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DIGITAL INNOVATION AND DISRUPTION

2021-2022 WEBINAR SERIES

Esports 2022 – The Year Ahead

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Presenters



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Introduction & Agenda

1 2021 Year in Review

2 Looking Ahead to 2022

3 Critical (and Unique) Commercial and Legal Issues

4 Key Take-Aways

Esports 2021 Year in Review

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Esports in 2021

Viewer, Revenue and Sponsor Growth Continues as Market is Refined



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2021 Esports by the Numbers

Part 1: The People

73,860,742

Peak Concurrent Viewers (PCU) of 2021 League of Legends World Championships

30,604,255

Average Minute Audience (AMA) of 2021 League of Legends World Championships

474 Million

Newzoo estimated competitive gaming events audience in 2021

728.8 Million

Newzoo estimated global games live-streaming audience in 2021

1.9 Billion

Twitch Hours Watched in October 2021

521 Million

Facebook Gaming Hours Watched in October 2021

2021 Esports by the Numbers

Part 2: The Money

\$1.084 Billion

Newzoo estimated Esports revenue for 2021

\$1.6 Billion

Newzoo estimated Esports revenue by 2024

\$833.6 Million

Newzoo estimated Esports revenue for 2021 attributable to media rights and sponsorship

\$243 Million

Newzoo estimated 2021 Esports revenue attributable to the US

\$18.2 Million

Total prize money for the winner of 2021 Dota 2 Championship

\$0

Profit from League of Legends World Championships to date, according to Riot

2021 Year in Review – ESPN (Mostly) Exits Esports

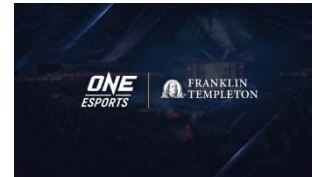
- ESPN dedicated Esports coverage began in January 2016
- Announced end of the division in November 2020
- Closure included removal from the site's navigation bar and social media accounts
- Company plans to continue to provide coverage from a broader team for major events, breaking news and coverage, but without a dedicated team or channels
- ESPN will also continue to broadcast certain Esports events

- Mixed views about the implications: a blow to industry's prospects, traditional sports media being an imperfect fit for Esports, or somewhere in between?

2021 Year in Review – Continued Influence of Traditional Sports

Players become Managers	<ul style="list-style-type: none">• NFL veteran Kenny Vaccaro leaves football to focus on organization Gamers First (G1)• Manchester United and Spanish national football team goalkeeper David de Gea created esports organization Rebels Gaming• Boxer Manny Pacquiao’s Team Pacquiao GG
League & Team Involvement	<ul style="list-style-type: none">• NFL team Indianapolis Colts to partner with Esports Entertainment Group (via its EGL brand) to host the 2021 Frozen Frenzy Fortnite tournament on December 28th• NFL to host 2nd annual Madden NFL event with Historically Black Colleges and Universities (HBCUs)
IOC & Virtual Sports	<ul style="list-style-type: none">• International Olympic Committee (IOC) hosted its first-ever virtual sporting event, the Olympic Virtual Series (OVS), where competitors played in virtual versions of five different physical sports.
Complexity Stars	<ul style="list-style-type: none">• Esports organization Complexity Gaming launched Complexity Stars, a gaming division for professional athletes and celebrities• Initial members include former NBA player J.R. Smith, WNBA player Alisha Gray, UFC fighters Max Holloway, Sean O’Malley and Megan Anderson, NFL players Leonard Fournette and Ronnie Stanley, and MLB player Edwin Rios
FaZe Clan	<ul style="list-style-type: none">• First Esports Sports Illustrated cover athletes, July 2021 issue• Part owners include skateboarder Nyjah Huston and NBA stars Ben Simmons, Jamal Murray, Meyers Leonard and Josh Hart (along with hip-hop artists Offset and Pitbull)• FaZe members include NFL quarterback Kyler Murray and LeBron “Bronny” James Jr.

2021 Year in Review – Notable Sponsorship Updates



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2021 Year in Review – Additional Updates

- Continued COVID Impacts
- Additional Legal Scrutiny
- Social Media and Content Expansion
- Colleges and Universities
- What about Physical Venues?

