MERION ROAD

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Idea:	Short - Super League Gaming ("SLGG")
Market Cap:	$78mm
Price:	$8.75 (3/6/2019)

In today's world of ever-increasing software valuations there are a ton of companies trading at double digit multiples of revenue. Many of these marquis assets have long growth runways, have spent years developing sophisticated technology that leads to a superior product, and can leverage this fixed cost as they scale. So when Super League Gaming ("SLGG"), an e-sports league platform, IPO'd last week at 70x revenue I figured that it would check these three boxes. The company's prospectus does its best to give this impression:

- Runway
  - "We are a leading amateur esports community and content platform offering a personalized experience to the large and underserved global audience of 2.3 billion gamers"
  - "Recent reports show a "$15 billion blue sky revenue opportunity" for professional esports due to the highly engaged and untapped fanbase"
- Product
  - "Our proprietary cloud-based platform provides amateur gamers a modernized way to connect, play and view games in real-time."
  - "We differentiate ourselves from potential competition through the power of a pure horizontal platform and established partnerships that enable experiences, community, content and commerce."
- Operating Leverage
  - "Super League is an "always-on" operation with scalable technology and deep experiential capabilities to deliver premium player experiences in the amateur esports space."
  - Technology is mentioned 82 times while cloud is mentioned 22 times

Let's start with growth runway. I get it, e-sports is a rapidly growing industry and will likely be YUGE. I'm a believer. Putting hard numbers on how the economics will be split between game publishers, platforms, leagues, and teams is tough to do. But I think we all can agree that the market will like be much larger in 10 years than it is today. Fine.

Product is when things break down. So what does the company actually do? At the core it is an online portal for amateur players to create a profile and participate in e-sports. It's a tournament league. If that doesn't sound so technologically sophisticated, well it's because it's not. The sheer number of competitors is indicative of this fact (search for "best gaming tournament sites" and let me know when you find SLGG). Not only are there a ton of independent properties with their own "proprietary cloud-based platform" but there are countless dedicated channels on Twitch and YouTube doing the same exact thing.

Okay, okay but maybe the company has proprietary content that differentiates them from the hordes of competitors. Under its strengths section SLGG does say that "Game Publisher Agreements provide access to existing user bases via strategic partnerships with some of the largest game publishers. These partnerships draw subscription interest and provide a line of defense against our competitors." SLGG gaming tournaments currently include Minecraft (Microsoft), League of Legends (Riot), Clash Royale (Supercell), and Fortnite (Epic).

But let's just remember that in no way are these licenses proprietary. And even if they do secure a license, my guess is that the majority of the economics will likely go to the publisher who doesn't really need SLGG. But digging in a little deeper, some more disturbing facts arise. License fees in 2018 fell by $1.0mm as a prior license agreement expired in Dec 2017 and I assume this relates to Supercell/Fortnite, two companies whom which SLGG does not currently have a license. SLGG is exposed to losing these properties if they do not reach an agreement. Let me just reiterate this given the gravity of the situation: SLGG is currently not paying half of its game publishers and could lose these properties if no agreement is reached. Importantly 2018 costs were artificially lower than what they should have been making the company's financials appear better than they are. The 98% reduction in licensing revenue also implies that they are only paying Microsoft/Riot $21k. While Minecraft and LoL are not as popular as Fortnite, they are not small games either. I would have to imagine that this discrepancy narrows when that agreement comes up for renewal.

Well one might argue that a differentiated product or proprietary content is not necessary if SLGG has achieved scale. It's a very valid point. To the company's credit they have achieved 300k registered account. Registrations increased by 260k users last year alone which is quite impressive.

But engagement tells a completely different story. Participations, which I assume is tournament play, was at just 0.50 per registered user. What this means is that for every 2 people who have signed up to SLGG, 1 of them participated in 1 tournament last year. Pretty bad stuff. Looking at hours played per participation is even worse. Last year an average participation lasted just 1 hour, which believe it or not, is down from 3 hours last year. A review of their subscriber numbers on Twitch and YouTube (which appear to be the actual platforms they use to stream content) shows a similar story. Twitch is standing at a grand total of 11.6k and YouTube is at 3.3k. A review of some of the videos that they've posted on Twitch shows that most achieve between 30 and 100 views.

With regards to scalability I think it's clear that this company is unlikely to reverse its losses anytime soon. License costs will eat into a bulk of revenue and my guess is that CAC / LTV will be pretty atrocious given low engagement and competitive set. I think it's fair to say that game publishers (i.e. Epic, Microsoft, EA) or platforms (Twitch) are competitively advantaged when creating gaming leagues.

I know I haven't gotten into financials at all and that's mostly because of how ridiculous they are. At an $80mm market cap with $25mm in cash the stock is currently trading at over 50x EV / LTM sales. EBITDA was negative $14mm in 2017 and negative $16mm in 2018 so it's hard to assume that the bleeding will stop anytime soon.

A few other red flags include:

- Emerging growth company (only need to provide 2 years of financials, exempt from auditor attestation)
- Track record of underwriters is pretty scary