Esports Media Rights

FALL 2021

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KEY ESPORTS STATS

$1.1 Billion
Forecasted Esports Revenue 2020

$14 Billion
Esports Gambling Revenue

$495 Million
Expected Esports Viewers in 2020

838%
YoY Growth of Esports Investment

$36.5 Million
Chinese Esports Revenue

$35.5 Million
US Esports Revenue

Overview

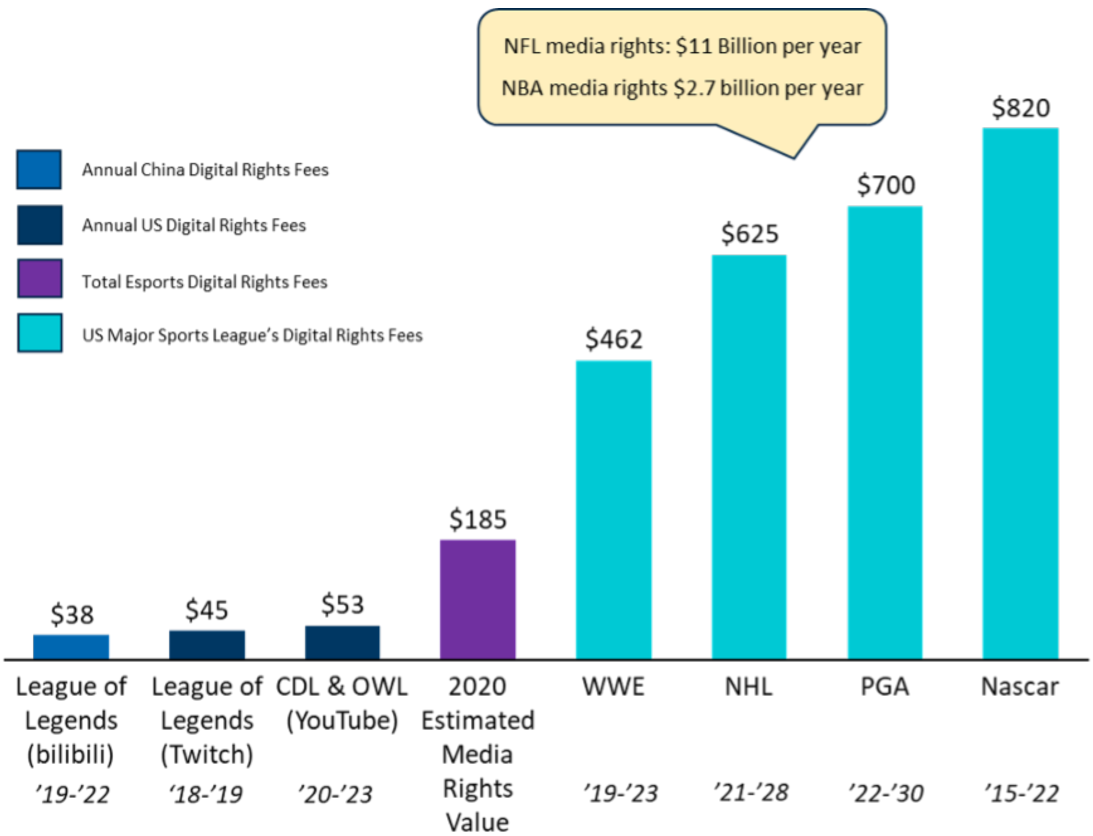
It is no secret that the popularity of both professional and amateur esports and gaming has exploded over the last 18 months – despite (and, perhaps, in part because of) a global pandemic. Notwithstanding the exponential growth–including in both viewership and revenue – there remain several fundamental challenges for this nascent industry. We believe many of these challenges arise from the unique relationship between esports organizations and the game publishers who own the intellectual property driving the ecosystem. The implications of this unique relationship on the procurement, exploitation and intrinsic value of media rights represents a microcosm of these challenges, and illustrates the still-untapped potential of what is an increasingly popular global form of entertainment.

This whitepaper reviews the current state of the esports market and analyzes the challenges facing the exploitation of esports' media rights. We provide a comparison of esports and gaming media rights to those of traditional sports. We then discuss our proposals for how to increase rights values, highlight success stories in which the traditional sports industry overcame similar problems and identify unique elements of the esports ecosystem that could be a basis for maximizing the value of esports media rights.

Introduction

Fifteen years ago, "GLHF, LO3" (good luck have fun, live on 3 [server restarts]) represented the typical beginning to every competitive *Counter Strike 1.6* match, a first-person shooter developed by Valve. Fast-forward to 2021, and esports is estimated to be a $1.1 billion[1] industry with 495 million in viewers, global events and network live broadcasts, with players competing for millions of dollars[2]. Despite the incredible growth of the esports industry[3], however, the media rights monetization thereof has fallen short of expectations, creating a drastic performance gap as compared to other sports titles[4]. This gap is the result of many factors, including the unique structure of the esports and gaming ecosystem, the inherent characteristics and audience culture and the misalignment of metrics that collectively undermine the application of traditional media rights strategies, which have been employed to create industry growth.

EXHIBIT 01 – Media Rights for Select Esports and Sports
(USD Millions)



Sources: Sports Pro Media, Company Websites, Hollywood Reporter, CNBC, USA Today

The Challenges

In esports, game developers and publishers (collectively, "**Game Publishers**") are at the center of the entire ecosystem. As the owners of the underlying intellectual property ("**IP**") of the games on which esports rely, Game Publishers control the framework and development of the competitive gaming aspect of their respective game titles. This starkly contrasts with traditional sports (e.g., American football, basketball and baseball), in which the underlying IP of the relevant sport is in the public domain. Because the sports themselves are in the public domain, North American sports leagues have placed the value of their IP in the trademarks of their respective teams. They have achieved this by creating a closed system with control over who can play in the league (i.e., the franchises) and then incorporating a revenue share model.

