

Welcome to the metaverse

Sport has star potential

Joseph Teasdale

joseph.teasdale@endersanalysis.com

Jamie MacEwan

jamie.macewan@endersanalysis.com

Maddie Anstruther

maddie.anstruther@endersanalysis.com

Niamh Burns

niamh.burns@endersanalysis.com

+44 (0)20 7851 0900

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Sports in the metaverse: promising early signs

Sports organisations, both clubs and leagues, are highly motivated to develop new virtual touchpoints with fans, in order to:

- **Improve finances** through new revenue streams
- **Engage their total, global fanbase**, rather than just those few thousand who can fit inside a stadium
- Maintain relevance with new generations who have countless entertainment options

In addition, sport is very well placed to solve a lot of the roadblocks facing other content verticals, and actually offer compelling, popular virtual experiences.

- **Sport has fans, not just customers**: they will be much more amenable to virtual experiences
- Both sports broadcasters and sports game publishers have enormous expertise in **producing assets and content** that can be flexibly deployed, including in new virtual applications
- **The pool of potential ideas** is much richer in sport than most other verticals we have looked at

However, clear obstacles remain:

- **The rights picture is fraught**, with tie-ups ranging from individual players to sports governing organisations, covering a wide (and not always clear) range of applications
- Leagues and broadcasters are both often **risk-averse**, not wanting to threaten the golden goose of sports broadcasting with new approaches
- There are many distractions, particularly in the area of web3 and NFTs, which could pull focus from delivering compelling virtual experiences to fans

There are several possible routes to a true sports metaverse:

- **Simulation games publishers**, especially EA but also Take-Two, are very well-placed to broaden their offering beyond core simulation games on PC/console. They have the assets, talent, relationships and ambition to make it happen, and it will be a priority in the next three years. The picture could be complicated by ongoing games M&A—where each publisher ends up will be crucial
- Sports orgs are dabbling in **social gaming and proto-metaverse platforms**, which are helping them learn but are unlikely to move beyond the gimmick stage
- **Broadcasters** are often under-ambitious, but there are promising early experiments, supported by dedicated technology providers

Sports clubs are looking for ways to engage all their fans

The key impetus for developing richer virtual sports experiences is this: **top sports clubs have huge global fanbases, but only a few thousand at a time get the full experience of attending a match.**

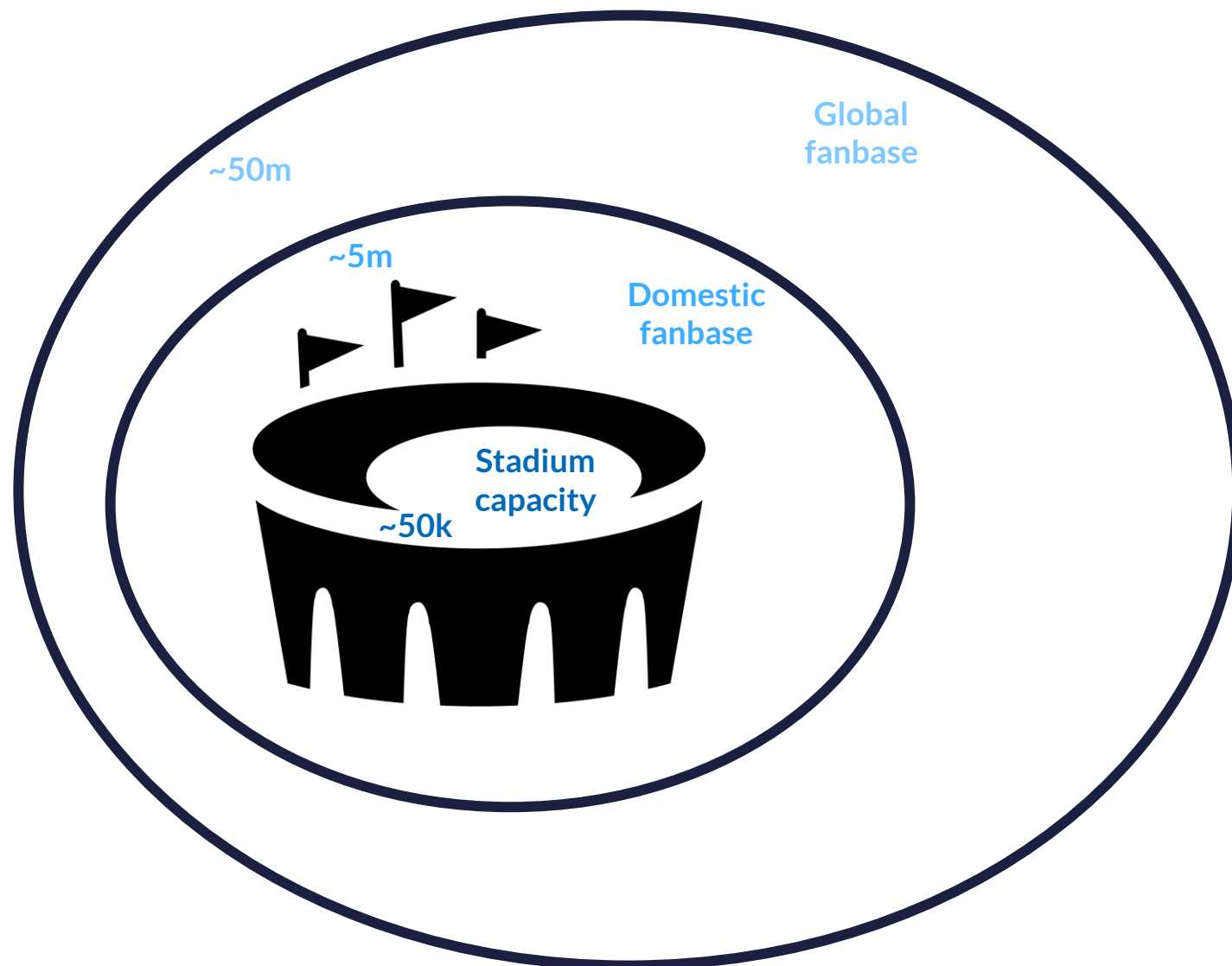
The rest of a club's community is engaged with and monetised via broadcast, merchandise and other media, such as video games.

