Endeavour's UFC Historical Merger with WWE

Introduction

Endeavour Group, the parent company of the Ultimate Fighting Championship, announced its plans to acquire WWE, the world's largest professional wrestling organization, on April 3rd, 2023, creating one of the world's greatest sports entertainment corporations, valued at $18.4bn. WWE has mostly lost its pop culture appeal and youthful following since its glory days in the 2000s, with audiences now preferring to watch real high stakes fights such as those in the UFC. As a result, Mr. McMahon has long been rumoured to want to sell his firm to companies including Disney or Fox, but the merger with UFC came as no surprise. The highly experienced Endeavour may be able to turn the tide for the 50-year-old wrestling behemoth by optimizing the business model and by bringing in a new, younger audience. On the other hand, Endeavour's acquisition of UFC in 2016 was highly leveraged, and thereby a merger with WWE, a very lucrative firm with almost no debt, would help to alleviate the financial burden on both businesses.

About Endeavor and UFC

The holding company of numerous American talent and media agencies, Endeavor Group Holdings, Inc., was created in 2009 through the merger of William Morris Agency and Endeavor Talent Agency. The William Morris Agency has a long history that dates to 1898. In the twentieth century, it gained notoriety for signing clients like Charlie Chaplin, Marilyn Monroe, and Elvis Presley, and it eventually became the world's longest-running talent agency. Endeavor Talent Agency was founded in 1995 and set to target the television business. In 2009, when they joined forces to form William Morris Endeavor, the executives of the newly formed company - many of which came from Endeavor Talent Agency, such as co-CEOs Ari Emanuel and Patrick Whitesell - embarked on a long series of acquisitions aimed at growing and diversifying the business. One of the most notable came in 2013, when WME announced the acquisition of International Management Group (IMG) for $2.4bn – IMG being a global sports, events and talent management company created in 1960. This deal allowed WME to accelerate its expansion in the sport and modelling industry, which had historically been at the centre of IMG's business.

After securing investments from SoftBank and Fidelity in 2016, the company re-organized in October 2017 to take the name Endeavor and finally listed on the NYSE on April 28, 2021. The shares were priced at $24, and the IPO raised about $511m with a valuation of $10.3bn. Endeavor's most lucrative single business is certainly the Ultimate Fighting Championship (UFC), which it acquired in 2016 from Zuffa, LLC for $4bn. Initially owning 50.1%, it completed the acquisition of the remaining shares from PE funds such as Silver Lake, KKR and MSD Capital in 2021, partially funding the operation with the proceeds of the IPO.

UFC, founded in 1993 as a professional mixed martial arts company, was initially financially unstable and had been purchased by Zuffa, LLC in 2001 for $2m. Under the direction of Dana White, the UFC was rebuilt into a company capable of organizing constantly sold-out events worldwide and whose matches are aired in more than 160 countries to over 1.1bn viewers. In a 2021 earnings call, Endeavor's CFO stated that the UFC grew by 21% YoY since 2005 while a Moody's report indicated that it had revenue of more than $1bn in 2021- alone making up more than 90% of Endeavor's Owned Sport Properties segment revenue. One significant aspect of the UFC business model is that it consists in a single organization handling everything from sport regulation to athletes' promotion. This enables it to build up the fighters' personas - which, as of January 2023, totalled 453 for the male category across various weight divisions - and might be a powerful weapon to draw new fans to the sport. Additionally, unlike boxing, UFC also arranges who fights whom in order to give life to bigger events. In fact, the belief that showmanship is just as important as sport values is widely regarded as a crucial component of the UFC's success – coincidentally, WWE is based on an even more extreme interpretation of this very idea.

UFC generates income through a variety of commercial operations. Pay-per-view events, where fans pay to watch live broadcasts of the most awaited fights, are considered a significant source of revenue for the business. The UFC normally holds 12 to 15 pay-per-view events year, bringing in millions of dollars in revenue. The record for pay-per-view revenue was $2.4m, when Khabib Nurmagomedov and Conor McGregor faced each other at UFC 229 in 2018. This model has proved particularly profitable for UFC. In fact, PPV events – usually offered at a price of $70 each – adds on to a monthly or yearly subscription needed to watch other UFC fights; exclusive broadcasting rights for the US was secured in 2019 by ESPN+ with a deal that is reportedly worth $300m a year. In addition, fans may subscribe to the UFC Fight Pass for $9.99 each month, which gives them access to some live events, the fight library, and programs like The Ultimate Fighter, Unleashed, and Dana White's Contender Series. Instead, those who attend events in person, a number that has increased since the pandemic's end, bring in money by purchasing tickets that can cost anywhere from $50 to over $1,000. Other revenue sources are merchandise sales and sponsorships deals; notably, in 2022, the business had its highest sponsorship sales thanks to newly acquired sponsors and the launch of new categories of UFC official partners, such as 'Official law firm' or 'Official commercial track'. UFC sponsors range from unrelated businesses, such as Crypto.com 10-year deal valued at $175m, to 'Official apparel sponsor' Venum and 'Official Protein Snack' Oscar Meyer.

