



# 2024 Media Update

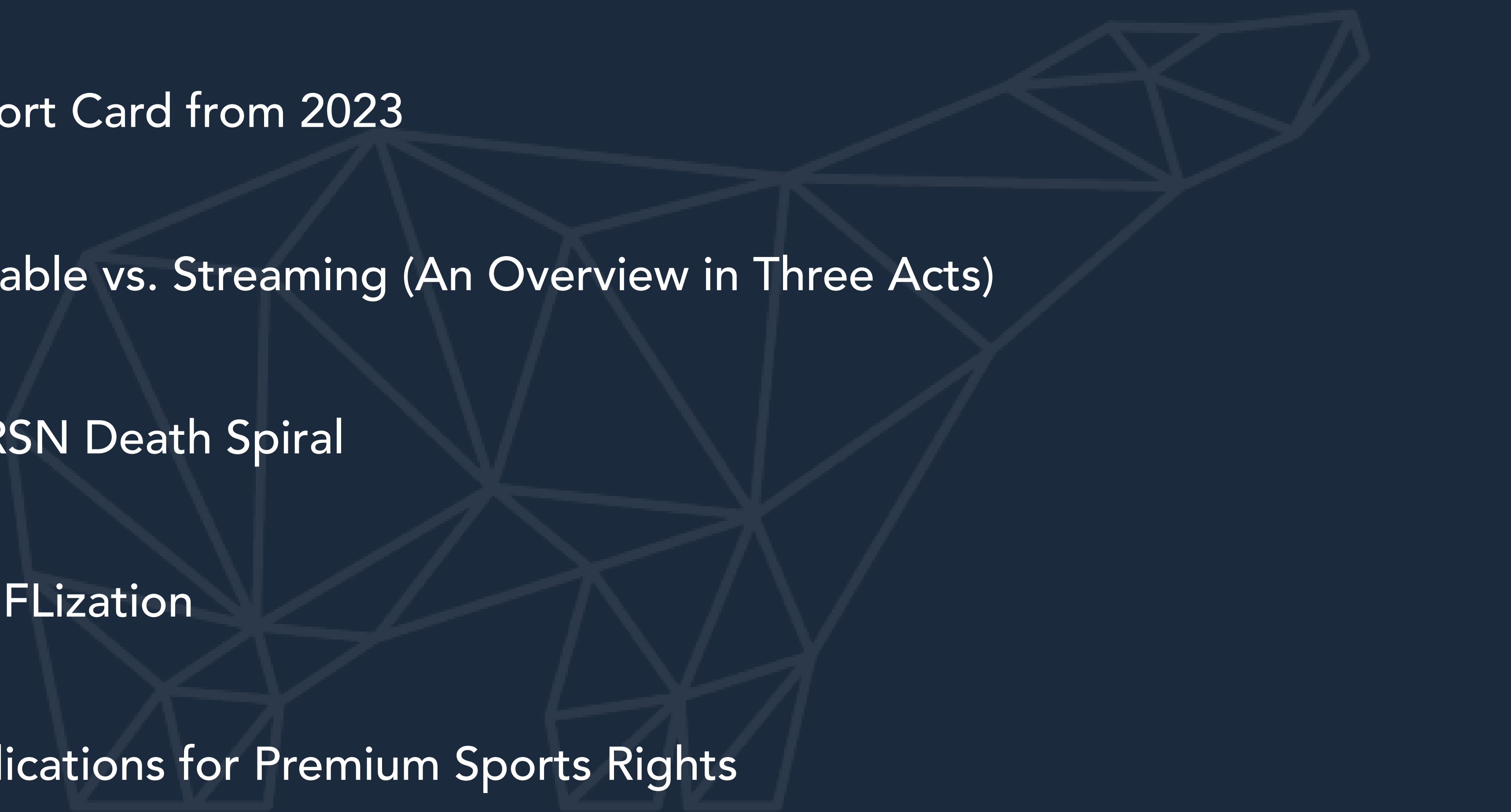
Arctos Insights

September 2024

Confidential, Proprietary, and Trade Secret

Disclaimer: This Media Update represents Arctos' opinions and beliefs and is not presented as investment advice. Although Arctos believes such opinions and beliefs are reasonable, they are inherently subjective in nature. Other market participants may make different determinations or conclusions based on the same underlying data. There can be no assurance that any predictions or forecasts will occur. LPs and GPs should consult with their own advisors as to the advice presented herein.

# Topics We'll Cover

- 
- 1 Report Card from 2023
  - 2 Cable vs. Streaming (An Overview in Three Acts)
  - 3 RSN Death Spiral
  - 4 NFLization
  - 5 Implications for Premium Sports Rights

# Our Main Takeaways from Last Year & Our Report Card

- Networks are losing leverage to distributors and must stem the bleeding from their streaming products. We'll see rebundling as a result.
- Massive demand spike for national premium sports to continue, driven by persistent media industry fundamentals, at least in the U.S.
- RSNs will continue downward spiral.



# Three Key Takeaways

In 2024 we remain focused on several of the same key trends from 2023. We have even stronger conviction in the value of premium live rights in the national broadcast/cable/streaming video ecosystem.

- 1 Video business will see further erosion in market power as streaming takes over.
- 2 RSNs will continue to decline, and there will be pressure on local rights fees.
- 3 But premium national rights fees will continue to escalate.



