

The Ideas Exchange Episode 7: Invest in the Future: Games and eSports

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Voiceover [00:00:02] Welcome to the Monthly Ideas Exchange podcast brought to you by ASX, The Heart of Australia's financial markets. Each month we'll connect you to a range of leading industry experts who'll give you a look into the finance industry and deliver valuable insights. Hear about important market events, industry research, tips for your own market research, as well as innovative products to help you diversify your investment portfolio.

Martin Dinh [00:00:34] Hi everyone, and welcome to another episode of the Ideas Exchange podcast. Over the last decade, the video games and eSports industry has been on the rise and been gathering a lot of pace as a result of advances in technology. Today, the video games and eSports industry is a multimillion dollar industry that is transforming entertainment, sports and media. In today's episode, I'll be joined by Damon Gosen, Director of Business Development at VanEck Australia, as we learn more about the video game and eSports industry and what options are available for investors looking to capture the performance of this industry. So a fun episode lined up. Come join Damon and me as we dive into the world of video games and eSports.

Martin Dinh [00:01:18] Hi Damon, it's great to have you today, mate.

Damon Gosen [00:01:21] Yeah, thanks for having me, Martin.

Martin Dinh [00:01:22] So in today's episode, we'll be covering the video gaming and eSports industry. For those that are not too familiar with eSports, it essentially describes the world of competitive, organised video gaming, where competitors from different teams or leagues face off each other, with these competitions often being watched by millions of fans all over the world. In Australia, the video gaming and eSports industry, it's been a hot topic amongst investors over the last 12 months, with the VanEck Vectors video gaming and eSports ETF attracting over one hundred million dollars in assets since it first launched in September 2020, and becoming one of the fastest growing ETFs over the last 12 months. For me personally, I love video games and watching esports, but I've never really turned my mind to the investment case for this industry. So I guess a great place to start, Damon, is to understand what type of companies operate in the esports and video gaming industry?

Damon Gosen [00:02:10] You know Martin, we get that feedback a lot. So, it's awesome to have the chat today to kind of get everyone across that because it's such an exciting space and it's quite broad as well. So when you actually look at industry sectors within video gaming and esports, you've got the creators of the video games that like Activision and Tencent. So they develop and publish games

and you've actually got, on the esports side, professional sports teams. So it's like franchise fees to lend owners, and corporate sponsorships as well as other venues or stadiums, which is pretty crazy to think about, the streaming services like YouTube and Twitch TV, and obviously the actual tech companies as well. So the hardware and software that's actually sitting behind these types of businesses. So it's such a broad area, media companies for licencing rights as well. So it is a massive area and it's a massive growth area.

Martin Dinh [00:03:02] Yeah, I think the level of diversity in terms of what type of companies and businesses that operate in this industry is a lot more diverse than I would have thought of. So that was great to know. So, Damon, with the advancement in mobile and internet technology, how has the video gaming and eSports industry evolved over time?

Damon Gosen [00:03:19] That's been the key to it really, is that advancement in mobile tech and Internet technology. So the first video game companies really spent in arcades struggled for a long time to actually get their business models right. Because when you think about it, what they found hard, was once they'd made a sale, was actually to continually create income and repeat business from those customers was difficult to come by. So you kind of think of that evolution over many, many decades, like being released in 1972 and just two players hitting a pixelated ball back and forth. For Atari. They brought out a home version of Pong in 1975 and you had video game systems in the late seventies and Nintendo in the mid-eighties with the Nintendo Entertainment Systems. So I guess in that type of era, video games were still a part of life, video games were a big part of a lot of families globally, but the repeat business is very difficult. So I guess as technology has improved, so with the development and proliferation of videogames, that's kind of mirrored the actual dawn of the Internet. And so a long incubation period there, followed by explosive growth once those businesses are able to leverage that technology. And so you're seeing PC gaming, you're seeing mobile gaming is a big part of it now, in more recent times, the actual rise of eSports.

