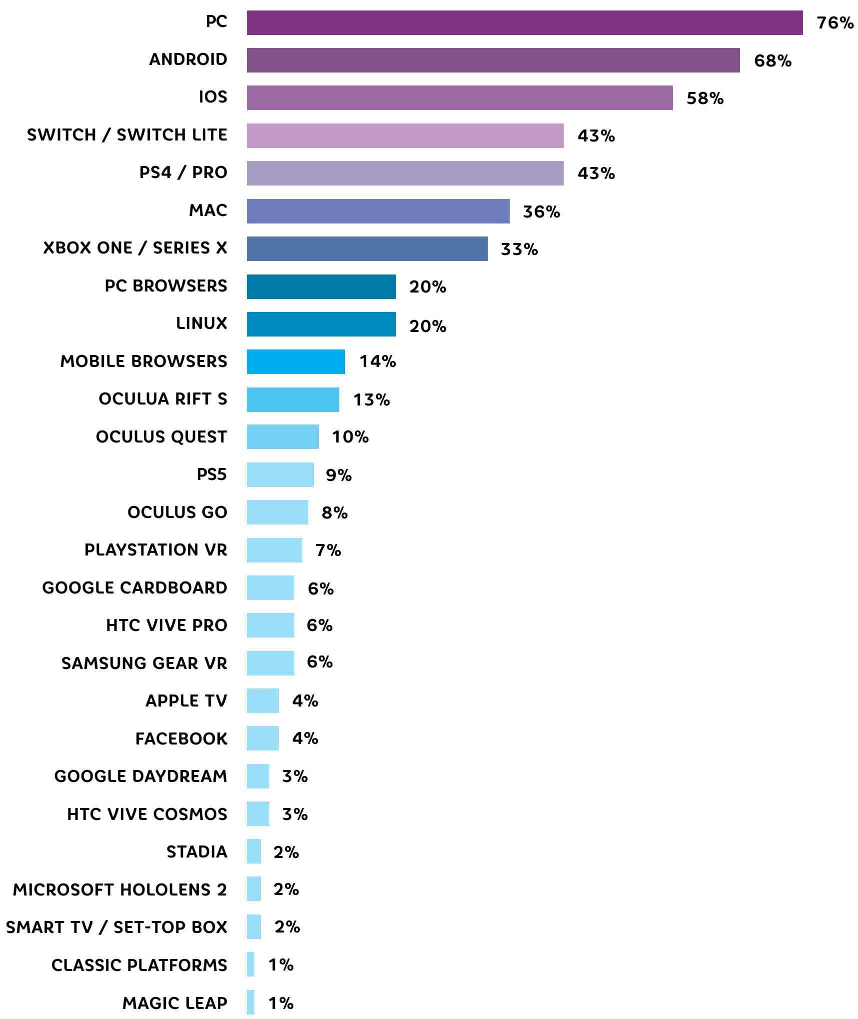
Distribution of billing by business model (% of billing)