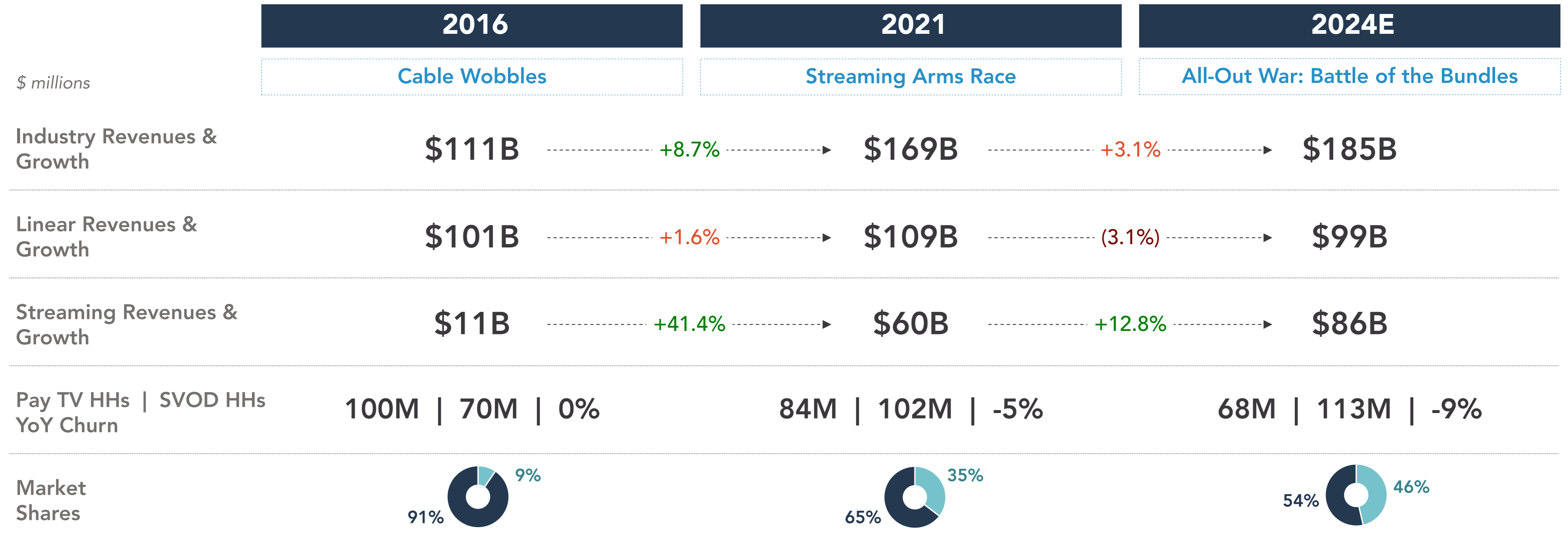
*2024 MEDIA UPDATE*

# Cable vs. Streaming (An Overview In Three Acts)

Confidential, Proprietary, and Trade Secret

# Media Ecosystem In Three Acts

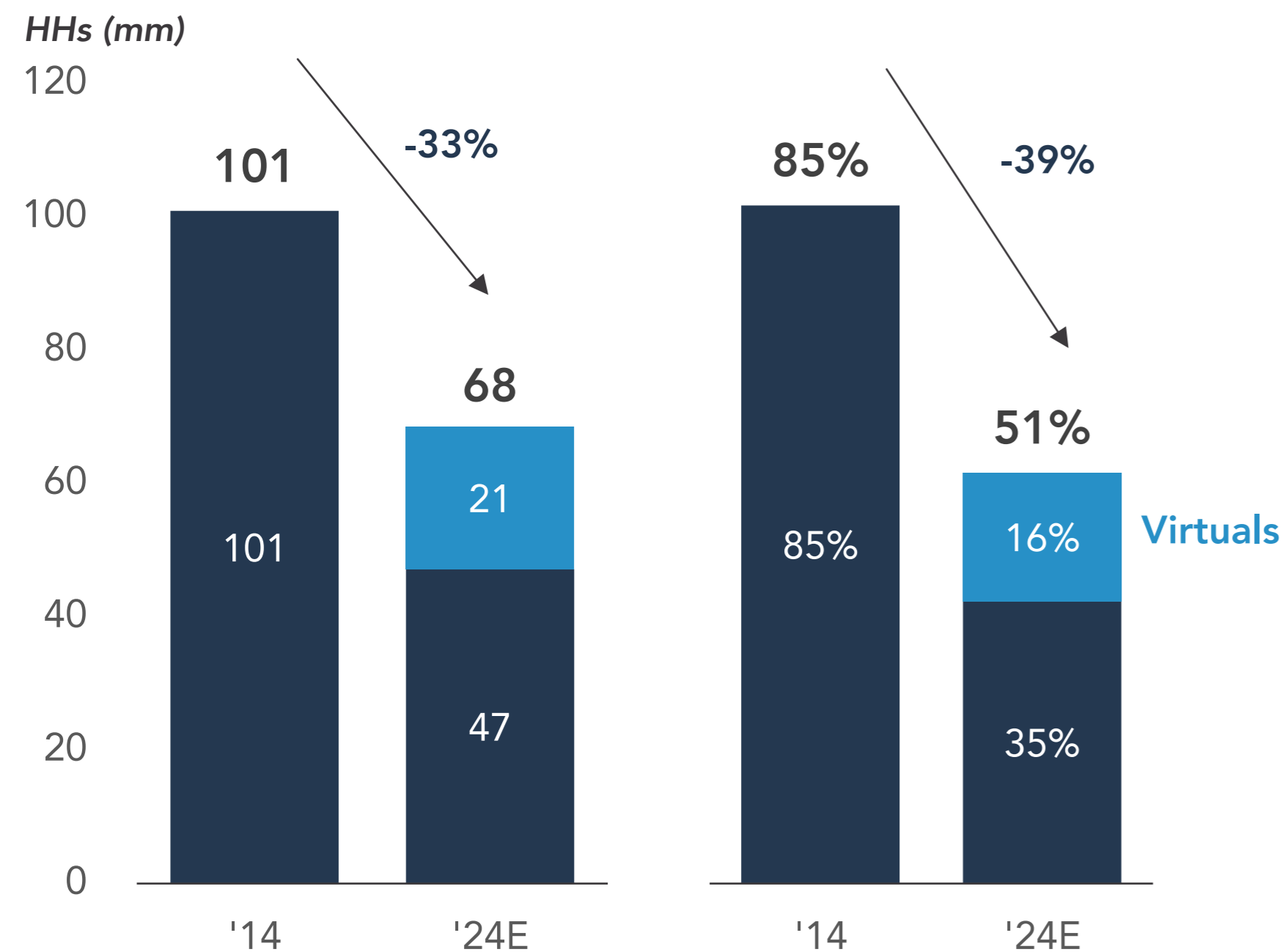
The streaming genie is unlikely to go back into the bottle: it represents nearly 50% of the industry's revenues now.



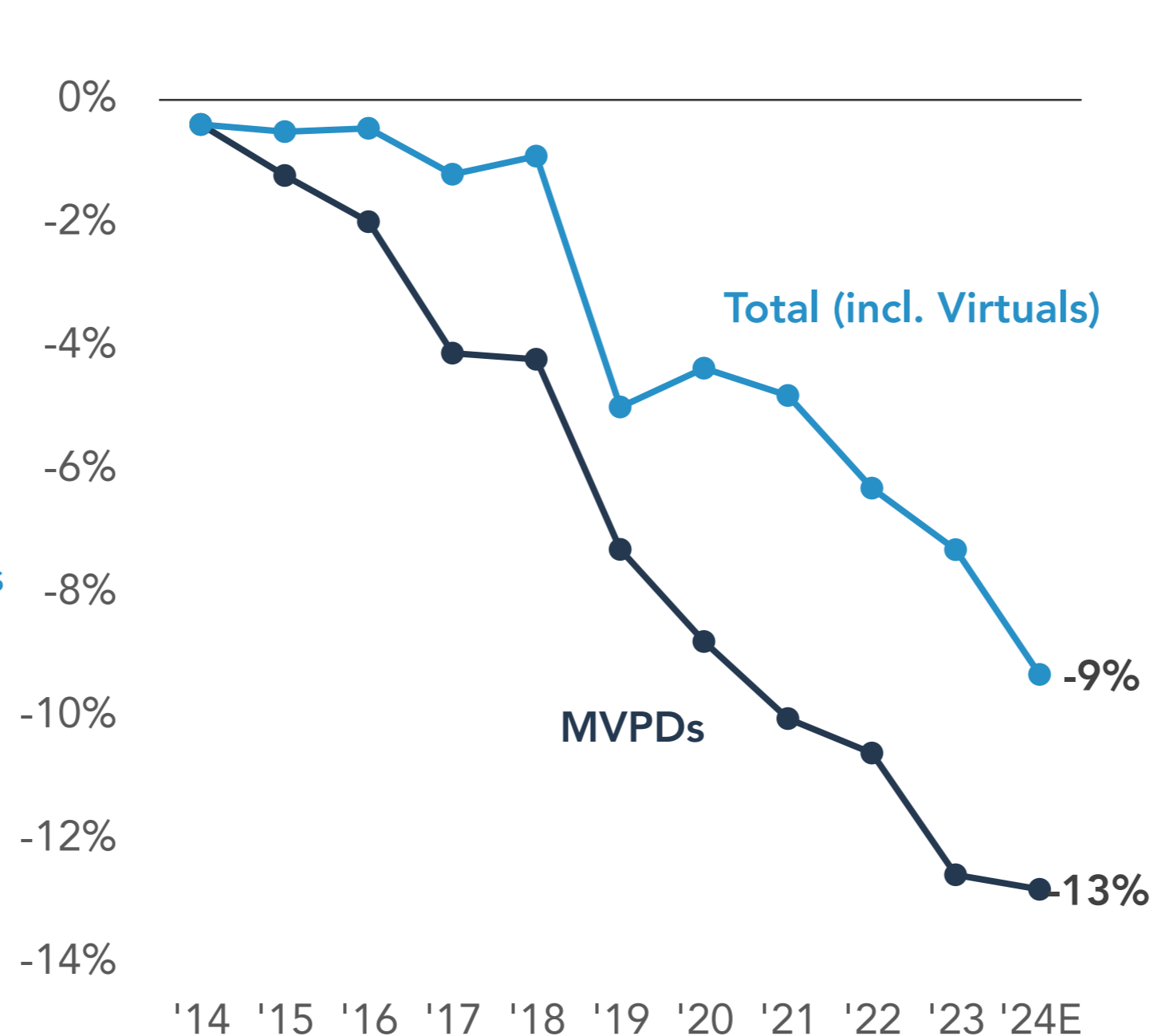
# Obligatory Update on Cable: It's Bad

The Pay TV bundle today represents a still-large but increasingly niche, sports-focused product among many competing streaming alternatives, some of which now include sports. The ecosystem is losing a constant ~7M subs per year, which was offset by growth in virtuals, but perhaps no longer.