On a negative note, the UFC has been subject of much debate over the pay of its fighters, which is said to be lacking in transparency and unfairly low when compared to other sports - particularly, with respect to boxing. Furthermore, in Endeavor's IPO the company highlighted a series of risks related to its UFC business such as "collective bargaining to unionize the MMA athletes" and being potentially sued "over alleged long-term neurocognitive impairment arising from concussions."

UFC Outlook

UFC's revenues have experienced a prolonged period of growth that is expected to continue. Crucially, compared to other top sports properties, it has the highest proportion of millennial fans, demonstrating how much the younger generation appreciates it.

The announced merger with WWE could be a further driver for the growth of UFC thanks to synergies that parent company Endeavor could exploit. As a result of this, it may be imaginable to see UFC fighters compete in wrestling matches on a more frequent basis, also given that WWE would offer them more longevity and greater merchandise endorsements. Indeed, MMA competitors like Bobby Lashley and Rhounda Rousey have already made this move in the past. This might even lead to the development of new, original events fusing WWE's entertainment with UFC's fighting oriented approach, bringing in new viewers to the sports.

The expansion of UFC, however, could be slowed down by a few factors. In particular, the business itself has predicted that the decision to host more international events in 2023 might raise expenses and have a significant negative impact on margins. Finally, the concerns about low salaries for the fighters have been a major source of discontent even among viewers, and they currently represent the main source of instability for the business. Just last year, UFC fighter Luke Rockhold fiercely critiqued in a news conference the newly implemented fighter bonuses, for being ridiculously low amounts intended to dissipate the complaints. He also went on to blame Endeavor ownership and Dana White for focusing just on the show, while they suppress the sport behind it.

About WWE

World Wrestling Entertainment, Inc. (WWE), the largest professional wrestling promotion in the world, was founded in 1953 as Capitol Wrestling Corporation and its shows are currently broadcasted in 30 different languages to more than one billion homes worldwide. It hosts more than 500 live events annually, and it can count on a "roster" - a group of wrestlers under a federation - that includes more than 200 wrestlers. The company, initially known as World Wrestling Federation, rebranded multiple times, adopting the name World Wrestling

Entertainment, Inc. in 2002. Notably, the company went public on the NYSE in 1999, with an IPO that valued it at $172m.

Third generation wrestling promoter Vince McMahon Jr., who purchased the company from his father in 1982, is still WWE's principal owner – prior to the upcoming deal – and executive chairman. He holds 36.8% of the company's outstanding stock and exercises 81.1% of voting power. McMahon Jr. was the one who introduced the novel concept of Wrestle Mania in 1985, a bet that made a fortune for WWE. It consisted in a pay-per-view event that, unlike others, also targeted those who did not watch wrestling by integrating it with popular culture; this was accomplished by inviting external celebrities and building hype on the match thanks to intelligently staged storylines.

With a stock return of 172% over the last five years and a record $1.3bn in revenue in 2022, WWE has recently had a great financial performance. Its business is based on many sources of revenue, that are for many aspects like those of UFC. As an international touring company, it produces television from various locations 52 weeks a year, with the most well-known programs being Monday Night Raw and Friday Night Smackdown, which are televised around the world. Crucially, one of the factors contributing to the recent surge in revenue was WWE's decision to discontinue its own streaming network in the US in favour of a $1bn, five-year deal with NBC's Peacock for broadcasting its shows and with Fox to air its weekly "Smackdown Live" program. However, they are both set to expire in 2023 or 2024 and, considering the merger with UFC, their future is not clear. They complement an agreement with Disney+ Hotstar to grow the WWE's network in the Asia-Pacific area and the proceeds obtained by pay-per-view premium events like Wrestle Mania and Summer Slam. In addition, WWE offer a wide offer of consumer products going from video games and collectibles to action figures of wrestler stars.

Despite peak financial performance, there are some concerns about WWE's declining viewership and an all-time-high average age of fans, which is above 50, according to several polls. This brings to light a crucial problem: the sport has struggled to draw in many new, younger supporters following a golden moment for WWE at the turn of the century. With the rehearsal of older artists, the company has been trying to appeal to an "older" audience by playing on nostalgia, but this has the unintended consequence of further distancing younger enthusiasts. The recent increase in revenue can be then seen as a kind of paradox, but if anything, it demonstrates that WWE moves have been effective at least financially. It must also be noted that WWE's legendary CEO Vincent McMahon was recently hit by a scandal, after it was discovered that he had used funds of WWE to settle a personal cause: specifically, an NDA for sexual harassment. He was forced to step down from his position last July but, being the controlling shareholder, he agreed to pay around $17m to WWE for the costs it had sustained from this investigation and returned in January as executive chairman - the justification he provided was to facilitate the sale of the company.