Additionally, different from traditional sports where there are a series of discrete games, esports encompass numerous game titles. These titles each have a distinct culture and audience and are often owned by different Game Publishers who thereby control all the rights in and to these titles. Despite huge aggregate viewership, the large number of titles and fragmented market prevents a holistic monetization of related media rights. In conjunction with the large number of different games, the proliferation of different teams and organizations has depressed the value of any one game or team, so no single publisher can offer a media rights deal of significant value.

Esports has traditionally been a "digital-first" platform through which online digital service providers ("**DSPs**"), such as YouTube, provide effortless access to content, as opposed to traditional network, cable and other linear broadcasters in the U.S. (collectively, the "**Broadcasters**"), such as NBCUniversal, ViacomCBS and Sinclair Broadcast Group (Fox Sports Network), that are major purchasers of sports media rights. Broadcasters have found it difficult to convince viewers to transition away from where they have always consumed esports, namely online. This difficulty has reduced the value Broadcasters place on esports media rights.

Esports teams typically lack the geographic identity that traditional sports teams enjoy because of their strong ties to a particular state and/or city, which (i) fosters local team adaptation and loyalty and (ii) increases the value of media rights by creating a robust market for regional and targeted advertising inventory.

Finally, unlike traditional sports, which have relatively more straightforward rules and gameplay (e.g., a casual NBA fan can enjoy a game simply by understanding the object of putting the ball into the basket), esports often require a deeper understanding of the applicable game title, gameplay and strategy to fully appreciate the competition, and there are production challenges in effectively presenting the competition for casual consumption. The greater the learning curve on multiple titles, the greater both the barrier to attract casual fans and the impediments stunting the value and growth of esports media rights.

The Proposals

For esports to unlock media rights value reflective of its viewership, industry stakeholders should consider packaging their collective rights, which in turn, will provide sustainable value for distributors and a more collaborative ecosystem.

We believe the following changes may yield the desired result: (i) a consolidation among esports organizations and (ii) a true collaboration by and among the Game Publishers and esports organizations, with a common goal of enhancing the value of esports media rights together over time. Such changes will help aggregate an audience of critical mass to create a compelling media package that is attractive to the Broadcasters and their media buying partners.

Acknowledging that esports is still in the early stages of its evolution, rather than requesting high minimum guarantees from the Broadcasters, esports stakeholders should explore alternative monetization frameworks and opportunities (e.g., revenue share model, etc.) to leverage the Broadcasters' reach and increase the media value over time.

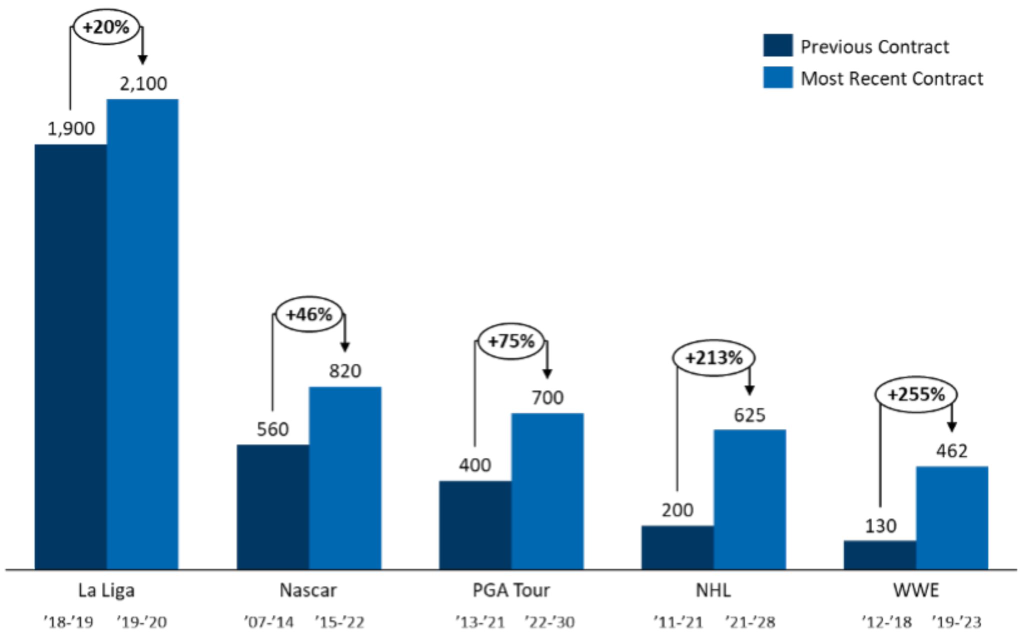
Esports stakeholders must also collaborate with Broadcasters to improve the quality and interactivity of the production of the competition and to create ancillary content to resonate with the target audience's interests and expectations while also catering to the casual fan. These efforts should be coupled with leveraging not only esports team influencers' social media networks, but also the networks of popular gaming streamers.

Lastly, the esports industry should explore adopting a regional team and media rights-centric approach focused on various competition levels of esports, which, over time, can become a driver of national media rights value.

Current State of the Esports Media Market and Historical Media Rights Deals

Historically, sports media rights have been monetized and exploited across three primary channels of distribution: (i) broadcast networks, (ii) cable networks and (iii) digital OTT (Over-the-top) networks (e.g., DAZN). However, as media companies vertically integrated they increasingly bundled the media rights for their entire platform to drive increased viewership. The net result is that media rights have grown consistently over the past approximately 10 years as seen in Exhibit 02.