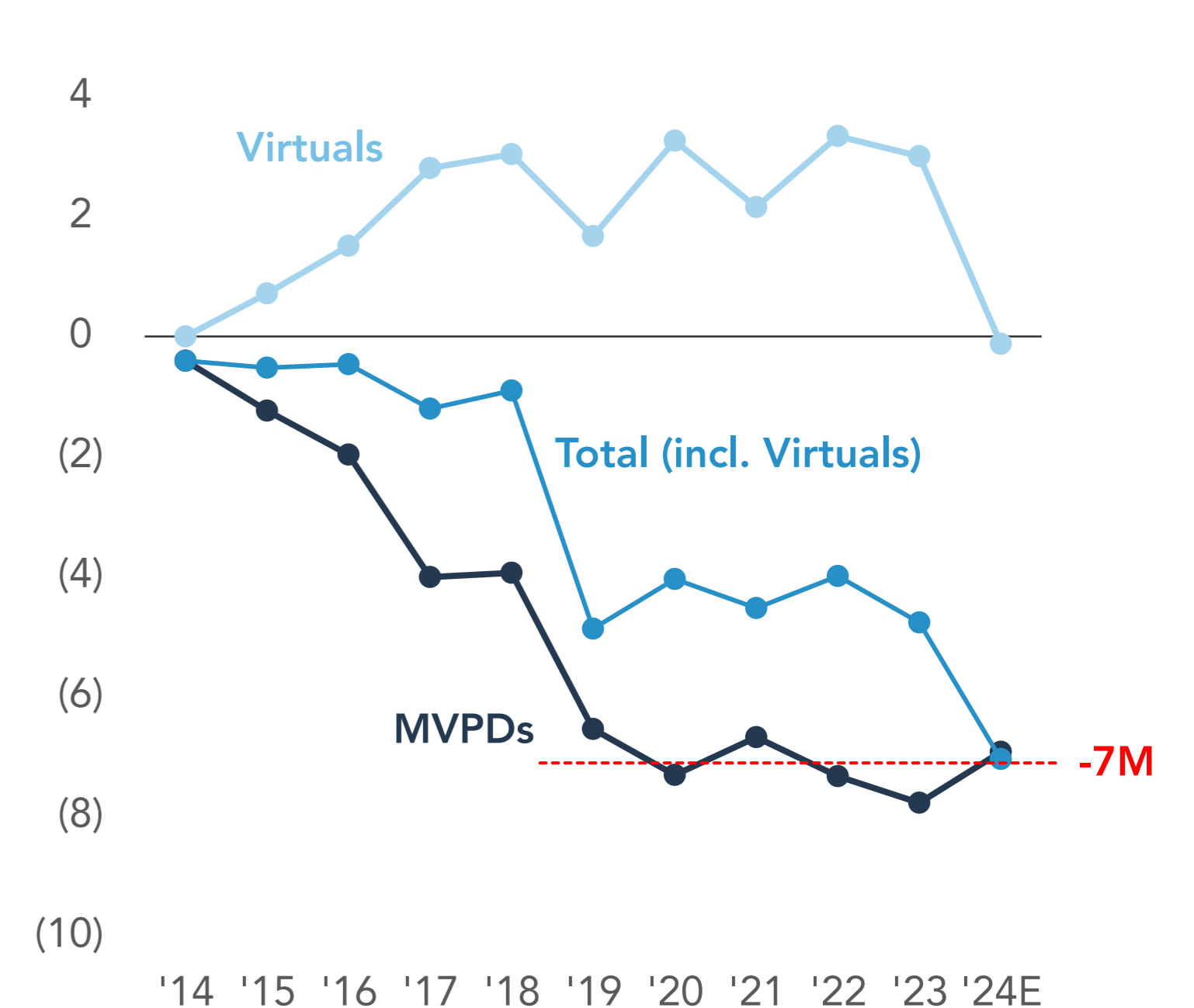
**MVPD + vMVPD Subs & Churn**



**Annual Churn Rates**



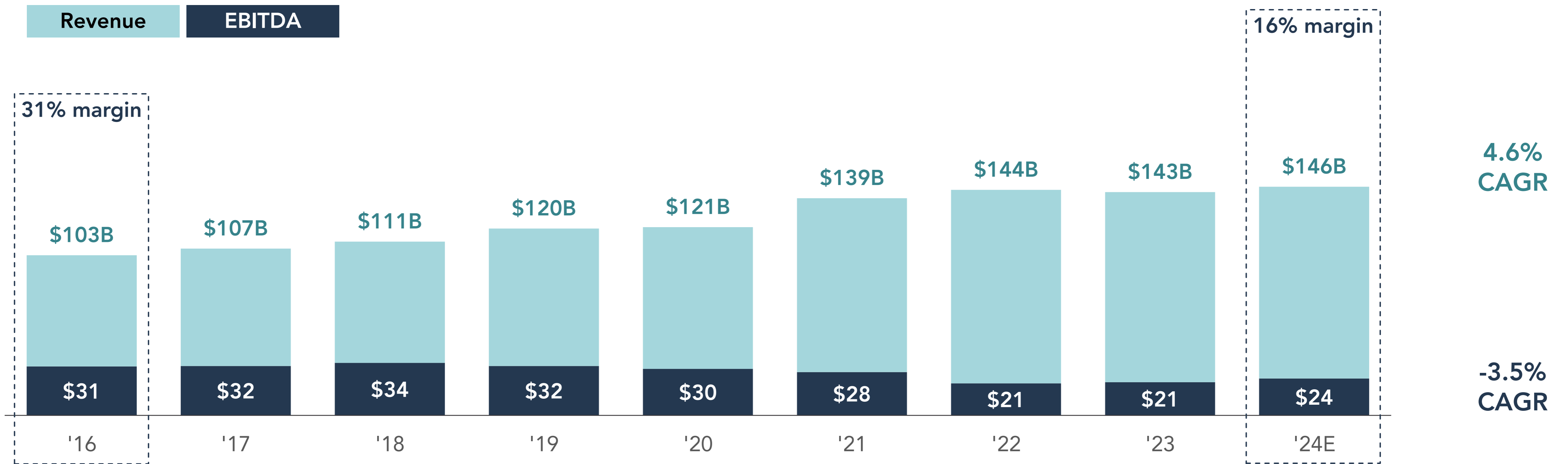
**Annual Subscriber Losses**



# Legacy Big 5 Seeing Meaningful Margin Erosion...

Without Netflix, the industry looks in rough shape. Top-line growth has only been 1.6% since 2021.

## Legacy Media Industry Revenues & Profitability

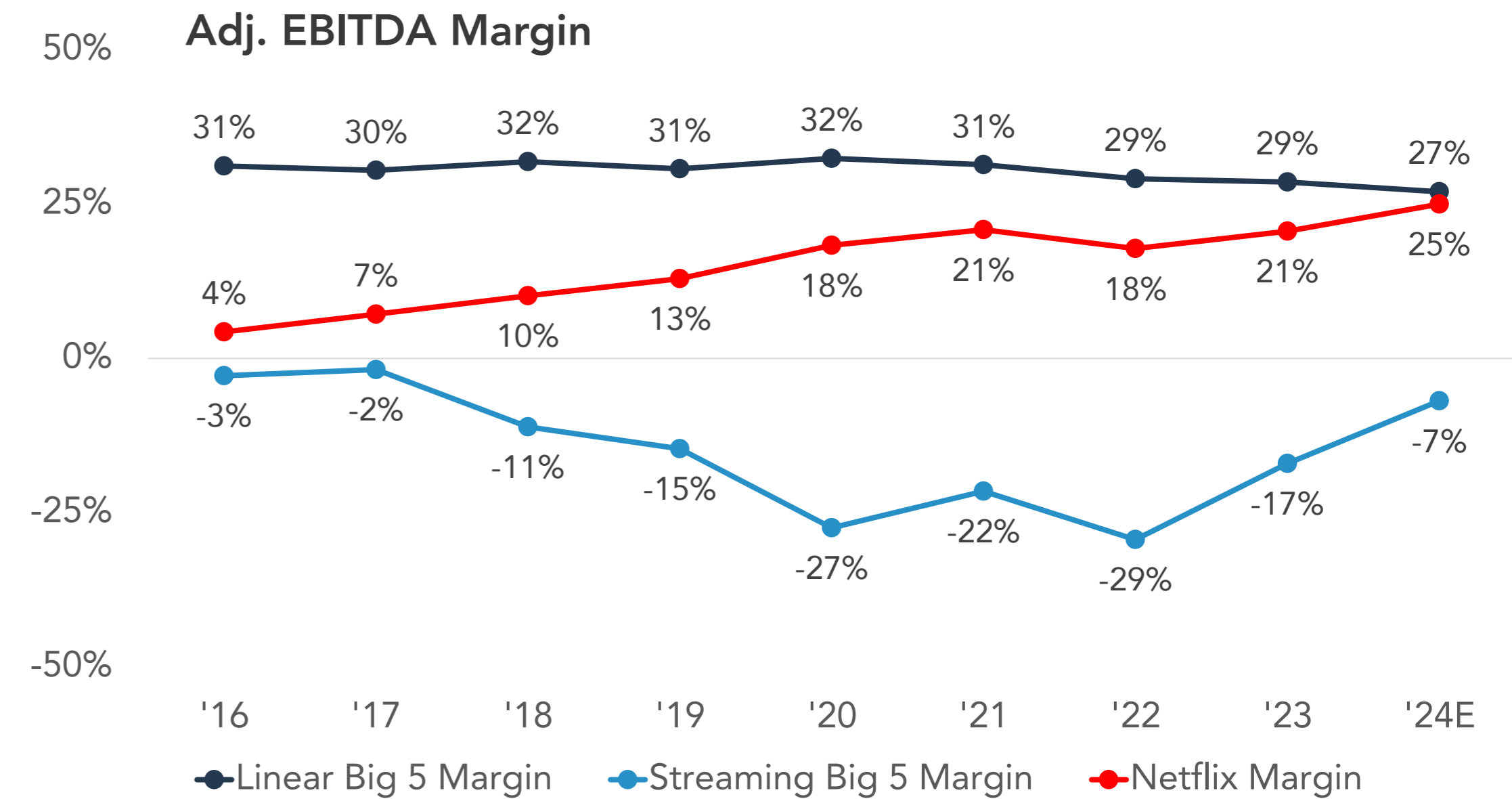
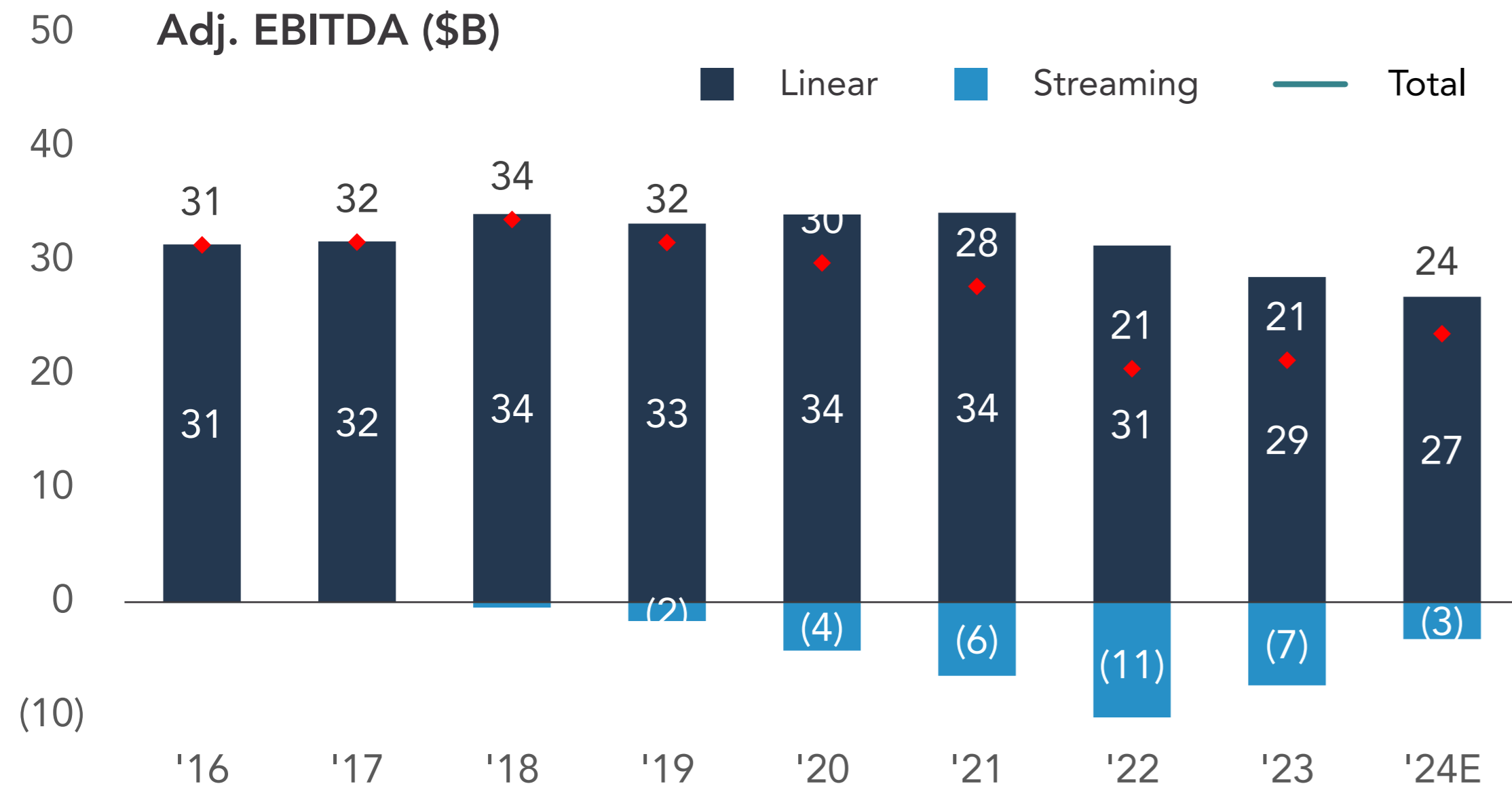




