

INTEL REPORT 007

Turnstile

THE NFL PATCH PROGRAM

AN INEVITABLE NEXT STEP
BUT WHAT'S IT WORTH?

AN INDUSTRY INTELLIGENCE REPORT BY TURNSTILE

SEPTEMBER 2023



Foreword

All eyes are on Arrowhead Stadium on Thursday as the road to Las Vegas for Super Bowl LVIII begins.

Commercially, the league heads into the season in a dominant position. New media deals are in place, sponsorship revenue is growing, and attendance is up year-on-year. Business is booming for the world's richest sports league.

But despite the rosy outlook there are challenges coming down the line that the NFL will need to overcome if the league is to protect and continue growing revenue.

The league is still more than \$5bn short of achieving the \$25bn annual revenue target by 2027 set by commissioner Roger Goodell back in 2010 and, with TV deals now locked in until the end of the decade, the league will need to look elsewhere to find ways to make up the shortfall.

In recent years, the NBA, NHL and MLB have dipped their toes in the water with jersey patch programs and found commercial success – after 5 years the NBA program is reportedly worth close to a quarter billion dollars.

In this report, we look at why the time might now be right for the NFL and, as valuation specialists, we share our view – from the outside looking in - on the market value of an NFL patch program.

Dan Gaunt

General Manager





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Image credit: Photo by Anders Krøgh Jørgensen on Unsplash

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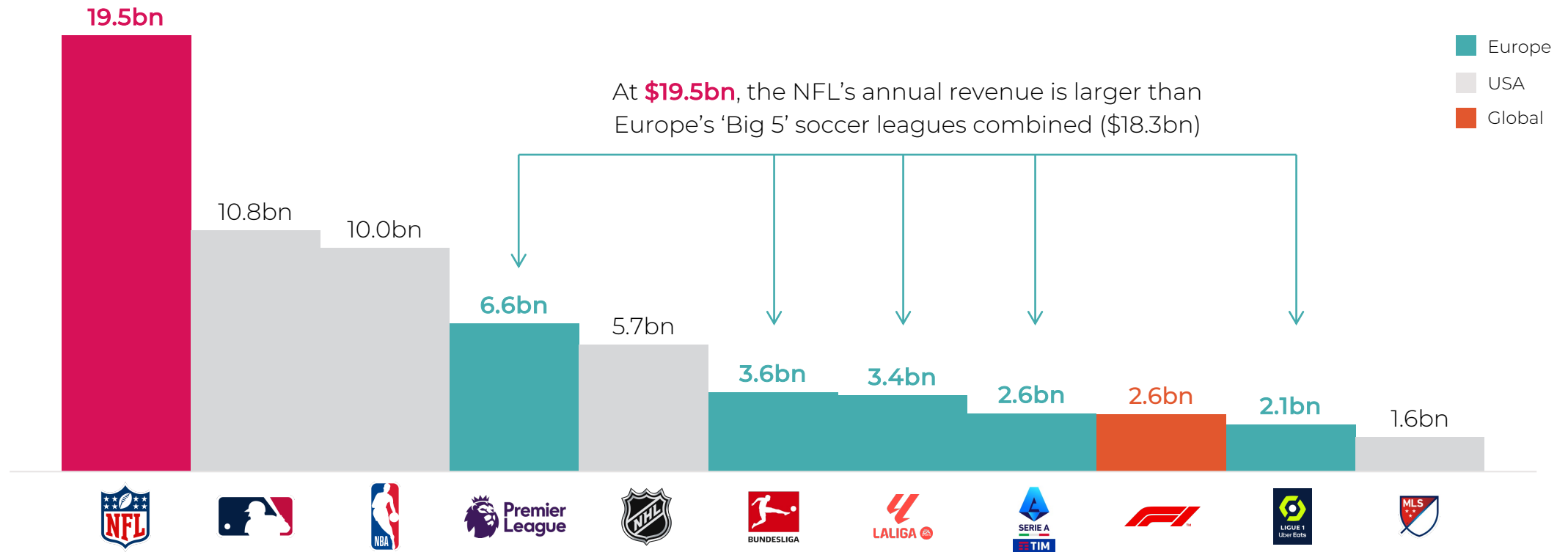
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The NFL Patch Program

THE WORLD'S RICHEST LEAGUE

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The world's richest sports league

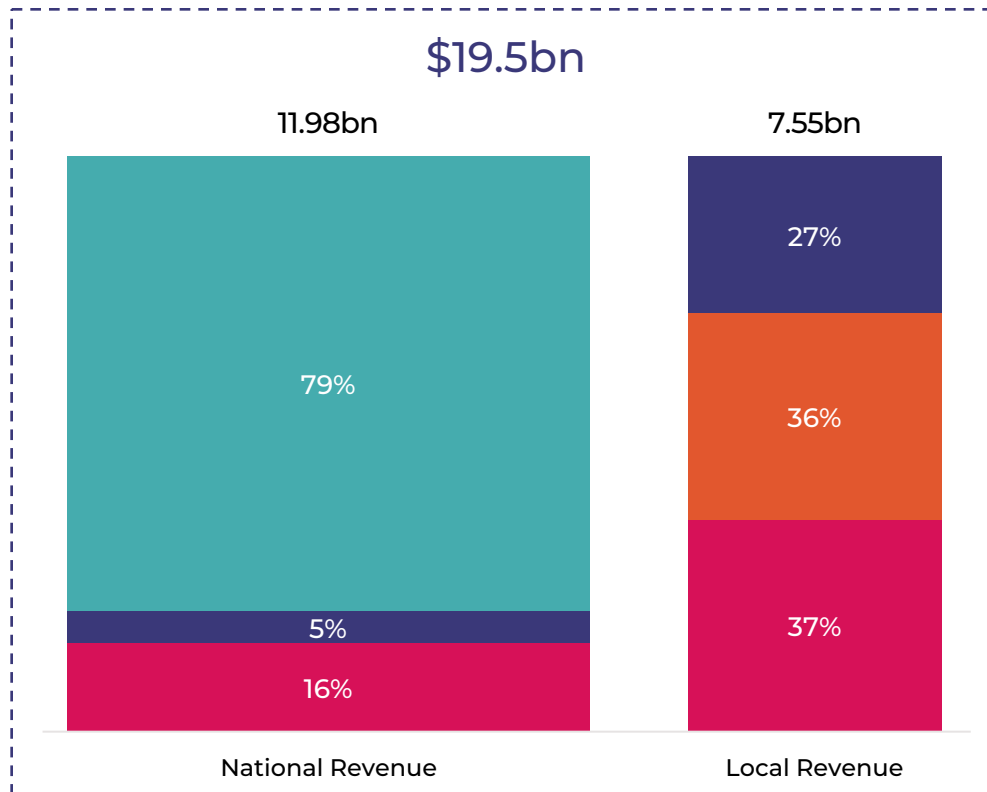
ANNUAL REVENUE | USD \$



Source: Global Data, Deloitte

At \$9.5bn, the NFL generates more revenue through media rights alone than most major sports leagues

BREAKING DOWN \$19.5BN ANNUAL NFL REVENUE | USD \$



- Media Rights
- Sponsorship
- Ticketing
- Other

National media rights revenue contribute ~\$9.5bn per year which is 79% of National Revenue and 48% of the league's total annual income.

