

Game on: Investing in e-sports

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E-sports have evolved from a pastime into a global industry with a predicted value of more than \$4.2bn by 2027. That growth has been accompanied by the emergence of an ecosystem of platforms, technologies and services.

To explore the opportunities and challenges of investing in e-sports, Economist Impact assembled an expert panel comprising Jamie Hannah, deputy head of investments and capital markets, VanEck Australia; Lisa Cosmas Hanson, managing partner and founder, Niko Partners; Adrian F. Lismore, board member and chair of the Finance, Legal, Administration Commission, Global Esports Federation; Scott Rupp, founding general partner, Bitkraft Ventures; and Sean (Hyunil) Sohn, chief executive, PUBG India, and head of India division, Krafton.

A summary of the panel discussion, which was sponsored by the Global Esports Games Singapore 2021, follows.

The name of the game

In broad terms, e-sports describes competitive multiplayer gaming. That definition includes professional stadium-based events, teams and individual gamers, as well as games played on consoles and mobile devices.

Scott Rupp says e-sports have their roots in 1970s arcades and “a bunch of kids standing around, watching each other play and compete around a game”. Since then, e-sports have become more sophisticated with the introduction of broadband, live streaming, smartphones, and multiplayer and free-to-play games. Powerful new technologies offer the possibility of “mixed reality” events, where athletes compete simultaneously in both the physical and virtual domains, while audiences watch in person and online.

The next wave of competitive e-sports will include blockchain-based games, as well as embedded crypto payments and rewards. Premium spectating experiences will be offered using non-fungible tokens (NFTs).

E-sports benefited from the lockdowns accompanying covid-19. Many parents saw e-sports as a welcome distraction for their children, and realised games like Fortnite were not terrible, antisocial influences. Jamie Hannah notes that more of his forty-something friends were gaming during lockdowns.

Investing in e-sports

E-sports is growing in popularity as an investment category. Interest is not limited to young people, says Jamie Hannah, whose firm launched an e-sports and gaming fund (ESPO:US) in the United States in 2018 and now operates funds in Europe and Australia. One of Bitkraft Ventures' portfolio companies runs an exchange-traded fund (NERD:US) focused on e-sports.

Liquidity and diversification are top concerns for individuals investing in e-sports. To achieve diversification, fund managers aim to invest in the entire ecosystem, including manufacturers of graphics cards and gaming chips, game developers and publishers, and e-sports teams. "We welcome everyone from all across the e-sports sector into our community, and that includes betting companies," says Adrian Lismore.

"I'm very bullish on all of Asia when it comes to e-sports," says Lisa Hanson, who believes Indonesia offers an "explosive growth opportunity" and calls India "a giant whiteboard waiting for someone to write on it". Sean Sohn notes that, for Battlegrounds Mobile India, there are over 100 officially authorised events in India each day.

To enhance e-sports' legitimacy and prestige, the Global Esports Federation (GEF) is building strategic partnerships with organisations such as the Olympic Council of Asia, UNESCO and the Commonwealth Games Federation. The GEF is also cooperating with other international athletic federations, which see e-sports as a way to engage and attract gamers to traditional sports. Relationships like these help to make governments more comfortable with e-sports, and show that e-sports offer what Adrian Lismore calls "a caring and nurturing community".

These efforts are paying off. At the 19th Asian Games in Hangzhou, China, in September 2022, e-sports will be recognised as official medal sports for the first time.

The China factor

In August 2021, the Chinese government introduced restrictions on the time children under 18 can play online games. The new rules limit minors to one hour per day, between 8.00 pm and 9.00 pm, on Fridays, weekends and national holidays.

While the new regulations limit the opportunities available for short-term growth, Adrian Lismore says they create a “framework that’s needed inside the e-sports space”. Lisa Hanson thinks the new regulations show that the authorities want young people to focus on being kids again and to concentrate on school. “E-sports is a giant part of China, and it’s not going away,” she adds.

Scott Rupp believes the rules will be modified in a way that benefits gamers, the public and publishers. “See what happens when you try to ban rock and roll and dancing,” he adds. “You just make it cooler and more coveted.”

Key takeaways

- The global e-sports industry is attracting interest from investors of all ages, and is expected to be valued at more than \$4.2bn by 2027.
- E-sports games are embracing new technologies, including virtual and augmented reality, blockchain, cryptocurrencies and NFTs.
- To enhance its legitimacy and prestige, the e-sports industry is building relationships with international sports federations and multilateral organisations.
- E-sports will debut as medal sports at the 19th Asian Games in Hangzhou, China, in 2022.
- Regulations that limit Chinese gamers' playing time will benefit the industry in the long term.

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