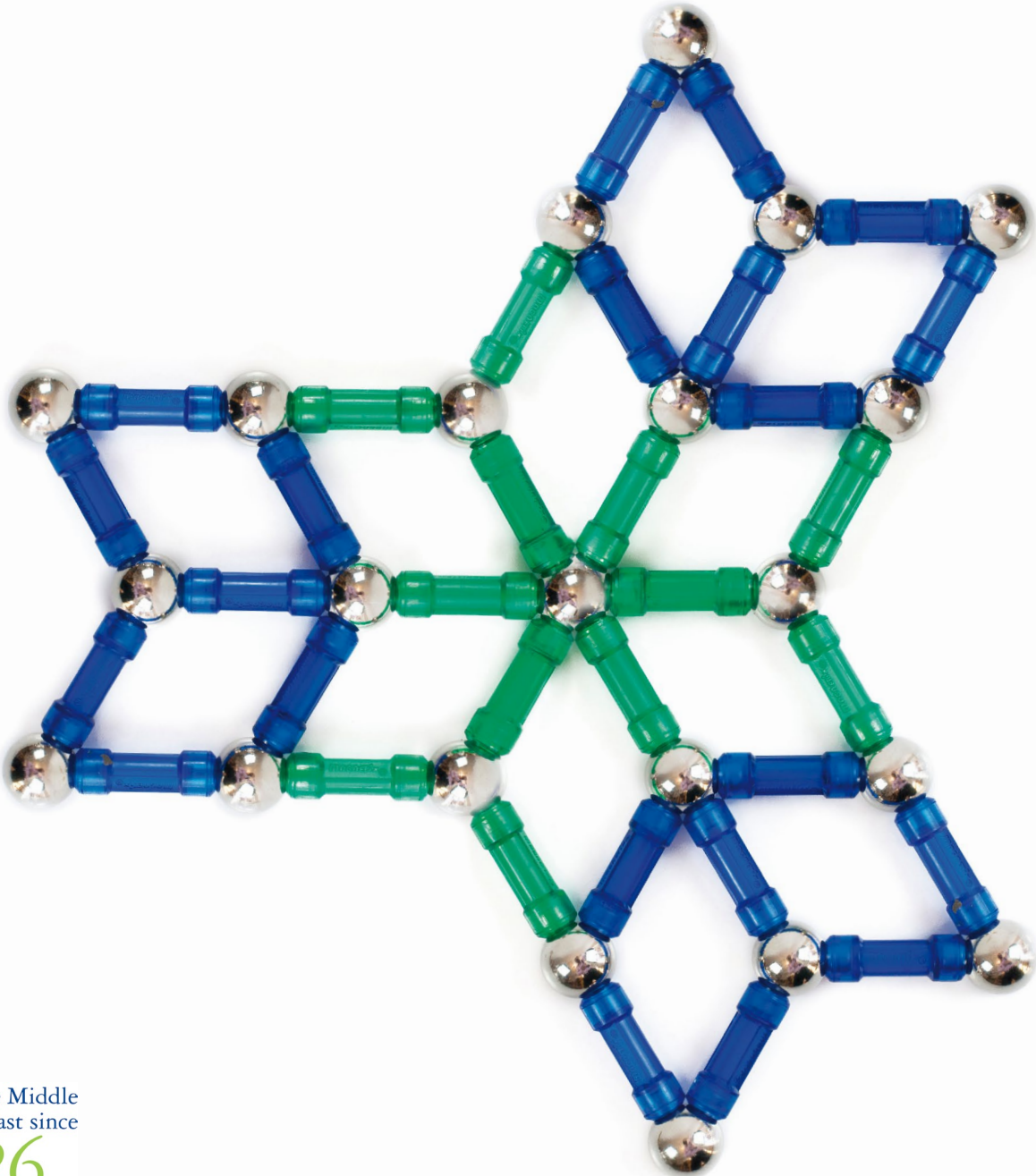


Technology, Media &
Telecommunications
Predictions 2014
Middle East



Broadcast sports rights: premium plus

Deloitte predicts that in 2014 the global value of premium sports broadcast rights worldwide will increase to \$24.2 billion, a 14 percent rise, or \$2.9 billion over 2013²⁸⁵. This increase in rights fees will be driven by new agreements with certain top tier European domestic football leagues and major North American sports leagues. The double digit growth compares to average growth of five percent between 2009 and 2013, and is likely to exceed forecast increases in global pay-TV revenues for 2014²⁸⁶. Premium sports rights fee growth is outpacing that of the broader economy²⁸⁷.