The main draw of the metaverse for clubs is to improve the offering for the millions of fans worldwide, deepen their engagement and serve them paid and sponsored experiences.

Sports organisations, particularly European football clubs and leagues, feel pressure to find new sources of revenue:

- Player markets are international, and inflated by the wealthiest clubs' bids, meaning huge player costs
- Financial Fair Play rules mean expenditure must be balanced by income
- Broadcast income has not continued its earlier rapid pace of growth

Sports orgs also fear losing relevance with new generations. EA's FIFA has helped football maintain interest from young people, and they will be looking to repeat the trick with immersive virtual worlds.



Sport has clear potential for compelling virtual experiences

Of all the sectors we have looked at, sports orgs are closest to solving the creative problem of what people will actually *do* in the metaverse. This is an embarrassingly difficult question in most cases, with proposed applications either being pale imitations of the real thing, or just sounding a bit weird and not that compelling. Of course, some applications may look bad on paper, but people will need to see them to believe in them. Others will need more progress in the technology and design approaches before they can be conceived. However, in our assessment, sport has the richest pool of potential applications already conceived at this very early stage.

Sport has an obvious advantage here: it has fans. People are genuinely interested in experiences related to but separate from the core product: they want a tour of the Emirates stadium, or to see a kit reveal, or an interview with a franchise owner, in a way they don't want a tour of a Levi's factory, or a reveal of a new Google logo, or an interview with the chair of Johnson & Johnson.

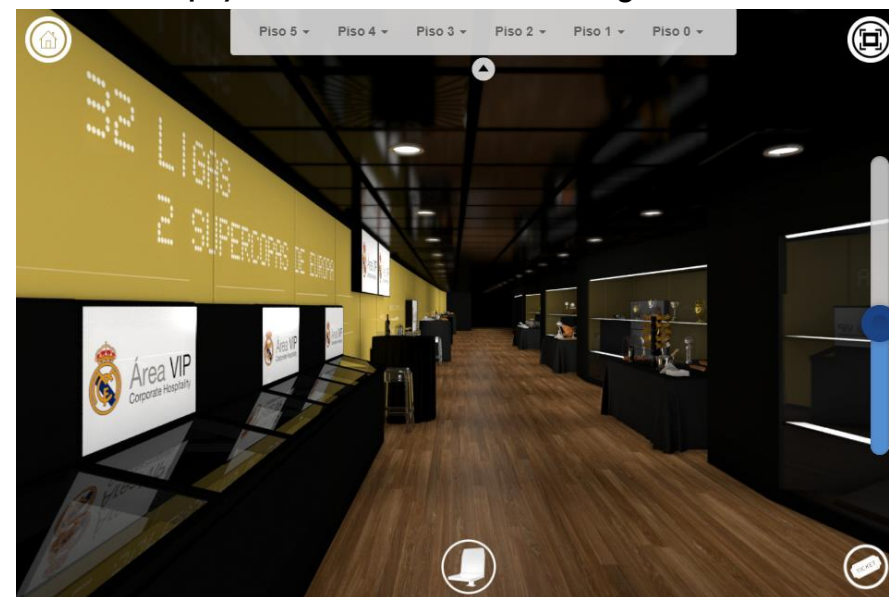
One simple application is to take some of those elements that are currently offered via video or only-in person, and make them more widely available in a more immersive fashion.

Sport is also social. Virtual social spaces where people watch and discuss games are another easy win. Clubs could facilitate this for core fans by sending actual drinks to fans to enjoy while chatting in the virtual club bar. Digital social sport experiences, tied to real clubs, could be created to encourage fans to *play* sports, using movement tracking and competitive elements.

Fantasy sports have undergone a boom time, and could be made more immersive by layering on virtual elements. A fantasy league could be combined with a management sim, allowing competitors to face off each week in fully realised virtual matches.

Broadcasters could blend interactivity into the current viewing experience, enabling armchair players to pick up a controller and live out their fantasy of scoring the crucial penalty.