The 7-year, \$14 billion Sunday Ticket deal with YouTube locked in the last of the NFL's major media rights deals until the end of the decade at a cumulative value of over \$120bn.

At the same time, national sponsorship revenue was reportedly up by 23% YoY in 2021, while local sponsorship revenue growth has averaged 5% over the last two seasons.

Attendances are on the rise too. According to the SBJ, the average NFL crowd grew by 3.25% to almost 70,000 per game in 2022.

Meanwhile, the 2023 International Series games in the UK and Germany sold out within minutes amid reports of online ticket queues of more than 1.5m fans.

Cumulatively, annual revenue is now \$5.5bn short of the commissioner's 2027 annual revenue target.

Source: Sports Business Journal, ESPN, Global Data
'Other' includes Merchandise, Licensing and non-football Events

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The NFL Patch Program

FUTURE CHALLENGES

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“We have the luxury of dealing with (change) from a position of strength... there’s a healthy paranoia here, to not squander that advantage.”

Brian Rolapp

NFL Chief Media and Business Officer
Sportico, February 6, 2023

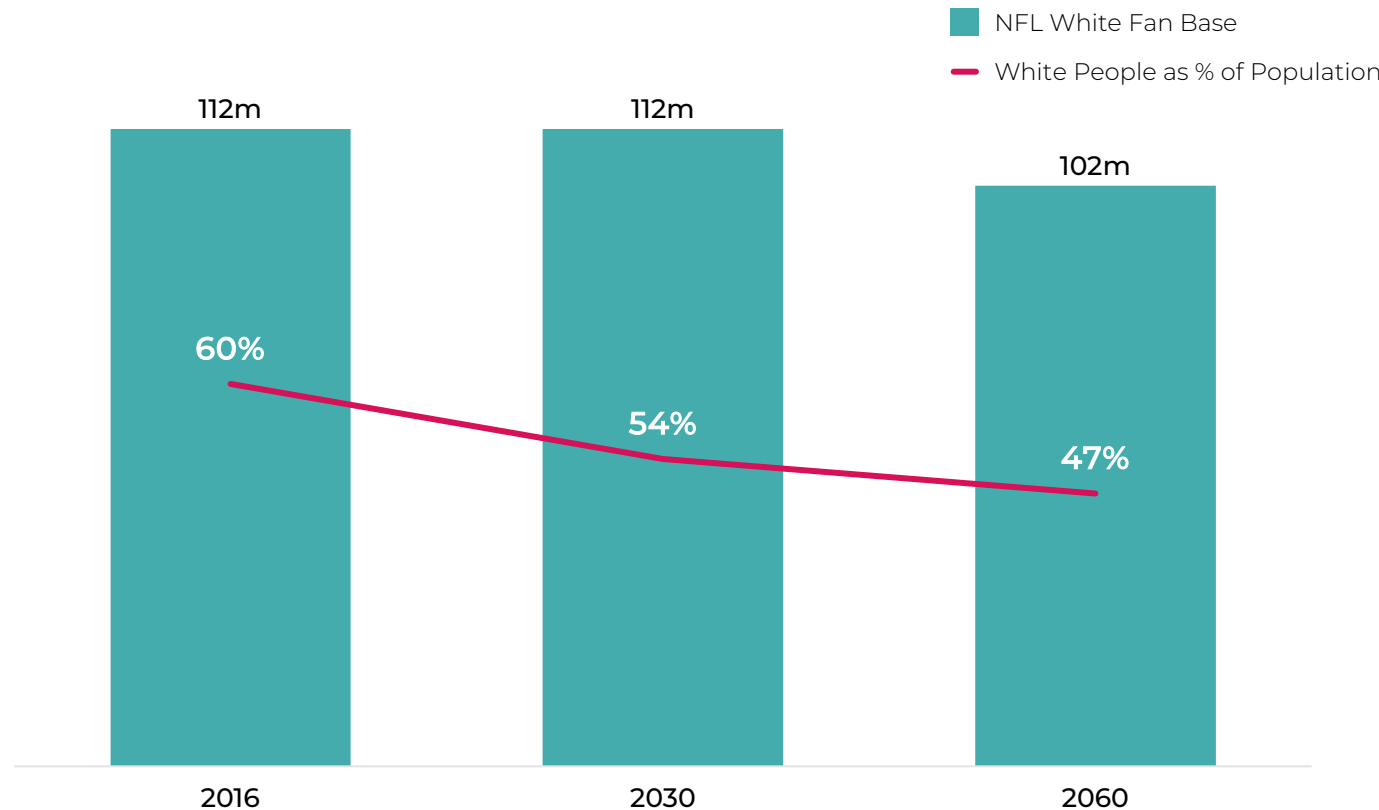
Horizon scanning

Despite being in a dominant commercial position, there are challenges for the NFL to overcome to continue its growth:

- 1** **Changing demographics** in the USA
- 2** **Reduction in the acquisition rate of new fans** of the league as participation continues to decline
- 3** **Competition for fans** with other global sport powerhouses

The changing ethnicity in the USA will slow growth if the NFL cannot build a more diverse fan base

IMPACT OF ETHNICITY ON PASSION FOR THE NFL | FAN BASE (MILLIONS)



Ethnicity in the USA will change markedly over the next three decades with the white population projected to drop from 60% of the population to 47% by 2060.

The NFL currently has a strong position in this cohort with 57% of the white population defining themselves as highly passionate about the NFL.

