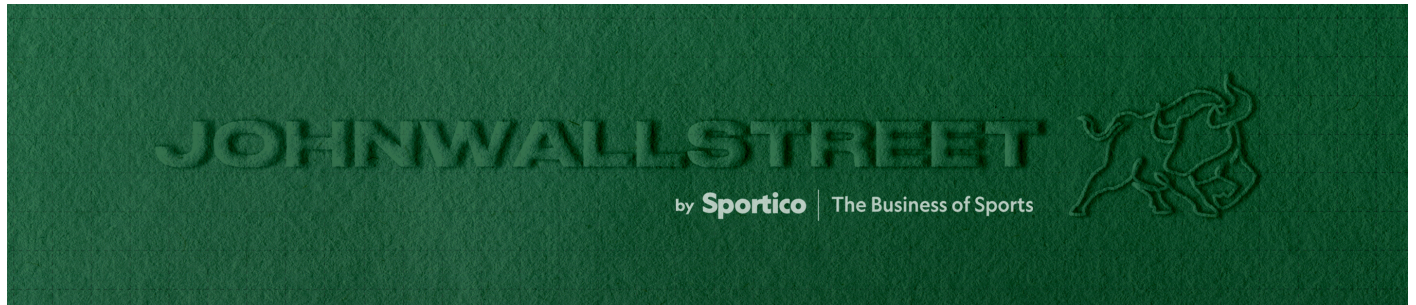




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SEPTEMBER 14, 2022

# SINCLAIR RSN SALE TALK MAY BE WARNING SHOT TO LEAGUES AND TEAMS



Diamond Sports Group—the Sinclair-owned subsidiary that controls the 21 Bally Sports regional sports networks—was [reported](#) to have hired an investment bank (LionTree) and a financial advisory firm with an expertise in corporate restructurings (Moelis). Some industry insiders believe the moves suggest the

company is preparing to unload the cable assets—and presumably much of the \$8 billion in debt owed on them.

When asked about the hires by JWS, Sinclair said in a statement: “Diamond has been engaged with Moelis & Co and LionTree for the last two years in pursuit of two objectives: strengthening the balance sheet and bringing in strategic partners. As a result of those efforts, an exchange offer and financing was completed in March of 2022, and we continue to work with these advisors to further those same objectives.”

A pair of veteran former media executives, including one who currently serves as a consultant to several Diamond Sports debt holders, believe Sinclair is downplaying hirings and view the report of them as a warning shot to the NBA, NHL and MLB, and their teams. Both spoke to JWS on condition of not being named.

The thinking is that Sinclair would not want the leagues slowing or scuttling a deal that would solve Diamond’s financial problems. League and team cooperation would also help justify an investment in the business or a newly formed entity. If the leagues and their teams believe a bankruptcy filing is likely, the bet is they will be apt to agree to a reorganization that prevents that outcome.

“It is preparation for investors to come in, restructure Diamond and take Sinclair at least partly out,” one of the executives said. “[The hirings are] designed primarily to scare the leagues, so they don’t think they have any leverage in those negotiations.”

**JWS’ Take:** Widespread predictions that Sinclair is heading toward bankruptcy have fueled speculation that the company may want to sell the Diamond Sports RSNs. But both former media execs we spoke to said it’s far more likely Sinclair will restructure its debt or trade some debt for equity. Doing so would enable Sinclair to retain an ownership position in the RSN conglomerate—albeit a far smaller one—and potentially still profit on its purchase of the networks.

If Diamond is forced to file for Chapter 11, the judge could decide to reduce the rights fees owed to the pro sports organizations moving forward—an outcome those organizations desperately want to avoid. Reorg Research, a media outlet focused on the distressed debt, high-yield and leveraged-finance markets cited in the initial report, believes filing for Chapter 11 would be a costly outcome for the leagues and their teams—more for some teams than others.

“Local [MLB] TV deals average between 22%-24% of total club revenues,” said Lou DePaoli (managing director executive search and team consulting, General Sports Worldwide). “So, if the Bally/Diamond teams had their fees cut in half, you would be looking at a large decrease, but not crippling in and of itself.”

While in theory teams would have the ability to reject a reduction, there is no real viable, at-scale alternative for them at this point. Direct-to-consumer will not fully offset the revenues that would be lost if they were to walk away.

That does not mean the threat is hollow. Diamond Sports’ debt is trading at \$0.22 on the dollar (after trading at around \$0.50 on the dollar earlier this summer), meaning investors are expecting the company to default—even with the company completing a carriage deal with Charter and rolling out a DTC solution.

In fact, at least some debt holders believe the company will be unable to service its covenants beyond Q1 of 2023. It is worth noting that although Sinclair controls Diamond Sports Group, it is not on the hook for any of the debt.

While the debt holders referenced may end up being early with their modeling, it seems clear Sinclair is running out of time to recapitalize Diamond Sports and sort out its debt issues. If Diamond defaults on the debt, it will end up in Chapter 11.

Sinclair should find investors interested in assuming and rightsizing the debt. Liberty Media, which has previously expressed interest in the RSNs, was mentioned by the former media execs. As one of the former executives put it: “This is exactly what [Liberty] did to get a hold of SiriusXM years ago. They bought up all the bonds and all the debt for cents on the dollar, and now they have a pretty good asset.”

Apollo Global Management, Tom Gores’ Platinum Equity and Amazon were also mentioned. The latter already owns a piece of YES Network.

Sinclair does not need the leagues’ cooperation to restructure its investment, but any rational investor will want the leagues to be on board with the plan. If the leagues are stakeholders in a new or revamped RSN conglomerate business, the clubs will likely be more inclined to grant it long-term digital rights.

Controlling the teams’ digital rights would give the entity—and its new investors—downside protection. Even in a world where linear TV is eventually eliminated, the

teams and games could still be monetized, albeit likely for less, on a direct-to-consumer basis.

Do not expect the leagues to pursue a controlling interest in the cable networks this time around. Even if owners across the NBA, NHL and MLB were able to collectively agree on rights valuations, ownership percentages and revenue splits, and were willing to come out of pocket with the money needed, they know DTC cannot replace the established system with distributors.

The next couple of years are expected to be rocky, distribution-wise, for RSN businesses. However, once digital re-bundling begins to take shape and RSNs can begin to stabilize their subscriber growth, the conglomerate could likely be sold at a profit—maybe to the leagues.



**REPLY TO JOHNWALLSTREET**

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## **MARKET SNAPSHOT**

Based on most recent close