We have defined premium sports broadcast rights as the most popular sports competitions in the biggest sports around the world. These include: the top-tier domestic football leagues in each European, Asian, Latin American, Middle East and African country; the respective top regional clubs' football competition on each continent; the four major North American professional leagues – Major League Baseball (MLB), National Basketball Association (NBA), National Football League (NFL), National Hockey League (NHL); the top US college sports conferences; National Association for Stock Car Auto Racing (NASCAR), Formula 1, the Indian Premier League and Indian national team cricket.

The premium sports in each market represent a small proportion of all professional sports activity measured by the number of minutes televised but they represent the vast majority of viewer interest and the bulk of all television revenues.

In 2014 about three quarters of the total value of premium broadcast rights fees will be generated by 10 competitions: the top-tier domestic football leagues in England, France, Germany, Italy and Spain, the UEFA Champions League, and the four major North American professional leagues. The substantial revenue growth in 2014 has been driven largely by new broadcast deals for England's Premier League, Germany's Bundesliga and Major League Baseball²⁸⁸.

Television and premium sports are well matched for each other: at the highest level, sport is great unscripted live drama for television, and constant advances in technology lead to ever more sophisticated, compelling ways in which sports can be portrayed.

While many commentators continue to ask when the sports rights value bubble will burst²⁸⁹, leading to stagnating or declining rights fees, our view is that rights fees for live content to premium properties overall will likely continue to grow.

Premium live sport continues to deliver large audiences, typically characterized by an attractive demographic profile. It drives subscriptions and/or generates advertising for broadcasters, particularly in an increasingly altered media landscape. In some cases, premium sports broadcast rights fees seem to have been insulated from wider economic pressures by multi-year contracts.

The development of pay-TV in particular has transformed the broadcasting of premium sports leagues. Live content is a key subscription driver for those leagues and underpins pay-TV business models. As the pay-TV subscriber base rises and revenue per user grows, operators are investing increasing sums to secure this key content.

New market entrants looking for attractive differentiating sports content have intensified competition driving substantial uplifts in rights fees. For example, BT's entry into the UK sports rights market, acquiring sports content to help retain and build its telephony, broadband, and pay-TV services, has resulted in substantial revenue uplifts.

Methodology for calculating the value of premium sports rights

Our methodology for determining the value of premium sports rights takes the following approach:

- Only recurring annual competitions/seasons are included. Olympic Winter and Summer Games, FIFA World Cup and UEFA European Championship are not included.
- Rights fees have been averaged over the duration of the respective contract.
- Fees have been converted into US dollars where applicable, using the June 30 exchange rate in that particular year.
- Values for each year are based on cumulative rights fees generated either in that particular year for competitions operating on a calendar year or for competitions operating across calendar years when it is the year in which the competition finishes. So 2009 refers to competitions operating in 2009 and 2008/09.
- We have obtained information from publicly available information released by rights holders, and trade publications, and from confidential and proprietary sources.

The Premier League enjoyed a 71 percent increase in the value of its domestic live rights from 2013/14, while the amount paid for UK rights to UEFA's top club competitions should double in value from 2015/16²⁹⁰.

There used to be just one video sports product – broadcast television – often funded by advertising or by license fee.

The range of sports video products has diversified significantly, even if consumption of sport has remained principally via the television set. Sports fans now have a wealth of video products as well as broadcast: from online video clips, to streamed video to any device.

Sports rights in the Middle East: playing at home

In the Middle East, Deloitte predicts that in 2014 the value of premium region-specific sports rights will increase by at least 15-20 percent, exceeding the 14 percent rise of all premium sports rights predicted globally²⁹¹. Premium sports rights from region-specific sports will outgrow those from American and European leagues in percentage terms. Although American and European leagues will maintain most of their overall share of the Middle East's premium sports rights in terms of value, they will no longer drive overall growth as they traditionally did in the past.

We have defined region-specific premium sports as the biggest premium sports competitions that are either played domestically or that include domestic sports teams, in line with Deloitte's sports rights methodology. This includes but is not limited to domestic football leagues such as the UAE Arabian Gulf League, the Saudi Professional League (SPL), Qatar Stars League (QSL), and the Egyptian Premier League, as well as international competitions, such as the Asian Champions League (AFC), involving football clubs from the Middle East, and the Pakistan national cricket team, whose home ground is now the UAE, and Formula 1, which takes place in Bahrain and the UAE.