EXHIBIT 02 – Media Rights Growth for Select Sports
(USD Millions)



Sources: CNN, Sports Business Daily, Bleacher Report, NY Times, Tampa Bay, Sports Pro Media, Company Websites, CNBC, Hollywood Reporter, USA Today

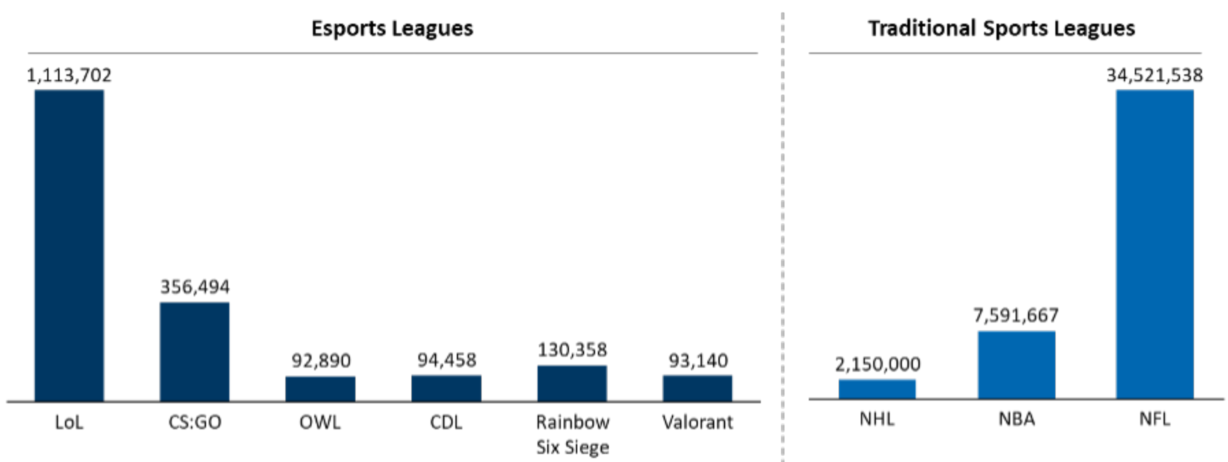
Media rights for esports leagues are anticipated to grow approximately 17% per year beginning in 2020;[5] however, the rights value lags far behind those of traditional sports, and deals are primarily done with DSPs. The estimated value of the esports media rights market was $185 million in 2020,[6] with the largest digital rights fee of $53 million per year (from 2020-2023) being paid by YouTube for the exclusive rights to stream Activision Blizzard game titles.[7] Other notable digital rights deals reportedly include Twitch paying $45 million per year (2018-2019) for rights to the Overwatch League[8], and BiliBili paying $38 million per year for *League of Legends* (from 2019-2023.[9]

Beyond the DSPs, esports leagues have been able to make modest headway in monetizing media rights through traditional television and cable networks. Notable deals include ABC and the Overwatch League,[10] TBS and Eleague (CS:GO *Counter-Strike: Global Offensive*) and *FIFA*,[11] the CW and EA *Madden*,[12] and CBS and the Nintendo World Championship.[13]

However, the performances of such esports titles on U.S. linear television or cable networks have been lackluster and are not garnering enough momentum to warrant the blockbuster media rights deals typically offered by the Broadcasters to popular traditional sports. At the low end of the traditional sports media rights spectrum, the NHL commands $200 million per year,[14] while the NFL will make more than approximately $100 billion over the next 11 years for U.S. media rights, according to published reports.[15] Why do esports, for all their hype, fail to command such extraordinary media rights license fees?

EXHIBIT 03 – VIEWERSHIP FOR TIER 1 ESPORTS & MAJOR U.S. TRADITIONAL SPORTS

Average Concurrent Viewers



	LoL	CS:GO	OWL	CDL	Rainbow Six Siege	Valorant	NHL	NBA	NFL
Season/Time	*2020 World Championship*	*Starladder Major Berlin[2]*	*OWL 2020 Grand Finals*	*CDL 2020 Finals*	*Six Invitational 2020*	*First Strike North America*	*2020 Stanley Cup Average*	*2020 NBA Finals Average*	*2020 NFL Playoffs Average[1]*
YoY % Growth	6.8%	-12.1%	-18.3%	25.9%	8.4%	N/A	-59.7%	-49.8%	-13.3%
2019 Viewership	1,042,341	405,745[3]	113,751	75,020	120,201	N/A	5,330,000	15,128,333	39,813,636

Sources: Escharts, Statistics, Sports Media Watch, Washington Post, Medium Sports Business Daily

Challenges to Unlocking the Value of Esports Media Rights

While esports have enjoyed tremendous growth from an initially small base over the last decade, there are still multiple challenges that the industry must overcome to expand rights monetization.

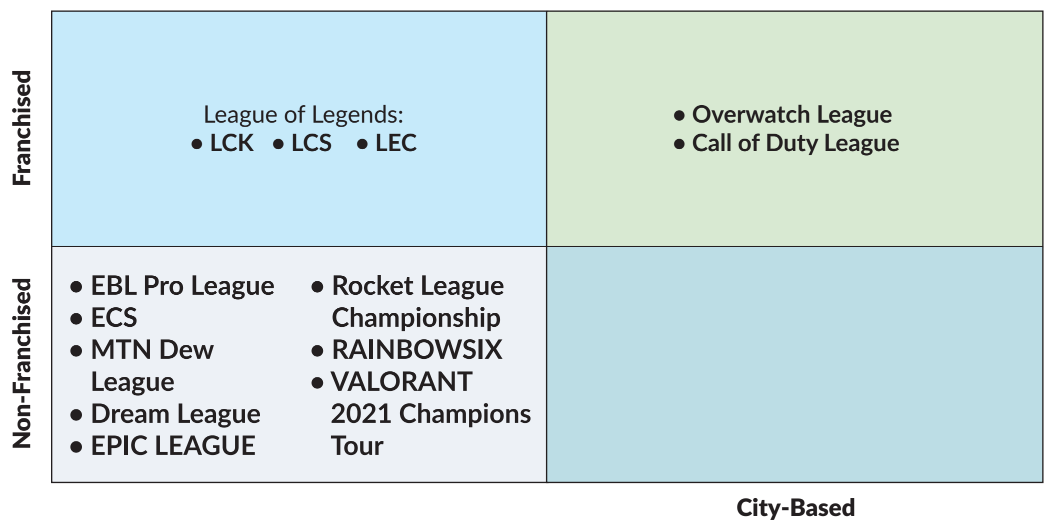
League Fragmentation

The esports ecosystem is extremely fragmented. Each Game Publisher controls the commercial use and exploitation of its respective game title, from the development, production and distribution to competitive play. As owners of the underlying IP, Game Publishers to date have structured competitive esports leagues in two ways: (i) franchise vs. non-franchised leagues and (ii) city-based vs. non-city-based leagues.[16] These different approaches resulted in a wide variety of leagues and esports titles creating a highly fragmented environment. The division is much more pronounced in non-franchised games such as CS:GO which feature multiple tournament operators and leagues, many of which are operated concurrently. For example, the 2021 season S and A-Tier CS:GO competitive scene has nine separate tournaments/leagues with six different organizers. The result is diluted content value and viewership spread across various one-off events.

