Sports Entertainment Report

Life’s a Pitch

Prior to the COVID-19 pandemic, the sports entertainment industry was thriving from tailwinds including heightened consumer spending due to increased discretionary incomes. The pandemic has changed consumers’ expectations of leisure time, and revenues related to in-person events fell drastically during this time. Throughout the report, we will analyze recent developments within the sports entertainment industry and discuss the drivers of the industry going forward.

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11 September 2022

Table of Contents

Introduction

General Primer.. Page 3

Key Players.. Page 3

Developments and Trends

Ownership Structures.. Page 4

Monetization.. Page 4

Channels of Delivery... Page 6

Political Factors... Page 7

Valuation

Comparable Companies.......... .... Page 8

Recent Activity & Precedents........ .... Page 9

Conclusion

Future Outlook... Page 11

Introduction

General Primer

Sports entertainment falls under the broader category of entertainment and recreation. The operators in this industry are considered discretionary and are therefore subject to changes in the macroeconomic environment.

Discretionary income is arguably one of the most significant drivers of demand in this industry. This is related to employment stability as well as the overall perception of the economy. Consumer confidence tends to decrease during inflationary periods and when given the possibility of a recession.

One important demographic for this industry is foreign tourists. Given that many establishments and operators based in the U.S. are renowned internationally, sports events and services are frequented by tourists who travel to the country. During the pandemic, the level of foreign tourists decreases, though was partially offset by an increase in domestic travelers.

Finally, general trends in consumer lifestyle also have an impact on the industry. The amount of time that consumers allocate to leisure will positively or negatively impact the sector, and people’s preferences in going out versus staying home will determine the channel of delivery. As expected, major sports events were cancelled during lockdowns, and operators experienced a decline in ticket sales, broadcasting deals, sponsorships, and other related income.

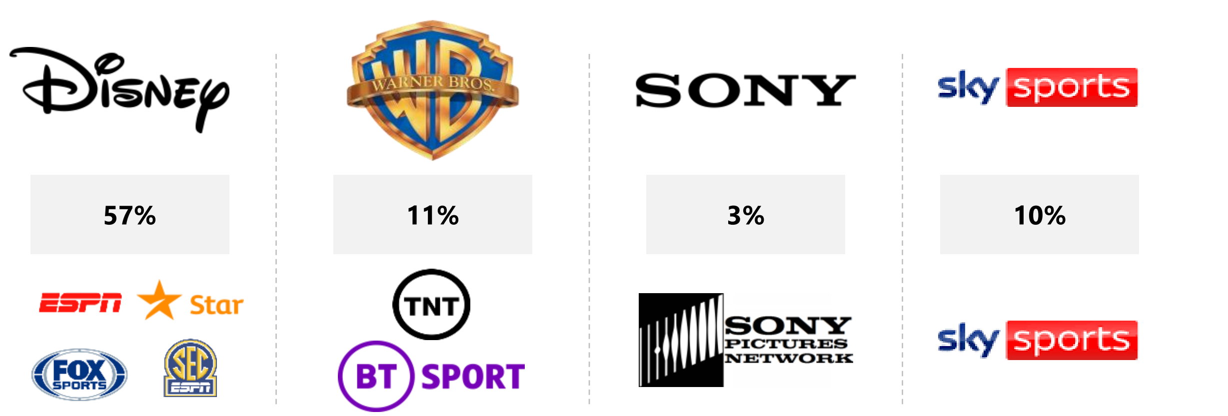
Key Players – Sports Broadcasting

The vast majority of major sports broadcasting networks are owned by a few major companies, notably Disney, Warner Brothers, Sony, and Sky Sports. The industry has seen consolidation in recent years, with Disney’s 80% stake investment in ESPN, their acquisition of Fox Sports Network, and Star India.

Other popular sports broadcasters in the United States include NBC, CBS, DirectTV, etc., who hold shared rights to host various sporting events. The market comprises many other smaller players, who hold the rights to niche sports or smaller events, but the four key players listed below make up for 80% of the top 20 companies’ market share across the United States.

The United States is home to four out of six largest professional sports leagues by revenue in the world, including the MLB, NBA, NFL, and NHL. Given the size of the leagues and their respective contracts, multiple companies will hold the rights to the same sports content; therefore, often times ESPN, Fox, and others will be on a shared contract basis, thereby allowing them to host the same leagues and sports.

