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To whom it may concern,

I am writing this to provide a perspective from a business currently operating in this sector in Australia. In this brief document I will aim to: contrast the current support in Australia to overseas countries, explain the typical business cycle within the industry and explain the importance of government assistance to the Australian economy.

Brief Comparison of Government Support In Australia and Abroad

Currently this sector is substantially under-supported, and the limited support available is seen as unsecure. Funding for the Australian video games sector is scarce and when available, it is either: difficult to access, unsubstantial or difficult to find. It is also hard for companies in this sector to rely on the Australian government as previous funds for this sector have been cut. The most notable recent example was the \$20 million fund announced in late 2012. This is a dangerous reality as reinforcing that companies in this sector cannot receive or rely support from the Australian government is not in the best interest of the Australian economy.

It is also important to note that I am not presenting issues that “may” have an effect. Instead I am presenting issues that “are” having an effect. This can be seen by the closure of AAA-studio 2K in Canberra and Dreamgate Studios growing operations in Malaysia as opposed to Australia.

The reason that Australia is not seen as a lucrative country for the video games sector is due to high talent cost and seemingly substantial government benefit in other countries by comparison.

This is unfortunate because Australia has some of the best video game talent in the world, with the first video game school in the world being established in Australia in 1996. The cost of this talent is appropriate for AAA companies, however the current level of government support prohibits the growth and arrival of AAA companies in Australia. Therefore this talent is moving to overseas markets further stifling the growth of the Australian economy.

Other countries have realised the enormous beneficial impact of growing their video games sector. Malaysia offers various support, the two most important are: Product Development & Commercialisation Fund (PCF) and Games Production Rebate. The PCF is aimed at assisting companies to accelerate the development and commercialisation of innovative, market-driven

product/solutions/services as well as increasing the creation of Intellectual Property (IP) for commercialisation and grants up to 50% of the approved total project cost or up to a ceiling of \$750k per project. The Games Production Rebate is for 30% of the development cost.

Business Cycle

To identify how the Australian government can also help grow this industry I believe it is important to explain the typical business cycle. It will be important to note that this industry is "hit-driven". This means that <20% of the IP will account for 80%> revenue. I have assisted numerous start-ups in this industry and the common pattern is:

1) Product/IP Development.

- 6 Month minimum development timeframe.
- Software cost.
- Equipment cost.
- Licenses cost.
- Salary costs (constant shifting nature requires products to be started and completed in a short time frame to have market viability. Part-time projects are likely to fail).

2) Reinvestment of Revenue.

- Project cost limits ability to scale previous IP.
- Limited access to long-term product revenue from previous projects limits creation of next project.

3) Repeat (2) until 'Hit' IP.

4) Rapid growth of company after successful scalable IP through hiring and acquisition.

5) Reinvestment of revenue for consistent creation of new IP and continual commercialisation of successful IP creating business stability.

This simplified business cycle highlights that there are two primary areas that need support from the Australian government to ensure the rapid growth of the video games sector in Australia:

- 1) **Games Fund** to assist IP development for start-ups (Step 1).
- 2) **Games Production Rebate** to enhance reinvestment of revenue to assist IP development and growth of small businesses (Step 2).

Importance of Government Assistance

The importance of this Government assistance is tremendous. Statista recorded global video games revenue at \$101.62B USD while global film revenue was recorded at only \$88.3B USD. To further solidify the validity of the video games sector, the Interactive Games and Entertainment Association documented the Australian growth of video game revenue by 20% in 2014 at \$2.46B AUD. In comparison IBISWorld recorded the revenue of film in

Australia to decrease by 0.7% in 2015 at \$2B AUD.

Government support is pivotal to capitalising on this growing sector leading to the growth of the Australian economy through: the creation of jobs, retention of talent and export revenue. However this assistance needs to be realistic and proportionate to the industry. Therefore it is important that the government creates a sustainable strategy through collaboration with the local industry as opposed to ad hoc proposals and short-term solutions.

Regards,

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