Football is widely known to be the most popular sport in the region²⁹², and over the past years, the region has become one of the world's top spenders and investors in European football²⁹³. In terms of sponsorship, Etihad paid \$642 million for its 10-year sponsorship deal with Manchester City in 2011²⁹⁴. In 2012, Emirates paid about \$240 million to extend its deal with Arsenal FC, \$60 million more than its previous 15-year sponsorship deal in 2004²⁹⁵. Over 2011 and 2012, broadcasters Al Jazeera had paid an estimated \$398 million for premium sports broadcast rights to various European football leagues such as the German Bundesliga and Italian Serie A²⁹⁶. In 2012, Bahrain's GFH Capital acquired Leeds

United FC for a reported \$82.5 million, becoming the first Islamic finance institution to acquire a European club²⁹⁷. Most recently in late 2013, a 50 percent stake in Sheffield United FC was reportedly acquired by a member of the Saudi royal family, the first Saudi royal to buy a foreign soccer club²⁹⁸.

However, with the impressive roster of sports investments, passion for the game has led to fierce competition amongst major regional broadcasters, which has accelerated sports rights inflation for the big must-have European leagues to extremely high levels, calling into question their profitability²⁹⁹.

Case in point: English Premier League (EPL)



The English Premier League (EPL) remains the world's most expensive and sought-after European league³⁰⁰ and serves as a prime example of the high value paid for premium European sports rights in the Middle East.

The evolution of the EPL's MENA rights shows that competition and rights inflation has been intense and steep. In each of the most recent three-season periods, the EPL rights for the Middle East have been won by a different Middle Eastern broadcaster. In 2010, EPL broadcasting rights increased by between 200 and 300 percent for the MENA region as a result of the fierce bidding amongst the big regional broadcasters³⁰¹.

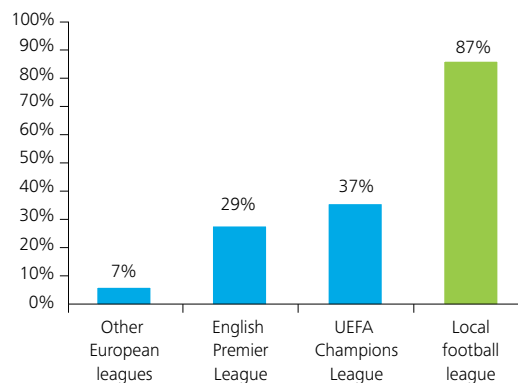
However, in the latest round of bidding, taking place in 2013, media reports suggested that growth in EPL rights value had slowed down compared to prior periods. Most broadcasters reportedly opted not to match or increase their bids over 2010 levels³⁰².

The fact that the EPL - the region's highest valued premium franchise - is showing signs of leveling off reaffirms the issue of economic viability for Middle Eastern broadcasters. This development marks a significant turning point in the Middle East as a sports rights market, and an exciting one.

While American and European premium sports now command very high values of broadcast rights, several factors at home are driving the rising prominence and growth in region-specific premium sports leagues and competitions.

Love for the game at home. In line with global trends, Arab sports fans in general and Arab football fans in particular most passionately follow and support their local teams and domestic leagues. On average, 87 percent of Arab viewers in the three countries hosting the biggest domestic leagues in the Middle East, follow their local league over any other leagues. These include the English Premier League and the UEFA Champions League, despite their higher standards and 'quality' in terms of players, competition, stadiums and being the largest in terms of sports rights value. Although the 'quality' of the game is an important attraction factor for Arab viewers, emotional attachment to the local game is clearly an even stronger one.

Figure 10: Arab viewing preferences of local vs. international football leagues (2012)



Source: Deloitte research and analysis³⁰³

Expanding fan base. The core sports consumer base typically consists of males aged between 15 and 49³⁰⁴. With approximately half in that age bracket³⁰⁵ and with the region's population growing at a rapid pace, local sports leagues can also benefit from these favorable demographics to accelerate the growth in their fan base and consequently the value of advertising, sponsorships and broadcast rights. For instance, Egypt's top teams Zamalek and Al Ahli SC already command a significant following, with their fan base estimated to be around 50 million people³⁰⁶.

Appreciation in sports sponsorship and advertising deals. Football is the region's primary premium sport of interest that is driving growth. Both the UAE Arabian Gulf League (AGL), and the Saudi Professional League (SPL), two of the region's biggest football leagues, have already shown solid growth.