Figure 1: Key Players’ Market Share and Owned Networks



Developments and Trends

How do Sports Leagues make Money?

Specifically in the US, it is common for sports stadiums in the US to be owned by their city or country and operated by firms like Spectra, SMG, and AEG. For example, Spectra provides clients with hosting and entertainment services covering venue management, food services and hospitality, ticketing, and fan engagement.

Across the industry, professional sports leagues are owned and organized in numerous ways, most being derived by a tiered structure developed in Europe or a North American-originated structure utilizing franchises and minor leagues.

Most global football teams operate with the European open league method where there is an elected governing body where all clubs at any level belong to. Teams are motivated to perform well through promotion to higher-level leagues and poorly performing teams are relegated to lower divisions. This can be seen with English football clubs where all clubs are members of The Football Association, however the top 20 teams are also members of the Premier League which operates as a separate organization.

Conversely, many of North America's sports leagues such as the NHL, MLB, and NBA are comprised of a set number of teams (franchises) that have territorial rights. And unlike the European model, NA teams do not play outside of the league despite being corporate entities separate from their leagues.

Figure 2: Open League vs Closed League

Open League (European)	Closed League (North American)

In other parts of the world, leagues tend to follow one or the other of these systems, notably with the Australian Football League and Nippon Professional Baseball in Japan following the North American system and African and Latin American football leagues using the European promotion-regelation system. Even beyond traditional sports, many eSports leagues also use some variation of the two main ownership structures like the League of Legends World Championships and Overwatch League both using the North American system.

Tailwinds from broadcasting technology

The emergence of broadcasting technology has been an important driver of fan experience. The industry has been experiencing a shift to web-based live content from television broadcasts. This, paired with the disruption of consumer media viewing habits over the past decade has led to declines in traditional television subscription rates. Sports entertainment companies have been providing new avenues for paying customers to follow their product through streaming and other media services. Major tech players like AMZN and FB have even signaled interest in the sports entertainment broadcasting market with AMZN's purchase of NFL and ATP World Tour rights and FB's acquisition of UEFA Champions League streaming rights.

Monetization

Sports entertainment companies find most of their revenue arising from general ticket sales, merchandising, and food & drink sales. However, beyond that, growing media rights have also been a large source of income for these companies. With US cable providers expecting to lose more than 1/3 of their pay-TV subscriber base by 2025 due to cable cutting, major global sports leagues have seen massive increases in their broadcasting rights with fans turning to online streaming services over traditional cable TV. Most notably, NFL finalized 10-year broadcasting agreements worth over $100 billion.

Source(s): Statista, Street Research

Monetization

USD with various networks in 2021.

Sports leagues also find a considerable sum of money coming from sponsorships & licensing deals. From the NBA's 8-year, $1 billion USD deal with Nike that allowed the sports retail giant to become the exclusive apparel provider for the league's teams, to Miami Heat and cryptocurrency exchange FTX's 19-year arena naming-rights agreement, sports leagues are able to take advantage of their elusive trademarks and licenses.

The profitability of the industry can be seen by its resilience through COVID-19. Despite the empty stadiums and tests to the entire economic model that pro sports was built on, the leagues have proven to be strong, valuable assets with the Golden State Warriors recently selling a 5% minority stake to PE firm Arctos Sports Partners at a $5.5 billion valuation and US investment firm RedBird Capital acquiring a 11% stake in Fenway Sports Group (Liverpool FC and the Boston Red Sox) for $750 million USD.