EXHIBIT 04 – LEAGUE FRAMEWORK

Current league organization, February 2021

Non-Exhaustive



Sources: FTI Analysis

Many of the tournaments that operate as self-contained events and with no underlying season fail to build compelling storylines, content and rivalries. These elements create opportunities to develop supporting content to further drive fan engagement outside of the live broadcast.

Leagues that do have structure, such as the ESL, are often hampered by content saturation created by competing leagues and tournaments operating concurrently. This market saturation leads to viewer fatigue, exacerbated by an abundance of nondifferentiated content, and to player fatigue, as top-tier teams often compete in multiple leagues and events to earn prize money. In addition, many leagues schedule programming at local times on a match-by-match basis, leading to irregular and inconsistent viewing — making it challenging for fans to engage on a consistent basis.

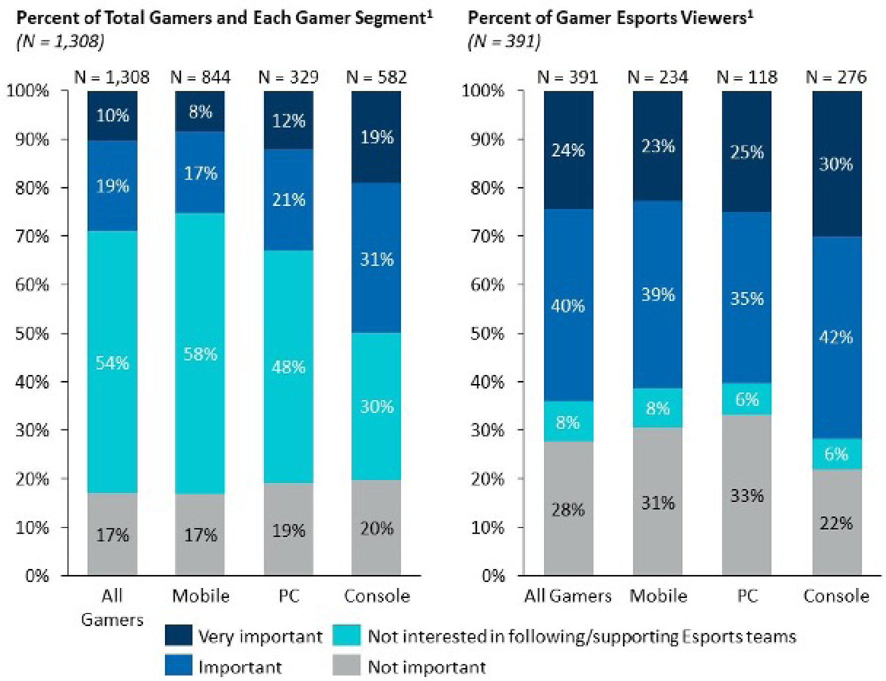
Not only does league fragmentation hinder viewership scaling, it also it creates a convoluted ecosystem with no single point of engagement (e.g., NBA for basketball) that would provide advertisers and distributors with targeted metrics, resulting in the lost opportunity to command premium CPM from advertisers.

Digital-First/Lack of Geographic Connection

The grass-roots nature of esports and digitally-native aspects of the content have resulted in a number of community perceptions. The first is that esports have historically been free to access and watch from anywhere in the world, available to anyone who is interested. The second is the expectation that esports are available in formats native to the core demographic (e.g., available on YouTube or live-streaming platforms). Finally, esports have traditionally not held strong ties to a specific city or geographic region, but rather to specific games or genres. These three factors are in stark contrast to how media and sports have traditionally operated.

Unlike traditional sports teams that have a strong geographic connection that fosters team adoption and loyalty, our research indicates that less than 25% of esports viewers find such geographic connection important.[17] Further, esports teams are primarily based in a few cities, and often an organization's brand is not tied to a geographic region (FaZeClan). This has led to certain locations being overly saturated (LA) with teams while other locations suffer from a lack of organic local engagement.

EXHIBIT 05: Importance of Following/Supporting Hometown Esports Team
"How important is it to you that the eSports team you follow/support is a hometown team?"



Sources: FTI Analysis, FTI Survey

This poses a challenge for growing a fan base with no seamless transition to rooting for a local team, as there would be in traditional sports. People with no knowledge of basketball, for instance, are drawn to rooting for their local team because they have an instant connection to the team and a way to differentiate it from its rivals. For esports, fans must first become invested in the league to understand the differences in the teams, and then decide which team to root for. Building loyalty to a specific team in esports is difficult as players move around and retire relatively early, while teams with regional affiliations have a constant element with which fans can identify.

The lack of geographic diversity also leads to a lack of live events for fans living outside of the central production location. These centralized production locations tend to be oversaturated with opportunities to attend a live event, while other areas lack an easy way to engage new fans through live events.

Regionality is a key factor in the value of traditional sports media rights because it allows for the division by specific region, and thus the creation of an identifiable audience and advertising inventory for buyers. When each team has fundamentally the same relationship to all locations, media rights become a monolith. Although there is regional differentiation by continent for instance, there has been little interest in the media rights associated with esports outside of their home region.

