



Let's Play! 2020

The European esports market

Deloitte Sports Business Group

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Foreword

The European esports market experienced further successful development in 2019. The growing fascination for virtual competitions meant most companies increased their revenues. The market is being keenly watched to see if growth will continue in 2020 despite – or perhaps even because of – the COVID-19 pandemic.

ESPORTS IS WELL on its way to becoming mainstream. The worldwide audience grew by 12 per cent in 2019 to reach 443 million people, with Europe being one of the hotspots after Asia and North America.

Stakeholders from all areas of the European esports ecosystem sent positive signals concerning market developments over the past year. As predicted in last year's study, most organisations felt a boost in user numbers and increased their revenues for 2019.

A consumer survey conducted by Deloitte in June 2020 revealed that more than one in three respondents from the European countries highlighted in this report have already watched esports at least once in the past. Organisers of live events often fill venues with several thousand spectators, esports leagues are constantly evolving, and teams are starting to build lasting relationships with their fans and sponsors.

These developments lead to a further increased attractiveness of esports both for media companies – as they can generate high viewer numbers through esports content, especially among young people – and game publishers that constantly develop their titles or aim to launch new blockbusters onto the market.

After a record year for transactions in 2018, mergers and acquisitions slowed last year. Nevertheless, company representatives from strategic partner organisations interviewed in June 2020 report that their previous investments and sponsorships developed positively in 2019. Some 55 per cent are fully satisfied with the performance of existing engagements. Another 18 per cent consider their expectations exceeded, while the remaining 27 per cent are at least partially satisfied. The €1.7 billion in global transaction volume in 2019 is an indication of continued investor interest in the esports market, even though the volume did not reach the record-setting €3.9 billion of the previous year.

With increasing global activity and growing interdependence within the ecosystem, the regulatory demands on stakeholders in the esports world are growing. 'Withholding tax' and 'protection of intellectual property' are two relevant key phrases in this context, both of which are addressed within a special focus in this study.

While the market was set for growth in 2020, the outbreak of the COVID-19 pandemic has affected the dynamics of the esports world in unforeseen ways. The global lockdown has led to a major shift in the esports offering and altered consumer behaviour. During the first six months of this



exceptional year, the absence of traditional sport and entertainment events means esports has clearly moved into the public focus, which is reflected in increasing user numbers.

The economic consequences of the pandemic vary considerably for the different segments within the esports ecosystem: many organisations could continue or have even expanded their business activities while others were forced to temporarily shut down their operations. It will therefore be

interesting to observe whether the esports market will continue to grow despite or perhaps even because of the COVID-19 pandemic.

To acknowledge this development, this report includes a detailed focus on COVID-19's impact on the esports market as well as two insightful interviews with Ralf Reichert from ESL Gaming (p.11) and Christopher Overholt from OverActive Media (p.15).

The esports ecosystem

In recent years, the esports industry robustly grew into a globally connected ecosystem that attracts organisations from a variety of sectors. This development continued strongly throughout 2019.

The esports market is part of a wider ecosystem

IN THIS STUDY, esports is defined as the playing of computer and video games on a competitive level with teams or individuals facing each other within leagues or in tournaments. Organisations that derive revenues from participating in or organising such competitions at a professional level constitute the esports market.

The esports market stands at the heart of an ecosystem that comprises not only the stakeholders of the esports market itself, but also consumers and fans, as well as companies that contribute to the ecosystem's development through their products, services and strategic partnerships (figure 1). Some stakeholders are active in multiple segments, so the boundaries between the segments are porous.

Further organisations that touch the esports industry with varying degrees of frequency operate on the periphery of the ecosystem. Among them are governmental institutions, hardware suppliers and venue operators. The peripheral esports ecosystem is not considered in detail in this report.

Within the esports market, revenues are generated from participation in leagues and tournaments, as well as from the performance of professional players in the competitions.

Connected to and surrounding the esports market, there are five main areas to which stakeholders of the core ecosystem contribute revenue streams:¹

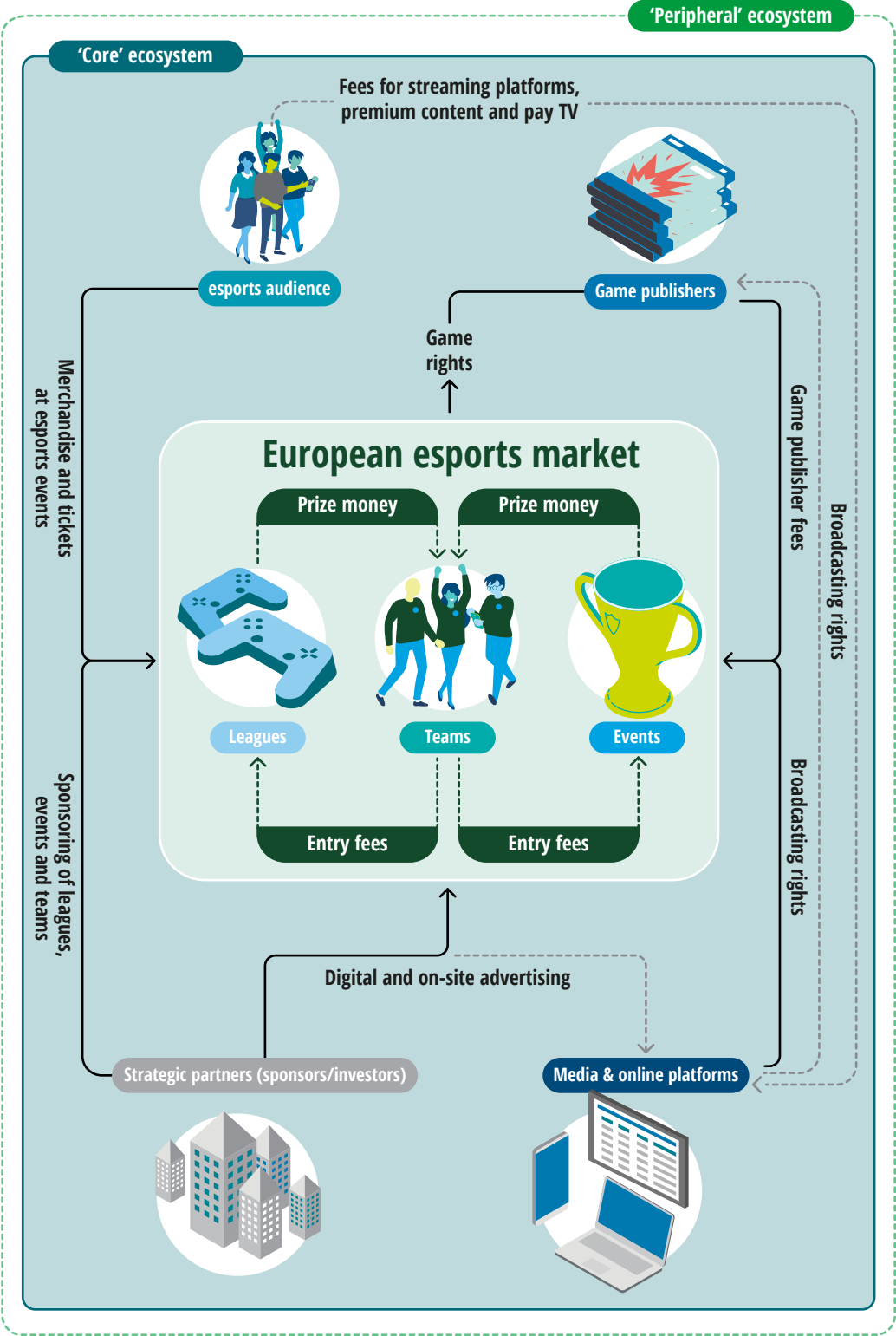
1. Sponsorship deals between esports teams, leagues or event organisers on the one side and strategic partners (investors/sponsors) on the other
2. Advertisement, either placed on-site at live events or during broadcasts of esports competitions
3. Revenue from media rights for broadcast esports content (both free-to-air and pay-tv)
4. Ticket sales at live events and merchandising revenue
5. Publisher fees paid by the publishers both to independent esports organisers for hosting events and to esports teams for marketing rights

esports is defined as the playing of computer and video games on a competitive level with teams or individuals facing each other within leagues or in tournaments.

FIGURE 1

The European esports ecosystem

- Revenue streams generated at the intersection of the esports market and adjacent stakeholders
- - - -> Revenue streams surrounding the esports market
- - - -> Revenue streams generated and remaining within the esports market



Source: Deloitte analysis.

Consumer and expert surveys provide first-hand insights

To capture a precise picture of the European esports ecosystem, Deloitte conducted two extensive surveys focused on the stakeholders of the core ecosystem as well as on the direct market participants.

In June 2020, a consumer survey was conducted with 12,000 people (henceforth, 'consumers') in eight European countries to reflect the relevant characteristics as well as the impact of COVID-19 on the esports audience. Some 1,500 respondents participated from each of the following countries: Belgium, Germany, Hungary, Italy, Spain, Switzerland, the Czech Republic and the Netherlands.

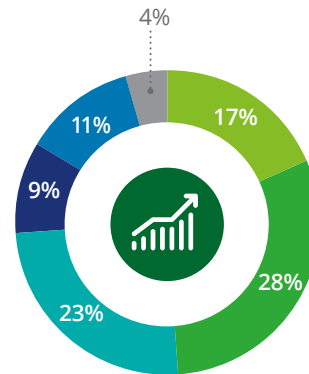
The second survey, also completed in June 2020, comprised online interviews with company representatives from the European esports ecosystem (henceforth, 'experts'). The expert sample represents all areas of the esports ecosystem where companies conduct business: events, leagues, teams, media and online platforms, publishers, as well as strategic partners. Hence, the second survey provides first-hand information on developments in the individual ecosystem segments.

A look at the figures for 2019 from the expert survey draws a positive picture for the organisations. Of the experts interviewed, 77 per cent state that their company increased its revenues compared to the prior year (figure 2). These findings point to a dynamically developing industry.

FIGURE 2

Revenue development in 2019 compared to 2018

- > 40% increase
- 20%–40% increase
- 10%–20% increase
- 1%–10% increase
- No change
- Revenue decrease



Note: 8% of experts answered "I do not wish to answer". Therefore, values in the graphic do not add up to 100%.
Source: Deloitte Expert Survey.

The first parts of the expert and consumer surveys consisted exclusively of questions about the situation in 2019, i.e. before the COVID-19 restrictions. The results from these parts are included in the analyses on The esports ecosystem (pp. 4–6); Development of leagues, teams and events in 2019 (pp. 7–10); Increasing popularity and growing audience (pp. 13–14) and Organisations adjacent to the esports market (pp. 18–21). The second parts of each survey contained questions concerning the impact of COVID-19. The results from the second parts of the surveys are presented in the chapter on the effects of COVID-19 on the ecosystem (pp. 22–31). Further comments on the methodology can be found in the Basis of preparation section at the end of this report (p. 40).

Development of leagues, teams and events in 2019

Participants in the esports market experienced a robust 2019 with substantial revenue growth and increased viewer interest. The introduction of franchise models has also increased the planning security of stakeholder groups.

