Esports and Merger & Acquisition

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Abstract -This paper delves into the burgeoning intersection of esports and Mergers and Acquisitions (M&A). As esports evolves into a global industry, boasting a viewership of 454 million by 2020, businesses seek strategic consolidation through M&A activities. Notable franchises like League of Legends and Dota drive the industry's multi-billion-dollar growth, attracting collaboration and investment.

Esports M&A involves the consolidation of organizations, game developers, and streaming platforms, driven by motives such as achieving synergies and expanding market presence. The paper explores the financial dynamics of this evolving landscape, emphasizing its transformative impact on the entertainment and sports industries. With esports on the rise, understanding the strategic implications of M&A in this context becomes paramount for businesses navigating the opportunities and challenges within this dynamic ecosystem.

Key Words: Esports, Mergers and Acquisitions, Gaming Industry, Competitive Gaming, Video Games, Global Phenomenon, Business Consolidation.

1.INTRODUCTION

Esports, a rapidly growing industry, involves competitive video gaming showcased on platforms like Twitch and YouTube. Originating in East Asia, it has become a global phenomenon, with popular games like League of Legends and Dota 2 hosting massive tournaments. The landscape has shifted, with projections of 454 million viewers and over $1 billion in revenue by 2020. China contributes significantly to this revenue, with 35%. Esports competes with traditional sports, evident in the League of Legends World Championship's 100 million global viewers in 2019, surpassing the NFL Super Bowl's 149 million. The industry's potential impact on businesses is explored in the Philippines, where esports is still emerging. The esports M&A landscape involves consolidations and acquisitions among organizations, game developers, and streaming platforms, driven by motives such as achieving synergies and market expansion. Understanding this dynamic esports ecosystem is crucial for companies exploring collaboration and investment opportunities.

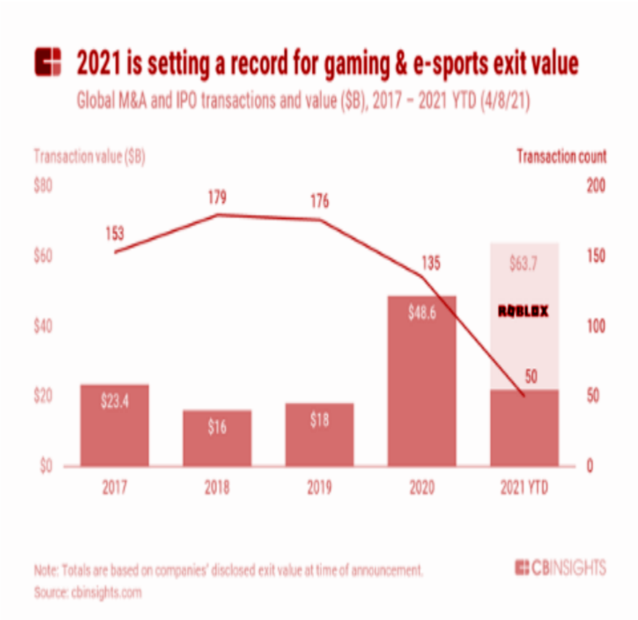
2. Body of Paper

In the dynamic landscape of esports, the years 2020 and 2021 have witnessed an unprecedented surge in merger and acquisition (M&A) and Initial Public Offering (IPO) activities, setting new records with transaction values reaching $48.6 million in 2020 and a staggering $63.7 million in 2021 Year To Date (YTD) as of March 8th. These figures mark a significant leap from the comparatively modest $18 million recorded in 2019.

This remarkable increase in investment within the esports sector can be predominantly attributed to the global COVID-19 pandemic. The pandemic, with its restrictive measures like lockdowns and social distancing protocols, compelled a large portion of the global population to spend more time indoors. A natural consequence of this shift was a substantial rise in the consumption of gaming content, as individuals sought entertainment and social engagement within the virtual realm.

Esports, being a digital and inherently distanced form of entertainment, experienced a surge in popularity during these challenging times. The increased engagement with video games, streaming platforms, and esports tournaments became a focal point for individuals seeking both entertainment and social connections. As a result, investors recognized the immense potential of the esports industry and responded with a flurry of M&A and IPO activities, driving the total transaction values to unprecedented heights.

The COVID-19 pandemic acted as a catalyst, accelerating the already burgeoning esports industry's growth and attracting substantial investments. The record-breaking figures reflect not only the industry's resilience during uncertain times but also its newfound prominence as a key player in the global entertainment landscape.



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In the competitive landscape of the video game industry, acquiring companies often strategically focus on expanding their Total Available Market (TAM), a critical metric influencing the number of consumers engaging with their offered games. The underlying principle is that a broader market presence attracts more users to a company's games, leading to increased potential for revenue growth and heightened levels of user engagement. This strategy is particularly evident among game publishers and major tech corporations, as illustrated in fig 2.2

Game publishers and tech giants stand out as key players in the acquisition game, driven by a combination of substantial financial resources and a desire to consolidate their market share in the rapidly evolving video game industry. The pursuit of acquisitions allows these companies to diversify their game portfolios, tap into emerging markets, and capitalize on the growing demand for interactive entertainment.