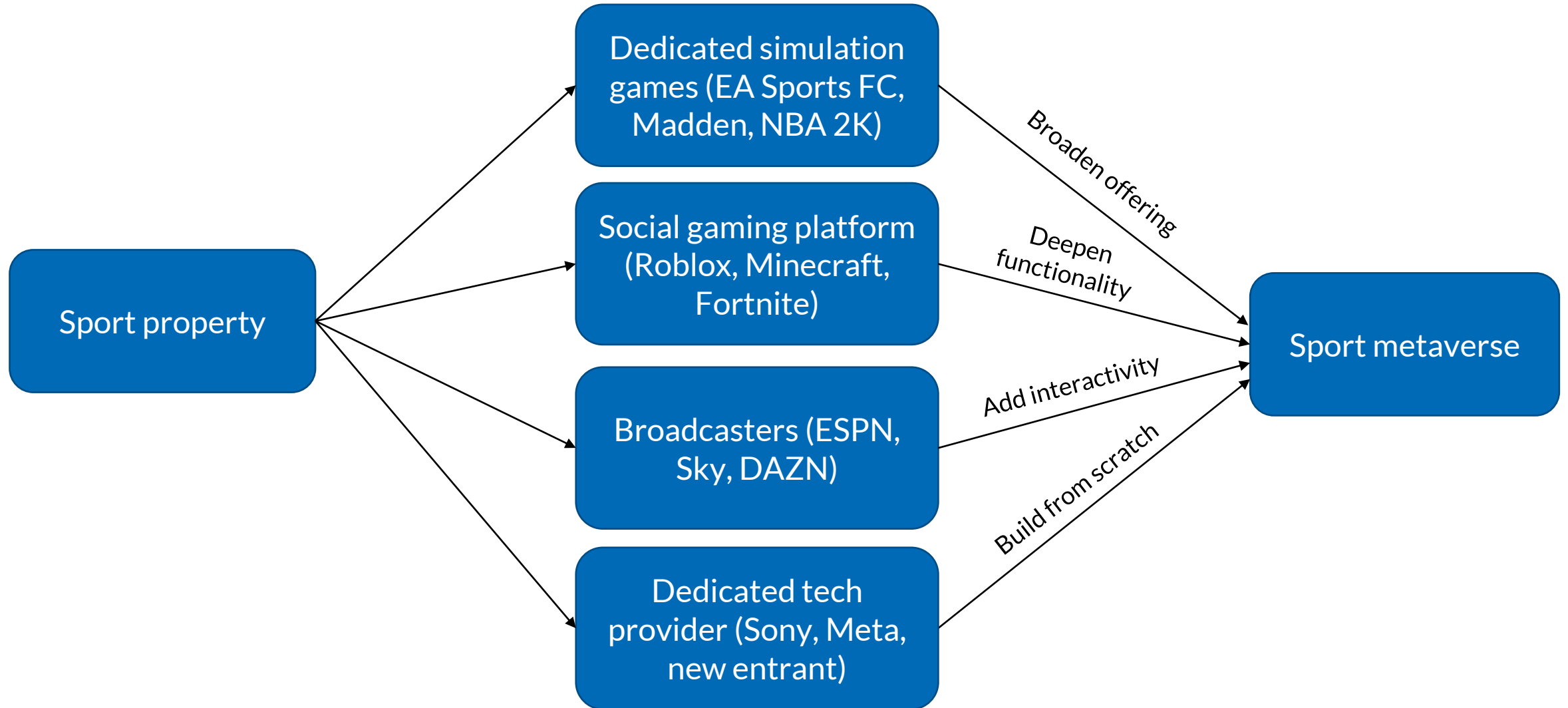
Virtual trophy room at Real Madrid's Santiago Bernabéu Stadium