Clubs in the UAE's AGL have already reported a 22 percent increase in combined sponsorship, advertising and broadcast rights revenues for the 2012/13 season, with a further rise expected this season³⁰⁷. Last year, the SPL and Abdel Latif Jameel (ALJ) sealed a landmark \$32 million per season six-year sponsorship deal starting from the 2013/14 season, the biggest ever in Saudi football history³⁰⁸.

Faster growth in regional broadcast sports rights.

Growth in sponsorship and advertising is also evident in local sports broadcasting rights. Saudi plans by the General Presidency of Youth Welfare (GPYW) to privatize the SPL and its football clubs within the next few years is reportedly expected to push the SPL's broadcast rights up from \$40 million per season currently to potentially \$100 million per season, as much as 20 percent per annum if we assume this growth over a five-year period³⁰⁹. The resumption of the Egyptian Premier League this year has also led to increases in its broadcast sports rights, which were sold to Egypt state TV at over \$10 million³¹⁰ for the current 2013/14 season, almost four times the \$2.6 million previously paid by Al Jazeera for the 2011/12 season³¹¹. With plenty of room for growth, we expect other leagues across the region to follow suit.

Hosting international sports. Over the years, a variety of premium international sports competitions has been brought to the GCC. This has raised their profile and interest amongst Arab and expatriate communities alike and has translated into a marked increase in their regional premium broadcast value. Formula 1 and cricket are key premium sports rights which have grown remarkably since they have been brought into the region³¹². In the case of the Pakistan national team cricket, regional broadcast rights had soared by almost 330 percent from \$8.5 million per season in the 2004-2008 period to \$28 million per season in the 2009-2013 period³¹³. This year, we would expect a similar increase.

Figure 11: Examples of international sports hosted in the Middle East

Sport	Competition	Host country	Year started
Formula 1	Bahrain GP 	Bahrain	2004
Moto GP	Qatar Moto GP 	Qatar	2004
Formula 1	Abu Dhabi GP 	UAE	2009
Golf	DP World Tour 	UAE	2009
Cricket	Pakistan national team cricket 	UAE	2009

Source: Deloitte research and analysis³¹⁴

Investment and development in local sports.

Governments, clubs and key private individuals across the GCC are investing heavily in building the capabilities of their local sports leagues and clubs to improve their performance and competitiveness. Billions of dollars are being spent on infrastructure development in Qatar for the 2022 World Cup and in Saudi Arabia on stadiums for use by the SPL clubs, such as the new 60,000 capacity King Abdullah Sports City stadium in Jeddah³¹⁵.

Investments in dedicated regional sports academies are also becoming more prevalent and widespread across the region. Qatar’s Aspire Academy for Sports Excellence in 2004 and the involvement of international football clubs such as Arsenal FC, Inter Milan FC and Real Madrid FC in setting up sports academies across the Middle East (e.g. Arsenal has set up academies in Bahrain, Dubai, Oman, Morocco, Egypt; Inter Milan in Abu Dhabi; Real Madrid in Saudi Arabia and Oman) are also key developments in fostering local talent³¹⁶. In 2013, Oman’s Muscat Football Academy (MFA) was announced, currently operating from an international school until the construction of its residential campus is completed in 2015³¹⁵. As grass-roots talents are developed and new Arab champions are identified, local leagues will grow in quality, increase in competitiveness and ultimately become more interesting as a spectacle for Arab viewers to watch.

For a number of years, these forces have been at play in developing the region’s sports landscape. With the major American and European leagues under the international Qatari based beIN Sports umbrella over the next few years³¹⁸, other regional and developing broadcasters will have to focus on offering local broadcast sports properties.

Bottom line

Sport as a contest has had a passionate following for millennia. Television's role has been to show this to a global audience with each viewer having the best seat in the house. The price paid for broadcast sports rights may surprise, but the symbiosis between television and sports is potent, and may become more so. Sports' mix of elite contest, success and disappointment makes compelling television.

Along with substantial growth in rights fee spend, there continues to be increased investment in the quality of broadcast production for sports. Premium rights owners face a continuing challenge to ensure cutting-edge broadcast quality, for example by evaluating the viability of ultra-high definition (UHD, also known as 4K) coverage, while broadcasters are required to consider their investment in terms of both rights fees and production spend³¹⁹.

