

At the gate and beyond

Outlook for the sports market in North America through 2018

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Introduction

Segment definitions

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

Gate revenues—primary market ticket sales for live sporting events. Seat premiums and license costs are not included.

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

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.

Welcome to the 2014 edition of the PwC Sports Outlook, which updates our perspective on recent results and potential opportunities and challenges to future industry growth in North America. This year's edition provides revenue projections over five years to 2018 within four key segments of the North America sports market: gate revenues, media rights, sponsorship, and merchandising.

North America sports market by segment

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	CAGR
US\$ millions											
Gate revenues	15,778	16,176	16,116	15,757	17,334	17,827	18,262	18,716	19,328	19,737	2.6%
Media rights	8,809	9,479	10,927	11,812	12,502	14,837	16,592	17,256	18,674	19,349	9.1%
Sponsorship	11,514	11,820	12,615	13,257	13,900	14,619	15,329	16,266	16,861	17,571	4.8%
Merchandising	12,631	12,571	12,482	12,771	13,144	13,318	13,485	13,668	13,865	14,065	1.4%
Total	48,732	50,046	52,140	53,597	56,880	60,601	63,668	65,906	68,728	70,722	4.5%

% change year on year

Gate revenues	2.5%	-0.4%	-2.2%	10.0%	2.8%	2.4%	2.5%	3.3%	2.1%
Media rights	7.6%	15.3%	8.1%	5.8%	18.7%	11.8%	4.0%	8.2%	3.6%
Sponsorship	2.7%	6.7%	5.1%	4.9%	5.2%	4.9%	6.1%	3.7%	4.2%
Merchandising	-0.5%	-0.7%	2.3%	2.9%	1.3%	1.3%	1.4%	1.4%	1.4%
Total	2.7%	4.2%	2.8%	6.1%	6.5%	5.1%	3.5%	4.3%	2.9%

CAGR: Compound annual growth rate

Source: PwC Sports Outlook (October 2014).

It is expected the North America sports market will grow at a compound annual rate of 4.5 percent across the four segments analyzed, from \$56.9 billion in 2013 to \$70.7 billion in 2018. During the period, the revenue gap between media rights and the industry's largest segment, gate revenues, is projected to close to within \$500 million (2 percent) by 2018, an indication of the continued growing complexity and multi-faceted nature of the business of professional and intercollegiate sports in today's environment.

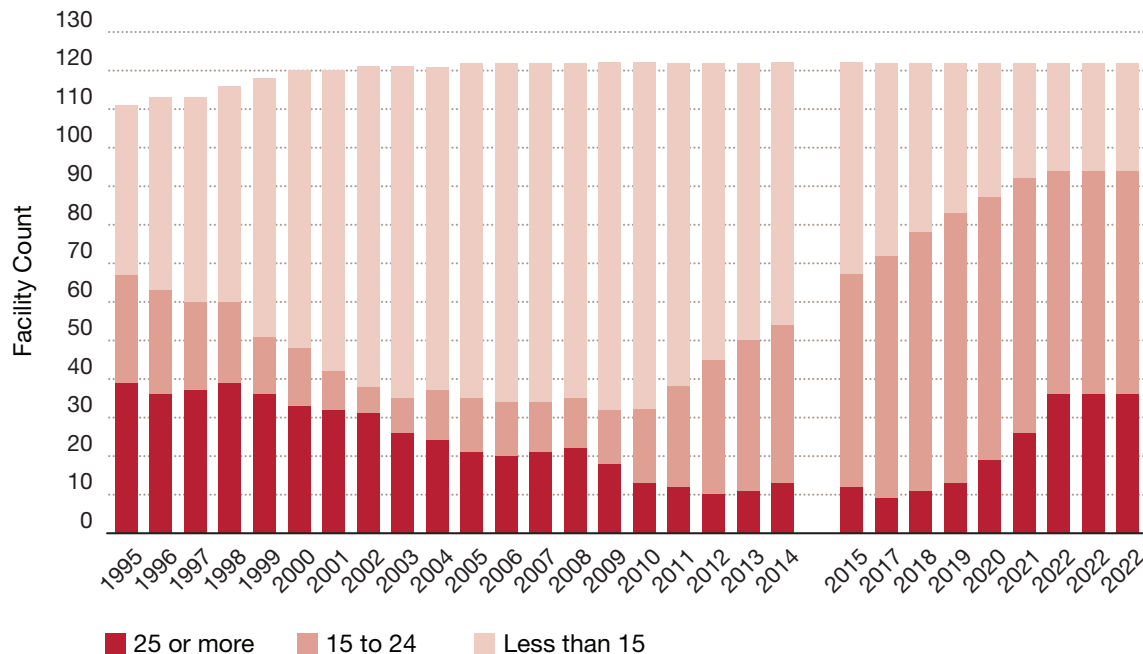
Within this environment, the gate revenue and merchandise segments continue to show respective signs of relative maturity, each with mitigating factors to future growth and the need for further innovation, while the segments of media rights and sponsorship continue to realize the increased valuation of sports content by media companies and brand marketers through new inventory and the runoff of prior generation deals.

