



Let's Play!

The European esports market

Deloitte Sports Business Group

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Foreword

Esports is a rapidly emerging success story all across Europe. Revenues are rising on the back of significant audience growth and increasing engagement from commercial partners. Potentially the market could develop further towards mainstream acceptability, especially in terms of increased media coverage.

THE EUROPEAN ESPORTS market is experiencing enormous growth. Nowadays, esports events easily fill arenas while the prize money can rival or even exceed that on offer in many traditional sports. As part of its growth, esports has evolved well beyond being a niche product. The small, local 'LAN parties' of past years have been replaced by globally connected events that are streamed online and transmitted via linear TV. A few years ago, only a small number of core fans followed the latest esports news. Now, the latest developments are the subject of intense public discussion, mainly by younger generations.

This does not seem to be a short-term phenomenon. Rather it reflects a sustainable and constant expansion. For this reason, esports must be considered a success story not only in Europe, but also globally because the developments can also be seen worldwide. However, this study investigates European esports with a particular focus applied to Germany, the largest and one of the most advanced esports markets on the continent.

The European esports market has seen strong average annual growth of about 24 per cent since 2016, with total revenues amounting to EUR 240 million in 2018. During this period, the market has increasingly become more structured: Associations and league systems have been implemented, new competition structures are evolving and nonendemic participants are entering esports, especially as sponsors or commercial partners. Additionally, global mergers and acquisitions (M&A) activity reached a record high in 2018, reflecting growing interest from investors, which was also evident in the European esports market.

For the esports market to maintain this growth, newly implemented leagues, such as the League of Legends European Championships (EU LEC) franchise, must prove successful. Meanwhile, existing tournaments need to exploit the popularity of the booming esports scene and reach new spheres. In this way, there will be a positive impact on the size and monetisation of the esports audience, which will lead to an increase in commercial and media rights revenues to the benefit of all esports stakeholders.



Besides defining the market size and development, this study focuses on the major market drivers, and examines the significance of franchise leagues, the increasing M&A activity and the growing media engagement in esports. This latter trend is crucial to the ability of esports to compete with 'traditional sports' such as basketball, handball, ice hockey or even soccer.

The European esports market has seen strong average annual growth of about 24 per cent since 2016.

As part of this study we have conducted a consumer survey across various European countries. The intention was to investigate perceptions of esports on an international level (for details on the methodology, please refer to the section "Basis of preparation").

Ongoing equity investments and the implementation of additional closed-league systems will enable esports to take further significant steps towards maturation. To explain the importance of closed-league systems, this study also examines the recently launched EU LEC league and includes an interview with Alban Dechelotte, Head of Sponsorships & Business Development EU at Riot Games (see page 19).

Market overview

The European esports market has experienced significant growth in recent years to become a market of considerable size. Along with a strong revenue development, the market has also seen an increase in the variety and numbers of interrelated stakeholders.

The European esports market

ESPORTS HAS DEVELOPED rapidly from a niche product towards becoming a mainstream phenomenon. The three regions of Asia, Europe and North America each represent about 30 per cent of the global market. In Europe, the esports market is attracting more stakeholders every year and in 2018 was estimated to be worth EUR 240 million. This is an annual growth rate of 24 per cent since 2016.

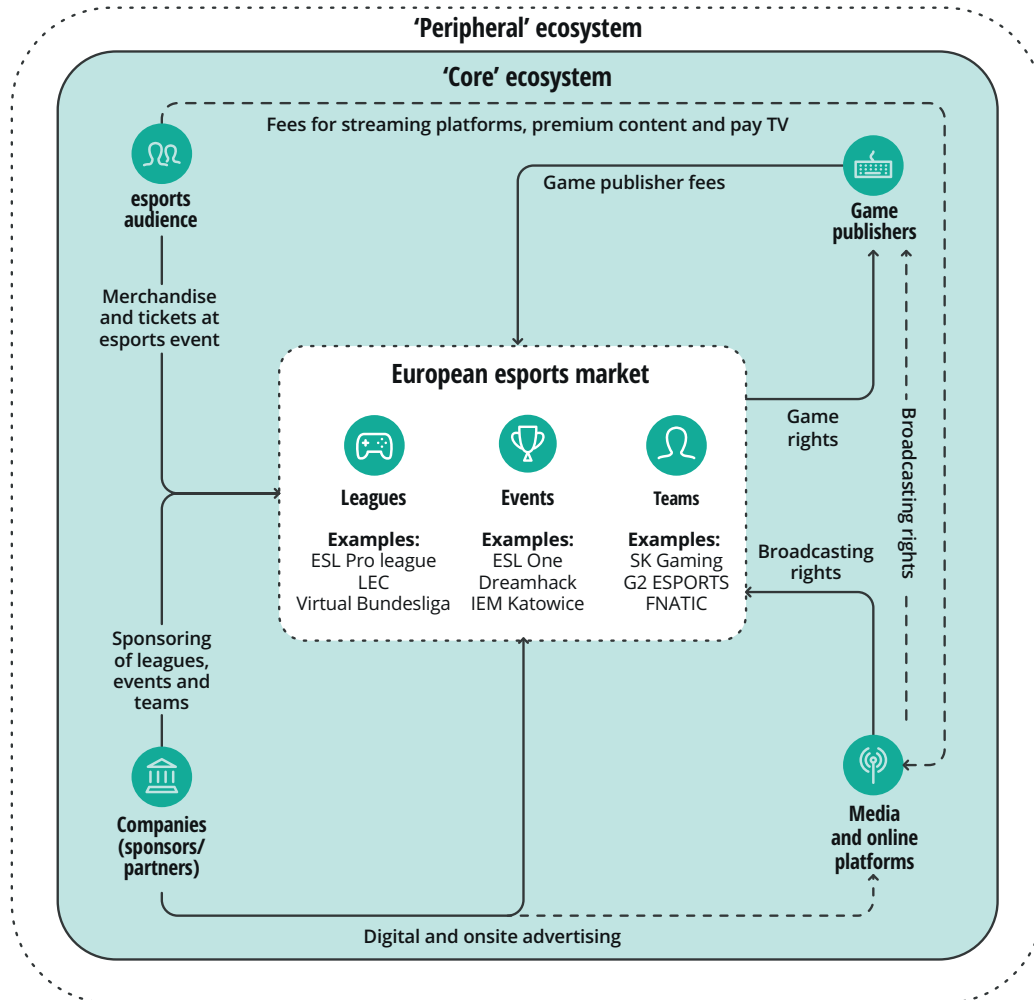
In this study, the European esports market is defined as the accumulated revenues of esports leagues and events, as well as team organisations (also referred to as 'clans'). This aggregate is depicted in the inner area of figure 1, which represents one part of the entire esports ecosystem. The revenues of relevant stakeholders stem from the following streams:¹

1. **Sponsorships:** Revenues generated through sponsorship deals by esports teams, leagues (such as the ESL Pro League), as well as events (for example, ESL one in Germany, Dreamhack events in varying European countries or the IEM in Katowice, Poland).
2. **Advertising:** Revenues generated by advertisements served to esports viewers via live streams on dedicated online platforms as well as Video-on-Demand and TV showing esports content.
3. **Media rights and streaming:** Revenues generated through media coverage, including all revenues paid to the event organizers, leagues and teams, in order to secure the rights for esports content on a channel. This includes income from fees for premium content as well. In combination with sponsorships and advertising, these revenue streams represent over two-thirds of entire revenues in 2018.²
4. **Ticketing and merchandise:** Revenues generated by the sale of tickets for live esports events, as well as teams and events merchandise sales (for example, caps, jerseys and chairs).
5. **Game publisher fees:** Revenues paid by game publishers, such as Riot Games, to independent esports organisers for hosting events.