Figure 3: Sports media rights market size (in USD$ billion)

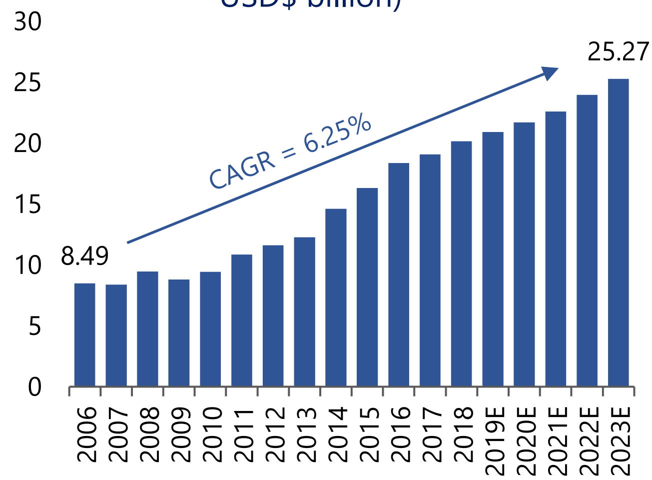
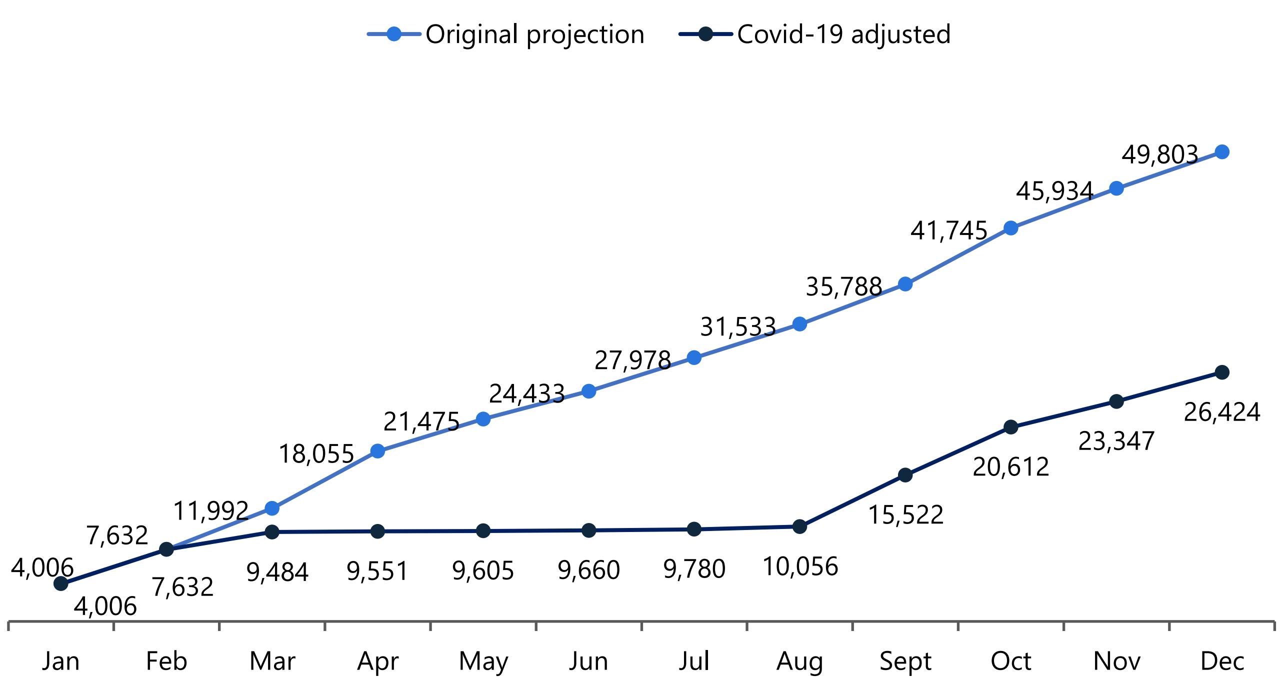


Figure 4: COVID-19 Effect on Number of Global Sporting Events in 2020



A New Approach to the Channels of Delivery

2020 and 2021 were years of sacrifice for sports fans with the coronavirus pandemic forcing stadiums worldwide to cancel live events and limit in-person fan attendance. This has driven sports organizations to place a greater emphasis on revolutionizing the delivery channels and identifying new revenue streams. As the pandemic-era adversities fade, professional sports leagues and college athletics are returning to a relative sense of normalcy, with full seasons and live fans. The impact of COVID has created more ways to consume sports content with emerging areas and trends diversifying the market, creating new growth opportunities.

With the digitization of sports fueled by the pandemic, sports and media organizations are attempting to merge the best of the physical and virtual worlds through advances in athlete data capture and analysis, augmented reality (AR) and virtual reality (VR) technologies, betting platforms, and, more recently, the rise of NFTs.