The primary motivation for these acquisitions is not only monetary but also strategic. By absorbing other entities, companies aim to strengthen their competitive positions, foster innovation, and create synergies that enhance their overall market influence. This trend is especially pronounced in an industry where innovation, intellectual property, and user experience are pivotal factors.As these acquiring entities amass more resources and broaden their reach through acquisitions, they are better positioned to navigate the ever-changing dynamics of the gaming landscape. The strategic moves to consolidate and secure larger market shares underline the competitive nature of the video game industry, where staying ahead involves not just creating compelling games but also strategically expanding one's footprint in a market that continues to witness rapid growth and evolution.

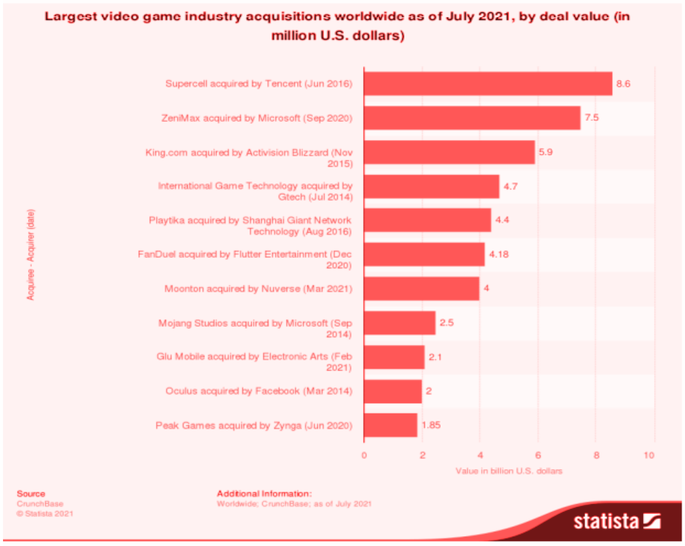

Figure 2.2: Largest Acquisitions in Video Gaming sector by deal value (USD million)

Friendly vs Hostile Takeovers:

In the dynamic esports sector, acquisitions can unfold in two distinct manners: friendly or hostile takeovers. In a friendly takeover, the acquiring company engages in cooperative negotiations with the target's management, seeking their approval and collaboration throughout the transaction. This collaborative approach aims to align the visions of both entities, fostering a smoother integration process post-acquisition. In the esports industry, where collaboration and synergy are pivotal, friendly takeovers provide an avenue for the acquiring company to tap into the expertise, talent, and unique aspects of the target organization, ultimately enhancing the overall competitive advantage.On the other hand, hostile takeovers in the esports realm represent a more aggressive strategy. This occurs when the acquiring company bypasses the target's management and directly engages with the equity holders. Hostile takeovers can introduce conflict and resistance, potentially destabilizing the targeted organization. In the esports sector, where brand reputation and community engagement are paramount, the adversarial nature of hostile takeovers poses significant risks. The acquiring company may face challenges in securing the support of key stakeholders and successfully integrating the acquired entity.

It's worth noting that in some instances, transactions that initially begin as hostile takeovers may evolve into friendlier terms when common interests emerge. This transformation can occur when both parties recognize the potential benefits of a cooperative approach, minimizing disruptions and fostering a more positive post-acquisition environment. In the rapidly evolving and interconnected world of esports, the dynamics of friendly and hostile takeovers play a crucial role in shaping the landscape of industry consolidation and growth.

3. CONCLUSIONS

In conclusion, the esports industry has undergone a transformative period, particularly in the years 2020 and 2021, marked by unprecedented growth in merger and acquisition (M&A) activities and Initial Public Offerings (IPOs). The global COVID-19 pandemic acted as a catalyst, propelling the esports sector to new heights as lockdowns and social distancing measures fueled a surge in gaming content consumption. The industry demonstrated remarkable resilience and emerged as a key player in the global entertainment landscape, attracting substantial investments with M&A transaction values reaching remarkable levels.

The competitive landscape of the video game industry witnessed a strategic focus on expanding Total Available Market (TAM) by acquiring companies. Game publishers and major tech corporations played a pivotal role in this trend, driven by significant financial resources and a desire to consolidate market share. The motivation behind these acquisitions extends beyond monetary gains, encompassing strategic objectives such as strengthening competitive positions, fostering innovation, and creating synergies in an industry where innovation, intellectual property, and user experience are crucial.

Examining the dynamics of friendly and hostile takeovers in the esports sector reveals a nuanced approach to industry consolidation. While friendly takeovers emphasize collaboration, aligning visions, and tapping into unique aspects of the target organization, hostile takeovers represent a more aggressive strategy with potential risks, especially in an industry where brand reputation and community engagement are paramount. The adaptability of transactions from hostile to friendly reflects the intricate nature of esports deals and the importance of common interests for a positive post-acquisition environment.

In essence, the surge in M&A activities within the esports industry signifies not only its robust response to external challenges but also its newfound prominence and maturity in the global entertainment market. As the industry continues to evolve, strategic acquisitions and partnerships will likely play a pivotal role in shaping its trajectory, ensuring sustained growth, and solidifying its position as a dynamic and influential force in the digital entertainment landscape.

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