Goldman Sachs Exchanges

Investing in Sports: A New Media Model

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NICOLE PULLEN ROSS: When you look behind the soaring sports team valuations of the last 20 years, there's one major driver of growth: media rights deals.

GENE SYKES: Sports is the best thing in the world in terms of content.

NICOLE PULLEN ROSS: The price tag on the latest NBA deal underscores the point. 76 billion dollars for the league over an 11 year period. Who's in and who's out is notable, too. A tech platform is in, while a legacy broadcaster is out.

> **DAVE DASE:** So you have more groups that think they have more distribution capabilities, and they all feel they have the ability to make money on it.

NICOLE PULLEN ROSS: The sports media landscape is in the midst of significant disruption. Even as many people traded in their cable boxes for streaming subscriptions, the demand for live sports content remains high. It's a coveted viewership that players across the sports ecosystem are eager to reach.

> **DAVE DASE:** Brands, advertisers are desperate to find these aggregated audiences, and they're increasingly paying top dollar to do that.

NICOLE PULLEN ROSS: This is Investing in Sports, a four-part series from the Goldman Sachs Exchanges podcast on the changing dynamics at the intersection of sports and finance.

I'm Nicole Pullen Ross. I lead the Private Wealth Management business for the New York region at Goldman Sachs, and I also Head our Sports and Entertainment offering for Goldman Sachs Private Wealth Management.

In this episode, I'm speaking again with Dave Dase, the Global Co-Head of Sports Investment Banking at Goldman Sachs. We're also joined by Gene Sykes. Gene is our Co-Chair of Mergers and Acquisitions, as well as the Co-Chair of Global Technology, Media and Telecom, also referred to as TMT.

I think of Gene as a senior American diplomat of sports. He’s led the bid and organizing committee for the 2028 Olympic games in LA, he serves as President and Chair of the US Olympic and

Paralympic Committee, and recently became a member of the International Olympic Committee, the governing body of the Games.

In my conversation with Dave and Gene, we'll discuss what makes sports content so valuable, the competition between the legacy broadcasters and the tech platforms, new direct to consumer models, and how all of this disruption could influence the game itself.

> **GENE SYKES:** I think you're going to find shorter games, more action, potentially higher scores, and an opportunity for the most extravagant, most magnificent athletic performances to be more evident on a more frequent basis in these games.

NICOLE PULLEN ROSS: Gene and Dave, so excited for today's conversation. Thank you for joining me.

DAVE DASE: Excited to be here.

GENE SKYES: Thank you.

NICOLE PULLEN ROSS: Gene, you have a really interesting vantage point, having worked with media clients on some of the biggest deals in the industry. When did it become clear that media rights would be such a key component of a sports team's valuation?

GENE SYKES: Well, teams have been selling for a long time, often to very wealthy people.

And you'd say, well, those very wealthy people had so much money they'd pay almost inconceivable amounts for the teams. But at some level, people had to base their valuations on something, on cash flow or the opportunity for values to increase. And the transaction I remember the most was the sale of the Dodgers to Guggenheim Baseball Partners.

That took place in 2012. The Dodgers had been owned at that point by a husband and wife, the McCourt family, and they had a very nasty, very public divorce, which sort of forced the sale of the team. McCourt had bought the team from the News Corporation family, the Murdoch family. Here, a media company owned the business, and they thought, well, we don't really need to own the business.

All we need to own is the media rights to the business. That was their theory, at least. And by 2012, these media rights had, in effect, been embodied through regional sports networks, which were partnerships between some media company, some kind of a distributor, a programmer or distributor, and the teams.

And in Los Angeles, Time Warner Cable at the time was the biggest single provider of distributed cable services in this market, and they decided they wanted to launch a very, very big RSN. And they went after both the Lakers and the Dodgers. And the value of those two contracts was extraordinarily high over a very, very long term.

But the sale of the Dodgers coincided with the negotiation of these media contracts. And the buyers, the Guggenheim Sports Partners, they are rich guys now. They were rich then, but not as rich as they are today for sure. And they weren't in a position to simply pay silly money for the Dodgers, but they bid what seemed to be a silly price 2 billion for a baseball team, which was probably twice as much as any baseball team had ever sold for before.