WWE Outlook

If the merger goes through as planned, WWE's outlook will be necessarily linked to that of the newly merged company, the name of which has yet to be revealed but which will trade on the NYSE under the ticker TKO. Vincent McMahon claims that, given Endeavor's success in nearly doubling the UFC's revenue since they took over, this will be a special chance to expand the WWE brand. In fact, Endeavor has said they plan to use a similar approach to what they used with UFC with the new merged entity, particularly with the WWE division. Therefore, investors should anticipate increased operational effectiveness and the capacity to strike lucrative media deals. Importantly, both businesses have upcoming media licensing renewals. Since they will soon join forces, we may expect stronger negotiating leverage or even a direct-to-consumer offer for the content of both the UFC and WWE. The merger may also help WWE in its fight to win over a younger audience, as UFC appeals to much younger individuals. It should be noted, though, that the share prices of Endeavor and WWE declined after the announcement. However, this was more likely caused by a complex deal structure that did not convince shareholders in the short term, rather than by dissatisfaction with the company's future prospects.

Deal Structure

Endeavor Group has agreed to merge its UFC business with WWE forming a new public entity valued at $21.4bn. Under the all-stock deal structure, current WWE shareholders will transfer all their existing equity into the newly formed business that will run as the parent company of both the UFC and WWE. Both companies have pledged to contribute cash to the new entity so that it holds about $150m at closure. The rather complex, all-stock deal structure somewhat surprised investors as many expected an all-cash transaction. Endeavor is said to have preferred the all-stock structure as it presents more upside for the share price of the combined entity.

Expected to close in the second half of this year, the deal is still subject to receiving regulatory approvals but has been unanimously accepted by the Board of Directors of both firms. Upon closure of the deal, Endeavor will own 51% of the controlling interest in the newly established firm, with the other 49% held by existing WWE shareholders. The deal values Endeavor Group's UFC business at an enterprise value of $12.1bn. It values each WWE share at $106, representing a 16% premium to the company's closing price on the day of announcement, and gives the WWE business an enterprise value of $9.3bn. The new firm, which for now remains unnamed, is planned to list on the New York Stock Exchange under the ticker "TKO".

Ari Emanuel, Endeavor's current CEO will continue serving his position while also being the CEO of the newly established firm. Dana White will retain his position as president of the UFC, and Nick Khan, the current WWE CEO, will become president of the wrestling business. The Board of Directors of the new firm will be made up of a total of 11 members, six appointed by Endeavor and the other 5 by WWE.

Deal Rationale

According to Mark Shapiro, the president and COO of Endeavor, his group has expressed interest in the WWE for several years, believing they could add significant value to the wrestling entertainment firm. Official discussions between both firms are said to have begun in early January of this year when WWE initiated the formal process for a possible sale of the firm.

Despite WWE showcasing a mix between wrestling and scripted storylines, compared to the UFC's often bloody and gruesome real-life fights, there is room for overlap. Several fighters have switched between the two businesses in the past, with the deal giving rise to the potential for famous UFC stars to make appearances in the WWE. Both firms use heated drama between opponents to bring in new fans and worldwide attention.

Together, both firms will have a globally dominant position in the fighting and sports entertainment industry, with a combined fanbase of more than one billion people. The newly established firm will position both businesses to profit from combined media rights, enabling them to display their fights on more platforms and reach higher numbers of viewers. Indeed, the merged companies will have significantly more leverage in rights negotiations. Moreover, the merger will allow the companies to pursue greater monetization opportunities through expanded relationships with new and larger sponsors. Finally, the firms will be able to leverage their strong position to pursue further strategic mergers and acquisitions to grow their portfolio of brands.

Together, the merger of the UFC with WWE is set to bring in an estimated $50m to $100m in annualized cost synergies based on current financial information. These significant synergies will largely be driven by Endeavor's efficient back office and robust infrastructure that will help grow the WWE. Endeavor has further stated that it expects notable growth across revenue streams including domestic and international ticket sales, event operations, licensing, and premium hospitality. A main incentive for Endeavor to merge the UFC with WWE is the wrestling entertainment firms' upwards financial trajectory, pulling in a record $1.3bn in revenue in 2022, with 2023 forecasted to push higher.

Advisors

Morgan Stanley and Goldman Sachs are serving as financial advisors to Endeavor, with The Raine Group, J.P. Morgan, and Moelis & Company LLC acting as financial advisors to WWE.

TAGS: Entertainment, Wrestling, Merger, Acquisition, UFC, WWE, Endeavour, IPO, Sports