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Looking Ahead to Esports in 2022

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Crystal Ball

- Continued Impact of Covid-19: eSports will come out stronger. The increase in viewership during Covid-19 will have a lasting impact that exceeds any venue or other Covid-19 related hardship.
- More of the same legal issues, but on a bigger stage and with greater stakes.
 - Continued deviation from traditional team sports
 - Role of the publisher, developer, and leagues
 - Player salary and promotional rights, particularly streaming rights
 - Trying things that work in traditional team sports (NFTs, merchandising, etc.)
- Esports betting

Looking Ahead to 2022 – Esports Betting

- Traditional sports still the focus of widespread legalization efforts
- Recent state law developments specifically addressing Esports gambling
 - Nevada
 - New Jersey
 - Connecticut
- Varying degrees of popularity across games and competitions
- COVID impact and uncertainty of “reopening”
- Fantasy Esports
- Cryptocurrencies and non-monetary wagers

Critical (and Unique) Esports Commercial and Legal Issues

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Understanding Why Esports is Unique

- Roles of publishers and developers complicates legal and commercial issues even more than traditional sports:
 - **Publisher**
 - **Developer**
 - League
 - Teams
 - Players
 - Fans
- Revenue generated how and at what level?

Advertising and Media Rights Issues

- Driven by push to make esports profitable itself, not just as an engagement goal.
- Esports distribution model does not lend itself easy to broadcasting rights, so the leagues must monetize viewership directly.
- Riot alone has global partnerships with Mastercard, Verizon, Mercedes-Benz, Bose, Unilever, Red Bull, Spotify, Bose, Louis Vuitton, YouTube, Twitch, Cisco, Amazon, Coca-Cola, and State Farm. Red Bull, Verizon, and SecretLab.
- Deliver brand related value directly to fans at live events...often with in game content and experiences...creating more complex legal relationships.

Player Rights Issues

- Player salaries are generally growing faster than revenues, one of the main factors keeping esports profitability down.
- Salary cap issues. Individual vs team vs league sponsorships issues.
- Player streaming rights.
- Many professional esports players are minors. Increased interest in regulation of minor play time...particularly in China, which has set strict rules on when and how much minors can play video games.

Other Legal Issues

- Sponsorship Issues (particularly betting and crypto)
- Employment/Immigration
- Venues (Online and Physical)
- Cheating
- Fixing
- Merchandising Rights.
- IP Rights – Particularly Copyright

Esports 2022 – The Year Ahead: Key Take-Aways

1

2021 A Year of Continued Growth While Esports Forges its Own Path

- Rather than replicating traditional sports or mainstream entertainment segments, Esports taking a somewhat new, hybrid type of path to success and sustainability

2

2022 The Year Ahead

- Emergence from Covid-19
- Esports betting

3

Legal Issues Takeaways

- Increased scrutiny on publisher/developer control of esports.
- Expect to see legal developments on player rights issues.

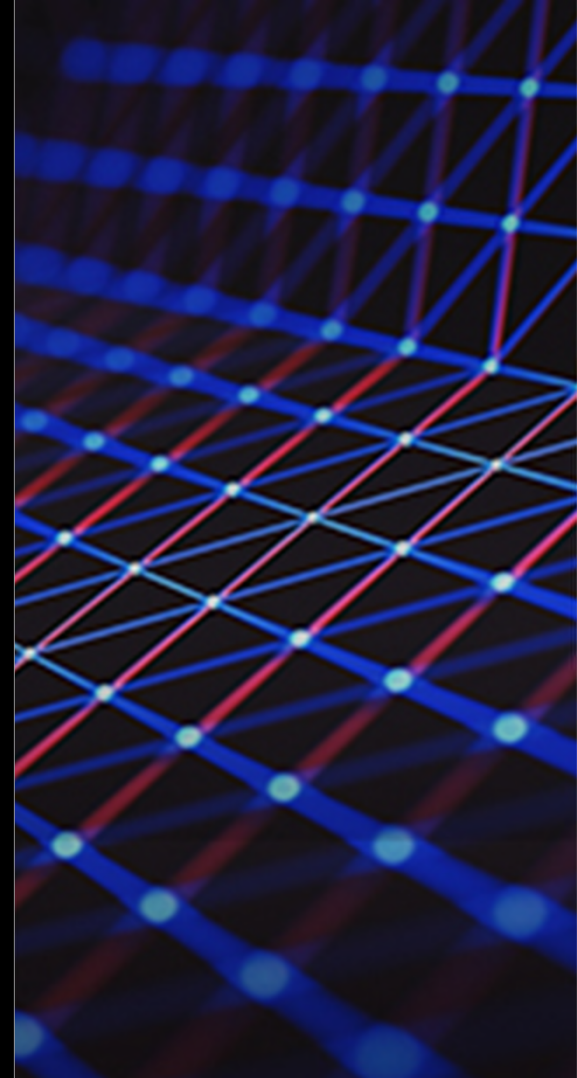
Coronavirus COVID-19 Resources

We have formed a multidisciplinary **Coronavirus/COVID-19 Task Force** to help guide clients through the broad scope of legal issues brought on by this public health challenge.

