

# EXPnews

## eSport: the EXP Legal analysis on 2018 and the auspices for a successful 2019



### 1) The figures of the international market:

In a dark arena Fifteen thousand people crowded, lit only by the rapid flicker of huge screens and the glare of the glass-walled game rooms on the stage.

An announcer invokes the entry of the players while the fans burst into songs and greetings, encouraging their favorite teams to victory.

For players, the stakes are high, with 24 million cash prizes. This was the scene of the Dota 2 international championships in 2017. The 2017 ended, therefore, giving the eSport world a great success, which laid the foundations for a 2018 full of expectations and that did not disappoint.

The video gaming market has grown exponentially, so much so that it can be seen that the sector's revenues amounted to twice those produced by the film industry<sup>(1)</sup>.

The shooter of Epic Games Fortnite, in its battle royale mode, only eight months after its release, counted 40 million users who connected to play every month, becoming the most watched title in Twitch, with over 4,500 streaming user accounts - and an average of over 140,000 spectators<sup>(2)</sup>.

In June 2018, viewers spent a total of 17.7 million hours on Twitch watching players compete in *League of Legends*<sup>(3)</sup>.

The total number of eSports viewers is large and always growing and the stakes for companies looking to get involved, in front of or behind screens, extremely high.

By 2020, the global eSports market is expected to generate \$ 1.5 billion in annual revenue, mainly from sponsorships and advertising for an estimated global audience of 600 million fans<sup>(4)</sup>.

Electronic Arts, in its fourth quarter 2017 budget forecast, reported 18 million players engaged in competitive games on their FIFA 18 and NFL 18 titles, an increase of 75% over the previous year<sup>(5)</sup>.

Facebook has purchased exclusive rights to the live stream competitions of four famous eSports organizations, including Valve's Counter Strike's Global Offensive Pro League.

Amazon's streaming service, *Twitch*, has acquired the exclusive right to broadcast Blizzard's Overwatch League games.

What the eSports market offers, therefore, is becoming more and more tempting: only in

<sup>(1)</sup> Deloitte Insights, "eSports graduates to the big leagues", a report by the Center for Technology, Media & Telecommunications.

<sup>(2)</sup> Max A. Cherney, "Fortnite" more important than cryptocurrency to large companies during earning season", MarketWatch, June 6, 2018.

<sup>(3)</sup> Graham Ashton, "Top 10 Twitch's most-watched game," Rolling Stone, March 6, 2018.

<sup>(4)</sup> Statista, "eSports market revenue worldwide in 2017, by segment," 2018.

<sup>(5)</sup> Dean Takahashi, "FIFA 18 and Madden esports hits 18 million players, up 75%," VentureBeat, May 8, 2018.

2018 there have been at least 30 large eSports competitions all over the world, with the best players having signed multi-year contracts worth \$320,000 a year<sup>6</sup>.

Inevitably, more and more teenagers seriously aiming to be professional players and becoming an eSports champion is becoming the utopia of the new generations, a dream to pursue. However, success in professional eSports requires rigorous teamwork and resolute commitment to high performance.

Only through them teams can earn millions of cash prizes, with famous teams and players who profit from advertising revenue, merchandising and copyrights.

## 1.1) What are the titles that have offered the highest figures

On top of a list drawn up by *The Esports Observer* is *Dota 2*, which has always been among the most 'generous' eSports with its players. The 2018 edition of the mega-competition *The International* reached, alone, the record share of 25.5 million dollars, more than half of what, overall, the Valve MOBA has given during the year: 41.26 million. In second place is *Counter-Strike: Global Offensive*, with 22.47 million dollars in prize money.

Figures due to a huge number of dedicated competitions around the world, which is close to 400. Only third *Fortnite*, which many already indicate as the game that will undermine *Dota 2* at the top of the rankings since 2019.

For the Epic Games Battle Royale are 19.96 million dollars in 2018 prize money.

In the top ten there is only one other game that exceeds 10 million dollars. This is the League of Legends which has offered 14.12 million for its competitions.

