

# eSports

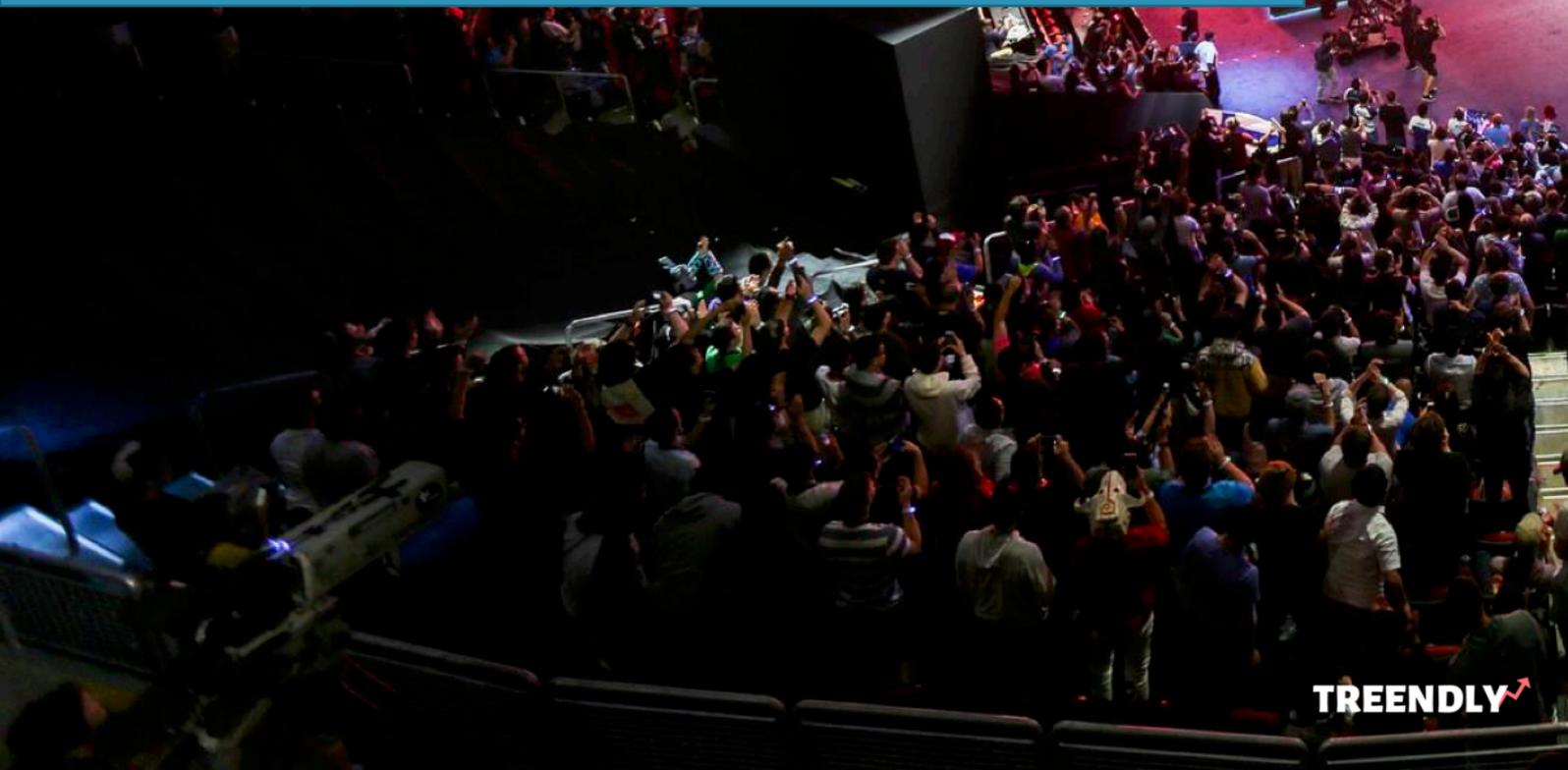


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## MARKET RESEARCH

November 2021

By Trendly.com



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## EXECUTIVE SUMMARY

In **2021**, the global eSports market was expected to generate **\$1084.1 million** in annual revenues, representing year-on-year **growth of 14.5%**. It is believed that **China** will generate **more than a third** of worldwide eSports revenues. Looking further forward to **2024**, eSports revenues will reach **\$1617.7 million**, showing a Compound Annual Growth Rate (**CAGR**) of **11.1%** from 2019-2024. The growth of this market is attributed to the increasing popularity of video games and growing awareness about eSports.

While certain segments of eSports revenues took a hit due to the pandemic, such as the decline in ticket and merchandise revenues due to the cancelation of in-person events, other segments are expected to perform well. It is estimated that more than three-quarters of the total **2021 eSports market revenues** or \$833.6M will come **from media rights and sponsorships**.

In 2021, the global eSports **audience** will grow +6.7% year-on-year to **reach 465.1 million**. The eSports enthusiast group will account for 229.6 million, with occasional viewers making up the remaining 235.5 million.

**By 2024**, Newzoo estimates the eSports **audience** will reach **577.8 million**. There are several factors to support this audience growth including growth in the global gaming audience as well as the **increasing prize pools of eSports**, which is expected to continue to build interest among players and fans.

More and more **traditional football clubs** are getting involved in eSports, mainly maintaining a **FIFA** team. Some of the FCs even have their separate eSports division and new partners that sponsor their eSports teams only.

We can highlight the following **current and future trends**:

- market growth bolsters with engaging gaming competitions during COVID-19 pandemic
- virtual eSports programs build large and reliable Gaming Ecosystems
- eSports courses help teach students ways to run any eSports company
- considerable demand for gaming leads to long-term investment opportunity
- eSport market provides competitive landscape for many investors
- eSports companies are looking for cost-effective ways through partnerships
- eSports teams will continue to diversify
- mobile eSports enter the upper echelon
- China is 2022's eSports region to look out for
- non-gaming content becomes even bigger on streaming platforms

Revenue opportunities for eSports teams are still fairly limited. The **revenues of top eSports** organizations range **from \$4 million to \$25 million**.

There are three **main revenue sources** for an eSports team: **sponsorships** (about 95% of revenue), **merchandise sales**, and **revenue share from participation** in leagues and championship events.

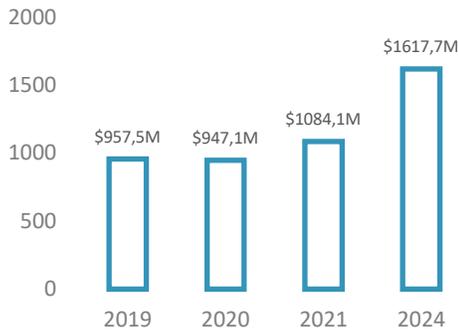
Total **costs** of an eSports team typically include the costs of **participating in live events** (franchise fees – about \$30 million) and **video production for streams**, coaching and staff salaries, business overheads, marketing, a **game house** or **other facilities** (e.g. the total cost for leasing facility for the eSport team training center is about \$80,000, the total cost for facility remodeling - \$50,000), and most importantly **player salaries** (the average wage can be estimated to be around \$75,000 a year). Player costs typically eat up half of a company's operating budget.

One of the **most common concerns** leveraged against investing in eSports is the **risk of rapid turnover for specific games**. Most video games struggle to retain a large player base for more than five years. However, many cases of long-term and “expensive” partnership between eSports teams and their sponsor companies can be a proof of sustainable optimistic attitude towards the eSports industry.

**eSports teams** today are more considered as **tech startups** than as sports teams, which is why they are not trying to be profitable in the short-term period but rather reinvest their revenue in the company to scale and grow, as the industry is booming, and the growth rates are quite promising.

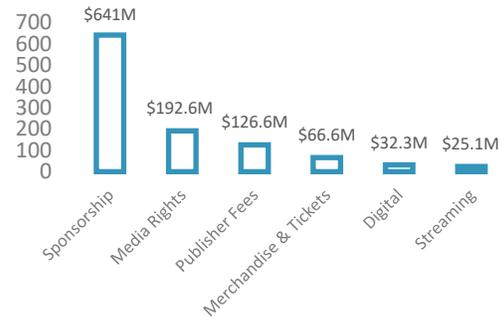
## MARKET OVERVIEW

Figure 1: eSports revenue growth, 2021 (\$M)



Source: Newzoo, *Global ESports & Live Streaming Market Report, 2021*

Figure 2: ESports revenue streams, 2021 (\$M)



Source: Newzoo *Global ESports & Live Streaming Market Report, 2021*

While the epicenter of eSports started in South Korea and across Asia, in the past 15+ years, it has quickly spread across the world. In 2019, eSports generated \$957.5 million in annual revenue increasing by 23.3% compared to 2018. Yet, COVID-19 had a noticeable impact on eSports revenue as a result of which the actual revenue was \$947.1 million in 2020, according to data from Newzoo<sup>1</sup>. This represented a fall of 1.1% in year-on-year (YOY) revenues. This fall in revenue predominantly occurred because there was limited in-person attendance at eSports events, with restrictions on large gatherings. However, 2021 is looking more favorable in terms of eSports revenue growth.

By 2021, the global eSports market was expected to generate \$1084.1 million in annual revenues, representing year-on-year growth of 14.5%. It is believed that China will generate more than a third of worldwide eSports revenues. Looking further forward to 2024, eSports revenues will reach \$1617.7 million, showing a Compound Annual Growth Rate (CAGR) of 11.1% from 2019-2024.

The growth of this market is attributed to the increasing popularity of video games and growing awareness about eSports. It is worth noting that the threat from eSports gambling/betting is one of the most significant obstacles restraining the growth.

While certain segments of eSports revenues took a hit due to the pandemic, such as the decline in

ticket and merchandise revenues due to the cancelation of in-person events, other segments are expected to perform well. It is estimated that more than three-quarters of the total 2021 eSports market revenues or \$833.6M will come from media rights and sponsorships.

<sup>1</sup> [Newzoo, "Global ESports & Live Streaming Market Report", 2021](#)

Sponsorship revenues are the foundation on which the eSports market was built, so it is no surprise that it continues to be the highest-grossing revenue stream, generating \$641.0 million in 2021, or 59% of the entire market. However, this share will decrease slightly in the coming years as ticket revenues recover from Covid-19 restrictions and eSports organizers and teams continue to diversify - another sign of a healthy market. The share of media rights in revenues is about 18%, followed by publisher fees (12%). Due to fewer real-world events, revenues from tickets and merchandise will currently remain lower, generating \$66.6 million in 2021 (6% in revenues), a reduction that will not recover until 2022. For the same reason, the streaming (2%) and digital revenue (3%) streams also jumped last year, consisting \$25.1 million and \$32.3 million respectively.

