



eSports

Business Models

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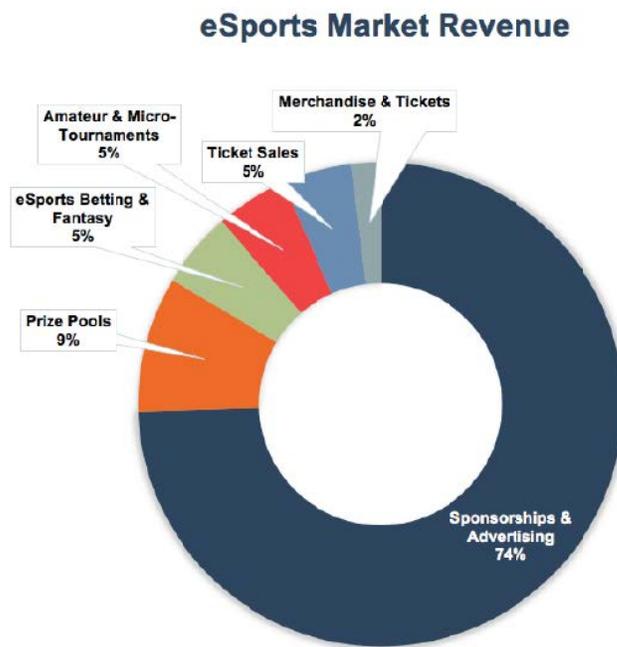
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eSports teams make money in a variety of ways. In this eSports industry overview article, we discuss various business models for eSports teams.

How an eSports Team Makes Money

An eSports team can make money in a variety of ways, including broadcast revenue, sponsorships, merchandise sales, and subscriptions. The sources of revenue are detailed in Figure 1.



Note: Worldwide, 2017; Figures are estimates | Source: Newzoo

Figure 1

Sponsorships

As shown in Figure 1, sponsorships and advertising account for the bulk of revenue for eSports. According to Patrik Sättermon (**Fnatic's** Chief Gaming Officer), “[I]t is estimated that around 95% of the money generated by our eSports teams comes directly from **sponsorship deals**.” The novelty of eSports has attracted many well-known sponsors; however, teams have struggled to make sponsorships a sustainable source of revenue. The relatively short life of popular games proves to be an impediment to sustained sponsorship. A game might be highly popular currently but within a year fade from public interest.

Estimated Number of eSports Sponsorships

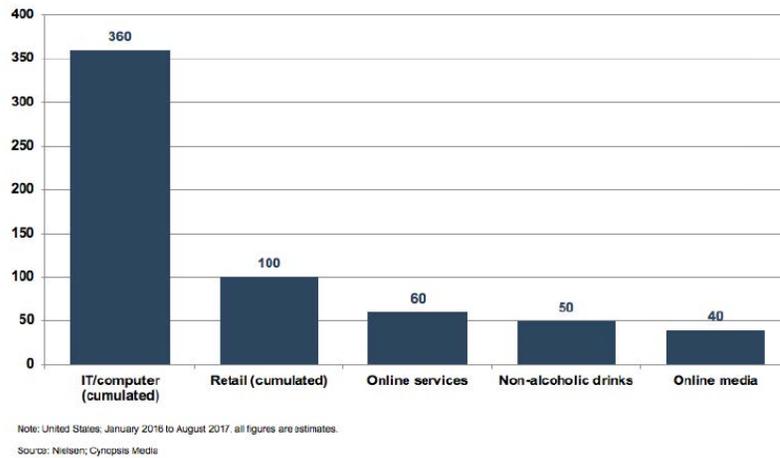


Figure 2

IT/Computer related sponsorships are the most common in the eSports industry as gaming equipment and accessories are prominently displayed during events. For example, HP and Intel **agreed to sponsor** Activision Blizzard’s Overwatch League. As part of the agreement, competitors will exclusively use HP’s OMEN gaming PCs and displays.

From a valuation perspective, consistent recurring revenue is a benefit to the value of a company. Sponsorships can provide long-term recurring revenue to an eSports teams.

Broadcast Revenue

eSports broadcasting on TV is still in its infancy as broadcasters look for eSports content that will appeal to their target demographics. **ELEAGUE**, an eSports content and live tournament brand, has a broadcasting deal with TBS that shows Street Fighter V and Counter Strike: Global Offensive (“CS:GO”) on TV. The recently formed **Overwatch League** (“OWL”), will be **broadcast on the ESPN, Disney, and ABC family of networks**. Perhaps most importantly, a broadcast TV deal does not cancel existing distribution agreements such as broadcasts on **Twitch** that were already in place.