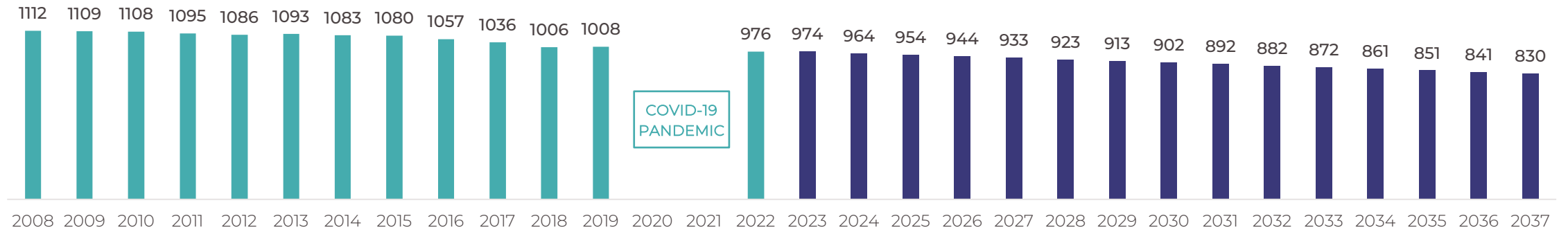
Turnstile modelling shows that population growth, estimated by the US Census Bureau, will maintain the size of the NFL fan base only up until 2030 where, thereafter, it begins to decline.

This modelling assumes that current passion levels by ethnicity do not change over this period.

The NFL is actively looking to address this challenge with both fan and industry initiatives to broaden the diversity of the sport.

The number of people playing football is steadily declining which, in turn, will result in fewer highly engaged fans of the game

HIGH SCHOOL PARTICIPATION ('000) | ACTUAL & PROJECTED (2008 TO 2022)



If you have played football, you are

80%

more likely to be a committed fan of the NFL

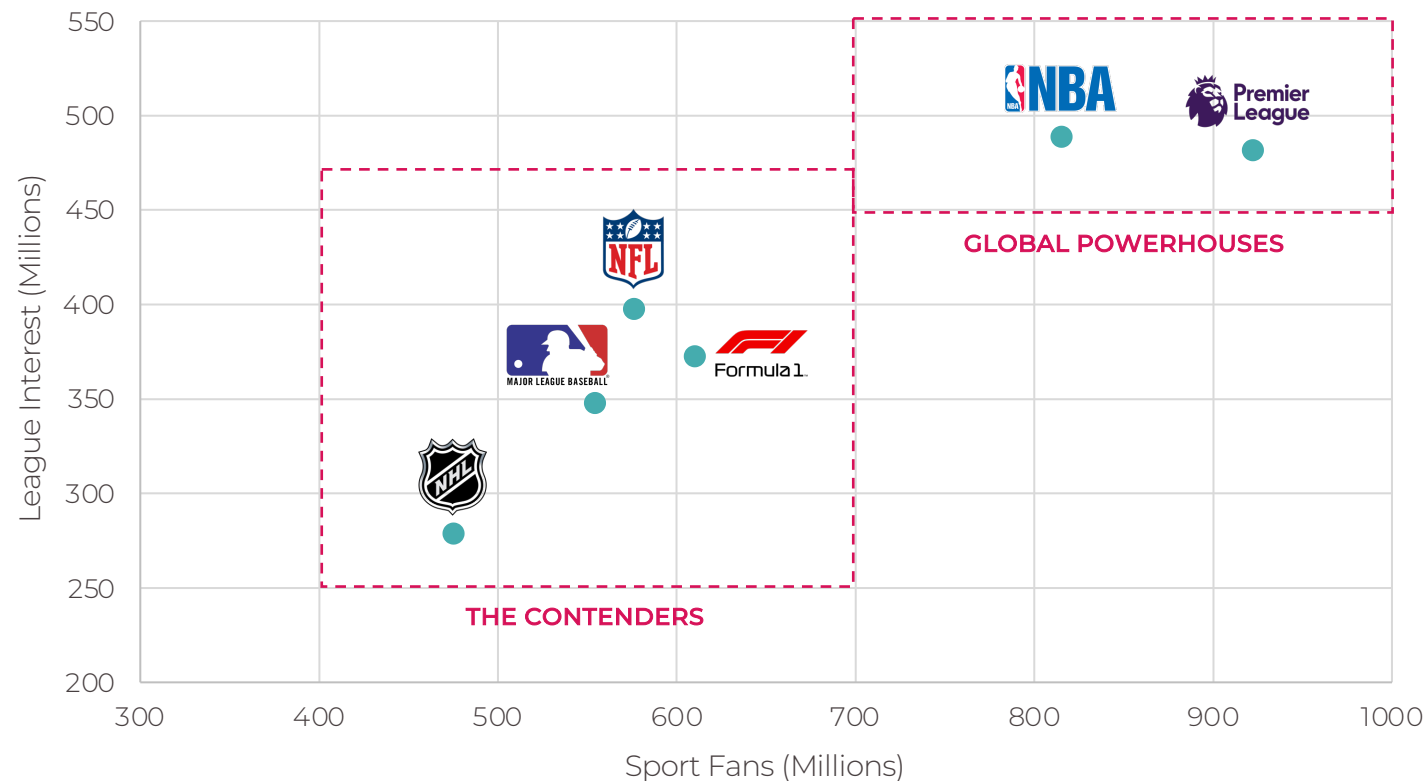
While fandom of the NFL transcends those who have played the game, a decreasing number of young people playing the sport also creates a challenge for the league.

People who have played football are almost twice as likely to become a fan of the game. If the participation base continues to decline, there will be an erosion of people who typically become committed fans of the sport.

Source: Turnstile Insights, National Federation of State High School Associations. 2020 & 21 data unavailable due to COVID-19 pandemic

The global fan bases of soccer and basketball provide a significant foundation for the Premier League and NBA compared to the NFL

SPORT FAN & LEAGUE FAN BASES | GLOBAL TEAM SPORTS



For the purposes of this analysis, the fan base of each property has been weighted by the respective purchase power parities of the markets. This is done to better reflect the commercial potential of the respective fan bases.

By virtue of the global size of their respective sport fan bases, the Premier League and NBA are the dominant global leagues.

There is a 'chasing pack' of other major leagues who are heavily investing in international fan engagement to close the gap.

The NFL currently has the third biggest fan base but trails its US compatriot by 19%.

Identifying the short-term opportunity for growth

When sports league are seeking to grow, there are typically two levers that drive revenue growth.

