PwC Sports Outlook

At the gate and beyond

Outlook for the sports market in North America through 2021

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2017 edition: Overview

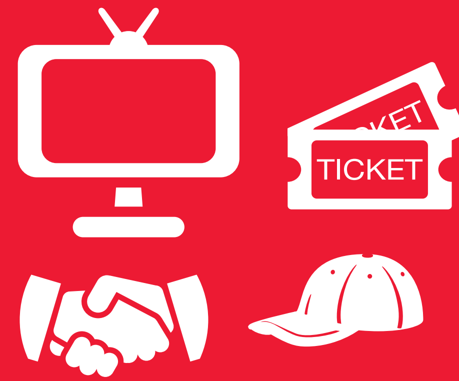
Welcome to the 2017 edition of the PwC Sports Outlook, which updates PwC's perspective on the sports industry, including recent results and potential opportunities and challenges to future industry growth. This year's edition refreshes our five-year revenue forecasts through 2021 within four key segments of the North American sports market: media rights, gate revenues, sponsorship, and merchandising.

North America sports market by segment

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	CAGR
US$ millions											
Media rights	11,619	12,262	14,595	16,305	18,372	19,075	20,135	20,960	21,755	22,667	4.3%
Gate revenues	15,821	17,142	17,448	17,963	18,649	19,159	19,556	20,006	20,469	20,902	2.3%
Sponsorship	13,257	13,900	14,689	15,481	16,301	16,658	17,614	18,391	19,342	19,876	4.0%
Merchandising	12,771	13,144	13,493	13,806	13,966	14,390	14,554	14,729	14,939	15,087	1.6%
Total	53,468	56,448	60,225	63,555	67,288	69,282	71,859	74,086	76,505	78,532	3.1%
% change year on year											
Media rights		5.5%	19.0%	11.7%	12.7%	3.8%	5.6%	4.1%	3.8%	4.2%	
Gate revenues		8.4%	1.8%	3.0%	3.8%	2.7%	2.1%	2.3%	2.3%	2.1%	
Sponsorship		4.9%	5.7%	5.4%	5.3%	2.2%	5.7%	4.4%	5.2%	2.8%	
Merchandising		2.9%	2.7%	2.3%	1.2%	3.0%	1.1%	1.2%	1.4%	1.0%	
Total		5.6%	6.7%	5.5%	5.9%	3.0%	3.7%	3.1%	3.3%	2.6%	

CAGR - compound annual growth rate

Source: PwC Sports Outlook (December 2017)



Segment definitions

For the purposes of this report, the sports market consists of:

Media rights*—fees paid to show sporting events on broadcast and cable television networks, television stations, terrestrial radio, satellite radio, the internet, and mobile devices.*

Gate revenues*—primary market ticket sales for live sporting events. Non-recurring seat premiums and license costs are not included.*

Sponsorship*—fees paid to have a brand associated with a team, league, facility or event, including naming and category rights.*

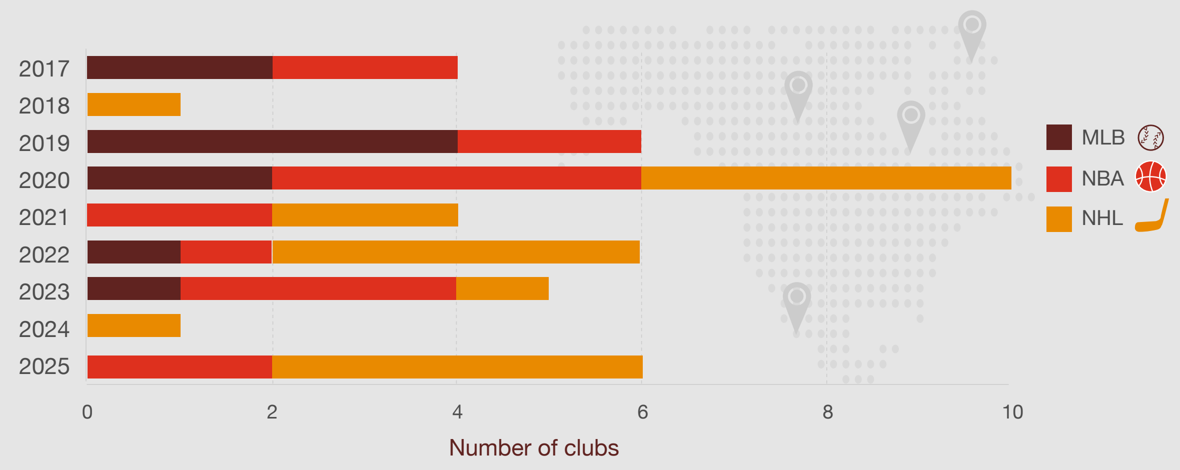
Merchandising*—the sale of licensed products with team and league logos, player likenesses, and other intellectual property. Food concession revenues are not included.*