As the use of VR and AR in sports has gained adoption during the pandemic through new applications for training and simulation, broadcasting, and in-venue experiences, sports associations have partnered with technology companies to enhance fan experience and engagement. For example, NHL has collaborated with Verizon and Immersiv.io to create a more immersive in-game experience during games by consuming real-time statistics to track both players and the puck.

Other emerging trends are the integration of sports-related NFTs and the association of cryptocurrency exchange platforms with sports organizations. Digital collectives, video clips, and tokenized physical assets are being made available by leagues and individual players, enabling a next-level athlete-fan relationship. Among them are the NBA with Dapper Labs and their Top Shot platform as well as the MLB with Candy Digital. All major leagues have raised hundreds of millions of dollars in investment through sponsorship deals with cryptocurrency companies. It completely reshaped the channels of delivery in the sports industry, creating more ways for fans to engage with their favorite teams.

Figure 5: Global Sports Sponsorship Market Size (in billion USD$)

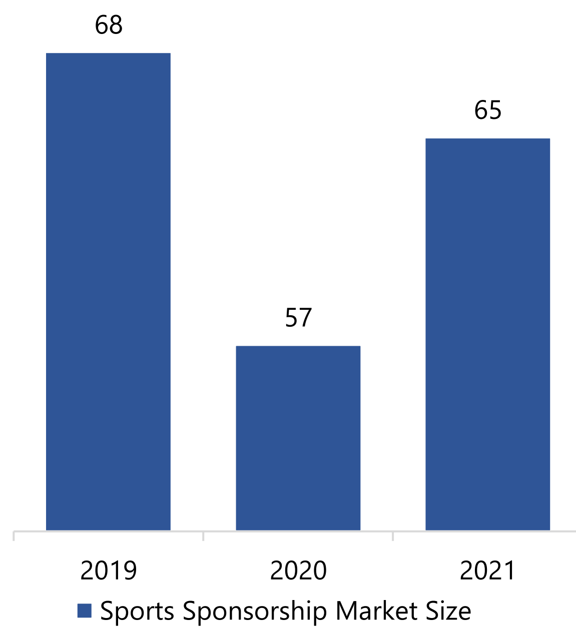
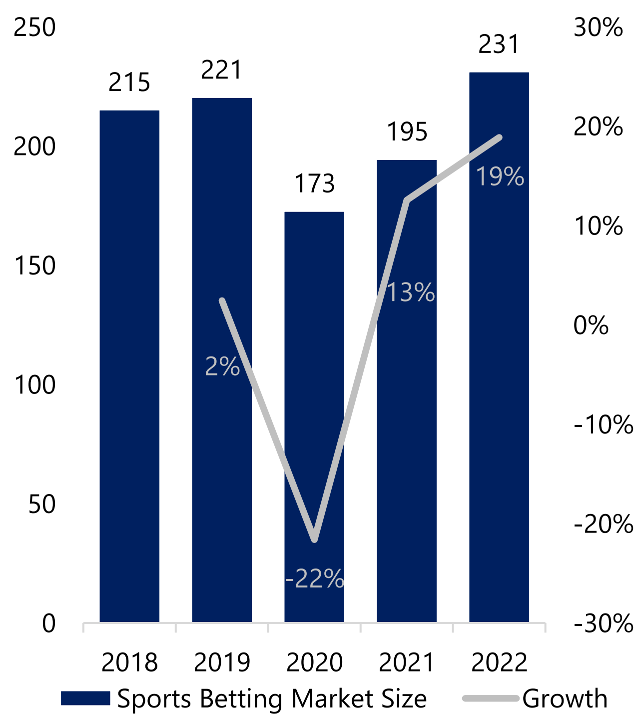


Figure 6: Global Sports Betting & Lotteries Market Size (in billion USD$)