1. **Increasing the league's fan base** (i.e., the number of the people that can be commercialized by the league)
2. **Increasing yield-per-fan** (i.e., the amount of money that the league extracts on a per fan basis)

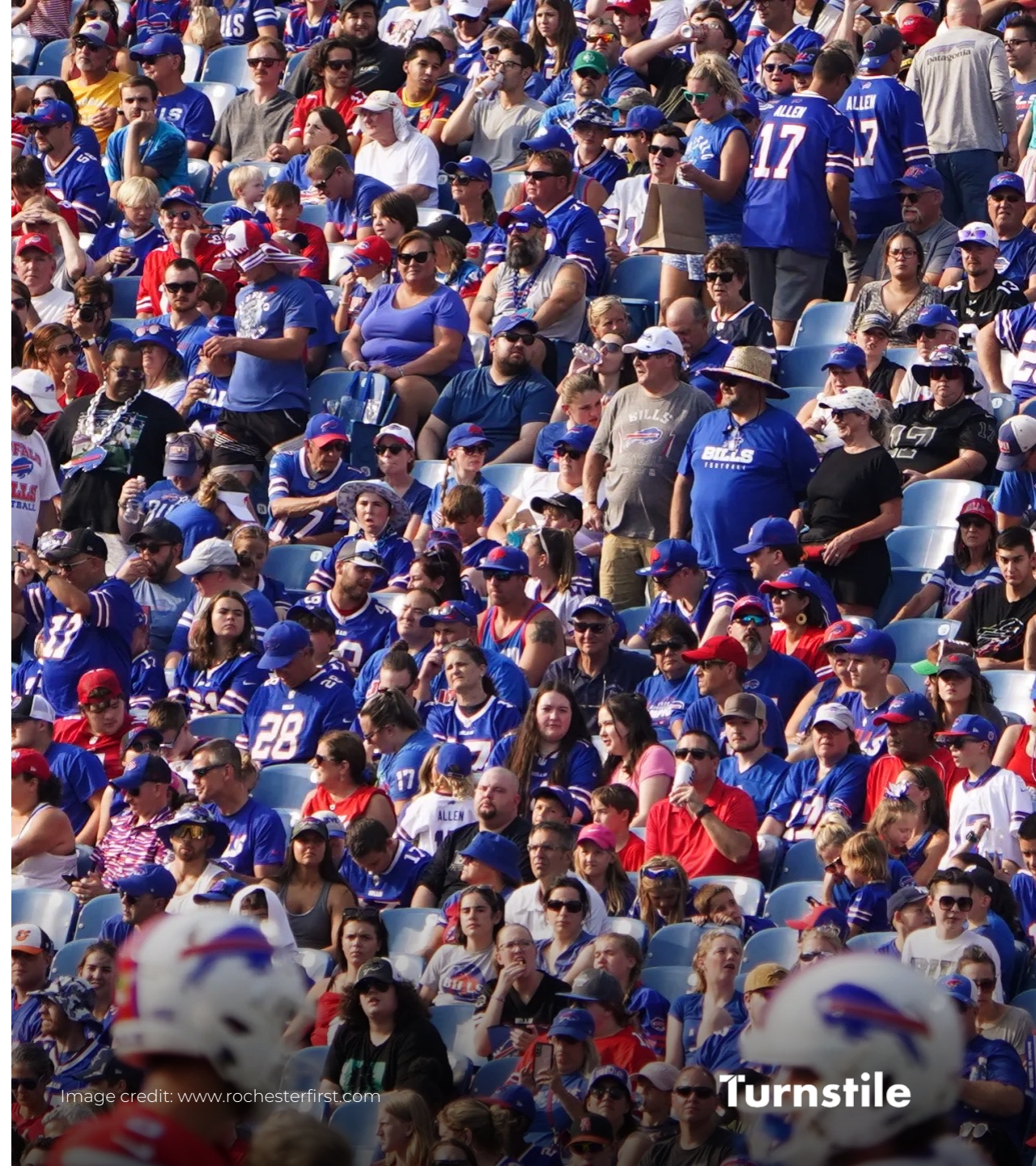
The challenges outlined in this report represent an obstacle to the first lever - fan base growth - and while the NFL is actively addressing these challenges, none are likely to be solved quickly.

Therefore, in the short term, increasing yield-per-fan is likely to be the most profitable approach with the obvious areas of revenue growth being sponsorship given that the NFL's major media rights are now locked in until 2030.

Historically, the NFL has enforced strict rules around how and where the teams are able to commercialize themselves. These rules have been carefully and strategically devised to protect the cleanliness of the NFL consumer experience and to drive as much commercial parity across the league as possible.

But with limited growth opportunity elsewhere, the NFL could choose to revisit commercial avenues it has previously resisted and lean into learnings from its peers in North America and Europe.

In the next section, we look at the viability of some of the major sponsorship opportunities available to the NFL.



03

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The NFL Patch Program

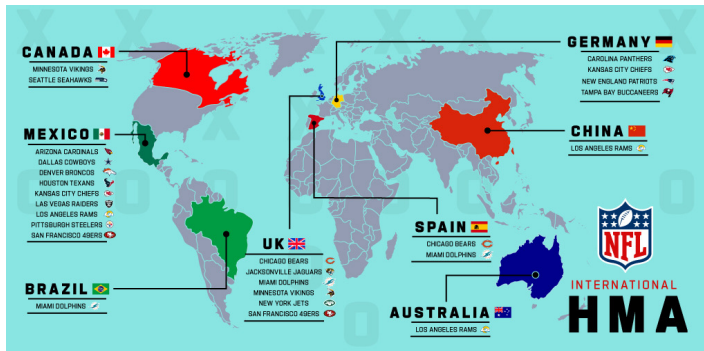
THE OPPORTUNITY FOR GROWTH

Turnstile

Within the realms of sponsorship, Turnstile has identified three areas that could help the NFL drive up revenues

SPONSORSHIP REVENUE | GROWTH OPPORTUNITIES

1. INTERNATIONAL MARKETING PROGRAM



In December 2021, the NFL awarded international marketing rights to 18 teams across 8 different countries. In 2023 this was extended to 21 teams across 14 international markets.

The initiative enables NFL teams to develop meaningful, direct relationships with NFL fans abroad, driving fan growth, avidity and of course revenue.

However, unlike teams in the English Premier League, NFL teams are restricted to select, agreed, markets which naturally limits the extent to which they are able to commercialize themselves

2. IN-BOWL EXPOSURE INVENTORY



The NFL has stood strong in preventing excessive branding from infringing both the sacred playing field and the immediate advertising opportunities that sit around it such as perimeter LED boards.

The cleanliness of the playing environment elevates the prestige of the league and the experience of those watching. It is also true that the NFL does not lend itself to the same types of sponsorship inventory seen in sports like soccer, due to the way the game is played and shot.

However, it remains to be seen if and for how long the league will continue to decline such lucrative opportunities.

