

Morgan Lewis

TECHNOLOGY MAY-RATHON

Contracting in the Esports Arena

May 6, 2019

INTRODUCTION

VIDEO GAMES ARE SPECTATOR SPORTS

(and more exciting than golf)

What Are Esports?



Esports by the Numbers



More than **\$1bn**:
Goldman Sachs' estimated
value of esports in 2019



454m: Newzoo estimated
esports audience 2019
(15% growth y/y)



99.6m: Viewers of 2018
League World Championship
according to Riot Games



15%: Newzoo estimated
esports audience year on
year growth 2018/19



\$15 million: Estimated
earnings of YouTube gamer
PewDiePie in 2016

Developers



Distributors



Sponsors



TOPIC 1

POPULAR LEAGUES AND STRUCTURES

League of Legends



Overwatch



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Call of Duty



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TOPIC 2

TEAM FORMATION AND OWNERSHIP

Role of the Publisher

- Normally, sports are not “owned” by anyone.
- Video games are typically “owned” by the Publisher.
- By virtue of their “ownership” they can unilaterally change any aspect of a game and apply such changes absolutely across its entire player base, both professionally and casually.
- The teams do not typically own the league or the game and, absent contractual rights, do not have any right to use the game or input into how the game will develop over time.

- **If you remember one slide. This is it!**

League Rights vs Team Rights

- Varies greatly dependent upon whether it is a Publisher owned league or a third party owned league.
- League of Legends Model – Play to participate.
- Overwatch Model – Franchises.
- Other Models

TOPIC 3

UNIQUE COMMERCIAL ISSUES

Legal Issues in the World of Esports

Contracting a headache

- The contracting structure in “typical” esports deals is exceedingly complex, even by traditional sports standards. Consider contracts between:
 - Developer and Publisher
 - Publisher and League
 - League and Teams
 - Teams and Players
 - Organizational Documents (at every level)
 - Technologies, Sponsors, Venues, Support

Legal Issues in the World of Esports

Overarching contract considerations

- Someone owns that game:
 - IP ownership and licensing
 - Gameplay, content, features and functionality will evolve
- Change is a certainty and will likely happen fast:
 - Not just the game itself
 - Game popularity, viewing habits, technology, platforms and stakeholders

Legal Issues in the World of Esports

IP ownership and licensing

- An issue at all levels and across all stakeholder relationships
- Chain of title issues
- Scope and duration of licenses
- Diligence considerations
- Enforcement issues

Legal Issues in the World of Esports

Industry issues

- Player Rights
- Online Venues
- Physical Venues (Real Estate)
- Cheating
- Fixing

Legal Issues in the World of Esports

- Advertising and Media Rights
- Employment/Immigration
- Copyright

Riot Games, Inc. v. Delgado Argote, et al.

- In August 2016, Riot filed a lawsuit in the Central District of California against a cheating service called “LeagueSharp”
- Alleged violations of the anti-circumvention provisions of the Digital Millennium Copyright Act, intentional interference with contractual relations, and unfair competition
- In March 2017, the district court entered judgment for Riot, awarding \$10 million pursuant to a Confidential Settlement Agreement and Release and ordering LeagueSharp to transfer its domain names to Riot, transfer and assign to Riot its source code, and destroy its software

TOPIC 4

INVESTING IN ESPORTS

Trends

- Franchising
- Advertising
- Sponsorships
- Live Events
- Broadcasting/Streaming
- Media Rights
- Platforms and Infrastructure
- Merchandise

Investment Opportunities

- Public Companies
 - Publishers
 - Companies in supporting/adjacent businesses
 - Few direct esports opportunities
 - Indirect, including Alphabet (YouTube), Amazon (Twitch), MSFT (Xbox), Sony (PS Vue)
- Significant Investment in Private Companies
 - Since 2011, over \$1bn invested in esports and streaming start-ups
 - Venture and Angel
 - Growth Equity

Investment Structures

- Traditional Venture Preferred
- Structured Investments
- Minority Stakes
- Partnerships and Joint Ventures
- Collaborations and Tie-ups
- Licensing
- M&A

Biography



Tony Chan

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Tony Chan has more than 15 years of experience advising companies on mergers and acquisitions (M&A), private equity, growth equity, and venture capital transactions, as well as on corporate governance, emerging company representation, and corporate finance. Tony's clients include strategic buyers and sellers as well as financial sponsors and their portfolio companies in the life sciences, investment management, technology, and video game sectors. He also regularly advises on complex international and cross-border matters.