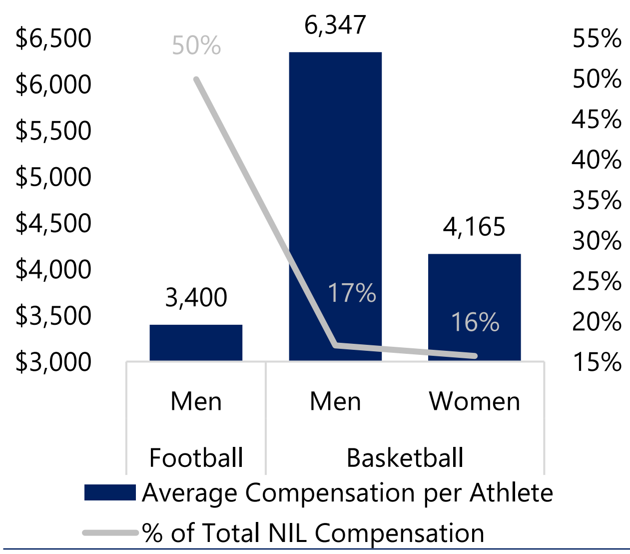
Source(s): Deloitte, CNBC, Financial Times, IBISWorld.

How Politics Has Changed Modern Sports

For nearly a century, U.S. college sports have passed on a more than $14 billion industry by forbidding student athletes to receive any pay for their performances or for right to their name, image, and likeness, or NIL. The board has long argued that paying players other than tuition would shift the focus to education and make sports indistinguishable between undergraduate sports and professional leagues. However, this year the NCAA, under pressure from state laws giving the right to payment to student athletes, has decided to finally adopt the NIL policy. As the 2021's March Madness student basketball tournament generated more than $1.1bn in annual broadcast revenues alone, the market size for the NCAA athlete sponsorships has grown exponentially and is expected to expand as more states are passing the NIL laws.

NIL has existed in its current state for a little over a year and athletes have made a collective $917 million during that period with football and basketball being the sports with the highest number of deals and average payouts per college athletes. Football players received 49.9% of the money, with a significant difference between them and athletes from other sports. Men's basketball players received 17% of the money, while women's basketball received 15.7%, using social media as the most popular way to advertise themselves.

Figure 7: NIL Compensation by College Sports Over the Last 12 Months



A Shift in Power in Rights and Ownership

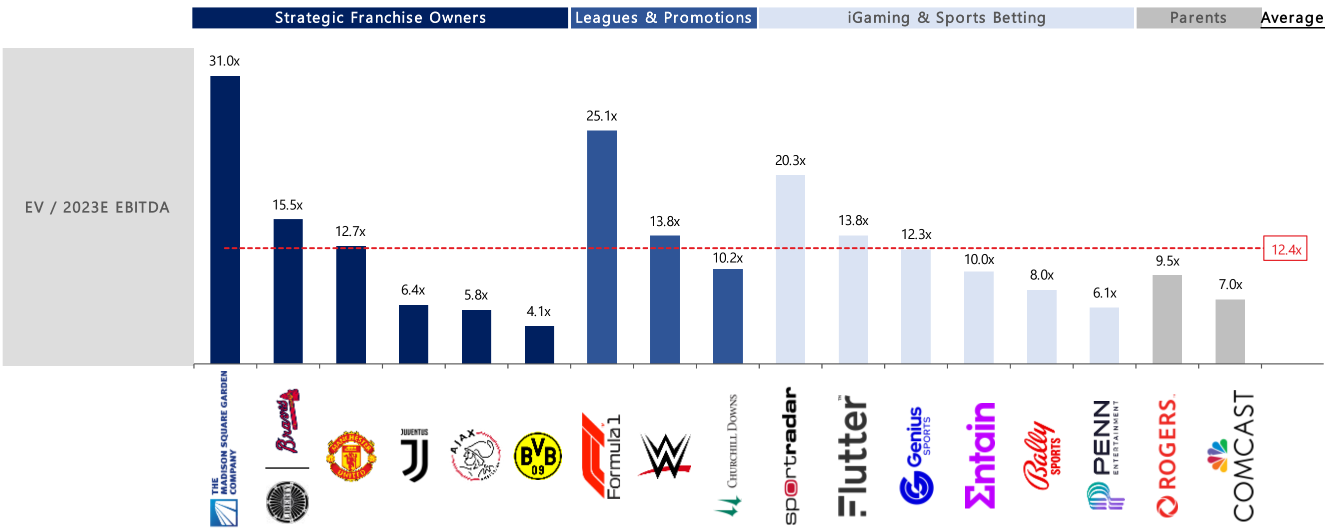
The on-going war between Russia and Ukraine not only has an outsizing impact on the global supply chain, but also severely affected the sports entertainment industry by shifting power in ownership and participation rights. After being sanctioned by the British government, the Russian oligarch, Roman Abramovich, was forced to sell Chelsea, an English soccer club, which was later bought for $3.2 billion by LA Dodgers co-owner Boehly joined up with Clearlake Capital Group, Hansjorg Wyss, and Mark Walter. Similarly, sports organizations across the world have cut ties with Russian teams and sponsors. A good example is the UEFA terminating its deal worth $40 million a season with the energy company Gazprom, a major sponsor of the Champions League. Along with that, popular international governing bodies for basketball, soccer, and hockey – FIBA, FIFA, and IIHF, have also banned Russian teams from competing.

