

The evolving landscape of the sports and entertainment business

An industry insider identifies trends and opportunities

The sports and entertainment business is incorporating new ideas to expand its audience, drive revenues and increase fan engagement. As more business-oriented owners tap into previously unrealized value, technology is changing the way players are acquired and evaluated. Meanwhile, American sports teams and leagues are making an effort to develop a more global perspective.

To get a handle on the latest trends and what to expect from the industry going forward, Crain's Custom recently spoke to Lauren Tomlinson, a partner in the Audit and Assurance Services Practice at EisnerAmper. Tomlinson provides audit services to public and private companies of all sizes. Sports and entertainment is one of her primary focus areas, and she leads the engagements for two of EisnerAmper's major sports clients. Tomlinson is also the founder and chairperson of EisnerAmper Cares, the firm's community volunteer organization.



Lauren Tomlinson
Partner, Audit and Assurance Services Practice

Q Crain's: What are the major trends in the sports and entertainment business in 2018?

A Tomlinson: One of the biggest is the increased role of legalized wagering in sports. We now see professional football and hockey teams based in Las Vegas, which at one time was unthinkable. Perhaps even more important are the potential revenue streams to teams participating in organized wagering. Witness the popularity of wagering sites such as FanDuel and DraftKings, along with the explosion of fantasy sports leagues.

Another trend is the continued enhancement of sports venues. On the players' side, investment is going into practice and training facilities. From the fans' standpoint, there will be continued investment in ancillary activities, particularly those that appeal to members of Gen Y and Gen Z, as well as those that are family-friendly, such as food options and mobile and interactive technologies, including virtual reality.

Q Crain's: What are a few key ways technology will impact sports and entertainment in the short and long term?

A Tomlinson: One of largest is the application of statistical analysis to sports information. Several years ago,

few teams had an analytics consultant. Today, many teams have an analytics department in-house. This group leverages big data to influence decision-making as it relates to the acquisition of players, in-game strategy and so forth.

Another burgeoning tech area is team-spending on mobile applications. It's no secret that most people live on their phones. Fans can use their smartphones to gain entry to the arena, order food, purchase merchandise and more. For those watching at home, we've seen very lucrative deals where Amazon and Twitter have streamed NFL games, and Facebook is doing the same with MLB games. This portable viewing experience dovetails with the need to attract younger fans.

Q Crain's: Which global markets are potential targets for U.S. sports viewership, and what is the potential impact of that interest on both international sports and investment in U.S. sports?

A Tomlinson: The NBA has done a good job of promoting its sport in Asia; the NFL has had much success in Mexico and the United Kingdom; and MLB has made major inroads into Latin America and the Pacific Rim. Time will tell if these initiatives will result in a major U.S. sport being based outside of North America.

We're also seeing investment and ownership from abroad, particularly in the NBA, with Russian and Indian nationals. Perhaps the best example of the global outlook in sports is Shahid Khan, who was born in Pakistan and moved to the U.S. at age 16. He became a billionaire and now owns the Jacksonville Jaguars of the NFL.

Q Crain's: Sports teams' valuations have shot up recently. What's behind that increase, and do you expect it to continue?

A Tomlinson: Valuations continue to increase for several reasons. First, the broadcast rights are several times higher with each renewal. And because people prefer to watch sports live, there is less of an impact on ad revenue. Another reason is that stadiums today provide more opportunities for monetization, including sponsorships, suite configurations, seat licenses and so forth. Teams continue to come up with new revenue streams, such as jersey patches, which debuted this past season for the NBA. What's more, today's athletes—courtesy of social media—have more opportunities to brand themselves as personalities, thus enhancing team value.

Ultimately, values should increase thanks to supply and demand.

There are only approximately 150 Major League sports teams in the U.S., and they change hands very infrequently.

Q Crain's: Major sports leagues have differing expectations about financial parity. What are the business and accounting considerations that affect their attempts to maintain parity?

A Tomlinson: Each league has its own mechanisms to maintain financial parity among teams, which gives smaller-market teams the opportunity to acquire players and remain competitive. Parity systems could be based on a share of net revenue numbers, an equal share of national revenue or a luxury tax system where a team pays a penalty for spending over a certain dollar amount. The NFL's parity system is based on national contracts over just 16 games, whereas the MLB contracts are very local and spread out over 162 games.

Q Crain's: Are private equity investors and sports teams a good match for each other?

A Tomlinson: We've seen a big increase in private equity investment in sports over the past decade. These groups have brought a more business-oriented mindset and recognized the unrealized value in sports leagues, as evidenced by skyrocketing valuations. Traditionally, family owners of sports teams pass down the team from generation to generation—a form of stability generally favored by the leagues. But what if one of the succeeding generations doesn't possess the desire, business acumen or financial capital to perpetuate the team? On the other hand, while private equity investors may have the deep pockets and business skills to successfully run a team, they may be less committed to long-term ownership and the community. Going forward, however, it appears that private equity investment in sports and entertainment will be a win for all involved. ■

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