Competing for Sports

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Sports has been essential to the broadcast and cable worlds for decades and its no surprise that it is taking center stage once again in the streaming wars. As media and big tech collide for live sports rights, the known winners are teams, leagues, players, and everyone participating in the major professional sports ecosystem. But what perhaps is less trumpeted as a result of streaming, social media, and other tech innovation is that winning in sports is no longer relegated to just the core major properties and participants. We now have a new generation of sports audiences who want more personality-driven entertainment, fresher sports concepts and formats that appeal to younger sensibilities, and more intuitive and interactive user experiences across all their consumption habits. The good news is that these developments are well on their way to creating a very robust sports M&A and investment landscape in 2023.

At LionTree, we are most focused on three major trends that have also kept us busy in 2022.

The first is simply a continuation of the decade long boom in the value of franchise and media rights for premiere sports teams and leagues. There are 152 pro teams in the “core” domestic sports market, represented by five professional leagues: NBA, NFL, NHL, MLB, and MLS. No more (for now) and certainly no less. Meanwhile there are ~3,300 global billionaires vying for this fixed pool of trophy assets. So yes, there is a supply and demand disparity. Furthermore, these largely multi-billion-dollar team assets, through both necessity and design, have spawned fractional ownership and trading that invites a whole new range of institutional investors – including the new NBA announcement around sovereign wealth funds – that will ultimately further propel value increases. Bottom line, there has never been a bigger demand base for sports ownership.

Adding to this perfect storm, live sports content is still the lynchpin of broadcast TV and the dwindling cable bundle (e.g., this past Thanksgiving set a record for NFL viewership) and increasingly a pillar of the streaming future, and thus league and team revenues will also support valuation step ups for the foreseeable future. Finally, with the uncertainty in the RSN world, and LionTree is an advisor to the Board of Diamond Sports, you will see some ambitious owners take full control of their local streaming future like Monumental Sports, home to the Wizards and Capitols, among other properties, acquiring their RSN outright from Comcast and building greater value for the whole of their enterprises with that DTC control. LionTree was proud to work with Monumental on that transaction.

The second trend is that “core” leagues and teams will have company for eyeballs and dollars not only from more nascent sports properties but also athletes themselves. We all have a relative or friend who plays Pickleball at this point. But for our M&A forecasting purposes, what’s of note is that there are now professional pickleball leagues and people actually paying millions of dollars to own teams. Drone Racing, World Surfing, Women's Soccer, Professional Lacrosse, competitor MMA leagues to UFC, eSports… We are witnessing the evolution of new sports and new entrants (using the broadest definition of sport) that would be mostly unrecognizable to many of the core sports devoted audience.

And that's what's of particular interest: These are largely younger audiences, more diverse audiences consuming this content... This a new generation of fans. That's why eSports teams were bought by seemingly every core pro team owner; it's an audience hedge. We successfully raised substantial money for eSports holding company aXiomatic this past year, home to Team Liquid, and owned by savvy pro team owners like Ted Leonsis, Peter Guber, Jeff Vinik, and many more smart investors. There is absolutely a place in our media ecosystem for the best of these new properties. However, the looming question for newer sports properties, with all these leagues not created equally and eSports probably deepest into this discovery, is simply can they scale dramatically without the support and dollars of the traditional media ecosystem of broadcast and cable--which is not where these new audiences are to begin with. We suspect it will be a bumpier and longer road to find a true profitable groove, but thanks to technology there has never been a better time to tell stories, find tribes, connect with audiences and go deep with a rabid community. There will be big winners.

F1 is a mega example of this trend thanks in part to the Netflix show revelation, but it's just an example of a piece of a new playbook. Certainly, the success and following of mega athletes off the field like LeBron, Serena, Peyton, Tiger, KD, and others proves that there is a lot of money to be made outside of the game in today's creator economy.

And the final trend is consolidation in other major areas of sports that aren't teams and leagues at all, specifically: areas of connected fitness, sports data and betting, digital sports media and youth sports.

LionTree is particularly focused on the convergence of sports, media and tech, and the aforementioned areas are very much front-and-center. For example, this past year we were able to advise The Athletic on its $550M sale to The New York Times, advise Vox Media (home to SB Nation) on its acquisition of Group Nine, and raised $160M for sports software and camera maker Pixellot—and LionTree is also an investor in companies like Fanatics, Sorare, Underdog Fantasy, Ripken Baseball, The Mirror (sold to lululemon), Whoop, Second Spectrum (which we sold to Genius), and many more.

Like many other industries, with the last few years of cheap money and growth at all costs we saw each of these categories unveil new crops of unicorns (albeit youth sports being slightly different), only to be faced with a market today, and for the foreseeable future, that doesn't reward customer acquisition and subscriber growth to the detriment of actual sizeable profits. Therefore, you will inevitably see combinations and acquisitions in these areas as previous valuations prove untenable and new sources of capital, at least on very attractive terms, prove elusive. The crossover between sports betting and sports digital media is a natural fit and top-of-mind, as acquiring a customer must increasingly be matched by real engagement.

We are witnessing similar consolidation and re-bundling in traditional media and tech categories; no reason to believe the same won't happen for these areas of sports. This is to everyone's benefit, perhaps with consumers seeing higher prices in the long run but ultimately less friction in the ultimate product and user experience.