Content Barriers

Unlike traditional sports which have easily understandable rules and gameplay, esports often demand greater knowledge from the audience to enjoy the experience. This is a function of many variables such as the number of characters available (e.g., *League of Legends* has 160+ "champions" who all have different abilities), roles (such as tanks, healers, DPS, junglers, etc.), viewpoints, changing maps and arenas and spell/ability effects. Further, video games are dynamic in nature, and the esports side has a strong tendency to follow the most efficient tactics available (the "META"), which can change frequently. This fluctuation exacerbates the already steep learning curve for casual viewers and can be a barrier when re-engaging lost audience that needs to relearn the underlying gameplay. This issue is exacerbated by the wide range of gaming genres available in esports (e.g., multiplayer combat, traditional sports, fantasy, etc.) and propensity for gamers to focus on a few highly correlated gaming genres.

Further, the underlying content may not map directly to the in-game experience due to changes in format or gameplay. For example, in *World of Warcraft's* Mythic Dungeon International (MDI) tournament, teams compete on a separate realm and within specific parameters that are not able to be replicated on live servers, which could create a disconnect in potential value for those who play the game and want to watch the MDI tournament in real time.

Fixing the Problem

Although digital license deals with DSPs will continue to bring meaningful revenue for the industry, for esports to reach media rights deal sizes akin to those of major sports leagues like the NFL and the NBA, the industry will likely need to muster a media rights package appealing to the Broadcasters and their ad inventory partners. For this to happen, the esports industry would have to come together with the common goal of enhancing the value of esports media rights.

Consolidation and Esports Champions League

Fundamentally, we believe that (i) further consolidation among esports organizations and their teams must occur and (ii) true collaboration by and among the Game Publishers and esports organizations is required.

The consolidation trend among esports teams has been happening for some time, and now there are several premier esports teams that have multiple divisions across various game titles. In some ways, esports teams managing many “sub-teams” across game titles is a byproduct of the unique esports ecosystem. Game Publishers own the underlying IP of esports, which in turn has led to esports teams reducing their reliance on a single game title and increasing profitability through diversification. Continued consolidation of diversified esports organizations and their teams will likely be necessary to tip the balance of power enough for the Game Publishers and esports teams to collaborate and realize higher esports media rights values.

For the esports industry to build an attractive media package for Broadcasters, an unprecedented collaboration among esports organizations and major Game Publishers will likely be necessary. At the moment no single game title or league alone has enough viewership to build a compelling media package for the Broadcasters, due, in part, to industry fragmentation, the “digital-first” preference and free-to-access esports viewership habits.

Imagine a novel esports media package across multiple game titles from top Game Publishers and featuring the top esports teams competing in a tournament. The hypothetical tournament could provide a solution to the esports media rights under-valuation problem: an esports “Olympics” in a format similar to that of the UEFA (Union of European Football Associations) Champions League (“**Esports Champions League**”).

An Esports Champions League would revolve around top esports teams, which manage multiple divisions related to different game titles, similar to the different countries that compete in various sports in the Olympics. As a sport, synchronized swimming, weightlifting or archery individually may not garner enough attention to build a compelling slate of programming, but those sports collectively packaged as the “Olympic Games,” may rule the air waves for two to three weeks. Similarly, if top esports teams competed across *League of Legends*, *Overwatch*, *Call of Duty*, and *Dota 2*, to name a few games, the fragmented esports audience could be aggregated into a strong media package. That package could drive a natural, competitive bidding process among the Broadcasters and DSPs. A tournament of such scale could generate incremental revenue for the top Game Publishers and could serve as a novel marketing opportunity to increase participation by casual viewers in their respective game titles.

There could be impediments to the creation of a successful Esports Champions League, including finding common ground among the multitude of esports industry stakeholders, determining fair economics and profit splits and effectively harnessing the fragmented esports market. At a minimum, a degree of consolidation and collaboration will be necessary to build a meaningful media package that brings the intrinsic value of esports media rights to the next level.

Consolidate the Fragmented Media Rights & Leagues Examples

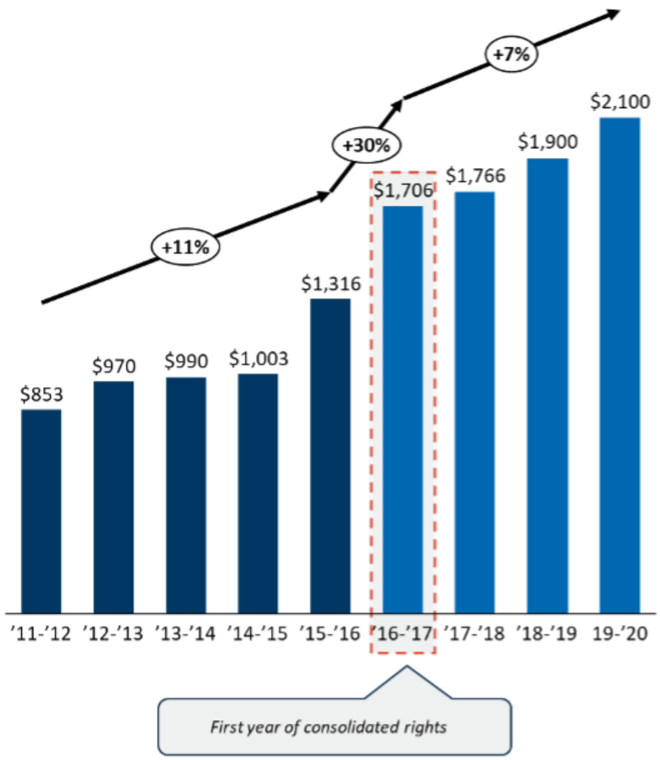
While comparing monetization in esports and traditional sports has its limitations because of structural differences between them, such comparison can establish a helpful baseline for understanding the difference in esports media rights values relative to the much higher values of traditional sports rights and may also shed light on how to increase the value of esports rights.

In some ways the fragmentation in the esports ecosystem is not dissimilar to a problem faced by both La Liga and NASCAR in the past. Both show the value in consolidating fragmented media rights.