PLATFORMS AND TOOLS

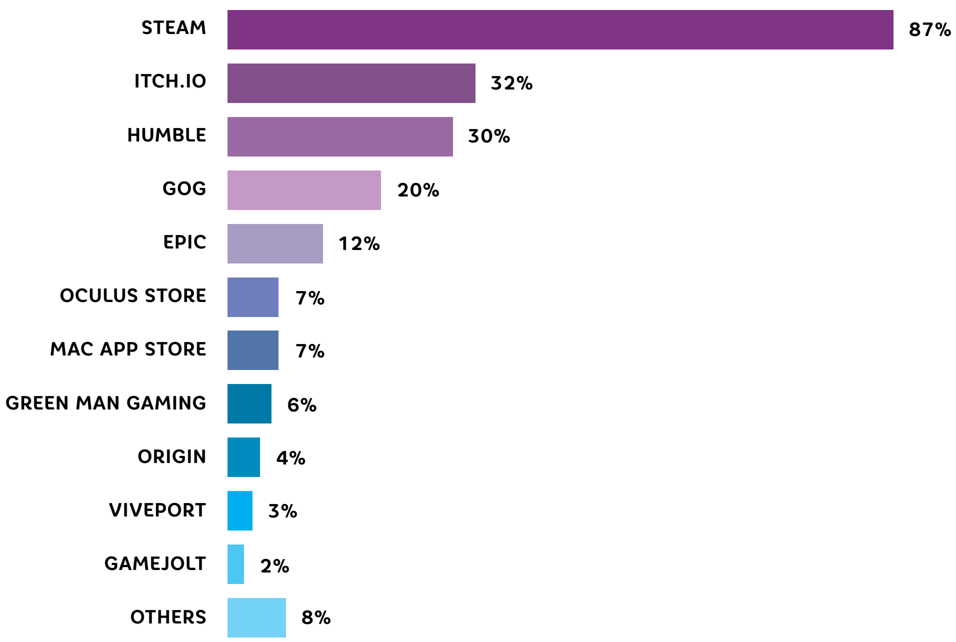
The PC, mobile platforms, and consoles remain the preferred platforms for Spanish studios. The PC continues leading the rankings, with 76% of studios working on this platform, while Android (68%) and iOS (58%) follow relatively closely. In the area of consoles, Switch takes the prize, bringing together 43% of those consulted.

Platforms used (% of companies)



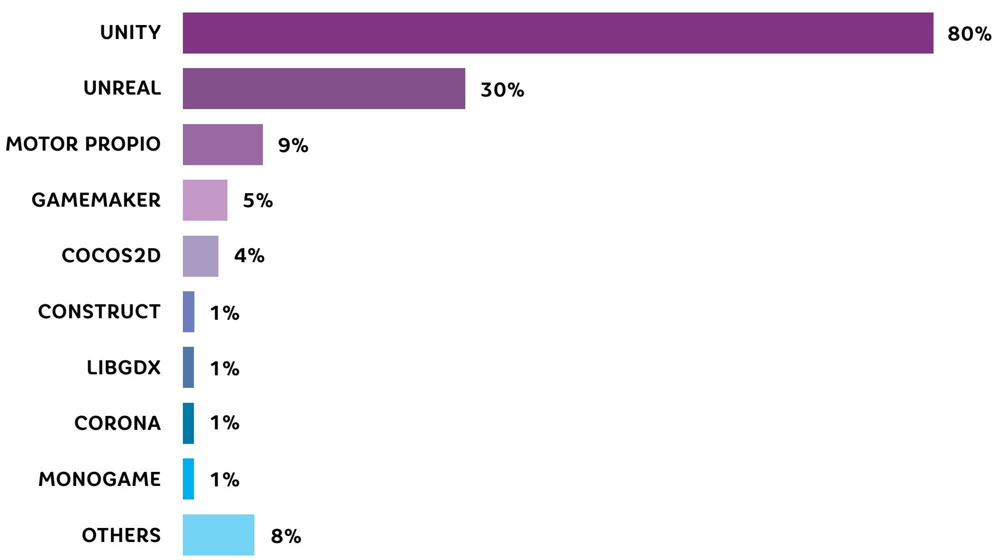
Steam is still the most widely used platform for Spanish studios. Up to 87% of those who choose to develop for computers choose the Valve platform. Impact from the Epic Games Store is still scarce on the national stage, as only 12% of PC developers have shown interest in it.

Digital stores for PC / Mac / Linux used (% of companies)



In the battle between Unity and Unreal, Spanish studios have made it clear: **Unity is their favourite creative tool**. Up to 80% of developers admit using it on a daily basis while Unreal has only won over 30% of studios. Companies that choose to work with their own engine continue to decline, currently remaining at 9%. The free use of the two tools mentioned, along with the costs of creating and maintaining a tool of your own, explain the current trend.