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To help keep you on top of developments as they unfold, we also have launched a resource page on our website at www.morganlewis.com/topics/coronavirus-covid-19

If you would like to receive a daily digest of all new updates to the page, please visit the resource page to [subscribe](#) using the purple “Stay Up to Date” button.



Biography



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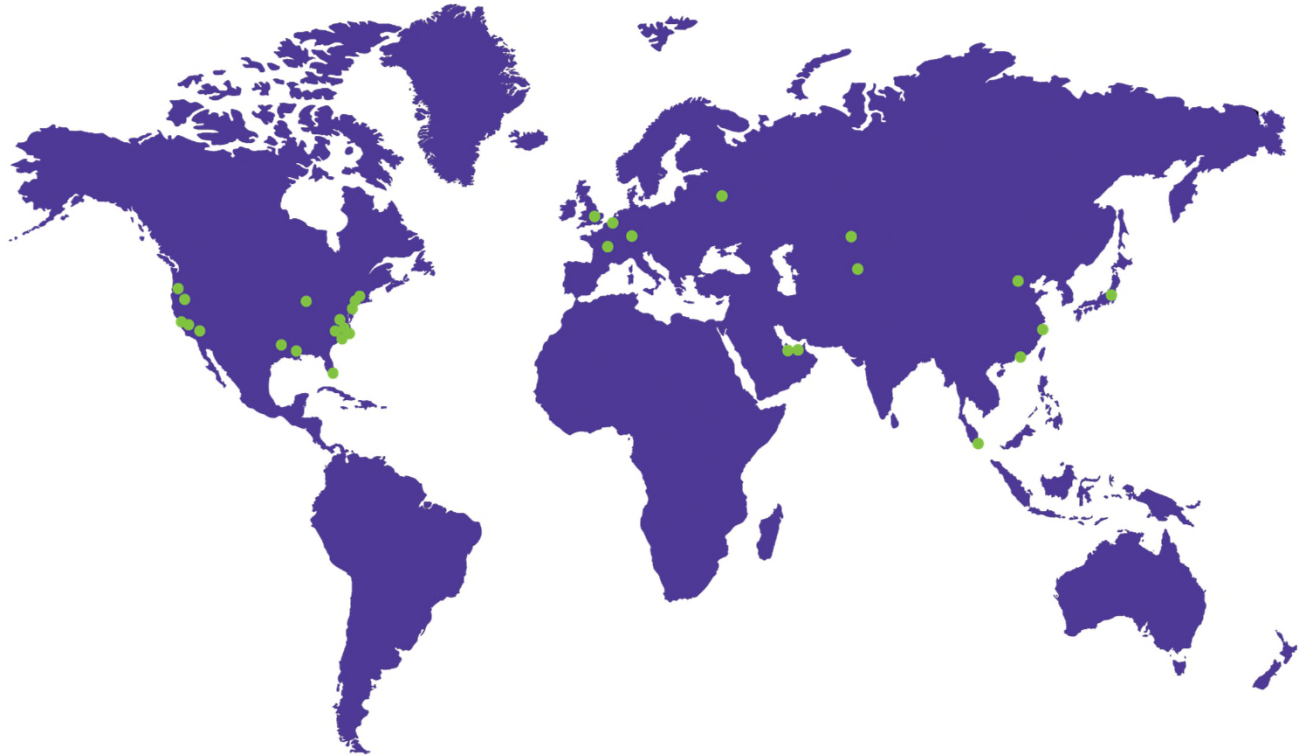
Eric Pennesi represents clients in technology transactions and other strategic commercial contract matters. Eric brings a practical, business-oriented approach to providing deal strategy, drafting, negotiation, risk analysis and related guidance for transactions involving software licensing; cloud computing; technology transfer and commercialization; development, marketing and other professional services; manufacturing, sale and procurement of goods; and business process and information technology outsourcing.

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