The eSports market reached a value of nearly \$1,070.5 million in 2020, having increased at a compound annual growth rate (CAGR) of 16.0% since 2015. The market is expected to grow from \$1,070.5 million in 2020 to \$2,108.6 million in 2025 at a rate of 14.5%. China is the largest market by revenues, with total revenues of \$385.1 million in 2020, followed by North America, with total revenues of \$252.8 million.<sup>2</sup>

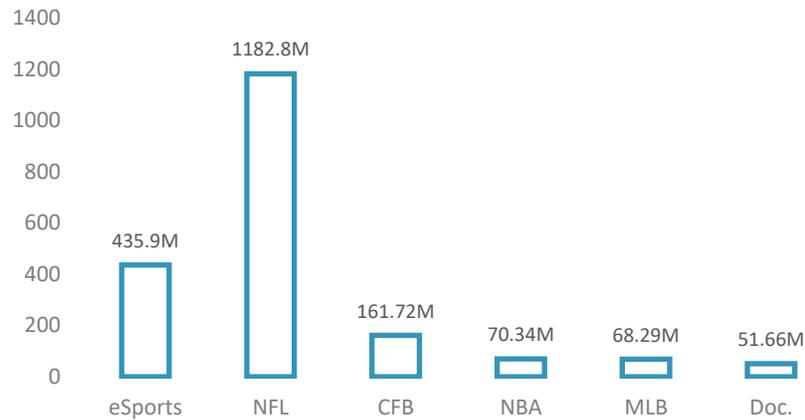
### Three primary eSports markets<sup>3</sup>



<sup>2</sup> [Global ESports Market Opportunities and Strategies to 2030 - ResearchAndMarkets.com](#)

<sup>3</sup> [Mordor Intelligence, "Global eSports market", 2021](#)

**Figure 3: Annual average viewership for eSports and professional sports leagues in 2020**



Source: Sports Media Watch

Historically, eSports has been the Wild West of sports; it has lacked the organization, structure, and revenue streams of established leagues. As competitive video games continue to integrate into popular culture, global investors, brands, and media outlets are all paying attention. Consumers are as well. The number of eSports viewers exceeded the number of viewers of the most watched traditional sports leagues (except for NFL) in 2020, amounting to [435.9 million](#), while the total viewers of CFB, NBA, MLB, Doc reached 352 million combined.

In a year that featured two full months without live sports — followed by an unprecedented crush of competing events — the NFL asserted its dominance as other leagues hit historic lows. The NFL generated 82 of the 85 largest sports audiences in 2020, with the three exceptions being three college football bowl games last January — the New Year’s Day Rose Bowl and Citrus Bowl and the January 13 LSU-Clemson National Championship. The top non-football sporting event ranked 86th, Game 6 of the World Series. Outside of the NFL, only seven sportscasts averaged at least ten million viewers in 2020 — and four of those seven took place in the first two weeks of the year, well before the wave of cancellations and postponements that altered the industry in March. After some initial strong audiences for events like the NFL Draft and the ESPN documentary “The Last Dance” in April and May, the return of sports in the summer and fall was marked by steep declines and record-low ratings.<sup>4</sup>

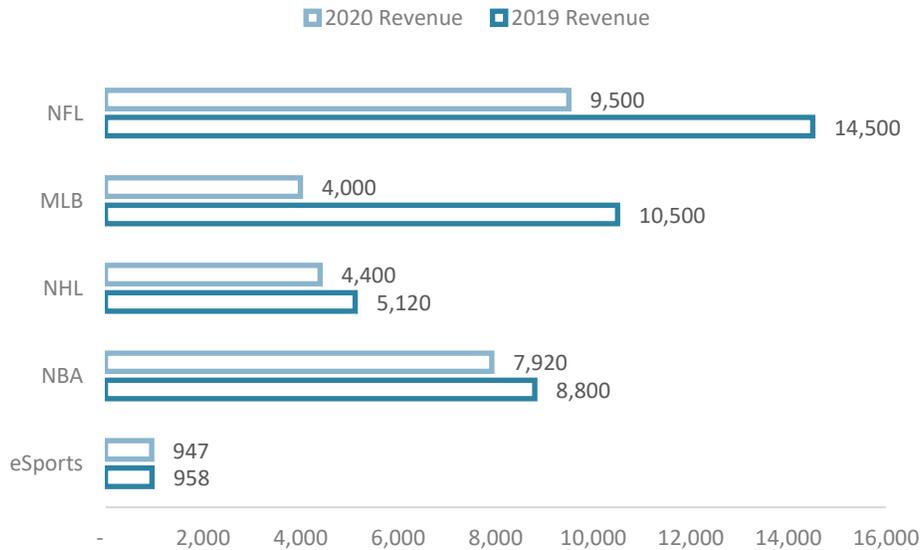
The NFL, NBA, MLB, NHL and NCAA, unsurprisingly, took a massive hit due to the COVID-19 pandemic in 2020. When the entire country came to a halt about one year ago, Forbes estimated that the four major American sports leagues and the NCAA would lose a combined \$5 billion in revenue.

This isn't necessarily surprising considering all of the revenue streams the major sports lost when they did resume their seasons. Many teams didn't allow fans to attend games in 2020, and even if they did, it was limited capacity.<sup>5</sup>

<sup>4</sup> [“2020 Ratings Wrap: NFL dominates disastrous year”, Sports Media Watch, December 2020](#)

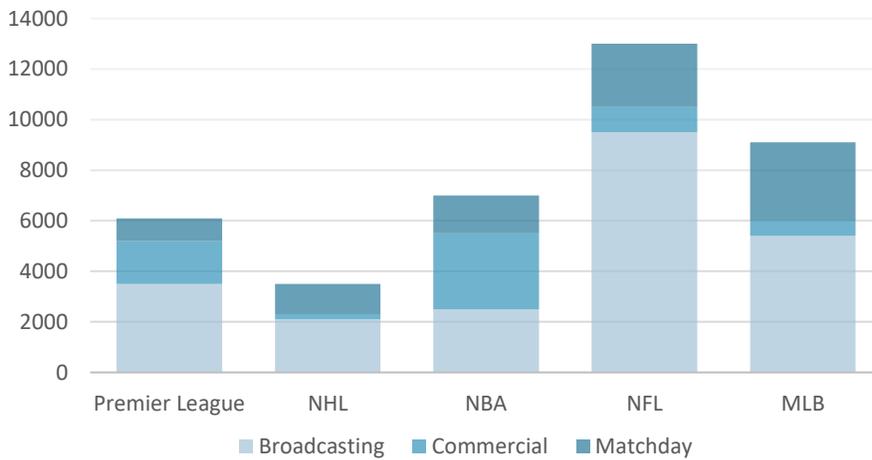
<sup>5</sup> [“NFL, NBA, MLB, NHL, NCAA lost more than \\$14B in combined revenue due to COVID-19 pandemic”, Yardbarker, March 2021](#)

**Figure 4: Revenues of major American sports leagues and eSports in 2019-2020 (\$M)**



Source: Forbes

**Figure 5 Revenue breakdown of the Premier League, NHL, NBA, NFL, MLB, 5-year average (\$M)**



Source: World Economic Forum / Statista, 2020

The revenues of American sports leagues significantly decreased in 2020 compared to 2019 (Figure 4). In particular, the income of MLB decreased by 62 %, getting \$4,000M from \$10,500M. The next biggest fall was recorded by NFL (35%), getting \$9,500M from \$14,500M. The revenues of NHL and NBA dropped by 14% and 10%, respectively. The figure

demonstrates a slight change (-1.1%) in the eSports revenues. The global pandemic has proven beneficial to eSports in terms of viewership and demonstrated that the industry can survive while others struggle.

eSports is more global than traditional sports; the audience is more geographically dispersed relative to MLB or the NHL, for instance, which have more audience concentration in North America. For traditional sports leagues, experts believe the audience concentration in local US markets has helped to drive local revenue streams: ticketing, concessions, merchandise — and in some cases, regional media rights, as is true with MLB. On average, local revenue makes up 54% of revenue for traditional sports leagues, with the NHL indexing the highest at 73% of total. While regional eSports tournaments have generated local revenue streams — tickets sales, concessions, etc. — typically that revenue has gone towards paying the third-party event organizer and prize pool for the players, the size of which is crucial for attracting top teams and audiences. All of this is to say that eSports has under-monetized relative to its audience potential, but trends are that is finally starting to change.

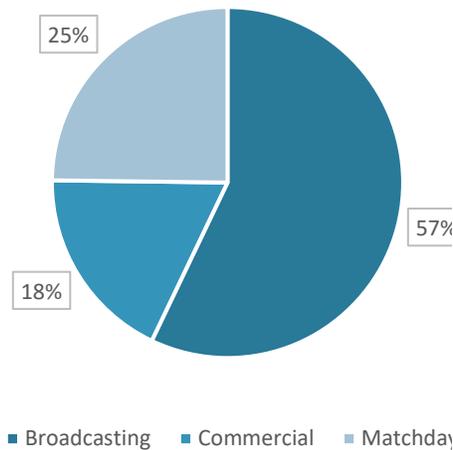
Given the fragmentation of audience globally, the estimations are that media rights, sponsorship, advertising, and in-game monetization will be the largest contributor to total revenue to eSports leagues at scale. On average today, the four largest pro sports leagues in the West generate 37% of revenue from media rights, 23% from ticket sales, 10% from sponsorship, and only 6% from licensing.

There are three main income streams for sports leagues: broadcasting (sales of media rights), commercial (sponsorship and advertising partnerships) and match day revenue (ticketing and hospitality)<sup>6</sup>. Professional sports leagues are analogous to entertainment companies, where each team in a league is like a different channel. The teams have their own identities, employees and fan bases, but the overall 'programming schedule' (the rules of the game and the fixture list) are set by the leagues.

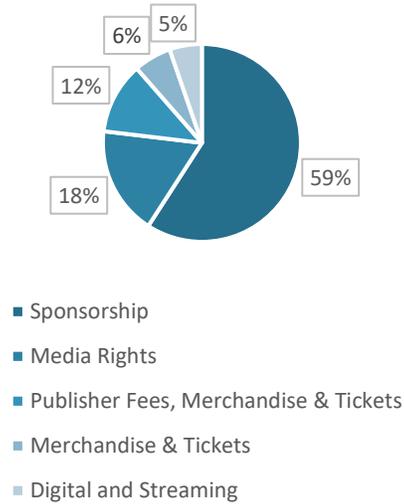
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<sup>6</sup> [World Economic Forum, "How COVID-19 is affecting the world of sports", 2020](#)

**Figure 6 Revenue breakdown of sport leagues (%)**



**Figure 7 Revenue breakdown of eSports (%)**



Source: World Economic Forum / Statista, 2020

The major sports are all reliant on broadcasting income (57% in revenues), as demonstrated by revenue data from the biggest leagues over the last five years. The global value of sports media rights is around \$50bn – but 60% of that is accounted for by just 10 sports leagues. It should be noted that the largest share in eSports revenues has the sponsorship (59%), while the share of media rights is only 18% in contrast to that of 57% in leagues revenues. The share of commercial and match day revenues in total is 18% and 25%, respectively.