FIGURE 1

The ecosystem of the European esports market

- Revenue stream (contributing to the European market size)
- -> Revenue stream (not contributing to the European market size)



Source: Deloitte analysis.

In addition to the stakeholders and revenue streams defined for the European esports market there are other stakeholders that contribute financially to the ecosystem, such as the esports audience through their consumption and corporations via sponsorships. Parties, such as media companies, online platforms or game publishers ('Core' ecosystem), also benefit from the increasing commercial potential of the market.

As part of the 'Peripheral' ecosystem, an increasing number of companies, such as betting agencies, content and publishing companies, consultancies, marketing agencies, sports associations, are also generating revenues through esports. Although relating to esports and certainly affecting the market, the income of the 'Core' and 'Peripheral' ecosystems is not included in the Deloitte market figures.

Market development and outlook

Figure 2 shows the significant growth that the European esports market has undergone in recent years to become a market with revenues estimated at EUR 240 million in 2018. Growth until 2018 was especially driven by an ever-expanding esports audience, as well as increasing revenues from sponsorships and advertising.

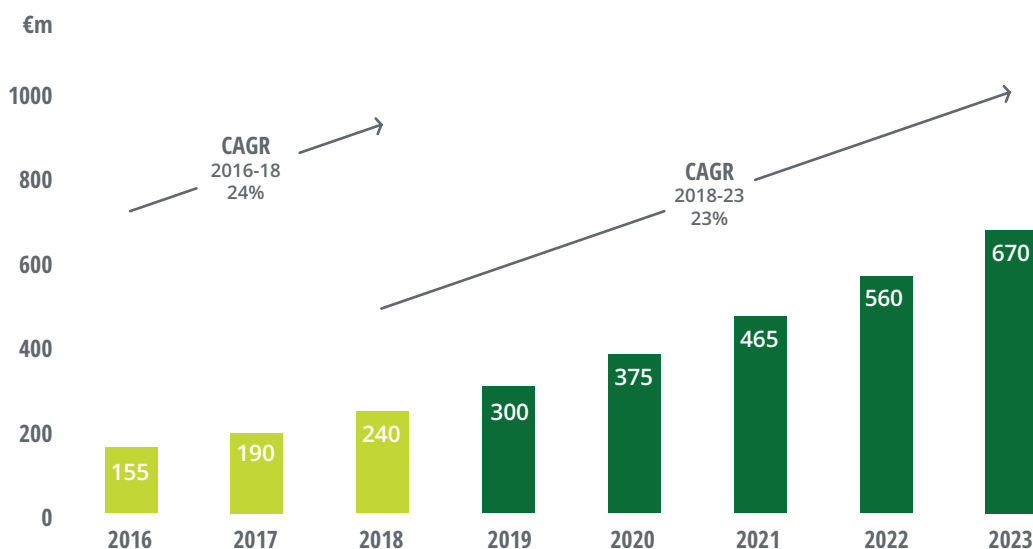
In 2018, the European esports audience was about 86 million people. This is an increase of 19 million (+28 per cent) over 2016 figures. Similar growth is expected over the next two years with 105 million people expected to be watching esports in Europe by 2020.³

The growing audience and accompanying commercialisation potential means esports is attracting ever more companies willing to engage as sponsors or partners of events, leagues and teams. Such companies are realising that advertising placed next to esports content on online platforms and on TV is becoming increasingly relevant for reaching younger generations as the underlying demographics of esports is focused on millennials aged between 21 and 35.

With esports already having an estimated global fan base of about 380 million people, both endemic and nonendemic brands will increasingly be drawn to the market. As a result, the demand for advertising is expected to grow. According to recent research, by 2020 advertising and sponsorship will account for 60 per cent of the industry's overall revenue.⁴

FIGURE 2

The European esports market – development and outlook



Source: Deloitte analysis.

The European esports market is expected to continue its success story. Primarily driven by increasing engagement from media companies in esports and a growing audience, revenues from media rights and premium esports content will be – next to increasing revenues from sponsorships and advertising – key business drivers. Revenues from media rights are expected to increase by about 500 per cent from 2016 until 2020 in the European esports market.⁵

Increasing numbers of live events will also boost the merchandise and ticketing revenues positively. Based on this development of the key revenue sources, the European esports market has the potential to reach an estimated volume of EUR 670 million with an annual growth rate of about 23 per cent over the next five years.

The German esports market

Germany is the largest European esports market and is considered one of the most significant markets worldwide. As one of the first countries where esports emerged, it has been a continuous driver of market growth and innovation.

A considerable number of teams, event organisers and leagues are based in Germany. These include globally recognised brands such as ESL, an organiser and production company that claims to be the world's largest esports company and the oldest that is still operational; as well as SK Gaming, one of the largest and most well-known esports teams.

Germany is also the headquarters of LEC, the League of Legends European Championship run by Riot Games, which is located in Berlin. This means all their games are played and broadcasted from their studio in Adlershof, a borough in the south-east region of the city. Additionally, the country hosts many other smaller esports tournaments as well as the Virtual Bundesliga, a nationwide FIFA tournament organised by the Deutsche Fußball Liga (DFL) and EA Sports.

In 2018, the European esports audience was about 86 million people. This is an increase of 19 million (+28 per cent) over 2016 figures.

Germany had an estimated market size of EUR 70 million in 2018, which is 29 per cent of the entire European market. By 2023, the German market could reach an estimated size of EUR 180 million, which is an annual growth rate of 21 per cent.

Revenue growth in Germany has been primarily driven by increasing sponsorships of teams (such as SK Gaming, mousesports, Team Roccat, FC Schalke 04 Esports), leagues (for example, ESL Pro League) and esports events, as well as by digital and onsite advertising paid to relevant stakeholders. Further revenues have come from ticketing and merchandising of big esports events, such as the ESL One in Cologne, which attracted 15,000 visitors in 2018, as well as the ESL event in Hamburg and Dreamhack in Leipzig.

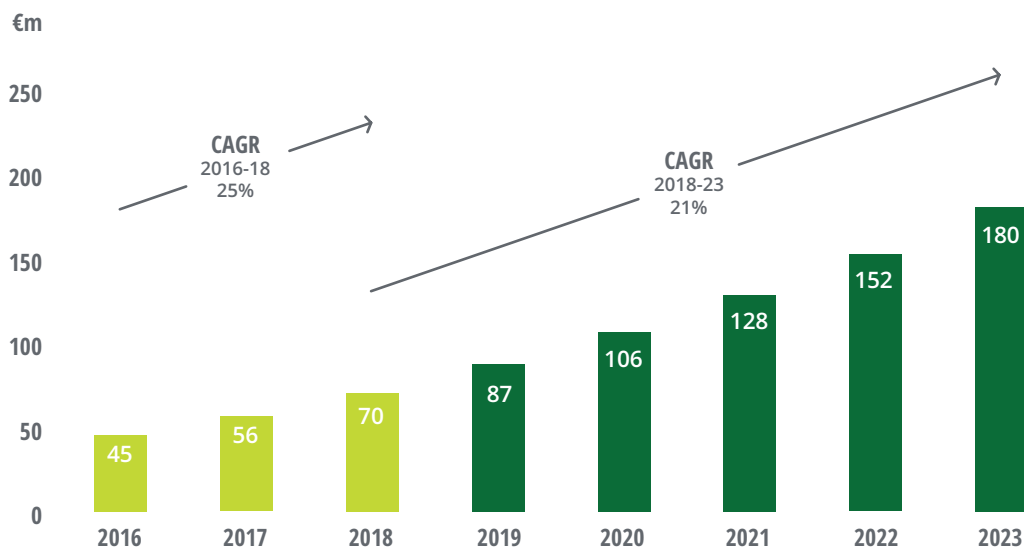
Although the German market has experienced robust growth, revenue streams from the sale of media rights for premium esports content has not had the market impact expected. This result is based on the specific esports culture where consumption is often considered to be 'for free'. Traditionally, esports fans use dedicated esports online platforms that supply content for free and not on a paid basis.