## 1.2) The new franchises launched in North America and the NBA model

In 2018, publishers launched three new North American franchised titles: the NBA 2K League, the North American League of Legends Champions Series and the Overwatch League.

The franchising model marks a major transition to the mainstream and a concerted effort by the eSports ecosystem to become a full industry.

Through the franchising model, it is hoped that the efforts of the governing bodies to enforce behavioral standards will be progressed, supporting the protection of competitions, ensuring their integrity and combating fraud.

In April 2018, NBA Commissioner Adam Silver took the stage at Madison Square Garden to announce a list of new projects and objectives, including the creation of the eSports NBA 2K.

Silver in his speech referred to a particular "combination of physical and mental skills" that characterized those particular champions called by him on stage and defined as "NBA players". None of the person who enthusiastically joined the stage with him, however, had won the NCAA championships or spent years perfecting jumps and dunks: they were, in fact, professional players of eSports, at that time certified by the highest basketball authority. Their contracts include the right to housing, moving expenses, insurance, a pension fund and a guaranteed salary<sup>7</sup>.

The 2018 NBA 2K has established a roster of 27 teams for the inaugural season of its NBA 2K league - the one that Silver calls the association's "fourth league" - thus formalizing the NBA's relationship with the eSports world and underlining his intention to expand the audience of eSports spectators.

As the first organization of professional eSports to form a franchise league, the NBA is testing the market, implementing cutting-edge practices and highlighting the challenges to be faced, making a future entry easier for others.

ESports is now an official part of the future of professional basketball.

## 2) The Italian market:

With the numbers of the international market so strong and incisive, even the Italian phenomenon of eSports could only finally undergo a sharp rise.

The 2018 for the Italian eSports, in fact, was the year of consecration as a social and economic phenomenon.

Even if the movement remains unripe both from a regulatory, organizational and ecosystem point of view, finally the Italian eSports has

begun to carve out its important space on the pages of the sector newspapers and attract the first major investments.

We witnessed the entry into the eSports world of the first major *Serie A* teams (Sampdoria, Roma, Empoli, Parma, Cagliari) who built their own teams with their own professionals and their own sponsors.

## 2.1) The successes of Italian eGames Players:

There have been great eSports successes for our talents starting from Daniele "Jiizuke" Di Mauro, first Italian in the EU LCS and first Italian in history at the Worlds.

In November, at the Valencia circuit, Lorenzo "Trastevere73" Daretti was able to repeat the success achieved in 2017 and was again crowned world MotoGP champion.

Regarding a different video game title, PES, we must mention Ettore "Ettorito97" Giannuzzi. In Barcelona, in the *Cúpula*, Ettore wrote the story of PES conquering not only his second world title, but also becoming the first player in the world to win both in 1vs1 and in team mode, with the teammates Luca "IIDistruttore44" Tubelli and the Spanish Alex Alguacil.

Even Daniele "Iceprinsipe" Paolucci, had a successful year, already European champion of FIFA 17, in 2018 he was selected as the first Italian eSports athlete sponsored by Red Bull, an important recognition for the talented Roman pro gamer<sup>8</sup>, who currently plays in the Italian eSports team Mkers, founded by Thomas De Gasperi and Paolo Cisaria.

Italy has at home a wealth of talents that have already distinguished themselves at the international level and of the realities that have been structured and consolidated with few resources, as well as a long tradition of hospitality for major international events.

## 2.2) The first report on the Italian eSports of AESVI in collaboration with Nielsen:

We followed the publication of the first Italian report on eSports by AESVI in collaboration with Nielsen, which finally allowed us to have an initial overview of the Italian phenomenon.

<sup>6</sup> Derek Heitner, "A look inside Riot Games, from \$320,00 player salaries to using esports as a catalyst for sales", Forbes, May 2, 2018.

<sup>7</sup> Deloitte Insights, "eSports graduates to the big leagues", a report by the Center for Technology, Media & Telecommunications.

<sup>8</sup> <https://www.redbull.com/it-it/tags/esports>.

From this report it emerged in particular that in Italy, racing and sports video games are the types of video games with the highest level of knowledge among Avid Fan (95%), while the highest level of interest is registered among those who know the First Person Shooter (83%)<sup>(9)</sup>.

