**UCG Sample Case: Husky Esports Corp**

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**Background:**

The Husky Esports Corp. is a rapidly growing developer and operator of stadium venues to be used exclusively for esports gaming events. They currently own one major property in Las Vegas, which has recently finished development and will soon be opened, as well as a few successful minor properties across North America.

Husky Esports Corp. is seeking to continue their rapid US growth by identifying the major metropolitan market(s) that would be the best fit for their next venue.

**Additional Information to be Provided [at any time]**

* Esports is the activity of competitive (usually multiplayer) video gaming
* Currently, most esports fans enjoy matches by “streaming” them at home. However, large-scale tournaments (i.e. World Championships) do sell out massive stadiums every year
* While other venues occasionally host large esports events, Husky Esports Corp plans to have the first “esports-dedicated” facilities in the nation
* Venue has a stadium-like area for viewing pro gamer matches / performers, as well as 50 PC gaming stations for players to play head-to-head
* Revenues fall into 2 categories: Business-to-Business and Business-to-Consumer
* B2C Revenue drivers:
	+ One-off ticketed esports or social/music events
	+ Monthly gaming pass for access to play at the PC gaming stations
	+ Merchandise and concessions sales, including liquor for attendees 21+
* B2B Revenue drivers:
	+ Ads & sponsorships
* Cost drivers (ask them to brainstorm first):
	+ Initial investment costs (construction, setup, etc)
	+ Merchandise and concessions COGS
	+ Facilities & Operations
		- Lease
		- Labor
		- Facility maintenance
* You can ignore the discount rate (i.e. assume it to be 0%)

**Phase I:**

*What criteria would you use to evaluate a city as a possible Husky Esports landing spot? Remember to suggest ideas that can be realistically* ***measured*** *in some form.*

**Phase I – Possible Solution:**

Market Size and Growth

* Population size
* Population of target demographic (e.g. 18-30 M)
* Regional “esports interest”, as measured by:
	+ Google searches / social media
	+ Video game or tournament popularity
	+ Expert interviews (gaming, streaming, research firms)
* Disposable income or consumer spending

Competitive Intensity

* Other nearby esports venues
* Alternate entertainment venues (convention centers, sports teams, etc)

Cost of Entry

* Rent / property costs
* Cost of labor
* Union membership rates
* Costs / quotas associated with acquiring liquor license

Operational Infrastructure

* Internet quality and coverage
* Ease of transportation
* Regulatory climate, particularly in regards to gambling

**Phase II:**

*Using your metrics to evaluate a dozen markets, we’ve narrowed our search down to 3 potential cities and modeled financial information for each. Based on the following information, which of these would you recommend?*

|  |  |  |  |
| --- | --- | --- | --- |
|  | **City A** | **City B** | **City C** |
| **Revenues** |  |  |  |
|  Avg Ticketed Event Price | $60 | $40 | $40 |
|  Tickets Sold | 10,000 /yr | 8,000 /yr | 7,000 /yr |
|  Gaming Pass Price | $25 /mo | $20 /mo | $20 /mo |
|  Pass Membership | 900 | 700 | 600 |
|  Merch+Concessions | $350,000 /yr | $300,000 /yr | $250,000 /yr |
| **Costs** |  |  |  |
|  Initial Investment Costs | $1.5M | $0.8M | $0.6M |
|  Merch+Concessions COGS | 20% of revenue | 20% of revenue | 20% of revenue |
|  Facilities & Operations | $1M /yr | $0.7M /yr | $0.7M /yr |

*(If time allows) Once you’ve chosen the best property, can you calculate the payback period on the initial investment?*

**Phase II – Possible Solution:**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **City A** | **City B** | **City C** |
| **Revenues** |  |  |  |
|  Avg Ticketed Event Price | $60 | $40 | $40 |
|  Tickets Sold | 10,000 /yr | 8,000 /yr | 7,000 /yr |
|  Ticket Revenue | $600,000 | $320,000 | $280,000 |
|  Gaming Pass Price | $25 /mo | $20 /mo | $20 /mo |
|  Pass Membership | 900 | 700 | 600 |
|  Annual Pass Revenue | $270,000 | $168,000 | $144,000 |
|  Merch+Concessions | $350,000 /yr | $300,000 /yr | $250,000 /yr |
|  **Total Revenue** | **$1,220,000** | **$788,000** | **$674,000** |
| **Costs** |  |  |  |
|  Merch+Concessions COGS | 20% of revenue | 20% of revenue | 20% of revenue |
|  Total COGS | $70,000 | $60,000 | $50,000 |
|  Facilities & Operations | $1M /yr | $0.7M /yr | $0.7M /yr |
|  **Operating Costs** | **$1,070,000** | **$760,000** | **$750,000** |
| **Operating Profit** | **$150,000** | **$28,000** | **- $76,000** |
|  | **(We can see that City A is the best choice)** |
| Initial Investment Costs | $1.5M | $0.8M | $0.6M |
| Discount rate | 0% | 0% | 0% |
| *Payback Period\** | *10 years* | *28 years* | *N/A* |

\*Only required for City A. The other values are there purely as an exercise

Recommendation:

Based on the calculation, **City A** is clearly the best choice with a payback period of 10 years. City B has a much longer payback and City C is not profitable at all.

Other Observations:

* Discount rate of 0% is not realistic. The payback period is likely to be longer
* City A has a large upfront investment and risk of higher losses
* Assumption that we can charge more in a larger city is probably true, but should be checked (by survey, interviews, etc)
* There are a fixed number of gaming stations – should there be a cap to the number of gaming passes we sell? If so, should it be higher (or lower?)