In addition, the slow uptake of innovative technology such as virtual reality (VR) is also seen as retarding monetisation by preventing a higher growth rate. It seems some market forecasts may have been overly optimistic in the uptake as the performance of VR is yet to achieve full expectations.

However, initiatives, such as the Virtual Bundesliga, have opened esports to a broader audience, providing a solid foundation for future growth. For instance, the consumer survey found that during the period of 2017 to 2019 the number of people regularly watching esports increased from 6 per cent to 11 per cent, a positive development in absolute terms (refer to the section Trends and drivers). Based on such success, the German market is likely to remain one of the most significant and competitive not only in Europe but also worldwide.

FIGURE 3

The German esports market – development and outlook



Source: Deloitte analysis.

Trends and drivers

The growth and further development of the European esports market will depend on several critical factors. In the following section, six current and future trends and growth drivers critical to the future of esports in Europe are examined.

Increasing popularity and growing audience

THE MONETARY SUCCESS and development of any sport depends on its popularity in terms of the size of the (regular) audience it attracts.

In recent years, esports has made significant steps to increase its coverage, which is leading to growing awareness among the general population. This in turn is helping grow its audience.

The consumer survey was conducted in the nine most significant European countries for esports. The survey revealed that 52 per cent of participants are already familiar with the term 'esports'. Another 28 per cent have heard the term before but did not know exactly what it meant. Hence, only about 20 per cent of participants have not heard the term esports before.

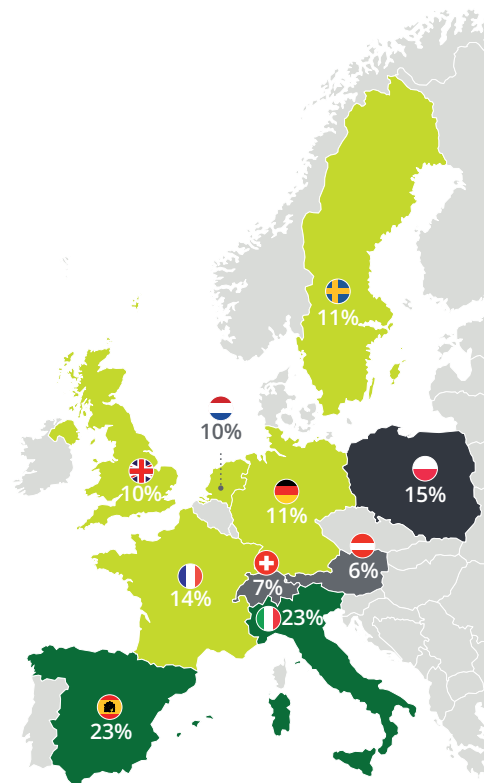
Significantly, about 41 per cent of the survey participants had already watched esports, either online or at a live event, while 13 per cent watched esports on a regular basis. Figure 4 illustrates the regular online consumption of esports in selected European countries.

Significant differences exist between European countries in terms of esports consumption. While only 6 per cent of Austrian survey participants watch esports regularly, 23 per cent of the Italian and Spanish ones regularly visit relevant online platforms.

FIGURE 4

Percentage of people who regularly watch esports online in selected European countries

■ 5-9% ■ 10-14% ■ 15-19% ■ 20-24%



Source: Deloitte Consumer Survey 2019.

While Italy and Spain have a high share of frequent viewers, Austria and Switzerland have a low regular audience of 6 per cent and 7 per cent, respectively. All other countries have an audience ranging between 10 and 15 per cent. The popularity of esports in Spain and Italy is attributed to the higher adaption rate of new digital trends, which is typical of the population in both countries.

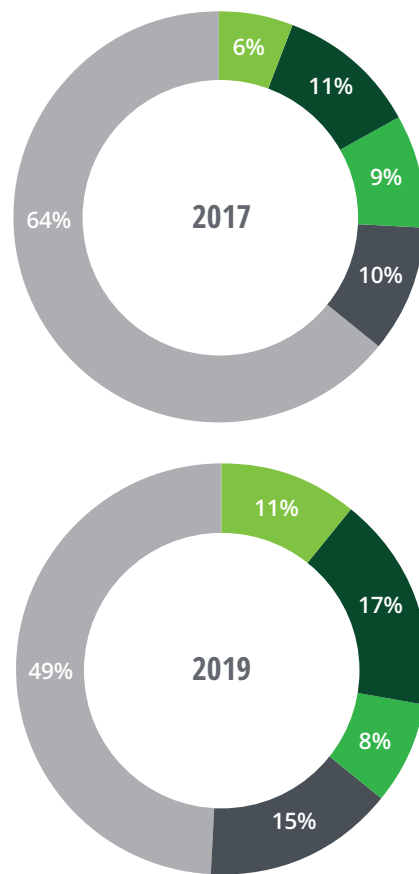
The consumer survey also reveals that esports consumption is significantly increasing in Europe. Taking Germany, the largest European esports market, as an example, the regular esports audience nearly doubled from 6 per cent in 2017 to 11 per cent in 2019. Overall, the number of regular German viewers increased significantly from 5.3 million people in 2017 to 9.2 million in 2019 (+3.9 million).

In addition, the share of people with no interest in watching esports decreased from 64 per cent in 2017 to only half of the population in 2019. The growing media presence as well as ongoing public coverage of esports is leading to increased general awareness of esports. This development is mirrored in the number of people in Germany who have never heard of esports, which declined from 47 per cent in 2017 to 17 per cent in 2019.

FIGURE 5

Popularity of esports on online platforms in Germany

- Watch esports regularly (at least once per week)
- Already watched esports (less than once a week)
- Already watched esports, but have lost interest
- Never watched esports, but generally interested
- Never watched esports and are not interested



Source: Deloitte Consumer Survey 2017 and 2019.



Implementation of franchise leagues

In 2018 the US company Riot Games announced the introduction of a franchise league in Europe with a European Championship (known as LEC) for “League of Legends”, one of the most popular esports titles worldwide. From 2019 onwards, ten organisations are competing under this license model, including traditional esports clans such as SKGaming and Fnatic, as well as “newcomers” such as FC Schalke 04 Esports. Riot Games have considerable experience in closed-league systems after implementing a “North American League of Legends Championship Series” (NA LCS) franchise in the United States with such noted investors as Michael Jordan.⁶

In the European league, every team organisation pays up to EUR 10 million for a place in the competition for an initial five-year period. A discount is offered for teams that have been a member of the predecessor league, the “European League of Legends Champion Series” (EU LCS).⁷

The introduction of franchise leagues into Europe brings several benefits, particularly because it does not involve a system of relegation and promotion. Such a ‘closed system’ is characteristic of major (North American) sports leagues such as the NFL, MLB and NBA and supplies significant benefits as well as security for stakeholders within the respective ecosystems. For instance:

1. sponsors and advertisers have a reliable format with regular appearances at games and events,
2. the system encourages media rights buyers to secure the rights to regularly broadcast esports tournaments on relevant platforms,
3. large fan bases do not migrate when a popular team is relegated,
4. traditional investors, such as private equity companies, can be inspired to become involved based on the provision of predictable metrics for their investments.⁸

The emergence and success of franchise models will be a crucial factor of the future development of the European esports market. However, this model may find difficulty gaining traction as it is in opposition to the popular European ‘open’ league model with its traditional promotion and relegation system.