Biography



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Simon Lightman's practice covers a broad range of commercial, technology, and data transactions. He advises on complex outsourcings and procurements, software licensing, and cloud and other "as a service" arrangements. He also regularly advises on strategic restructurings following mergers and acquisitions activity.

Biography



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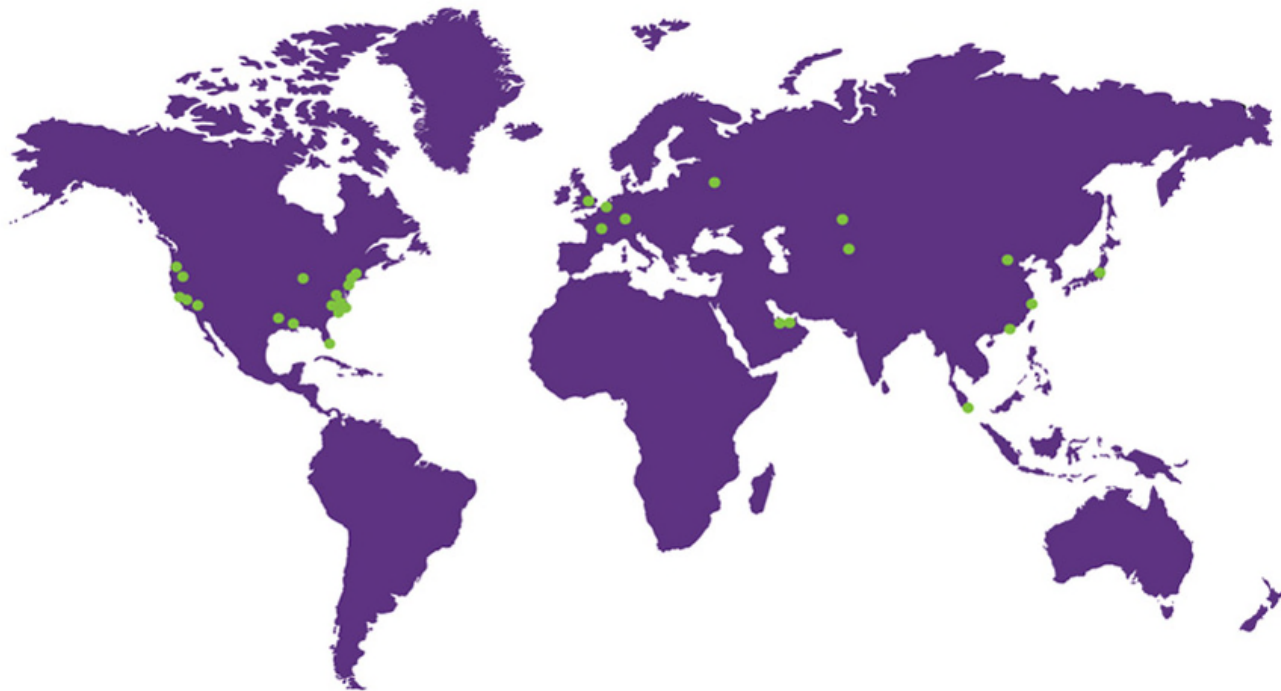
Doneld G. Shelkey represents clients in global outsourcing, commercial contracts, and licensing matters, with a particular focus on the e-commerce and electronics entertainment industries. Doneld assists in the negotiation of commercial transactions for domestic and international manufacturers, technology innovators, and retailers, and counsels clients in the e-commerce and electronics entertainment industries on consumer licensing and virtual property matters.

Our Global Reach

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