According to AESVI and Nielsen, FIFA is in first place for participation in gaming competitions (62%) and the most used category of sports video games. Four of the top five titles per game frequency belong to this category.

Furthermore, eSports fans show a positive attitude towards sponsorships, declaring the predominant tendency to inform themselves about the related brands and to give them greater appeal.

The forms of advertising that integrate the brand or product within the event, rather than 'occupy it', are those to which the best predisposition is registered, in particular the use of the product by the players, the application of the logo on clothing and the titration of an event.

The presence of non-endemic sponsors is growing. On all the tech brands, beverages and snacks are considered 'semi-endemic' because they are easy to integrate into the gaming experience.

Many deals also come from the automotive, personal care and financial services categories. Amazon, Red Bull, Sony, Coca Cola, Samsung, Nintendo, GameStop, McDonald's and Microsoft are the brands that enjoy sponsorship association with the eSports world from over 1/3 of the Avid Fans.

According to the experts of AESVI *"also for the Italian market, therefore, the eSports sector offers interesting development prospects in terms of economic growth, development of new skills and job opportunities. ESports are also an intrinsically social activity able to involve young generations in an experience that combines technology, ability to work in teams, strategic thinking"*.

2019 could be the year of the definitive consolidation of the phenomenon.

### 2.3) The research presented by Format research in collaboration with AIESP<sup>(10)</sup>

Format Research has carried out a complete survey on video gaming and eSports market, in collaboration with A.I.eSp. (Italian Association eSports) and that Pierluigi Ascani - President of Format Research - presented in Milan on November 14th during the 3rd Forum Sport & Business.

The survey made it possible to analyze the behavior, trends and consumption of video games players in Italy.

The research has shown that to date in Italy, depending on the different involvement with video games, can be identified three different categories of subjects: "58% players", which are limited to "use" video games; "24% e-sports amateurs", which in addition to "playing" participate in races and competitions so called open; "e-sports fans and/or professionals 18%", who "play", participate and follow races, competitions and some streamer/caster.

One of the most important aspects that emerged from the research is related to the "channels" used to follow and learn about eSports.

In particular, it emerged that the preferential channel is represented by YouTube, used by 61% of players, and used by 80.6% of fans. Next we find Facebook, the various websites dedicated to videogames and esports, game stores and only at the bottom Twitch.

Twitch is the streaming platform of Amazon, the main international channel and even if it is not widely used in Italy, it is in any case followed by an important percentage of fans, equal to 37.5%.

This figure shows how the public of competent, individuals and experts in international esports, even in Italy, is extremely high and tends to grow.

### 2.4) The role of EXP Legal and the attendance at the international conference of the International Legal Network<sup>(11)</sup> of Las Vegas:

The eSport represents an area of innovative expertise on which EXP Legal has long established a focus of long-term attention, also thanks to the partnership with AleSp., the association that is establishing itself as a reference point for the eSport movement in Italy.

The participation of EXP Legal at the panel<sup>(12)</sup> of the International Legal Network (ILN) round table was a key moment to share important reflections on the eSports world. Faced with an audience of more than 50 lawyers from five continents and gathered in the *gaming capital* - Las Vegas is not far from the eSport Arena<sup>(13)</sup> - issues were addressed - very important economically and socially - connected to eSports.

The multinational and interdisciplinary nature of the law firms represented in the ILN meeting, have allowed a comparative discussion between the great and fast growth of the eSport movement in Italy and in other European countries, with the unstoppable development in North America, China and Korea, countries from which to gain experience, benchmarks, inspiration, models of development and sources of *case studies*.

The message that emerged from the *ILN meeting* panel is that even to create suitable legal models, we need to move with the same speed as eGames, have the same strategic capacity, promptness of reflexes, vision, speed and connection with networks of expertise.

### 2.5) What hoping for 2019

Greater awareness of the phenomenon, knowledge of the subject, sporting achievements of our professionals as well as the entry into the market of great players have inevitably given the lifeblood to the Italian eSport market, that if in 2018 has set important bases, it is expected that in 2019 it will reach its full potential.