So, there just wasn't a robust market for this until it became evident that you could capitalize the long-term contractual value of the contract with the media players. And that's what capitalized a 2 billion transaction by a buyer who was essentially a financial buyer.

NICOLE PULLEN ROSS: It's incredible. It really is a hallmark, and so much has changed since then. You mentioned the regional sports networks, or the RSNs, and we'll get back to those in a moment. Staying on this point about the value of these media rights deals, certainly it varies league by league, but generally speaking, we've seen a huge surge in these deals. I mean, the recent NBA agreement is a great example of that. Dave, what do the composition of these deals signify about the changing sports media landscape, in your opinion?

DAVE DASE: Well, I think similar to other areas of the economy, the technology innovation and disruption which is taking place is having a huge, huge impact.

It wasn't so long ago that the ability to multicast a live sports stream from a technology perspective was an incredibly, incredibly complicated thing to do. Interestingly, Major League Baseball Advanced Media were the ones who developed that first, and we actually worked for Major League Baseball when they sold that to Disney, which became part of the backbone of the Disney plus platform and the ESPN plus platform.

And so the ability to solve that from a technology perspective until very recently was difficult. So that's one element that combined with the evolution of Netflix and all these other content providers where consumers for the very first time felt like they had the opportunity to consume what they wanted when they wanted to consume it and in a form that they wanted to consume it.

And so those two combination of things made it possible to have these digital platforms that can now stream out to tens of millions of people on a simultaneous basis. This has put tremendous pressure on the traditional media businesses, the traditional distributors, where it wasn't so long ago, about a decade or so ago, we had a hundred million cable subscribers, but with the advent of different forms of content and the ability to get it in different forms, that number or cord cutting has dropped pretty dramatically and is now somewhere around 60 million US households or so, which has put a lot of economic pressure on the traditional media companies.

Again, it's probably oversimplified, this traditional broadcast versus digital streaming because you look at a Disney and an ESPN and what they're doing with ESPN+, you look at what Peacock NBC is doing with Peacock, they are absolutely coming at streaming. And in my mind, it's all about increasing the addressable market and giving the consumer, the fan, the opportunity to engage in the content however they would like to.

And clearly you're seeing that you're referenced the NBA and what they're doing. Certainly the NFL has done this as well with several traditional media partners, as well as having Amazon, which has the Thursday night package and then YouTube, which now has Sunday ticket. And they just recently announced they're going to now have games on Christmas day, where that's going to be broadcast through Netflix. And so you have more groups that think they have more distribution capability set, both broadcasting as well as the tech streaming businesses. And they all feel they have the ability to make money on it.

Brands, advertisers are desperate to find these aggregated audiences, and they're increasingly paying top dollar to do that, which makes the economic system work for the distributors, whether it be traditional or the new streaming platforms, and it certainly makes it for the leagues, the teams and the players.

NICOLE PULLEN ROSS: I mean, it strikes me, for my side of the table, we work with individuals around sports, whether that be athletes or team owners. And one of the things that we hear pretty consistently from both groups is the value of the local presence, the connectivity to the community, and really the local brand that exists for the organization. We talked about the regional sports networks earlier. When you think about the direction of media rights and the examples you've used, I'm curious about the implications of this disruption for the regional sports networks. How do you think the local relationship looks when you have fewer cable customers?

DAVE DASE: Consumers what, what they want when they want it. And so again, back to the cord cutting, you're now in a position where consumers, if they want sports, they can pay for sports and they can find sports, but the consumers who may not necessarily like sports don't want to be paying for it.

And so implicit in the cable bundle was consumers. Many consumers who may not have an interest in sports or other verticals within the cable bundle were in effect paying for that. And so with this advent and the disruption we're seeing, the whole business model has in effect been turned upside down.

There's less money coming in. Therefore, the RSNs will have less money that they can pay to the teams. So specific to Major League Baseball, but also to the NBA and to the NHL, the majority of RSN contracts when they're expiring, are seeing step downs in terms of the amount of money which is paid to the individual teams.