We project the sports market in North America will grow at a compound annual rate of 3.1 percent across the four segments analyzed, from $69.3 billion in 2017 to $78.5 billion in 2021.

Industry growth across the four segments is expected to stabilize over the next five years, with key deals underlying the media rights segment, the industry's largest segment by 2018, locked in until 2021 when the next cycle of national rights deals begins to overlap with the five-year projection period. The monetization of rights available in the nearer term—25 regional sports network ("RSN") deals across MLB, NBA and NHL will run-off within the next five years — as well as in at least the beginning of the next national rights deal cycle should remain strong given increasing competition for rights among traditional broadcast intermediaries and emerging distribution partners. There are also stronger paths to monetization across digital platforms in either rights form or direct subscription/ad-based models to the extent consumer engagement shifts from the linear broadcast.

Sponsorship is estimated to close its market size gap to within $2.8 billion of media rights by 2021. This represents the highest growth rate of the four segments through the middle of the Outlook period as an initial round of deal making accelerates for new inventory related to digital media platforms, uniform rights, and incremental in-venue signage and naming rights opportunities. Sponsorship segment growth is otherwise tempered in nearer term by limited existing key inventory available for new deals, and again towards the end of the Outlook period with existing sponsor commitments likely cannibalized by new inventory deals and roadmaps for underlying technologies driving consumer engagement and path to monetization for new digital inventory.

Regional sports network (RSN) rights deal waterfall



Source: PwC Sports Outlook (December 2017)

As noted in other recent editions of the Outlook, gate segment sizing will benefit, on one hand, from an uptick in the one-time effects of new facility openings and league expansion during the Outlook period. On the other hand, it will continue to moderate due to increased competition and price pressure, high demand events drawing crowds at or near facility capacity, secondary (resale) market leakage, and the risk of potential exposure in economic downturn. Similarly, the merchandise segment is anticipated to continue to show characteristics of its relative maturity with segment growth largely tied to economic conditions and constrained by market saturation, macroeconomic pressures, and changes in consumer spending patterns.

Featured research and analysis

Major league team deals

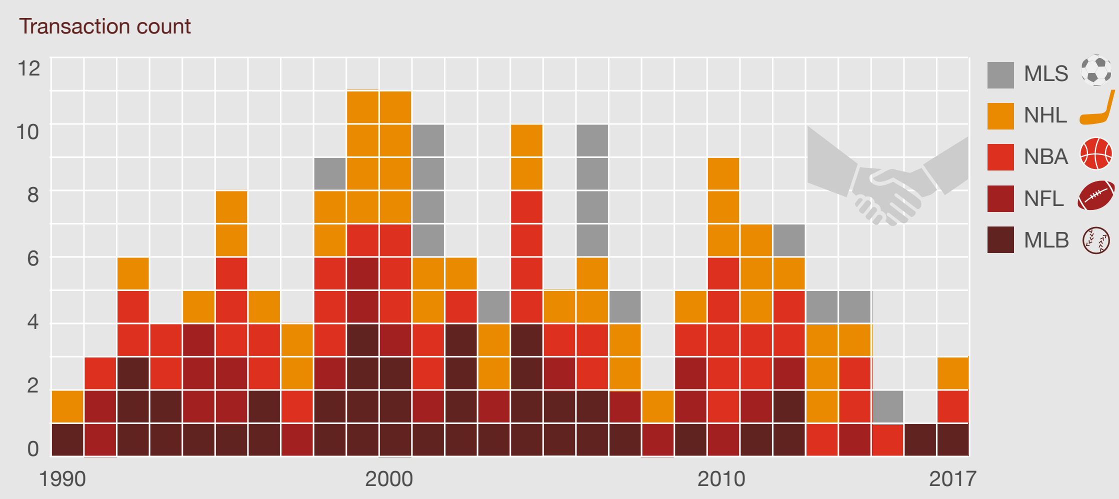
A modern professional sports team, when optimized, is a dynamic content business involving a diversified ticket, media, retail, food and beverage, real estate and sponsorship enterprise. Member clubs of the five major professional leagues in North America—NFL, MLB, NBA, NHL, and MLS—are high-profile, in-demand entities with generally more prospective investors for a club/league than available clubs for acquisition. With a limited number of member clubs in each league, as well as closely-held equity structures and long average hold periods, a club sale generally yields a seller's market, which either yields an established asking price or a competitive bid process with an eventual motivated winner.