While sponsorships make up the largest percentage of global revenue today, it is believed that media rights will eventually become the largest source of eSports revenue, as massive audiences and associated ad revenue for established online video platforms like Twitch, YouTube, Douyu, and Huya will be able to support a growing pool of media rights fees paid to top publishers for their content. Historically, sponsorships in eSports were mostly limited to endemic sponsors, like hardware manufacturers. But in the last couple of years, we have seen more mainstream subscribers enter the fray, eager to reach the millennial & Gen Z audience of eSports. Sponsors for the League of Legends League included Geico, State Farm, Nissan, Axe, and Coca-Cola, while the Overwatch League was sponsored by Toyota, Sour Patch Kids, Intel, and T-Mobile. And it was only after Riot and Blizzard created established leagues that we started to see the landscape for sponsorship change. Success in professional eSports demands rigorous teamwork and unflinching commitment to high performance<sup>7</sup>; winning teams can earn millions in prize money, with popular teams and players drawing significant income from advertising, merchandise, and royalties.

<sup>7</sup> John Hagel, John Seely Brown, Maggie Wooll, and Andrew de Maar, [League of Legends: Team SoloMid, Deloitte Insights, March 2018](#)

As more businesses look to eSports for opportunities, broadcasters and event promoters can offer subscription services for physical and virtual events, game streams, and access to teams. Ticketing can explore VIP, hospitality, and experiential innovation for eSports events just as promoters offer for concerts. Some are investigating blockchain to track the entire customer journey of a ticket holder, as well as league- or venue-based tokens that can be issued to fans and redeemed for physical and digital merchandise. With changes to gambling laws, others are eyeing blockchain solutions to immutably track wagers and execute smart contracts to reconcile bets.<sup>8</sup>

### **How the pandemic affected eSports sector**

eSports' advantage was that competitions could be sustained by moving the leagues and tournaments online, whereas traditional sports and entertainment segments paused.<sup>9</sup> In addition, people spent significantly more time at home, limiting leisure activities to home-based entertainment. Consequently, eSports became a focus of consumers, attracting record audiences and boosting popularity beyond the sector's previous borders. Leading broadcasters have promoted eSports and significant funding was generated for some organizations, suggesting that eSports sector may achieve accelerated growth during the crisis.<sup>10</sup> Yet, as in-person events and competition became impossible, numerous eSports companies could not sustain operations and faced severe revenue losses and liquidity shortages and had to put into effect forced strategic decisions or layoffs.<sup>11</sup> Furthermore, sponsors and spectators had to keep their own financials intact. So, for all the growing interest in the sector, budget reprioritisations were made – partly to the disadvantage of eSports, whose revenues comprise a high share of sponsor income. Contradictory developments across the key success drivers indicate the ambiguous state of the sector. In consequence, revenue growth is expected to halt without substantial losses to the bottom line of the overall eSports sector.<sup>12</sup>

The surge in spectators' interest in eSports during the pandemic is underlined by a high proportion of newcomers in the total audience and increased consumption compared to pre-COVID levels. For instance, across European countries, 38% to 67% of eSports consumers stated that they watched eSports for the first time after COVID-19- related restrictions were imposed. Among those who had watched eSports before COVID-19, 42% stated that they had consumed more in 2020 than before.

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<sup>8</sup> [Noah Smith, "ESports bookmaking? Globally, it's already a billion-dollar gambling industry," Washington Post, April 2018](#)

<sup>9</sup> Official eSports competitions - regardless of the number of spectators - are usually played on-site in the presence of the opposing teams on local networks rather than via the internet, in order to avoid technological latencies in the matches and thus distortions of competition.

<sup>10</sup> [Mansoor Iqbal, "Twitch revenue and usage statistics", Business of Apps, September 2021; Trent Murray, "LEC viewership grows 12% for spring fi nals", ESports Observer, April 2021; Trent Murray, "Riot Games reports 70% viewership increase for LEC summer fi nals", ESports Observer, September 2020; Kevin Hitt, "eSportsONE expands eSports programming to Norway and Sweden", ESports Observer, March 2021](#)

<sup>11</sup> [Kevin Hitt, "Activision Blizzard off ers franchise fee deferrals for Overwatch, Call of Duty League teams", ESports Observer, September 2020](#)

<sup>12</sup> [Newzoo, "Global ESports & Live Streaming Market Report", 2021](#)

In 2021, 36% of them increased their consumption even further. Of the newcomers from 2020, the majority increased their consumption more so in 2021 (61%). While it remains to be seen whether consumers will maintain their increased consumption level, it seems conceivable that, even in the case of a slight decrease in consumption intensity, demand will settle at a higher level than before the COVID-19 pandemic.<sup>13</sup>

In the absence of regular event and program content, broadcasters and non-endemic organizations sought proximity to eSports stakeholders. Together, they have worked on digital concepts and delivery channels, thereby increasing the immersion of eSports with other entertainment sectors. For example, events featuring celebrities from professional sports or music enjoyed great popularity.

As a consequence of trying new approaches and developing new products and services, the eSports world has opened up to new consumer groups. Since the implementation of COVID-19 restrictions, the penetration rates across the survey groups have more than doubled in some. Women remain under-represented in the eSports audience, but the penetration rate is 2.36 times higher than before COVID-19 restrictions were introduced. Also, eSports provided a welcome escape from everyday life for consumers who suffered heavily under COVID-19, with a penetration rate of 2.40 times for this group.<sup>14</sup>

There remains no direct correlation between audience and revenues. However, this has not resulted in a short-term economic surplus for the sector. As a consequence of cancelled events, ticket sales were lost and merchandise sales and publisher payments were adversely affected. In combination with the low B2C monetization, this development has led to an even higher sponsor dependency. There are indications that the acceptance of paid content may increase with recently attracted consumer groups, as 45% of those who watched eSports for the first time in 2021 have already made eSports-related purchases. Furthermore, 42% of the newcomers from 2021 state that they are very likely or certain to pay for eSports products or content in the future, compared to 28% among people who watched eSports for the first time in 2020 and 20% among consumers who watched for the first time prior to the outbreak of the pandemic.<sup>15</sup>

It is difficult to predict the role of live events in the post-COVID world. Based on the potential return to on-site events in the foreseeable future, in combination with the recovery of existing (and realization of new) non-event-related revenue segments, organizations that count event-related business to their activity portfolio expect economic prospects to improve towards the end of 2021 – after months of being unable to conduct core business activities due to COVID-19-related restrictions. Nevertheless, after successfully establishing remote events and diversifying product portfolios, it is essential to reflect on the future role of live events in the ecosystem, taking into account consumer demand, event scale and an appropriate balance of online and offline events.

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<sup>13</sup> [“Let’s Play! 2021” Deloitte Insights, 2021](#)

<sup>14</sup> [“Let’s Play! 2021” Deloitte Insights, 2021](#)

<sup>15</sup> [“Let’s Play! 2021” Deloitte Insights, 2021](#)

## Information Box 1: UNDERSTANDING ESPORTS ECOSYSTEM

There are three main sections in the eSports ecosystem:

The Players

The Organizations & Teams

The eSports Leagues, Casters & Game Publishers

### THE PLAYERS

Like any profession, rising through the ranks to become a top eSports player of a specific game takes dedication and practice, so much so that 12 to 14-hour days of gameplay is quite standard across the industry. Once at the top (or on the way to it), talented gamers have two eSports career paths: streaming or playing professionally on a team.

Streamers are gamers who livestream themselves as they play video games, typically in a more casual playstyle. Streamers are incredibly profitable and often become influencers. Partnerships with streamers align closely with influencer marketing agreements with product placements done through the individual's manager/organization which handles all the events, social posts, and sponsored content opportunities.

The best professional eSports athletes are quickly picked up by teams and play in tournaments around the world against other teams. Even more impressive is that top players start their professional gaming careers around 16 to 17 years of age.

### THE ORGANIZATIONS & TEAMS

eSports Organizations have several teams that each play their specific game but compete and operate under the same umbrella name similar to how NCAA universities compete in different types of sports but all under the same umbrella organization. By leveraging their massive fan base and influence, organizations seek advertising sponsorships as additional revenue streams for the organization and its players. The better the players, the better the organization which quickly leads to a large following and ample partnership opportunities.

eSports Teams are composed of professional players and operate similarly to traditional sports teams like the Dallas Cowboys or New York Yankees with coaches, team managers, practice schedules, marketing support, and operations specialists. Each team specializes and competes in one specific game and like traditional sports, have massive followings and fan bases; millions of followers on Twitter, millions of fans watching online, and thousands of spectators following them to in-person live events.

### ESPORTS LEAGUES, CASTERS & GAME PUBLISHERS

Like traditional sports, eSports Leagues offer teams the opportunity to compete against one another (for cash prizes) and have regular seasons, playoffs, and world championships. League tournaments are run by companies like Major League Gaming (MLG), Electronic Sports League (ESL), or game-specific leagues like League of Legends Championship Series or Call of Duty World League (organized by MLG). Total prize money for league events can be upwards of hundreds of thousands to millions of dollars.

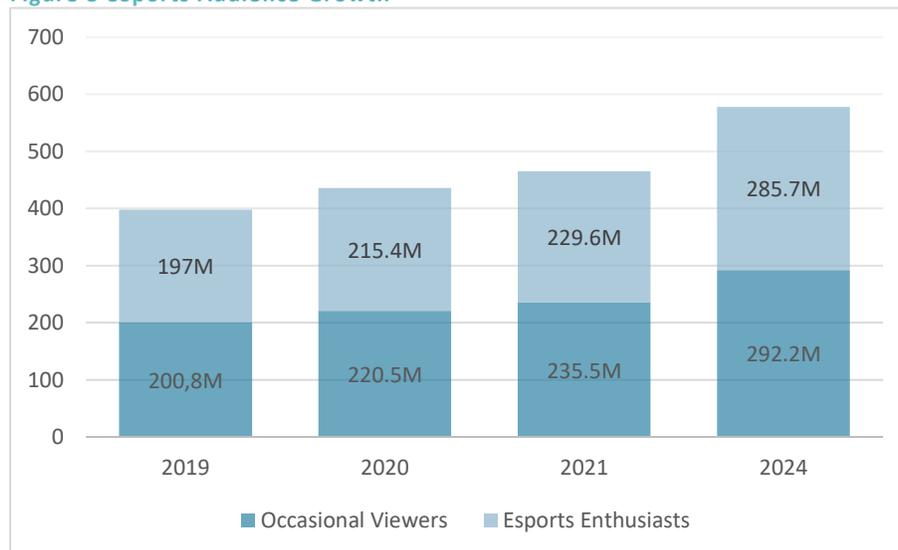
To commercialize and better establish the eSports industry as a legitimate spectator sport, Casters are also used during eSports tournaments and events. With a unique skillset of being able to speak to a player's deep technical and strategic acumen in real-time, eSports casters play a pivotal role in keeping viewers educated and entertained during gameplay and the downtime of an event.