As the Public Investment Fund (PIF) from the Saudis is looking to diversify its portfolio and tapped in the sports industry, their investment in the startup, LIV Golf, has arisen a political war with the PGA Tour. It is known that the PGA has suspended all current and future LIV players from participating in the tour, and as a result, the US Justice Department is investigating the PGA Tour over potential antitrust violations and potential anticompetitive behavior. However, many major sponsors dropped their endorsement deals with LIV tour golfers as the tour is being associated with Saudi Arabia's history of human rights issues. These endorsement deals include Phil Mickelson's partnership with KPMG and Heineken, Dustin Johnson's deal with the Royal Bank of Canada, and many more. Moving forward, regulations and legislations are crucial to the development of today's sports industry as it has created new opportunities and niche markets.

Source(s): Deloitte, Financial Times, Opendorse, U.S. News, Bloomberg.

Relative Valuation: Public Company Comparable Analysis

Select Coverage Universe



Market Capitalization	$3,868	$1,471	$2,090	$988	$235	$472	$16,099	$5,393	$8,003	$3,653	$22,826	$887	$10,189	$1,275	$5,963	$23,291	$176,530	
Enterprise Value	$4,883	$1,835	$2,747	$1,065	$306	$477	$18,136	$5,579	$10,898	$3,341	$26,246	$728	$12,877	$5,119	$17,256	$51,132	$270,066	
22E-'23E Sales Growth	6.7%	7.5%	7.9%	10.5%	-50.1%	11.0%	11.5%	6.9%	40.3%	19.3%	18.8%	27.7%	7.0%	12.7%	1.5%	4.4%	0.6%	9.3%
2022E EBITDA Margin	15.6%	17.8%	15.0%	neg	53.0%	24.3%	23.8%	29.8%	42.5%	18.4%	14.8%	6.6%	21.9%	26.1%	37.4%	41.7%	30.5%	24.8%
Net Debt / '22E EBITDA	6.5x	3.3x	4.1x	0.9x	0.6x	0.0x	2.3x	0.5x	3.9x	neg	2.7x	neg	2.4x	5.9x	4.0x	5.6x	2.4x	2.9x
EV / '22E Sales	6.3x	3.0x	3.7x	2.1x	1.6x	1.2x	6.9x	4.4x	6.3x	4.8x	3.0x	2.1x	2.5x	2.3x	2.7x	4.3x	2.2x	3.7x
EV / '23E Sales	5.9x	2.8x	3.4x	1.9x	3.2x	1.1x	6.2x	4.1x	4.5x	4.0x	2.6x	1.7x	2.3x	2.0x	2.7x	4.1x	2.2x	3.6x
EV / '22E EBITDA	31.3x	16.8x	18.1x	14.3x	2.9x	4.7x	29.0x	14.6x	14.6x	26.2x	20.5x	24.6x	11.3x	7.9x	6.2x	10.2x	7.1x	16.5x

