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OPINION

Big properties are getting bigger, but are rights fees flattening?

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— ESPN has an advantage with the CFP and can invest more into the remaining two seasons of the deal.
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Throughout our careers, premium sports properties have resembled growth stocks: rights fees headed skyward at double-digit rates. Sports perfectly exploited pay TV's dual-revenue-stream-powered boom. National broadcast network deals grew, supported by station retransmission consent fees; powerhouse cable networks developed, propelled by affiliate revenue. Meanwhile, local pro team agreements drove near-ubiquitous distribution of RSNs. Sports advertising's rising tide lifted all boats.

As we chronicled (SBJ, Dec. 11, 2023), the industry has entered a daunting new frontier. Recently, the Premier League, WWE and NASCAR announced media deals more in line with inflation than growing at the previously hyper-inflationary levels.

Are all rights fees flattening, including for big bellwethers? We think not.

There are several factors influencing rights fees (and we mean cash rights fees, not production offsets or marketing commitments):

Attractiveness of the package. What's the market's perception? Formula One had to offer ESPN sweetheart terms in 2018 just to get desired exposure. By 2020, it got a small rights fee. Then with an assist from Netflix's "Drive to Survive," competition yielded $85 million annually from ESPN. F1 improved its story — and its market value. But what have you done for me lately? In 2023, F1 ratings were down 8%.

Time since last reset? New agreement reporting tends to compare average annual package prices (AAV), deal-over-deal. However, it is the step up from the final year of the previous deal to the first year of the new which usually counts. After that, it's typically yearly cost-of-living increases. Thus, NASCAR, which ended 12-year Fox/NBC agreements, appeared to gain a bigger increase than the Premier League, whose last NBC deal ran only three seasons.

Has the package been under-market? Sometimes a sport and its media rights package get out of sync. Conditions at negotiating time matter. NASCAR saw huge rights fee upticks in previous deals, but then its viewership lagged (in part because it placed more races on lower-rated pay TV networks versus broadcast to generate more money). ESPN's 12-year NCAA "other" championships deal was notably underpriced, and the explosive growth of the NCAA women's basketball championship drove the recently announced, $920 million, 8-year-agreement.

Demographics (younger/older; income levels; geography). No one doubts the entertainment appeal of WWE, which helped drive last week's Netflix deal, but its audience composition is not as attractive as other traditional sports, which draw the upscale male viewers that networks and their advertisers covet.

Demand. The NCAA "other" championships offer both tremendous volume and quality. But, realistically, how many bidders could handle its 2,200-hour tonnage, requirements for broad distribution, and event production? Answer: Only ESPN. Thus, when the NCAA determined to keep the championships package together (and not bid the women's basketball championship separately) it became inevitable that ESPN would clinch the deal. Multiple networks are invested in college football, but ESPN has the incumbent's advantage with the College Football Playoff — only it can pay more rights into the remaining two seasons of the current deal. ESPN appreciates how the CFP helps drive better ad sales throughout the five-month season, a competitive halo. On the other hand, the financial performance (and debt load) of media companies matters too. Paramount (CBS) and Warner Bros. Discovery (Turner) might aspire to be aggressive buyers, but their balance sheets constrain them.

Trend (where have audiences and sponsor interest gone from the last negotiation?). The standalone CFP has had an uneven ratings performance, in part because its participants have tended to come from the Southeast, Southwest and the 166 miles separating Ohio State and Michigan. However, the 2023 and 2024 semifinals were thrilling and Michigan's championship run drew 27 million and 25 million viewers respectively. College football is the No. 2 sport in the U.S.

Nature of package. The NBA season is practically a year-round affair, with a seven-month pre/regular season, a two-month postseason, then the draft, summer ball, and WNBA in between. In a direct-to-consumer world, where months matter, that's major churn mitigation. Additionally, NBA betting volumes already rival the NFL (team bets on the Celtics, Nuggets and Lakers were three of Action Network's four most-tracked in 2023). The Premier League not only provides compelling live weekend morning and afternoon matches for NBC, but also it makes Peacock a must-have for international football fanatics. Savvy leagues change the partners, size and elements of packages to adapt to the marketplace (e.g., the NFL moving Sunday Ticket to YouTube and adding influencers).

Tentpole property. The NCAA women's basketball championship only covers three weeks, but it has emerged as ESPN's leading event between January's CFP and April's Masters. The CFP already dominates its current windows and is set to expand by eight more.

Cord-cutting and softer advertising environment aside, we expect the NBA to book a significant increase in its rights (as the NFL did) since it checks all the above boxes (perception, nine years since last deal, young demos, high-demand property, gambling attraction, fairly stable audiences in a declining trend marketplace, significant interest from sponsors and fans, nine months of programming; and, certainly, a tentpole during its spring playoffs).

If ESPN closes its reported six-year extension, the CFP deal will also show a nice increase. Ironically, the CFP's biggest challenge is that the NFL sucks much of the oxygen … and attractive time slots … out of the system. Twenty-three million viewers for the Peacock playoff game is just the latest example.

The big are getting bigger. CFP and NBA scores mean a lot less money left for everyone else. That's the new reality of sports media: Still an up market — for a few.

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