Leagues

Esports leagues are usually organised as a two-step competition. They typically start with a regional -based regular season format and then reach their peak at the season finale with the regional winners competing for the overall championship.

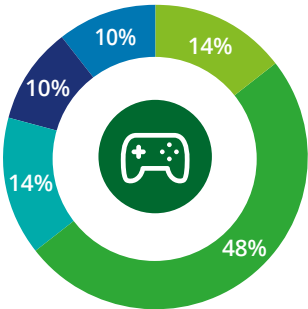
Professional leagues generate revenue from sponsorship deals and the sales of broadcasting rights, as well as by collecting participation fees from competing teams. The majority of league-organising companies report an increase in revenues for 2019, according to the experts (figure 3).

To fully realise their revenue potential, leagues must be equally attractive for spectators and sponsors. Accordingly, they must find ways to innovate existing platforms, organise exciting competitions and tell interesting stories.

The majority of league-organising companies report an increase in revenues for 2019.

FIGURE 3
Revenue development in the leagues segment in 2019 compared to 2018

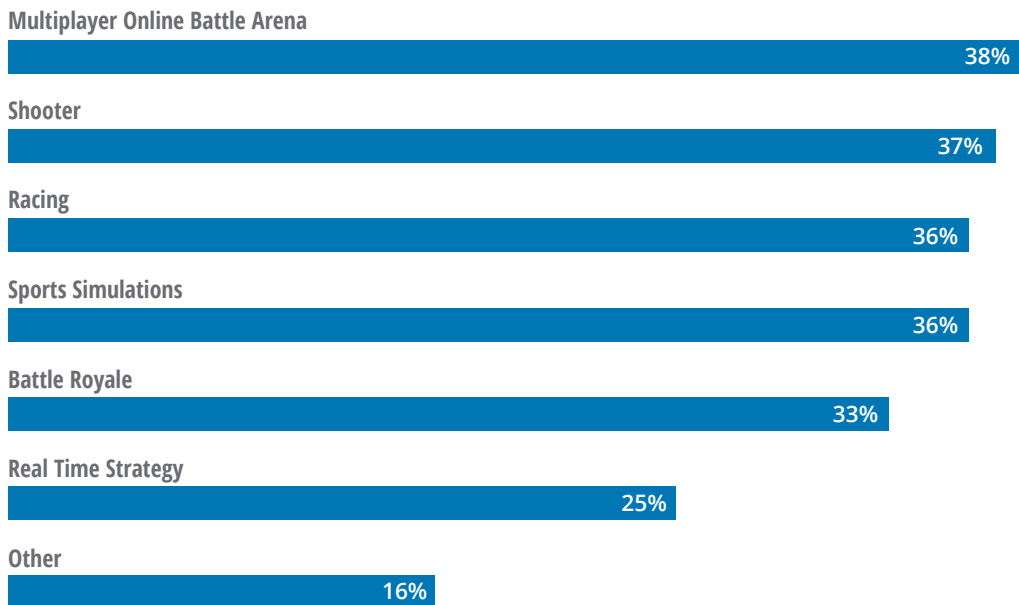
- > 40% increase
- 20%–40% increase
- 10%–20% increase
- 1%–10% increase
- No change
- Revenue decrease



Note: 4% of experts from the leagues segment answered "I do not wish to answer". Therefore, values in the graphic do not add up to 100%.
Source: Deloitte Expert Survey.

FIGURE 4

Game categories watched by esports consumers



Note: Multiple answers possible.
 Source: Deloitte Consumer Survey 2020.

The majority of consumers who have watched esports at least once in the past did so by tuning into professional league competitions (56 per cent). When following esports, consumers distribute their attention relatively evenly among competitions in the different game categories (figure 4).

Recently, league operators have increasingly introduced franchise systems for their competitions. Franchise leagues grant teams a guaranteed starting right in return for an entry fee. These franchise leagues are most often operated by the game publishers, as the control of the intellectual property rights ('IPRs') is an essential prerequisite to do so.

This 'closed system' – which knows no promotion or relegation – offers stakeholders increased planning security. Therefore, the system makes it worthwhile for sponsors to enter into multiyear cooperation deals with league operators and teams, which consequently increases their stability and competitiveness.² In addition, franchise leagues more often involve city-based competitions that can help teams build a loyal regional fan base when their turn to host the competition arises.³

ESL's 'Louvre Agreement' is a hybrid model that combines franchise elements with open-system features.

In February 2020, the ESL Pro League announced the introduction of franchise elements for its Counter Strike: Global Offensive competitions. This 'Louvre Agreement' is a hybrid model that combines franchise elements with open-system features. It guarantees leading teams a long-term participation slot in the league and a share of revenues and profits from ESL's Pro Tour competitions.⁴

In an interview conducted in late June 2020, Ralf Reichert (CEO of ESL Gaming) gives a detailed assessment of the Louvre Agreement's impact on the ESL and the participating teams (page 11).

Events

Professional esports competitions often culminate in large events at which the final matches are played in front of dedicated audiences. These events are the highlights of the season for players and fans. The competitions take place in large arenas, often with thousands of spectators in attendance and many more watching remotely on screen.

Revenues in this segment are generated through ticket and merchandising sales, deals with advertisers and sponsors, as well as fees for broadcasting and participation rights. The experts from the events segment almost unanimously report increased revenues for 2019 compared to the previous year (figure 5).

Some major esports events in 2019 posted strong figures regarding on-site attendance and remote viewership. The League of Legends Worlds and the Fortnite World Cup reached their highest recorded peak viewership to date, with 3.98 and 2.33 million concurrent stream viewers, respectively.⁵

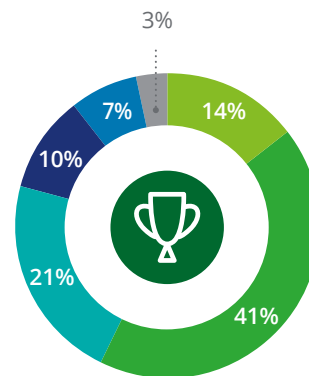
The League of Legends Worlds took place in Europe with games being played in Berlin, Madrid and Paris. Approximately 15,000 people attended the finale between G2 Esports and FunPlus Phoenix at the Accor Arena in Paris.⁶

ESL also recorded some of their largest viewer numbers of 2019 during events that took place in Europe. The IEM Katowice registered 1 million viewers at peak streaming. Further, 174,000 people visited the event that included competitions in multiple esports as well as the IEM Expo, setting a record for on-site attendance.^{7,8}

FIGURE 5

Revenue development in the events segment in 2019 compared to 2018

■ > 40% increase ■ 20%–40% increase
■ 10%–20% increase ■ 1%–10% increase
■ No change ■ Revenue decrease



Note: 4% of experts from the events segment answered "I do not wish to answer". Therefore, values in the graphic do not add up to 100%.

Source: Deloitte Expert Survey.

With the viewership numbers multiplying, the prize pools distributed at events in 2019 also exceeded previous years. Dota 2's The International and the Fortnite World Cup set an all-time high of prize pools for a single event with €30.7 million and €27.1 million, respectively.⁹ These were mainly financed via the sale of special in-game packages that are designed to generate funds for the said prize pools. However, this special approach is not used by all publishers and league organisers.

Teams

Competitive esports organisations manage teams that represent them in leagues and tournaments of the different game titles. They are not only competing for titles and trophies, but also for significant prize money.

Besides this performance-based revenue component, teams generate sponsor- and consumer-related income. Therefore, it is important for individual teams to stand out from competitors to attract and build lasting relationships with fans and corporate partners.¹⁰

In this respect, the teams were well on track in 2019, as 60 per cent of the experts representing esports teams report revenue increases of more than 20 per cent (figure 6). This contributes to their general optimistic outlook on the future development of their financial competitiveness.

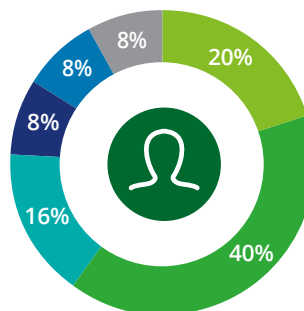
In an interview conducted in June 2020, Christopher Overholt (CEO of OverActive Media) points out how exceptionally important the right fan approach and strategic partner selection are for the success of an esports team (page 15).

The results from the expert survey reveal that, in spite of more and more organisations choosing such a focused and strategic approach, there is still room for improvement regarding the teams' professionalism. Some league and team operators are now hoping to promote an increase in professionalism by introducing franchise systems.

FIGURE 6

Revenue development in the teams segment in 2019 compared to 2018

■ > 40% increase ■ 20%–40% increase
■ 10%–20% increase ■ 1%–10% increase
■ No change ■ Revenue decrease



Source: Deloitte Expert Survey.

League and team operators hope to foster professionalism by introducing franchise systems.

Excerpt from the interview with Ralf Reichert (ESL)

Interview with Ralf Reichert, CEO of ESL Gaming, about the development of esports, the Louvre Agreement and effects of COVID-19.



1. Mr. Reichert, how do you evaluate the overall development of esports in Europe with respect to monetisation, popularity growth and public recognition in 2019?

Last year was a worthy successor to 2018 in that many non-endemic sponsors entered the market and viewership recognition was good. In the media, we achieved our first real successes in linear television. From a political perspective, there is still a need for improvement. Esports and gaming are part of the culture and, like traditional sports, depend on the existence of suitable infrastructure to reach and involve people. Traditional sports receive institutional support in building this infrastructure; gaming and esports do not have this yet.

2. How do you assess the trend toward more franchise concepts in the leagues, especially since ESL itself announced a step in this direction this year with the so-called Louvre Agreement?

At this point it gets philosophical, as this question would be answered differently from the perspective of the various stakeholders. We at ESL believe in open competition and are not fans of closed systems without relegation, which I think is the opinion of many in the esports ecosystem. But as a company, we must also pursue business objectives as we have the responsibility to provide teams and players with a platform where they can earn money.

With the Louvre Agreement, we have created a structure that offers this perspective to those teams with a fixed starting right, but in which there is still a chance for any team to qualify in a meaningful way.

Everything in esports is an experiment, and we have decided to create a hybrid model. So far, this decision has proved to be the right one, and we have had good experiences with the Louvre Agreement even in the times of COVID-19.

3. In your opinion, what other trends and drivers need to be addressed by an esports organisation regarding sustainable competitiveness?

I think a crucial factor for esports organisations will be the extent to which they can foster fan engagement. Today we are much closer to the fans than before, thanks to digital technologies. It is a lot easier to engage with them directly, which leads to very immediate feedback culture. Therefore, you must be extremely honest and authentic in what you present and how you present it. It can be an advantage that the industry is not yet fully structured, because there are no limits to thinking. Everything is innovation driven. League structures can be changed from one year to the next. It is not so much about building a strong brand as it is about creating real relationships with your supporters.

4. In the wake of the COVID-19 pandemic, people are involving themselves much more with esports. At the same time, the absence of physical events means a loss of revenue. How do you assess the development of the esports market since the outbreak?

