THE COMMUNITY OF BUSINESS
LOS ANGELES BUSINESS JOURNAL®
Vol. 45, No. 4 THE COMMUNITY OF BUSINESS™ January 23—29, 2022 • $5.00

Special Report - Business of Sports: The Economy of Esports

By DESTINY TORRES
Staff Reporter

Many companies in the esports industry have been forced to adjust their business strategies to stay afloat. The money that fuels them comes largely from venture capital investments and advertisers, and those sources have decreased, a result of shifting economic conditions.

Esports is a form of organized competition between individual players or teams using video games. According to Statista, a market research and analysis platform, 532 million people regularly viewed esports competitions last year. That viewership is expected to grow to more than 640 million by 2025. Last year, the global esports market was valued at just over $1.4 billion, and it's forecast to grow to as much as $1.9 billion in 2025.

In 2021, the largest share of esports market revenue came from sponsorships and advertising. In total, global esports revenue from sponsorships and advertising reached $641 million.

According to data from Nielsen, the U.S. advertising marketplace shrank by 7% in the second quarter of last year versus the same time in 2021, leaving several industries, including esports, with less income from advertisers.

Esports rose to widespread popularity during the pandemic. The resumption of in-person events could be seen as a huge impediment to the growth and stability of the esports industry, but some analysts say otherwise, opining that the decline in investment and sponsorships has more to do with the economic climate.

Challenges ahead

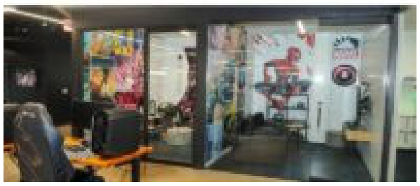
Lloyd Greif, president and chief executive of downtown-based investment bank Greif & Co., said esports is an industry in flux, and one with no shortage of challenges.

"Some of the sponsors are beginning to move away from esports because they see that consumer interest is on the wane, at least for the moment. Whether it's a temporary trend or not, remains to be seen," he said.

Greif said this period embodies the "survival of the fittest" paradigm. He anticipates the decline in sponsors and advertisements could result in company mergers and speculates that companies that fail to raise capital or generate earnings will end up closing their doors.

"A lot of these nascent industries require venture capital to keep them going, and a lot of them have business models that are unprofitable, and venture capitalists are not underwriting red ink anymore," Greif said. "If your business model is profitable, then you can find access to capital. If it's not profitable in 2023, you're in a world of hurt."

Steve Arhancet, co-chief executive of Team Liquid, a Santa Monica-based professional gaming organization, said the industry has been affected by factors outside of esports' control, including infla-



Steve Arhancet, co-chief executive of Team Liquid, at the company's offices in Santa Monica.

tion, the war between Russia and Ukraine and Covid-19 which have affected marketing budgets and the raising of capital.

"Brands … (have) basically reduced marketing budgets or put marketing budgets on freeze," Arhancet said. "Cash is more expensive. Raising capital comes at the cost of greater equity. Of the companies in esports that raised capital to build businesses, some of them built businesses with healthy revenues that are going to stand the test of time with that capital. But mixed in, there are also some companies that didn't fare so well, and when capital is really expensive it's more expensive for them to raise incremental capital to continue being in business."

Enduring optimism

According to Arhancet, esports teams derive revenue from a handful of sources including team sponsorships, streaming, merchandise and individual player partnerships. On top of that, esports companies can raise capital through team participation agreements with video game companies, game developers or publishers. Video game companies financially support the development of athletes and teams so they can compete in leagues and tournaments that are run by the developers.

Despite the rough patch, Arhancet is confident that in 25 to 30 years, video games will be among the most popular sports in the world.

"There are just more folks who play games, and parents are now raising kids that are spending more time on laptops and iPads playing video games," Arhancet explained. "So, the brands that dominate the market from a team perspective will enjoy the benefits of having fanbases that are in the tens of millions in terms of size. The teams that become household names, that have owned and operated assets, amassed big followings and have clear, distinctive brands will be worth a considerable amount, and perhaps amounts that rival the valuations of other professional sports teams."

Stock falters

FaZe Clan, a Hollywood-based entertainment company that owns and develops esports teams, has seen its stock drop about 80% since the company went public in July.

"The stock market is going to move how the stock market moves," said Erik Anderson, head of esports at Faze Clan. "There are really large companies that have gone down 80% in the last year; there's some small companies out there that have shot up. We're going to stay focused on what we do really well in our core business and continue to grow in the way that we know how to grow."

Anderson said brands are looking at how they spend money.

"What we're seeing is brands just get more discerning; instead of a shotgun approach during a time when it was easier to deploy a lot of capital in a lot of different places, they're getting much more specific," he explained. "They're zeroing in on the targets and the things they want to do in spending. Does that mean that they're contracting, and certain people are not going to get some money? Yeah. Does it mean the opportunities are not there? No. The opportunities are still there."

Greif added that "Those who are most resourceful and most determined, those that have an asset that still has cachet in the field, still has a significant consumer following, will make it."