Each game is the intellectual property of its creator, known in the industry as publishers. Unlike traditional sports which can be played by anyone and anywhere, publishers build and develop their games and thus, own all the rights surrounding them [i.e., how and where the games can be played, who can host tournaments, etc.].

## AUDIENCE

In 2021, the global eSports audience was expected to grow +6.7% year-on-year to reach 465.1 million. The eSports enthusiast group account for 229.6 million, with occasional viewers making up the remaining 235.5 million. The global audience number continues to grow with a CAGR of +7.8% to 577.8 million in 2024, after having passed the half-a-billion mark in 2022. It should be noted that the YOY growth rate of occasional viewers in 2020 was 9.8%, higher by 0.5 percent points than the growth rate of eSports enthusiasts.<sup>16</sup> This was due to the lockdown measures which led to many new viewers last year and continues to do so into 2021. Audience numbers were most affected by growth markets across the Middle East and Africa, Asia-Pacific and Latin America, whose ongoing infrastructure developments are empowering residents. Another factor in the strong audience growth is mobile, which has entered the upper echelon of eSports and is driving demand in markets like India and Brazil. ESports is also getting more visible on live-streaming platforms in the East and West alike, increasing discoverability.

Figure 8 eSports Audience Growth



Source: Newzoo, *Global ESports & Live Streaming Market Report, 2021*

Audience and awareness growth in the emerging regions of Latin America, Middle East and Africa, Southeast Asia, and Rest of Asia is largely driven by improving IT infrastructure and urbanization. The rise of new franchises, such as PLAYERUNKNOWN'S BATTLEGROUNDS, is an

<sup>16</sup> [Newzoo, "Global ESports & Live Streaming Market Report", 2021](#)

important global growth factor. The influx of young generations, to whom eSports is a natural phenomenon, will further drive the growth of the industry’s audience.

For many businesses in media and entertainment, eSports offers a way to reach a demographic that has been increasingly beyond their grasp. In general, players and fans are younger, less likely to watch linear TV, and often less interested in professional sports than the population as a whole. Older generations might dismiss video games, but their children grew up with them and continue to play on consoles, smartphones, and PCs.

Figure 9 eSports enthusiasts by age

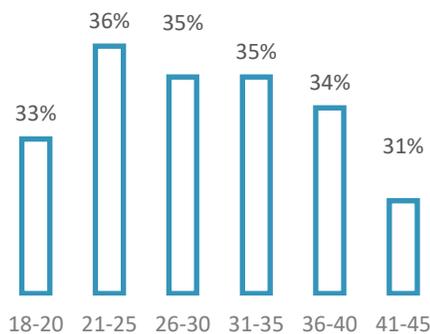
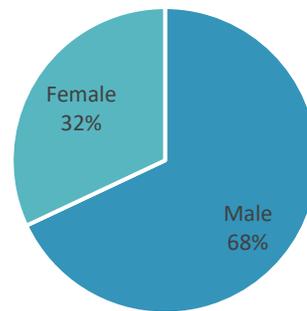


Figure 10 eSports enthusiasts by gender



Source: Newzoo, Europe and eSports: High Engagement and even higher potential, 2020

However, according to a Paypal and Newzoo joint report<sup>17</sup>, only 33% of eSports viewers aged 18–20 watched eSports several times a month. People aged 21–25 were most likely to be eSports Enthusiasts. The distribution of eSports Enthusiasts differed across countries. In Finland, 52% of those aged 18–20 were eSports Enthusiasts, compared to only 21% in the U.K.

Despite popular belief, women are already engaged with eSports. While women’s engagement is growing on an enthusiast level, there are also more women entering the market as competitors. In 2019, for example, an all-female pro League of Legends team competed in the LCL, the highest level of professional League of Legends competition in Russia.

It should be noted that the buying power of women in eSports is greater than that of men. Men are likelier to be eSports Enthusiasts (38%) compared to women (27%). However, despite being slightly less engaged in eSports, the female eSports audience is just as, if not more likely, to have spent money on eSports products.

48% of the European female eSports audience spent money on eSports-related products in 2019—compared to 46% of the male eSports audience. Female eSports audience members in Spain were the most likely to indicate they had spent money on eSports-related products (56%), followed closely by Italy (53%) and France (51%). Just 27% of women in Finland’s

<sup>17</sup> [“Europe and eSports: High Engagement and Even Higher Potential” Newzoo, PayPal Report, 2020](#)

eSports audience indicated they spent money on eSports related products in the past year, compared to 43% of men.

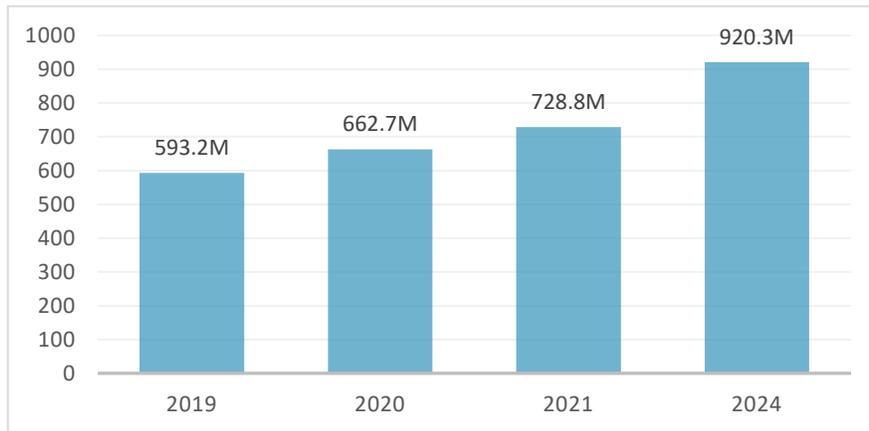


Figure 11 Games Live Streaming Audience

Source: Newzoo, *Global ESports & Live Streaming Market Report, 2021*

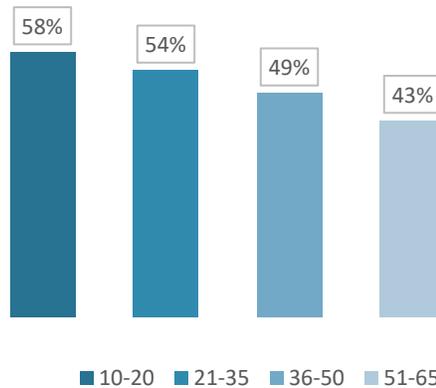
Viewer habits are also shifting. Cord-cutting viewers continue to move to streaming and social platforms. The games live-streaming audience grows by +10% year-on-year to reach 728.8 million globally in 2021. It increases with a CAGR of +9.2% to 920.3 million from 2019 to 2024 (see **Error! Reference source not found.**)<sup>18</sup> Live-streaming platforms allow users to actively participate as content creators or as viewers. The content creators or streamers record themselves live while engaging in video communication with their viewers. In turn, the audience spectates the gameplay and communicates with the streamer via text chat, allowing both parties to interact. The increased time spent at home and social distancing requirements during the pandemic accelerated interest in streaming broadly, driving the audience to grow by +11.7% globally between 2019 and 2020. In a period of increased isolation, the role of live-streaming channels as social communities where people can spend time together has been a key contributor to this viewership.

The COVID-19 pandemic has accelerated gaming trends already in motion, leading to an expanded gaming audience and through-the-roof engagement. Data shows that over half of gamers in North America and Western Europe spent more time gaming since the pandemic began. As you can see in the figure below, the younger the age group, the higher the likelihood of playing more. Moreover, a third of 10-20-year-olds cite socializing as a major reason for playing. Beyond the struggle between video, on-demand platforms, and TV, streaming content is the 2021 frontrunner. And if we are talking about streaming, we have to talk about Twitch. Viewers watched 27.9 billion hours of content across all platforms in 2020 (YouTube, Facebook, Twitch and Mixer), 78.5% more than the 15.63 billion hours in 2019.

<sup>18</sup> [Newzoo, "Global ESports & Live Streaming Market Report", 2021](#)

While established pro sports leagues are mostly watched through traditional media like TV, nearly all of the eSports audience is online, with the exception of some broadcasts that have taken place on ESPN and Turner networks.<sup>19</sup>

Figure 12 Players' age group during the pandemic



Source: [Newzoo, "Community matters: How and why people engage with games during the pandemic", 2021](#)

While traditional pro sports leagues in many cases may need to shift their business models toward online distribution from TV to reach younger and international demographics, eSports is already reaching this audience in the West through OTT platforms like Twitch, YouTube Gaming, and in China through Douyu, Panda TV, and Huya, among others. The market for content creators in the world of gaming is regularly increasing as days go by, and the different platforms like Twitch, Powder, Facebook Gaming and YouTube Gaming exclusively designed for streaming various PC and mobile games are increasing manifold, while at the same time remaining in competition with each other.

According to NewZoo, there are over 2.2 billion active gamers globally. Today, the eSports audience represents just 5% of the total online gaming population, which suggests that there should be plenty more runway for eSports audience growth. Even in Asia, which contributes more than half of the global eSports audience, penetration is just 5%. As younger demographics increasingly communicate via online channels, and social interactions take place online, we believe eSports as an interactive and social form of sports viewership should continue to take share of traditional sports, thereby supporting a 14% 5-year audience growth CAGR.

ESports players have seen some outrageous payouts over the last 20 years. While overall size of a prize pool doesn't determine the prestige of an event, it's quite clearly one of the major factors players use to determine whether they'll show up. Today's prize pools are large enough that players can often retire upon winning them. A huge part of this boom in prize

<sup>19</sup> ["Community Matters: How & Why People Engage with Games During the Pandemic", Newzoo, 2021](#)

money is due to the popularity of crowdfunding. Developers have begun to offer unique in-game items to their vast player bases to increase the size of the overall prize pool.

