PART 1

# Media Sector Spotlight: Pit Stops and Playlists

Artisan Partners Growth Team

ARTISAN PARTNERS
Insights

For Institutional Investors Only—Not for Onward Distribution

A R T I S A N P A R T N E R S

Media has not been a growth sector for many years as internet and direct-to-consumer models have transformed the sector. Businesses like linear media and music have been fundamentally transformed over the last few decades, and we have seen a lot of historically strong business models come under pressure.

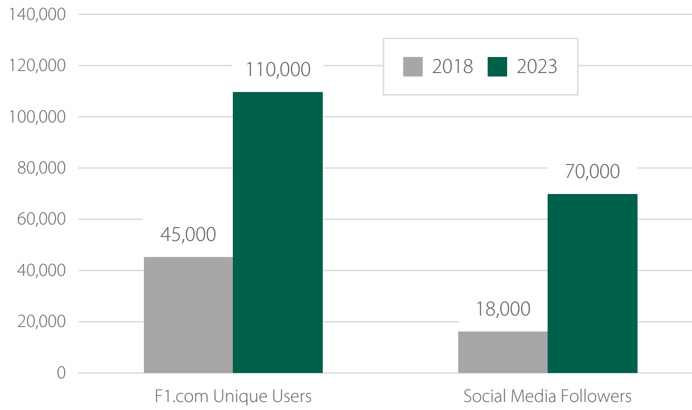
That being said, we think that we can find interesting profit cycles even in challenged industries.

In the first part of this series, our focus is on Formula One (F1), which has been popular in Europe for many years but was relatively unknown elsewhere. The league was acquired by Liberty Media in 2017. Liberty Media has been around for decades and owns interests in a broad range of media, communications and entertainment businesses. However, it has split into tracking stocks focused on its different business areas in recent years. One of these tracking stocks offers investors exposure to the F1 asset ("Liberty Media Formula One").

Liberty has applied its expertise around developing and distributing content to turbocharge F1's popularity globally. The driving force (pun intended) has been the hit series "Drive to Survive" on Netflix, which tells the story of the technology, drama, and personalities behind the race. These efforts have pulled in new audiences, both geographically, particularly in the United States, and demographically, as viewership is reaching a younger and more female audience (40% of the fan base is female today). Exhibit 1 displays F1's skyrocketing online engagement, which is strong evidence that its fan base wants to engage with the league regularly.

Our thesis is F1 will be able to capitalize on this increased excitement across its entire business, including media rights, race promotion and sponsorship.

**Exhibit 1: F1 Engagement Metrics (Thousands)**




Source: Wolfe Research, "*Peaking Fan Interest? Not So Fast.*" As of 1 Aug 2024.

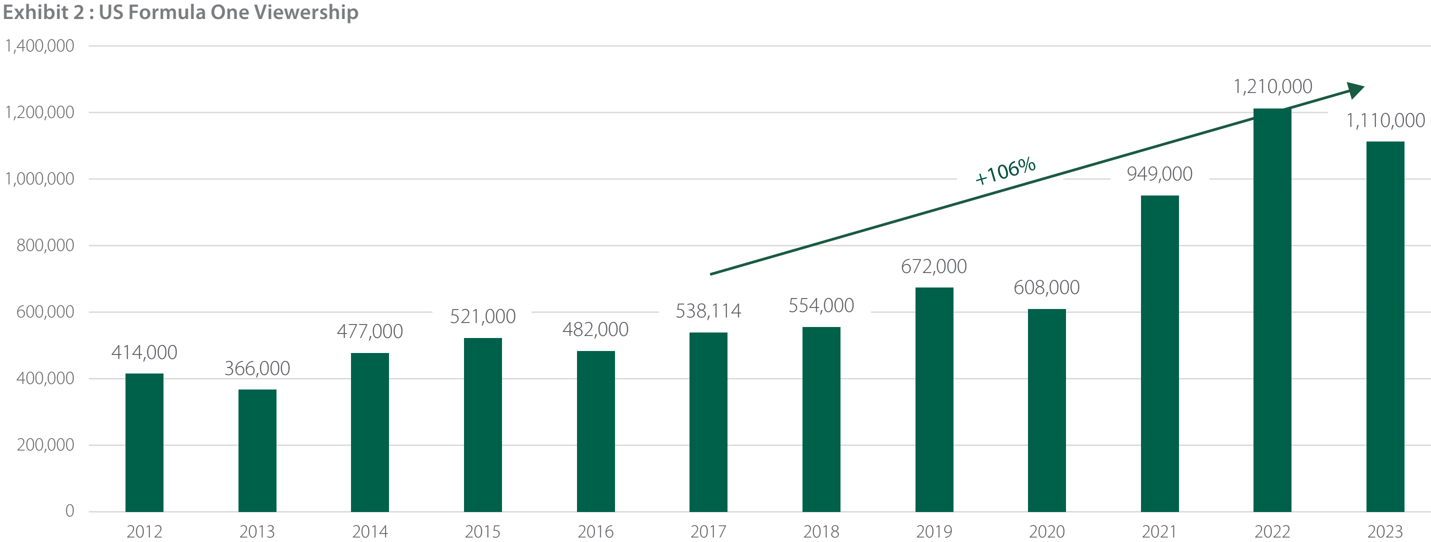
## Media Rights

Looking at Exhibit 2, F1 has more than doubled its viewership in the US since Liberty's acquisition, a big win since sports in the US are highly monetized.