Virtual 'hangout' space in Roblox

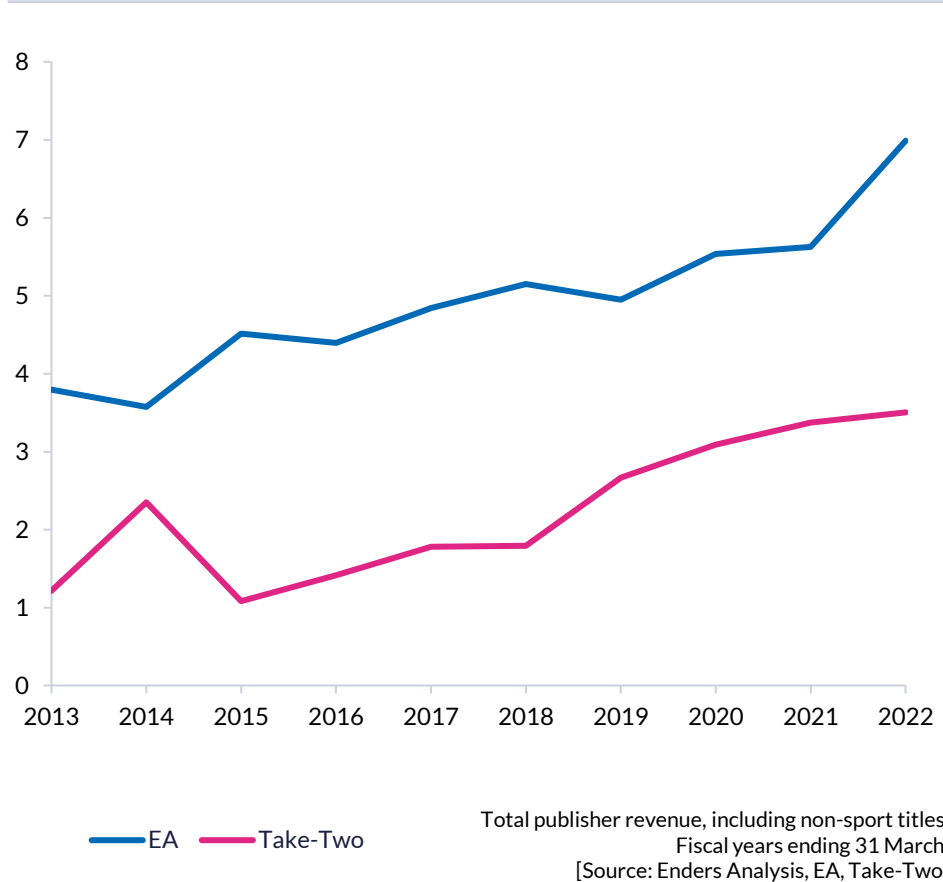


There are several possible routes to a true sport metaverse



Sport has a hugely successful virtual product: simulation video games

Total publisher annual revenue (\$bn)



Take-Two titles



EA Sports titles



EA is in position to extend from simulation to a broader fan offering

FIFA 23, Electronic Arts' (EA) latest entry, reported 10.3 million users in its first week post launch. From next year, the franchise will become EA Sports FC, as the long-standing relationship between EA Sports and FIFA is ending, reportedly as FIFA wanted more money for less exclusivity. Beyond hits to brand recognition, the breakup will not harm the franchise, as FIFA's connotations are mostly negative.

EA is extremely well-positioned to build out into broader immersive sports experiences, given its levels of partnerships, users, development and production capabilities, and existing assets. EA will undoubtedly be looking to build a 'sports metaverse', or series of sports metaverses. The repositioning of its flagship product FIFA to EA Sports FC is a good opportunity to begin this process.

Andrew Wilson, chairman and CEO of EA, hinted at these ambitions in the latest earnings call:

- “Foundational to our leadership is EA Sports, with breadth and depth of partnerships that allow us to continue delivering deeply immersive experiences to fuel long-term growth”
- “We have more than 200 million players engaged in our EA Sports games... we will continue growing these ecosystems to reach new fans, expand to new experiences and create more social connectivity to fuel the enjoyment of sport.”
- “How do we disrupt the consumption of sport, how do we really think about sport from an interactive viewpoint? If you start in one of our games, but you are a deep sports fan, what other things might we be able to do with you, with our partners, that would fuel your sports fandom?”

EA has close relationships with Disney, as it is the key game licensee for Star Wars IP, and has recently done a deal for multiple Marvel console/PC games, starting with an Iron Man game. **If the companies partner even more closely, or if Disney were to buy EA, then EA's sports simulation properties could work with ESPN to reach a wider audience.**



Ted Lasso / FIFA 23, FIFA Ultimate team / Marvel

From simulation to social: the shift to live service

Buying the new FIFA gets you shinier graphics, updated modes, and the latest roster of players, but what really matters for sports fans and EA these days is everything that comes after the entry ticket. Fan interest in the ‘metagame’ and history of sport has long been notable—be it in collectibles, competitive fantasy leagues, stats obsession, official fan clubs, or stadium museum tours.

Players’ ongoing, very high level of engagement with multiplayer sports games is demonstrated by the fact that **live service revenue (money spent after buying the game) accounted for 73% of EA’s total revenue in the year to September 2022**, up from 60% in the year to September 2018.

About half of EA’s live service revenue comes from its Ultimate Team offering across FIFA, Madden, NHL, NBA and UFC properties. Fans use their transfer pot to buy players into their fantasy team, either paying for a pack of random cards or bidding in an auction for a specific player—the Marketplace is accessible in the game, and through a dedicated app. EA takes 5% of every Ultimate Team transaction, netting it a cool \$1.6 billion in the year to March 2022.

EA has also reached fans outside the core console markets with products like *FIFA Mobile*, 75% of whose players live outside Europe and North America. Active players are up 100% YoY. **We expect mobile offerings to get more sophisticated, and link back into core properties.**

Other sports titles are tapping into fans’ desire to simply be with other fans, and engage in sports-fantasy timewasting fun. For instance, *NBA 2K21* introduced the City, a hub area where players hang out, compete, and complete tasks to fuel progress in MyCAREER mode. Different areas of the city are themed after ‘affiliations’ that the player chooses. Progression also unlocks new features for the player’s ‘home’ in the City, a metaverse-lite that is still planted firmly in videogame fandom—that could change if the City were opened up to fans outside *NBA 2K23* and Take-Two started partnering with other brands to bring new areas or events to the space.