3. JERSEY PATCH PROGRAM



In Europe, it is common practice to see sponsor branding appear on the apparel of almost every professional sports team with deals in the English Premier League selling for as much as £50m GBP / USD \$64m per year.

After seeing the acceptance of on-uniform advertising in global soccer, the NBA launched its jersey patch program at the start of the 2017-18 season. Five years in, the program is reportedly worth close to a quarter billion dollars. The NHL followed suit beginning with the 2022 season with the MLB joining in for the start of 2023.

For the NFL, it feels less like a question of 'if' but more a question of 'when and how much?'

01 International Marketing Program

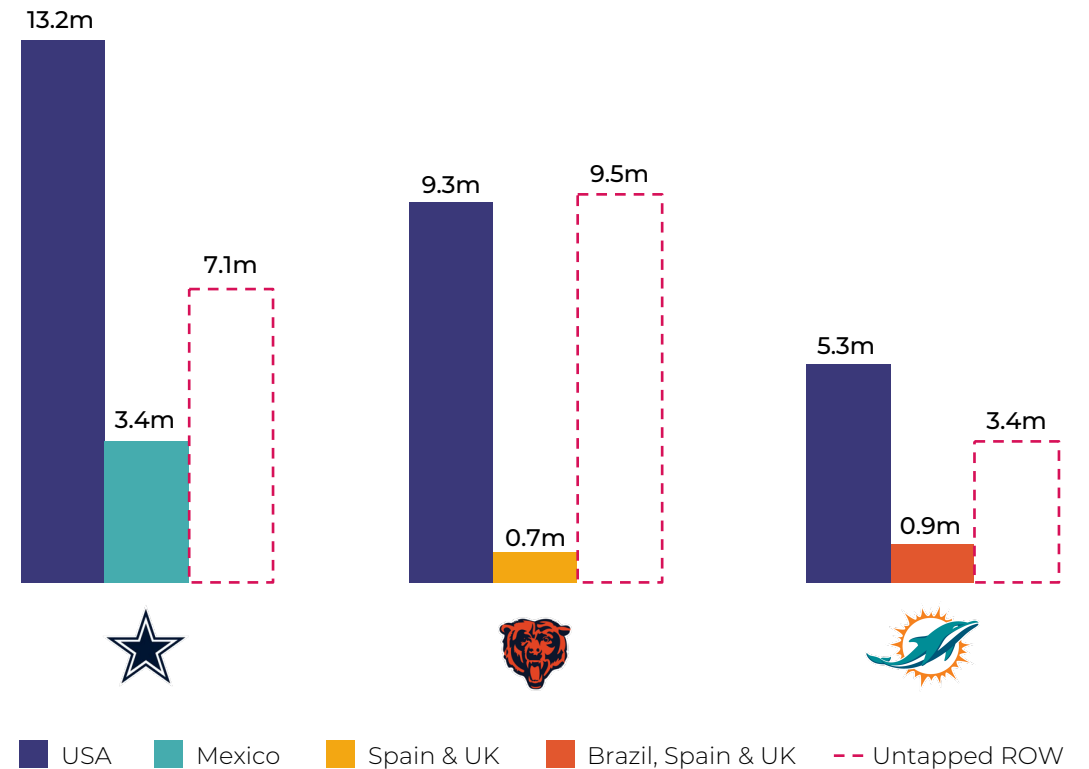
League execs have publicly acknowledged that the NFL's next 50m fans – and the revenue growth opportunities that come with them - will come from outside of the US.

The NFL's carefully considered commitment to economic and performance parity currently restricts teams to select, agreed, markets - limiting the extent to which teams can commercialize themselves globally.

In the case of the Chicago Bears, Turnstile data shows that this leaves an untapped opportunity equating to almost 50% of the team's global fan base. Overseas marketing rights granted to the Bears in Spain & the UK represent only a fraction of the team's non-domestic fan base.

While it appears that the current program restricts the ability to realize the full value of overseas fan bases, opening up global marketing rights would be a significant departure from present strategy and does not seem likely, at least in the short term.

INTERNATIONAL MARKETING RIGHTS | SELECT NFL FRANCHISES
FAN BASE (MILLIONS)



02 In-Bowl Exposure Inventory

Sports fans across the pond are frequently met with a barrage of in-bowl branding. European soccer routinely features pitch side LED and static perimeter boards while on pitch signage is common in both rugby and cricket.

Putting to one side the viability of perimeter signage in the NFL, the League takes care to protect value driven through both the positioning of the sport as a premium product and the scarcity of its sponsorship assets.

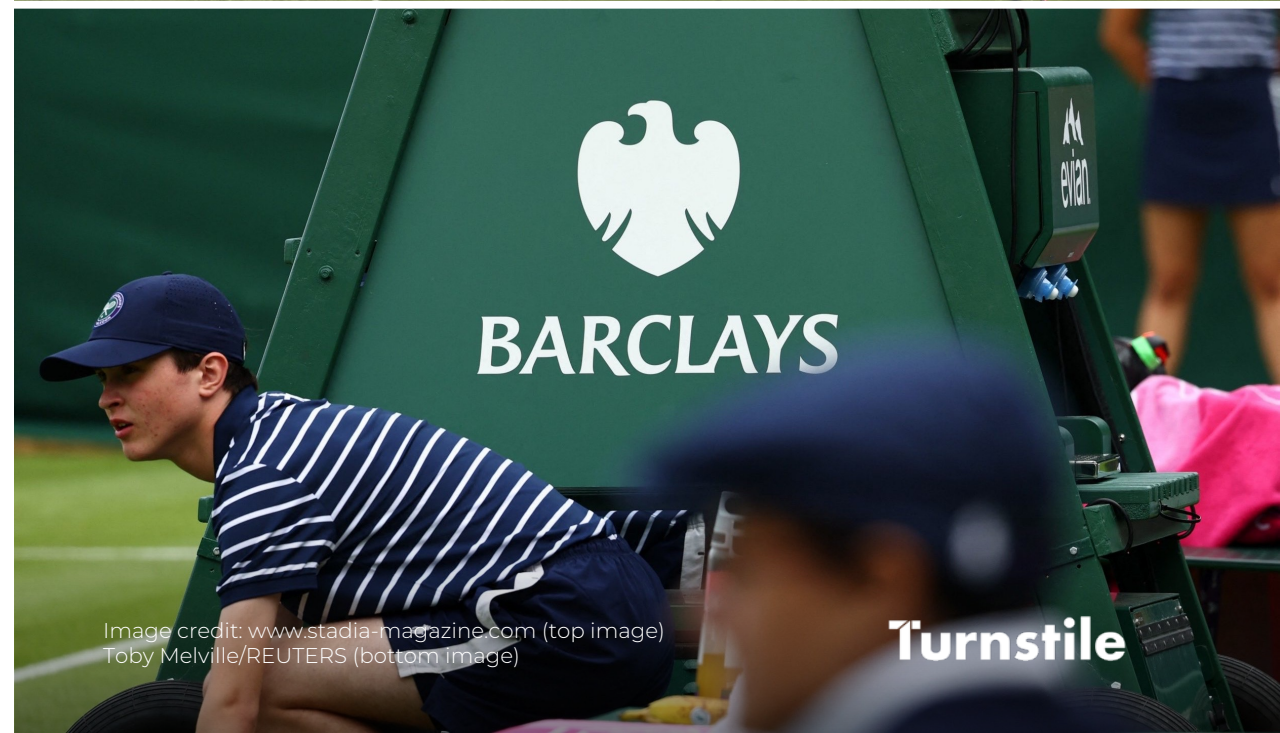
Those brands that do feature in-bowl – such as Nike, Microsoft and Wilson – are all endemic to the sporting spectacle itself. By bringing those brands into league-wide deals, the NFL ensures brand exposure is clean, consistent and uniform.