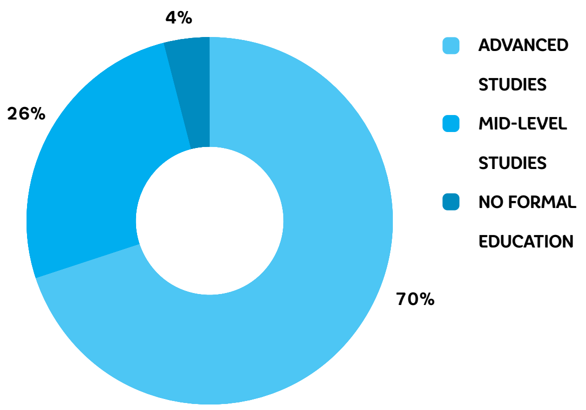
Tools used (% of companies)



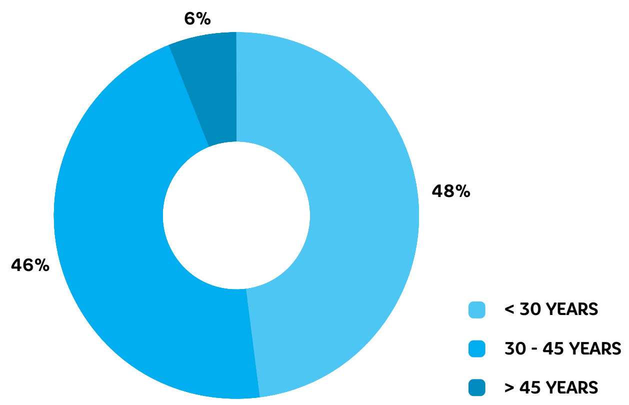
EMPLOYMENT AND PROFESSIONAL PROFILES

Spanish studios form a community of young, qualified workers who enjoy quality employment, according to figures obtained by the White Paper. Almost half of the workers in the sector (48%) are under 30 years of age, and 94% of the labour force is in the group between 18 and 45 years of age. Seventy percent of workers in Spanish studios have an advanced degree.

Industry employment by degree (% employment)

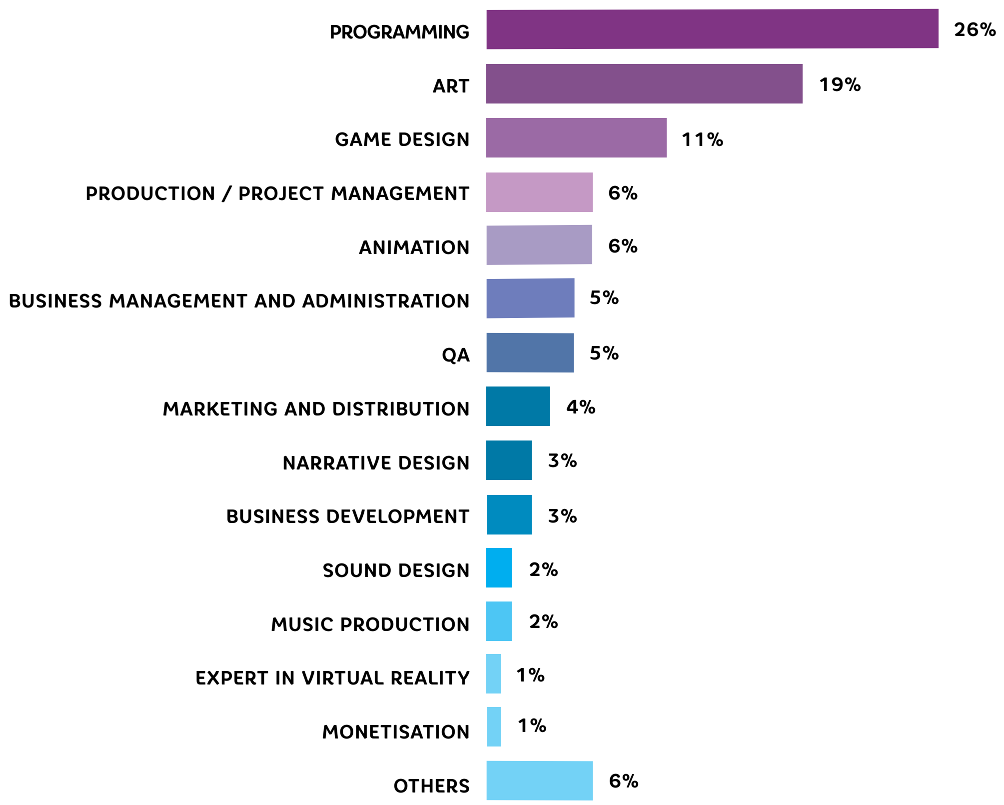


Industry employment by age (% employment)



Programmers (26%), artists (19%), and designers (11%) remain the leading profiles in the industry.