Gate revenues

Gate revenues are projected to increase at a compound annual rate of 2.6 percent, from an estimated \$17.3 billion in 2013 to a projected \$19.7 billion in 2018. Year-on-year growth last year (2013) reflected the effects of seasons shortened by CBA-related work stoppages during each of the prior two years (NBA in 2011 and NHL in 2012) and the industry's emergence from ticket price hold/reduction strategies influenced by the national economic recession and CBA negotiations.

Looking forward, the growth projection is reflective of relatively stable conditions, but also the challenges characteristic of the relative maturity of the gate revenues segment: in particular, increased direct and indirect competition and price pressure on certain ticket buying segments. Further, shifts in market conditions and fan preferences are prompting the right sizing and repositioning of seat inventory and more informed and dynamic pricing models to enhance yield and reduce excess capacity through new seat concepts, price structures, and amenity packages.

Major pro leagues: Facility aging



Enhancing the in-person fan experience

The industry's stadiums, arenas and ballparks will be central to a key driver of the gate revenue segment over the next five years; a differentiated in-venue experience. The new build cycle of the past 20 years modernized sports venues in North America, improving the in-seat experience and spectator access to wider concourses with better concession, retail and restroom facilities—a building boom involving more than \$55 billion in facility construction across professional sports and intercollegiate athletics based on PwC research. Yet, in addition to the remaining new build projects in the pipeline, there is a growing segment of “middle aged” venues (aged 15 to 24 years, if not younger) requiring further investment to refresh and realign seat inventory and venue facilities with the shifts in market conditions and fan preferences recognized over the past few years.

Source: PwC independent research.



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Driving this wave of facility investment is the need to enhance the in-venue experience through continued modernization and further innovation; at stake, the industry's differentiated offering to fans compared to game broadcasts and the at-home experience which will continue to threaten game attendance levels.

In-venue connectivity

The industry has prioritized in-venue social and media connectivity as part of the enhanced fan experience; investing in video board upgrades and the installation and recurring upgrade of Wi-Fi, distributed antenna and beaconing position systems. Further, these technologies are facilitating smartphone app deployment for digital ticketing, game content (stats and video) and contests, concession/retail transactions, and fan communication (push notifications), including customized promotions (e.g. concession/retail discounts and seat upgrades). As a result, RFID and other similar technology deployed by early adopters are being scrapped to make way.

In addition to technology, fan plazas/decks, fantasy lounges, and lifestyle branded seat sections (e.g. family and young adults) are being programmed into underutilized areas of the seating bowl and concourses to promote the communal experience of in-venue.