Martin Dinh [00:04:40] Yeah, I remember when I first bought my Nintendo video gaming system 15 years ago and then seeing how much that has evolved over 20 years now, over 15 years now to the Nintendo Wii, which had the... Do you remember the motion sensor remote, you know, where you could interact with the characters and the events? And then a couple of years later, they introduced the Switch, which was like a handheld gaming device and had amazing graphics. And you could also watch videos on there. So it is amazing to see how much the video gaming and eSports industry has evolved as a result of the advancement in technology. And I was wondering, Damon, how big exactly is the video gaming and eSports industry right now?

Damon Gosen [00:05:20] It's staggering. Globally, there are three billion gamers. So that number sounds big enough, but when you put it in context of things that people are familiar with. So Netflix has got two hundred million subscribers. There is one and a half billion people with Apple devices and two billion Facebook users. So that's a huge number, three billion active gamers out there. The actual eSports from an audience perspective, it's now surpassed half a billion. So the video

gaming industry is actually bigger than the entire video and music industry combined now. And it's been actually growing for a long time. So when you think of the scenario, we're here recording a podcast, looks to me like you're in your home office in lockdown in Sydney. And I'm actually at my home office as well. So it gets put to us a fair bit, well the type of environment we've had post covid has really benefited the industry. And to some extent that's the case, like the spike in video game during the covid-19 pandemic has certainly occurred. This really entrenched a trend that's been underway for a long time, so those numbers haven't just come about in the last 15 months or so, there's been 12 per cent per annum revenue growth for video gaming as an industry since 2015. Esports revenue has tripled over the last three years. It's growing twenty eight percent per annum since 2015. Crowd numbers are growing enormously. The amount of revenue per person actually watching has grown enormously since 2014 as well. So, yes, the covid environment has been positive. Sounds terrible to say, but from a business perspective, the video game or eSports, it has been a tailwind but it really is a long term structural growth story which has been transforming entertainment, sport and media for many years now.

Martin Dinh [00:07:00] It's really incredible to hear. I did not realise that the number of video game users exceeded the number of subscribers on Netflix and also Facebook as well. That's absolutely mind blowing. And you mentioned something quite interesting about eSports. Do you know how that compares in terms of viewership when we look at traditional spectator sport? Is it bigger than the NBA or the NRL and AFL? Do you have numbers behind that?

Damon Gosen [00:07:26] Yeah. So to kind of put the numbers there in some sort of context because it's huge already, but it's also the fastest growing sport, there's crowds that rival say World Cup football, the Olympics, that the actual audience for eSports is bigger than the NFL in the States, so well and truly bigger than the rugby league and AFL. I'm not sure what type of multiple over the rugby league and AFL, but it would be many times. And there's a lot of stats saying that a lot of younger people, younger gamers are actually watching more eSports than actual traditional sports as well. So it's it's a huge industry.

Martin Dinh [00:08:01] As you can probably start to tell. I am a video gaming nerd and I watch a lot of eSport. And you mentioned about covid, about us being locked down in that being a driver of growth in terms of the number of people watching eSports. I concur with that. I mean, being stuck in my home and I'm so accustomed to watching the basketball, the NRL, AFL, I love my sport. But when that got cancelled, there was nothing to watch. So funnily enough, I turned to eSport. I was watching a Starcraft tournament, a League of Legends tournament. I don't even play some of those games, it's just entertaining to watch. So, yeah, it's been really, really wild to see in terms of how many people actually tune into eSports in comparison to traditional spectator sports. I was wondering, you mentioned some of the revenue numbers of some of the companies that operate in the video gaming and eSports industry. How do these companies generate money? What are some of the revenue streams for these companies?