In principle, the outbreak of the pandemic is bad for everyone. Therefore, I disagree with those who present esports as the winner of the crisis. The essential question in my opinion is how resilient your business model is to the effects of the virus and what you may have done better to overcome the challenges than other organisations that did worse. Of course, the decisive advantage for esports would have to be that, unlike other segments of the sports and entertainment industry, we were able to continue our operations. The show was never interrupted.

The outbreak of the pandemic is bad for everyone. Therefore, I disagree with those who present esports as the winner of the crisis.

From a purely commercial perspective, the two to three times higher digital viewership was remarkable. Also, the merchandise revenues went up between 30 per cent and 100 per cent from April on. At the same time, sponsorship and ticketing were negatively affected. We have great and loyal partners, but the lack of physical live tournaments was of course strongly felt.

So, in relative terms, it was probably neither a win nor a loss for esports since the increase in sales in some areas probably offset losses in other areas. In absolute terms, of course, I wish for many reasons that the virus had never broken out and that would also have been the better scenario for esports.

5. Which short-term measures have you taken to cope with the effects of the pandemic?

The first thing we did was to let all our employees continue their work from their homes and cancel all physical events. Our priority was to ensure the safety of everyone involved. Since nobody knew how the situation would develop, we then came up with a few scenarios as to how things could continue. Now I would say that we are experiencing the course of a medium scenario that is neither good nor particularly bad.

We also had to adjust our monetisation strategy. We usually have ten or more stadium-size competitions and over 1,000 smaller competitions a year, plus hours of produced material. That was basically all cancelled. We then started to have players broadcast individually from their own homes. The result is good, and fan reactions are positive. Now it is up to us to keep the entertainment factor up and continue to provide the fans with the content they desire.

6. After several months, traditional sports are now slowly resuming activity. Do you expect this to result in decreasing attention for esports?

No. First, I am excited to watch football again. Traditional sports were missed during the lockdown. Second, there can never be enough good quality content. The question is whether you just want the biggest piece of the existing cake or if you want to make the cake bigger. ESL's job is to create content that is so high in quality that the fans are convinced they need to watch our shows, no matter what the alternatives are. That is the philosophy we are operating under, and it is what esports should continue to strive for. Traditional sports have only limited impact in this regard.

For the full interview, please follow www.deloitte.com/de/esports-studie

Increasing popularity and growing audience

What esports has in common with traditional sports is that it thrives on the enthusiasm of its fans and their participation in the competitions as spectators. The trend clearly points to increasing popularity and growing audience numbers as the most powerful growth driver in the ecosystem.



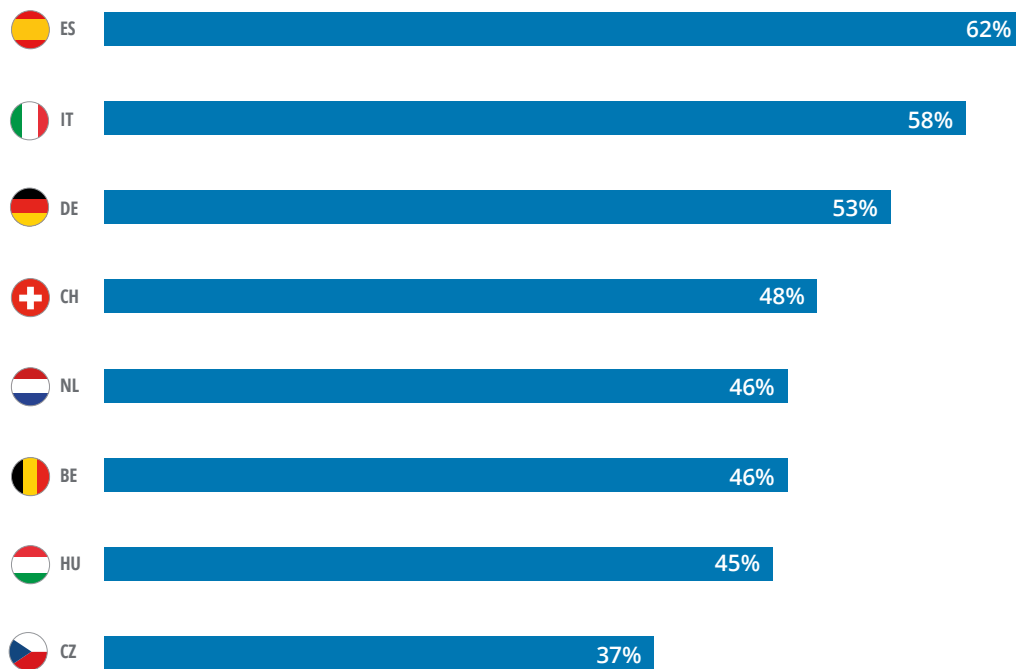
The esports audience

The worldwide esports audience grew by 12 per cent from 395 million in 2018 to 443 million across all channels in 2019, taking into account both regular (198 million) and occasional viewers (245 million).¹¹ Many esports viewers live in Europe, making the continent an esports hotspot.¹²

According to the consumer survey, close to half of those interviewed know what the term esports means (49 per cent), although there are differences between the countries (figure 7).

FIGURE 7

Share of respondents from selected countries familiar with the term “esports”



Source: Deloitte Consumer Survey 2020.

About 38 per cent of the consumers have watched esports content at least once. Spain and Italy are at the top of this list, as more than half of the surveyed consumers in these countries have watched esports before. Unchanged from last year, Spain and Italy also have the highest share of regular users – referring to those who watch esports at least once a week (figure 8).

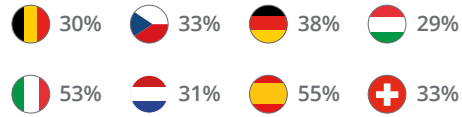
Almost one in five consumers (19 per cent) state that they have used fee-based esports offers before, although the willingness to pay varies considerably between the countries (figure 9). Another 7 per cent purchased esports content for someone else, for example, as a birthday present or for a family member.

More than half of the Spanish and Italian respondents have watched esports before.

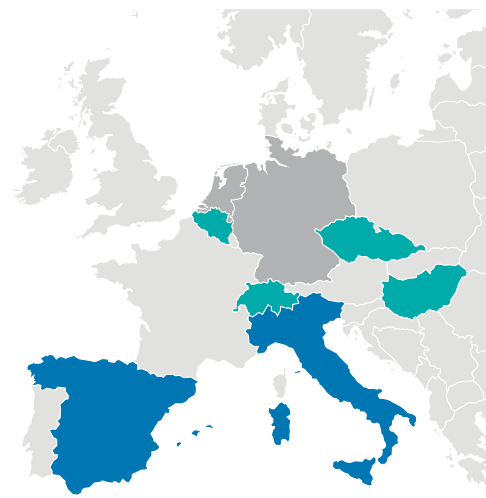
FIGURE 8

Esports consumption in selected European countries

Share of respondents who have watched esports at least once on any occasion



Share of regular users who watch esports at least once a week

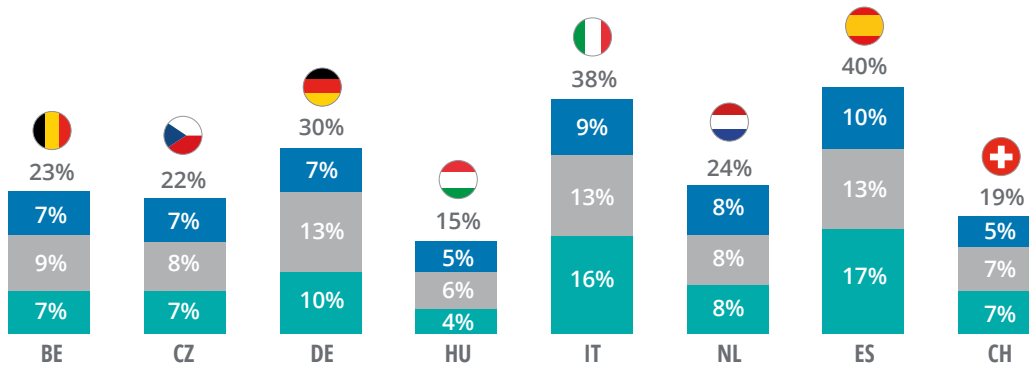


Source: Deloitte Consumer Survey 2020.

FIGURE 9

Share of consumers who paid for esports content in the past

- Consumers who accessed fee-based content multiple times
- Consumers who accessed fee-based content once
- Consumers who paid the fee for someone else



Source: Deloitte Consumer Survey 2020.

Excerpt from the interview with Christopher Overholt (OverActive Media)

Interview with Christopher Overholt, CEO of OverActive Media, about how a Canadian organisation entered the European esports market, the challenges of COVID-19 and the relevance of non-endemic partnerships.



1. Mr. Overholt, please explain to us how a North American esports organisation with two Toronto-based teams found its way into the European market

To say that we are excited about the European piece of our operation would be dramatically understated.

We, as an organisation, started with an Overwatch franchise in Toronto as our first reach into esports. We began with the intention of building a global company. While looking at individual markets, we realised there could be significant opportunities in the Spanish-speaking esports market.

There are 400 million people that speak Spanish in the world. Yet we could not find a single organisation that could claim to be an authentically Spanish esports organisation at a significant level. With that in mind, we started looking into Spain as a first step to identify a strategy there.

2. Last year, your teams operating under the Splyce brand were merged with the newly acquired MAD Lions and subsequently rebranded. In what way does this complement your vision?

In 2019, we secured our slot in the European League of Legends competition LEC. We had largely been afforded that opportunity through our Splyce team (Editor's note: Splyce had its origins in the USA). In fact, in our first year in the LEC, we were playing under the Splyce brand.

Before we identified the opportunity around the MAD Lions, we thought about how we could transplant the Splyce brand into Spain. When the opportunity arose, we were excited to acquire the MAD Lions as an OverActive Media brand, as that was the chance for us to be authentically placed inside the Spanish-speaking esports community.

As a result, we have been very well received by the community at large – not only the Spanish-speaking community that supports our SLO team in Madrid but more broadly by the Spanish- and English-speaking fans of LEC and League of Legends.

In a short period of time – largely because of our Spanish position under the MAD Lions brand – we became one of the more popular teams in the LEC.

3. You just announced new deals with imaginBank and Kappa.* Could you give us an assessment of how non-endemic brands engaging in the esports market might change the dynamics of the industry?

From the beginning, it has been core to our strategy to work with non-endemic brands. We are thinking on a long-term basis because this is the only way to reveal the potential of this industry.

When we announced imaginBank as our new banking partner, this post produced over 200 million media impressions for imaginBank and MAD Lions together.

Our deal with Kappa will likely be a three-year deal. Their experience, marketing background and e-commerce expertise will allow us to understand e-commerce and how to do it strategically in a way we could not afford if not for Kappa. For Kappa, this deal offers the possibility to bridge their brand into esports.

The potential of our brands both in Europe and in North America lies in strategic relationships. We focus on how we can bridge non-endemics into this space and do that credibly as well as authentically.