The open system offers fans an extra dimension of excitement by enabling them to follow the fortunes of teams facing relegation or close to making the jump to the next level. In addition, the composition changes that occur in the course of promotion and relegation encourages teams to develop, which adds relevance to lower-tier leagues.⁹ From an organisational standpoint, open leagues are usually more democratic compared to franchised leagues, as there are no private franchise owners holding major stakes in the league itself.¹⁰

For further details on the development of LEC from Riot Games, please refer to the section on Rise of franchise leagues.



Increasing media engagement and Video-on-Demand (VoD)

As a result of the growing audience as well as the rise of franchise systems, ever more media companies and online platforms are securing rights to produce and broadcast esports content. However, the broadcasting and media market in the esports ecosystem is different compared to other industries where it is primarily driven by Video-on-Demand.

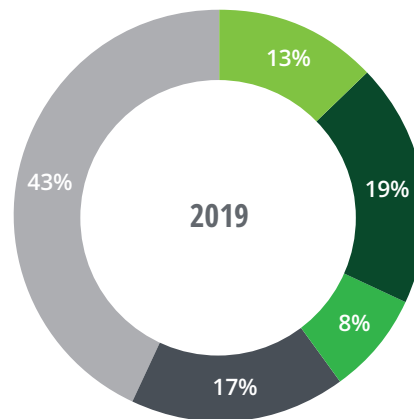
In general, there is a trend away from traditional TV towards live streaming and Video-on-Demand offerings driven by the desire of the public to decide when and what they want to watch. This is the basis of success for such platforms as Twitch, YouTube and Netflix. Esports, which targets younger generations, offers a variety of those platforms for its audience.

These patterns are reflected in the consumer survey where 40 per cent of participants indicated that they have already watched esports on streaming platforms (figure 6). In comparison, another question revealed that only 27 per cent have watched esports on TV, with 10 per cent of those only having watched large esports events.

FIGURE 6

Online streaming patterns of the esports audience

- Watch esports regularly (at least once per week)
- Already watched esports (less than once a week)
- Already watched esports, but have lost interest
- Never watched esports, but generally interested
- Never watched esports and are not interested



Source: Deloitte Consumer Survey 2019.



Interaction of traditional sports organisations and esports

Traditional sports clubs are becoming increasingly involved in the esports market. Such clubs are seeking to position themselves with their own team organisations in different esports titles such as Counter-Strike, FIFA, League of Legends and Rocket League.^{11, 12}

These sports clubs are often well-known brands with a huge fan base and their involvement in esports could potentially accelerate the future development of the European – and global – market by delivering new fans that support the sustainable growth of the industry. Further, these established brands significantly increase the awareness – and acceptance – of esports that will help the market to mature and merge closer to the mainstream.

While many soccer clubs are venturing into esports, teams from other sports, such as basketball, American football, baseball and racing, are also becoming involved. A recent study in the US found that 52 per cent of esports fans were also fans of NFL teams, while 39 per cent were NBA and Major League Baseball fans.

These sports clubs are often well-known brands with a huge fan base and their involvement in esports could potentially accelerate the future development.

Additionally, many mainstream sports players are themselves gamers who play at home, in hotels, while on tour or even on planes.¹³

FIGURE 7
Selected traditional sports clubs and esports titles

Sports club	FC Schalke 04	Manchester City	Paris Saint-Germain	AS Roma	Saski Baskonia SAD	Several Bundesliga clubs
Main sport	Soccer	Soccer	Soccer	Soccer	Basketball	Soccer
Selected esports titles	FIFA, PES, LoL	FIFA	FIFA, Rocket League, Dota 2	FIFA	LoL, CS: GO, Fortnite	FIFA (Virtual Bundesliga)

Source: Company websites; Deloitte analysis.

A number of well-known European sports clubs with their own esports departments are presented in figure 7.¹⁴ Some clubs only engage in titles close to their core business. For example, AS Roma and Manchester United, as well as several German clubs only focus on the FIFA soccer simulation game.

However, other clubs compete in further esports titles. FC Schalke 04, a club in Germany's Bundesliga, has a League of Legends team competing in the new LEC franchise league – the League of Legends European Championship. Paris Saint-Germain, a major force in France's Liga 1, has a team that competes in the Dota 2 online battle arena competitions and that finished second in the Dota 2 world championship tournament, "The International 2018".

Additionally, traditional sports leagues and sports associations are increasing their interaction with esports. For example, the DFL and FIFA both cooperate with EA Sports to run the Virtual Bundesliga in Germany¹⁵ and the FIFA Interactive World Cup¹⁶, respectively. This is mirroring developments in other parts of the world where sports organisations are implementing esports competitions, such as the National Hockey League (NHL) in North America, which formed the NHL Gaming World Championships and has regional leagues in Canada, Europe and the United States.¹⁷ Another example is the NBA 2K league, which was founded in 2017, with currently 22 NBA teams participating in this basketball esports tournament. In case of the NBA 2K league the participation is restricted solely to NBA teams.¹⁸



Mobile esports – competitive gaming on the mobile phone

Although still in the preliminary stages, at least in Europe, mobile esports could have one of the greatest impacts on the industry as a whole. With an estimated US\$50 billion in global revenues in 2017, mobile has grown to become the biggest gaming segment – and it is still developing.¹⁹ Watching and streaming esports on mobile phones is not a new development. The Twitch app, for example, already enables esports fans to follow tournaments and events. However, competitively playing games via the mobile phone – known as mobile esports – is a recent phenomenon that could dramatically change the market.

The shape and status of mobile esports differs per region. In Asia, mobile esports exploded in 2017 and saw the development of franchise structures with professional leagues and live stadium events that attracted millions of viewers. Within the Asian regions, mobile esports has already reached a level of organisation similar to that of esports based on personal computers (PC). This popularity is true for both core competitive games, such as Arena of Valor, and for more casual games, such as Battle of Balls.²⁰

In the West it is expected that PC-based gaming will continue to dominate esports for the near future. While many mobile esports initiatives are in the planning, it will probably remain a niche in the European esports market.²¹ However, the rapid development in Asia hints to the potential that mobile esports can eventually provide for the European market.



Increasing engagement of nonendemic brands and M&A activities

With an actively engaged and growing fan base, the European esports market is experiencing an influx of nonendemic brands engaging as sponsors and partners.

For clarification, endemic brands create products used in the production or playing of esports, such as manufacturers of software and computer components. These have typically been the most regular esports sponsors.

Nonendemic brands or sponsors create products that are not vital to the production or playing of esports. Such firms are significantly increasing their engagement in the esports market.²² The influx is likely to continue as esports grows in popularity.

Examples of nonendemic brands engaging with esports are presented in figure 8.²³ These companies operate in many different industries and engage in different areas of the esports ecosystem, such as with event organisers and esports leagues, as well as with the team organisations themselves.

The year 2018 saw a record number of M&As in the global esports market.

In addition to the increasing influence of nonendemic companies, there is growing M&A activity. The year 2018 saw a record number of M&As in the global esports market. This trend stems from the increasing involvement of traditional investors, such as private equity firms and strategic investors.²⁴ Europe also experienced significant M&As and, as the wave of global activity seems to be growing, it is assumed that this trend is only beginning. This topic is described in further detail in the section on Mergers and acquisitions.

FIGURE 8

Esports engagement of selected nonendemic brands

Company	Foot Locker	Mastercard	Mercedes-Benz	R+V Versicherung	TAG Heuer	Volvic
Main industry	Retail (apparel)	Financial services	Automotive	Insurance company	Clock manufacturer	Food & Beverages
Esports engagement	LEC	Riot Games	ESL One SK Gaming	FC Schalke 04 Esports	Virtual Bundesliga	Team Vitality
Engagement type	League	League Publisher	Event Team	Team	League	Team

Source: Company websites; Deloitte analysis.

