

Investing in ventures that change the way we create, a profile of GEM Capital

With #QVCS, Maddyness profiles different funds to give founders and entrepreneurs the information they need to choose the right investor. Today, we speak to Roman Gurskiy & Kirill Gurskiy, Managing Directors at GEM Capital.

Temps de lecture : minute

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[Roman] GEM Capital was established in Cyprus in 2017 by Anatoly Paliy, a veteran of PwC, with a mission to unleash the potential of Cyprus and Eastern Europe's burgeoning startup ecosystem.

Kirill and I joined GEM Capital as Managing Directors in its inaugural year, following an extensive tenure in managerial positions within EY's transaction advisory department. This move mirrors a common trajectory within the consulting industry, where professionals often shift from advisory services to venture capital. Since that transition commenced began our journey to the creation of one of the biggest games venture funds in the region.

[Kirill] Initially operating as a generalist fund, casting a wide net across industries, our strategy evolved around 2019 as we started to receive numerous pitch decks from game companies. At that time, with game revenues reaching \$152B, three times larger than global box office sales, the video games market stood out. Surprisingly, in Eastern Europe, Cyprus, and the MENA region, there were virtually no specialised investors, which we saw as a significant opportunity for us. Recognising

the immense potential of the industry, we made a strategic decision to make a big bet on it. Notably, we became the first non-corporate venture fund to invest in games in our target regions.

They say you should find a job you love, and then you won't work a day in your life. Roman and I were thrilled to finally merge our work with the passion for video games that has been a part of our lives for as long as we can remember.

Our choice to concentrate on Eastern Europe, Cyprus, and the MENA region is grounded in our belief that they are well known for smart, creative, and out-of-the-box thinking people who aim high. Moreover, companies in these areas are known for their cost efficiency, delivering products of the same high quality as their counterparts in the US and Western Europe but with more competitive budgets. The impact of studios from this regions on the games industry and global culture is undeniable, with renowned titles such as “World of Tanks”, “Gardenscapes”, “Escape from Tarkov”, “Metro 2033”, “S.T.A.L.K.E.R.”, “Witcher”, “Dying Light”, “Atomic Heart” and many other groundbreaking products.

[Roman] Fast forward to today, five years later, GEM Capital proudly stands as one of the world's leading games investors, with current portfolio valued at over \$150M. We have offices in Cyprus and the UAE and there are more than 20 projects with origins in Europe, the US, the UK, and Finland in GEM Capital’s portfolio. We hold the position of the largest investor in Cyprus, having invested in many prominent companies such as Mundfish (“Atomic Heart”), Sad Cat Studios (“Replaced”), Weappy (“This Is the Police”), Red Rover Interactive (“Project Coltrane”), Deus Craft (“Grand Hotel Mania”), and many more.

GEM Capital was named Best Investor of 2021 by App2top (the leading games business media in Eastern Europe) by the decision of 100 industry

experts. In 2024, after a rigorous selection process and voting by 80 industry veterans and market experts, we were nominated for Investor of the Year at the MENA Games Industry Awards, held at the Dubai GameExpo Summit powered by PGConnects.

According to the Gaming Deals Activity Report from the market intelligence platform InvestGame GEM Capital ranks in the top ten VCs globally for both the number of deals brokered and deal value in the games market (#4 by number of deals and #7 by deals value as of September 2023).

Which industries are you working in?

[Kirill] Our primary focus is on game studios and game-related ventures, which excites us the most, considering that all our team are game enthusiasts. Engaging in this field feels more like a rewarding hobby than work! Our targets include indie studios, AAA studios, mobile games companies, and cutting-edge ecosystem platforms and technologies related to games. We look particularly for projects that are in the early stages (Pre-seed, Seed, Series A). From the outset of our journey in the game industry, we've been open to projects of any genre, including premium PC/Console games, a sector often overlooked by other games VCs. However, we steer clear of investments in real-money gambling and blockchain games.

What do you look for in a founder?

[Roman] The ideal founder knows his strengths and weaknesses like the back of his hand, is transparent about them, and demonstrates a keen awareness of market trends, coupled with the ability to predict and navigate them successfully. A strong product vision and the ability to rally the best minds in the industry around oneself are also crucial. While previous experience in running a studio or leadership roles in large

companies is preferable, it's not mandatory.