Roster Breakdown

Broadly speaking, there is a scarce selection of publicly-held, pure-play sports companies with sufficiently mature figures to draw multiples from. That said, the above distribution provides a reasonable snapshot of how markets are valuing the different segments of the sports ecosystem. Under the direct team ownership bucket, the discrepancy between the two American players and the European soccer clubs is immediately clear. We believe this premium to be justified by 1) the superior corporate and retail discretionary demand in the US 2) more digitalized and diversified portfolios which have better exposure to trends such as OTT adaptation 3) larger scale and reach. The spread between Manchester United and its continental European peers can similarly be explained by relative size and a higher quality of corporate partnerships. Note that the extreme multiple given to MSGS is due to the company just becoming EBITDA positive in CQ2'22. The leagues and promotions market is interesting due to each of the players operating fundamentally different models. Notably, F1 commands a steep multiple as the sole alternative for public market investors looking to buy into an entire "league". Furthermore, investors are bullish on the low capital intensity and high potential for monetization, as per a 2021 report from Barclays. The WWE, despite their promising toeholds in overseas markets, has faced secularly declining viewership. Last, Churchill Downs has a blended exposure to both horse-track racing and casinos / online betting. Thus, it follows that the stock trades relatively in line with its peers in the sports betting bucket. This subsector has been buoyed by the faster-than-anticipated legalization of untethered online sports betting. Within this group, there are two B2B providers – Sportradar and Genius Sports – which offer data collection and processing services to leagues and sports betting platforms. The inherent nature of a SaaS business leads to the relatively higher multiple versus to their B2C peers. It is worthwhile to note that traditional casino players such as Bally and Penn have not been significantly rewarded for their M&A activity in sports media and betting.

Source(s): Bloomberg, Capital IQ, street research.

Recent Activity in the Market

The past few years have seen numerous acquisitions of sports clubs worldwide. These acquisitions range from large blockbuster deals to a forced sale due to global politics. Notable events also include rivalries between emerging leagues contending with traditional leagues.

The pandemic has also opened the door for the mass commercialization of sports entertainment activities. Notably, sports betting has been and continues to gain traction around the world, but mainly in North America. As more and more states legalize the activity, additional attention is drawn to sports. This creates an incentive for companies to be involved in the sports entertainment industry.

Namely, several leagues and clubs have gone through acquisitions that brought on profound changes to them. For example, The Formula One has seen explosive growth since its acquisition with management labelling the company as an entertainment company rather than a sporting organization. The Formula One Racing agreement with Netflix to create a yearly docu-series on the sport has been an example of how sports are now able to experience explosive growth through new media channels.

Enhancing the fan experience is now the name of the game. Companies operating in the sports entertainment industry are fighting for the attention of viewers. They hope to do so through evolving broadcasting technology and licensing deals to provide viewers with an unparalleled experience within their venues.

The upcoming years will be crucial for the industry to retain and grow its user base of passionate viewers.

Table 1: Notable Acquisitions in the Sports Entertainment Market (As of August 1st 2022)

Target	Buyer/Consortium	Sport	Price	Acquisition Date
	Walton-Penner Group	Football	USD$4.7B	June 2022
	Consortium led by LA Dodgers part-owner Todd Boehly, Mark Walter, and Clearlake	Soccer	USD$5.3B	May 2022
	Fenway Sports Group	Hockey	USD$900M	November 2021
	Consortium consisting of PCP Capital Partners, Reuben Brothers and the Public Investment Fund of Saudi Arabia (PIF)	Soccer	USD$408M	October 2021
	Friedkin Group	Soccer	USD$700M	August 2020
	David Tepper	Football	USD$2.3B	May 2018
	Liberty Media Corporation	Motor Racing	USD$4.6B	August 2017

Source(s): FT, SEC, ESPN, NY Times

Clubs Under New Management

As the sports entertainment industry continues to gain popularity and evolve, demand from investors to gain ownership in sporting organizations will inevitably rise. Teams, sometimes referred to as clubs, have been and continue to be a popular investment for institutional investors wanting their part in the industry.

To say that mergers and acquisitions in the sports entertainment industry have been active in the past few years would be an understatement. These last years have seen a number of large deals occurring in different sub-sectors of the industry. Although once deemed a killer for the industry, the pandemic has brought out new opportunities for companies operating in the industry. Pent-up consumer demand for sports entertainment continues to rise thanks to the pandemic. As the remnants of the pandemic fade away, more and more consumers will seek experiences both digitally and in the real world.

Callaway acquiring Top Golf is a prime example of this phenomenon. Callaway, known as one of the top golf equipment brands is diversifying by offering experiences beyond the regular golf course.