Comparison can be made with the strategies of premium European events such as Wimbledon. Wimbledon has traditionally been clean of sponsor branding except for endemic partners such as ball provider Slazenger and time keeping partner Rolex.

Over time however, we have seen courtside branding integrations, albeit subtle, of IBM, Jaguar and OPPO. This year also saw the debut of Barclays branding the umpire chair.

The strategy, it appears, is to subtly integrate a new brand each year and use the scarcity factor to ensure premium price points are achieved.

While there is no doubt that the equivalent NFL inventory would be highly valuable, our sense is that this would be too much of a departure from the norm for it to be a likely near-term revenue growth strategy.



03 The NFL Patch Program

For several decades European soccer teams have been cashing in by offering their major partners the opportunity to brand their playing shirts.

And it's easy to see why.

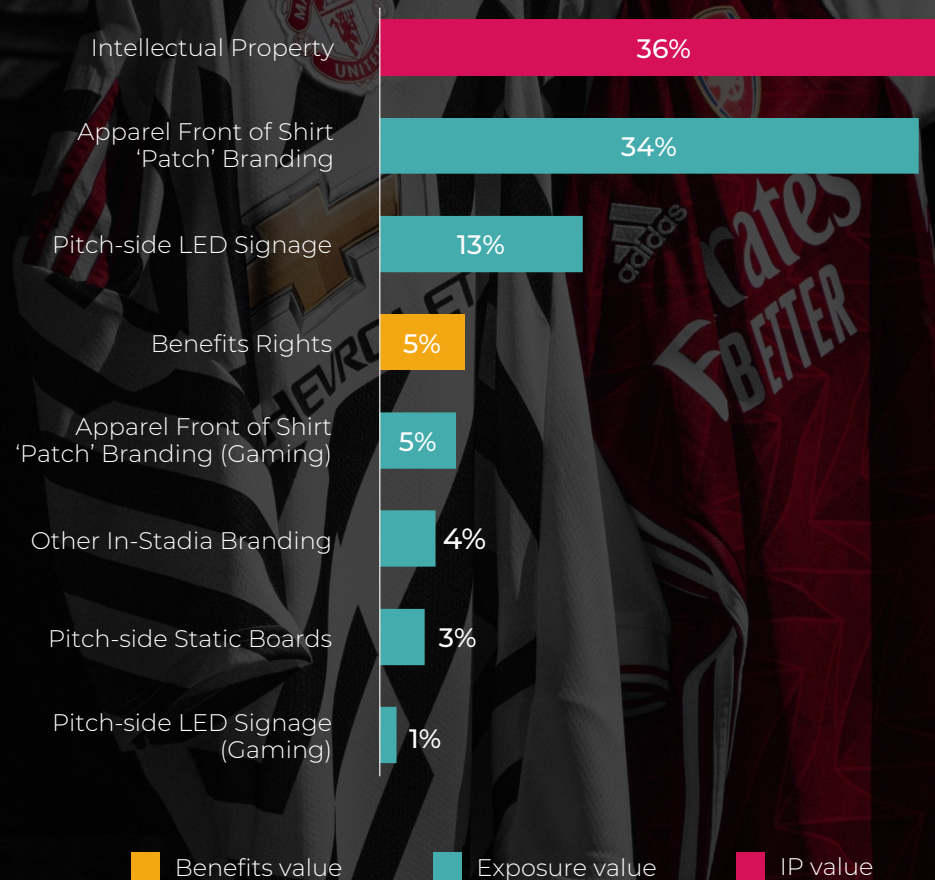
The top 6 English Premier League clubs are averaging USD ~\$60m for their front-of-shirt 'patch' deals. Within these deals over 30% of the value is delivered by the in-play patch exposure itself and the remaining value delivered by additional Exposure, Intellectual Property and Benefits rights.

When it comes to the second-tier sleeve patch deals, the big Premier League clubs are fetching as much as an additional USD \$25m, demonstrating the considerable demand for these types of exposure assets.

Critics have argued that global soccer teams have become lazy in their commercialization approach, relying too much on their major exposure assets. But it is hard to deny the willingness of big brands to pay big bucks for a share of visibility on the jerseys of professional athletes.

Following the success of programs instigated by its peers, an NFL Patch Program feels closer than ever. But how much revenue could the NFL reasonably expect in return for opening up each team's jersey to exposure hungry brands?

AVERAGE PERCENTAGE OF DEAL VALUE
TOP 6 PREMIER LEAGUE TEAMS | FRONT OF JERSEY PARTNERSHIPS



Source: Turnstile Insights

Image credit: Photo by Braden Hopkins on Unsplash





InTel Report 007
The NFL Patch Program

THE NFL PATCH PROGRAM – HOW MUCH?

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Our Valuation Methodology

Interpretation of this report requires an understanding of the fundamentals of Turnstile's valuation approach.