Sports teams have long been regarded as trophy assets for high-net-worth individual investors, with strong value consideration given to personal goodwill. In the past six years several transactions were categorized by "take the deal off the table" bids to eliminate any rival bidders. Buy/hold strategies focused on capital appreciation remain the primary investment objective; however, stronger cash flows, coupled with low interest rates, have broadened prospective investor profiles and raised expectations for fewer capital calls and more recurring distributions. Further, certain investors have renewed focus, with improved economic conditions following the recession period, on the synergistic opportunities of structuring a sports team within a broader portfolio of real estate, hospitality, and/or entertainment assets.

Transaction prices and, as a result, values, continue to grow across the five major leagues in North America with the average club value of each league having increased between 2.5 and 5 times over the past 10 years and between 10 and 20 times since 1990. Media rights deals have driven value growth across the major leagues over the past five years and counting, similar to how the adoption of league-wide revenue share programs and build out of new stadiums, arenas and ballparks in the local markets enhanced team values over the two decades before—a 20-year building boom involving more than $55 billion in facility construction across professional sports and intercollegiate athletics, according to PwC research. In addition, the ability to monetize the purchase price of the significant value franchise and tradename as tax amortization deductions over a 15 year period provides an incremental value driver.

Proposed tax reform in the US may impact the sports and entertainment industries. This includes elimination of preferred tax exempt status for public bonds used to fund stadiums and related facilities, exclusion from preferential income tax rates on business income associated with entertainment and sports, and restrictive limits on interest deductibility for debt supporting the underlying acquisitions. Final legislation may significantly impact the applicable US income tax on operations and ownership of sports franchises.

Annual deal volume: Controlling interests



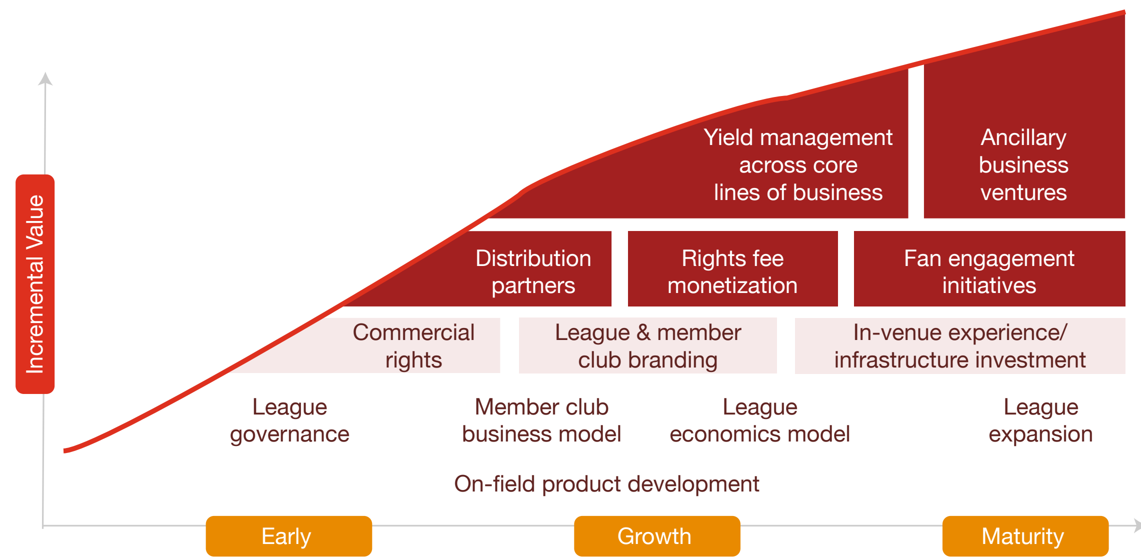
Source: PwC Sports Outlook (December 2017)