While game developers and league creators are able to come to broadcast agreements, it is more difficult for eSports teams. eSports teams generally do not share in broadcast revenues as those agreements are negotiated between game developers/league creators and the broadcasting entities.

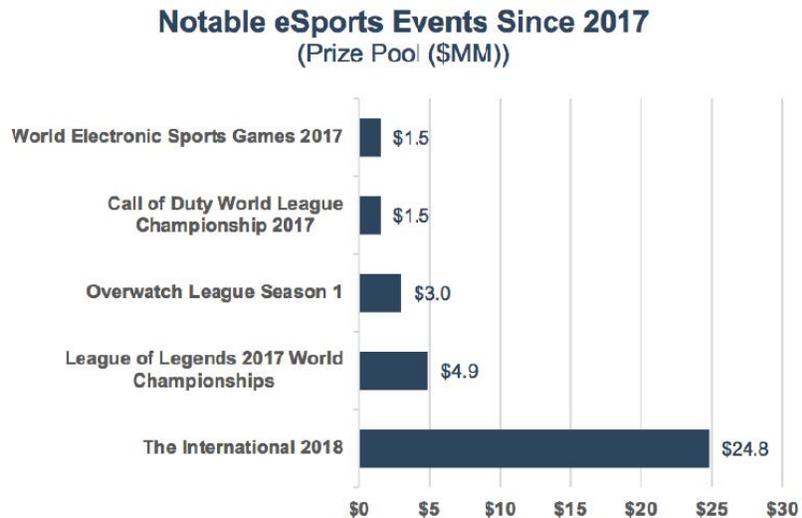
Merchandise Sales

As mentioned in [our eSports industry overview](#), consumer spending on eSports merchandise remains **relatively low**. eSports teams offer apparel, accessories, and gaming equipment through their team websites. From a valuation perspective, merchandise sales can be a source of supplemental income. However, merchandise sales would not have a significant impact on the valuation of an eSports team because the revenue tends to be small and non-recurring.

Prize Money

Prize money typically does not go to eSports teams, but rather, to individual team members who are competing. While the team does not receive the money, being successful in tournaments is a good way to generate brand awareness.

As the eSports industry expands, so have prize pools for tournaments. In August 2018 Vancouver hosted *The International 8* – the eighth annual **Dota 2 championship tournament**. The total prize pool of \$24.8 million sets the record for **largest single tournament prize pool in eSports history**. The International prize pool compared to other notable sports events from 2018 is presented in Figure 3.



Source: ESPN

Figure 3

Perhaps the most interesting note from the \$24.8 million prize pool for The International is that approximately 94% was crowdfunded. Every-day Dota 2 players purchased Battle Passes that offer event-exclusive features and rewards. One-fourth of each Battle Pass was **added to the prize pool**.

Naming Rights

Team Liquid officially opened a new training facility March 7, 2018, in Santa Monica, California. The facility not only provides a dedicated practice area for Team Liquid members but also houses the company’s content production team, 1UP Studios. **“Teams in the [U.S.] have traditionally operated out of ‘gaming houses’ where players and coaching staff for a team live and practice in a single residential home.”**

The development of a dedicated training facility represents a shift away from the current model. The training facility has provided another stream of revenue for **Team Liquid as they were able to sell naming rights** to the facility to gaming PC brand Alienware for \$4.5 million. Team Liquid's CEO Steve Arhancet indicated the **team spent over \$1.5 million in building the training facility**.

Generally speaking, eSports teams owning their training facilities is a recent trend. As eSports continue to grow, it is likely we will see more sales of naming rights for facilities.

Successful Teams

Figure 4 shows the top teams based on prize money earned as well as four other notable teams.