When discussing the unique nature of video games investments and startups, it's crucial to highlight that, based on our observations, unlike the majority of founders of conventional technology startups, many founders within the games industry tend to exhibit a product-centric mindset over a business-centric one. They often prioritise long-term dedication to a single product and are less inclined to pursue additional rounds of funding or engage in significant transactions. Put simply, certain studio founders prioritise product development over strategic business growth. We hold great respect for individuals with a business-oriented approach who are fearless and ready to challenge the status quo.

[Kirill] We admire our founders and can talk about them for hours. But let me share some illustrative examples. For instance, Philipp Gladkov, CEO of Gamera, a founder in our portfolio, exemplifies this spirit. During his tenure at Pixonic, he successfully transitioned the company from social games to mobile games, and launched "War Robots", which achieved remarkable success, with over 200 million installations and generating over \$900 million in revenue. Under Philipp's leadership, Pixonic became one of the leading game developers in Europe. Despite his previous success with "War Robots," Philipp embarked on a new venture with Gamera, a social ecosystem for gamers. Within just a year of its launch, the service already organically amassed a monthly active audience exceeding 500,000 users.

Another notable example from our portfolio is Robert Bagratuni, CEO and co-founder of Mundfish. Prior to founding Mundfish in 2017, he served as the Creative Director at the global publisher MY.GAMES. Despite lacking experience in building AAA studios from scratch at the time, he possessed profound industry knowledge, remarkable marketing expertise, a strong vision, and an outstanding ability to assemble top-tier talent around him. As a result, the team delivered a remarkable product that later emerged

as one of the main hits in the PC/Console market of 2023 - "Atomic Heart". Today, Mundfish stands as the only studio to have developed a AAA game as its debut title.

Can you talk about your current portfolio?

[Roman] Our portfolio can be split into three segments: PC/Console, which accounts for about 40% of the portfolio, Mobile, also representing 40%, and Ecosystem and Gametech, comprising the remaining 20%. We are fortunate to have success stories across all segments.

Regarding PC/Console, as previously mentioned, a good example is Mundfish, the creators of "Atomic Heart". The game became the most discussed game on Metacritic in 2023 and received a Steam Award for Outstanding Visual Style, along with many other accolades, such as being featured in BAFTA's The 60 Best Video Games of 2023 and Google's Top 10 Most Searched Games in 2023.

In the Mobile segment, another example is Deus Craft - one of the world's leaders in the time-management genre, famous for the "Grand Hotel Mania" game with a lifetime revenue of over \$100M. GEM Capital successfully exited the studio in the same year as the investment.

[Kirill] And we have many more great projects to shine in the future. Speaking of which, recently, one of the most reputable Cyprus business media, Gold Magazine, dedicated its cover story to the games industry of Cyprus, featuring interviews with 16 prominent game companies on the island. We are very proud that 7 of them are portfolio companies of GEM Capital!

We can highlight many standout products currently developed by our portfolio companies. Notable examples include "Replaced" by Sad Cat Studios, recognised by Kotaku as one of the most anticipated games of

2024, "Hollywood Animal" by Weappy, whose announcement trailer Destructoid named as the best game trailer they've seen recently, and "Project Coltrane" by Red Rover Interactive, which attracted a new investment round led by the industry giant Krafton.

What does the future look like?

[Roman] As directors of an investment firm specialising in the games industry, we can share our thoughts in related industries. We anticipate growth in the video games market in the following years, particularly in the PC and Console segment, driven by the release of GTA 6 and the launch of the new Nintendo console. The mobile segment, which was in the stage of correction the last two years, can go back to growth if studios can tackle the user acquisition problem, which could be possible by leveraging robust IP. A lot of IP-based mobile games make it to the top 20 highest-grossing titles, and the recent case of Monopoly GO! can prove that thesis.

Ensuring a global IP presence on all platforms allows users to enjoy their favorite games seamlessly across different devices. Additionally, the development of cross-media ecosystems around popular entertainment franchises, exemplified by successes like "The Last of Us" and "Fallout" TV series and recent plans of Disney's \$1.5B investment in Epic Games, underscores emerging trends in the industry.

[Kirill] Today, when talking about trends and the future it is impossible not to mention AI, the game industry is no exception here. The main impact on the industry is that AI can help speed up production pipelines and save time and costs, which helps to devote more resources to the creative part of the process. It is mostly achieved through procedural content generation, language processing, and personalised gameplay experiences. It even can bring intelligence to non-playable characters (NPCs). There are already mods for popular RPG series like "TES: Skyrim"

or “Mount & Blade” where you can talk with NPCs and get responses relevant to the unique personality of each character. Despite the controversy of using AI, it will continue to ramp up and create new opportunities inside the industry.