Rise of franchise leagues

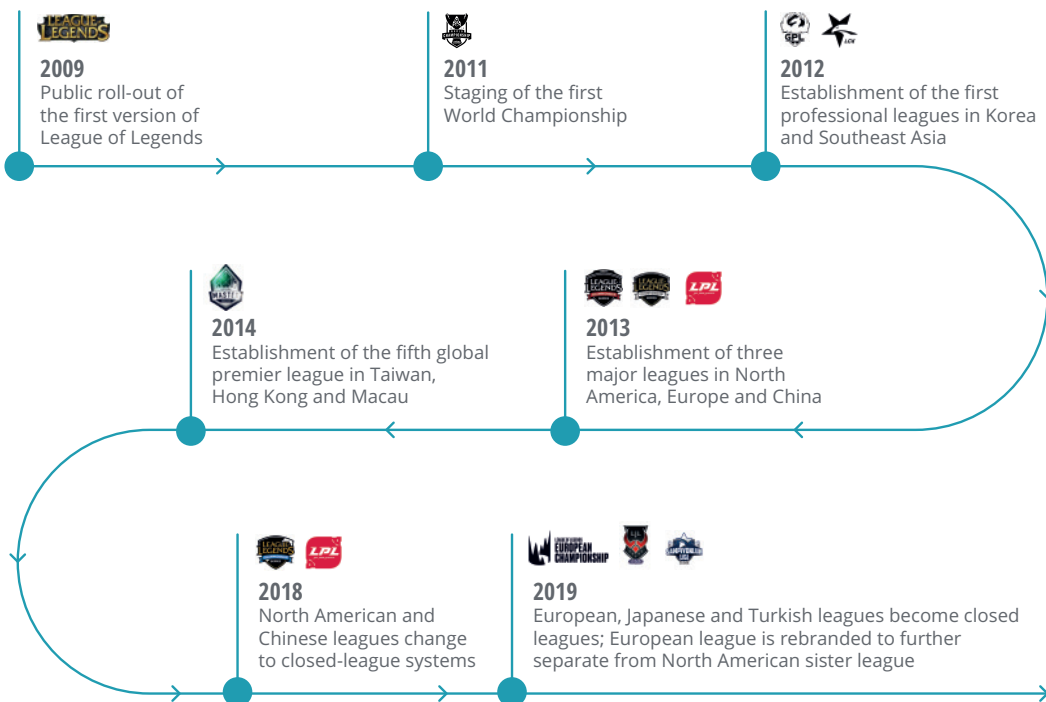
According to a variety of metrics, League of Legends (LoL) is the most popular and most prominent game in esports.^{25, 26} There are multiple regional and international LoL competitions and leagues around the globe, mostly organised by Riot Games, the publisher of the game, but some are arranged by general league organisers such as ESL or Liga De Videojuegos Profesional (LVP) in Spain.

WHILE MOST ESPORTS games are still in the preliminary stages of forming international competition structures, LoL has already established a comprehensive system of leagues with an overarching World Championship. This initiative was taken early on: The first World Championships took place in Sweden only two years after the game was officially launched in 2009. Regional leagues and the current global league system (figure 9) began to form shortly afterwards.²⁷

There are 13 Tier 1 regional leagues that form the basis for international tournament qualification. Five of these 13 leagues are ranked higher and enjoy higher viewership, as well as more qualification seeds for international competitions, than the other eight. The higher leagues are LCK (South Korea), LEC (Europe), LCS (North America), LMS (Taiwan/Hong Kong/Macau) and LPL (China).

FIGURE 9

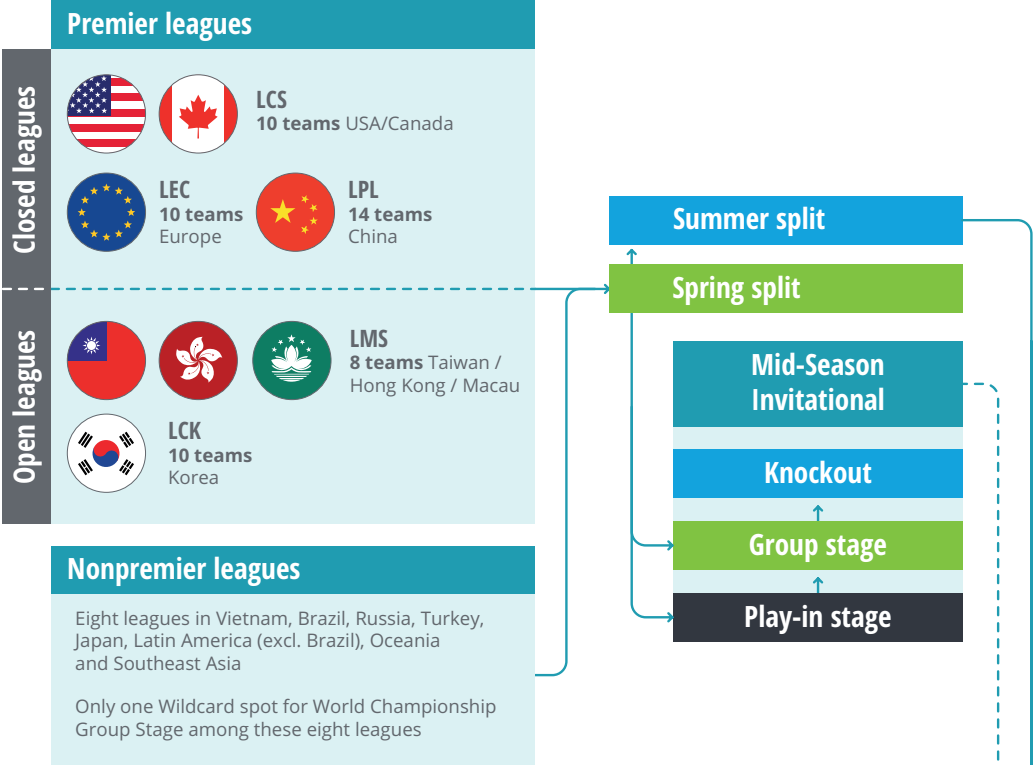
Timeline of competitive League of Legends esports



Source: Deloitte analysis.

FIGURE 10

Major League of Legends competitions



Note: LCS = League of Legends Championship Series, LEC = League of Legends European Championship, LPL = League of Legends Pro League, LMS = League of Legends Masters Series, LCK = League of Legends Champions Korea.

Source: Deloitte analysis.

One major difference between the Tier 1 leagues is whether they follow a closed- or open-league system. Closed leagues are assembled from long-term franchises that invest in the league and the constellation of the league does not usually change as a result of performance. This means the system is a locked box. Open leagues follow a hierarchical structure of multiple tiers with a promotion and relegation system determined by performance.

The shift of LEC to a closed-league system gives rise to potentially higher investments into the league and better conditions for internationally renowned players.²⁸ Simultaneously, LEC must manage possible cultural obstacles, as franchise systems are rare in Europe, as well as in the esports industry itself. To further examine the LEC, the Deloitte Sports Business Group interviewed Alban Dechelotte, head of Sponsorships & Business Development EU at Riot Games, Inc. The full interview can be found on the following page.

FIGURE 11

Open-league versus closed-league systems

	Open-league systems	Closed-league systems
Qualification format	Promotion and relegation (traditional European format)	Fixed franchises (traditional North American format)
Relevance of lower tiers	High (promotion possibility and player development)	Low (academy leagues for player development)
Major advantage	Fan excitement (also bottom of the table and in lower tiers) ²⁹	Organisational and financial stability ³⁰
Major disadvantage	Hesitant investors due to relegation risk ³¹	Isolation from certain regions and lower tiers ³²

Source: Deloitte analysis.