Distribution of professional profiles



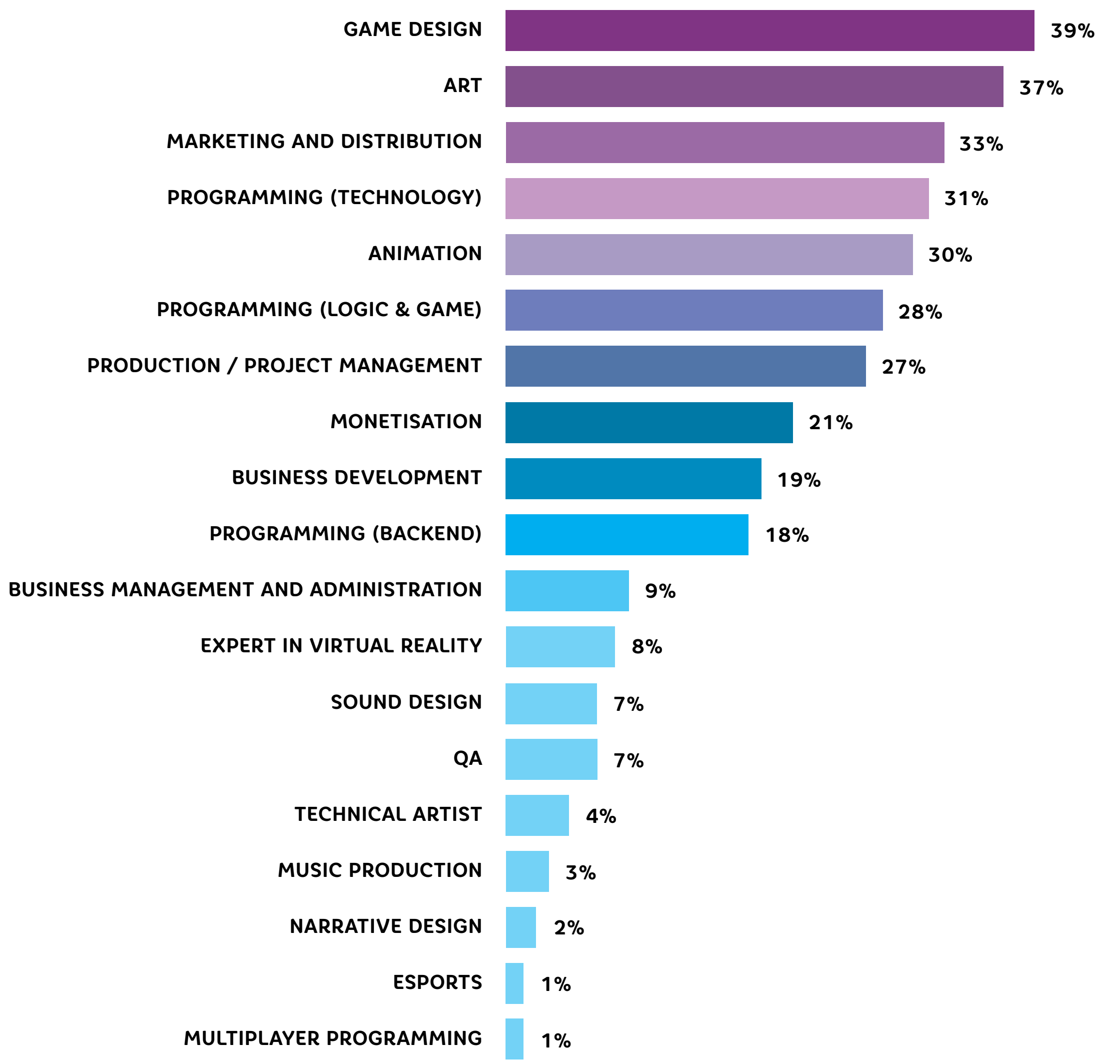
Female employment continues to rise, confirming the trend seen in recent years, and exceeds the best figure reached to date. At present, **women account for 18.5% of workers in the sector**.