Damon Gosen [00:08:54] Well, I'll break it into video gaming and then cover the eSports. On the video gaming side, it's about one hundred and eighty billion

dollars of revenue in 2020 US dollars. But it's quite diverse. So there's smartphone games, which actually is the biggest chunk. To kind of put that into the context of 10 or 15 years ago, no one had a smartphone and now all of a sudden, 40 per cent of revenue in video gaming is via smartphone. So it's pretty amazing, really. You've got the downloaded or boxed PC games being a component, tablet games, consoles, browser PC games as well. So there's a variety of revenue streams there on the video gaming side. With eSports, the break up looks very much like traditional sports in terms of the supply chain or the value chain as a component. There's a media rights, there's publisher fees, there's merchandise of tickets. There's the streaming income sources as well. So you've got a really good revenue split whether you're looking at eSports or video games.

Martin Dinh [00:09:53] You talk about revenue for video gaming and how much revenue smartphone gaming takes. You know what I realise? So I play a game on my mobile phone. It's called Clash of Clans. Big fan of it. It's been around for a while. It has hundreds of millions of users. It's actually free of charge. They don't charge anything for the games. You know, as far as I know, most of the smartphone games don't charge anything. So where does this revenue come from?

Damon Gosen [00:10:16] There's certain in-game purchases that are there on smartphones. There's certain games that allow to improve the experience by paying a subscription fee to get something, there is advertising that's within it as well, that's fully embedded in some of the games. The free games get people in and then the rest of the revenue comes from the add-on extras.

Martin Dinh [00:10:35] Yes, I Googled the term, it was called a 'micro transaction enthusiast', and that's exactly what I am. I'm guilty of that. I reckon I spend probably fifty dollars a year on my Clash of Clans account. Which is pretty interesting. Right. Like when you think about some of the video games in the early days, it was like you play it once, well, you played a couple of times, but it lasts about six months. This game that I've been playing on my mobile phone, I've been playing it for over five to six years. I'm pretty sure they've got me for life. I'll be spending fifty dollars a year every year and they've just got me on these micro transactions. I know sometimes it sounds silly and I can buy like virtual items and etc. using real money, but it is addictive and it's a lot of fun and a lot of great entertainment, so it's pretty interesting to see in terms of the revenue how that's changed, right. Like instead of having a single transaction game, you pretty much just have a free of charge game and then you just buy in purchases in the game.

Damon Gosen [00:11:33] Yeah, it's amazing.

Martin Dinh [00:11:34] So, Damon, you've given us a great overview of the eSports and video game industry. So I wanted to chat a bit more about an ETF that you have listed on the ASX that can provide investors with access to companies involved in the video gaming and eSports industry, namely the VanEck Vectors video gaming eSports ETF, which we talked about before. And it's under the ASX ticker ESPO. So could you give us a quick rundown of the investment strategy of ESPO?

Damon Gosen [00:11:58] Yeah, sure. So ESPO is VanEck Vectors video gaming and eSports ETF. I loved your intro in terms of it's up over 100 million. It only listed in September last year. I think it is our fastest fastest growing fund to one hundred million dollars that we've had, which has been amazing. We've got it offshore. We've had it in the US and Europe for three years now and had about three billion dollars globally linked to that same strategy. And so really, what the fund provides exposure to is that it's a pure play way of getting access to the video gaming and eSports. And by pure play. I think that's really important in that it excludes certain companies. So Microsoft with the Xbox, Sony with the PlayStation, they're not included. That's a relatively small part of their overall revenue picture. So, to be eligible for inclusion in ESPO, you have to derive 50 percent of your revenues from the video gaming and eSports industry. So it's a very targeted exposure at those stocks that are deriving... Their bread and butter is video gaming and eSports. So it's the largest and most liquid companies that meet that brief. And so it's about twenty five stocks. It really is all about, it's this dynamic growth opportunity. Like I've kind of set the scene with the numbers behind it, the growth rates. These are the companies that are positioned to benefit from that increasing popularity as well. And they've got an amazing growth trajectory. The other part to it is, from a diversification perspective, it's actually a technology strategy. So it's a technology based thematic, that is a diversifier away from the mega cap, tech stocks, that everyone owns in their portfolios as well. So really, that's the key to ESPO, it's a broadly diversified exposure to this very targeted thematic.