# ...Driven by... Streaming & Linear?

Legacy Big 5 streaming losses is expected to go from unsustainable to less unsustainable, driven mainly by significant cuts at Disney+. But now linear is now starting to erode, due to accelerating sub churn (streaming starting to syphon off sports fans?). Netflix is now as profitable as the cable bundle.

## Legacy Networks – Economics by Segment (\$B)



*2024 MEDIA UPDATE*

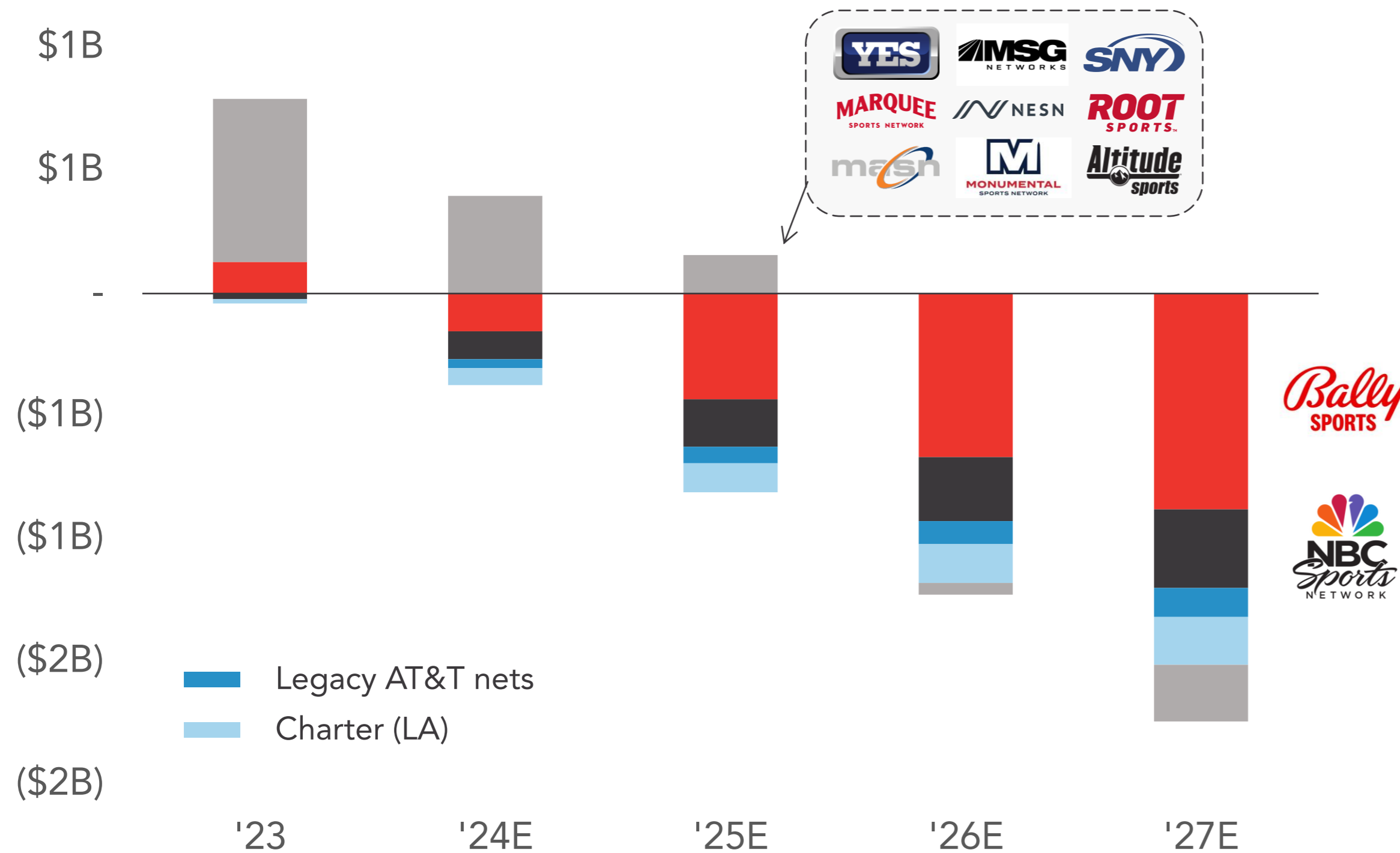
# RSN Death Spiral (...Still the Best of Bad Choices)