Multiple games held major international tournaments in 2021 including Rainbow Six Siege, PlayerUnknown's Battlegrounds, and Valorant. PUBG has largely taken a backseat in the global eSports landscape to its mobile counterpart, but publisher Krafton has committed substantial prize money to the PC title in its biggest events. Already in 2021, PUBG has awarded more prize money than its entire budget of \$4 million in 2020. PUBG Mobile, on the other hand, concludes its seasons later in the year, leading to a spike in prize money in H2. Similarly, while Dota 2 has distributed more than \$5 million in prizing, that number grows dramatically in H2 with the game's world championship, The International, which boasts a prize pool of over \$40 million. By contrast, Rainbow Six Siege concluded its annual World Championship which normally takes place in February. As such, while there were smaller international events in the latter half of the year, the bulk of the game's prize money was distributed in H1. Counter-Strike: Global Offensive and Fortnite are somewhat exceptions to the norms of eSports prize money. Since the start of its eSports investment, Epic Games has poured enormous prize pools into Fortnite for both online tournaments and in-person events. The game continues to support its online competitions with larger prize pools than most other titles will award for non-championship tournaments. CS:GO, on the other hand, has perhaps the most robust tournament ecosystem of any title due to the lack of control exerted over the game by publisher Valve. There are more third parties active and supporting high-dollar prize pools for CS:GO than for any other top tier eSport. Where most eSports have seen an increase in prizing compared to 2020 year-to-date, CS:GO matched its 2020 total.

League of Legends and Overwatch consistently make the top 10 at the end of the year, which is because they pack the overwhelming majority of their prize money into their world championship events<sup>20</sup>. The franchised systems of both games have reduced the total number of international tournaments available in each game. In essence, the prize money injected into these eSports by their publishers has instead moved to supporting their league structures. The Call of Duty League has had a similar impact on its game, but that league operates on a tournament system throughout its full regular season, creating more opportunities to award prize money throughout the year.

The remainder of the year also saw significant movement for Valorant. In addition to its remaining international tournaments and world championship at the end of the year, it has a larger third-party ecosystem than its franchised peers.

The prize pool for 2021's T110 has clocked in at just above \$40 Million USD in total, surpassing last year's total pool of \$34 Million making it the eSports tournament with the highest prize pool in history. Fortnite's biggest event prize pool was the Fortnite World Cup Finals of 2019 which boasted a \$15 Million prize pool. Fortnite is the only other eSport than Dota 2 to break the \$10 Million prize pool mark which is an impressive feat. The 2020 UEFA Champions League, which is played by teams from the European football Leagues, had a massive prize

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<sup>20</sup> [Sports Business Journal, "The top 10 eSports of H1 2021 by total prize pool"](#)

pool of €2 Billion (\$4.27 billion), easily becoming the largest prize pool in any sports event in the world.

**Table 1 The biggest Prize pools in ESports, 2021**

Rank	Tournament	Prize Pool Money in USD	Game	Teams	Players
1.	The International 2021	\$40,018,400.00	Dota 2	18 Teams	90 Players
2.	The International 2019	\$34,330,069.00	Dota 2	18 Teams	90 Players
3.	The International 2018	\$25,532,177.00	Dota 2	18 Teams	90 Players
4.	The International 2017	\$24,687,919.00	Dota 2	18 Teams	90 Players
5.	The International 2016	\$20,770,460.00	Dota 2	16 Teams	80 Players
6.	The International 2015	\$18,429,613.05	Dota 2	16 Teams	80 Players
7.	Fortnite World Cup Finals 2019 - Solo	\$15,287,500.00	Fortnite		100 Players
8.	Fortnite World Cup Finals 2019 - Duo	\$15,100,000.00	Fortnite	50 Teams	100 Players
9.	The International 2014	\$10,931,103.00	Dota 2	14 Teams	70 Players
10.	Honor of Kings World Champion Cup 2021	\$7,728,000.00	Arena of Valor	12 Teams	66 Players
11.	PGI.S 2021 Main Event	\$7,068,071.00	PLAYERUNKNOWN'S BATTLEGROUNDS	32 Teams	136 Players
12.	LoL 2018 World Championship	\$6,450,000.00	League of Legends	24 Teams	131 Players
13.	LoL 2016 World Championship	\$5,070,000.00	League of Legends	16 Teams	86 Players
14.	LoL 2017 World Championship	\$4,946,969.00	League of Legends	24 Teams	128 Players
15.	Honor of Kings World Champion Cup 2020	\$4,606,400.00	Arena of Valor	12 Teams	60 Players

Source: *ESportsearnings.com*

## SPORTS LEAGUES ARE INVESTING IN ESPORTS

Athletes and owners of professional sports teams have flooded into the eSports industry, plunking down \$20 million to own teams in the officially sanctioned Overwatch League and placing similar-sized and smaller bets on companies developing services for the eSports ecosystem.

As the first professional sports organization to form a franchise league, the NBA is testing the market, establishing leading practices, and highlighting the challenges, making it easier for others to get involved. eSports is now an official part of pro basketball's future. Many NBA officials see similarities that align with their existing business, as well as new pathways to younger audiences on digital platforms and global opportunities opening in competitive gaming.

The Philadelphia 76ers were among the first NBA teams to dip their toe in the eSports waters when, back in 2016, they acquired Team Dignitas in a deal that was rumored to be worth up to \$15 million at the time. In June 2018, Dignitas brought home a world championship in RocketLeague for the Sixers.<sup>21</sup>

As with traditional sports leagues, the franchise model allows investors to buy team slots—for as much as \$20 million<sup>22</sup>—with territorial rights. Typically, franchises establish revenue sharing among games, events, merchandising, and players, as well as minimum pay, benefits, and training facilities. These commitments commonly reinforce the incentives for investors and stakeholders to stay in the game and create a framework for players' associations and independent governance.

The franchise model signals a big shift into the mainstream and a concerted effort by the eSports ecosystem to become a full-fledged industry. With league franchises can come a reasonable expectation of longevity, more distributed risk, and larger—and broader—revenue opportunities. Game publishers, with major franchise investments, have more incentive to keep existing titles alive and vital. Spending \$20 million for a team slot in a new eSports league assumes the league will be around long enough to recoup the investment, and sufficiently popular that players and viewers will stick with it.

Businesses engaged with eSports will likely face tax and risk complications as the field grows geographically as well as demographically.

From buying and sponsoring teams to securing broadcast rights, advertising channels, and M&A, savvy businesses can access lucrative investment opportunities while there's still room for the market to grow.

Barely a month goes by without news of a sports personality making a move into the eSports space. Whether it is founding an eSports team, buying into existing ones or investing in

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<sup>21</sup> [Josh Ellis, "The Sixers' eSports team wins world championship as broadcasters and CEO go wild", NBCsports, June 2018](#)

<sup>22</sup> [Kurt Badenhausen, "ESports leagues set to level up with permanent franchises," Forbes, October 2017](#)

eSports technology, sports personalities account for a disproportionately large number of eSports industry headlines.

One of the main reasons athletes invest in eSports is the opportunity for financial gain. ESports has experienced a decade of explosive growth, growing from a fringe interest by the wider gaming community to a fully established industry.

In October 2020 Manchester City star striker Sergio “Kun” Agüero founded KRÜ eSports. The company is based out of Argentina and Barcelona.

In December 2020 Tottenham Hotspur footballer Dele Alli was named as “EXCEL ESPORTS” first global ambassador in December 2020, after signing a long-term partnership with the eSports organization. Footballers have become one of the many celebrity investors in eSports within the last few years.

In early 2020 Chelsea’s Cesar Azpilicueta announced that he was forming his own eSports team, Falcons. The team competes in FIFA.

In February 2020, professional footballer Gareth Bale launched Ellevens eSports in partnership with 38 Entertainment Group, an organization co-founded by former football star Larry Cohen. Ellevens fields teams in FIFA and Rocket League, along with a team of streamers.

ESports talent development agency Guild eSports launched in 2020 with David Beckham as co-owner. The organization launched Guild Academy, an online eSports training subscription service, in 2021.

In May 2021 English professional footballer for Everton FC Dominic Calvert-Lewin became a brand ambassador of eSports startup Semper Fortis eSports PLC. Calvert-Lewin will promote Semper Fortis assets, including the European Rocket League squad Top Blokes.

In October 2020 Real Madrid defensive midfielder Carlos Henrique Casimiro, known as Casemiro, launched his own eSports organization, “CaseESports”. Right out of the gate, the Brazilian footballer assembled a professional CS:GO team that will operate out of Spain.

In early 2020 World-class footballer Antoine Griezmann and his brother Théo Griezmann launched Grizi ESports plans to field teams in Fortnite, League of Legends, Rainbow Six: Siege, CS: GO, and naturally, FIFA<sup>23</sup>.

Every year there are stories about how an eSports game has outperformed a traditional sporting match. Hence, it is no wonder that stars from the NFL, NBA and the world’s biggest football clubs are following where people’s eyeballs are — and where many analysts predict they will stay. The second main reason that eSports seems especially attractive to a set of

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<sup>23</sup> [ESports Insider, “A guide to: Celebrities in eSports – football, basketball and sports”, July 2021](#)

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*“The next generation of sports fans are eSports fans,”  
ESports is the fastest-growing sector in sports and  
entertainment, and aXiomatic is at the forefront of that  
growth. We are thrilled to welcome Michael and  
Declaration Capital to aXiomatic and look forward to  
working together on some truly cutting-edge  
opportunities.”*

*--Ted Leonsis, co-executive chairman of aXiomatic and  
the founder, chairman, chief executive and majority  
owner of Monumental Sports & Entertainment (which  
owns the Washington Wizards, Capitals and the WNBA  
Mystics franchise)*

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investors steeped in the sporting world is expertise. Despite some enduring misconceptions about eSports stemming from outdated stereotypes around gaming, anyone who has even a passing interest in the space will tell you that eSports is, in most aspects, a sport like any other. ESports usually rely on the same core principles of teamwork, training, self-discipline, the development of talent and skill. In any team-based eSport, coordination is key. Players can't exclusively rely on individual flair or an "interest in games"<sup>24</sup>.

Professional League of Legends players are making a lot of money on average in North America. The average LCS player salary in 2020 is \$410,000, according to Hal Biagas, the executive director of the North America LCS Players Association (NALCSPA).

That means that in the past three years, the average LCS player salary has increased by nearly 400 percent, up from \$105,000 in 2017. This growth follows the establishment of the franchise system, which led to increased sponsorship and revenue for NA League teams.<sup>25</sup>

Teams are making big bets on their pro players and pro players have the financial stability to focus on competing and building a relationship with fans. Players in the NA LCS are averaging the same salary as athletes on Major League Soccer (MLS) clubs. That should put into perspective just how lucrative certain eSports opportunities have become.