Recent deal activity has also involved both smaller and larger market clubs within each league, which in tandem have elevated values and removed, to some extent, related ambiguity across the leagues' member clubs due to transactions involving smaller market clubs such as the Buffalo Bills (2014), Milwaukee Bucks (2014), Arizona Coyotes (2013), Cleveland Browns (2012), San Diego Padres (2012), and Jacksonville Jaguars (2011), and larger market clubs such as the Houston Rockets (2017), Miami Marlins (2017), Atlanta Hawks (2015), Los Angeles Clippers (2014), Los Angeles Dodgers (2012), and Toronto Maple Leafs (2011).

Further, club revenue is generated from a combination of national and local revenue sources; with national revenue produced at the league level and then distributed amongst the member clubs. As a result, growth in national revenue sources, generally shared equally, has narrowed the spread in values across a league's member clubs. This trend should continue as national revenue continues to expand, local revenue share programs are preserved/strengthened, distressed clubs are placed in more viable markets or facilities, and league offices further build out resources to support the optimization of local market results of the member clubs.

More than five existing clubs across the major leagues have transacted, on average, in a given year since 1990, ranging from a low of one in 2016 to a high of 11 per year in both 1999 and 2000. Clubs transact at any time due to an owner death, liquidity needs or distressed market and facility conditions, among others. League-wide volume, however, tends to peak immediately before/after new collective bargaining agreements (CBAs) and national media rights deals, and bottom out in the middle of those deal cycles when there is higher uncertainty regarding a league's future economic conditions. Each major league is currently at or near the bottom of its respective deal cycle, with each league's national media rights not set to runoff until 2020 at the earliest and limited overhaul of the CBA frameworks anticipated in at least the near term.

League value drivers by time horizon



Source: PwC Sports Outlook (December 2017)

Teams in the modern era (1990 and beyond) have generally transacted at price levels that imply multiples ranging between 2 and 5 times prior season revenue (excluding a limited number of outliers). That range expanded, leading into the current cycle of media rights deals, with a number of teams transacting at implied multiples of 6 times revenue or higher. With the new media rights deals realized, it was anticipated that team sales after 2015 would then likely transact, in at least the near term, at implied multiples back within the longer-run range, below roughly 5 times. However, the few teams (Mariners, Marlins, Rockets) that have sold after 2015 have transacted at price levels yielding revenue multiples above the long-run range as well—in part due to factors unique to their respective sales process or prospective local revenue upside, but also due to deal-friendly investor conditions and the pervasive seller's market dynamic. As a result, the growing sample of transactions with elevated revenue multiples warrants reconsideration of prior transactions previously considered elevated outliers by sellers/buyers (Dodgers, Clippers) which will either stabilize the high end of the market at prevailing levels above 5 times revenue or increase the spread between bid/ask prices and suppress deal volume in at least the near term. The ever increasing deal size, brings big questions to mind: What will it take for the leagues to once again consider expansion? Will it be in North America, Europe or Asia?