What makes GEM Capital different?

[Roman] Firstly, we aid our portfolio companies in achieving successful transactions with global market leaders. With a robust track record, we are the pioneering team in the region to have orchestrated deals with industry titans such as Tencent, Krafton, Ubisoft, Microsoft, and MY GAMES.

Secondly, we blend extensive industry expertise with robust financial knowledge. Our investment team comprises individuals with prestigious credentials, including CFA (Chartered Financial Analysts), ACCA (Association of Chartered Certified Accountants), and ASA (American Society of Appraisers). Leveraging our consulting background, we provide valuable support to founders in areas where they may lack sufficient experience.

Furthermore, I would like to emphasise that we always strive to build long-term trusting partnerships with the founders of our portfolio companies. We endeavour to support them through challenging times, which is especially crucial in the current difficult investment climate. Importantly, they reciprocate our efforts. For instance, we recently announced the formation of our Advisory Board, which includes Robert Bargratuni, CEO and Founder of Mundfish, the developers of Atomic Heart; Philipp Gladkov, former CEO of Pixonic (War Robots) and CEO and Founder of Gamera, a rapidly growing social ecosystem for gamers; and Max Samorukov, CEO and Founder of AppMagic, a mobile market intelligence service that is currently the largest competitor to major data.ai and Sensor Tower in terms of client numbers. Each advisor brings

unique expertise to the table: Bagratuni will advise on the selection and development of PC/console games, Gladkov will support mobile teams, and Samorukov will provide insights into data analytics and mobile app market intelligence. Each of them is renowned as Tier 1 professional in their respective fields commanding the utmost respect across the region. We are grateful to Robert, Philipp, and Max for placing their trust in us and believe that our Advisory Board will benefit many of our portfolio companies.

Finally, what sets us apart is our active assistance to portfolio companies with PR strategy, marketing support for product and deal announcements and legal advice. This assistance is highly esteemed and valuable.

[Kirill] It is also worth mentioning that we intentionally sought to build a diversified games portfolio and made a significant bet on premium PC/Console games, unlike other games VCs that mostly preferred projects with free-to-play monetization or games as a service and mobile games. We believe that this approach can help us minimise risks in the fast-paced, changing environment of the market and quickly adapt to it. For example, Newzoo – the world's most trusted source of games and gamers data – recently published the top 10 trends in the games market to watch in 2024. Among them are ideas that "companies will return to developing premium games" and "mobile developers will turn to PC gaming." So, unlike other games VCs, we don't need to shift our portfolio to keep up with trends; we have always been part of these trends.

One additional aspect worth noting is our robust track record of successful launches. While many games funds may tout their ability to secure new rounds of funding for portfolio companies and enhance the valuation of their investments, the ultimate metric of success in the games industry lies in delivering a compelling product to market. Simply securing funding does not ensure the eventual success of a studio. Presently, the median user rating for games released by our portfolio studios is around 85%, a

testament to our commitment to excellence and achievement in this field.

What one piece of advice would you give founders?

[Roman] In the current macroeconomic climate, fundraising for founders has become challenging. To navigate these headwinds, focus on demonstrating your product's track record and metrics as quickly as possible. Engage with the community from the early stages, plan your marketing campaign in advance, and prioritise stretching your runway to weather the uncertainties effectively. All that can help you find an investment partner but it's only halfway. You need to be sure that your partner is right for you, just like in marriage!

[Kirill] Indeed, financial terms are important here but don't build your decision only around that and look beyond. Consider their track record and reputation. With funds that are well-known in the industry and usually included in top funds worldwide is much easier to secure funding in the upcoming rounds. Explore what, aside from the source of capital, your partner can provide you with. It usually depends on team fund expertise. It may be the team who previously made games themselves and have game development proficiency, who ran start-ups and have entrepreneurial experience, or it can be legal and finance professionals who can efficiently supplement your company with their expertise in that field. But most importantly, especially for the entertainment industry, your partner should not intervene in your holy grail – the creativity process.

Roman Gurskiy and Kirill Gurskiy are the Managing Directors at *GEM Capital*.
