



# NFTS AND DIGITAL COLLECTIBLES

THE FUTURE OF SPORT, MEDIA  
AND ENTERTAINMENT?

SHERIDANS SPORT



When Christie's auction house announced last month that it would be selling the first piece of purely digital artwork ever offered by a major auction house, nobody saw what was coming next. Fast forward a couple of weeks and, with NFT mania in full swing, Beeple, a digital artist, is now the third most valuable living artist in the world after his work, "Everydays - The First 5000 Days", sold for a record \$69,346,250.

Non-fungible tokens (or "NFTs" for short) have exploded onto the scene in recent months and present an exciting opportunity for the media and entertainment industry. Sports and esports rights holders, game developers, online talent, film studios, musicians, artists, brands, celebrities, fashion houses and almost everyone in-between are rushing to find out what all the fuss is about, with the potential first-mover advantage encouraging a fascinating race to the start-line.



As with all new technologies, however, plenty of people currently have more questions than they do answers. What on earth are NFTs? Why are people buying them? Why should we get involved? What are the risks?

In the first of a series of insight pieces from the Sheridans Sport team, we aim to answer some of these key questions.

## What are Non-Fungible Tokens (NFTs)?

Non-fungible tokens are a new type of digital asset which use blockchain technology to certify ownership. A bit like what a property title deed is to a house, an NFT acts as a digital certificate of ownership for the asset in question, whether that be a piece of digital art, an NBA highlight clip, a Kings of Leon album, or Jack Dorsey's first ever tweet. After the initial sale, NFTs can be traded on the secondary market, with all transactions being safely recorded on the blockchain.

The tokens are said to be "non-fungible" because they are unique in nature and have their own inherent value. In other words, they cannot be swapped like for like. Property is a good example of a 'real-life' non-fungible asset as no two properties in the world are exactly the same. In contrast, if somebody swaps a five pound note for another five pound note, there is no difference in value - they are interchangeable - so currencies are said to be "fungible".

## Why are people buying NFTs?

Put simply, because they want to. Just like people enjoy buying physical paintings, sports collectibles or vinyl records, there is now a growing demand for digital assets too.

Some have questioned why anybody would want to pay for a piece of digital art which the whole world can view for free online. But the same can be said of physical assets too; anybody can go online and find a picture of the Mona Lisa, print off a copy and stick it on their wall - but that does not mean they own the Mona Lisa (and it certainly doesn't mean that the Mona Lisa isn't a valuable asset too).

## What NFT opportunities are there?

Well, let's take a look at some early NFT success stories for inspiration:

- The National Basketball Association (NBA) partnered with Canadian blockchain firm Dapper Labs to create "NBA Top Shot"; a marketplace for short NBA highlight clips, or "moments", which fans can purchase in packs and then trade on the secondary market. Think of it like buying sports cards, but in a digital video form. Top Shot has already generated more than \$230m in sales and a single LeBron James 'moment' recently sold for \$208,000.



- YouTuber Logan Paul partnered with crypto firm Bondly to create his own line of NFTs. The sale raised an impressive \$3.54m on day one, including \$1m in sales in the first half an hour. Demand was driven by the fact that three buyers received a 1st edition pack of Pokémon cards, as well a free trip to LA to attend a Pokémon card unboxing stream.
- Kings of Leon have generated over \$2m from NFT sales of their latest album 'When You See Yourself'. Six 'Golden Ticket' auctions, guaranteeing the owner front-row seats to every Kings of Leon headline tour for life, reportedly brought in a significant portion of the revenue.
- Jack Dorsey, the co-founder and CEO of Twitter, is auctioning his first ever tweet as an NFT. The highest bid for the tweet, which simply reads "just setting up my twttr", currently stands at \$2.5m.

For those brave enough to take the leap into the world of NFTs, there is a real opportunity to not just exploit untapped revenue streams, but build communities and tap into ecosystems of fans, talent and rights holders. The trading of collectibles is made possible by blockchain technology which allows a marketplace to be built, and the platform brings together a community and a fan economy. The model already being adopted within sport (whether the NBA or indeed a host of other leagues, clubs and athletes who have got involved) is to enter into a licensing and revenue share arrangement with the relevant platform. Under the revenue share, the rights holder takes royalties on the initial sales of collectibles via the platform. What makes the prospect even more exciting, though, is that rights holders like the NBA can also take a small cut of all future sales on the secondary market (i.e. consumer to consumer trading).



That is a somewhat unique feature of NFTs which sets them apart from physical goods. To give an example, if a football club sells a piece of merchandise to a fan, and that fan then sells it on again a few months later, the football club will only benefit from the original sale – it won't take commission on any future sales. In contrast, NFTs can be designed to do exactly that.

## Are there risks?

One of the main reasons why NFTs are currently so sought after is because they are extremely scarce. Supply is being kept low and demand is rocketing as a result. Any stakeholder considering a move into the NFT space should therefore be wary of over-saturation in the market. Again, however, the NBA has provided an excellent blueprint to follow – their Top Shot "packs" are so scarce that they sell out within minutes every time a new one is released.

There are also a myriad of legal issues at play. Clearing the underlying intellectual property rights contained within an NFT will be a particularly important consideration. Sports rights holders, for example, will need to give thought to the thorny issue of players' image rights, whilst esports organisations will need to consider whether game publisher consents are required. There are also a host of data protection, privacy and technology issues to consider for both platforms and rights holders.

# 2021 Predictions

And finally, here are our predictions for the coming year:

- Sports properties to follow the NBA Top Shot model: Collectibles within sport are not a new phenomenon, but the NBA has shown that there is a huge appetite and market for digital collectibles too – whether that be in the form of short highlight clips or simple trading cards. We expect innovative new platforms to establish themselves in the market and rights holders and talent to jump on board to leverage the opportunities. Just imagine the demand for owning that "Agueroooo" moment...
- Esports organisations to get in on the act: Games and gamers are already well-versed in the concept of trading virtual assets (such as "skins"), so the move into NFTs would seem to be a natural fit, and arguably a more seamless transition than traditional sport. It will be interesting to see if esports rights holders also go down the NBA Top Shot route – could there be a market for League of Legends in-game highlights, for example?
- Online talent may have a new platform: YouTuber Logan Paul has already shown that "influencers" and content creators can successfully move into the NFT market, and we expect many others to follow suit (including traditional sports athletes). Their digitally native Gen Z audience should transition into the NFT space relatively seamlessly. Platforms will also be looking to brand ambassadors as a way of getting ahead.
- Brand partnerships: Global brands will no doubt want to get in on the action too, whether that be through celebrity tie-ups, experiential opportunities or digital merchandise. The possibilities are endless.

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This first insight piece only scratches the surface of one of the latest and most exciting trends to hit the sports and entertainment industry. We will be pushing out a series of insight pieces on the NFT and digital collectibles market, the trends within sport, esports and other sectors, and some of the legal and IP issues which platforms, rights holders, talent and brands should be considering before making the move into the space.

Get in touch with the Sheridans Sport team to find out more. You can contact us on Twitter or by email at [sportsgroup@sheridans.co.uk](mailto:sportsgroup@sheridans.co.uk).