Confidential, Proprietary, and Trade Secret

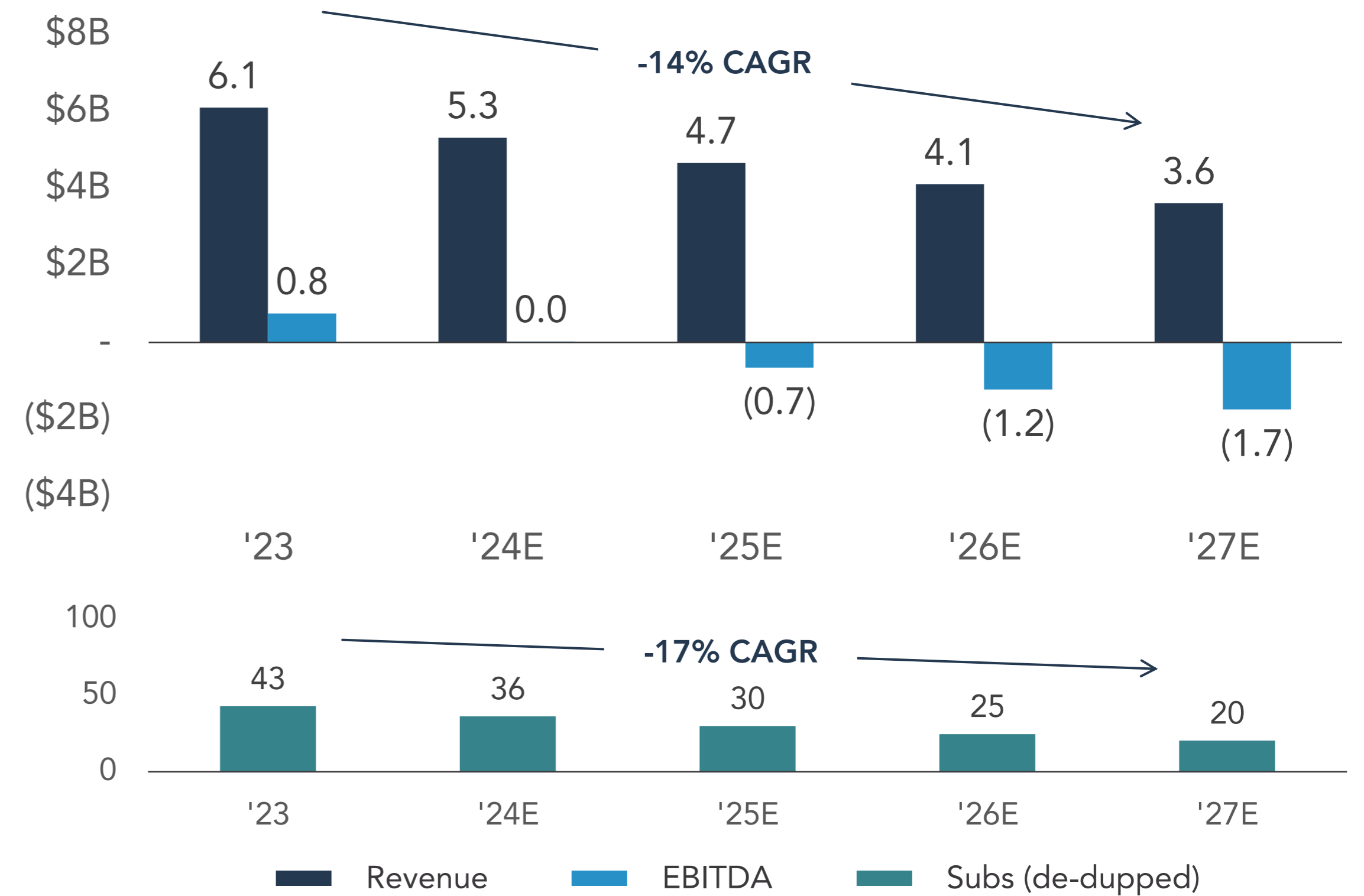
# RSN Economics

We anticipate the RSN industry will have ~\$0 EBITDA in 2024 at current rights fees. Independents (as a group) face stress starting around FY26, though several of the strongest may have longer runway.

**RSN Industry EBITDA w/ Status Quo Rights Contracts**



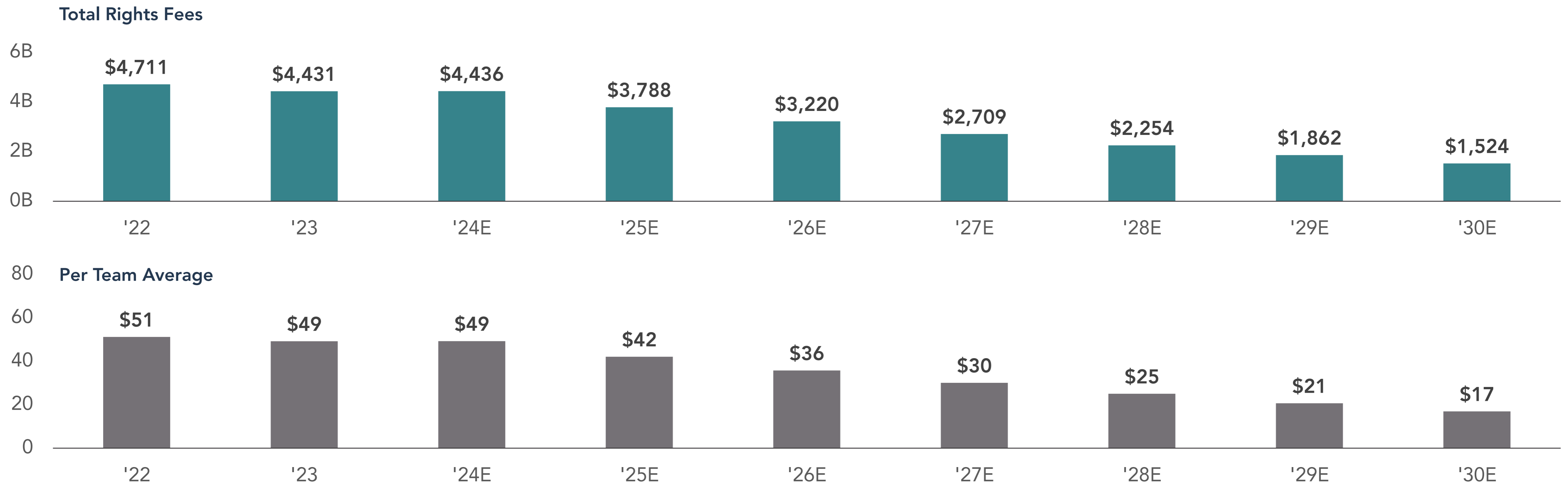
**Revenue & EBITDA Run Off With Flat Rights**



# Industry Breakeven Rights Fees

Here is our estimate of what rights fees would need to be to keep the industry breakeven. Our view is that these games hit a point soon (if not today) where they are far more valuable in national packages than in this ecosystem.

## Implied Breakeven Local Rights Fees – Industry Wide (MLB, NBA, NHL)



*2024 MEDIA UPDATE*

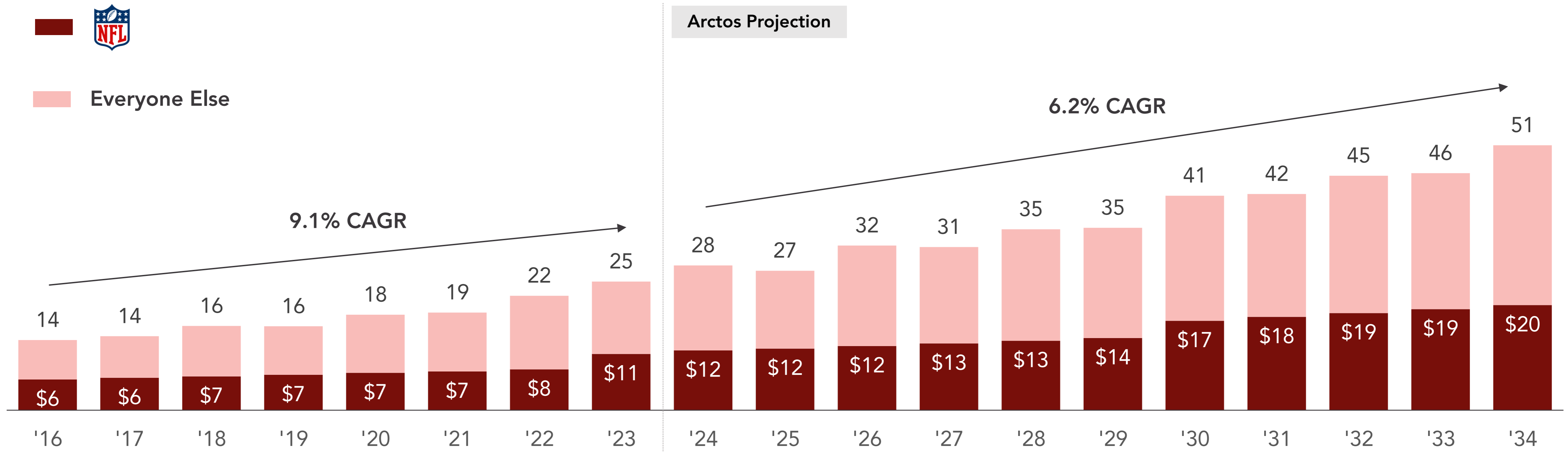
# NFLization (National Good, Local Bad)

Confidential, Proprietary, and Trade Secret

# NFL Earns ~\$0.40 of Every Media Rights Dollar

The NFL is in its own media rights weight class, and we don't expect that to change.