It is important for broadcasters and production teams to review continuously the technologies available to them to enhance the value that their viewers and customers derive from being able to watch sport. For the television experience, this includes UHD, super-slow motion and a choice of live matches. On-demand services for viewers include a choice of live matches, camera angles, player tracking and instant replays, statistics and commentary. Making all this available not just via the television but also via any other device that the fan may want to use should increase perceived value, even if these additional viewing options are seldom exercised.

Sports rights owners and new technology companies continue to develop their relationship, and to consider how sports content can be both broadcast and appropriately monetized. A number of rights owners are experimenting with YouTube or other online video platforms, in order to stream live content in territories where broadcast rights have not been sold or to provide additional content. We see this trend continuing.

Owners of non-premium rights should not despair: rights fees for non-premium sports have in many cases increased, but at a fraction of the rate or scale achieved by premium properties. For these competitions and events, the challenge is to secure distribution through a suitable media platform, to obtain exposure. While rights fees themselves may be comparatively low, they may typically be a relatively important source of revenue that can also have benefits for other revenue streams.

There is also room for innovation to create new sports and formats for a global TV audience. Consider for example the case of the Ultimate Fighting Championship (UFC), whose growth has been driven significantly by pay-TV television exposure. UFC was purchased by its current owners for \$2 million in 2001; it now turns over \$500 million annually, is broadcast in 148 countries, and pay-per-view fees are up to \$50 per transaction³²⁰.

Middle East perspective

With very limited room for Middle East broadcasters to profitably exploit the broadcast rights of top international leagues, we are approaching an important turning point in the region's sports rights market.

Region-specific sports properties are now growing faster but compared to their European and American league counterparts are still significantly undervalued. Previous studies showed that broadcast rights of top local leagues in 2011 were at least 8.2 times less valuable than the EPL and UEFA Champions Leagues³²¹. Now with higher growth prospects, we expect local leagues to bridge part of this gap, keeping in mind that there is still a long way to go before local leagues become valued at their true potential.

While the growth story is positive, regional broadcasters should be careful in balancing their investment in sports rights against the monetization value they expect to gain from an increased subscription base. Although Middle East pay-TV subscription levels are finally rising at a faster pace, with beIN Sports' 26 percent subscription growth last year³²², the growth primarily stems from more affordable pay TV propositions, driving down Average Revenue Per User (ARPU) levels in the region³²³.

In such a competitive market and with TV piracy still a prevalent issue, broadcasters need to work hard to retain and grow their pay-TV subscription base. With the introduction of HD channels, video on demand (VOD) and 3D TV, pay-TV operators are now offering enhanced viewership experiences for sports. Leading regional advancements in this space include Al Jazeera's new sports contribution network for beIN Sports, implemented by and in partnership with Ooredoo. The new network enables the broadcaster to offer significantly improved high definition picture quality to all its MENA viewers directly from its Paris and Doha studios, through improved signal continuity and loss-less signal transmissions across geographies³²⁴.

Another potential development could also see the region's telecoms operators entering the local sports rights space, as BT has done with the EPL in the UK. This is a plausible scenario as telecoms operators in the Middle East are already playing an increasing role in pay-TV and sports across the region. By bundling pay-TV with their fixed and broadband services, operators are making it easier and more enticing for the vast number of viewers in the region to buy into pay-TV services. In addition to pay-TV, telecom operators also provide cable TV services in several Middle East countries such as STC in Saudi Arabia (Invision), Ooredoo in Qatar (Mosaic TV) and Etisalat (eVision) among others³²⁵.

Telecom operators are prolific supporters of sports in the region, even more so than in many other parts of the world. For example, STC and Mobily sponsor major SPL clubs in Saudi Arabia³²⁶, where Zain had been official SPL sponsors up until 2013. Recently, Etisalat became the official UAE national team and President's Cup competition sponsor³²⁷, and in 2011 du was the shirt sponsor for UAE club Al Ain during the AFC Champions League competition³²⁸. Now from the 2013/14 season, VIVA is the official exclusive sponsor of the Kuwaiti Soccer League (KSL) and all of Kuwait's national soccer teams for the next five seasons³²⁹. The Bahrain Formula 1 Grand Prix has been and still is sponsored by Batelco³³⁰ and elsewhere, Ooredoo is also active in football sponsorship, albeit in Europe and Myanmar³³¹.

Apart from the airlines, telecommunications is the most active and highly featured sector in local sports. Of all the millions that is spent by the region's telecom operators on local sports sponsorship deals, entering the compelling broadcast sports rights arena could also present a lucrative opportunity for them to offer great sports programming to the region's Arab viewers.

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Endnotes

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