<sup>(9)</sup> "First Report on eSports in Italy", AESVI in collaboration with Nielsen.

<sup>(10)</sup> <http://www.aiesp.it/format-research-presenta-la-piu-completa-indagine-su-videogaming-e-mercato-esports/>

<sup>(11)</sup> <https://www.intoday.com/about/>

<sup>(12)</sup> At the panel have taken part also: Jennifer Carleton Howard & Howard Attorneys, PLLC; John English Global Market Advisors.

<sup>(13)</sup> <https://www.esportsarenavegas.com/>



What really desires all the operators in the sector, is first of all the consecration and recognition by government institutions.

What really all Italian eSports hope, is that finally appropriate legislative measures are put in place and aimed at regulating a phenomenon that from a social and economic point of view can no longer be ignored by the institutions. To this end, it could be important to realize what, according to many rumors, is destined to become a reality in 2019, that is, the *Serie A* League of eSports with the FIFA 19/20 license.

Even one of the leading exponents of the Italian eSports movement, Mattia “Lonewolf92” Guarracino<sup>(14)</sup>, the first Italian professional gamer to have been hired by a *Serie A* Club: U.C. Sampdoria, shares this opinion. Guarracino has graduated Italian FIFA champion for six times and among the most important awards of his career stand the bronze medal at the Olympic Games of video games at the World Cyber Games in South Korea (2011), a bronze medal at the European championships in 2011 in Poland and the gold medal at the European Championships Ems IX. In August 2017 he took part in the first World Championship dedicated to clubs.

Mattia is a friend of EXP Legal and at the question of what he will expect from 2019 about the eSports, he has answered *“I expect that 2019 will be the year of change, the year in which finally for some first-level titles, such as FIFA, the official league of Serie A can be established. It would represent a great qualitative potential for the whole Italian eSports movement”*.

### 3) Emerging Issues:

Thanks to the wide global appeal of the phenomenon and the first forms of consolidation of the eSports movement as a real industry, above all abroad, it was possible during this year to clearly understand what the main problems are, that the actors of the sector will have to face also in Italy with the growth of the movement.

• **Match fixing, doping e hacking** against which governmental institutions as well as associations and, more generally, bodies operating in the sector are expected to intervene rigorously to guarantee the fairness, credibility and genuineness of the matches<sup>(15)</sup>;

• **Legal aspects:** (i) cyber security will need more attention to protect teams and players, protect sensitive data and prevent vulnerabilities and intrusions; (ii) protection of intellectual property rights and licensing issues; (iii) cyber bullying within the games; (iv) negative tax effects due to the misalignment and inadequacy of the legislation with respect to the geographical and demographic growth of the eSports economy.

All problems connatural to the type of interests involved, from the technical, economic and human point of view, in which the world of professionals, the consulting world and institutions must confront each other to identify and draw the best practices and the regulatory framework of reference, to date not adequate to the phenomenon.

### 4) The EXP Legal – A.I.eSp Partnership<sup>(16)</sup>

With A.I.eSp., EXP Legal pursues the dual goal of following and deepening the evolution of the movement, with a cultural and multidisciplinary approach, at a national and international level.

Study and analysis of regulatory developments, both national and international, and of the contractual models applied in the industry, touching the themes of the engagement of professional videogame players by the teams, sponsorships, franchising, management of television rights, broadcasting and advertising, not forgetting to observe the extraordinary operations, which, through mergers and acquisitions, will be more and more frequent among the major players in the world sports market, aggregating values with significant effects on the financial market.

At the same time, the A.I.eSp - EXP Legal partnership wants to bring out all the critical issues that make evident to the competent institutions and associations, the need for targeted legislative interventions, which can no longer be postponed.

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<sup>(14)</sup> <https://www.esports-academy.it/>

<sup>(15)</sup> <https://www.everyeye.it/notizie/pubg-esport-quattro-pro-player-imbroglioni-bannati-per-tre-anni-357882.html>

<sup>(16)</sup> <http://www.explegal.it/it/exp-news-it/item/146-italia-in-prima-linea-nello-studio-e-definizione-del-mercato-degli-esports>