TRAINING NEEDS

Fifty-five percent of Spanish studios continue to have problems in finding profiles that are right for their needs, a figure that has remained stable over the last few years although it represents a slight decrease from last year's survey. Programmers, designers, artists, marketing and distribution professionals, and animators are among the profiles most in demand.

Lack of professional experience is the main motive studios run into, a reason that has a certain relationship with the average experience of the bulk of workers at the studios, as we saw a few paragraphs earlier. Aspects related to training as well as the lack of sufficient economic means to make attractive offers are also some of the obstacles found by companies.

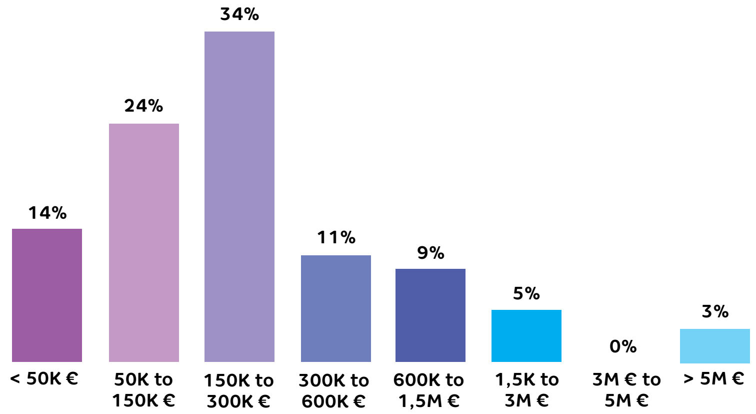
Professional profiles that are difficult to find qualified candidates



FUNDING REQUIREMENTS

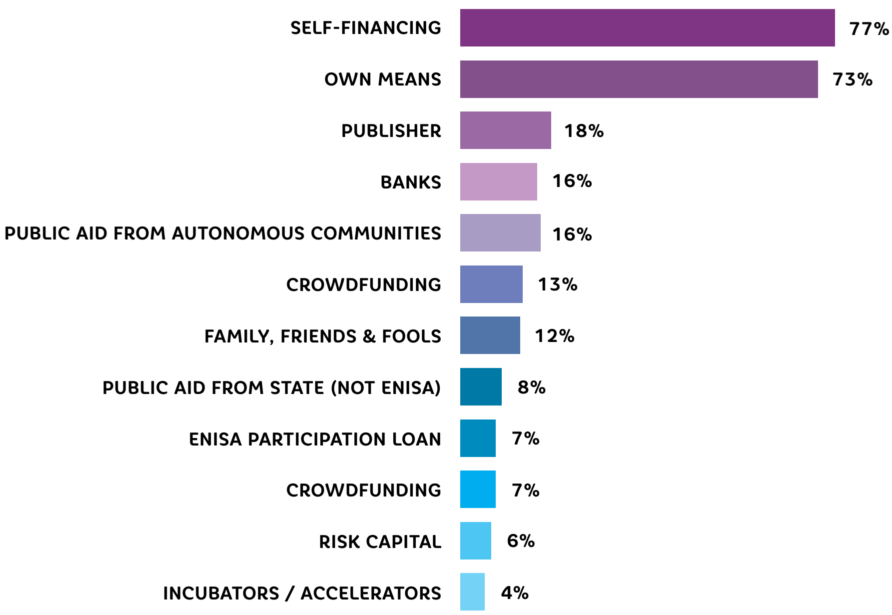
Fifty-eight percent of Spanish video game studios need between 50,000 and 300,000 euros to realise their projects. The absence of major projects in our country remains a tangible reality: only 3% of studios think their needs are above 5 million euros, and 5% would be satisfied if they got between 1.5 and 3 million euros.