One specific case is Diamond Sports, which has an aggregate of about 15 Major League Baseball teams, 12 or so NBA teams and several hockey teams. That company has been in bankruptcy for the last better part of 18 or 24 months. And so what you're seeing is both the NBA, the NHL as well as Major League Baseball are talking about a national-local package.

And so they're potentially going to get the majority of those rights back in some form, and they would like to go out, package those rights, not on an individual market by market basis, but package them as a totality across the NBA, across the NHL or across Major League Baseball, and more than likely do a deal with one of the digital or streaming based companies.

We're seeing more innovation from that perspective as well. But I think the short order, Nicole, to your question is the impact and financial impact is going to be a negative in the short run. I think it is a temporary step down and we'll see earned back, but it's still early from a direct-to-consumer perspective.

GENE SYKES: Yeah, we don't know where it's going to go, right, but they would like to have something that looks like Sunday Ticket for the other sports so that you can get everything on one channel and see the local games. But you'd not be able to see the games that were on the other carriers, so the streaming platforms, or the other broadcasters who'd paid premium values for a specific package of games.

NICOLE PULLEN ROSS: I want to talk a bit more about the streaming platforms. There are the streaming services built by the tech platforms, and then there are the streamers that have come out of the legacy broadcasters. What advantages do some of the tech platforms have in this space?

GENE SYKES: Well, the tech platforms have all sorts of advantages in that they have a much larger user base to start with.

And they interact with their users much more directly, so they know exactly who's watching what, when, and how much interest they have in what they're watching. And I'd say the tech platforms include Netflix, who's built as a tech platform, not really as a media company, even though we think of them as a media company.

So Netflix, YouTube, Amazon, Apple, to the degree Apple is going to move in this direction, and anybody else who moves in this direction, because you could imagine Meta or somebody else, TikTok, putting themselves in a position where they're going to use the same set of interactions and relationships they have with users to figure out how to use sports.

Now, the other thing they have is the advantage of not having to share information about ratings. Ratings aren't really important to them. And they don't subscribe to Nielsen. They're not trying to characterize the success of what they do by a certain ratings performance. They do have to satisfy the content provider, the league, the league wants to have wide distribution.

So the tension from the league's perspective is they want whatever somebody is going to pay for the content to be as high as possible, but they also want as many fans as possible to be able to see the content when it's offered. So that's why broadcast has been helpful to them because they know there's a very, very big audience for broadcasts, and we're seeing this play out right now because many of the media companies, as Dave mentioned, NBC has Peacock. Peacock's got 35 million subscribers.

It might move to 40 million subscribers. Just this last football season, they experimented with a

Peacock-only NBC broadcast view of an NFL game. They actually had, I think it was 23 million subscribers sign in to see the game, which was at the time the biggest streaming live audience for anything.

So I think what we're seeing is if you have broadcast and cable as a programmer, you're going to hold on to it as long as you can. And sports is the best thing in the world in terms of content that reaches people and will be valuable, both as a source of value through subscription or through affiliate fees as well as advertising.

So they'll hold on to it, but they're all migrating toward platforms which have this direct-to-consumer characterization. So they understand what the consumer wants, and they have other ways of achieving value from their relationship.

NICOLE PULLEN ROSS: I want to try to expand the conversation a little bit. So much of what we've talked about so far has been focused on US markets primarily. I think the story can be different outside of the US. So, Dave, how does the media rights picture look in Europe as a point of comparison? And do you think these trends are unique to Europe or are there lessons for the US market?

DAVE DASE: I think it depends on the sport, Nicole. And one view which I have is the bigger sports, the more unique content are going to continue to get stronger and some of the more secondary or sports that don't really have that ability to aggregate audience may be in a weaker position going forward.

I'd also say part of the issue in Europe, you need to think through is governance and in the US you have very strict governance in terms of at least the top four leagues, the NFL, the NBA, Major League Baseball, and the NHL. And MLS, I'd put MLS into that category in terms of how decisions get made, how national revenue gets split.

In Europe, it depends a little bit what league you're in in terms of how the national revenue gets split. Do they all go to market? How much leakage is there out to the local market, which allows stronger teams to generate a lot more revenue than some of the weaker teams.