It is important for businesses to understand the nuances before moving into the eSports arena, whether as sponsors, investors, service providers, security consultants, or in other roles. To bring a sponsored message into eSports communities, a company should work to understand its audience and exhibit its own authentic interest in the games. Businesses can partner with teams, players, and leagues as well as with leading streamers and streaming networks. At the edge of advertising, data analytics may move into the gaming world. And while analytics allows for service and product innovations, businesses should be vigilant of the risk that such innovations can tread directly onto gamers' turf.

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<sup>24</sup> [ESports Insider, "Traditional sports personalities investing in eSports — a fad or long-term play?", November 2021](#)

<sup>25</sup> [Aaron Alford "The average 2020 LCS player salary is reportedly \\$410,000", Dot eSports, May 2020](#)

## TRADITIONAL FOOTBALL CLUBS AND ESPORTS

More and more traditional football clubs are getting involved in eSports, mainly maintaining a FIFA team. However, PSG is an FC with the most eSports players which successfully manage FIFA, FIFA Online, Rocket League, and Dota 2 teams.

Paris Saint-Germain is a French football team that participates in the Ligue 1 football league. Being one of the best French football teams, they were also one of the first to have their very own eSports arm as part of the organization. Starting in 2016, PSG has since grown into a top competitor in the eSports industry, particularly in Dota 2 and League of Legends with their teams, PSG.LGD Gaming and PSG Talon. Both teams are at the top of their respective regions with PSG.LGD recently winning the WePlay Animajor while PSG Talon took a respectable third/fourth-place finish at MSI 2021. The LoL team has been around for almost five years now after acquiring Team Huma. They have since remained to be one of Southeast Asia's top teams over the years, having won two of the three PCS regional splits.

As for the Dota 2 squad got picked up back in 2018 after signing the LGD Gaming roster from China. The team had achieved instant and continued success heading into 2021, winning major tournaments like the Epicenter XL as well as the MDL Chengdu Major. The team also placed second and third at TI8 and TI9 respectively<sup>26</sup>.

AS Monaco is the first French football teams to have its very own eSports division for both Fortnite and Dota 2. Its collaboration with Gambit ESports - which is owned by Mobile TeleSystems (MTS) - pairs up the French football club with the leader in Russian digital, media, and telecommunication services.

It's Dota 2 squad is performing fairly well, considering it is still just a few months old. AS Monaco Gambit will also be the first football team that is actively participating in Fortnite. It's also worth noting that Gambit ESports also has its own division in CS:GO, being one of the top teams in the game.

The eSports scene in Germany is steadily growing with more and more big-name football teams investing in the industry. One of them is FC Schalke 04, one of the oldest football clubs in the country. It was founded in 1904, as per the '04' in its name while its eSports team was founded back in 2016.

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<sup>26</sup> [Gosu Gamers, "Traditional sporting organisations with their own eSports teams", June 2021](#)

They have their League of Legends squad, FC Schalke 04 ESports, currently participating in the LEC 2021 Summer Split. Aside from that, there is also FC Schalke 04 Evolution, the LoL academy team.

Aside from the teams listed above, there are also plenty of other football clubs from around the world that have their very own dedicated FIFA team. There are also NBA teams that have their own NBA 2K team that compete in its very own NBA 2K league.

Given that many of these teams already have a well-established fanbase, it wouldn't be hard to appeal to a new and younger audience who can not only relate to sporting athletes but also eSports athletes as well.



**Table 2: Top dedicated eSports arenas in the world, 2021**

<b>Stadium</b>	<b>Seating Capacity</b>
THREE GORGES HARBOR ESPORTS STADIUM – CHONGQING, CHINA	6 000
ESPORTS ARENA ARLINGTON – TEXAS, USA	2 500
GWANGJU ESPORTS ARENA – GWANGJU, SOUTH KOREA	1 005
HYPERX ESPORTS ARENA LAS VEGAS – USA	1 000
FORTRESS MELBOURNE – AUSTRALIA	1 000

Source: [\*ESports Tripper, “Top 10 Dedicated ESports Arenas in the World 2021”\*](#)

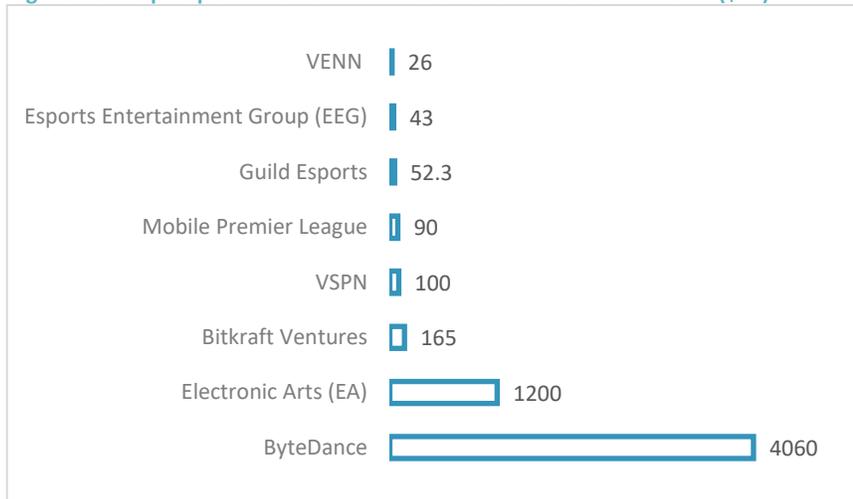
The challenge for many non-eSport-specific venues is providing the necessary infrastructure to make eSports work. Attracting eSports events cannot be done without considering the specific needs to host an eSports event. The equipment needed on the competition site for eSports are similar to those of basketball as the two activities are played in similar size arenas with comparable seating and lighting requirements. However, eSports require particular equipment that differentiates itself such as computers/gaming consoles for each participant, cables to connect all devices through a Local Area Connection (LAN) to reduce lag time, headsets and gaming chairs for the participants, and large-scale monitors for the audience to see the in-game action. The type of video game played within the event will not only determine whether computers or gaming consoles are needed but will also define the peripheral equipment—such as gaming mice, controllers, and computer monitors. Depending on tournament rules, some professional gamers may bring their own equipment which must first be inspected by tournament organizers to check for any special modifications that may give that gamer a particular advantage. The proper equipment is further contingent upon the type, size, and location of the event.

Similarly, the personnel needed to host eSports events parallels traditional sporting events. Both event types need ushers, concession staff, custodians, security, and ticket takers, but quantity differs based upon the size of the event and arena. However, there are many unique positions needed, including technical staff for any technology snafus as well as event/game managers who act as quasi-referees and settle any rules disputes. Currently, a lot of the major ESports tournaments are held in preexisting venues, such as the Barclays center, Copper Box or Climate Pledge Arena. As the sport gets increasingly popular, the demand for dedicated ESports arenas will only increase.



## VENTURE INVESTMENTS IN ESPORTS

Figure 13 Top ESports Deals and Investments in 2020 and 2021 (\$M)



Source: The National Law Review

Despite the coronavirus pandemic, the eSports community has witnessed an explosive year of investment growth in 2020 and early 2021. As for significant investments, in March 2021, the Chinese technology company and TikTok owner ByteDance announced the acquisition of Moonton, the game developer behind *Mobile Legends: Bang Bang* through its affiliate Nuverse in a deal valued at approximately \$4.06 billion. Tencent had apparently also made a bid for Moonton, which ByteDance subsequently matched. In December 2020, game developer and publisher Electronic Arts (EA) reached an agreement to acquire the U.K.-based racing game developer and publishers Codemasters in a deal valued at an estimated \$1.2 billion.

In August 2020, Bitkraft Ventures, a worldwide eSports venture capital firm, raised \$165 million to invest across eSports, gaming, and interactive

entertainment, closing well above its initial target of \$125 million. The Bitkraft fund was backed by investment firms including Carolwood, Declaration Partners and JS Capital, and corporate investors Logitech, and Advance.

In October 2020, VSPN closed a \$100 million Series B funding round, led by Tencent, Tiantu Capital, SIG, and Kuaishou. Founded in 2016, VSPN specializes in content creation and

organizing eSports tournaments and has partnered with over 70% of Chinese eSports tournaments.

In September 2020, the Mobile Premier League (MPL), Asia's largest mobile gaming and eSports platform, raised \$90 million in its Series C round. The round was led by SIG and early-stage tech investors RTP Global, MDI Ventures, and Pegasus Tech Ventures<sup>27</sup>.

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<sup>27</sup> [The Natinal Law Review, "Top ESports Deals and Investments in 2020 and 2021"](#)

## TRENDS

Based on various reports and articles<sup>28</sup> on the eSports market, we identified the most significant current and future market trends.

### **Market Growth Bolsters with Engaging Gaming Competitions During COVID-19 Pandemic**

The coronavirus outbreak has boosted user engagement with video games and eSports. Such trends are contributing to the growth of the global eSports market during the ongoing pandemic. Revenues of gaming companies in the eSports market have increased during the COVID-19 pandemic. Since malls and cinema halls are being starved for footfalls, an increasing number of individuals are turning toward eSports as a form of entertainment. Moreover, as the practice of social distancing has reduced consumer and business activity to a minimum, gaming offers an engaging distraction for people at home looking for social interaction.

### **Virtual eSports Programs Building Large & Reliable Gaming Ecosystems**

FIFA and Electronic Arts (EA) have announced its new eSports program for EA Sports FIFA 22. Such programs are allowing players from different countries to compete in FIFA through virtual tournaments. These innovations are building a large, reliable, and competitive gaming ecosystem on a regional and global level. Virtual eSports programs are allowing players to represent themselves, eSports organizations, real-world football clubs, and their nation. Such trends are translating into revenue opportunities for companies in the eSports market.

### **eSports Courses Help Teach Students Ways to Run Any eSports Company**

Apart from gaining revenue from game publisher fees, sponsorships, and media, stakeholders are now developing eSports courses. The Kirklees College is gaining recognition for partnering with Yorkshire-based company, Lucent eSports, to develop its eSports courses. Stakeholders are gaining knowledge about these courses that will cover all aspects of the eSports industry, including teams, games, and tournaments.

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<sup>28</sup> Mainly: [Newzoo's ESports Trends to Watch in 2021, eSports Market - Growth, Trends, COVID-19 Impact, and Forecasts \(2021 - 2026\)](#), [ESports Market \(Platform: Online and Offline; and Revenue Stream: Game Publisher Fees, Media Rights, Advertising, Sponsorship, and Merchandizing & Tickets\) - Global Industry Analysis, Size, Share, Growth, Trends, and Forecast, 2021-2031](#)

The eSports market is undergoing a significant change with the introduction of eSports courses that will discuss streaming, events, establishing an eSports organization, and promoting positive health & wellbeing of players. Companies in the eSports market are increasing their focus on offering courses that teach students on how to run an eSports company.