FIFA Ultimate Team / EA, NBA 2K23 City / RDK

Football licensing: expensive and unstandardised

Licensing between football organisations and game publishers is complex. Publishers engage with competition organisations, leagues and clubs, for exclusive or non-exclusive licences covering: competition names; club names, crests and kit; stadium representations; player names and likenesses (including face scans, and likely to include mocap in the future).

La Liga made €32.5 million in licensing revenue from the Americas in 2020/2021, up 78% from the year before. We believe the vast majority of this is from EA Sports for the FIFA licence, which has been expanding over time. Real Madrid has a separate licence with EA, and Barcelona has a deal with Konami.

Starting with the 23/24 season, EA Sports will replace Santander as the lead naming sponsor of La Liga, for a total licensing package of around €40 million annually for five years. This gives EA naming rights to the top two Spanish leagues, and coincides with the rebranding of FIFA. We believe it will involve closer collaboration on interactive experiences.

Juventus has now returned to FIFA, as Konami's exclusive licence for eFootball has expired. Other Serie A clubs are still tied up, though the players feature in FIFA. Other top clubs, such as Barcelona and Bayern Munich, have some elements like stadiums or face scans pledged to Konami.

Clubs' search for new revenue streams means well-funded challengers can strike deals, but matching EA's coverage is impossible. Clubs lose out from bespoke deals, as the FIFA benefit runs both ways: a lesser experience on FIFA harms engagement with younger fans.

Premier League

Licence with EA covering names, logos, players and stadiums for all clubs. Under anti-mingling rules, up to two clubs can do additional deals: Arsenal and Man Utd have licences with Konami

La Liga

Licence with EA covering names, logos, and players for all clubs. Clubs can do additional deals and exclude stadiums and face scans

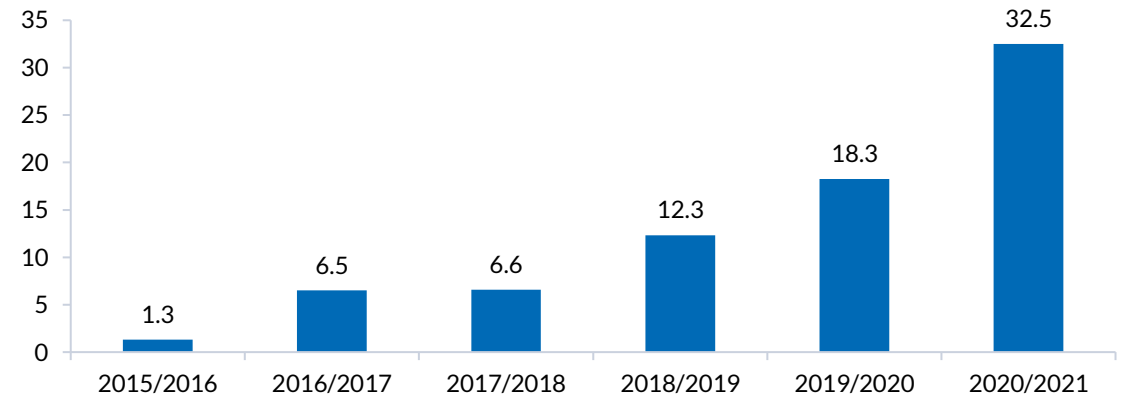
Bundesliga

Licence with EA covering names, logos, and players for all clubs. Clubs can do additional deals and exclude stadiums and face scans from EA

Serie A

Agreement with EA at league level for team names, kits and squads for most teams from 2022; Juventus included from FIFA 23 as prior exclusive Konami deal ended

La Liga licensing revenue from the Americas (€m)



[Source: Enders Analysis, La Liga]

American leagues are more centrally controlled

American sports leagues are simpler: publishers come to exclusive, comprehensive deals with leagues and players' unions. The lack of promotion/relegation enables long-term deals. College sports are an exception, with no licences for names or likenesses of players.

Collective bargaining puts the leagues (and players) in a strong position. Licences are worth large percentages of game revenue, though leagues don't want to unwind successful partnerships in favour of new entrants.

In 2019 Take-Two signed a seven-year licence extension with the NBA and the NBA Players' Association for its NBA2K title. The deal was reportedly worth up to \$1.1 billion, or about \$160 million/year.

EA renewed its deal with the NFL and its Players' Association for a five-year exclusive Madden licence reportedly worth \$1.5 billion, with \$1 billion going to the league and \$500 million to the players.

MLB and MLBPA struck a 'multi-year' deal with Sony in 2019 for MLB The Show.

These deals cover *realistic simulation* games; leagues may contract separately for other interactive experiences.