Martin Dinh [00:13:47] So hypothetically, though, if I did invest in an ETF that invested in technology companies, and using an example such as the BetaShares Nasdaq 100 ETF, wouldn't there still be some overlap between this particular ETF and ESPO in terms of the holdings?

Damon Gosen [00:14:02] There would be some overlap, but very limited. This is part of our business ethos as well. So VanEck when we get asked what do we do? Well, it's all about accessing the opportunities. And a great example here is, this is an asset class that we think, an investment thing that we think makes a lot of sense that is typically very underrepresented in portfolios. So if you took a Nasdaq 100 like you mentioned, there's less than five percent exposure to this thematic in that. Contrast that with less than five percent to video games and eSports and all the benefits and growth in that sector versus close to half of that is in the themes of Microsoft. So when someone says, I own on the Nasdaq 100, I have really diversified exposure, one hundred growing tech businesses, we turn around and say, is it really that diversified if half a dozen stocks make up close to 50 percent of that holding? Such has been the dominance of those mega cap companies in recent years. You broaden it out to a standard type of international exposure, like [00:15:03] MSCI World ex-Australia, [2.4s] and you're looking at less than one percent exposure. So that's kind of I guess the case as to why we think it's actually a standalone discrete offering in a portfolio as it actually does provide some very strong technology thematic but away from those meg cap companies.

Martin Dinh [00:15:26] some good points there. Yeah, very interesting. I'm sure you get that question all the time. But yeah, I think what it also shows is that just

because you look at the name of the ETF, they may seem similar, but what they actually hold could be entirely very different. Right. So I think it really emphasises that to make sure that if you have a view on a particular area of the market, make sure you understand what's inside that particular ETF and is it giving you the exposure that you really want? And you mentioned already, like it's less than a one percent overlap over the [00:15:54]MSCI, [0.0s] I believe?

Damon Gosen [00:15:54] Yeah.

Martin Dinh [00:15:55] And five percent for the Nasdaq 100 ETF by BetaShares. So some good lessons there. And for me, like when I think about the video gaming and eSports industry, you know, I love it and it's pretty clear I'm addicted to it, but I've never really thought about it as an area where I should be investing into. So I was curious, like, what was the driving factor behind bringing ESPO to market?

Damon Gosen [00:16:19] As I kind of said, in the sense of we try and bring to market opportunities for investors that we think make a lot of sense, but a lot of the time we're underrepresented. And if someone was to peruse our product set, they'd see that. Like we've got [00:16:33]China A-Shares, [1.1s] global infrastructure, emerging market bonds, positive mid cap stocks. These are big parts of our business and where we're focussed on. Not to say that everyone should have all of their money in those areas, but recognising most investors have got close to zero, if not zero as well. And ESPO's another great example of that being, here is an investment strategy that we think has a lot of very solid fundamentals sitting behind it and a long term structural thematic. But if you look at the average portfolio, not many people have as much exposure to it. And so that was really the driving force behind why we brought it to market. The other piece probably to add as well, while we've had ESPO on ASX since September last year, and it's been really successful here. We've had it in the US and Europe for about three years, and had about three billion dollars funds under management in that fund. One of the interesting things that your listeners might like to hear is, a big part of that investor base has been institutional clients. In the vicinity of 40 or 50 percent of that investor base been institutional clients that have decided we really like this story of video gaming and eSports from an investment perspective, but we want a liquid, efficient, transparent way of actually buying that exposure. And have actually adopted an ETF in the form of ESPO as a way to get that exposure. So that kind of underpins our broader investment strategy when you actually see institutional clients recognising how positive the trend is.

Martin Dinh [00:18:13] Yeah, I didn't know that in terms of the type of clientele that were buying into ESPO in the US being mostly institutional. When I think of a product like ESPO, you'd think it's a thematic, has an exciting story. This is probably something where you have people like me, young 30s, maybe the millennials, gen Zs flocking into. But it's great to hear that institutional investors are buying into this area. And you're right, I mean, the ETF wrapper is just a great way to get exposure to a particular area of the market as well. Instead of having to buy the individual companies, you can take a view on the direction of the market, right?