### **Long-term Investment Opportunity**

The eSports industry has seen huge growth in increasing revenue by 37% in 2020, as COVID-19 led to considerable demand for gaming. The eSports industry is not only a high growth industry, but also a very lucrative business; it has attracted big technology companies such as Google, Apple, Microsoft, and Amazon. The growing acceptance of video games is anticipated to drive the growth of the eSports market. Increasing acceptance of progressive gaming technology, developing customer entertainment preferences, increasing income levels, and growing demand for mobile gaming are all projected to help drive the industry's evolution in the future. To invest in the eSports industry, companies such as eSports Entertainment Group, and Guild eSports directly bet on the sector, which may yield considerable returns. However, most existing eSports companies are small and lack the financial strength of larger, more differentiated players in the sector. This could hold back their growth opportunities in the long term.

### **Competitive Landscape**

The eSports market is at its initial stage, and thus, the market is a little competitive in nature. Although seeing the popularity of the eSports leagues, companies are entering into the market to gain competitive advantage and expand their geographical presence. Organizing new sports leagues, partnerships, mergers, and acquisitions are the strategies followed by these companies to increase their visibility across different geographic locations. Some of the significant players are Modern Times Group, Activision Blizzard, Inc and Riot Games, Inc. (Tencent Holdings Ltd) amongst others.

### **Esports Companies Are Looking for Cost-Effective Ways Through Partnerships**

Key providers of eSports, such as SEG eSports, Inc., Rollic, Inc., Niantic, Inc., Microsoft, Resolve eSports, Inc. and OneTeam, Inc. are focusing on the development of cost-effective eSports to attract more customers. Additionally, players active in providing eSports are focusing on organic and inorganic growth strategies such as strategic collaborations and merger and acquisition, and new product launch with technology partners to improve their offerings and market reach. For example, in June 2021, SEG eSports, Inc. announced a technological partnership with Adamas eSports, Inc. to improve its services and provide a 360-degree

approach for clients. The company is focusing on providing sports psychology, performance coaching, and emotional & physical development training.

In April 2021, Rollic, Inc. acquired Uncosoft, Inc. to expand in-house production in Izmir, Turkey and will expand its mobile gaming portfolio through innovative games design and aims to reach millions of players across the globe.

### **ESports Teams Will Continue to Diversify**

ESports teams continue to broaden their horizons and diversify their operations. To that end, organizations will continue to diversify beyond the model set by traditional sport structures, putting a large focus on other initiatives, like positioning their company as a lifestyle brand or moving toward content-creator strategies. When an eSports company positions itself as a lifestyle brand, it transcends eSports alone and enters pop culture, diversifying an organization's income streams in the process. Naturally, this lowers risk, as if one revenue stream performs worse than expected due to unforeseen circumstances (the pandemic, for example), a different stream could help offset the damage.

### **Mobile ESports Enter the Upper Echelon**

Mobile eSports are already subverting expectations in the once-PC-dominated eSports market. Even towards the end of last year, games like PUBG Mobile and Garena Free Fire began to generate higher peak eSports viewer counts than PC titles like CS:GO and Dota 2. We expect this to continue into next year, as consumer appetite for mobile eSports continues to grow in China, South and Southeast Asia, and Latin America. While the CS:GO and Dota scenes boast higher *overall* hours watched, PUBG Mobile and Free Fire are now top five eSports titles, and they're setting their sights on the traditional PC giants.

### **China Is 2022's ESports Region to Look Out For**

China alone was anticipated to be the largest eSports market worldwide in 2021 owing to the popularity of the eSports among the youth and government support for the growth of the market, generating an estimated \$360.1 million within the industry. For instance, Hangzhou (a city in China) plans to build 14 eSports facilities before 2022 and expected to invest up to RMB15.45 billion (USD 2.22 billion). This investment is expected to make it the eSports capital of the world. Moreover, Hangzhou is going to host Asian Games in 2022, where eSports is expected to be an official medal event. With its investments, China is expected to become to hold significant market share. Further, Tencent Holdings Limited, a significant player in the eSports industry, is headquartered in China and played an influential role in the increase of eSports in China by developing games like "Honor of Kings," which made revenue of USD 1.3 billion in its own right in 2018. Tencent Holdings Limited is planning for expanding

tournaments for hugely popular games like "League of Legends" and "Honor of Kings in China" which is going to attract global players and viewers<sup>29</sup>.

### Non-Gaming Content Becomes Even Bigger on Streaming Platforms

While Twitch began with gaming, non-gaming content is growing on the platform. In fact, the 'Just Chatting' category is now one of the most popular, and lockdown measures led to concerts, political events, and live shows all being hosted on the platform. We expect non-gaming content to become even more popular this year, and companies have already started doubling down on it for 2021.

The following table demonstrates Top 10 trends and drivers that impact the development of the esports industry, according to Deloitte.

**Table 3 Top 10 trends and drivers that impact the development of the esports industry**

Trend	Impact Score (0-100)	Trends regarding ...
Growing popularity and audience	80.55	audience and consumers
Engagement of non-endemic sponsoring partners	77.79	ownership and partnership engagements
Engagement of non-endemic investors	71.79	ownership and partnership engagements
Esports X entertainment industry	69.31	interaction of esports with other industries
Increasing media rights revenues	67.82	media, broadcast and streaming
External investor funding	63.84	ownership and partnership engagements
Mobile esports	63.66	social and regulatory framework of the esports industry
Esports X traditional sports organisations	63.57	interaction of esports with other industries
Franchise league concepts	62.15	social and regulatory framework of the esports industry
5G technology	62.01	technology

*Source: "Let's Play! 2021" Deloitte Insights, 2021*

Note: Experts were asked to evaluate 26 overarching trends and drivers regarding the perceived impact they will have on the esports industry in the coming years.

<sup>29</sup> [Mordor Intelligence, "Global eSports market", 2021](#)

## ESPORTS TEAMS: VALUATION, REVENUE, AND COSTS

eSports teams are also referred to as eSports companies or organizations.

Table 4 contains information on the world's most valuable eSports companies in 2021. Among the top 10 teams playing in the NBA, NFL, or MLB, seven belong to this region. On the other hand, two of the teams belong to Europe. And for the first time, an Asian eSports Team T1 based in South Korea made it to the top 10 list<sup>30</sup>.

If we take a closer look at these eSports companies, we can see that their current business models are similar to those of traditional sports organizations (sponsors, advertising, merchandise, prize pools, franchise revenue, etc.) which have an average enterprise value of 5 times revenue. However, eSports organizations currently have a company value of 10 times revenue.

Team SoloMid tops the coveted list as the best eSports team in 2021. It is worth \$410 million. This Los Angeles-based eSports company is now priced higher than several professional sports teams. Last year's winner Cloud9 came in second place with a valuation of \$350 million, followed by Team Liquid with a net worth of \$310 million. Both of these companies saw a significant drop in their income this year due to the cancellation of tournaments, which is their major source of income. Faze Clan came in at fourth due to a 27% increase in their income. And we fully expect it to hit one of the top 3 positions come next year.

T1 is the only Asian team to make it to the list. It came in at the 10th spot. This South Korean team is operated by the T1 Entertainment & Sports eSports. It is a joint venture of two telecom operators in the country, Comcast Spectacor Company and Korea SK Telecom. These three times League of Legends World Championship winners recently collaborated with the popular South Korean boy band BTS.

According to Forbes, the average value of the world's top teams has now jumped 9.9% to \$3.4 Billion.

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<sup>30</sup> [AllTop9, "Forbes Unveils the List of the Top eSports Teams 2021"](#)

**Table 4 The World's Most Valuable eSports Teams in 2021**

Rank	Company	Owners	Value (\$mln)	YOY change (%)	Total Reveniew (\$mln)	ESports Reveniew (%)	Franchise Teams
1	TSM	Andy Dinh	410	3	45	50	LCS – TSM
2	Cloud9	Jack and Paullie Etienne	350	-13	30	70	LCS – Cloud9, OWL – London Spitfire
3	Team Liquid	aXiomatic Gaming, Victor Goossens, Steve Arhancet	310	-3	28	89	LCS – Team Liquid
4	FaZe Clan	Yousef Abdelfattah, Lee Trink, Thomas Oliveira, Nordan Shat and Richard Bengston	305	27	40	20	CDL – Atlanta FaZe
5	100 Thieves	Matthew Haag, Scooter Braun, Dan Gilbert, Drake	190	19	16	35	LCS – 100 Thieves, CDL – Los Angeles Thieves
6	Gen.G	Kevin Chou, Will Smith, Battery Ventures, Canaan Partners, NEA	185	0	14	75	OWL – Seoul Dynasty, LCK – Gen.G, NBA 2K League -Shanghai
7	Enthusiast Gaming	Public company (TSX: EGLX)	180	0	95	6	OWL – Vancouver Titans, CDL – Seattle Surge
8	G2 ESports	Carlos Rodriguez, Jens Hilgers	175	6	19	80	League of Legends European Championship – G2
9	NRG ESports	Andy Miller, Mark Mastrov	155	3	20	25	CDL – OpTic Chicago, OWL – San Francisco Shock
10	T1	Comcast Spectacor, SK Telecom	150	0	15	60	League of Legends Champions Korea – T1

*Source: Forbes*

## Revenue streams

Revenue opportunities for eSports teams are still fairly limited. The revenues of top eSports organizations with multiple teams range from \$4 million to \$25 million.

While the prize pools for tournaments are significant, these are not reliable enough to build a business around. Moreover, prize money typically does not go to eSports teams (eSports organizations), but rather, to individual team members who are competing.

Thus, there are three main revenue sources for an eSports team:

**Sponsorships.** As we can see from the previous sections, many companies – both endemic and non-endemic - are increasingly willing to sponsor teams. According to Patrik Sättermon (Fnatic's Chief Gaming Officer), it is estimated that around 95% of the money generated by eSports teams comes directly from sponsorship deals. However, the industry average was estimated at 70% - 80%<sup>31</sup>. The remaining revenue is split evenly between other revenue streams.

**Merchandise sales.** This includes sales of both physical and digital goods. The digital goods are probably the larger opportunity for now. Also, for example, Overwatch merchandise and league-affiliated fan items are sold by each team individually, with half of those revenues streaming into the net shared revenue pool for all teams.

**Revenue share.** First, there is revenue share from participation in leagues and championship events. This revenue consists of ticket sales, merchandise sales and some sponsorship. The second, larger pool is a share of revenue from broadcast rights. This is likely going to emerge as the largest source of eSports revenue, and is part of the ongoing discussion between the teams and the game publishers. For instance, the Overwatch League teams receive an equal share of all league-wide net revenues and further revenue streams are created through advertising, ticketing and broadcasting rights. All teams have a license to operate and monetize up to five amateur events in their home territory each year.

