The E-Sports World Is Starting to Teeter

At least two organizations in America's most prominent league for professional video game players are selling their teams, underscoring the industry's uncertain future.

By Kellen Browning
Kellen Browning reports on the video game industry.

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Six years ago, the Madison Square Garden Company, a group that includes James Dolan, the owner of the New York Knicks and the New York Rangers, announced a triumphant entrance into sports' next frontier: a professional video game league.

The New York investors spent more than $10 million to purchase a majority stake in Counter Logic Gaming, an e-sports team, and said that professional video gaming "now stands on the verge of enormous change, which we believe has the potential to generate significant growth."

Instead, that growth has stagnated. As e-sports revenue fell below expectations and investors became skeptical of the industry, Madison Square Garden's owners last year tried to find a way out of the business by selling their marquee team.

After years of fanfare, e-sports in the United States are giving way to economic realities. Unable to turn a profit, team owners are cutting costs by laying off employees and ending contracts with star players. In some cases, they are selling their teams and sometimes at a loss, offering a blunt reality check to people who believed e-sports could be the next big thing in entertainment.

Most alarming, some viewers seem to be losing interest. They watched 14.8 million hours of the 2023 spring season of the League Championships Series, the biggest U.S. e-sports league, down 13 percent from a year earlier and down 32 percent from 2021, according to estimates from the data firm Esports Charts.

"We're at a point where everyone has a lot of soul searching to do," said Rod Breslau, a gaming and e-sports analyst. "There has been way too much hype and too little of actual value."

Just like in traditional sports, star e-sports players can earn seven-figure salaries and compete for championships, attracting sponsors and fans along the way. Investors over the last decade purchased stakes in teams that participate in professional leagues for games like League of Legends, Overwatch and Call of Duty.

The biggest of those is the League Championship Series, a 10-team league established in 2013 and run by Riot Games, the company that created League of Legends. In the league, teams go head-to-head in League of Legends, a fantasy-themed game, in matches that can draw millions of viewers and fill stadiums.

But the leagues have struggled to make money. Partnerships to broadcast e-sports tournaments on sites like YouTube and Twitch have dissipated, sponsors are slashing their advertising budgets, and owners are operating teams at a loss while paying huge salaries to e-sports players.

Some e-sports teams, like Evil Geniuses, have parted ways with many of their expensive League of Legends players. Others, like 100 Thieves, are laying off employees and senior executives.

The stock price for FaZe Clan, an e-sports group that went public last year, has plunged to just 50 cents a share. In March, FaZe received a delisting notice from the Nasdaq, warning it could be removed from the stock exchange if its shares did not climb back above $1. And on Friday, FaZe said it was laying off about 40 percent of employees, after a round of cuts in February. The news was earlier reported by Digiday.

Jack Etienne, the chief executive of Cloud 9, an e-sports group, said he had cut costs by pulling out of nearly half the e-sports leagues his organization participated in, now eight from about 15.

TSM, one of the most valuable e-sports organizations, said Saturday that it was selling its slot in the League Championship Series. It's a big blow to the league, akin to a marquee franchise leaving the N.B.A. or N.F.L., because TSM is one of the oldest and most prominent brands in North American e-sports.

TSM started talking to interested groups around three weeks ago, according to a person with knowledge of the discussions, and has narrowed its list of prospective buyers to about a dozen entities, mostly in the media and traditional sports worlds. The asking price is in the range of $20 million, the person said.

Andy Dinh, TSM's chief executive, said in an interview that his exit from the U.S. league was related to his desire to compete for a world championship, rather than economic troubles. Most of the best League of Legends teams come from places like South Korea or China, and the North American region has long lagged behind those areas in competitive strength.

TSM, here at the League Championship Series in 2019, is one of the most valuable e-sports teams in the country. Jeff Curry/USA Today Sports, via Reuters

Mr. Dinh said he planned to purchase a spot in one of the top League of Legends leagues elsewhere in the world after selling his slot in the United States.

Riot Games is now under pressure. League of Legends has generated billions of dollars in sales throughout its history, but the e-sports league around the title has long lost money. That has worked out fine for Riot, owned by the Chinese internet giant Tencent, because Riot can use the league to drive interest in the game.

But that formula has increasingly put it at odds with the owners of the e-sports teams, who paid Riot at least $10 million for a slot in the league and were promised they would eventually make a profit. This month, after teams requested it, Riot agreed to remove a requirement that teams participate in a developmental League of Legends league — one rung below the League Championship Series — which could help teams save money.

Last month, Riot published a lengthy blog post admitting its missteps and seeking to reassure investors. E-sports optimists point to two main positives: the youth of e-sports viewers, which appeals to advertisers, and the promise of making money by selling in-game items themed around e-sports events. Last year, the sale of such items in another of Riot's games, Valorant, generated $42 million, half of which went to teams that participate in the Valorant e-sports league, Riot said.

John Needham, Riot's president of e-sports, acknowledged the industry had problems.

"A big part of what we're selling is the dream, it's the long-term future of e-sports. And when we lose a team and they can't generate investment based on that dream, then we view that as a failure," Mr. Needham said in an interview. "So we're certainly feeling the pressure."

John Needham, the president of e-sports at Riot Games. Jason Henry for The New York Times

For Madison Square Garden, selling Counter Logic Gaming, its e-sports team, was an effort to cut its losses. But the company was unable to find a buyer for the team that would pay enough to recoup its costs, four people with knowledge of the situation said.

Instead, the Madison Square Garden group laid off several dozen Counter Logic Gaming employees and struck a deal last month to merge its remaining asset — its League of Legends team — with NRG Esports, a different e-sports organization.

Madison Square Garden did not receive a cash payment from the deal. Instead, it paid NRG several million dollars to take on the costs of the C.L.G. facilities and the salaries of the remaining 25 employees, three people familiar with the transaction said. Some aspects of the deal were reported earlier by The Jacob Wolf Report, an e-sports news outlet.

Since last year, Madison Square Garden has been trying to find a way out of the e-sports business by selling Counter Logic Gaming and recouping some of their investment. Tim Fuller/USA Today Sports, via Reuters

The Madison Square Garden group did receive a minority stake in NRG's parent company, called Hard Carry Gaming, allowing it to retain a foothold in e-sports. Dan Fleeter, a senior vice president at Madison Square Garden Company, was also named to Hard Carry Gaming's board of directors as part of the deal, the people said.

David Hopkinson, the president of Madison Square Garden Sports, said in a statement announcing the deal that it would allow the company "to remain a significant investor in the e-sports industry."

Some see the exodus as an opportunity. Andy Miller, the chairman of NRG Esports — which purchased Madison Square Garden's League of Legends team — said he saw an opening in the industry as big names depart.

"It's a tough time, but this is our time," said Mr. Miller, a former technology executive and a co-owner of the N.B.A.'s Sacramento Kings. "I think there's an opportunity to steal a bunch of existing fans."

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