## NFL Rights vs. All Other Premium Sports Properties (U.S., \$B)

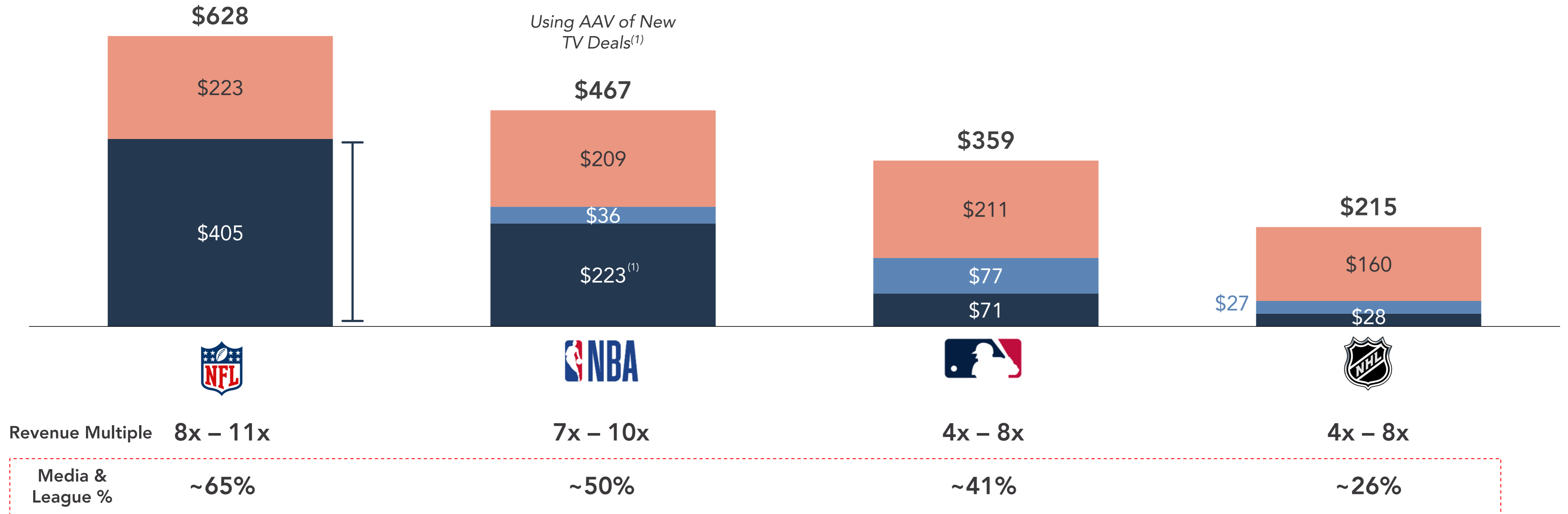


# NBA Is Now a Mini-NFL

The leagues do not differ all that much when it comes to local controllable revenue.

■ League Distribution   ■ Local Media   ■ Local Controllable Revenue

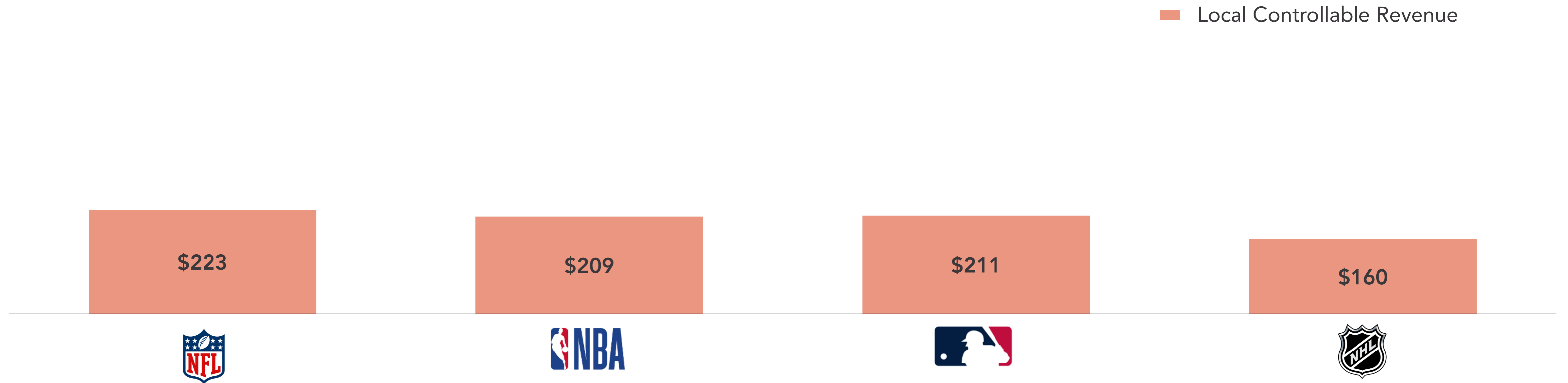
## FY23 – League vs. Local Controllable Revenue | Average Franchise



# The Leagues Do Not Differ On Live Entertainment Revenue

The leagues do not differ all that much when it comes to local controllable revenue.

## FY23 – Local Controllable Revenue Only | Average Franchise





*2024 MEDIA UPDATE*

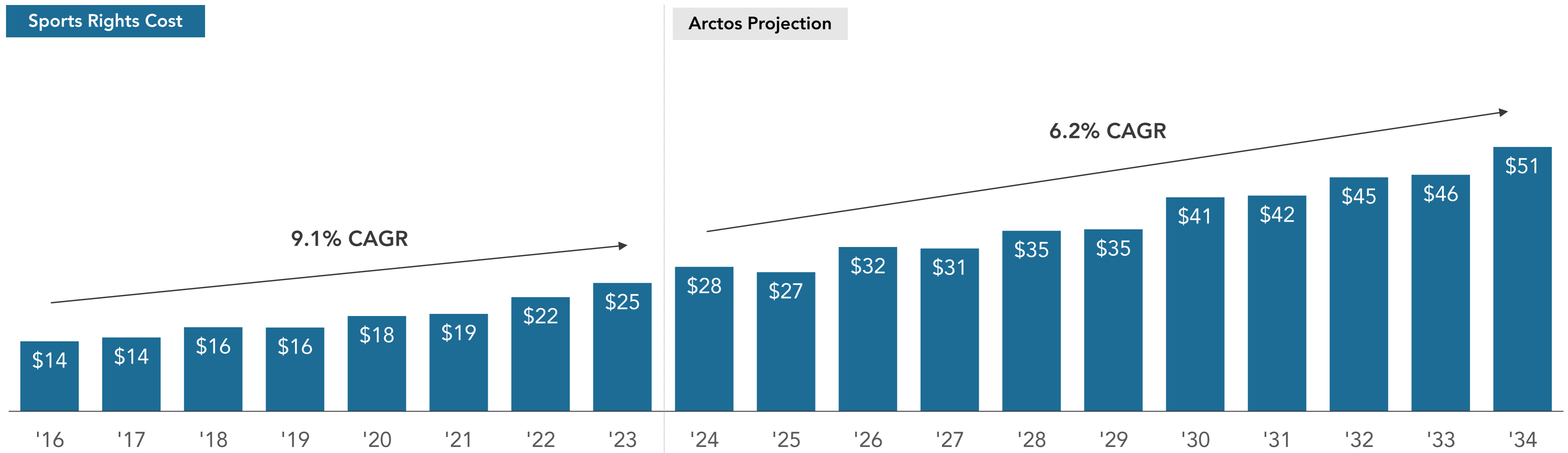
# Premium Sports Rights (Headroom, Dry Powder, Scarcity)

Confidential, Proprietary, and Trade Secret

# Sports Rights Amortization

Premium sports is becoming networks' most dependable anchor property; as a result, sport should earn a higher marginal share of total video industry economics.

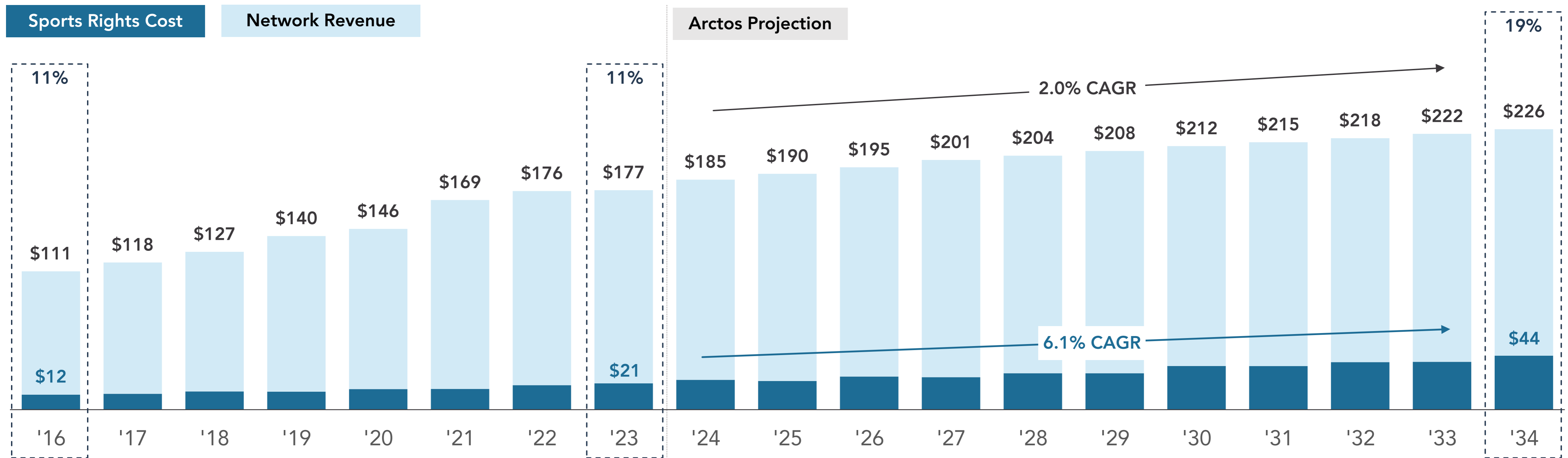
## Sports Rights Over the Long-Term (\$ Billions)



# Sports Rights Burden on Media Revenues: Highly Believable

We should see an escalating share of rights fees relative to media revenue; however, this doesn't appear out of line with sports' "rightful share", given their importance. We believe cost rationalization, M&A/bundling, and content spend rotation out of general entertainment could easily accommodate this.