On the linear side, sports are essential to cable providers and networks. Sports attract and retain subscribers for cable providers, which leads to more affiliate fees—calculated on a per-subscriber basis—for network owners. For example, a cable customer may subscribe to watch ESPN, but Disney, which owns the sports network, will collect fees for its other media networks, including A&E and the History Channel.

Sports is also increasingly important for streamers. For example, Amazon agreed to pay $1 billion per year for Thursday Night Football, and Google pays $2 billion per year for NFL Sunday Ticket. Netflix has also gotten into live entertainment with a 10-year global deal with WWE and streaming of select NFL games. As streamers further monetize their services with advertising, sports will only become more crucial. And advertisers love

**Exhibit 2 : US Formula One Viewership**




Source: JP Morgan "*Sports Right Almanac – 2024.*" As of 27 Jun 2024.

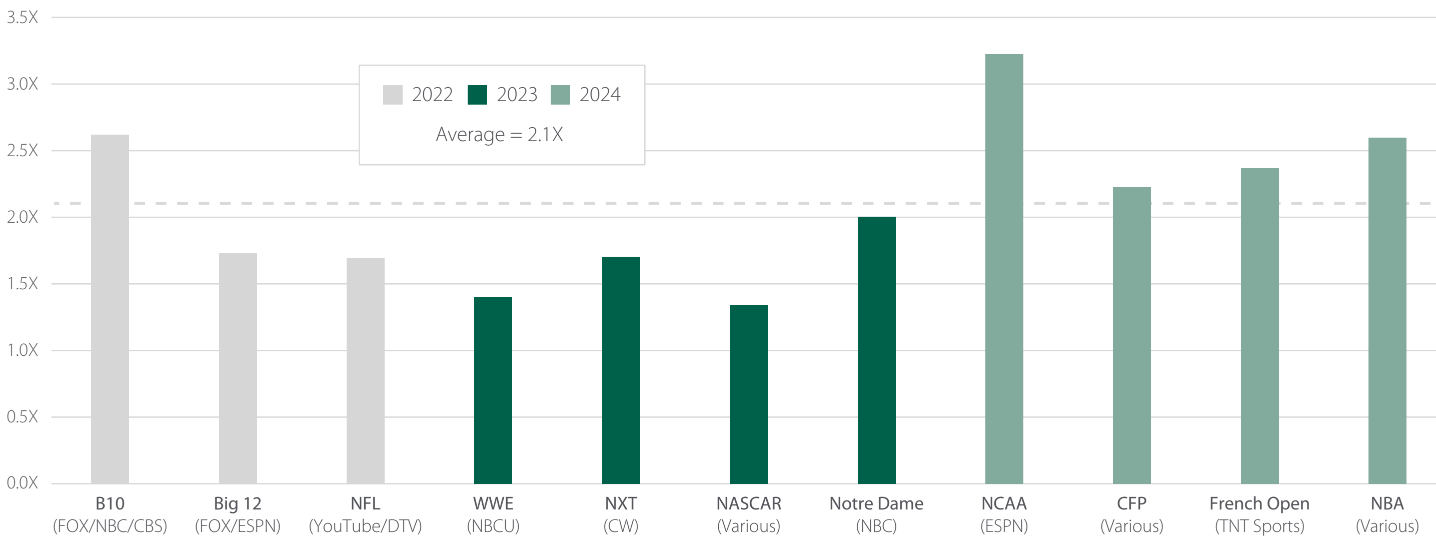
live events because they can reach many people at once who tend to be highly engaged.

This means sports assets command premium pricing.

Sports leagues have secured big price increases in recent rights renewals with distributors. Looking at Exhibit 3, rights renewals across select sports have averaged a 2.1X step up in average annual value. F1 is not the NFL or the NBA, but there is much to like. Each of the league's 24 races per year has global cultural prestige that people love to watch live.