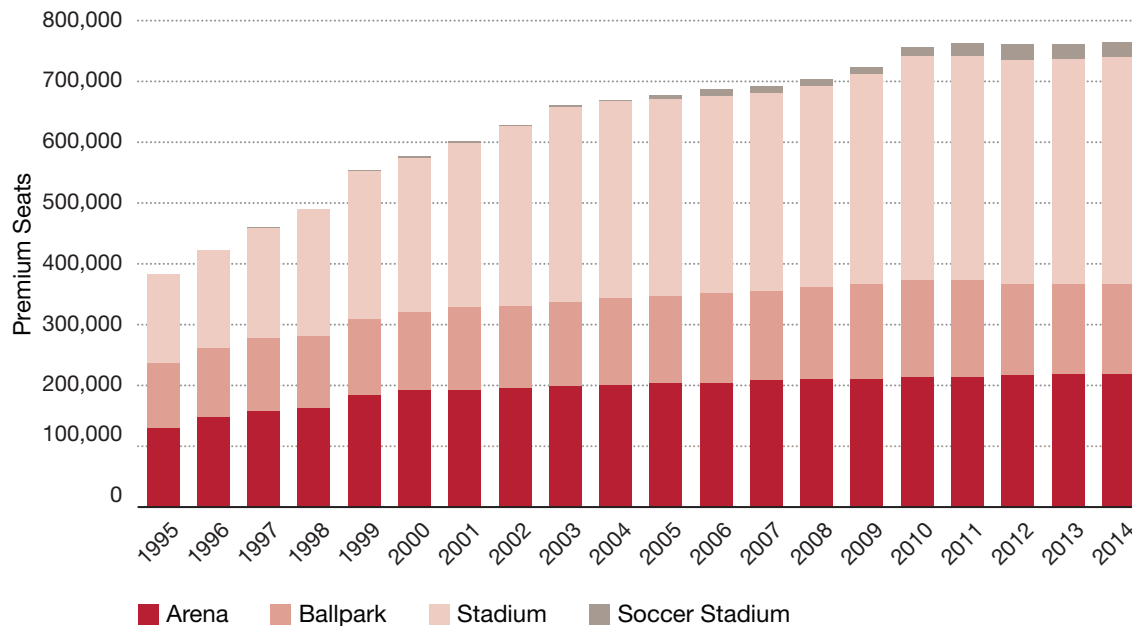
Premium seating

Premium seating remains a key segment within the spectator seat mix for professional sports and intercollegiate athletics. Its differentiated seat locations, exclusive access, and other packaged amenities yield a premium price and higher rate of return compared to general seating. As contractual revenue, premium seating has helped fuel the facility building boom realized over the past two decades, providing

a dedicated funding source for new facility construction and major renovation projects. Today, based on PwC research, premium seating represents 15 percent of the seat inventory across professional sports in North America—as much as 20 percent of the seat mix in newer facilities—and can generate up to 40 percent of a club's total seat-related revenue.

The differentiation of premium seating is being threatened, however, as additional amenities are programmed into general seat ticket packages to create value and drive demand for non-premium locations. This threat could result in premium seat demand attrition and/or lower yields, but should be mitigated, to a certain extent, by industry focus on diversifying premium seat concepts and optimizing the location of premium seating within venues.

Major pro leagues: Premium seat inventory



Source: PwC independent research.

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Filling in the premium seat spectrum

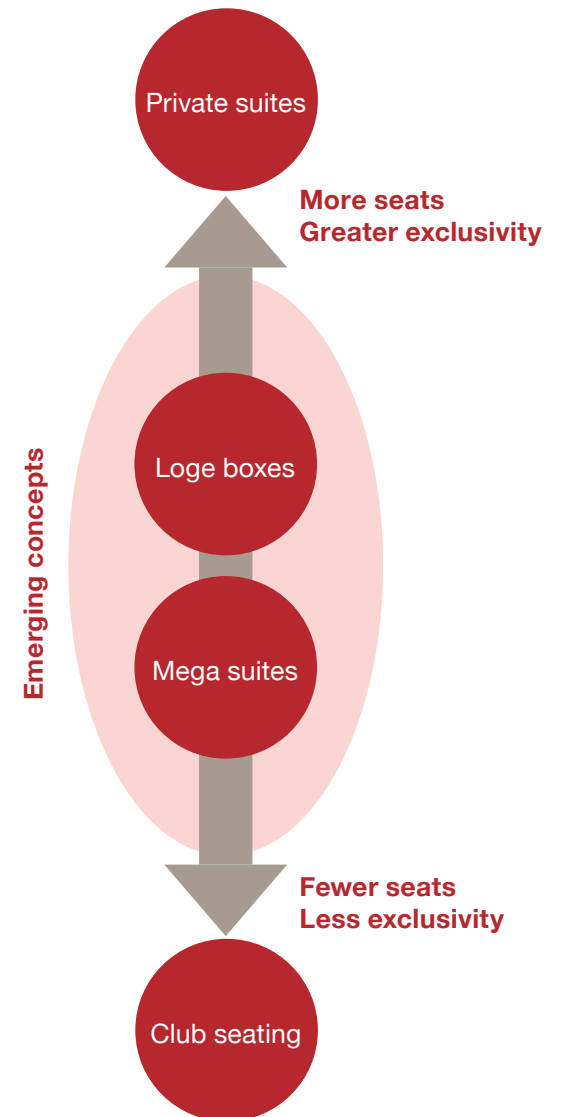
The premium seat segment has traditionally been defined by and buyer demand accommodated within two concepts—private suites and club seats. However, a growing segment of demand falls in between these two concepts; with such consumers citing a desire for greater exclusivity and amenities than afforded by a traditional club seat, but less ticket inventory than required in a private suite. New concepts such as mega suites and loge boxes have been introduced at points in between to address this segment of demand previously either uncaptured or shoehorned into a private suite or club seating; thereby mitigating potential attrition, accessing new market segments and/or enhancing per seat yields.