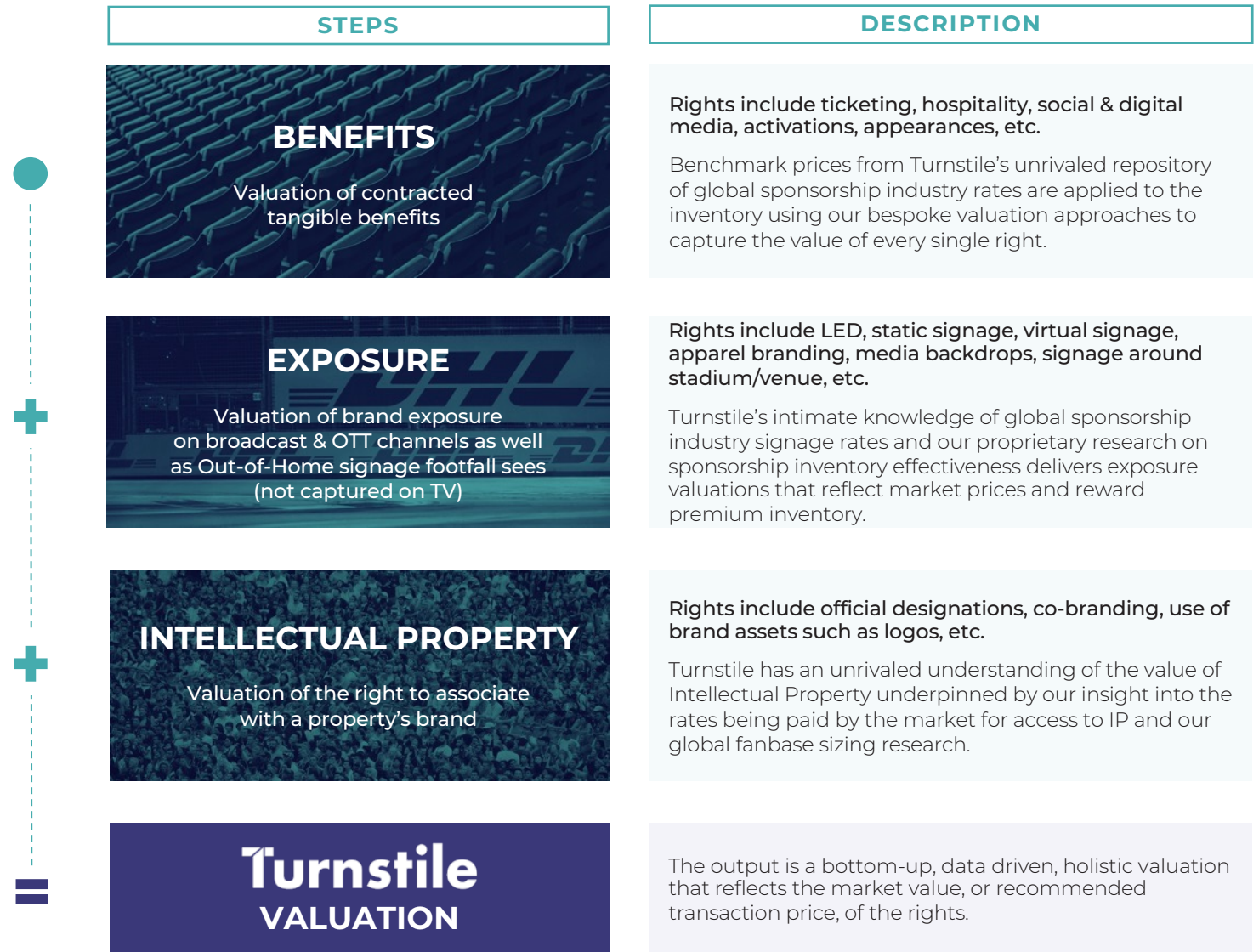
We don't believe in media equivalency, Turnstile looks beyond pure media exposure value to capture the value of all the tangible sponsorship Benefits as well as the value of association, or Intellectual Property.

Our bespoke approaches and data sets are designed to provide a holistic and realistic valuation of every single sponsorship right.

Unlike media equivalency, a Turnstile valuation does not require arbitrary discounting to bring it in line with a realistic transaction price.

Our valuation is the recommended, fair market price.

Accurate, credible & defensible.



Core Rights Valuation Estimate – The NFL Patch Program

BENEFITS

ESTIMATED VALUATION

\$34m
\$1m per team

When analyzing global properties' jersey patch and apparel branded deals, we have found that a higher proportion of value is driven by Exposure & Intellectual Property than typical Team deals.

Due to the nature of the NFL's reach in audience, we have applied similar benchmarks in determining the typical deal composition for an NFL team.

Turnstile values these additional contracted Benefits in the proposed Patch Program at \$33.6m, or an average of \$1.1m per team, equating to 5% of total deal value.

EXPOSURE

ESTIMATED VALUATION

\$458m
\$14m per team

Based on our work at the global level, along with numerous jersey patch and apparel branded rights valuations, it would not be unrealistic to see a brand receive an average of ~9 minutes of brand exposure per game as a result of the patch branding.

Applying our understanding of the NFL's broadcast & OTT audiences and the market rates being paid to access these types of Exposure assets, Turnstile has valued Exposure at \$458.3m, or an average of \$14.3m per team.

NFL TEAM INTELLECTUAL PROPERTY

ESTIMATED VALUATION

\$181m
\$6m per team

Turnstile invest heavily in a global research program that captures the fan base size of major teams, leagues and events around the world – including the NFL's 32 teams. Our research, coupled with analysis of hundreds of global sponsorship contracts, has proven the high degree of correlation between the number of fans of a property and the amount paid to access IP.

By leveraging our data on NFL team fan bases, alongside IP rates specific to top tier Team partners, Turnstile values the Intellectual Property of the patch program at \$180.9m, or an average of \$5.7m per team.

Turnstile values the NFL Patch Program revenue opportunity at \$673m per year, boosting sponsorship revenue by 25%

SPONSORSHIP REVENUE | MILLION (USD \$)

Turnstile's NFL Patch Program valuation is primarily driven by Exposure at a cumulative value across the league of \$458m, or 68% of total program value.