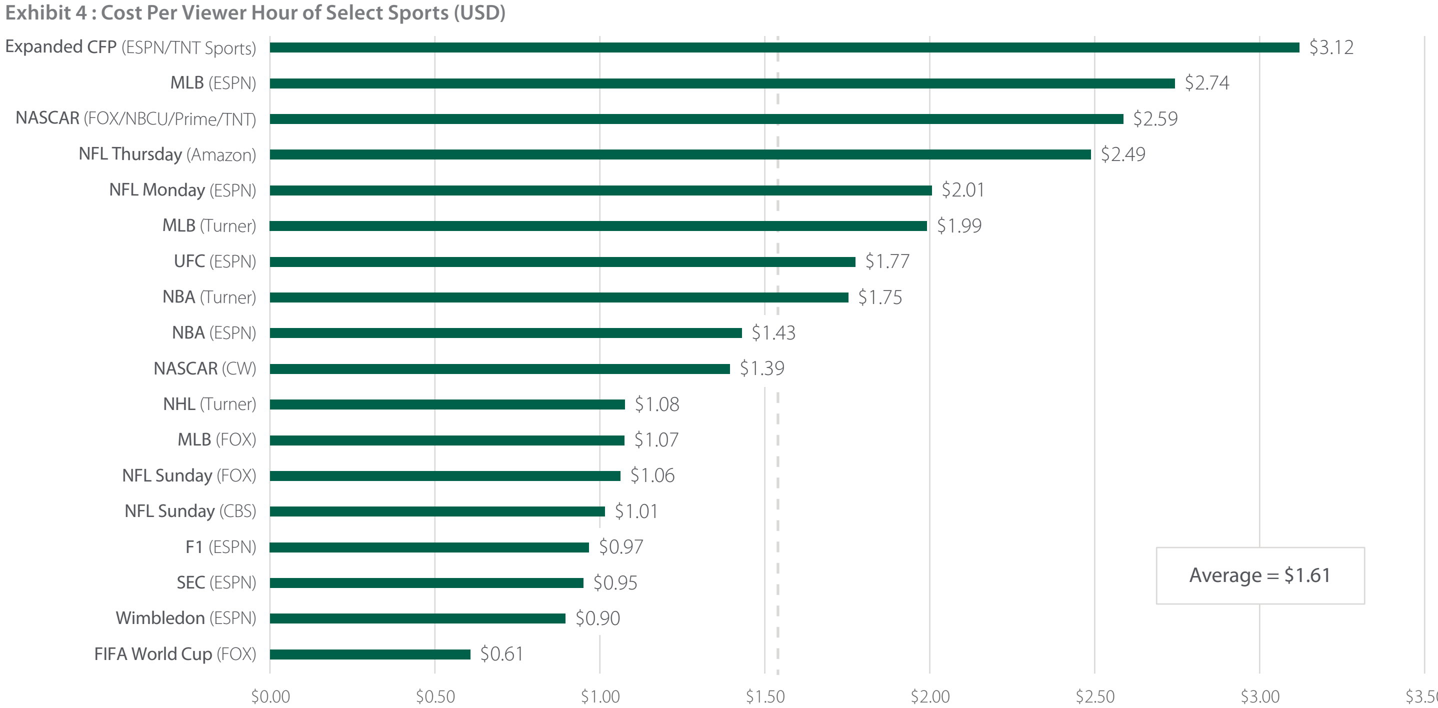
Compared to the last round of US media rights negotiations, F1 has a larger and more demographically attractive audience. As a result, there are more bidders for its media rights, and importantly, F1 is underpriced on a dollars per hour watched basis. Exhibit 4 shows the cost per viewer hour of various sports. F1's cost per viewer hour is $0.97 versus an average of $1.61 across the industry. The last thing to note is, unlike linear TV, streaming is a global business, and there aren't a lot of global sports leagues out there. As such, we believe F1 is especially attractive for streamers looking to attract a global audience.

**Exhibit 3 : Value Increases of Right Renewals**




Source: JP Morgan "*Sports Right Almanac – 2024.*" As of 27 Jun 2024.

**Exhibit 4 : Cost Per Viewer Hour of Select Sports (USD)**

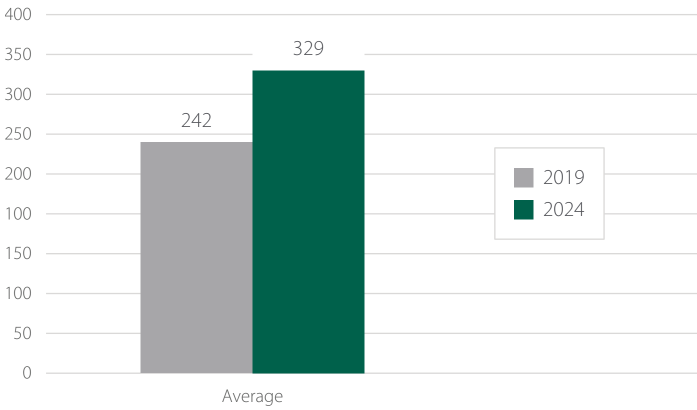



Source: JP Morgan "*Sports Right Almanac – 2024.*" As of 27 Jun 2024.

