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eSports Betting: It's Real, and Bigger Than You Think

By

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Executive Summary

While much has been written about eSports' cultural and economic explosion, little has been written about the nascent industry surrounding fan wagering on eSports. eSports betting has remained under the radar due to low visibility into the financial performance of the product and a mainstream blind spot regarding the very existence of such activity. Both forces are starting to subside, revealing a space where we estimate fans will wager over a quarter of a billion dollars on the outcome of eSports events in 2015 - a number that we project will exceed \$23bn by 2020.

This report focuses on the eSports betting opportunity, including a survey of the current landscape, market sizing projections, analysis of the forces powering growth, assessment of the risks to that growth, and big-picture commentary on how the product and opportunity will evolve.

Our high-level conclusion: eSports is an extremely hospitable environment (technologically, logistically, culturally and demographically) for real-money online wagering. Penetration of eSports betting into the gamer community and general growth of eSports betting has each been dampened to date by structural barriers that are now weakening. Concurrently, eSports betting is beginning to benefit from tailwinds generated by positive macro trends for both eSports and the broader online gambling industry.

Highlights:

- **Overview** – The existing market for eSports betting is far larger than most assume, especially when considered in terms of user numbers. For 2015, we estimate 590k paid actives for real-money fantasy eSports betting, 1.72m paid actives for eSportsbooks, and some 3.2m players placing wagers with in-game items via informal betting markets. Notably, these user bases have been acquired in short periods of time (fantasy eSports didn't exist prior to January 2015, and online sportsbooks have only recently started to embrace eSports) and with relatively modest funding (\$27mm in 2015).
- **Projections** – Our base case calls for eSports betting to grow into a vertical where 19.4m bettors will wager \$23.5bn on eSports by 2020, generating \$1.8bn in revenue for operators. In our bull case, 32.5m bettors will wager \$42.9bn by 2020, generating \$3.3bn in revenue. Our projections only consider eSportsbook and fantasy eSports betting, and do not include informal eSports betting markets. These are large numbers, but we note that achieving our projected user and revenue levels requires 1) very modest penetration rates into the eSports fan base and 2) annual player spend far below typical numbers for online poker, traditional sports betting, and DFS.
- **Growth story** – We believe the current demand for eSports betting outstrips the supply from licensed, mainstream operators. That imbalance should be corrected in the months ahead as the eSports betting product matures (expansion of in-play and other exotics), more mainstream operators embrace the product (we predict saturation approaching 100% at major UK operators by 2017), and eSports-first operators continue to proliferate and evolve. Longer-term, the explosive growth of eSports events – we see over 15,000 events awarding \$281mm in total prize money by 2020 – will power a virtuous cycle of supply and demand. Concurrently, eSports betting will enjoy a confluence of interest from the massive gaming (\$81.5bn¹) and online gambling (\$33.2bn²) industries, interest that will provide powerful support for acquisition and expansion.
- **Risks** – Realizing the eSports betting opportunity requires successful navigation through a number of existential threats. Game integrity is the most obvious and compelling of those threats. The early-stage nature of eSports invites corruption. High-profile match fixing allegations are a staple of eSports media. We believe that the threat can be successfully mitigated, but acknowledge that mitigation must be aggressive and swift for the industry to avoid long-term reputational damage that would throttle the growth of eSports betting. We also note that an answer to the open question of how gambling regulators will ultimately approach eSports betting could have profound implications on the market's potential.
- **Outlook** - We are excited by the inherent potential of eSports as a betting product. Imagine, for a moment, what the modern online sportsbook industry would look like if every molecule on the football field was fodder for wagering. That is

¹ Total size by revenue for 2014, per Newzoo

² Total size by revenue for 2014, per H2GC

the reality of eSports. The all-digital nature of eSports explodes the current limits on wagerable events within a given sports competition. The amount of data involved opens up new frontiers for online sportsbooks in terms of bet types, frequency, limits, and customer control. We are similarly intrigued by the potential for deep integration between eSports content and eSports betting that is bred by the all-digital environment, and imagine a world where in-stream betting is seamlessly integrated into eSports content created by sportsbooks, media, leagues, users, and possibly even game developers.

***** The full report is available to clients of Eilers Research, LLC or can be purchased at <http://www.eilersresearch.com> or through an affiliated partner. For more information please contact DJ Leary - dleary@eilersresearch.com *****

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