** Shortly after the interview, the MAD Lions announced a further deal with DYVIP, a Chinese betting provider.*

4. One element that ought to provide planning security for both teams and financial investors is the franchise mode introduced by multiple leagues. What is your overall assessment of the new format, especially as you compete in the LEC?

As an owner and operator, it's very liberating not to have all the weight that traditional sports carry to be forced into having a relegation system. To give an example, our Splyce team performed beyond expectations last year, finishing eighth in the World Championships.

From the beginning, it has been core to our strategy to work with non-endemic brands. We are thinking on a long-term basis because this is the only way to reveal the potential of this industry.

However, we were still in our setup phase, with our team consisting largely of veteran players. So, in line with our strategic approach, we let them move on for the most part and instead focused on scouting and identifying promising young players to create a competitive squad for the current season.

If we were worried about being relegated, that might have caused us to think differently and we might not be in this position now. This way, we are liberated from that pressure and liberated to do the right thing with a long-term focus for our fans, our investors and our commercial partners.

5. The COVID-19 pandemic has changed everyday life as well as the dynamics of the esports industry. How has the daily routine of your organisation changed since the outbreak?

While we are all at a distance and using video communication to stay in touch, our organisation is probably more connected than ever before. We are more in tune with the thoughts, intentions, frustrations and concerns of our people.

In a strange way, it has been a wonderful plus for our organisation to be focused on each other and the things that are important. It has been good for us to be reconnected through all of this in a positive way.

The time has not been without its challenges, though. From a player's perspective, it's been hard for these young people who are typically living away from home. In times like these, people want to be close to their family and loved ones. At the same time, our players are best when they are close to each other and can relate and talk to each other. It is difficult to weigh that off.

6. Your descriptions show that you have been able to adapt your processes quickly and flexibly to the new challenges posed by COVID-19 while maintaining your competitiveness. Does this create opportunities for your organisation?

First, it needs to be said that if we could wish all of this away, we would. It's been a difficult time for a lot of people. In these circumstances you look for positive unintended consequences to hold on to.

I think whatever curve the industry was on before COVID-19, it has been accelerated by two or three years in several ways.

I think whatever curve the industry was on before COVID-19, it has been accelerated by two or three years in several ways. Marketing partners are realising the very sizable opportunities that exist around the global audience of esports. Non-endemic brands particularly are starting to understand the reach, influence and impact of esports.

We have seen a rise in audience numbers. We currently achieve average viewership numbers that are record setting as it goes to League of Legends globally, for example. The audience is more significant and more engaged and, as a result, partners are taking notice of all of esports' potential.

7. Do you expect this effect to be a lasting one?

It will be interesting to see how it will look once the pandemic is over. My expectation is that the gains that we've seen in esports will not be undermined with the return of traditional sports.

For the full interview, please follow www.deloitte.com/de/esports-studie

Organisations adjacent to the esports market

Game publishers, media and online platform operators, and strategic partners generate revenues in connection with and surrounding the esports market. For most of them, 2019 was a successful year.

NUMEROUS COMPANIES SURROUND and support the esports ecosystem with their products and services. They may act as broadcasters, direct business partners or clients, investors, marketing partners, sponsors or suppliers.

These comprise both endemic companies whose core competencies are directly related to esports, as well as non-endemic companies whose core activities are not or not exclusively attributable to the esports industry.



Game publishers

Game publishers develop and publish video games, either for competitive playing or for leisure. They thus supply the esports market with the game titles for its competitions.

Game publishers earn a major share of their revenues by selling games and in-game items to end users (which are usually not part of the esports ecosystem but for which esports may act as a marketing tool).

They contribute revenue to the esports market either by organising leagues and tournaments or by paying fees ('game publisher fees') to independent event and league operators to do so. Additionally, they grant license rights for the use of their titles in esports competitions. However, the latter are

generally significantly lower than the game publisher fees. Finally, they pay esports teams for the usage of their brands for marketing purposes.

In order to sustainably generate revenues, publishers need to ensure that their games remain relevant for the audience. They can secure the users' interest by adding new content and providing ongoing technical support for their games or by publishing new game titles.

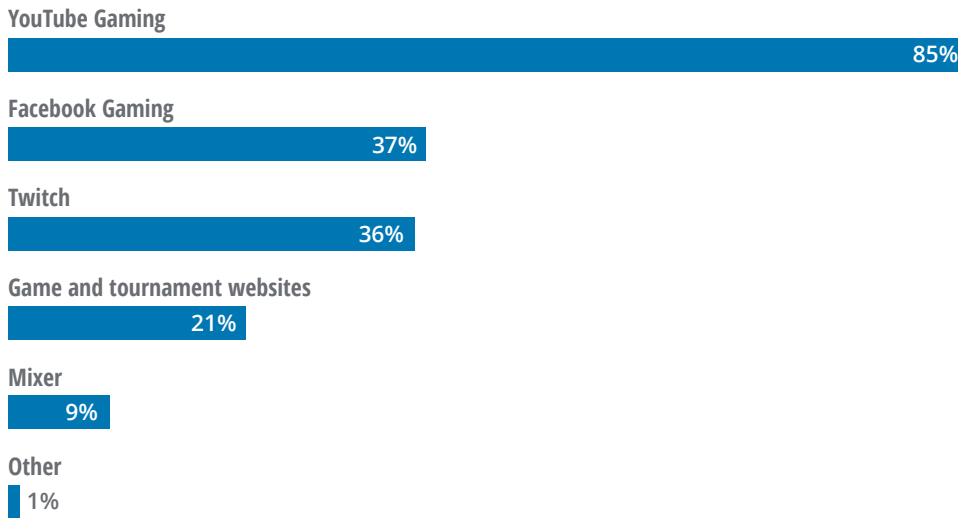
For example, Riot Games launched League of Legends in 2009 and successively developed it into one of the most important esports titles. In the development phase of their upcoming game Valorant, they have specifically tailored its overall game concept to become a new esports blockbuster.¹³

A strong trend in the segment points to mobile gaming, which is increasingly popular among esports fans and accounts for nearly half of all revenues in the gaming market. Titles such as PUBG mobile or Garena Free Fire attract large audiences.¹⁴

Another significant trend is upcoming cloud-gaming services such as PlayStation now or Google Stadia. These allow users to stream games and thereby avoid expensive investments in upgrades or the newest hardware.^{15,16} While some aspects of cloud-gaming might become relevant for esports, this trend is primarily important for the gaming industry.

FIGURE 10

Most frequently used internet platforms to watch esports



Note: Multiple answers possible.
Source: Deloitte Consumer Survey 2020.

Media and online platforms operators

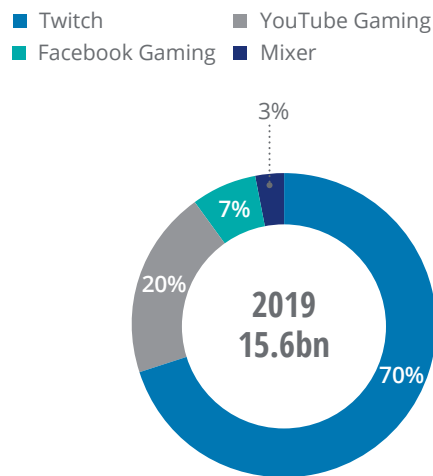
Media and online platforms bring esports content to the remote viewing audience via linear TV, live streams or video on demand. Content can cover entire contests or event highlights as well as topics beyond pure competition.

Media and online platforms generate revenue both from the esports audience by offering them fee-based content as well as from companies that pay for advertising slots during the broadcasts. All surveyed experts from the media and broadcaster segment report that, in their opinion, the esports market and the media segment developed very positive or at least predominantly positive in 2019. All of them recorded a strong (54 per cent) or slight (46 per cent) increase in user numbers.

According to the consumer survey, the most frequently used internet platform to watch esports is YouTube Gaming (figure 10). It must be noted that this graph shows the number of respondents who have used the respective platforms at least once for esports consumption. However, regarding the intensity of usage, Twitch is the leading platform (figure 11).¹⁷

FIGURE 11

Total hours watched on the four major game-streaming services in 2019



Source: Stream Hatchet.

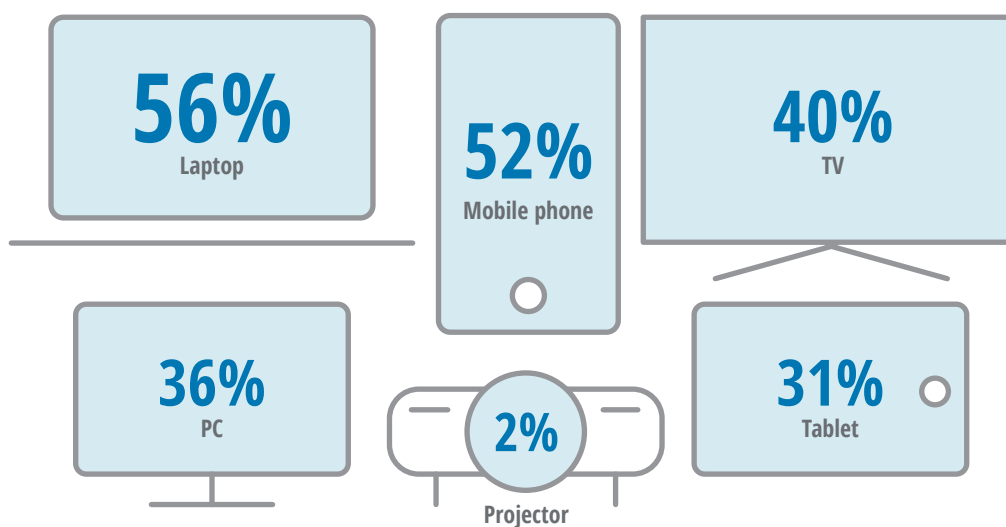
The most frequently used internet platform to watch esports is YouTube Gaming. In terms of usage intensity, Twitch is the leading platform.

Comparatively few consumers have used Microsoft's live streaming platform Mixer. Low monthly viewer numbers were cited as a reason when it was announced at the end of June that the platform would be switched off at the end of July in favour of Microsoft's cooperation with Facebook Gaming.¹⁸

The most frequently used devices among consumers for the media consumption of esports are laptops (56 per cent) and mobile phones (52 per cent). Nevertheless, TV, PC and tablet are used on a frequent basis as well (figure 12).

FIGURE 12

Most frequently used devices for watching esports



Note: Multiple answers possible.
Source: Deloitte Consumer Survey 2020.



Strategic partners (investors/sponsors)

Many esports organisations seek to establish strategic partnerships to help them develop professional structures on their way to sustainable economic competitiveness. From an investor perspective, esports organisations represent attractive targets in a rapidly growing market, while from a sponsor perspective the esports community represents a highly attractive target group.

Optimism among the experts representing companies that are looking for strategic partnerships with esports organisations is correspondingly high. All surveyed companies in this segment assess the market development in 2019 and the prospects for investors and sponsors as positive.