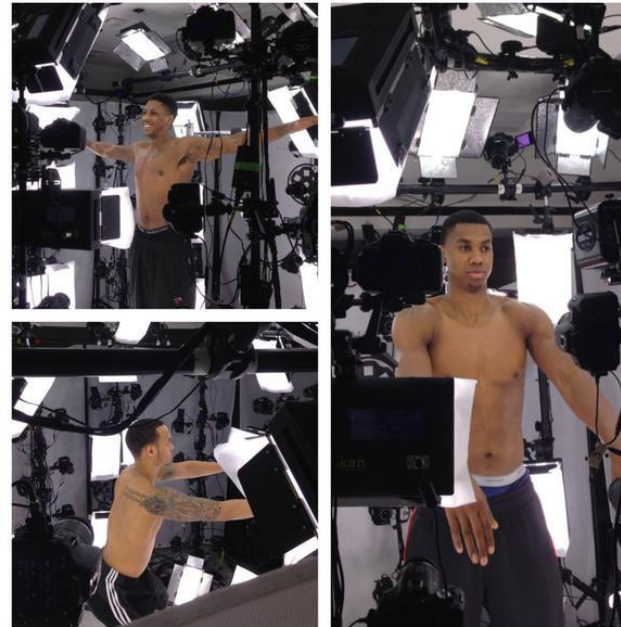
Simulation games mean sports are well ahead on digital assets

- A key contested element in sports licensing is up-to-date face scans of players. Fans notice when a big team (like Barcelona, Arsenal or Bayern Munich) has low-quality or out-of-date scans in FIFA due to deals with Konami
- The detail and realism of assets used by simulation games are only increasing: motion capture of individual players is becoming more commonplace, and some leagues even used crowd sounds from their simulation games when playing with empty stadiums during the pandemic
- The assets will only become more important as they get deployed in more immersive virtual environments. **Unlike in other media, the necessary asset development is already at an advanced stage.** In 2021 Take-Two acquired Dynamixyz, the studio that provided facial animation for Read Dead Redemption 2 and NBA2K
- The benefits of detailed digital assets will increase with larger-scale, *shared* virtual experiences. They will help build the sense of presence and immersion as player avatars eventually interact with fans in shared environments

Kylian Mbappé player model in FIFA 22



Player bodyscanning for NBA2K



Tottenham Hotspur Stadium in FIFA 23



Sports orgs are also exploring social gaming

Early metaverse experiments in other media (e.g. music) have focused on social gaming properties like Roblox and Fortnite, with large built-in audiences, and to a lesser extent proto-metaverse platforms like Decentraland and Horizon Worlds.

The existence of simulation games gives sports an alternative fast track to compelling virtual experiences, but they are still exploring this more typical route to the metaverse.

The advantage of social gaming platforms is that sports orgs can test and learn at a rapid pace, outside the structures of a long-term limited games licence. **However, current experiences are gimmicks, mostly with very few users.** The exceptions are tie-ins with already-popular experiences (like footballer Fortnite Skins or the Wimbledon items in Strongman Simulator on Roblox) where the sport elements have been entirely peripheral.

As such, the path from social gaming to rich, compelling and popular virtual sports experiences is less clear than the one from simulation games or advanced broadcaster products.

NBA in Horizon Worlds



MLB in Minecraft



US Open (via Grey Goose) in Decentraland



Wimbledon in Roblox



UEFA in Fortnite



Can broadcasters build a sports metaverse?

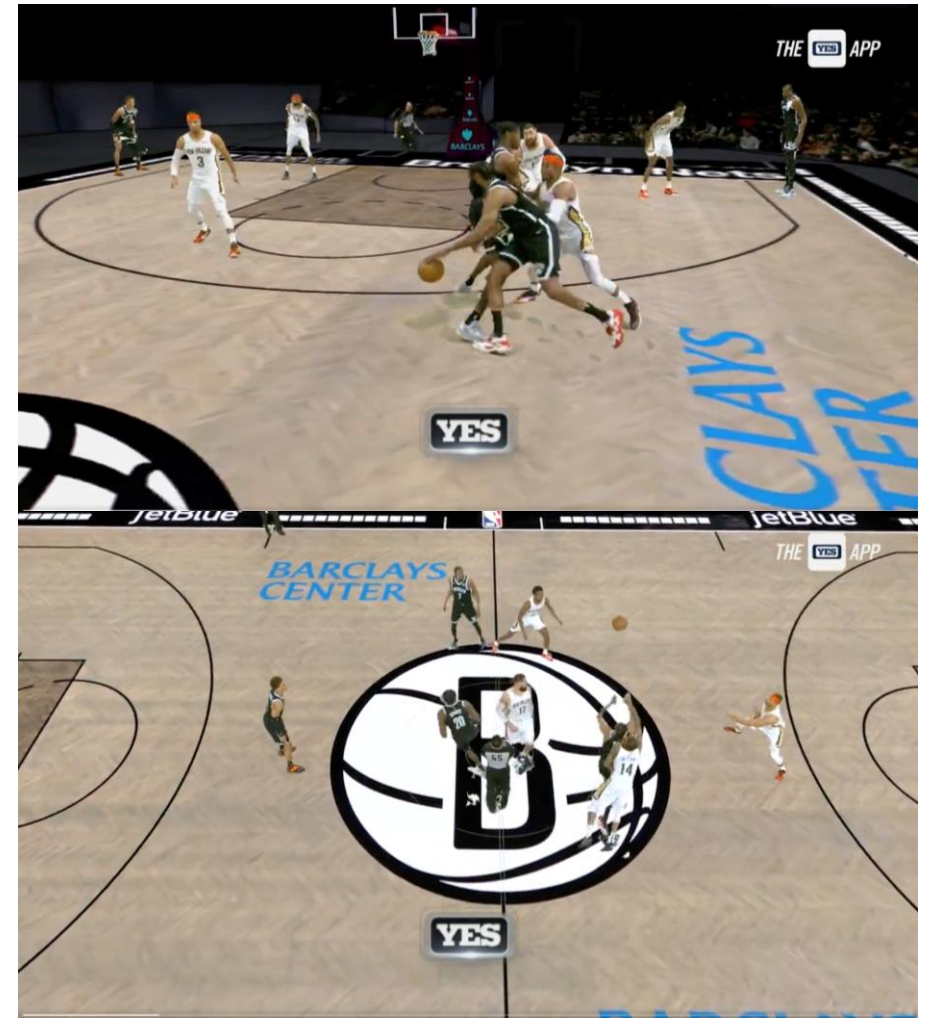
In terms of audiences, relationships and production capabilities, broadcasters may seem like obvious candidates to extend their offerings to more immersive, interactive and social virtual experiences. Metaverse content could also allow broadcasters to offer more sports content without more sports rights, in line with the trend to sports documentaries.