Top Team Profiles					
Team Name	Prize Money Earned (USD)	Tournaments Entered	Owner/Notable Personnel	Headquarters	Top Games
Team Liquid	\$23,291,569	1,373	Axiomatic	Utrecht, Netherlands	Dota II (75% of Prize money)
Evil Geniuses	\$20,626,966	708	GoodGame Agency (owned by Amazon)	San Francisco, CA	Dota II (87% of Prize money)
Team OG	\$17,562,205	48	NA	Europe	Dota II (winner - The International 2018)
Newbee	\$12,803,467	127	Wang Yue	China	Dota II (98% of Prize money)
Virtus.pro	\$11,467,233	410	ESforce Holding (Alisher Usmanov)	Russia	Dota II (67% of Prize money)
Fnatic	\$11,303,007	774	Sam and Anne Matthews	London, England	CS:GO (31% of Prize money)
Vici Gaming	\$9,259,850	245	Lu Wenjun; Jeremy Lin owns two sub-teams	Shanghai, China	Dota II (85% of Prize money)
LGD Gaming	\$8,692,242	118	Pan Jie; Partnered with PSG Soccer team in 2018	Shanghai, China	Dota II (95% of Prize money)
SK Telecom T1	\$8,563,432	211	SK Telecom	South Korea	League of Legends (75% of Prize money)
Other Notable Teams					
OpTic Gaming	\$6,815,468	260	Infinite Esports & Entertainment (Parent); Neil Leibman, Hector Rodriguez	Dallas, TX	Call of Duty (41% of Prize money)
Team EnVyUs	\$5,756,830	301	Mike Rufail	Dallas, TX	CS:GO (38% of Prize money)
Luminosity Gaming	\$2,995,695	230	Steve Maida	Los Angeles, CA	CS:GO (46% of Prize money)
compleXity Gaming	\$2,853,216	450	Jason Lake, Jerry Jones, Goff Capital	Frisco, TX	Dota II (29% of Prize money)

Sources:
<http://database.esportsobserver.com/earnings-team>
<https://www.esportsearnings.com/teams>

Figure 4

Subscriptions

Luminosity Gaming ranked number 29 in terms of prize money earned among eSports teams. However, Luminosity also boasts arguably the most well-known eSports player in the world, Tyler Blevins (aka Ninja). Ninja recently revealed that he makes **\$500,000 per month** from his more than 160,000 paid Twitch subscribers. On Twitch, streamers net \$3.50 per subscription, which costs subscribers \$5.00 per month. Twitch subscribers receive access to exclusive badges and ad-free streams.

Having high-profile players on the roster can increase the visibility of an eSports team and therefore lead to more followers and eventually subscribers. Subscriptions are another source of recurring revenue for a team.

Costs of Revenue

As with any business, there is a cost to generating revenue. eSports teams get most of their revenue from sponsorships. In order to attract sponsors, teams must perform well at tournaments and events as well as be highly visible to consumers. Typical expenses for an eSports team include player salaries, administrative personnel salaries, player housing expenses, training facility rent or operating expense, and equipment/accessory expense.

In 2017, Jerry Jones acquired an ownership interest in Complexity Gaming. Shortly thereafter, the team was moved to The Star in Frisco. The Star happens to be the Dallas Cowboys World Headquarters. **The plan** is for Complexity to build a “state-of-the art operations center and global headquarters including offices, production studios, and industry leading training facilities.”

Complexity are not the only team to take advantage of common ownership with another pro sports team. In April, Team Dignitas **spent time with Philadelphia 76er trainers and nutritionists** in order to prepare for the Intel Extreme Masters in Poland.

The Takeaway

There are numerous ways for an eSports team to make money. In general, the most common source of revenue is sponsorships. In order to increase sponsorships eSports teams need to perform well in the tournaments they enter. Merchandise sales, prize money, and broadcast revenue are other ways eSports teams can make money. Most eSports teams have similar expenses so profitability of a specific team usually depends on performance at the top line.

Chris Mercer, founder of Mercer Capital, states the two primary factors in the value of a business are **risk and growth**. eSports teams with a significant amount of recurring revenue (through sponsorships, subscriptions, etc.) are less risky than teams that have less consistent revenue sources (prize money, merchandise sales). The less risky an entity, the greater the value of that entity.

Mercer Capital's Professional Sports Industry Expertise

Leaders in Sports Valuation and Related Stadium Advisory Services

In an increasingly competitive professional sports and eSports market, Mercer Capital's team capabilities in valuation, intangible assets, stadium issues, and legal consulting are unsurpassed. We have the depth of knowledge necessary to assist in developing industry best practices.

This knowledge relates not only to the underlying economics to the sports business, which include its escalating cost structure, but most importantly, the future revenue-enhancing aspects of sports that are the key to future success.

This knowledge base has been built over the past 25 years from continuing services, engagements, and relationships in the industry.

Services

- Valuations (M&A oriented, tax driven, shareholder buyouts, and litigation)
- Fairness Opinions
- Buy Side Planning
- Due diligence services
- Stadium lease consulting – New and existing
- Legal transaction consulting
- Tax Advisory
- Other Services

Our professionals have provided valuation and advisory services to clients in every major U.S. professional sports league. For more information about our services, visit [our website](#) or contact any of our senior professionals.

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