La Liga and La Liga 2, the premier soccer leagues in Spain, have traditionally left media rights negotiations to the individual clubs. That changed in 2015 after a Spanish Royal decree required La Liga to consolidate the audiovisual rights for collective sale, in an effort to increase financial benefit across the clubs.[18] At the time, the move was praised as “the best reform in

Spanish professional football history" by Miguel Cardenal, the president of the Spanish High Council for Sport.[19] For the 2016/2017 season, the leagues reportedly bundled all of the broadcast media rights into one package.[20] The rights were split into seven categories (highlights, PPV Games, exclusivity on select matches, etc.) and were sold to a variety of traditional media players.

Exhibit 06: La Liga Annual Broadcast Revenue Breakdown (2011-19)
USD in millions; CAGR %



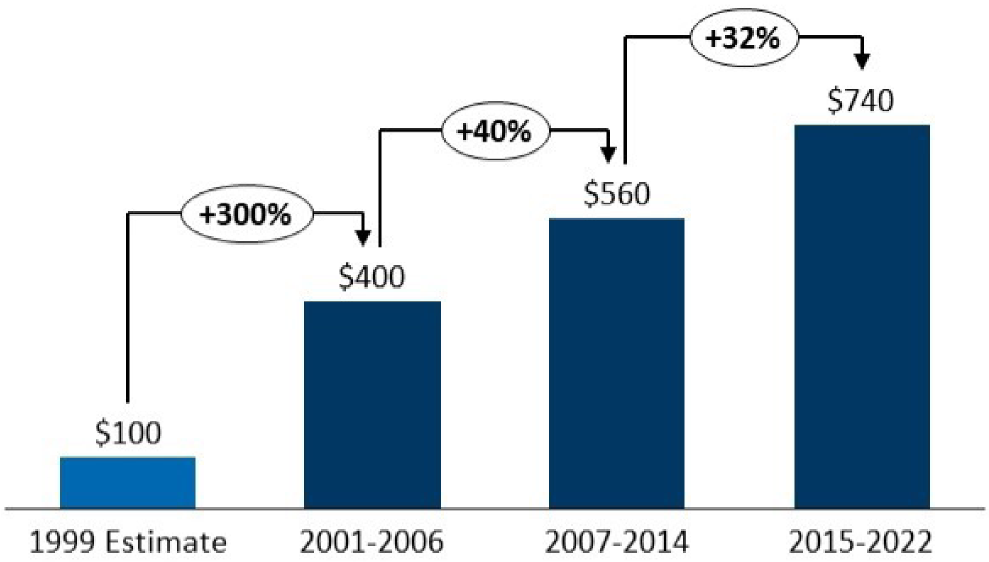
Sources: Sports Business Institute of Barcelona, La Liga

From the 2011/2012 season through the 2015/2016 season, the value of media rights for La Liga reportedly grew at a CAGR of 11%.[21] After the media rights were packaged for the 2016/2017 season, the media rights value increased 30% in one year, rising from €1,122 to €1,455.[22] The value of La Liga media rights continued to rise throughout the 2017/2018 and 2018/2019 seasons at a 6% CAGR, reaching €1,506 and €1,626, respectively.[23]

NASCAR is the governing body of a collection of races that, until the 2000s, had monetized and sold media rights independently. In 1999, the combined rights deals for all NASCAR races were estimated to be worth $100 million,[24] ranging from $1.5 million for small races up to $15 million for the Daytona 500,[25] the most valuable NASCAR race. NASCAR had seen exponential growth in the 1990s, but with standalone race negotiating, broadcast rights were still relatively under-monetized. Attendance grew 90% and retail sales of merchandise exploded by more than 1,000% from 1990-2000, additionally 1999 ratings were up 19% since 1994.[26]

Exhibit 07: NASCAR Avg. Domestic Annual Contract Value (1999-2022)

$ in millions; CAGR %



Sources: CNN Money, Sports Business Daily, Bleacher Report, NY Times, Forbes, Tampa Bay Times

* Indicates a Daytona 500 delayed to Monday due to weather

1999 ACV Estimate is based on a CNN Money estimate of all active deals in that year

2001-2005 ACV is based on CNN Money reporting of Nascars deal with Fox, NBC, and TBS

2007-2014 ACV is based on NYT reporting of Nascars deal with ABC, ESPN, Fox, and TNT

2015-2022 ACV is based on Forbes reporting on Nascars deals with NBC (10 years-$4.4B) and Fox (8 years - $2.4B)

According to public reports, a consolidated package of NASCAR's 36-week season received bids from nearly every major U.S. TV network and was sold to Fox, NBC and TBS for $400 million per year, $2.4 billion across six years.[27] Fox would air the first half of the season which was considered to be more valuable as it did not conflict with the NFL schedule, while NBC and TBS would share the second half of the season.[28] The Daytona 500 alternated between Fox and NBC for the duration of the deal.[29]

Since 1999 the value of media rights for NASCAR has continued to increase. Reportedly, the first consolidated media rights sale, for the 2001-2006 seasons, represented an increase of 300% from the $100 million media rights value in 1999.[30] The next deal signed, for the 2007-2014 seasons, resulted in an increase of 40% to $560 million per season.[31] The most recent media rights deal, which accounts for the 2015-2022 seasons, valued NASCAR media rights at $740 million a season, a 32% increase from the prior deal.[32]

Compared to La Liga and NASCAR, the esports ecosystem may be more complex, with participants that do not share a common goal of simply increasing the pie of media rights. Nevertheless, these two success stories involved multiple interest groups finding a workable solution which ultimately provided handsome rewards for all parties. In the short term, until an individual game title or a single esports league manages to grow its viewership enough to peak the interest of the Broadcasters, collaboration between esports teams and popular game titles will be necessary to create a robust and valuable media rights package, whether through the creation of an event akin to our suggested Esports Champions League or otherwise.

Flexibility in Monetization Framework

The development of game titles is expensive and Game Publishers invest significant resources to bring them to market. Managing and operating an esports team or an esports league is also a capital-intensive endeavor. Accordingly, when negotiating with Broadcasters known to pay big numbers for rights to other sports, Game Publishers understandably may try to negotiate high minimum guarantees and other fees. However, recognizing that the esports industry is still in its early stages, esports stakeholders should explore more flexible monetization strategies and move patiently to increase the value of esports media rights over time.