One early example of what can be done starting with a broadcast-style production setup is the proof of concept from the Brooklyn Nets, in what they are calling a 'Netaverse': a video system consisting of more than 100 high resolution cameras installed around the court, feeding live footage into a 3D video system developed by Canon. This can produce a 3D rendering of the game in a matter of seconds, immersing the viewers in a 360 degree experience and allowing them to watch live from any angle, including from on the court itself.

Allowing viewers to select their own angle is not new, and has not been a popular way of watching games: most viewers would rather leave it to the professionals. However, giving viewers full 4- or 6- degrees-of-freedom control over their perspective, like in a video game, is a qualitative jump, enabling immersive broadcast experiences and potentially new interactive sports applications.

If there is a route from broadcast to metaverse, it probably starts by layering virtual and interactive elements onto the broadcast feed: skeletal tracking data; in-play betting functionality (although this could be restricted); sharing/chat integrations; and eventually things like real time switching between viewing a game and playing a simulation. This would probably require working with a dedicated technology provider as well; see below.

However, leagues will be wary of innovating too much with broadcast contracts, given their financial importance, and will look to package rights for new kinds of interactive experiences separately, or bundle them with gaming rights.



Brooklyn Nets / YES

Anyone looking to NFTs should be thinking application-first

The other element holding back broadcasters as a route to metaverse is that mainstream broadcasters are not looking to build virtual experiences, and are more likely to be found wrangling over rights to sell NFTs based on clips.

This focus on NFTs is also found at many clubs and leagues, and is understandable given that NFTs have represented easy money, and lots of it. Sports has a pedigree here: NBA Topshot largely kicked off the NFT-mania of 2021, and saw about \$1 billion in sales that year.

NFTs also have the advantage of being fairly simple to create and sell, with lots of technology partners clamouring to help IP owners churn out digital assets.

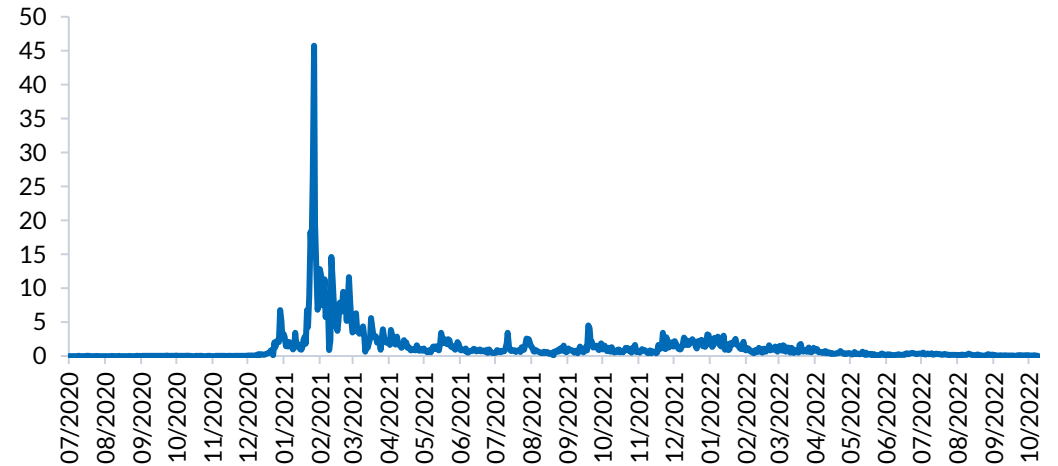
However, the speculative bubble around NFTs has popped, transaction volumes are down across the board, and even large trustworthy providers can have failed drops.

A sports example is Liverpool FC's drop of 170,000 NFTs at the end of March ended with only about 10,000 sold, for a total of about £1 million. This compares poorly with earlier drops, for example Adidas in December sold 30,000 NFTs for \$24 million.

In addition, clubs may think that NFTs help them reach a particularly devoted subset of their global fanbase, but given the nature of the market and the difficulty of engaging with NFTs for the average user, we think most customers reached this way will be crypto investors first, sports fans second.