Funding requirements for studios to realise projects



Self-financing and personal means remain the main tools to exist on a day-to-day basis. Both these options are the most used, given that the next alternative, liquidity linked to an agreement with a publisher, only represents 18% of companies.

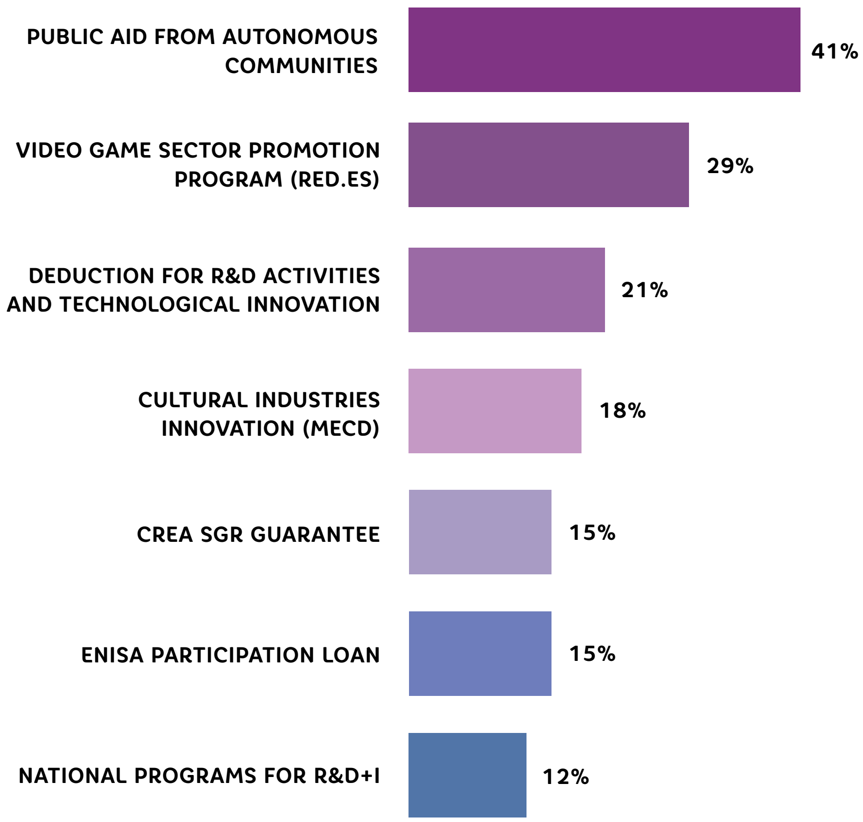
Current sources of funding for studios (% of companies)



ACCESS TO PUBLIC AID

Only 31% of studios confirm having received public aid during 2019. Of the studios that were able to count on funds to perform their work, 41% received them from their own Autonomous Community. Aid from Red.es reached 29% of companies, while 21% took advantage of tax deductions linked to activities such as technological innovation research and development.

Origin of public aid received during 2019



CHALLENGES FOR THE SPANISH INDUSTRY

Spain is the fifth European market and tenth worldwide. In spite of this, **the Spanish video game development and production industry is still far from taking its rightful place in the international ranking based on market size**. The industries in the leading producing countries obtain much higher billing per company than Spain.

Top 10 global markets in 2020

	Country	Region	Population (millons)	Market size (M$)
1	China	Asia	1,439.3	40,854
2	United States	North America	331	36,921
3	Japan	Asia	126.5	18,683
4	Republic of Korea	Asia	51.3	6,564
5	Germany	Western Europe	83.8	5,965
6	United Kingdom	Western Europe	67.9	5,511
7	France	Western Europe	65.3	3,978
8	Canada	North America	37.7	3,051
9	Italy	Western Europe	60.5	2,661
10	Spain	Western Europe	46.8	2,656

