Investing in Sport: A Slam Dunk?

OC&C Perspectives

March 2023
Investor interest in sport continues to grow – and for good reason. We see lots of reasons to get excited, though with some important watchouts

Key Takeaways

**Vast, growing ecosystem** – worth over $500bn (2021); growing to >$800bn (2027)

**Favourable tailwinds** – changing fan behaviours; demand for rights and content; tech innovation

**Attractive asset characteristics** driving **investment boom** (>30bn 2021/22)

**Six attractive investment spaces** – each with unique considerations
The market is worth >$500bn, and will continue to grow – with several exciting growth hotspots

Global Sports Market, 2017-27F ($bn)

Covid-19 drove disruption to many core parts of the ecosystem – though these have since rebounded rapidly

<table>
<thead>
<tr>
<th>Core Media</th>
<th>Other Rightsholder Revenue</th>
<th>Adjacent Opportunities</th>
</tr>
</thead>
<tbody>
<tr>
<td>558</td>
<td>819</td>
<td>3%</td>
</tr>
<tr>
<td>450</td>
<td>507</td>
<td>6%</td>
</tr>
<tr>
<td>305</td>
<td>346</td>
<td>6%</td>
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<tr>
<td>49</td>
<td>51</td>
<td>3%</td>
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<td>18</td>
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<td>49</td>
<td>54</td>
<td>2%</td>
</tr>
</tbody>
</table>

Sports Apparel
CAGR (%)
17-19 19-21 21-27F
7%  2%  7%

eSports
CAGR (%)
17-19 19-21 21-27F
17%  9%  13%

Online Betting
CAGR (%)
17-19 19-21 21-27F
13%  29%  11%

Merchandise
CAGR (%)
17-19 19-21 21-27F
3%  1%  3%

Ticketing
CAGR (%)
17-19 19-21 21-27F
9%  -11%  12%

Sponsorship
CAGR (%)
17-19 19-21 21-27F
5%  0%  7%

Media Rights
CAGR (%)
17-19 19-21 21-27F
2%  3%  2%

Source: OC&C experience & analysis

Growth Hotspots

‘Must Watch’ Top-Tier Leagues
Gaming, Gambling & eSports
Sports Streaming & OTT
Innovative Retail Models
Sports Technology & Data
Favorable underlying market tailwinds and investments in technology and data are driving commercial value

Macro Trends in Sport

- Viewership continues to increase – particularly digital
  - Live TV +5% p.a. 2015-20
  - Live on OTT & social: double digit % p.a.
  - Highlights/short form viewing up 15-20% p.a.

- New ways to monetise engaged audiences
  - Remains cornerstone of Pay TV – stemming cord-cutting
  - New types of bundled proposition emerging eg DAZN Bet
  - Emergence of D2C sports retailing

- Tech is shaking up the status quo
  - OTT sports consumption +14% p.a. 2015-20
  - Social media breaking down distribution barriers
  - Complex sports tech ecosystem emerging

- Untapped commercial potential in many sports
  - Professionalise; overhaul legacy models
  - Leaders (eg NFL) generate >$20/fan – but most generate <$1
  - Commercial value of women’s sport expected to triple by 2030

- Globalisation has yet to fully play out
  - International rights values growing
  - Some domestic rights stagnate
  - Technology as key enabler

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These dynamics, along with several attractive investment characteristics, have driven a step change in the level of investment in the sector.

Est. Value of Sports Investments,¹ 2015-22 ($bn)

Attractive Characteristics of Sports Investments

- **Loyalty Translates to Spend**
  - Fans are immensely loyal…
  - …driving significant spend (up to $2.6k² per fan in the US)

- **Cash Generative & Acyclical**
  - Media / sponsorship rights deals are long-term contracts, reducing cyclicity
  - Fans often view sport as a necessity, not a luxury

- **Strong Returns**
  - Big 3 US franchises (MLB, NFL, NBA) have outperformed equity markets since 2010³
  - Value of top⁴ European football clubs grew 174% 2011-22 vs 30% for the FTSE 100

¹ OC&C best estimate. Includes deals $5m+ only. PE (Private Equity) includes individuals making investments. ‘Other’ primarily refers to early-stage seed funding and VC

² OC&C estimate of spend on sports subscriptions, licensed merch, tickets, gambling and sports apparel per self-declared sports fan

³ Source: Forbes. Refers to total valuation of all MLB, NFL, and NBA franchises indexed vs the S&P 500 and the Dow Jones

⁴ Top 15 defined based on 2022 valuation according to Forbes; 2011 valuation estimates also sourced from Forbes

Source: Crunchbase, Forbes, Desk Research, OC&C experience & analysis
### Six areas where we expect to see M&A activity in the next 2 years

<table>
<thead>
<tr>
<th>Asset Types</th>
<th>Recent Activity</th>
<th>Reasons to Believe</th>
<th>Potential Challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Top-Flight Clubs</strong></td>
<td>Chelsea</td>
<td>• OTT-driven <strong>rights value growth</strong></td>
<td>• Uncertain long-term picture for rights</td>
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<tr>
<td></td>
<td></td>
<td>• Potential D2C upside</td>
<td>• Achieving D2C ambitions</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• International opportunity</td>
<td>• Performance risk can be significant</td>
</tr>
<tr>
<td><strong>‘Must Watch’ Tier 1 Leagues &amp; Competitions</strong></td>
<td>LaLiga</td>
<td>• As above, with <strong>less performance risk</strong></td>
<td>• As above (less performance risk)</td>
</tr>
<tr>
<td><strong>Under-Commercialized Tier 2/Niche Assets</strong></td>
<td>Volleyball World</td>
<td>• Often <strong>under-managed and under-professionalised</strong> – significant upside</td>
<td>• Complex ‘political’ tensions (leagues and clubs)</td>
</tr>
<tr>
<td><strong>Innovative Sports Retail</strong></td>
<td>Fanatics</td>
<td>• Disruption of traditional retail models → upside for platforms and rightsholders</td>
<td>• Slower growth in rights value vs tier 1</td>
</tr>
<tr>
<td><strong>Sports Technology</strong></td>
<td>Zone7</td>
<td>• Secular trend towards digitisation</td>
<td>• <strong>Contract risk</strong> – high concentration, low liquidity</td>
</tr>
<tr>
<td></td>
<td>Synergy</td>
<td>• <strong>Insulated from risk</strong> around performance and discretionary spend</td>
<td>• Landscape evolving – <strong>hard to bet on winners</strong></td>
</tr>
<tr>
<td><strong>Sports OTT Platforms</strong></td>
<td>DAZN Eleven</td>
<td>• OTT transition well underway – attractive to consumers given lower prices, no hardware, no forced bundling</td>
<td>• <strong>Intense competition to ‘own the fan’</strong></td>
</tr>
<tr>
<td></td>
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<td>• <strong>Economic model unproven</strong> – lower prices, high churn, costly rights</td>
</tr>
</tbody>
</table>

Not Exhaustive
OC&C’s experience in sport spans the entire ecosystem

Example Project Experience

1. Commercial strategy development for National Sports Association & Team – Developing commercial priorities across all revenue streams

2. Domestic & international fan segmentation for Sports Association – unpicking drivers of affiliation & engagement

3. Commercial strategy battle planning for global sports body – developing new commercial structures and responsibilities in complex stakeholder environment

4. OTT strategy review for pureplay broadcast provider – reviewing economic potential of OTT content for different sports & geos

5. Development of content and activation strategy for major sports entity – profiling types of content and modes of interaction for distinct fan segments
If you’d like to discuss these topics further, we’d love to hear from you!

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