These concepts are now common elements of the premium seat mix in new build projects and are also being programmed into older venues by repositioning excess private suite and club seat inventory. As a result, the premium seat composition of the average pro sports venue has shifted over the past 15 years, the largest change occurring in the growth of loge box concepts and the reduction of private suite inventory.

Location, location, (closer) location

Focus has also been placed on locating premium seat holders closer to the action by redistributing premium seat inventory to the event level and lower bowl from the traditional suite and club seat level(s) above; where sales campaigns focus on the premium amenity package and often deemphasize location. This new approach, contrary to older yield models, recognizes the premium seat market's ability to support a larger premium for a seat's location than can be yielded from general seat buyer segments.

Newer premium concepts—event level suites, bunker suites and membership clubs—were born out of and have facilitated this premium seat migration. Further, these concepts have monetized previously underutilized areas in venues by programming spaces which support these premium seats on either the event level underneath the lower bowl or on lower level concourses.



Source: PwC.

Every game, every seat has a unique value

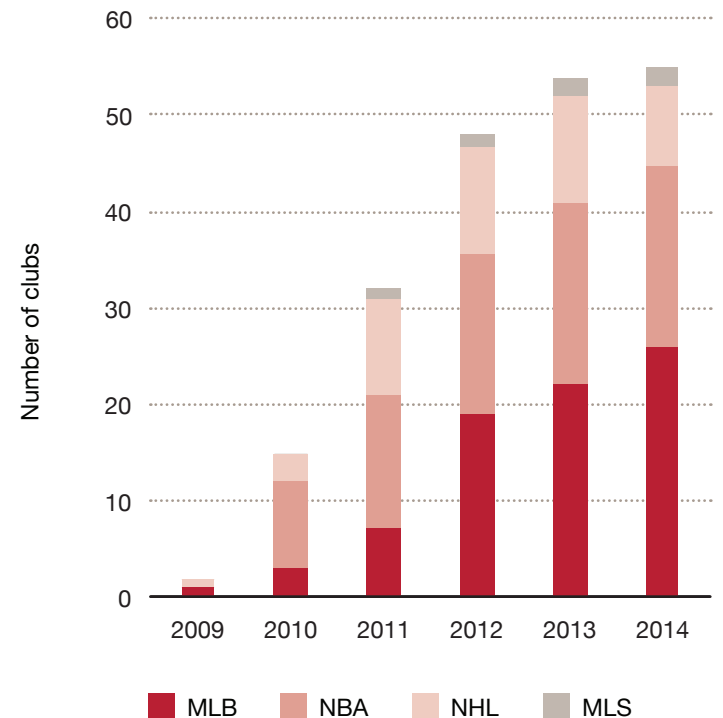
Team level results are inherently subject to greater variability than the wider industry-wide outlook. Local markets vary in size and strength, teams are at varying points in their respective ownership and performance cycles, and gate receipts at the team level are a dynamic business where change is constant among the key variables impacting ticket demand.

Variable and dynamic pricing models and fan loyalty points programs continue to improve the fundamentals underlying the gate revenues segment, including higher conversion and retention rates, as well as drive higher yields, create volume in down years, and incentivize advance purchases. Yet, while variable pricing is now common across the major pro leagues, including ten early adopters in the NFL, the adoption of dynamic pricing models has plateaued the past two years except within MLB, the league with typically the highest single game ticket inventory. One explanation is that while data access and analytics

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continue to enhance industry intelligence and agility; there is also growing recognition, particularly for club's with limited single game inventory, that balance must be struck between short-term opportunities which capitalize on the dynamic nature of a team's market and longer-range team objectives such as brand building, pricing integrity and value proposition to ticket holders.

Dynamic pricing model adoption



Source: PwC independent research.