Non-endemic sponsors are increasingly exploring engagements in esports, aiming to reach the target group of mostly young and well-educated esports consumers, while investors additionally find a growing market to invest in.¹⁹ Those strategic partners may help esports to catch up with traditional sports in terms of monetisation.

Three quarters of the surveyed experts assume that increasing activities of non-endemic brands, as well as mergers and acquisitions, will have a major impact on the industry.

For example, SK Gaming managed to attract three non-endemic organisations as investors. Daimler, Telekom (both major industry companies) and 1. FC Köln (professional sports organisation) each acquired a 25 per cent stake in the esports organisation in 2019.²⁰

Three quarters of the surveyed experts assume that increasing activities of such non-endemic brands, as well as mergers and acquisitions, will have a major impact on the industry. For more details, refer to the chapter on Mergers and acquisitions on p. 32.

The signs were set for further growth

Regarding the industry's development, last year was a worthy follow-up to a strong 2018. Experts from all ecosystem areas predominantly recorded revenue growth for their organisations and report increasing consumer numbers.

Growth was originally predicted to continue in 2020, with global revenues expected to exceed the billion dollar milestone for the first time.²¹ However, the COVID-19 pandemic has fundamentally changed the dynamics of everyday life, the economy and, consequently, the esports industry. The following chapter examines how the esports ecosystem developed under these exceptional circumstances during the first half of 2020.

COVID-19 changes the ecosystem's dynamics

The COVID-19 pandemic has shaken the world. While the esports sector may appear to have coped better with the crisis than other industries, the numbers show no simple conclusion can be drawn.



The esports audience sharply increased its involvement after the COVID-19 outbreak

After the implementation of the lockdown to contain the pandemic, esports became a major consumer focus. Many consumers increased their esports consumption during this period (figure 13). Likewise, most industry experts report a heightened interest from fans and consumers.

A major advantage that esports held over traditional sports and other entertainment segments was that their competitions were not impacted as heavily, so their businesses did not experience the same kind of interruption. The show went on online.

In addition, lockdown regulations imposed in European countries led people to spend significantly more time at home, so leisure activities were limited to home entertainment. The increase in consumption was the highest in Italy and Spain, which were impacted very hard by the pandemic and where some of the most stringent restrictions were imposed of all surveyed countries.

With the boost of a growing audience behind it and its origin in digital-only formats, the expectation that esports could emerge as a frontrunner from this crisis does not seem far-fetched.²² However, an increase in consumption does not automatically reflect in an increased willingness of the consumers to spend money on esports content (figure 14).

Most industry experts report a heightened interest from fans and consumers.

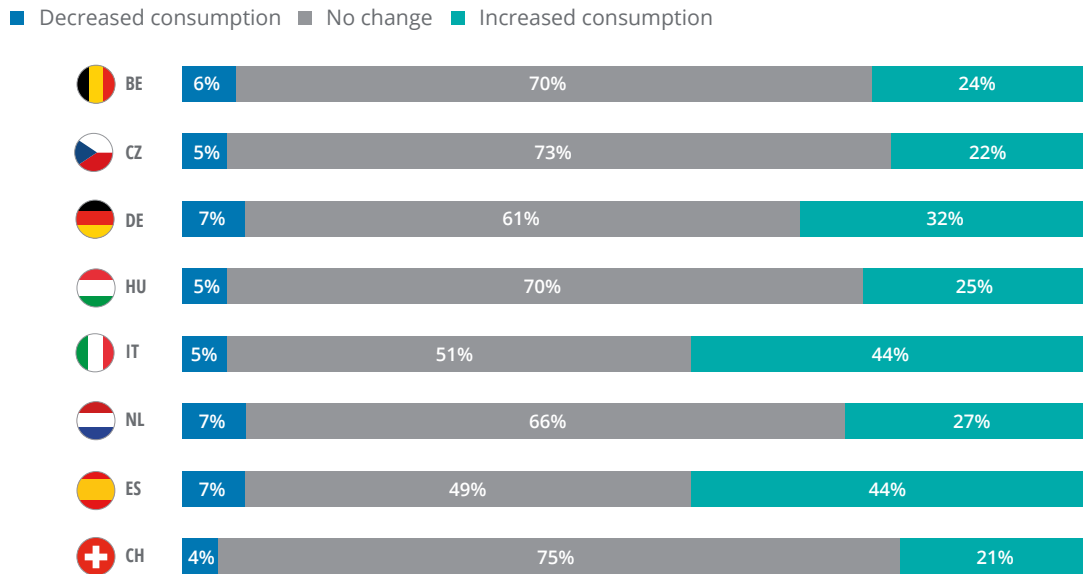
This is understandable in view of the serious economic consequences of the pandemic, which may well be reflected in the wallets of consumers. In addition, the esports industry offers fans a wide range of free content, providing a ready alternative for people with little or no willingness to pay. This data indicates that esports must still improve its content monetisation strategies during further development.

The strong increase in esports consumption and willingness to spend money on esports among Italian and Spanish consumers may be fostered by their high enthusiasm for esports – which may have been intensified during the long-lasting lockdowns imposed on the population of the two countries.

However, an increase in consumption does not automatically reflect in an increased willingness of consumers to spend money on esports.

FIGURE 13

Change of esports consumption since the introduction of COVID-19 restrictions among consumers in the surveyed countries

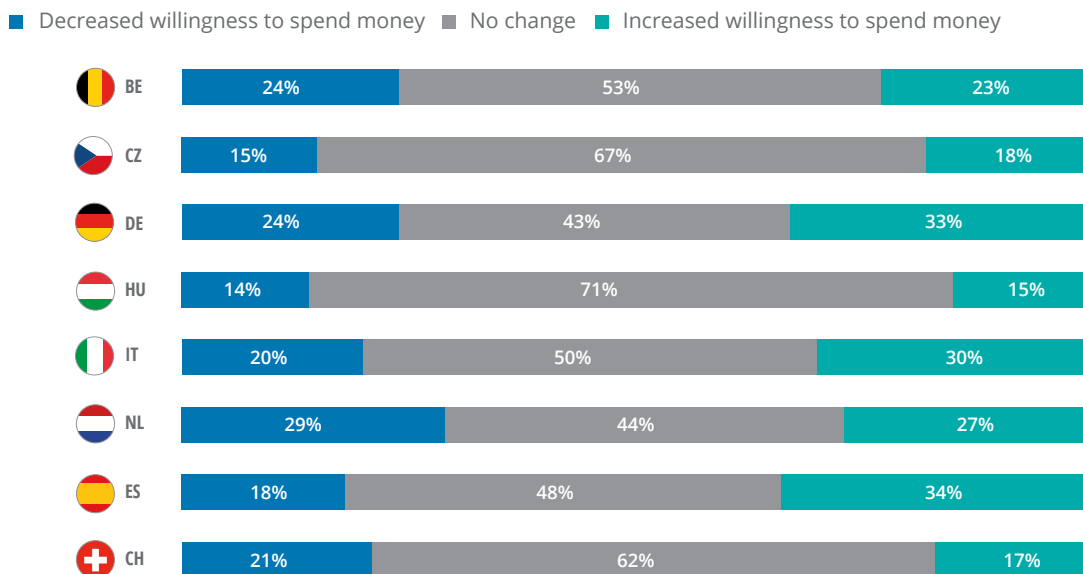


Source: Deloitte Consumer Survey 2020.

FIGURE 14

Change in willingness to spend money on esports content since the introduction of COVID-19 restrictions

Considered were respondents who consumed esports at least once before the restrictions



Source: Deloitte Consumer Survey 2020.

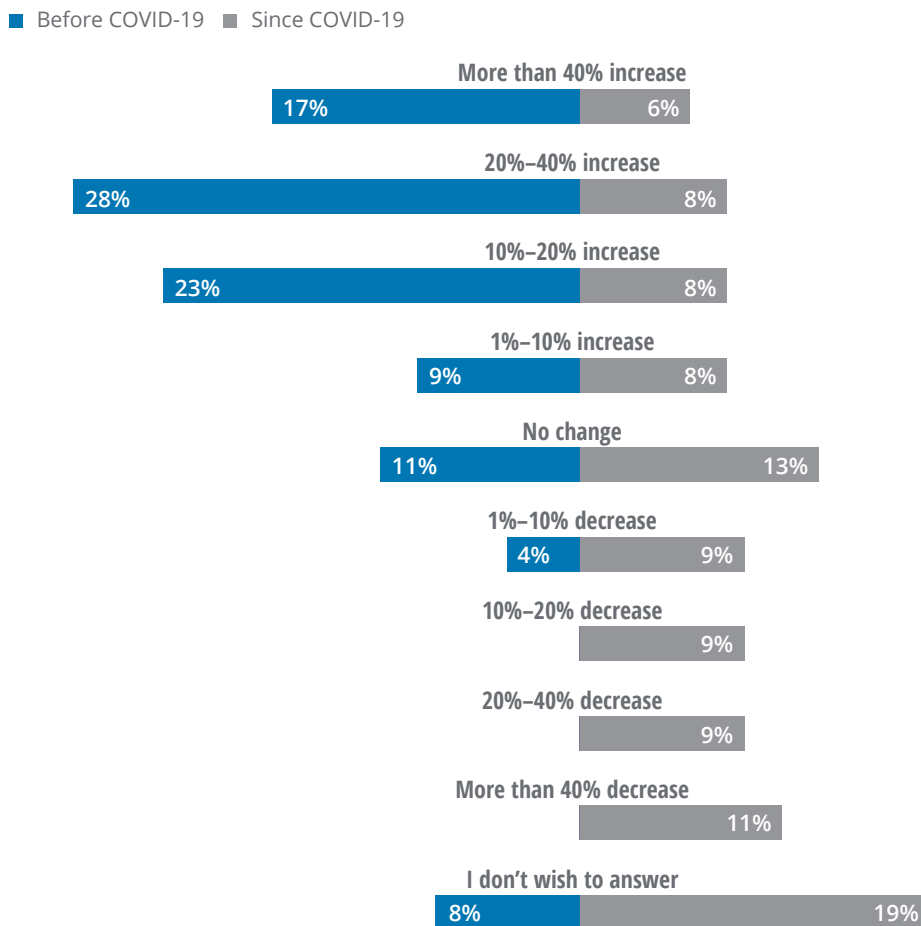
In spite of increasing audience numbers, organisations are still affected by the crisis

Independent from the effects on the consumer side, the crisis affects the business models of various stakeholders in different ways. While some companies could capitalise immediately on esports' heightened visibility during the crisis, others were unable to sustain their revenue streams (figure 15).

While some companies could capitalise immediately on esports' heightened visibility during the crisis, others were unable to sustain their revenue streams.

FIGURE 15

Revenue development before and since the introduction of COVID-19 restrictions



Source: Deloitte Expert Survey.



Events with a local audience could not take place during the pandemic

Of all the esports market segments, the COVID-19 restrictions most severely affected the event sector's business model. As physical events could no longer be staged, ticket sales and advertisement revenues were lost.²³ Many major events that typically draw large crowds were cancelled, postponed or shifted to online-only formats (figure 16).