## Costs

Total costs of an eSports team typically include the costs of participating in live events (franchise fees) and video production for streams, coaching and staff salaries, business overheads, marketing, a game house or other facilities, and most importantly player salaries.

Player costs typically eat up half of a company's operating budget. The vast majority of companies are cash-flow negative in the sense of earnings before interest, taxes, depreciation and amortization, as they continue to spend money to build their rosters and brands.

For an investor new to eSports, the first question is whether to participate in one of the franchised games or invest in other games. The franchised games will come with a fair amount

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<sup>31</sup> [Steve Van Sloun, "ESports Franchise Economics", Loup Ventures, March 2018](#)

of stability and the support of the game company selling franchise rights, but they come with a big upfront payment.

As opposed to non-franchised teams and tournaments, the franchises that have invested into either League of Legends or Overwatch League have an added level of stability and security.

One benefit is the loss of threat of being relegated out of the league and face uncertainty as to how to get back into contention and regain lost ground. Previously, teams faced the dire consequence of being dropped from the topflight of a game's competition and thereby losing ground against competing teams for fan following, sponsorship and revenues. The concept of no relegation has therefore added an extra layer of stability for teams involved in the leagues as they are no longer left worrying if they will survive to play the next year as their positions are ensured so long as their franchise fees are met.

Another big advantage is that the organizing body collective share revenue around media rights and sponsorship with individual teams which help each franchise to earn more income than they would if they had opted to go un-franchised.

In the case of Overwatch League, media rights deals were inked with traditional broadcasters like ABC and ESPN as well as eSports streaming company Twitch in its first couple of seasons. Later on, other unrelated big companies like Bud Light, Coca-Cola, and Toyota also began providing funds for advertising and promotion<sup>32</sup>.

Despite the obvious monetary advises of using the franchising model for eSports, there remain some lingering questions regarding compatibility.

For one, there are claims that some franchising fees are exorbitant in cost which hinder other potential teams from joining due to the high initial investment required. A good example for this is the eSports organization 100 Thieves opting out of joining the Call of Duty League in 2020.

Another major question revolves around whether some games are at all a right fit for franchising to begin with. Some major games like Dota 2, Fortnite, Counter-Strike: Global Offensive and Rocket League remain un-franchised until now and both fans and investors alike have yet to make any move to move to a franchise model in the near future. While franchised tournaments like League of Legends and Overwatch are enjoying sustained success – with further entrants like NBA 2K and Call of Duty also poised to grow big, the question remains if franchising is suitable for all game titles. No two games are the same, with each game having its own distinctive themes, characters and mechanics resulting in a varied user experience. Hence, popular games like Dota 2, Rocket League and Fortnite have up until now opted to stay away from the franchising model. The theory behind this is that the game developers are more

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<sup>32</sup> [ESports Lane, "eSports Franchises Exhaustive Guide: Definition, Benefits, Concerns & the Future"](#)

interested in promoting the game rather than promoting an eSports league based on the game.

By contrast, investing in the other titles brings much lower upfront costs, but at this point an investor probably must have budget of a few million dollars to support a team structure large enough to compete seriously.

One of the most common concerns leveraged against investing in eSports is the risk of rapid turnover for specific games. Most video games struggle to retain a large player base for more than five years. However, many cases of long-term and “expensive” partnership between eSports teams and their sponsor companies can be a proof of sustainable optimistic attitude towards the eSports industry.

## Assumptions and Calculations

In Europe, the most popular eSports titles are CS:GO, League of Legends (LOL), and Dota 2. CS:GO is the most represented game in Europe’s biggest events, according to Newzoo. FIFA is the most popular game title among traditional football clubs. It is up to the future team owner to decide what to prioritize when choosing a team/league to invest in.

To run an average eSports team of five, the staff should include a Coach, a Team Manager/Director, a Head of Marketing, a Head of Partnerships, and a Finance & Legal Consultant. There might be slight changes to the list, for instance, the marketing department might also fulfil partnership operations. Additionally, a traditional sports organization when acquiring an eSports team might use its current resources (Finance, Legal, Marketing, etc.) to run its eSports team and only hire a coach and a team manager. However, it might be more appropriate to create a new eSports division with its own staff.

Marketing and Promotion costs include both digital and offline campaigns. We assume that the team will need to invest in marketing campaigns more at the beginning and decrease these expenses as the team gets more recognition and sponsorship deals. An estimate of \$2,000,000 would be needed to successfully launch a medium but standard and well-equipped eSport team.

The key areas where the startup will spend its capital are: operational cost for the first year (payments of bills, etc) – \$1,200,000, the total cost for leasing facility for the eSport team training center – \$80,000, the total cost for facility remodeling – \$50,000, the cost for acquiring LED TVs, computers, Xbox stations, comfortable chairs, tables, Air Conditions, Shelve for stocking video games and video games accessories amongst others – \$50,000, etc<sup>33</sup>.

Pro gamers’ salaries reach \$4,000 – \$5,000 a month or \$50,000 – \$60,000 a year, whereas the highest paid players can earn up to \$15,000 per month apart from the money that they get from prizes. The average wage for a professional League of Legends player can be estimated

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<sup>33</sup> [Profitable Venture, “How to Write an eSports Team Business Plan”](#)

to be around \$75,000 a year (our salary calculations include this number). Streaming earnings reach about \$1,500 – \$2,000 a month. These numbers are calculated based on earnings in several high-profile eSports games, including Dota 2, Counter-Strike: Global Offensive, League of Legends, Overwatch, and others. The Overwatch League (OWL) offers salaries from \$50,000 up to \$5 million depending on how well players perform and whether they help secure a higher chunk of the prize pool<sup>34</sup>.

According to various job and recruiting platforms (glassdoor.com, payscale.com, indeed.com), an eSports managerial position salary reaches \$90,000/year in average.

Depending on the game, there might be franchise fees for participating in a game league. Schalke 04 ESports reached an agreement to sell their League of Legends European Championship (LEC) slot to Team BDS for \$31.54 million in June, 2021. It is believed to be the second-largest sale among Western LoL leagues, trailing only the \$33 million price paid by Evil Geniuses to acquire Echo Fox's slot in the League Championship Series (LCS) in September 2019<sup>35</sup>. According to reports, the initial franchise slots for the 12 teams in OWL Season 1 each cost \$20 million. For the eight expansion teams that followed starting with Season 2, those slots reportedly cost between \$30-\$60 million. If the eight expansion teams all averaged out to \$45 million, the 20 teams would make up a combined entry fee of \$600 million. In 2020, Activision Blizzard announced it was talking with team owners to restructure fees due to the pandemic<sup>36</sup>.

We also estimated an average revenue from a single team of an eSports organization. The range for top eSports companies is \$0.4 - \$2.3 million; European teams currently see a revenue range of \$0.7 - \$1million. For instance, 95% of Fnatic's revenue comes from sponsorship deals. However, as the industry average is 70% - 80%, we used 75% to estimate the revenue from sponsorship; the remaining 25% is split evenly between other revenue streams, such as Ticket Sales, Merchandising, and Media Rights. We presume that the team will generate revenue starting Year 2, with according medium rates revealed in Table 5.

As it was mentioned earlier, eSports teams are more considered as tech startups than as sports teams, where future events and development trajectories are clearer and more predictable. The eSports industry is booming and is expected to grow exponentially, and these revenue projections do not consider rapid industry changes, unexpected partnership deals or other events which might have a positive impact on a company's cash-flow.

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<sup>34</sup> [ESports Grizzly, "How Much Do ESports Players Make", November 2021](#)

<sup>35</sup> [Reuters.com, "Schalke 04 sell LEC slot to Team BDS for \\$31.54M", 2021](#)

<sup>36</sup> [Nerd ST Gamers, "6 big numbers to know ahead of the 2021 Overwatch League season", 2021](#)

Table 5 Revenue and Costs

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
Sponsorship	\$0	\$750,000	\$825,000	\$990,000	\$1,287,000
Ticket Sales	\$0	\$80,000	\$88,000	\$105,600	\$137,280
Merchandising	\$0	\$80,000	\$88,000	\$105,600	\$137,280
Media Rights	\$0	\$90,000	\$99,000	\$118,800	\$154,440
<b>TOTAL REVENUE</b>	<b>\$0</b>	<b>\$1,000,000</b>	<b>\$1,100,000</b>	<b>\$1,320,000</b>	<b>\$1,716,000</b>
CAGR			10%	20%	30%
Acquiring a Team	\$10,000,000				
Housing	\$2,000,000	\$60,000	\$60,000	\$60,000	\$60,000
Salaries	\$825,000	\$825,000	\$825,000	\$825,000	\$825,000
<i>Minimum Player Salary</i>	\$75,000	\$75,000	\$75,000	\$75,000	\$75,000
<i>Number of Players</i>	5	5	5	5	5
<i>Average Staff Member Salary</i>	\$90,000	\$90,000	\$90,000	\$90,000	\$90,000
<i>Number of Staff Members</i>	5	5	5	5	5
Marketing & Promotion	\$2,000,000	\$1,500,000	\$1,200,000	\$800,000	\$800,000
League Slot (LOL)	\$31,540,000				
League Slot (OWL)	\$30,000,000				
<b>TOTAL COSTS w/ league slot (LOL)</b>	<b>\$46,365,000</b>	<b>\$2,385,000</b>	<b>\$2,085,000</b>	<b>\$1,685,000</b>	<b>\$2,385,000</b>
<b>TOTAL COSTS w/ league slot (OWL)</b>	<b>\$45,025,000</b>	<b>\$2,385,000</b>	<b>\$2,085,000</b>	<b>\$1,685,000</b>	<b>\$2,385,000</b>
<b>TOTAL COSTS w/o league slot (e.g. CS:GO, Dota2)</b>	<b>\$15,025,000</b>	<b>\$2,385,000</b>	<b>\$2,085,000</b>	<b>\$1,685,000</b>	<b>\$2,385,000</b>
<b>GROSS PROFIT w/o league slot (LOL)</b>	<b>(\$46,365,000)</b>	<b>(\$1,385,000)</b>	<b>(\$985,000)</b>	<b>(\$365,000)</b>	<b>\$31,000</b>
<b>GROSS PROFIT w/ league slot (OWL)</b>	<b>(\$45,025,000)</b>	<b>(\$1,385,000)</b>	<b>(\$985,000)</b>	<b>(\$365,000)</b>	<b>\$31,000</b>
<b>GROSS PROFIT w/o league slot (e.g. CS:GO, Dota2)</b>	<b>(\$15,025,000)</b>	<b>(\$1,385,000)</b>	<b>(\$985,000)</b>	<b>(\$365,000)</b>	<b>\$31,000</b>