Damon Gosen [00:18:50] That's right. And it has been such a broad investor base as well. So everyone from yourself, as you describe, the younger clientele that really understand that the thematic. So, individual investors have financial advisors, stockbrokers. I've had some feedback from clients of ours where retiree clients bought it and had some familiarity with video gaming in the form of watching how much time and money their grandchildren were spending on that theme and going, well, that can make some sense to us, and that's through to the institutional investors as well. So it's really a broad investor base across that strategy.

Martin Dinh [00:19:27] Yeah. I mean, if the institutional investors had an idea of what went in my life and how much time I spent on video games, I can see why they like that particular area. And personal question for you. What's your favourite company in ESPO and why?

Damon Gosen [00:19:42] I'm going to nominate Nintendo. I'm here representing VanEck, we're fund manager. We spend all our days looking at clever charts and ratios and fundamentals and talking about all these awesome investment trends. But to me, Nintendo is a little stroll down memory lane. I can remember being given as a 7 year old the original Nintendo entertainment system. So a kind of block shaped device, you push the cartridge in, push it down. Every second use you'd have to kind of blow the dust off the cartridges as well. I've still got that actually in the cupboard and I just reminisce about that sometimes and I'd love to get it dusted off and put it up on the big screen now. And so I think I really respect that company in the sense of it's built this loyal brand relationship. They're 30 something years on. That's still what I think about when I think of video gaming. Clearly I know that there's a lot more out there than Nintendo, but it's one company that has really stood the test of time, really innovative as well. Also the one other thing, in a world where investors are increasingly focussed on sustainable or ESG. Nintendo seems to be a company that's doing the right thing in that they're creating games that are typically fun for everyone to play. There's not as much of the violence in the games. They've developed a way to keep older people fit and healthy as well with the Wii. So some of those things, I think, I really kind of respect about that company. So yeah, less about the investment fundamentals and more about the feel good factor for me.

Martin Dinh [00:21:16] It's all about the feel good. And Nintendo is also my favourite company in ESPO. As you can tell, I've been a lifelong gamer, using the Nintendo video gaming system from the first video game back in the 1980s to the Wii and now to the Switch. And I don't think I'll be changing. Just before we wrap it up, for those investors looking to get a bit more information on the video gaming and eSports industry, where can they turn to?

Damon Gosen [00:21:43] First place to look, take a look at our website VanEck.com.au. You will find enormous amounts of information. You'll see the flyers which talk you through the broader thematic. Actual white papers, so research papers on the holding. Asset classes as well, see all the holdings. There's no shortage of information there and people are certainly able to reach out to us and get more information. We're huge advocates of advice as well, so speak to a financial adviser, to stockbroker as well. But yeah, learn about it, understand what

sits under the hood. This is less of an expert comment and more of a broad comment in terms of guidance, understand what sits under the hood of all of your investments, whether it's an ETF or something else, and how it can actually fit in with your portfolio.

Martin Dinh [00:22:26] Well, that wraps up this month's episode. It's been pretty fun. A lot of fun talking about one of my favourite areas in the market. I wanted to thank you for sharing your insights into the rapidly growing videogame and eSports industry. Enjoyed our conversation. And we look forward to bringing you back down on road.

Damon Gosen [00:22:43] Awesome. Thanks for having me, Martin.

Martin Dinh [00:22:45] Well, that concludes today's episode. It was a fun episode, learning about the rapid rise of the video gaming and eSports industry and why investors may consider positioning their portfolio to capture the performance of a growing industry. In next month's episode, I'll be joined by Yin-Peng Chiew, Director of Strategy at Qualitas, as we chat about a new kind of opportunity beyond shares, fixed income and traditional investments, namely opportunities in the commercial real estate debt market. Until then, thank you for listening and we look forward to you joining us next month.

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