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OPINION

The booming e-sports industry nears an inflection point

If it surprises you that video game contests are attracting as many viewers as the Super Bowl on a global scale, you probably haven't been paying close attention to the dramatic rise of e-sports in recent years. By William Burns, Cowen & Company

Three years ago, 100 million fans around the world tuned in excitedly to watch the final of a major sports tournament. But it wasn't the World Cup final or the World Series; it was the League of Legends championship, which highlighted 24 video gaming teams battling it out in South Korea for a coveted trophy and \$2.4 million in prize money.

If it surprises you that video game contests are attracting as many viewers as the Super Bowl on a global scale, you probably haven't been paying close attention to the dramatic rise of e-sports in recent years.

With its rise in popularity comes a variety of exciting opportunities. Accelerated during the start of the pandemic, gaming has increasingly permeated culture to become the largest media channel in the world. A \$1 billion global business, e-sports boasts its own superstars and top teams with millions of adoring fans.

Yet despite its impressive growth, the e-sports industry is still very much in its Wild West days, as market players figure out how to scale up and adapt to a rapidly evolving landscape and as investors assess how to participate in the industry.

With many conversations going on behind the scenes and a plethora of e-sports outfits considering their strategic options, I believe we are witnessing an industry at an inflection point that will



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result in an explosive wave of deal-making, innovation and consolidation.

In this environment, specific business opportunities exist—some of which are more obvious than others. One of those possible opportunities is in ownership of a professional e-sports league or team.

Everyone in the pool

In recent years, a growing number of celebrities, high-net-worth individuals, venture capital firms, and traditional sports' owners have dipped their toes into the space. Even more recently, larger strategy and legacy media companies have jumped in, such as EW Scripps's investment in Misfits Gaming or Gray

Television's investment in Envy Gaming. The SPAC phenomenon now includes e-sports. This week FaZe Clan, an online gaming company, said that it is combining with special purpose acquisition company B Riley Principal 150 Merger Corp to go public. E-sports viewership is expected to surpass that of every major US sport except for the NFL this year.

Emerging technologies, such as NFT and digital assets, present opportunities for growth and have been rapidly seeping into the e-sports space. There have already been notable sponsorship deals between e-sports and crypto platforms, including Team SoloMid's 10-year, \$210 million naming rights' deal with FTX.

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Of course, there are more than leagues and teams. There are tournament and other technology platforms, gaming communities, infrastructure providers, gaming services, and other businesses emerging in the industry's orbit. While nascent, wagering on e-sports offers a tremendous opportunity to drive further engagement and fandom across the e-sports landscape. Market players will need to make tough choices between building businesses organically or pursuing strategic partnerships to build faster and capture market share before competitors. Now is the time to make those decisions.

Chasing youth

Marketers are also excited about the chance to reach a massive and growing audience of e-sports viewers. Fans tend to be young and they consume their content differently than previous generations—spending more time scrolling through TikTok than watching TV. Traditional

sports viewership among this group is lower than previous generations. This makes them a highly valuable but elusive target for advertisers.

The most farsighted e-sports organizations have been moving beyond their original models driven by prize winnings, sponsorship and merchandise sales to creating full ecosystems that leverage the power of social media, content and brand marketing. One critical part of that strategy has been creating alliances with influencers on platforms such as TikTok, YouTube and Twitch, and leveraging those relationships to build their brands and marketing reach.

For instance, popular e-sports organization FaZe Clan was recently featured on the cover of Sports Illustrated – a truly legitimizing moment for an industry that has struggled to achieve mainstream respect in the past. With 345 million social media followers, FaZe has leveraged its influence to create a lifestyle

brand which is attracting top notch corporate sponsorships.

To be sure, we have seen heightened expectations in the past that have fallen short. However, over the next several years, the e-sports landscape is likely to look very different as consolidation creates a more sophisticated, organized market with scaled players. Standalone teams are already evolving towards diversified media, entertainment and marketing enterprises. Content consumption habits that have been accelerated during the pandemic will continue to be reinforced. The opportunity for investors, marketers and industry executives to capitalize on this surge of interest is now. ■

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