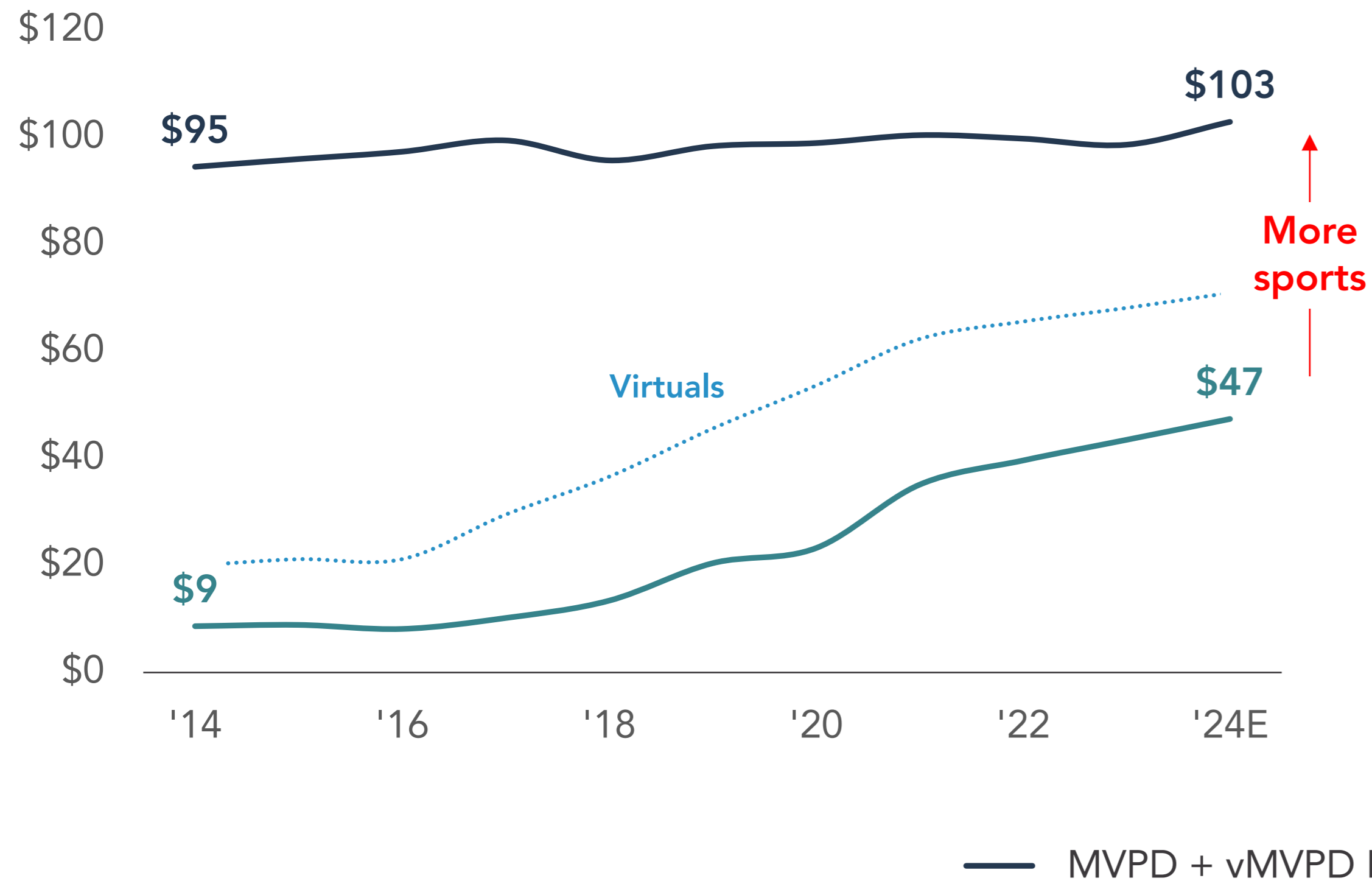
## Sports Rights Over the Long-Term vs. Pure-Play Media Revenue (\$ Billions)



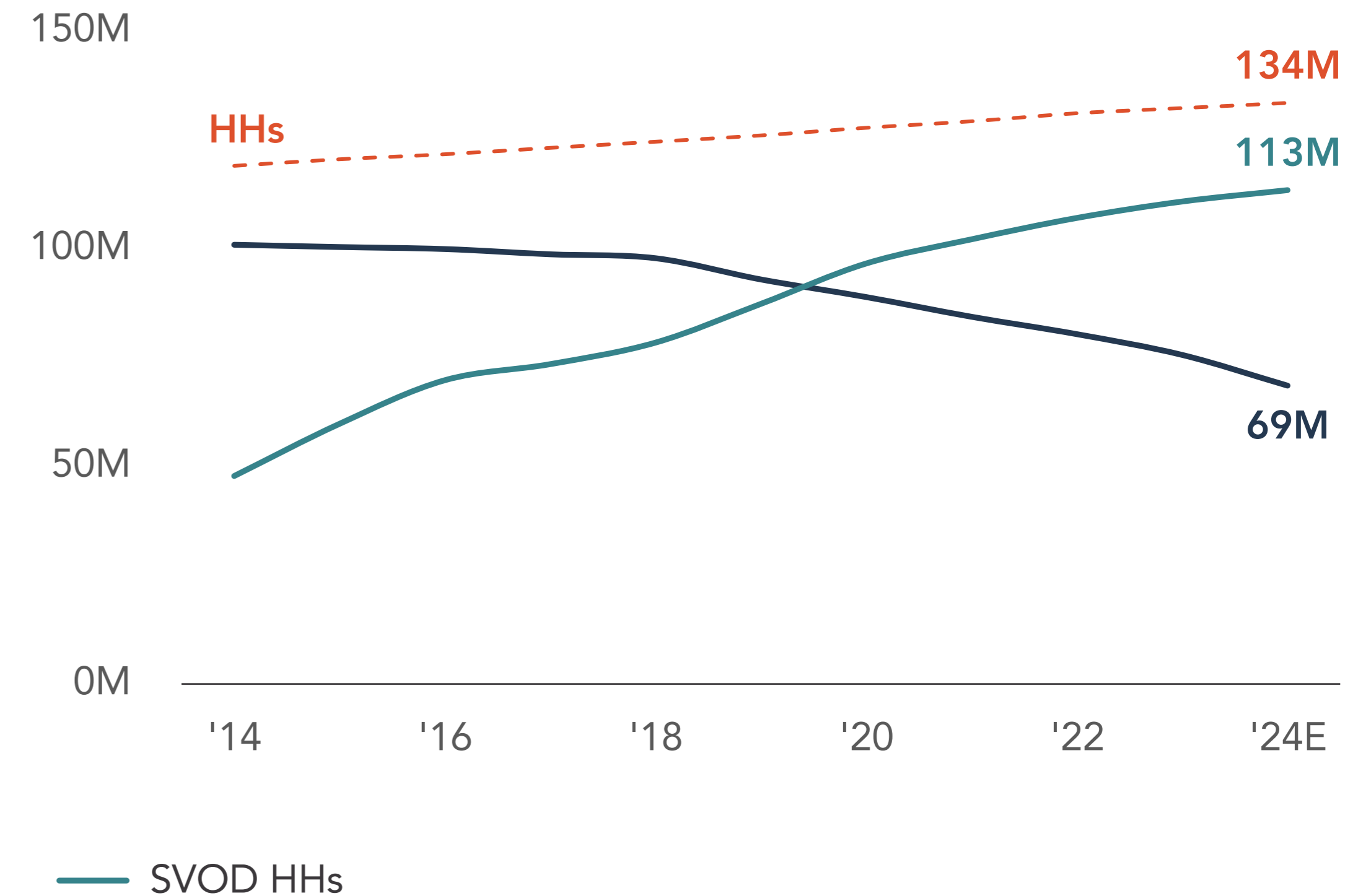
# Streaming Growth Has to Come From Price Increases

Subscription-holding HHs are now essentially where Pay TV was in 2014 (85% penetration), and penetration is probably 90%+ if you include AVOD and password-sharing. Domestic subscriber growth is over, market-wide. Growing a streaming platform requires providing customers a reason to pay more, which means more sports. (Growth is expensive in media!)