The development of European League of Legends esports



Interview with Alban Dechelotte, Head of Sponsorships & Business Development EU at Riot Games:

- 1. Please elaborate on Riot Games' intentions behind shifting the EU LCS to a closed-league system (LEC) and what are the goals for the LEC in the upcoming years with respect to revenue growth and financial sustainability?**

Our intent is primarily to reinforce the stability and the economical sustainability of our esports ecosystem in Europe for fans, players and teams. To achieve that, we have built a long-term partnership with ten teams at the LEC level, and have further structured our local efforts with 13 national leagues across Europe, which culminate in one pan European secondary competition named European Masters.

Six months after the realisation of this process, we are delighted with the collaboration initiated with the ten partnered teams, which have generated a significant increase of viewership, attendance to the Finals, and resulted in the first win of a European team at an international event in years. In addition, we are delighted to see that 12 players transitioned from the regional ecosystem to the LEC in the past 12 months, showing the path to become a professional player for new talent entering the regional level.

With respect to revenue growth, we are exploring all potential directions to better monetise our league: media distribution, sponsorship, ticketing, digital and physical goods and new properties in order to build a platform that will compete with the most successful sports leagues in Europe.

Our intent is primarily to reinforce the stability and the economical sustainability of our esports ecosystem in Europe for fans, players and teams.

- 2. Can you reflect on the first split since the rebranding? What was different in comparison to the former format and how did the league develop during this first term?**

We have introduced a new brand with the launch of the LEC, which has a unique tone, look and feel in esports and beyond. This has been amplified with new teams, new players, new sponsors, new ways to engage with the teams with digital badges in game and even a new Playoffs format, allowing the excitement to grow across all aspects of the competition.

3. In general, how does the new system affect the revenue mix of the LEC?

The new system only affects the distribution of the League revenues that are now directly shared with the partnered teams. But in terms of revenues, the new system did mark the beginning of a new era for League of Legends esports in Europe, a little bit like in 1992 when the European Champion Clubs' Cup became the UEFA Champion's League to mark the change and an acceleration in their strategy.

4. What were the main obstacles and challenges for Riot Games when transforming the EU LCS into the LEC?

We had to show the benefits of the new approach to team owners and provide them materials to convince their investor to make the jump. We also had to explain to some disappointed fans why the teams we selected to collaborate with were maybe not the ones they expected. Ultimately, we knew that our main challenge was to create a new league that will keep everything fans loved about the EU LCS while also adding more value to make it better.

5. Apart from the financial perspective, how do you expect the sporting performance of the LEC to be in the upcoming years, both in terms of competitive balance within the league and related to international competitions, such as the US counterpart or the World Championships?

Every day we work on the league to be the best platform for our players to enable them to perform at the highest level of competition. As such, we are not particularly competing with our US counterparts but clearly aiming for the global title as the win of G2 Esports at the 2019 Mid-Season Invitational proved.

6. How do you evaluate the overall development of esports in Europe with respect to popularity growth and public recognition? Do you recognise significant differences between European countries?

Since we are accelerating the regionalisation, we have seen great development across Europe. Spain has been historically extraordinarily strong, but the leagues in France, Germany, Poland and the UK are demonstrating rapid growth as well.

Every day we work on the league to be the best platform for our players to enable them to perform at the highest level of competition.

Alban 'Stilgar Fremem' Dechelotte is the Head of Sponsorships for the LEC. He started playing League back when he worked for Coke Esports through their partnership with Riot and his favourite champion is Morgana. When he's not out and about talking about the LEC, he's on the rugby pitch – been playing for 20 years and still forever in love.

Media insights

Esports has become increasingly relevant for media companies across Europe and their involvement has steadily increased in response. Six major reasons underpin the recent interest of media companies in esports:

1. Esports targets a young audience that broadcasters are afraid of losing to video-on-demand platforms. Esports can help traditional media companies rejuvenate their content offerings.
2. Esports is the ideal testing ground for consumer acceptance of digital, nonlinear and interactive formats. Thanks to platforms such as Twitch, the esports community is already used to innovative program elements. In the esports context, broadcasters can pilot innovative program elements and bring them to a broader audience. This includes community building by implementing social media elements into their TV program.
3. With esports, media companies address a clearly definable target group (young, male and well-educated), which is highly relevant for the advertising industry.
4. Esports further diversifies the sports/event coverage of media houses beyond soccer. Esports broadcasting rights are still comparatively inexpensive.
5. The young and innovative nature of esports positively spills over to dedicated media companies.

Finally, there is reasonable hope that esports content can be monetised. The loyal 'core' esports fan base is open to accepting paid content – if it is exclusive and professionally produced. However, this is not the case for every esports fan as historically esports was linked to a free culture.

Unsurprisingly, media companies are already involved in European esports. Recent notable developments include:

Austria, Germany and Switzerland

Sport1 started the first linear esports channel in January 2019 broadcasting to Austria, Germany and Switzerland. With 40 dedicated employees, experts and influencers from the German esports community, Sport1 will broadcast 1,200 hours of live esports per year.³³

German media group ProSiebenSat.1 is also committed to esports. Among others, its subsidiary 7Sports started in the esports area in 2016 showing a weekly highlight and news magazine on ProSieben MAXX.³⁴

France

In early 2018, the French TV network M6, a subsidiary of RTL Group, took a minority stake in Glory4Gamers, a French startup platform broadcasting more than 500 online tournaments every week.³⁵ At the same time ES1, the first French TV channel exclusively dedicated to video games, was launched.³⁶ Starting in March 2019, ES1 broadcasts the current season of the eFootball Pro League. In 2017, TF1 started into esports with Gaming Inside Experience, a reality show about League of Legends players.³⁷

United Kingdom

In the UK, BBC Three, the digital-only platform of the BBC, entered the esports scene in 2015 and partnered with British esports organiser Gfinity in 2017.³⁸ Gfinity also signed a deal with BT Sports the same year.³⁹ Both platforms were broadcasting Gfinity's Elite Series Tournaments every Friday. In 2019, Sky Sports UK started to screen the ePremier League.⁴⁰

Spain

In Spain, TV Group Mediapro presented its Twitch-like esports platform U-Beat at the end of 2018. It is available online and via pay TV. U-Beat broadcasts the main international and national esports events, such as the Orange Superliga.⁴¹

Poland

In Poland, Telewizja Polsat launched its esports channel Polsat Games in October 2018. Fans can watch different esports leagues, events and magazines both on television and online.⁴²

This brief overview of media activities in European esports illustrates the increasing connections between market and the media. It is readily apparent that esports is no longer an online-only phenomenon. Esports is steadily conquering the traditional, linear TV program schedule. At present, esports is an attractive playing field with a good profitability even for smaller (linear) broadcasters as television rights are still inexpensive. Advertising and sponsoring budgets for esports have already reached a remarkable scale, while ever more large nonendemic sponsors are discovering esports.

Nevertheless, the viewer numbers are still too limited for esports to be awarded prime time slots on main channels. Over the next few years, esports will primarily screen on special interest and sports channels. However, there is potential for esports to achieve far more: With a growing audience, broadly accepted and professionally organised leagues/events and substantial advertising partners, esports can aspire to showcase in prime time.

Mergers and acquisitions

The esports industry has experienced a significant increase in M&A and investment activities in recent years, which indicates relevant growth rates and future market potential for all stakeholder groups.