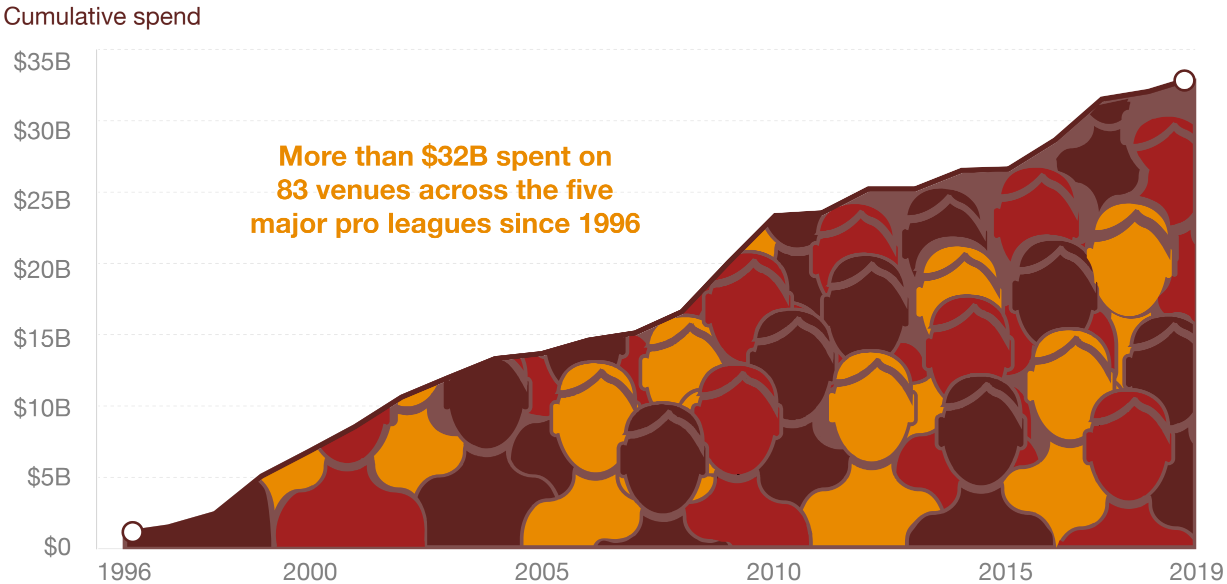
The industry's ability to further monetize both its digital assets and international expansion will be key to driving further growth in the revenue base. Otherwise, the pace of value growth for each league's average club could slow, in the near term, as two major existing sources of industry revenue—gate revenue and media rights—continue to mature. The leagues and team owners will likely also continue to face higher capital requirements to modernize or build new facilities as more limited public funding/financing is made available by state and local government partners. Near-term liquidity issues are being managed by the leagues through changes in their respective restrictions on team debt and limited partners; however, future value growth over the longer term could also be constrained by financial resource limitations of the available investor pool, particularly at the high end of the NFL, MLB and NBA.

Facility capital funding/financing

The sports industry in North America is reaching the end of a 20-year building boom involving more than $55 billion in facility construction across professional sports and intercollegiate athletics. This includes more than $32 billion spent on 83 venues across the five major pro leagues since 1996. The new build cycle was driven by the shortened lives of the prior generation of facilities, which had served the sports and entertainment industry, but had either become physically and/or economically obsolescent. New revenue sources such as naming rights and premium seating emerged, generating contractually obligated income available to fund a portion of facility development costs, and accelerated priority for teams to monetize such sources to remain competitive. In addition, the multi-purpose venues developed in the two-decade building cycle prior to the 1990's lacked the sight lines and other design features available in single purpose venues—features that are industry priorities for enhancing game presentation and fan experience.

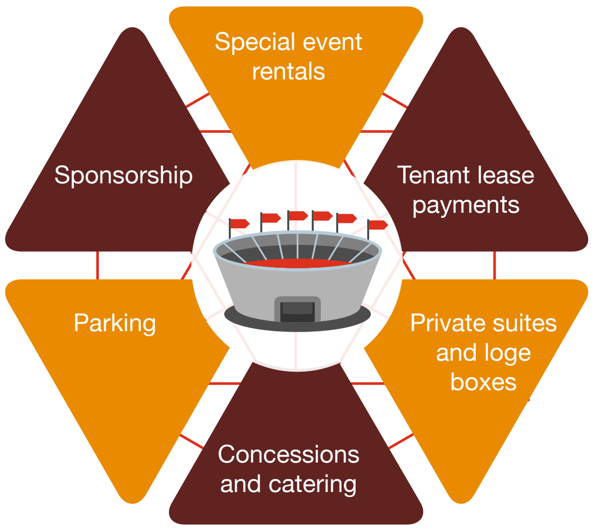
The availability of public funding sources and financing options were also key drivers to realizing the current generation of venues serving the five major leagues in North America. Public sources have funded more than 40 percent of the aggregate cost to develop major league facility projects since 1996. The public funding share of project costs peaked at more than 50 percent during the first five years of this 20-year period and has declined to less than 25 percent during the most recent five years as project costs have continued to increase (primarily related to incremental venue design and technology investments by team owners) while levels of public support have waned under increased public scrutiny.