**Pay TV vs. Streaming AR / HH**



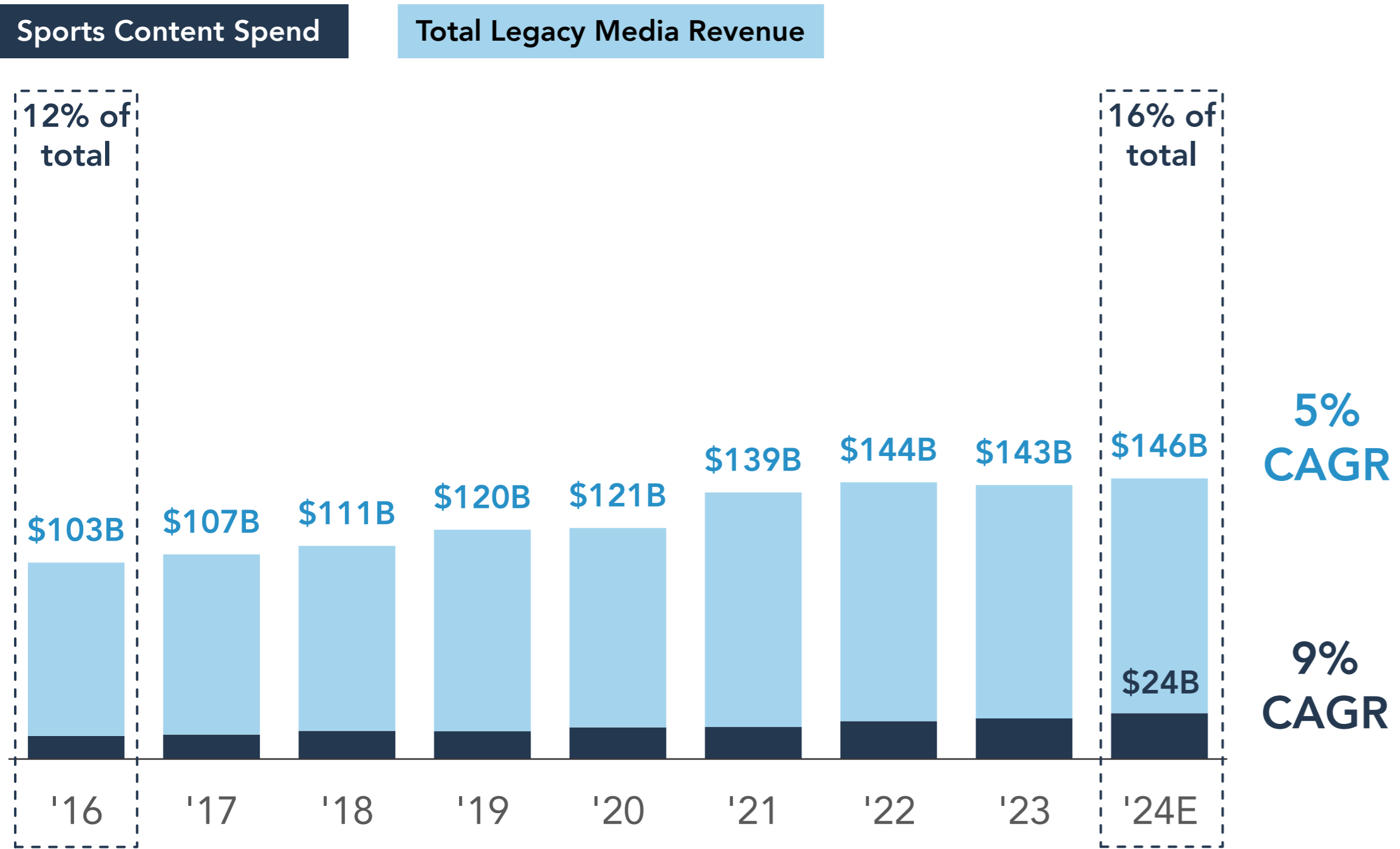
**Pay TV vs. Streaming HHs**



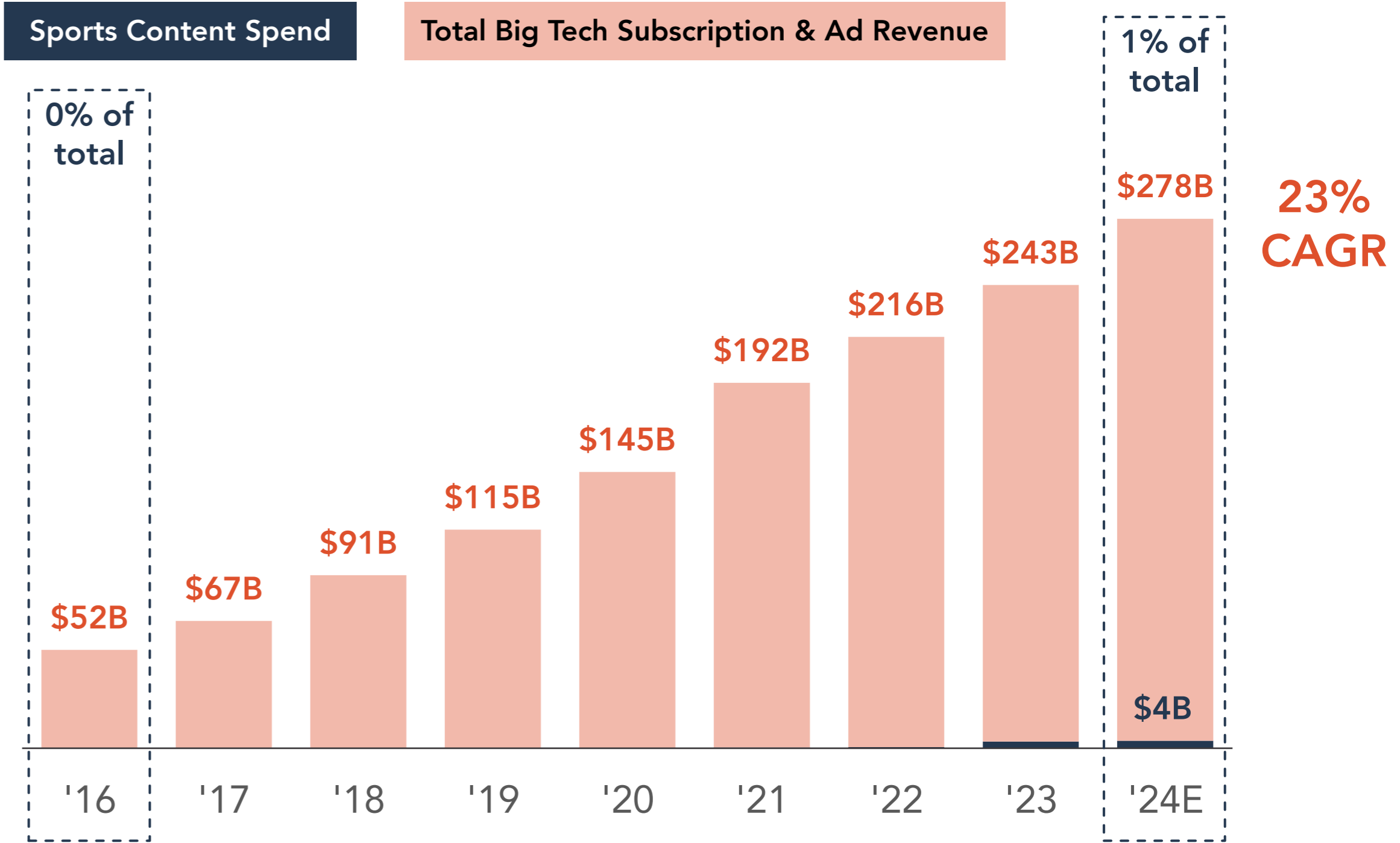
# Big Tech Remains Threatening

While Netflix and Amazon have taken a more leading role among Big Tech streamers in sports so far, all of them continue to have active rights deals and teams examining spend in the space. They have formidable “dry powder” for rights.

## Legacy Media Revenue (\$B) vs. Sports Spend



## Big Tech Sub. & Ad Revenue (\$B) vs. Est. Sports Spend



# U.S. Media Rights Football Field (Pun Intended)

There are not many premium live rights of scale available, period. There's dry powder, headroom and scarcity.



# Our Advice for Teams (2024)

1. Stay close to your leagues.
2. Stay short.
3. Don't just do something, stand there.