You have things certainly as it pertains to the Premier League. I think their total rights now are about 5 billion on an annual basis, which is a very significant number. And they've continued to do quite well in terms of those rights and the monetization of those rights. Interestingly, they've done really, really well internationally, particularly in the US in terms of their distribution agreement with Comcast. But no doubt there's been some of the more secondary soccer markets around the globe that may not have done as well as they would have liked to.

But I think part of that comes back to a little bit business model, a little bit governance and structure, a little bit the ability to aggregate the audience. And I think we're just on the cutting edge of this direct-to-consumer discussion and the ability to monetize what that is. And so I think as these business models evolve, the content that's really unique, core and differentiated is going to continue to have a lot of weight.

NICOLE PULLEN ROSS: Let's talk about a few more recent trends that we've seen specifically related to live sports content. Legal sports betting. It's been a mainstay in European sports for quite some time, but it's much more recent in the US. So today, 38 states and the District of Columbia allow sports betting. Just last night, I was talking to a friend who was describing how he was betting on the Eagles in terms of the number of scores and the yards and people bet on so many aspects of various games. And so I'm curious, Dave, how is online betting adding to the demand for live content?

DAVE DASE: Well, I think you touched on it, the prop bet. So the ability to bet on seemingly kind of an endless supply of new ways with games. And I think it's also made every game relevant, right? So if you're watching a football game at 2am in the morning on the East Coast, that's still going on on the West Coast, there's a reason to engage, or an ability to engage if that's what you have a desire to do. And so this endless supply, increasingly endless supply of ability to bet is drawing more audience, more interest, and it's bringing more people into the ecosystem. I think it's also having an impact in terms of it's bifurcating the true fans who love the games and love the teams from a more commercial element of people are just trying to find ways or they're following games, or they may not really have any interest in the outcome, but they think there may be an opportunity to make money through betting.

And so I think consistent with what we've seen is it's become digital and you have the ability to do it. What we've seen in Europe, it's going to continue to grow and explode. And as the technology gets better and better and the latency in terms of the broadcast gets shorter and shorter, whether you're broadcasting or coming through satellite or a digital delivery system, you're likely to just see more and more where you have the ability to bet play to play or pitch to pitch. You can kind of follow this to a conclusion where you have a lot of opportunities in terms of every single action in every single game becomes some sort of event that potentially you could bet on.

NICOLE PULLEN ROSS: Yeah. Another trend that we're seeing is around viewership and engagement there. We're seeing changes at the game level specifically. As you all know, the MLB just brought in the pitch clock. The NFL extended the regular season. The NBA created the in-season tournament and notably they saw their ratings go up 16 percent in early 2024 compared to the same period in 2023. So Gene, how do you think the leagues are evolving the actual product or the content that the game is to meet this moment.

GENE SYKES: Well, I think the leagues have been behaving intelligently. They're recognizing they've got to make the product interesting. They have to make it vital to the user, to the viewer. So the more they can put more elements of dynamic surprise or drama in a shorter period, that helps.

They also want people to see the kinds of things that get them excited. So, if they can possibly figure out how a baseball game can have more home runs, that's something people will come to the ballpark to watch or they'll watch it on television or on the streaming platform.

So everything that helps the game have more interesting moments and be something in which it's part of the conversation, it's got that excitement, that's very much in the interest of all of the leagues, the team owners, and I think there's a very strong trend at this point to move in that direction and it's across all sports.

I think you're going to find shorter games, more action, potentially higher scores, the kinds of things that people want to see and they want to see again and again and an opportunity for the most extravagant, most magnificent athletic performances to be more evident on a more frequent basis in these games.

NICOLE PULLEN ROSS: We've talked about what all this disruption and how games are distributed means for media business models, for the game itself, and for the rise of sports betting. I'd like to talk now about the athletes. How do you see athletes capitalizing on this shift to direct-to-consumer models, particularly as they're engaging more creatively with fans? Dave?

DAVE DASE: Yeah, I think it's interesting, Nicole. We talked a bit about these viral moments and you look at the Olympics and what happened in Paris and the ability for athletes to take out their phone, take viral moments after winning a medal, after losing. Those are incredibly, incredibly powerful.