As a result, 21 per cent of the experts from event organising companies report that the existence of their organisation is strongly threatened in the wake of the pandemic and 38 per cent feel weakly or moderately threatened. Still, 41 per cent of companies in the events segment report that their existence was not threatened at the time of the survey.

FIGURE 16

Selected events that were affected by the COVID-19 pandemic

Event	Initially scheduled	Note
IEM Katowice	March 2020	Took place without spectators
PUBG Global Series Berlin	March-April 2020	Cancelled. Global Series replaced by online series.
Rocket League World Championship	April 2020	Cancelled
Dota 2 Singapore Major	June 2020	Cancelled
Fortnite World Cup	July 2020	Cancelled
Mid-Season Invitational	July 2020	Cancelled
Dota 2 The International	August 2020	Postponed indefinitely
ESL One Cologne	August 2020	Moved to online event
gamescom	August 2020	Moved to online events
Pokémon World Championships	August 2020	Cancelled
League of Legends Worlds	Sept-Oct 2020	Moved to only one instead of several venues
Arena of Valor World Championship	2020	Replaced by online league

Source: Deloitte analysis, company websites.

Of the interviewed companies from the event sector, 21 per cent felt their existence was strongly threatened at the time of the survey, 38 per cent felt weakly or moderately threatened and 41 per cent felt not threatened at all.



Most league competitions continued in a pure online format

While all physical esports events came to a complete halt after the introduction of the COVID-19 restrictions, many leagues continued to operate, albeit in pure virtual competitions and sometimes in modified formats. Experts from the leagues segment of the market display a positive attitude. Almost 75 per cent report increased consumer interest since the beginning of the COVID-19 situation and expect revenues to rise again once the pandemic comes to an end.

Professional esports leagues are also developing innovative products during these exceptional times. For example, League of Legends fans will be rewarded with in-game items and promotions from brand partners during the Summer Split 2020. These 'Drops' become available at specific esports match moments.²⁴ Further, Riot Games, the publisher of League of Legends, introduced a novel advertising feature to competitions by adding in-game banners displaying their sponsors' logos. The new signage will appear only to viewers of the esports competitions to prevent the actual players from being distracted.²⁵

In this way, league operators are offering sponsors new opportunities to reach their target group even if events remain strictly virtual.



Teams remain in competition mode and are appealing to partners and fans in new ways

In 2019, teams played in crowded arenas in front of large audiences. The COVID-19 situation shifted their competitive life to one of being digital only.

To remain attractive for sponsors, esports teams need to open new opportunities for them to reach their target group. For example, the Spanish team MAD Lions was active during the lockdown. In June, the organisation announced three new deals with strategic partners, including imaginBank, a financial services provider; Kappa, a clothing manufacturer; and DYVIP, a Chinese betting provider.^{26, 27, 28}

While approximately one in three teams report a decline in interest from strategic partners since the introduction of the COVID-19 restrictions, one in four team representatives reports a higher interest from strategic partners.



Media and online platforms reach new milestones due to increased viewer numbers







Due to the strong increase in attention resulting from the COVID-19 restrictions, some remarkable viewership figures were achieved during the lockdown (figure 17).

Some remarkable viewership figures were achieved during the lockdown.

Both traditional TV broadcasters and internet platforms benefitted from viewership growth, which allows them to experiment with their program in favour of esports to reach new consumer groups (figures 18 and 19).

FIGURE 17

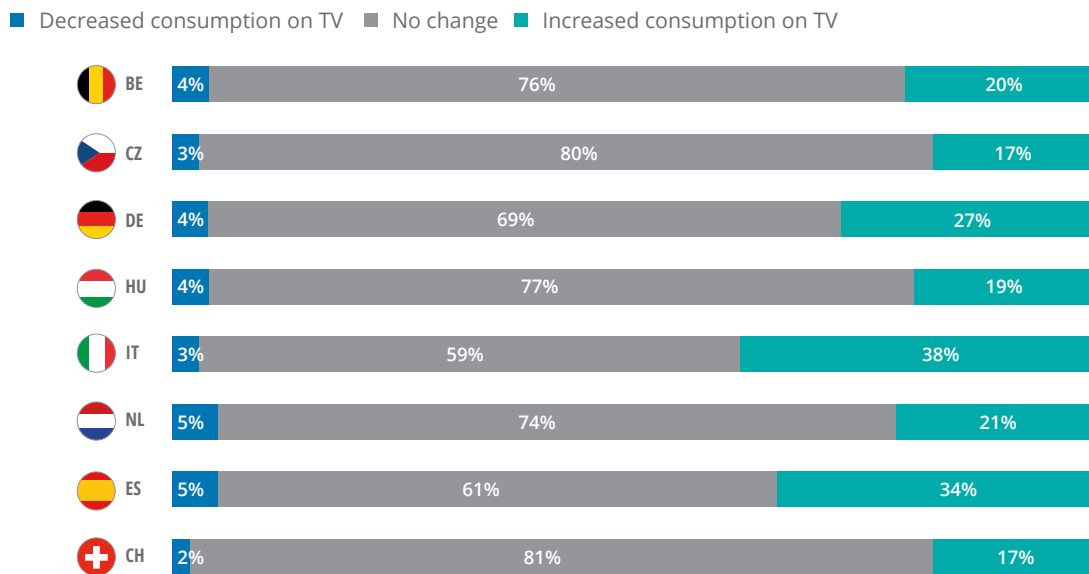
Viewership milestones during COVID-19

	Twitch	1.49bn	gaming hours watched in April
	LoL	807k	concurrent viewers during LEC Spring Split
	Fortnite	27.7m	players at in-game Travis Scott concerts
	Valorant	128m	hours watched in first week of its closed-beta version
	Free Fire	1bn	views reached by LOUD on YouTube
	CS: GO	>1m	concurrent viewers during IEM Katowice

Source: Deloitte analysis.

FIGURE 18

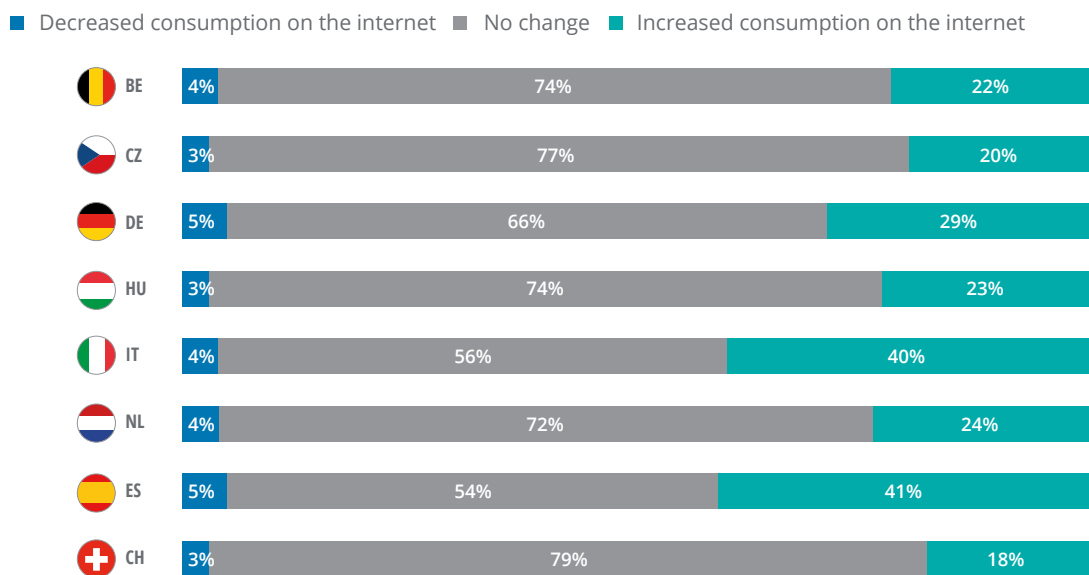
Change of esports consumption on TV since the introduction of COVID-19 restrictions



Source: Deloitte Consumer Survey 2020.

FIGURE 19

Change of esports consumption on the internet since the introduction of COVID-19 restrictions



Source: Deloitte Consumer Survey 2020.

Resulting from these experiments are new digital event concepts created by traditional sports organisations together with broadcasters and esports organisations. For example, events featuring celebrities in the competitions – like the Bundesliga Home Challenge or Formula 1 Virtual Races – enjoy significant popularity.

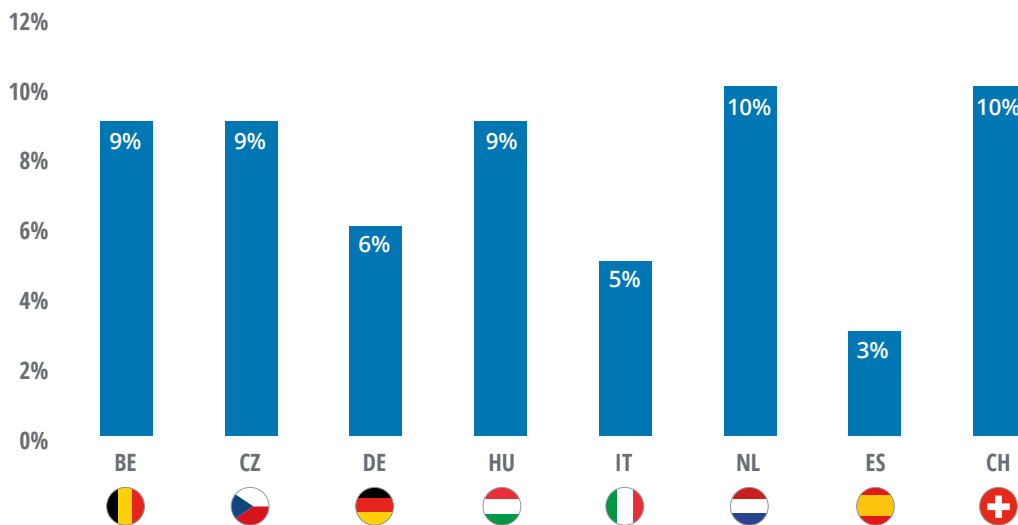
Such events have lowered the entry barrier to the esports universe for new consumers as racing games and sports simulations are relatively easy to understand. Correspondingly, these are the most watched game categories among consumers who watched esports for the first time after the COVID-19 restrictions. Some 24 per cent of the new consumers watched racing games and 23 per cent watched sports simulations.

New digital event concepts have lowered the entry barrier to the esports universe for new consumers.

These efforts to penetrate new consumer groups are having results. In some of the countries included in the survey, consumers who watched esports for the first time after the introduction of the COVID-19 restrictions account for as much as 10 per cent of the total esports audience (figure 20).

FIGURE 20

Share of total esports audience who started watching esports after the introduction of COVID-19 restrictions



Source: Deloitte Consumer Survey 2020.



Publishers experience a heightened demand for their games

Since the outbreak of COVID-19, consumers have increased their active video game consumption. Some 38 per cent of the respondents consume more than before the introduction of the COVID-19 restrictions, while 57 per cent say they have not changed their behaviour and only 5 per cent play less than before.