Major league facility development spend—1996-2019



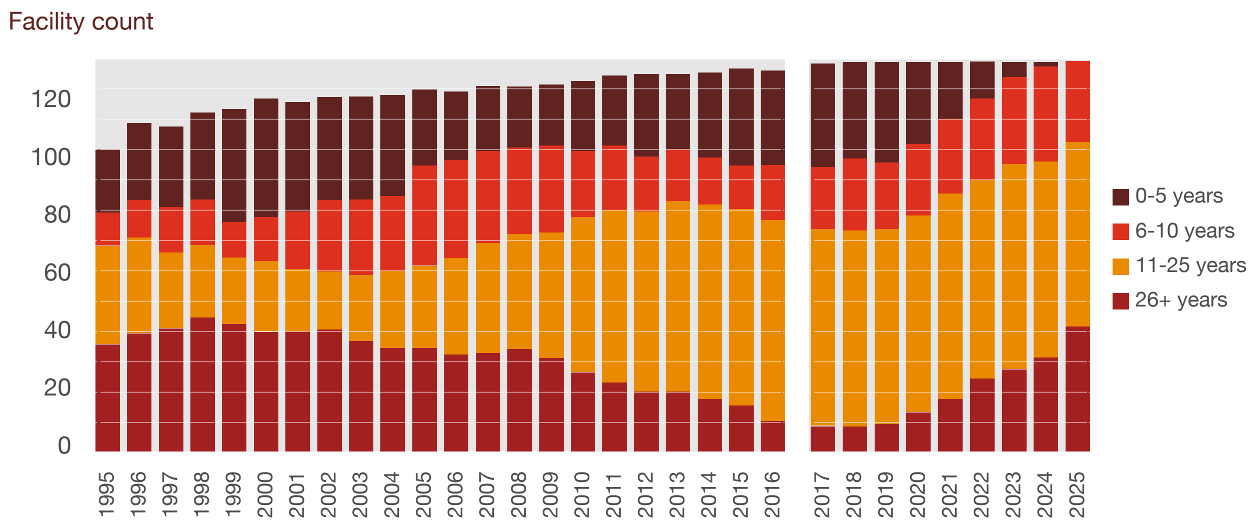
Source: PwC Sports Outlook (December 2017)

Key sources of revenue



Source: PwC Sports Outlook (December 2017)

Major league facility aging



Source: PwC Sports Outlook (December 2017)

The next $50 billion of facility projects will likely yield a composite profile distinct from the most recent building cycle. Few projects remain in the new build pipeline with existing venues designed for 30-40 year economic lives. The composition of public funding committed to other sports and entertainment facilities will continue to shift, to an extent, towards sources which are project based and assessments of the related private enterprises and their respective activities.

The new build pipeline includes Wisconsin Entertainment and Sports Center (Milwaukee, 2018); Chase Center (San Francisco, 2019), Las Vegas Stadium (2020), Los Angeles Stadium at Hollywood Park (2020) and Globe Life Field (Arlington, 2020).

In the near term, there will be capital expenditure requirements for existing stadiums in order to adjust capacity and reposition inventory to align with current market conditions and fan preferences. These modifications are required to enhance and differentiate the in-venue experience. Teams want to deliver integrated and immersive experiences to drive retention and add value.

While there is competition for special events (e.g., Super Bowl, College Football Playoff, All Star Games, etc.,) the economics of the special events have little impact on the tenant to justify the overall investment. The investment required to upgrade existing facilities and attract special events will require public contribution. This will showcase the community and provide direct and indirect economic impact.

There will be increased ancillary real estate development around sports venues. Venues will serve as catalysts for the formation of new mixed use districts in previously underutilized submarkets adjacent to the central business core. These will require private investment.