Most broadcasting deals are structured with a fixed license fee. However, revenue share models are more common with untested properties where the licensor is interested in making the content known. Considering the nascent nature of the esports broadcasting market and the relatively lower viewership numbers (especially for individual game titles) compared to traditional sports, esports stakeholders could structure media rights deals with the Broadcasters on a revenue share basis.

In return for the reduced minimum guarantees, esports stakeholders could require a higher promotional commitment from the Broadcasters. Broadcasters would then invest a certain amount of money in ads and campaigns to build the market. Higher distribution and increased broadcast viewership would enable esports participants to maximize sponsorship fees by either (i) selling direct sponsorships within the content/feed that they deliver to the Broadcasters, including billboards, lower-thirds and in-match graphics or (ii) increasing the esports team sponsorship value. While eliminating minimum guarantees reduces the protection against down-side scenarios, a well-run promotional campaign can lead to a higher upside.

In some broadcast agreements, a licensor can impose a must-carry obligation on the Broadcaster, and such provision is often heavily negotiated between the parties. Commonly these must-carry agreements involve licensors of top-level sports, licensors compensated on a revenue share or those receiving no compensation from Broadcasters. Unfortunately, in practice, deals with a revenue share model with minimum broadcast obligations remain out of reach for esports media rights licensors given the lack of leverage compared to traditional licensors.

The Ultimate Fighting Championship ("**UFC**") found itself in a similar situation in the early 2000s. When UFC President Dana White and his business partners purchased the organization for $2 million in 2001, the UFC was a struggling mixed martial arts ("**MMA**") league facing bankruptcy with its events banned in 30 states.[33] The organization continued to struggle for viewership in its quest to achieve mainstream status until they reportedly fronted Spike TV $10 million to create *The Ultimate Fighter*, a reality show created to legitimize the UFC and generate broader appeal in 2005.[34] Spike refused to air the show in prime time, but *The Ultimate Fighter* was fortunate enough to air directly after *WWE Raw*, garnering an extremely high retention rate from the WWE viewers.[35] The UFC then used the advertising slots to promote its pay-per-view events, broadening its audience and driving traffic to those events.

Today the UFC is the most successful MMA league in the world, with broadcasts in 175 countries in 22 different languages.[36] The organization was reportedly sold to an investor group that included KKR & Co. and Endeavor in 2016 for $4.2 Billion.[37] In 2018, the UFC signed a deal with ESPN for linear and digital rights for $1.5 billion over five years that included 30 fight night events per year, 20 streaming on ESPN+, and 10 broadcast on ESPN's networks, according to public reports.[38] The deal was extended for two years in 2019 and included making ESPN+ the exclusive home of all UFC pay-per-view events in the U.S.[39] The UFC implemented a flexible broadcast strategy in order to expand the audience for future value accretion. A reality show, use of advertising slots to promote pay-per-view events and favorable lead-ins from programming ahead of *The Ultimate Fighter* helped UFC become the face of mixed martial arts and one of the most valuable brands in sports. Although we are not necessarily suggesting that esports should focus on transitioning to pay-per-view events, we highlight UFC's journey to show that flexible strategies and additional content beyond the major events can help drive audience growth and interest.

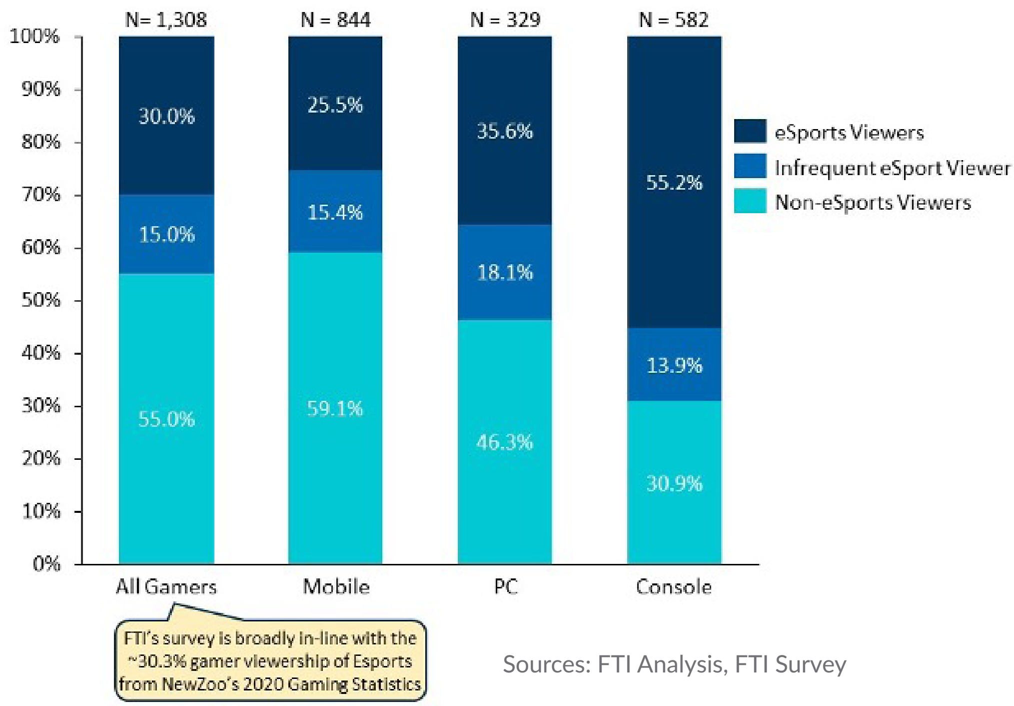
Improvements in Broadcasting Content & Leveraging Esports Unique Ecosystem

Bringing down the barrier of entry for the casual audience, who may not understand the intricacies of each game title, is critical for increasing the value of the esports media rights. To that end, esports industry participants should put more focus on enhancing broadcasting content through the development of ancillary materials to educate such audience.