Italian and Spanish consumers have increased their video game consumption markedly. More than half of the respondents from each of the two countries state that they have played more games since the introduction of the COVID-19 restrictions back in March 2020. In the other countries surveyed, this figure was between 30 per cent and 38 per cent.

The segment could receive a further boost at the end of 2020 with the launch of new consoles, such as the PlayStation 5 and the Xbox Series X.

More than half of the respondents from Italy and Spain state that they have played more games since the introduction of the COVID-19 restrictions back in March 2020.



Strategic partners see opportunities during the crisis

Strategic partners interviewed for this report, which comprise strategic investors and sponsors, remain optimistic despite the crisis. They all believe that the esports industry will ultimately cope better with the situation than other industries in the sports and entertainment sector.

Non-endemic organisations are currently more optimistic than endemic companies. They expect new investment/sponsorship opportunities to arise from online platforms and media, as well as a slight increase of available targets among esports leagues and teams.

The extensive involvement of BMW with five esports teams, including the two European organisations G2 Esports and Fnatic, shows this optimism is also expressed in tangible commitments.²⁹ The decision to take this step had been made before the COVID-19 restrictions. However, BMW reported completion of the separately negotiated deals at the height of the outbreak in April.

BMW is not the only company to do so. Figure 21 shows a selection of recently announced sponsoring deals between non-endemic partners and esports organisations.

With regards to strategic investors, a list of selected completed transactions for strategic as well as institutional investors for 2019 and 2020 can be found in the following chapter on Mergers and acquisitions.

FIGURE 21

Selected engagements of non-endemic sponsors with European participation announced during COVID-19

Esports organisation	Sponsor(s)	Type
Various teams	BMW	New deals
ESL	Bitburger	Extension / Expansion
LEC	Pringles, Warner Music, Mastercard, KitKat	Extensions / Expansions
Prime League	Levi's	New deal
SK Gaming	Hylo Fresh	Extension
MAD Lions	Kappa, imaginBank, DYVIP	New deals
BIG	Volvic	New deal
NBA 2K League	SAP, Tissot	New deals

Source: Deloitte analysis, company websites.

Esports produces positive news during the pandemic

Revenue development of stakeholders in the industry is unlikely to be more positive at the moment than it would have been under normal circumstances. In addition, every representative of the esports industry certainly wishes that the pandemic had never broken out.

Still, even though organisations have been affected to varying degrees since the outbreak, esports is managing to produce encouraging news for the industry by creating added value for fans and participants in the ecosystem. These positive signs are received well by the stakeholders and the public.

Esports manages to create added value for fans and participants in the ecosystem during the COVID-19 pandemic.

Mergers and acquisitions

The transaction volume in the esports market reached an all-time high in 2018. In spite of a decline in 2019 compared to the previous year, the market remains attractive for investors.

THE ESPORTS ECOSYSTEM is home to stakeholders from around the world. Accordingly, relevant market transactions are often globally distributed and include companies from different countries.

The global esports industry achieved an investment volume of €1.7 billion in 2019.³⁰ In comparison, 2018 reached a record high investment volume of €3.9 billion, with Tencent Holdings accounting for approximately €1.6 billion of this sum.^{31,32} Among others, the acquisitions of Douyu (€534 million) and Huya (€391 million), two Chinese streaming platforms, are included in the disclosed investments made by the company.³³

Tencent invested only an estimated €34 million in disclosed esports transactions during 2019. The difference in the company's year-on-year investments accounts for most of the drop recorded in transactions between 2018 and 2019.³⁴ Overall, esports remains highly attractive for investors in both Europe and the rest of the world.

Figure 22 presents a list of selected transactions completed in 2019 and the first half of 2020. It indicates the quantity as well as the extent of past M&A activities. In the following section, we examine key transactions in more detail.³⁵

Selected M&A transactions in 2019

NORTH AMERICAN AND KOREAN COMPANIES PARTNER TO FORM ESPORTS JOINT VENTURE

In October 2019, the US media company Comcast and South-Korean telco SK Telecom created a global esports joint venture called SK Telecom CS T1. While SK Telecom is the majority shareholder with a 55 per cent equity stake, Comcast and Highland Capital, a US hedge fund, invested a combined €37 million to be the second and third largest shareholder, respectively.

SK Telecom, Comcast and Highland Capital created a global esports joint venture.

SK Telecom, Comcast and Highland Capital created a global esports joint venture. The joint venture owns SK Telekom's existing esports teams and plans to expand its portfolio across different gaming titles. It will also use SK Telecom's and Comcast's global networks, telecommunications and media capabilities to promote gaming content production, streaming services and related merchandise.

INCREASING INTEREST IN ESPORTS ORGANISATIONS

The largest change of control transaction of a team in esports history took place in June 2019, when US-based esports organisation Immortals Gaming Club (IGC) bought its rival Infinite Esports & Entertainment, the parent company of OpTic Gaming and Houston Outlaws, for €88 million.

Through the deal, IGC became one of the most important esports organisations.

Through the deal, IGC became one of the world's most important esports organisations. The combined company's team holdings include LA Valiant, an Overwatch League franchise, OpTic's Call of Duty World League team and League of Legends franchise, as well as Brazil's flagship CS:GO team MIBR. The Houston Outlaws, another Overwatch League franchise from Infinite, was sold to Beasley Media Group in November 2019 to maintain the integrity of the league.

With this acquisition, IGC's management has further strengthened the company's multi-brand strategy and secured access to the League of Legends Championship Series and the Overwatch League.³⁶

THREE NON-ENDEMIC COMPANIES EACH ACQUIRE 25 PER CENT OF GERMAN ESPORTS ORGANISATION

The Cologne-based esports organisation SK Gaming welcomed three non-endemic organisations as new shareholders. Daimler, owners of the Mercedes-Benz brand, 1. FC Köln, a football club in the German Bundesliga, as well as Telekom, Europe's biggest telecommunications company, each acquired a quarter of the shares in the organisation for an undisclosed sum.^{37, 38}

From SK Gaming's perspective, Daimler provides its experience in sports sponsoring, Telekom enables the performance and development of the SK Gaming's teams through its products and services, and 1. FC Köln contributes its expertise in developing efficient professional structures in competitive sports.

The future development and design possibilities in cooperation with SK Gaming are the most important aspects to the partners.

To the partners, the future development and design possibilities in the esports sector in cooperation with SK Gaming are the most important aspects. Daimler emphasises the access to younger consumer groups. 1. FC Köln hopes that this commitment will also provide inspiration for its football business.

SPANISH ESPORTS EVENT ORGANISER SOLD BY REUS CAPITAL PARTNERS

In May 2019, Reus Capital Partners, a Spanish private equity firm, and Ticnova Quality Team, a Spanish wholesale company, together sold an undisclosed stake of Fandroid. Fandroid is a Spanish esports event organiser and is the company that owns Liga de Videojuegos Profesional. The deal amounted to an estimate of €22 million.

The buyer, Mediapro, is a Spanish multimedia communications group involved in movie and television production. Mediapro had already invested in Fandroid before the transaction. Mediapro now owns a 100 per cent stake in Fandroid and will be able to expand its market by broadcasting online and on-site esports tournaments. Liga de Videojuegos Profesional will potentially benefit from a wider platform.³⁹

FIGURE 22

Selected M&A transactions 2019-2020

Date	Target	Country	Target category	Seller	Acquirer
2019					
January	SK Gaming	DE	Team organisation	SK Gaming	Daimler AG, 1. FC Köln
March	G Esports Holding GmbH	DE	Team organisation	G Esports Holding GmbH	Seal Rock Partners, Parkwood Corp., Everblue
May	Fandroid	ES	Events	Reus Capital Partners, Ticnova Quality Team	Mediapro
May	MateCrate GmbH	DE	Events	MateCrate GmbH	Olympia Verlag, Sportplatz-Media, Innovationsstarter Fonds Hamburg
June	Clutch Gaming	US	Team organisation	Houston Rockets	Dignitas eSports LLC
June	Infinite Esports & Entertainment	US	Team organisation	Infinite Esports & Entertainment	Immortals Gaming Club, LLC
June	Greenlit Content	US	Premium content, Marketing	Greenlit Content	ReKTGlobal, Inc.
July	100 Thieves	US	Team organisation	100 Thieves	Aglae Ventures, Artist Capital Management
July	ESforce Holding	RU	Premium content, Events, Team organisation, Content production	Mail.ru Group	Modern Pick
October	SK Telecom SC T1	KR	Team organisation	Newly formed joint venture	SK Telekom, Comcast, Highland Capital
October	Next Generation Esports	US	Events, Production	Next Generation Esports	Vindex
October	eSports GSA GmbH	DE	Content	eSports GSA GmbH	7Sports, ProSiebenSat.1 Sports GmbH
November	The Legacy Esports OW	US	Team organisation	Immortals Gaming Club, LLC	Beasley Broadcast Group
November	Houston Outlaws	US	Team organisation	Immortals Gaming Club, LLC	Beasley Broadcast Group
December	SK Gaming	DE	Team organisation	SK Gaming	Deutsche Telekom
2020					
February	HLTV.org, Dust2.dk	DK	Premium content	HLTV.org, Dust2.dk	Better Collective
April	Allinsports	IT	Hardware	Allinsports	Torque Esports
June	x6tence	ES	Team organisation	x6tence	Vodafone Giants

Sources: Mergermarket; Deloitte analysis.

Selected M&A transactions in 2020

Transactions with a total volume of €1.0 billion were recorded in the first half of 2020. The curve showed a slight upward trend towards the end of the half-year.⁴⁰ It must be noted, that the impact of the COVID-19 pandemic on the further development of M&A transactions cannot be estimated at this time.

BETTER COLLECTIVE ACQUIRES HLTV.ORG AND DUST2.DK

One of the first transactions in 2020 involved the acquisition of HLTV.org and Dust2.dk, two Denmark-based online platforms providing news from the esports industry. Better Collective, a Danish sports betting media group and a leading developer of educational platforms within the iGaming industry, paid an estimated €26 million for the two platforms. According to the company, the newly acquired news platforms added deep know-how and industry knowledge to Better Collective and enable it to offer innovative products to clients.⁴¹

Better Collective paid an estimated €26 million for the acquisition of HLTV.org and Dust2.dk.

TORQUE ESPORTS ACQUIRES ALLINSPORTS

In April 2020, Torque Esports, a Canadian gaming and esports company, reached an agreement to acquire 100 per cent of Allinsports, an Italian motorsport simulator manufacturer, for €22 million.⁴² Allinsports was founded in 2008 by Anton Stipinovich, a former Formula 1 engineer, and produces high-end racing simulator systems used by a number of Formula 1 racers.

Torque Esports is engaged in esports tournament hosting, esports racing and esports data provision.⁴³ The transaction is part of Torque's strategy to promote growth through the acquisition of complementary gaming and esports assets. Racing simulators from Allinsports have already been used for its esports racing events and competitions.

If, as assumed, the global audience continues to grow and attract further commercial partners as well as transmittal platforms, further significant investor interest in European esports can be expected.

Torque Esports acquired 100 per cent of motorsport simulation manufacturer Allinsports.