As noted, public investment will continue to be challenging. In some instances, the ability to preserve existing public sources will allow for public participation. For new public financing the project funding timeline (which had been three to five years) will probably be closer to five to ten years.

There will be more private funding and financing available. These could be through third party private equity or private debt placements.

Ticket subscription products

The industry continues to expand/refine ticket product offerings, as noted in last year's edition of the Outlook, with further focus on seat rights flexibility, including expansion of ticket flex plan offerings and ticket exchange rights.

Subscription-based ticket products are emerging across the major pro league teams and are being positioned to deliver on another consumer preference—length of commitment. More than 72 percent of MLB clubs—along with more than 10 clubs across the NFL, NBA, NHL and MLS—have launched short-term subscription products within the past 12 months. The majority of the ticket subscription products launched involve a monthly commitment and seat rights to all games during the term within a selected seat category. A default auto renewal policy—along with digital only ticket access, resale restriction policy, variable seat assignment within seat category, and limited ticket holder benefit/amenity package—differentiate the ticket subscription product from each club's respective season ticket plans.

Certain early adopter clubs have limited the availability of their ticket subscription product to select months of the season and/or select seat categories/locations. As a result, subscription products in this early stage of adoption are being positioned as complementary to season ticket plans to engage new consumers in venue, develop new season ticket accounts, and drive ticket volume to underutilized games and/or seating areas with available capacity.

The adoption of more dynamic pricing and baseline packaging of ticket holder amenities/benefits within the ticket subscription product could be realized should programs expand and adopters position subscription based products closer to the core of their respective ticket strategies.

Subscription-based ticket options

	General profile	Alternatives
Product availability	• Full season	• Select months • Select games
Seat location	• Fixed seat category	• Standing room only • Select seat sections • Upgrade eligible
Ticket access	• Mobile	• Digital with print rights
Seat assignment	• 2-3 hours prior to event	• Up to 6 hours prior to event
Term	• Monthly	• Fixed game count
Automatic renewal	• No	• Yes

Source: PwC Sports Outlook (December 2017)

Immersive sports media

Broadcast rights preservation, as noted in last year's edition of the Outlook, is likely to remain an industry priority through at least the next deal cycle to avoid potential further dilution of rights fees. Any consumer led disruption of the linear broadcast market realized in the near term due to migration, either within pay-TV or from broadcast to digital, is unlikely to materially impair the media rights fee landscape. This is particularly true for major properties with incumbent rights holder carriage deals in place with major distributors through at least the early stages of the next deal cycle, along with subscriber migration away from or within the pay-TV bundle anticipated to occur over a protracted period.

Lower tier properties entering the deal cycle, however, could begin to realize, at minimum, lower growth multiples, if not fee level declines, thus widening the rights fee gap between premium and other broadcast content—particularly to the extent the pace at which consumers shift engagement to digital content increases and/or traditional intermediary partners shift to business models that place lower priority/valuation on live sports content. In general, next cycle deals across the property spectrum could realize shorter term commitments by rights holders, particularly if existing rights fee levels are preserved, with an increased share of market risk retained by properties, which would lead to increased volatility in future market size beyond the five-year Outlook period.

Existing digital products currently positioned as complementary to the linear broadcast are anticipated to preserve monetization of broadcast content related to cord-cutters and cord-nevers. As a result, direct to consumer offerings and other digital content are anticipated to be stabilizing forces rather than material drivers of market size

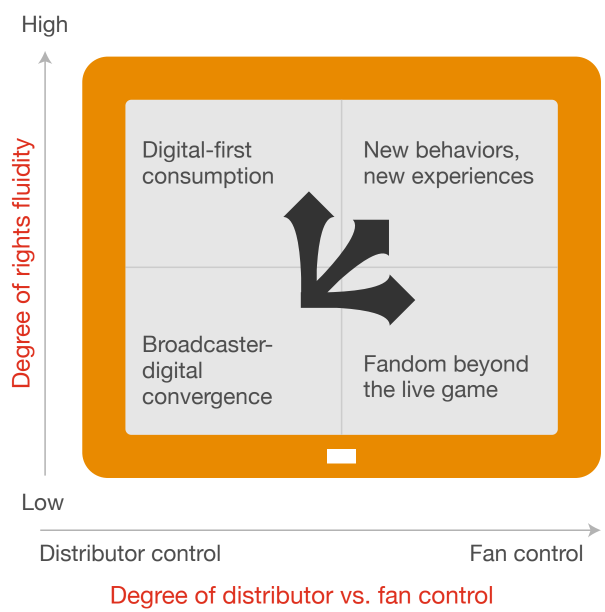
growth through at least the next rights deal cycle as digital products build an incremental audience, product feature roadmaps are realized, and subscription/ad models are refined.