Producers of esports broadcasts should re-evaluate the programming with the goal of presenting the gameplay in a manner that would be accessible to the casual viewer without sacrificing the quality that attracts sophisticated viewers. Similar to how *The Ultimate Fighter* gave viewers a more intimate look into the daily preparation and training of UFC fighters, casual esports viewers would benefit from extra programming viewable off-broadcast or in between game play. This could be designed to profile the athletes on a more personal and relatable level and educate and explain the fundamentals of each game title, including the rules and qualities that distinguish a certain play or an athlete as exceptional. Esports and gaming platform VENN (short for the "Video Game Entertainment & News Network") is leading this front as a "post-cable 24/7 gaming network" and content generator distributed over streaming and connected T.V. platforms and targeted to crucial Millennial and Gen Z audiences.[40]

There are 214 million gamers in the United States,[41] and only approximately 30% of these watch esports in a given month.[42] It is imperative for the Game Publishers and the esports ecosystem as a whole to identify ways to convert gamers to viewers to unlock media rights monetization on par with what the NFL and other traditional sports leagues currently enjoy.

EXHIBIT 08 – Frequency of Watching Esports



Sources: FTI Analysis, FTI Survey

In converting the sizable number of gamers to consumers of esports media, the industry participants should explore leveraging the unique aspects of the esports and games influencer ecosystem.

Traditional sports and esports teams are both comprised of talented athletes, often with large personalities. But, esports athletes are distinct in how they can leverage their "influencer" base. Unlike traditional athletes, premier esports athletes have a unique ability to constantly create and publish content on platforms such as YouTube, allowing them to amass a large following by posting new videos with insights into the games and updates on their personal lives daily. Esports stakeholders should leverage this outlet and audience by creating content that would build engagement leading up to the actual broadcast of the competition.

Beyond leveraging the esports athlete's social media following, Game Publishers should consider working with popular streamers' networks and incorporating their content and personas into their own programming. While competitive esports leagues at the highest level have a meaningful following, popular streamers like Ninja, Shroud, or Pokimane have a stronger command on the interest of the broader gaming community. In addition, celebrity interest in esports has become more evident in recent years. Professional athletes are investing,[43] the music industry is capitalizing on crossover between fanbases,[44] and Alexandria Ocasio-Cortez often shares her achievements playing *League of Legends* with her millions of followers.[45] From the Broadcasters' perspective, the total viewership of the broadcast programming is what drives the licensing conversation and collaborating with streamers and celebrities could significantly broaden and diversify the audience tuning into the show.

Regional Team and Media Rights Approach

Lastly, esports teams should further explore tying themselves to a specific geographic region, which would provide a foundation for the development of regional media rights and, ultimately, national media rights over time. Some of the biggest players in the esports industry already do so. In 2017, esports and gaming conglomerate Envy Gaming moved its headquarters to Texas, making Dallas the home of its owned and operated esports franchises Team Envy, the Dallas Fuel, and the Dallas Empire.[46] In addition, Activision Blizzard is further refining its franchising model by tying each team to specific cities across the globe,[47] much akin to how the Yankees go hand-in-hand with New York City.

There are three core benefits to this model: 1) esports becomes even more accessible to advertisers and non-endemics as the framework closely mimics the traditional sports model, 2) it creates opportunities for corporate partners to participate at a local level and 3) it allows for more structure in programming and scheduling the leagues.

Others in esports have taken notice of these potential benefits:

> *"It's really taking a page out of traditional sports scheduling... This isn't just an important step for the Overwatch League; it's an important step for esports... You look at the esports club model where everyone is playing in a central studio or online, the business model is global sponsorships, there's some competition there, and then monetizing content through YouTube and Twitch and other platforms. But if you look at the way teams drive revenue in traditional sports, it's because they have a venue. They can sell tickets, VIP experiences and boxes and all of those things — concessions, parking, merchandise and local sponsorships — which to date have had no reason to invest in esports."*
>
> *Former OWL Commissioner Nate Nanzer*

Because of its digital-first nature, a herculean infrastructure-level change in esports (and in the gaming community at large) will likely be required for this regional tie of esports teams to effectively work. The core of the problem is the lack of localized esports contests and offerings for amateur and casual players that would help create a gaming community in a physical space. This local gaming community provides a foundation upon which teams and loyal, robust fan bases can be established.

Along with these ongoing structural changes initiated by key stakeholders in the industry,[48] instead of aggregating in a few cities in the U.S., esports organizations have a unique opportunity branch out and claim a region for themselves. If multiple esports teams focus on growing the regional market, thereby focusing its respective media rights in a particular geographic area across the U.S., the aggregate value of national esports media rights will increase correspondingly.

Conclusion

The proposals described above are not a panacea, but instead are intended to stimulate discussion about tackling obstacles facing the commercialization of the esports industry and growing media rights. Consideration of multiple opportunities and strategies is essential to unlocking the value of esports media rights. Stakeholders must also develop methods to reconfigure the existing competitive framework in a manner that benefits the entire ecosystem.

To increase monetization opportunities, esports industry participants should consider new forms of strategic partnerships among Game Publishers, organizations and teams, leagues, athletes, streamers, fans, physical venues and/or Broadcasters. The collaboration may entail exploration and trialing of new or modified methods of distribution, sharing revenue, promotions and advertising, content curation, IP monetization and/or developing improved competition and tournament formats. When stakeholders are ready and willing to adapt and to address the challenges posed by ingrained perceptions, market fragmentation and barriers to entry (amongst other challenges), such activities could unlock numerous tangential revenue streams, fan engagement opportunities and technological innovations that would facilitate a more sustainable, accessible and prosperous esports industry.

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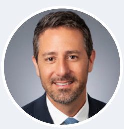

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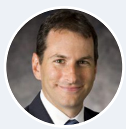

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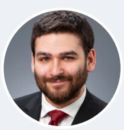

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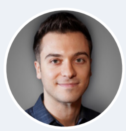

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