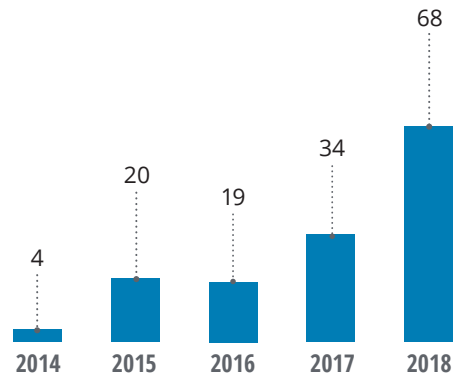
LAST YEAR SET a record for the global esports industry with 68 identified M&A and an investment volume of about EUR 3.9 billion recorded. In comparison, only 34 transactions were seen in 2017, which means the number of global esports investments doubled, providing evidence that esports is becoming increasingly attractive for investors. This global trend was also seen in the European market, which has experienced similar developments in recent years.⁴³

As these numbers show, the growing financial potential of esports is increasingly attracting traditional investors, such as private equity firms and strategic investors. However, venture capital is still the most important current investment driver within the industry, which indicates that the majority of esports organisations are still in an early development phase without a predominant focus on revenue and profitability.⁴⁴

Like the global industry, the European esports market offers a variety of investment opportunities within its ecosystem (please refer to figure 1) across various stakeholders, enabling investment possibilities of every shape and size. Potential investment targets include, for example, event coordinators, leagues, online platforms and team organisations, as well as game publishers. This vast variety of potential engagement points for investors supports the investment activities associated with esports.

FIGURE 12

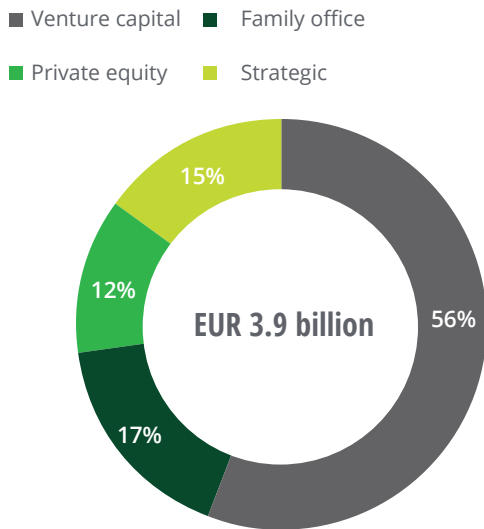
Number of global investments in esports 2014-18



Sources: Deloitte; Esports Observer.

FIGURE 13

Breakdown of esports investments in 2018 by investor type



Sources: Deloitte; Esports Observer.

Selected M&A transactions⁴⁵

Figure 14 presents a limited list of selected transactions that have occurred in Europe since 2015. It provides an indication of the quantity as well as the extent of past M&A activities. Additionally, several key transactions are examined in more detail.

Large transactions by Modern Times Group

In July 2015, the Swedish entertainment broadcasting company Modern Times Group (MTG) bought a 74 per cent stake in the German esports competition organiser Turtle Entertainment (ESL) for EUR 78 million (USD 87 million) from Omnes Capital. The acquisition, which ranks among the largest transactions so far recorded in the esports market, was in line with MTG's strategy to complement its linear and on-demand video entertainment services and helped Turtle Entertainment to focus on their expansion strategy and reach more viewers on a larger scale.

In November of the same year, MTG also fully acquired the Swedish gaming event and streaming provider Dreamhack for EUR 26 million. This complemented the recent investment in Turtle Entertainment and reinforced their commitment in the esports sector. In October 2018, MTG increased its stake in Turtle Entertainment to 82.48 per cent.⁴⁶

Expanding esports engagement of Webedia

At the end of 2016, Oxtent, the French-based provider of the esports platform Toornament and esports events, was fully acquired for an undisclosed amount by Webedia, a French company engaged in global media, technology and entertainment. With the acquisition, Webedia expanded and internationalised its esports engagements as the activities of Oxtent promote the esports competitions and events set up by Webedia on its websites, within its esports arena or during major events. Webedia also invested extensively in the development of the Toornament technology.

Multiplay partly sold to US gaming platform provider

In November 2017, Multiplay, a provider of esports events, gaming platforms and other online gaming services, was sold by UK-based gaming service provider GAME Digital for an estimated EUR 22 million. The buyer, Unity Technologies, is a US-based gaming platform provider.

The acquisition excluded Multiplay's event business, which remained with GAME and was in line with GAME Digital's strategy to focus on the development of its core multichannel retail businesses and its esports and live gaming initiatives. Two years before, Multiplay was fully acquired by Game for EUR 28 million.

FIGURE 14

Selected M&A transactions since 2015

Date	Target	Country	Target category	Seller	Acquirer
Mar-15	Multiplay	UK	Events/online platform	Multiplay	GAME Digital
Jul-15	Turtle entertainment (ESL)	DE	Events/online platform	Omnes Capital	Modern Times Group (MTG)
Nov-15	Dreamhack	SE	Events/online platform	Dreamhack	Modern Times Group (MTG)
Sep-16	SK Gaming	DE	Team organization/ clan	SK Gaming	ESforce
Sep-16	Team Liquid	NL	Team organization/ clan	Team Liquid	aXiomatic
Oct-16	Oxent	FR	Events/online platform	Oxent	Webedia
Jun-17	RFRSH	DK	Events/marketing and media rights	RFRSH	Creandum, Heartcore Capital, Lifeline Ventures Oy, Private investors
Nov-17	Multiplay	UK	Events/online platform	GAME Digital	Unity Technologies
May-18	Fire Without Smoke	UK	Premium content/ marketing	Private investors	Keywords Studios
Oct-18	Newzoo International	NL	Premium content	Newzoo International	Advance Publications
Oct-18	The Esports Observer	DE	Premium content	The Esports Observer	Advance Publications
Nov-18	RFRSH	DK	Events/marketing and media rights	RFRSH	Creandum, Heartcore Capital, Vaekstfonden, Maki.VC
Nov-18	Team Vitality	FR	Team organization/ clan	Team Vitality	Rewired Advisory
Jan-19	SK Gaming	DE	Team organization/ clan	ESforce	Daimler
May-19	Fnatic	UK	Team organization/ clan	Fnatic	Beringea, BlackPine PE Partners, Unbound, Raptor Group, private investors
May-19	Liga de Videojuegos Profesional (Fandroid)	ES	Events	Reus Capital Partners, Ticnova Quality Team	Mediapro
Jun-19	GAME Digital	UK	Events	Marlborough UK Micro-Cap Growth Fund	Sports Direct International

Sources: Mergermarket; Deloitte analysis.

Premium content provider

In October 2018, Newzoo International, a Netherlands-based provider of premium esports content such as industry insights and esports analytics, sold a 65.2 per cent stake to the US company Advance Publications for an undisclosed price. The transaction enables Advance to enhance its growth in games and esports analytics.

With the sale Newzoo increased the support for the expansion of the Sports Business Journal's portfolio in order to include market intelligence, data and analytics. Furthermore, the transaction allows Newzoo to expand the company and its global presence, especially in Asia and the US, and it will also increase the investments in Newzoo's big data processing, machine learning and interface technology. This transaction was designed to generate synergies for all related parties.

Shortly afterwards, Advance also announced the acquisition of The Esports Observer (TEO), an esports business news and data outlet, for an undisclosed consideration, which also fits into the company's long-term strategy. With the acquisition, TEO will support Advance in serving professionals in the business of esports, just as Advance served traditional sports executives for more than 20 years.⁴⁷

Growing interest in team organisations

One of the most recent transactions involved three esports teams: the French Team Vitality, German SK Gaming and UK based Fnatic. In November 2018, Rewired Advisory, a Switzerland-based venture capital firm with an esports division, bought an undisclosed stake in the French esports clan Team Vitality for about EUR 20 million.

Team Vitality runs teams in the popular esports titles of Call of Duty, FIFA, Halo, League of Legends and Rainbow Six Siege. Through the acquisition, the team plans to develop state-of-the-art facilities, including training and performance centres, as well as a flagship store. The funds will also be used to build further teams that can sustainably compete on the global esports stage and to expand its footprint in both China and Southeast Asia using Rewired's expertise and global network.