Future growth within the media rights segment beyond the next rights deal cycle will primarily hinge on market engagement with future generations of digital products which deliver premium, immersive experiences with either live or archived content enabled by a wide landscape of underlying technology, including personalized video, 3D video, augmented and virtual reality, and augmented video.

With a potential global market size of more than $1 billion by 2025, immersive sports media will remain a nascent market relative to other media segments, but a viable source of prospective sports market expansion. Product roadmaps and realization of key features such as user personalization, authorship, social interactivity, seamless transitions, innovative ad formats, integration of new data streams and other visualizations, and real-time delivery will determine the extent to which the immersive products targeted by the industry and its partners will result in increases to the sports wallet of fans and advertisers.

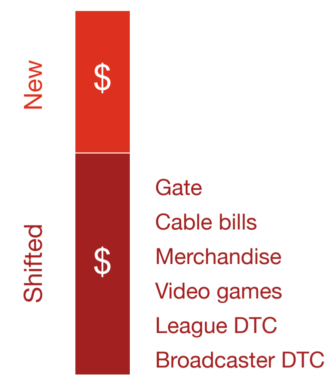
The consumer wallet is most likely to expand to the extent value-added content is realized, but otherwise immersive video engagement will generally result from a shift in consumer expenditure, in at least the nearer term, across a number of areas including gate, cable bills, merchandise, videogames and direct to consumer offerings by properties and rights holders. As a result, B2C and B2B spend on immersive technologies will impact existing value pools across the sports market value chain with the addressable market for digital video expanding as properties move further into digital-first and new fan experiences. The industry's path to monetization for immersive video products will vary by property with those leagues/clubs that are unencumbered by exclusive rights terms otherwise are quicker to move from curated to viewer/fan controlled content more likely to capture the upside from these new offerings.

Range of potential market scenarios



Source: PwC Sports Outlook (December 2017)

Consumer spend source for sports immersive media



Source: PwC Sports Outlook (December 2017)

Appendix

Historical data

Historical estimates and future projections were built starting with the collection of historical data from a variety of sources, including confidential and proprietary sources. Third-party sources of publicly available information, including trade associations and government agencies, were also consulted and their information used indirectly as part of the proprietary calculations.

Projection methods

All projections are built around historical and current data, along with informed assumptions from our industry specialists related to factors likely to impact future trends (including economic, demographic, behavioral, technological, competitive, and other drivers). Multiple models were developed for each segment and the alternate results were reconciled by our industry specialists to represent the most accurate and likely scenario of future trends based on our professional experience and knowledge.

Growth rates

Annual year-on-year growth rates and compound annual growth rates (CAGRs) have been calculated and presented in this report. The CAGRs show the average annual growth in each segment between 2017 and 2021 and are calculated using the following formula:

CAGR = 100 * [(Value in 2021/Value in 2016) 1/5 – 1]

Inflation

All figures are reported in nominal terms reflecting actual spending transactions and, therefore, include the effects of inflation.

Glossary

CAGR	Compound annual growth rate
DTC	Direct to consumer
MLB	Major League Baseball
MLS	Major League Soccer
NBA	National Basketball Association
NFL	National Football League
NHL	National Hockey League

Featured topics in other recent editions

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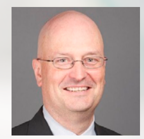

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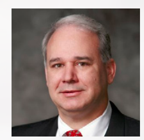

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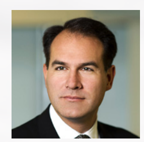

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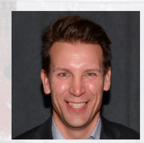

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