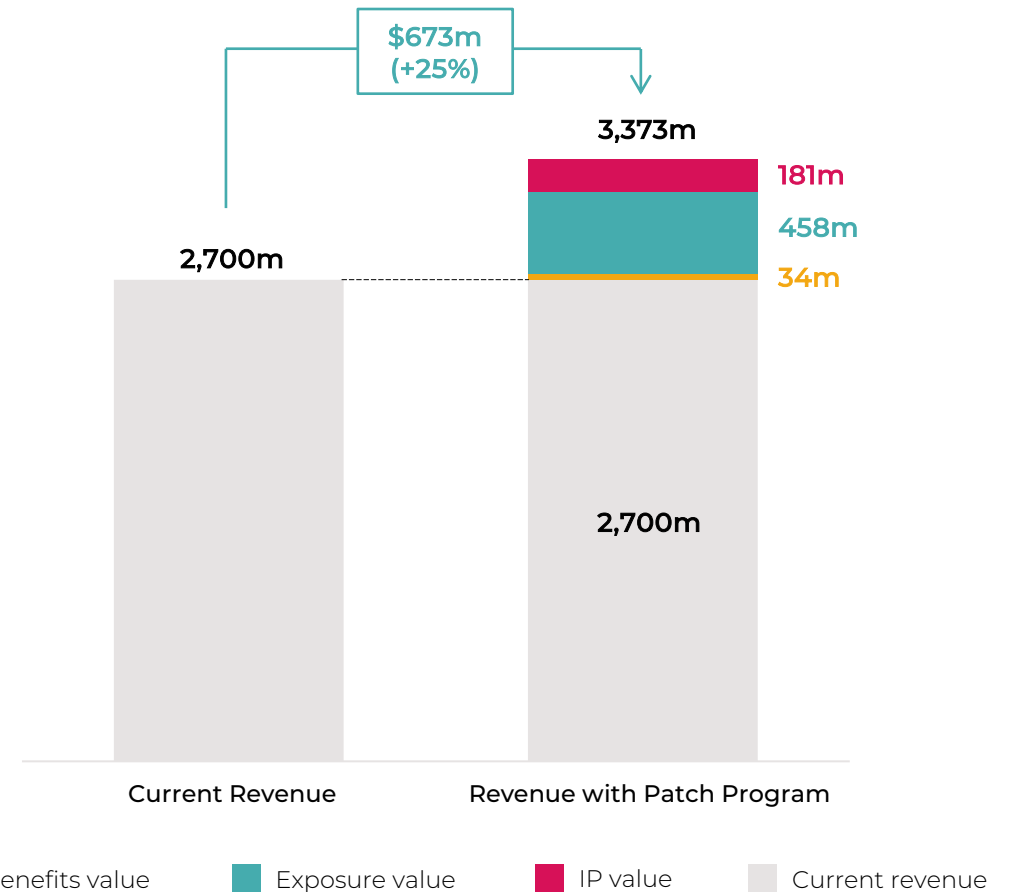
The program adds a further \$181m in Intellectual property value, contributing 27% of program value.

Lastly, Benefits rights are expected to drive a further \$34m, making up the remaining 5% of overall program value.

The average deal value per team is estimated to be \$21.1m. Naturally the upper and lower bounds of individual team deals will be pulled apart by a variety of factors including home market size, primetime exposure, and brand strength at home and overseas.

Turnstile's valuation has been completed from the outside looking in, using global benchmarks to estimate the rights contained within a hypothetical patch sponsorship program.

The valuation also assumes that full, fair market value is realized by each of the league's 32 teams. The reality, of course, is that it would take time to realize the full commercial value of such a program – especially with the recent influx onto the market of similar assets from other domestic leagues including the NBA, NHL and MLB.



So how imminent is an NFL Patch Program?

Patch programs have become a well-trodden path. The success of the NBA, NHL and MLB with their respective roll outs certainly increases the probability of a similar approach for the NFL at some stage in the future. However, for senior NFL administrators, the considerations, or hurdles, that need to be overcome may be more complex than they seem from the outside:

1. Category conflict

This issue is currently very well managed across the NFL but with the concept of making an additional 32 team sponsors visible across the broadcast experience, there is a need to be mindful of existing sponsors such as those that hold the stadium naming rights. How would long-time Dallas Cowboys partner AT&T feel about the Washington Commanders coming to town with a Verizon patch?

2. The location of the patch

Unlike in other sports it's not immediately obvious where the patch would go. In relation to other sports, NFL jerseys are comparatively clean of clutter. However, care would need to be taken to avoid competing with Nike, team logos, commemorative patches, and others, like the captain's patch and Walter Payton Man of the Year patch.

3. Timing

Is now the right time for the market? Across the NBA, NHL and MLB there is a flood of new and similar assets currently on sale. Picking the right time to launch a new, and strategically important, commercial product such as this will ensure the best possible precedent is set from a pricing perspective. If anyone has the luxury of time to ensure a fully informed and considered decision is made, it's the NFL.



05

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The NFL Patch Program

ABOUT TURNSTILE

Turnstile

Turnstile was built to help the sport and entertainment industry answer the million-dollar question...

“how much is this sponsorship actually worth?”

MEDIA EQUIVALENCY

Two decades ago, to start ‘valuing’ sponsorship the industry borrowed an approach directly from the advertising industry – ‘Media Equivalency’.

The approach applies TV advertising rates to the amount of time a logo spends on screen.

The output is an over inflated and unrealistic value which bears no correlation to the actual market value, or transaction value, of the sponsorship.

The outcome is that buyers and sellers are left guessing on the actual market value of the sponsorship assets.

TURNSTILE FAIR MARKET PRICING

The industry is now seeking credible, accurate and defensible valuations that reflect the actual market value, or recommended transaction value, of the assets.

Turnstile was created to meet this industry need.

Our approach is premised on using market rates sourced directly from the sponsorship industry and applying them to a valuation methodology built for the modern sponsorship era.

We don’t just value the media, or Exposure, assets. We’ve built a best-in-class approach to valuing the Intellectual Property of the rights holders, as well as all of the tangible benefits rights.

Turnstile is the global market leader in the provision of fair market price sponsorship valuations.

Using a combination of proprietary insights and actual market rates, Turnstile produces sponsorship valuations that are accurate, credible and defensible.

USD \$2.5BN

in global sponsorship deals valued

Turnstile valuations within 3% of overall transaction value

Our work is underpinned by rates sourced from the USD \$2.5bn in global sponsorship valuations we've completed to date

When we value deals, we see the contracts including the exact fees paid and the rights schedule. From this we can calculate actual market rates for every type of sponsorship right. We then anonymize and handpick the most relevant rates when valuing deals for our clients. Our clients leverage unrivaled market data into how the industry is actually transacting.

Actual markets rates. Sourced directly from global sponsorship contracts.

Turnstile

GLOBAL SPONSORSHIP INTELLIGENCE

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If you would like to learn more, please get in touch
info@turnstilegroup.com

New York

New York, NY

T +1 201 983 7293

London

20 Eastbourne Terrace
London, W2 6LA

T +44 (0)7534 293 959

Sydney

Level 3, 4-14 Foster Street
Surry Hills NSW 2010

T +61 2 8020 6550

Melbourne

Level 1, 289 Flinders Lane
Melbourne VIC 3000

T +61 3 9526 5700