The first transaction in 2019 was the acquisition of a 67 per cent stake in SK Gaming, the popular German esports clan, by Mercedes-Benz and FC Köln for an undisclosed sum. SK Gaming was sold by ESforce, the Russian esports holding company that bought the team in September 2016. According to ESforce, the sale of the stake in SK Gaming allows the company to focus on its primary assets, such as the esports team Virtus.pro.⁴⁸

For Mercedes-Benz, the investment in SK Gaming was the logical ‘next step’, as the company has already been engaged in esports for two years through the sponsorship of the Dota 2 series from event provider ESL (Turtle Entertainment). For FC Köln, SK Gaming will represent the FIFA team of the soccer club in the newly established Virtual Bundesliga. Additionally, Deutsche Telekom is working with SK Gaming as an official technology partner. SK Gaming currently runs teams competing in the Clash Royale, FIFA, Fortnite and League of Legends titles.

One of the last transactions in May 2019 involved the acquisition of an undisclosed stake in Fnatic, the UK-based esports clan, for EUR 17 million by a group of investors led by tech entrepreneur Lev Leviev. The deal allows Fnatic to launch new product categories in its esports equipment subsidiary, as well as to enhance its capabilities to deliver and deploy marketing efforts to grow brands on global scale. It will also help the company to further expand its operations and accelerate the business growth. As part of the deal, Leviev will join the board of Fnatic.

If, as assumed, the global audience continues to grow and attracts further commercial partners and transmittal platforms, then significant investor interest in European esports can be expected. This growing interest will be reflected in the number of transactions as well as in the investment volumes of M&A activities in the European esports market.

PROFOUND INDUSTRY AND M&A EXPERTISE

In the course of significantly fast developments in the European esports market, Deloitte advises potential investors to understand the commercial realities of proposed investments and to have a clear funding as well as a strategic plan for the target’s future. This helps prevent unpleasant surprises. The Sports Business Group at Deloitte has been involved in around 100 financial advisory projects in the world of sport as well as esports over the past 15 years.

Corporate governance

Sturdy growth is edging esports ever closer towards mainstream acceptance. As it develops in this direction, esports confronts a series of challenges, including copyright, cyber security and IT infrastructure performance, as well as protection of minors that will increasingly assume greater importance.

WHILE COPYRIGHT, MEDIA and advertisement are legal and monetary issues⁴⁹, the protection of minors touches upon matters of ethics and morality, as well as law. The anonymity of the internet often favours content creators such as esports events, leagues and teams, while it also challenges stakeholders in terms on how to protect minors.

As esports has enormous attraction for the younger, underaged public, questions arise concerning their protection in relation to the games being played and streamed.⁵⁰ This relates especially to the assurances provided by the publishers, organisers and clans that viewers and players have the appropriate age for playing and streaming the respective games.⁵¹ Therefore, precautionary measures such as marking live broadcasts with an age rating should be taken. Additionally, in case underaged players are competing, legal working regulations such as concerning rest time, weekend work and night work, should be adhered to by all participants within the esports market.⁵²

A general solution covering every aspect of esports (events, streaming and publishing of games) has not yet been found. Each case needs to be differentiated and reviewed in order to determine the prerequisites for the sustainable safety of minors.

For example, the organisers of gamescom, the world's biggest event for computer and video games, have worked with authorities and USK as official youth protection partner of gamescom to agree that games with an age rate of 16 years and above could neither be watched nor played by underaged visitors.⁵³ Exhibitors at gamescom need to ensure that their contents are not visible to younger children and further restrictive admission controls are carried out. This requires effective processes and continuous controls.⁵⁴

The review of advertisement content, intellectual property, media and legal regulations for youth safety, as well as the performance of IT infrastructure and cyber security, are only a few points that will assume far greater importance and provide challenges in the years ahead. All parties active in the esports market need to be aware of these issues and all need to be considered and managed in a young, fast-growing environment.

Dealing with such challenges is part of the expertise of Deloitte's Risk Advisory Services. We are increasingly providing our services to companies dealing with the rapid development of esports.

About Deloitte & game

Sports Business @Deloitte – the leading team in sports business

For more than 20 years, the Sports Business Group of Deloitte has actively provided consulting in the national and international sports and fitness industry, as well as provided analytics of trends and developments. In the scope of our work we make use of the global Deloitte network and combine the expertise of audit, corporate finance and consulting and tax and legal consulting with the industry expertise of the Sports Business Group. The multidisciplinary approach of our team enables us to focus on the various needs of associations, leagues, clubs, investors, sport facilities and sports-rights agencies.

Our longstanding experiences in the sports and fitness industry ensures an immediate project start without lead time. Please contact us for more information as well as detailed information about projects completed in the past.

We are also always available under sportbusiness@deloitte.de for more information. More details with regards to our performance spectrum can also be found on our website www.deloitte.com/de/sport.

Media @Deloitte

Deloitte possesses extensive industry knowledge in the German as well as global media industry. Approximately 5,900 employees are focused on addressing the needs of our clients from the media and entertainment industry. Six out of seven of the biggest media companies on the Fortune Global 500 trust our comprehensive expert knowledge.

In addition to international clients, leading German media companies also rely on our support. Over 300 Deloitte colleagues work closely with companies in the German media industry, including participating in working committees of major industry associations. Deloitte also regularly releases publications that investigate current trends and developments of the German media industry.

game – the German games industry association

game is the association of the German games industry. Its members include developers, publishers and many other games industry actors such as e-sports companies, institutions and service providers. As the co-organiser of gamescom, game is responsible for the world's biggest event for computer and video games. It is a shareholder of the German Entertainment Software Self-Regulation Body (USK) and the Digital Games Culture Foundation 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. Their games enrich the lives of all people. Therefore, it is games' mission to make Germany the best games location.

Basis of preparation

To obtain the consumer-related information contained within this report, Deloitte conducted an online survey of 6,400 consumers aged 14 to 75 years in Austria, France, Germany, Italy, Netherlands, Poland, Spain, Sweden, Switzerland and the United Kingdom. The evaluation by gender and age groups within this report is thereby a representative result. The survey was conducted in the early summer of 2019.

THE MARKET EVALUATION is based on both quantitative and qualitative analysis in order to estimate the historical and current market size, as well as the forecasts. Therefore, Deloitte analysed the relevant revenue streams including comparative national and international markets, used information sourced in the course of completing the consumer survey and conducted interviews with market experts. Based on this market mapping, data collection and validation process, Deloitte then estimated the shown market values.

In relation to estimates and projections, actual figures are likely to be different from those projected because events and circumstances often do not play out as expected, and those differences may be material. Deloitte can give no assurance as to whether, or how closely, the actual results will correspond to those projected and no reliance should be placed on such projections.

Please note that figures in this report are typically rounded. Therefore, sums and shares or growth rates may not be able to be recreated based on other stated figures, as the underlying calculation is based on more precise (non-rounded) values. To enable international analysis and comparison, we have converted all financial figures into euro using the respective average annual exchange rate as provided by Eurostat.

This publication contains information derived from publicly available or other direct sources. For the purpose of 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.

The political, economic and geographic assignment on Europe results in two different country ranges that were taken into consideration for this work: The 28 member countries of the European Union as at 30 June 2019 (Austria, Belgium, Bulgaria, Croatia, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and the United Kingdom) as well as the non-EU countries of Norway and Switzerland.

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game esports

game esports is an association for game members who are actively involved with esports. They include a wide range of stakeholders in the esports ecosystem, such as game developers, publishers, event organisers and agencies. Together, the members of game esports are working to establish esports more firmly in Germany.

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