Video game industry in major countries

Country	Companies	Employees	Billing (M€)	Billing by company (M€)
USA	1,958	143,045	34,000	17.4
France	700	5,050	3,677	5.3
Canada	692	48,000	3,600	5.2
Sweden	442	8,758	2,294	5.1
Finland	220	3,200	2,150	9.5
Germany	524	11,000	1,820	3.5
United Kingdom	2,277	20,430	1,720	0.8
Spain	415	7,320	920	2.2
Poland	440	9,710	479	1.0
Netherlands	575	3,850	300	0.5
Romania	100	6,000	159	1.6
Ireland	66	2,100	150	2.3
Denmark	186	1,009	123	0.7
Czech Republic	76	1,500	88	1.15
Belgium	114	1,100	70	0.6
Slovakia	55	762	51	0.9
Norway	180	342	47.2	0.3
Austria	87	474	26	0.3
Italy	120	1,100	n.e.	-

SWOT OF THE SPANISH VIDEO GAME PRODUCTION AND DEVELOPMENT INDUSTRY

STRENGTHS

- Clean industry with high potential, a creator of culture, of young and qualified employment, and a producer of wealth.
- International industry, which ensures that its growth is directed at all markets.
- Cross-sectional character with important applications in different sectors (aeronautical, military, education, health, services, etc.)
- The asset is the intellectual property, capable of generating returns in different formats and channels of exploitation and for long periods of time.
- Great technical, artistic, and creative skills of professionals in the sector.
- Public sectors have already identified the video game industry as a sector that deserves support.
- Industrial and technological infrastructures, as well as the attractiveness of our cities and their quality of life as an incentive to launch international projects.

WEAKNESSES

- Small number of large and medium-sized studios that can absorb the available supply of professionals.
- In the absence of opportunities, a large number of professionals end up in business ventures without having the necessary entrepreneurial vocation.
- Predominance of micro-SMEs (indie studios), without the necessary capital and with a lack of business management to successfully complete their projects and, after that, position them in international markets.
- Undervaluation of intangible assets (IP) makes it impossible to find traditional financing pathways.
- Ninety-two percent of capital is financed by personal resources, pointing to the lack of confidence from foreign investors.
- Lack of local publishers who can sponsor the launch of games in international markets.
- Generalist investors do not find the sector attractive due to lack of knowledge and incentives.
- Lack of continuity in public support policies, with little funding and not adapted to the needs of the sector.
- Lack of professionals with specialised skills, forcing some large and medium-sized companies to attract foreign talent.
- Saturated and unsustainable markets for independent games.

OPPORTUNITIES

- As has happened in the audiovisual sector, the creation of an appropriate industrial and fiscal ecosystem attracts the attention of producers, creators, and investors, allowing ongoing projects to be strengthened, the entry of co-productions, and the setup of new studios.
- Strengthen the Spanish Brand image by creating an ecosystem that is strong and a leader on the worldwide stage.
- Training and retraining of people with educational needs but who already have digital skills.
- Leverage strong synergies with Spanish cultural industries (editorial, audiovisual, animation) to generate and export transmedia projects, taking advantage of the commercial and distribution channels of these industries and their leadership in international markets.
- Attract major investments from private national and international funds eager to find projects with potential for success and backed by commitment from public administrations.
- Talent pool of entrepreneurs and professionals oriented towards digital, cultural and creative industries.
- Generation of a powerful network of external agents (investors, crowdfunding, mentors, training centres, R&D centres, service companies, legal offices, consulting agencies, etc.).
- Produce and export success stories on using video games as a tool in areas of public interest, such as education and health.
- Implementation of the “Spain, Audiovisual Hub of Europe” promotional plan.

THREATS

- Failure of most start-ups and small businesses (indie studios).
- Lack of investment capital with a desire to remain puts medium-sized studios at risk, who end up financing new projects with their own resources.
- Insufficient job supply to absorb the next generation of those with graduate degrees and master’s degrees, which will create frustration and a possible fall in the demand for training.
- Delocalisation of the largest and most successful studios to other countries with a more complete and favourable ecosystem.
- Talent loss of our best creative artists and professionals, who are attracted to foreign projects.
- Frustration of investors, who will go to other sectors or other countries.

DEV MEMBERS

Collaborating Members

Collaboration Agreements

Collaborating Associations

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