Special focus: Increasing fiscal obligations

Teams, league organisations and sponsors can be subject to increasing fiscal scrutiny due to their growing complexity and increasing global activities.

THE ESPORTS MARKET is increasingly receiving scrutiny from financial regulators due to strong revenue growth and its ability to generate international cash flows. German tax authorities established a task force at the end of 2018 to examine the esports sector.⁴⁴ In the United States and other countries, tax authorities are also becoming increasingly vigilant to ensure that the sector's rising sales figures match their respective tax obligations.

In addition to the corresponding pro-fiscal interpretation of existing regulations, new concepts are also being developed to tax the digital business models of the industry.

The innovative digital nature of the ecosystem and its international nature lead to unprecedented situations in which tax obligations might be unclear.

Cross-border payments could trigger taxes

Players receive wages, prize money and start premiums – partly from the teams, partly from the tournament organisers. This all contributes to the income of a professional esports player and is taxable. However, the innovative digital nature of the ecosystem, plus its developing international nature, means unprecedented situations are arising and tax obligations might be unclear. For example, should tax be applied to the expenses of a:

- team *paying* a fee to participate at a tournament or compete in a league
- sponsor *paying* money to an esports tournament operator to appear in tournaments with high publicity
- pay-tv broadcaster *paying* for the broadcasting rights of esports events

At first glance, it would seem incongruous with the standard understanding of taxation. However, in Germany and many other countries with comparable regulations, an obligation does exist. The key phrase is 'withholding tax', which can be levied on certain services provided by non-residents to domestic tax residents.

Under certain circumstances, it is possible to obtain an exemption from the ‘withholding tax’ or to receive a refund on the ‘withholding tax’ already paid. However, applications must be submitted to the tax authorities. The success of these applications depends primarily on the legal structure of the concerned company.

Entry fee, marketing fee – every contract could result in the ‘right’ to be taxed

Meanwhile esports has become a highly professional competition where annual sales reach into millions of euros. Esports teams, organisers, tournaments and sponsors are now as professional and as organised in their approach as their equivalents in popular traditional sports.⁴⁵

Different financial transactions are made between stakeholders, particularly across borders as the digital nature of the industry means online games and tournaments know no national boundaries. This results in a staggering variety of contract constellations between participating parties along the revenue streams within the ecosystem.

Contracts stipulate both a license or service to be provided and the corresponding fee. Contracts like this could trigger ‘withholding tax’ in the country where the service recipient is located if, for example, a right of use (such as for licenses, copyrights, etc.) is granted in return for a payment that is transferred cross-border in nature due to the constellation of the contracting parties.

Some contracts are extensive and require an in-depth review of each individual component of the contract to see if they trigger ‘withholding tax’, ensuring the right amounts are paid based on relevant regulation.

However, if an esports organisation or sponsor is unaware that contractual terms are subject to ‘withholding tax’, this can lead to significant difficulties with taxation authorities. Tax payments may be demanded during subsequent audits. That is, the foreign contractual partner may suddenly find themselves subject to tax payments after the fee has been paid. It is always best to know well before implementing a structure or the respective contracts what the local implications will be.

Digital Service Tax (DST)

Existing taxation concepts are challenged by the rise of digitalised business models, such as esports. In most cases, operating companies are located abroad, and users are spread widely across the planet.

Current tax regulations do not cover such an internationalised, distributed model to the same extent as they cover traditional businesses. In response, about half of all European OECD countries have either announced, implemented or proposed a digital services tax (DST), which is a tax on selected gross revenue streams of large digital companies.⁴⁶ In terms of esports, for example, a digital service tax would cover the placement of personalised advertising directed to the user, as is common in online tournaments.

The transmission of user data generated from user activity on the digital interface would also be subject to DST, as well as software distribution via downloads (for example, in-app purchases). To secure the tax substrate from digital business models, Austria, France, Hungary, Italy and the United Kingdom have all introduced a national DST. Slovakia, Spain and the Czech Republic have proposed such a tax, while Latvia and Norway intend to develop one.⁴⁷ Organisations within the esports ecosystem must be aware of and observe these developments in order not to incur unnecessary tax penalties.

Special focus: A unique marriage of art and technology

Intellectual property rights provide esports organisations with the essential security needed to implement their creative ideas. Protecting these core assets is one of the most important challenges in an industry that is growing ever larger and that is becoming increasingly globalised.

THE VIDEO GAME industry creates some of the best known and most compelling intellectual property in the world. Video games are a unique marriage of art and technology, a fact recognised by the Court of Justice of the European Union, which has described them as a “complex matter comprising not only a computer program but also graphic and sound elements, which, although encrypted in computer language, have a unique creative value which cannot be reduced to that encryption” and “are protected, together with the entire work, by copyright...”⁴⁸

People in the game industry commonly refer to their creations as ‘IP’ and fully appreciate that intellectual property rights (‘IPRs’) provide them with the means to recoup their often massive investments in the games played by millions worldwide. Popular (esports) games can take years to develop and produce and often have budgets that are comparable to those of Hollywood blockbusters.

As developers and publishers take the risks and provide the resources to create and maintain their games, they should enjoy the exploitation rights in the resulting works, as do creators and publishers in other content sectors.

“IP” AND “IPRs”

Intellectual property (IP) refers to “creations of the mind, such as inventions; literary and artistic works; designs; and symbols, names and images used in commerce.”⁵²

Intellectual property rights (IPRs), predominantly copyright and trademarks, but also patents and trade secrets, play a critical role in esports as broadcasts, games, streams and tournaments are all facilitated and monetised through them. It is no exaggeration to claim that without IPRs, there would be no esports.

End user license agreements commonly used by game publishers exclude the commercial use of games. Tournament organisers, therefore, must ensure that they have the necessary rights to make games publicly available at their events or through other distribution channels.

Traditional sports ‘belong’ to everyone but in esports publishers have the final say

IPRs are what primarily distinguish esports from traditional sports. While a professional sports league may own and license its own IP, it does not own the sport itself. No one owns basketball or football, but someone does own your favourite esports. As a result, the owner enjoys significant control over league structures, players and teams, as well as over the terms of exhibitions and tournaments.

Because publisher approval is needed to broadcast streams, host competitions or to even play the games, IPRs and the control they are perceived to give publishers are sometimes criticised. Publishers, though, recognise that their IPRs place them in a unique position to lead the development and growth of the industry, and acknowledge the value that esports brings to their brands, games and revenues.

Broadcasters, players, streamers, teams and tournament organisers also own and monetise valuable trademarks and other IP rights, although they must do so within the confines of the licenses or permissions granted by the developers or publishers.

While the streaming and publishing of gameplay is one of the key revenue sources for esports players, the gameplay is IP of the developers. This could create challenges regarding the licensing, especially in a tournament context.

Know-how – IP protection implemented correctly

Formal contractual protection of property rights as well as compliance with legal requirements when using IPs can protect organisations from risks resulting from unconscious misconduct. But what about deliberate malicious behaviour?

While cybercrimes, such as identity or credit card theft, are familiar to the public, IP cyber theft remains relatively unknown.⁴⁹ IP cyber theft can result from multiple scenarios: human error, malware infiltration and privilege abuse are among the most regular scenarios.⁵⁰ Besides the reputational damage caused by such incidents, the outflow of intellectual property can lead to significant effects on the IP owner’s business.⁵¹

The protection of intellectual property can be tackled from many directions: Due to the digital nature of esports, adequate protection must be incorporated into systems to prevent cyber-attacks. At the same time, legal expertise is needed to acknowledge the rights of each participant within the esports ecosystem. Therefore, one may avoid legal conflicts that can arise given the variety of IP owners found amongst the ecosystem’s stakeholders. Together, these measures can protect the most valuable assets of one’s business, making IP protection a vital aspect of esports management.

No organisation in the global and interdependent esports ecosystem can avoid the issue of IP and IPRs as it charts its way to sustainable success.

Basis of preparation

Deloitte conducted an extensive survey in early summer 2020 to obtain reliable consumer data. The survey involved 12,000 consumers aged 16 and over. We also asked representatives of various European esports organisations to provide their thoughts on current topics, market developments and the effects of COVID-19 on the industry. In total, 53 industry experts participated.

THE CONSUMER SURVEY was conducted with the support of local Deloitte member firms in Belgium, Germany, Hungary, Italy, Spain, Switzerland, the Czech Republic and the Netherlands. In each country, some 1,500 people were interviewed with profiles ranging across demographics in terms of age, education, gender and income.

The survey is representative for the individual countries but is not suitable for forming a Europe-wide average as the results are not weighted and some markets were not considered. Accordingly, all total and average reported values are to be understood exclusively as figures for the investigated overall sample, but not for the European population.

For the expert survey, Deloitte reached out to numerous European industry representatives in cooperation with the Interactive Software Federation of Europe (ISFE) and game – the German Games Industry Association.

In the first part of the interview, experts were given the opportunity to discuss market developments and trends for the period prior to the COVID-19 restrictions. Then, in the second part, they were asked to assess the impact of the pandemic on the industry and the segments of the esports ecosystem to which they assign their organisation.

A total of 53 experts from organisations in nine countries accepted our invitation. Most companies are based in Spain (12 organisations), Germany (11) and Switzerland (11).

The political, economic and geographical understanding of Europe applied in this study is based on the inclusion of all member states of the European Union as of 30 June 2020, as well as the non-EU countries of Norway, Switzerland and the United Kingdom.

To enable an international analysis and comparison, we converted all financial figures into euro using the respective average annual exchange rate provided by Eurostat.⁵³ This can lead to changed growth rates compared to the original data of the converted currency.

Please note that figures in this report are typically rounded. Therefore, one may not be able to recreate sums, shares and growth rates based on other stated figures, as the underlying calculation is based on more precise (non-rounded) values.

This publication contains information derived from publicly available or other direct sources. For this report, we have not performed any verification work or audited any of this externally sourced information.

This publication is not a substitute for professional advice or services, nor should it be used as a basis for decisions or actions that may affect your finances or your business. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser.



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ISFE – Interactive Software Federation of Europe

ISFE represents the video games industry in Europe and is based in Brussels, Belgium. Our membership comprises national trade associations in 18 countries across Europe, which represent in turn thousands of developers and publishers at a national level. ISFE also has as direct members the leading European and international video game companies, many of which have studios with a strong European footprint that produce and publish interactive entertainment and educational software for use on game consoles, mobile phones, personal computers, portable devices and tablets.

The video games sector represents one of Europe's most compelling economic success stories, relying on a strong IP framework, and is a rapidly growing segment of the creative industries.

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Game – the German Games Industry Association

Game is the association of the German games industry. The members of game include developers, publishers and many other games industry actors such as esports companies, institutions and service providers. As a joint organiser of gamescom, game is responsible for the world's biggest event for computer and video games. The association is shareholder of the German Entertainment Software Self-Regulation Body (USK), the Digital Game Culture Foundation, the esports player foundation and devcom, as well as sponsor of the German Computer Game Award. game is an expert partner for media and for political and social institutions, and answers questions relating to market development, games culture and media literacy. game's mission is to make Germany the best games location.

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