There may still be opportunities, as with the end of the speculative bubble, NFT providers are being forced to look for actual sector-relevant utility to bundle with their digital assets. This should be the key test for any sports club looking to partner in the NFT world.

NBA Top Shot daily sales volume (\$m)



[Source: Enders Analysis, CryptoSlam]

Liverpool FC NFTs



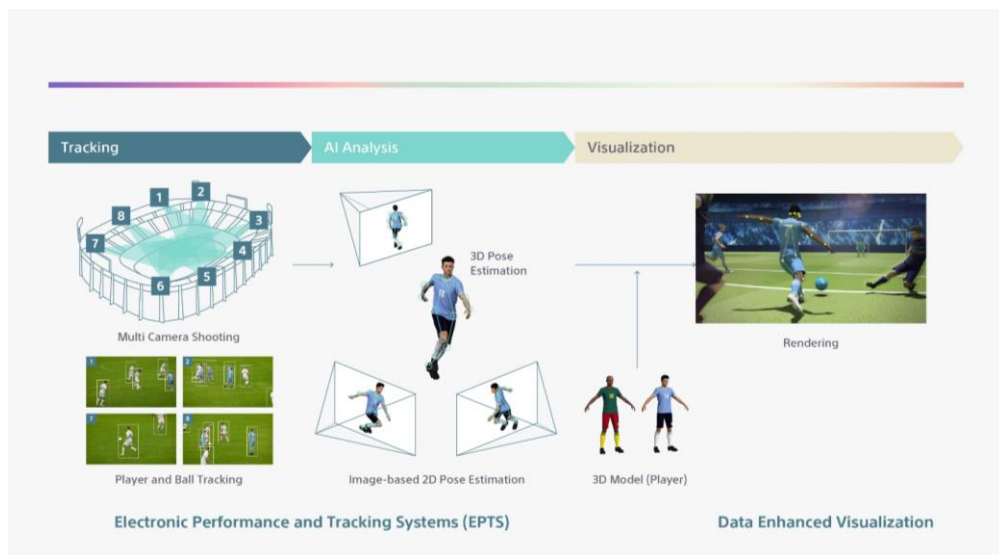
Dedicated tech providers: the final piece of the puzzle

Many of these routes to a sports metaverse, but most obviously the broadcast route, will require dedicated technology providers, and we are starting to see early partnerships aimed at making the kind of advanced 'broadcast-plus' products that could lead into true metaverse. In November 2021, Manchester City announced a partnership with Sony to develop a realistic rendering of the Etihad Stadium where fans from across the world can gather and interact with the club and each other. The Sony-owned Hawk-Eye operates broadcast enhancement technology across a number of sports from tennis to basketball.

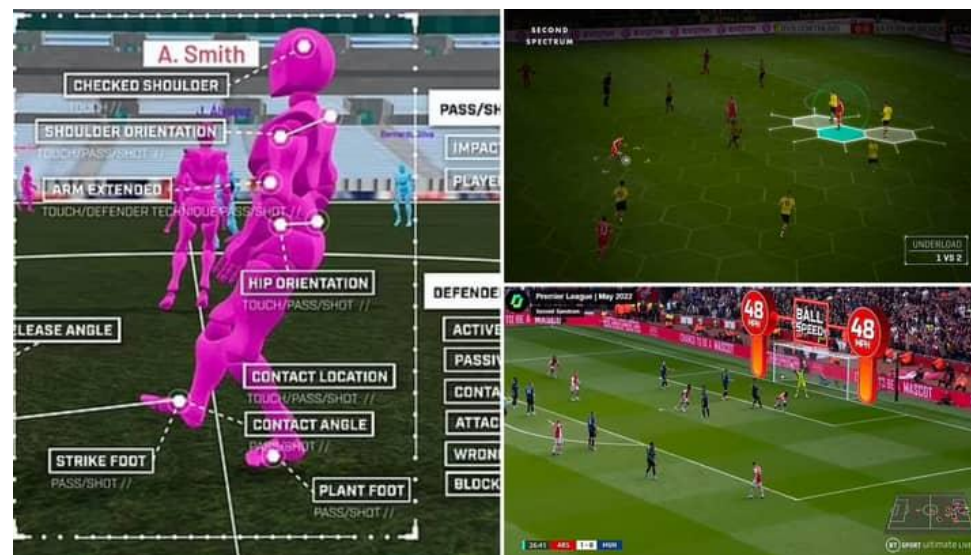
Sony and Manchester City have suggested that the venture will allow the football club to develop the next-generation of interactive loyalty programs, including customisable avatars. The virtual stadium and its interactive offerings could allow Manchester City to enlarge its loyalty program consumer base from primarily those based in the UK who wish to purchase game tickets to its estimated 110 million fans worldwide.

Most recently, sports data and technology company Genius Sports extended its tie-up with the Premier League in late October to add real-time skeletal tracking of players, enabling next-generation broadcast streams with data and virtual elements overlaid onto the live feed.

Sony sports tracking and visualisation technology



Genius Sports skeletal tracking and data overlays



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