Valuations in 2021 and 2022 remain steady with practically all buyers paying premium multiples for leaders within their own sub-sectors with a track-record of distinguished performance. Some sectors do come out ahead with higher multiples because of their attractiveness. Esports (part of gaming and entertainment) being one of those subsectors garnering higher multiples due to its immense growth over the past few years.

Figure 2: Multiples Paid for Sport Organizations

Date	Jul-22	May-22	Jan-22	Oct-21	Mar-21	Dec-20
Target	William HILL	GOLDEN NUGGET	topps	theScore	TOPGOLF	FANDUEL
Buyer	888 HOLDINGS	DRAFT KINGS	Fanatics	PENN NATIONAL GAMING, INC.	Callaway	Flutter
Sub-Sector	Sports Betting	Sports Betting	Sports Memorabilia	Digital Media	Sports Entertainment	Sports Betting
EV	$2.1B	$2.1B	$500m	$2.02B	$2.6B	$11.3B*
EV/Revenue	1.7x	18.2x	0.9x	NMF	2.4x	N/A
Country						

All figures in USD$ millions, unless otherwise indicated
*Flutter Entertainment had already acquired a majority stake (63%) in FanDuel prior to the full acquisition in December 2020

Source(s): Capstone Partners, Sportico, ESPN, Capital IQ

Outlook

Short-term View

Despite the covid-19 pandemic, during which populations across the globe spent more time at home consuming content, sports entertainment and broadcasting saw some unusual changes in their viewership data. For one, given the complications surrounding the hosting of live sporting events, and the need to travel for many of these professional, all major sports leagues saw a tightening in their schedules. This resulted in many sporting events being broadcasted simultaneously, thereby limiting a viewer's ability to watch multiple events as previously. 2021 saw steep declines in viewership across the board, mostly being related to the overlapping calendars, "the intensity of the political news cycle, a glut of sports on TV and viewers' lives being upended by the pandemic".

Expectations on the other side of the pandemic, which will be seen this coming fall, as major sports kick off their 2022-2023 seasons, is that this trend will reverse to pre-pandemic levels, and sporting events will act as social glue, and reunite people as they did in the past.

Long-term View

The industry is ever-changing, and with the rise of technology and shifting viewer needs, the broadcasting industry is expected to be disrupted and evolve in the future. A blend between the real and digital world is predicted to accelerate, with increased data and immersive technologies amplifying the viewer experience. Evidence of efforts being made on behalf of sports teams to improve broadcasting can be seen in Tampa Bay Lightning's use of tracking technology to simulate "away" games on their home ice.

Many of the networks that currently hold the rights to broadcast content of major sports leagues will see their contracts expiring in the near future. This leaves the door open for other non-traditional networks to bid for these contracts, and it even presents new opportunities in which the broadcasting may stray away from traditional TV. With the rise of streaming amongst GenZ'ers, and the change in the ways in which they consume content, it is likely that broadcasting companies will expand their touchpoints and streaming will continue to be on the rise. With the rise of e-sports, and Amazon's subsidiary Twitch, we may even see a convergence between the traditional and e-sports world.

Broadcasting Rights

Table 3: List of Major Networks and Contract Expiration Dates

Property	Current Rights Holder	Expiration Date	Market	Annual Rights Fees
NFL Monday Night Football	**ESPN**	2033	U.S.	USD$1.9B
MLB	**ESPN, Fox, Turner**	2028	U.S.	USD$1.9B
UEFA Champions League	**Multiple (US: Turner)**	2030	Global	N/A
NFL Sunday Ticket	**AT&T/Direct TV**	2022	U.S.	USD$1.5B
FIFA World Cup	**Multiple (US: Fox, Telemundo)**	2026	U.S.	N/A
NHL	**ESPN, Turner Sports**	2028	U.S.	USD$625M
NFL	**CBS, Fox, NBC, ESPN, DIrectTV**	2023	U.S.	USD$3.1B
NASCAR Cup Series	**Fox, NBCSN**	2024	U.S.	USD$820M
Olympics	**Multiple (US: NBCUniversal)**	2024	Global	N/A
NBA	**ESPN, Turner**	2025	U.S.	USD$6.0B

Source(s): Washington Post