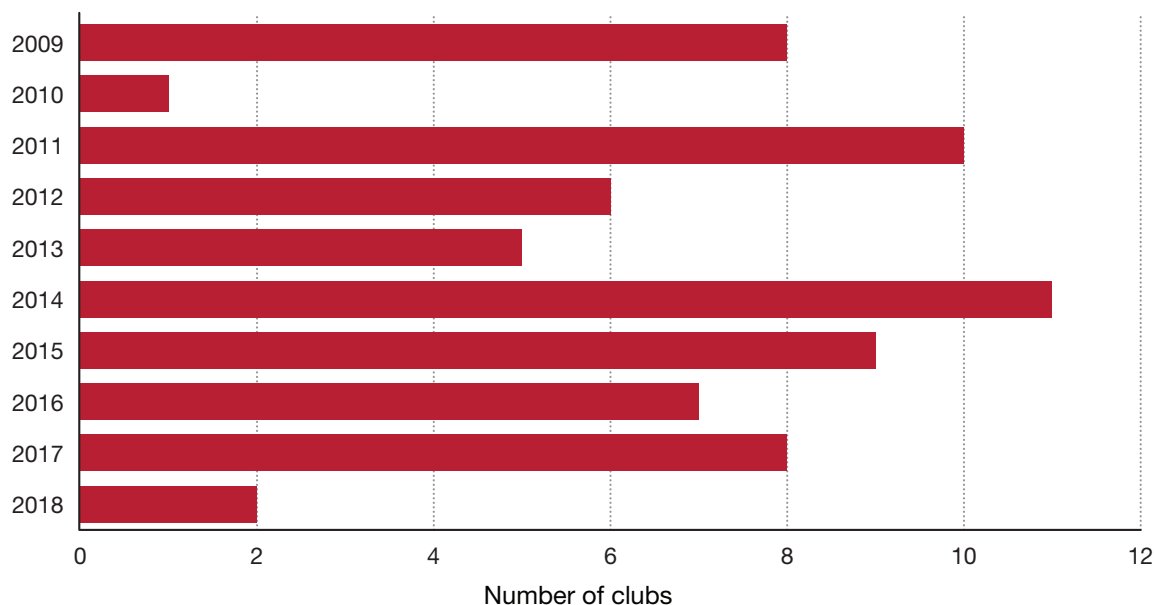
Media rights

Media rights are projected to continue growing at the highest rate among the four segments; a compound annual rate of 9.1 percent, from an estimated \$12.5 billion in 2013 to a projected \$19.3 billion in 2018. The segment continues to increase in size as the industry works through the current deal cycle and additional sports properties realize the higher valuation of sports content with the runoff of prior generation deals. These new multi-year deals, as with others negotiated over the past several years, reflect the popularity of sports programming with consumers and advertisers (e.g. strong broadcast ratings) and the broader role of its live broadcasts in the overall model of the network and pay-TV segments.

The relative size of national rights deals mean the major pro leagues, athletic conferences and other sanctioning bodies will continue to drive industry-wide growth, but similar upside being realized in the current cycle of expiring deals for local TV rights in MLB, NBA and NHL is also contributing to the overall trend (more than 40 percent expire over the next five years). RSN carriage issues in select local markets appear at the moment to be more situational than indicative of change in consumer demand for sports content; yet these cases highlight the importance of pricing and timing in this new generation model for local broadcast rights.

The projected pace of growth for the segment has increased from last year's edition, primarily in recognition of a more optimistic outlook for rights owners' ability to carve out or reserve inventory from existing rights deals and further monetize this inventory during the period under new deals or through in-house ventures. The industry is also well-positioned, given its broadcast ratings and in-demand digital assets, to mitigate potential future downside risk related to market penetration of traditional pay-TV and/or realize further growth going forward as consumers and advertisers migrate toward Internet-connected devices and 'second-screen' activity.

Major pro leagues: Local TV deal expiration



Source: PwC independent research.

Sponsorship

Sponsorship is projected to increase at a compound annual rate of 4.8 percent, from an estimated \$13.9 billion in 2013 to a projected \$17.6 billion in 2018. Similar to last year's edition, the segment holds the second-highest projected rate of growth during the period behind media rights. However, the projected five-year growth rate for sponsorship has been lowered from 6 percent per year to just under 5 percent per year in this year's edition, primarily in recognition of a slower roll-out and slightly less optimistic outlook for the potential net impact of new sponsorship inventory resulting from digital media platforms, uniform rights, and in-venue signage/naming rights, as well as further brand category rights segmentation. The net impact consideration relates to the extent

to which brand sponsorship of new inventory will represent new fees to the industry or the shift of existing sponsor commitments from one sport property or piece of inventory to another.