## Promotion and Sponsorship Revenue

In addition to media rights, F1 generates revenue from promotion fees and sponsorships. Both are trending in same direction as media rights. Looking at Exhibit 5, average race attendance is up almost 40% from pre-COVID levels. We believe this means more bidders for races and rising sponsorship revenues for F1.

**Exhibit 5 : F1 Race Weekend Attendance (Thousands)**




Source: Wolfe Research, "*Peaking Fan Interest? Not So Fast.*" As of Aug 1 2024.

To sum it up, the league continues to grow its audience, and we believe monetization has a way to go before it catches up to this growth.

## Rising Margins

The same dynamic exists on the cost side. F1 pays racing teams a percentage of EBITDA. Last year, it paid out $1.2 billion. The Concorde Agreement, the company's agreement with the teams, is currently being renewed. This is an opportunity for F1 to take back some economic interests because greater exposure and larger audiences mean the teams have made significant gains. For example, in late 2023, Aston Martin sold a stake in its team at a £1 billion valuation and again in 2024 at a £1.5billion-£2-billion valuation. F1 has proven its value to the teams, and hopefully, it can improve its gross margin profile.

When we put together all these dynamics, we believe F1 is a unique asset that will benefit from a period of strong revenue growth and expanding margins.

The last thing to mention is that while there is still a lot of growth left at F1, the company is going through regulatory approval for MotoGP™, a motorcycle-based racing sport that we think could see a similar growth trajectory as F1.

## Artisan Partners Growth Team

The following team members contributed to this report

Jason White, CFA
Portfolio Manager

Matt Kamm, CFA
Portfolio Manager

Angela Wu
Analyst

## Investment Process Highlights

We seek to invest in companies with franchise characteristics that are benefiting from an accelerating profit cycle and are trading at a discount to private market value.

### Security Selection

We seek to identify companies with franchise characteristics that are selling at attractive valuations and are benefiting from an accelerating profit cycle. We look for companies that are well positioned for long-term growth, driven by demand for their products and services, at an early enough stage in their profit cycle to benefit from the increased cash flows produced by the emerging profit cycle.

## Capital Allocation

Based on our fundamental analysis of a company's profit cycle, we divide the portfolio into three parts. Garden℠ investments are small positions in the early part of their profit cycle that will warrant a more sizeable allocation once their profit cycle accelerates. Crop℠ investments are positions that are being increased to a full weight because they are moving through the strongest part of their profit cycle. Harvest℠ investments are positions that are being reduced as they near our estimate of full valuation or their profit cycle begins to decelerate. We believe that adhering to this process increases the likelihood of delivering upside participation with downside protection.

### Broad Knowledge

We overlay security selection and capital allocation with the capability to invest opportunistically across the entire global equity spectrum. It is our goal to have broad knowledge of the global economy to ensure that we are able to find growth wherever it occurs. This capability extends from the design of our team, which leverages the broad experience of the portfolio managers and the deep expertise of the analysts on the team.

## Team Overview

We believe deep industry expertise, broad investment knowledge, a highly collaborative decision-making process and individual accountability are a powerful combination. Since the inception of the team in 1997, we have been committed to building a team of growth investors that retains these attributes and is solely dedicated to our process and approach.

### Artisan Strategies Managed

- Global Opportunities Strategy
- Global Discovery Strategy
- U.S. Mid-Cap Growth Strategy
- U.S. Small-Cap Growth Strategy

For more information: Visit www.artisanpartners.com

**Investment Risks:** International investments involve special risks, including currency fluctuation, lower liquidity, different accounting methods and economic and political systems, and higher transaction costs. These risks typically are greater in emerging and less developed markets, including frontier markets. Securities of small- and medium-sized companies tend to have a shorter history of operations, be more volatile and less liquid and may have underperformed securities of large companies during some periods. Growth securities may underperform other asset types during a given period. These risks, among others, are further described in Artisan Partners Form ADV, which is available upon request. This is a merketing communication.

This summary represents the views of the portfolio managers as of 31 Dec 2024. Those views may change, and the Strategies disclaim any obligation to advise investors of such changes. For the purposes of determining the Strategy's holdings, securities of the same issuer are aggregated to determine the weight in the Strategy. The holdings mentioned above comprise the following percentages of a representative account within the Composites' total net assets as of 31 Dec 2024: Artisan Global Discovery Strategy: Liberty Media Corp-Liberty Formula One 2.1%, Artisan U.S. Mid-Cap Growth Strategy: Liberty Media Corp-Liberty Formula One 2.2%. Portfolio holdings are subject to change without notice and are not intended as recommendations of individual securities. Securities named in the commentary but not listed here are not held in the portfolio as of the date of this report.

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