We haven't had those in a past Olympiads. And so this concept of individuals as brands is very, very powerful. And going back to where advertisers, consumer brands want to be, is they want to be around incredibly successful people, brands, and the ability to, on a more micro basis, get to specific audiences.

And so I think we're going to continue to see a lot of innovation from that perspective, certainly as individuals, when their brand profile becomes higher, they get more followers on social media, they engage more, they have the ability to cross-pollinate, you know, in essence, across the music or entertainment industry.

We saw this at the US Open I think this year, just the brands around the US Open, the star power at the US Open, the promoting of that, both in stadium on the broadcast, as well as through social media, just continues to drive this back to the experiential. People want to be there. They want to engage with it.

It's kind of a must thing to do. And now with technology, you have the ability to engage in that way, physically, if you are fortunate enough to be there, but you also have the ability to engage and be part of that community or similar ecosystem digitally. And so again, we're at the early stages of this, but I think it's incredibly, incredibly powerful.

NICOLE PULLEN ROSS: Gene, anything you'd like to add?

GENE SYKES: Well, the athletes have become tremendous celebrities. And if they can channel that celebrity, that, uh, familiarity with the consumer into something in which their influence, their impact on society, their sort of cultural significance becomes part of their brand, then I think there's a big opportunity.

An example is Steph Curry, who's been in the sort of public limelight for a long time in the most positive way. He's created a following that respects the role that he plays in his community with his spouse and it's very interesting to see how many people are looking for Steph to be a spokesperson or be somebody who leads them on certain tracks to be, you know, better and more effective in all the things they do from a social standpoint. I think that the evidence of how well that's worked for some of the principal and most successful athletes and professional sports is something a lot of people have seen and they're looking for a way to take advantage of it.

NICOLE PULLEN ROSS: Dave raised a great example of this in his reference to the Olympics, and I have to end our conversation today, Gene, and ask you for a little bit of perspective as we're all so excited about the Olympics in LA in 2028. You played an instrumental role in bringing the 2028 Olympics to LA. Paris has set a very high bar. What do you expect to see from LA specifically in the context of the changing sports media landscape?

GENE SYKES: First of all, we're incredibly excited to host the 28 games in Los Angeles. And we're very happy that the Paris Games were as successful as they were. The Paris Games allowed the world to rediscover the love that people have for the experience of the Olympics and Paralympics. The relationship with the athletes, the national identity with people from your own countries, and then the true unifying character of sports.

What LA will do on top of that, and somewhat differently, LA has the best sports infrastructure in the world, the best stadia, the best arenas. We have been doing professional sports in Los Angeles in a way that nobody else really ever has at this level. And honestly, we have the best weather for sports anywhere in the world, which I think makes it easy to imagine in effect a rain free 17 days of Olympic experience when we have it.

And then LA is Hollywood. It's the place where creativity really starts, and it's the place where people think about how to portray something in a larger-than-life way. So I think we're looking forward to what the impact in LA is going to be. But in 2028, in the evolution of all these things that we've been talking about, how technology has made the distribution of media images of sports so much broader, so much more impactful to people, the moment in 2028 for LA to capitalize on that is here.

I think it'll be great for the future of the Olympic and Paralympic movement, and it will be great for the experience of these games, and as a long time native Angeleno, I'm very excited for our city to play host to the world in this experience that I also expect will be unforgettable.

NICOLE PULLEN ROSS: Thank you both. It's an incredibly valuable perspective that you've shared. Thank you.

DAVE DASE: Thanks, Nicole.

GENE SYKES: Thanks, Nicole.

NICOLE PULLEN ROSS: The value of live sports content has turned teams and athletes into global media brands. This will be a fascinating dynamic to watch over the next 5 or 10 years, especially as the broader media industry continues its shift to direct to consumer models of delivering content.

Coming up on our next episode:

> **GILLIAN ZUCKER:** When you think about being in somebody else's building, you're paying rent to them. They're keeping the suite revenue. They have competing sponsors to you. All of those things go away when you have a place that's all your own.

NICOLE PULLEN ROSS: What it means to build - and finance - the fan experience of the future.

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