Stronger economic conditions and the industry's continued relaxation of prior brand category restrictions should grow the funds available for sponsorship commitments and mitigate, to a certain extent, the net impact consideration related to the industry's roll-out of new sponsorship inventory. Further, the continued adoption of a partnership approach to sponsor relationships, as well as customized, integrated deal packaging and year-end value reporting to sponsors, will continue to improve segment fundamentals, including longer term deals and higher renewal rates and inventory yields, overall.

Facility naming rights, typically the largest sponsorship inventory at the local market level, and their equivalents (e.g. "founding partners") should contribute to near term growth for the segment; with 20 percent of major pro league teams in venues with uncommitted rights and another 8 percent of teams with existing deals expiring within the next five years. Recent deals involving facility rights announced over the past two years, while often different (e.g. broader and deeper) in composition relative to prior generation deals, have signaled the return of longer term and, often, larger sponsor commitments to naming rights following a period of relative inactivity during and immediately following the national economic recession.



Merchandise

Licensed merchandise sales are projected to increase at a compound annual rate of 1.4 percent, from an estimated \$13.1 billion in 2013 to a projected \$14.0 billion in 2018. Sports retail is a relatively saturated market in North America with broad coverage of key consumer product categories—apparel, footwear, sporting goods, toys, video games, collectibles, and grocery—and deep penetration of traditional buyer segments. Growth will continue to be closely tied to economic conditions and discretionary income levels, yet certain other forces are helping drive and shape the future growth of the segment.



Women fans and new products—further engagement by women with professional sports and intercollegiate athletics and the birth of industry specific catering to women’s merchandise, including women’s apparel styles and fashions, as well as non-apparel products such as household items, jewelry and cosmetics.

Other product categories—industry expansion or further penetration into product categories such as electronics, children’s apparel, fitness, health foods, and household pets.

Sales & distribution—innovative sales campaigns and fan loyalty program incentives as well as improved distribution through direct-to-consumer web, new retail storefronts, including in-venue retail shops, and partnerships with big box retailers.

Further, change appears to be imminent within the structure of intercollegiate athletics, yet potential transformative impacts on its imaging rights and the industry’s merchandise segment will likely materialize beyond the current outlook period.

*Licensed merchandise sales are projected to increase at a compound annual rate of **1.4** percent, from an estimated **\$13.1** billion in 2013 to a projected **\$14.0** billion in 2018.*

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 alongside 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 between the five years of 2014 to 2018 in each segment and are calculated using the following formula:

$$\text{CAGR} = 100 * [(\text{Value in 2018} / \text{Value in 2013})^{1/5} - 1]$$

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
CBA	Collective bargaining agreement
MLB	Major League Baseball
MLS	Major League Soccer
NBA	National Basketball Association
NCAA	National Collegiate Athletic Association
NFL	National Football League
NHL	National Hockey League

Premium seat definitions

- **Private suites**—a private seat area, which typically accommodates 12 to 24 people, with upgraded seat comfort and a contiguous, enclosed hospitality area with a view of the playing surface, featuring lounge seating, televisions, private restroom, and space for in-suite food and beverage catering.
- **Club seats**—a reserved seat within a restricted access seat section with upgraded seat comfort and access to an adjacent, exclusive (club) space with private restrooms, lounge seating, televisions, and upscale food and beverage options.
- **Loge boxes**—a semi-private seat area typically accommodating 4 to 8 people at a private table featuring television monitors and space for in-seat food and beverage catering and access to an adjacent, exclusive (club) space with private restrooms, lounge seating, televisions, and upscale food and beverage options.
- **Mega-suites**—a restricted access seat section with upgraded seat comfort and a contiguous, enclosed (club) space with private restrooms, lounge seating, televisions, and upscale food and beverage catering. A retrofit concept typically executed within the consolidated footprint of a series of former private suites. Seats are sold on an individual basis or in packages of two or four seats.
- **Bunker suite**—an enclosed, private hospitality area located outside the seating bowl, without a view of the playing surface, featuring lounge seating, televisions, private restroom, and space for in-suite food and beverage catering. Package includes access to reserved, prime seating in the lower bowl for live viewing.
- **Membership clubs**—an exclusive (club) space, located outside the seating bowl, with private restrooms, lounge seating, televisions, and upscale food and beverage options to pass holders. Membership club access does not include venue access or seating within the bowl of the venue and is typically not adjacent to pass holder seat locations.

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