

## Was Sky The Limit?

[Team Sky](#) sent shockwaves through the cycling world in December when it announced that its owner/sponsors, Sky and 21st Century Fox, would cease funding the team following the 2019 season. The somber news was delivered late at a jovial pre-season team dinner, just hours before the press release was published. The riders, some of whom had recently signed substantial contract extensions, were as shocked as their fans to hear the news.

Savvy observers had been predicting that the current sponsorship deal could be in jeopardy, due to the September [corporate acquisitions](#) of 21st Century Fox by Disney and Sky by Comcast. Team Sky has been a joint venture between Sky Plc, which had controlled 85 percent of the team, and 21st Century Fox with the remaining 15 percent. The future of the team was in some doubt once Comcast won a bitter bidding war, which ended up costing the American telecommunications company \$39 billion for full control of Sky. (21st Century Fox previously held a 39 percent stake in Sky which it later sold to Comcast.)

Comcast found itself with an expensive cycling team which lacked any business assets, save for some minor cycling-related equipment. It was only a matter of time before somebody in the new owner noticed that \$50 million line item, and the opportunity to increase their 2020 profit by the same amount. The fact that Comcast shares team ownership with its bitter rival, 21st Century Fox, complicated the situation, and certainly implied some possible changes for Team Sky. And the situation continues to play out.

In early January, a report surfaced in La Gazzetta dello Sport suggesting that Comcast was perhaps willing to fund 70 percent of the team's budget through 2021, to help transition to a new replacement owner/sponsor. It was unclear if Comcast would be funding the team at 70 percent of its historical commitment, or 70 percent of the current overall budget. It was also unclear whether that financial commitment would come with the typical sponsorship naming rights demand. While it seems likely that the successor owner would want some publicity out of the deal in exchange for forking over most of the budget, such a situation is not unheard-of in cycling. Rabobank and T-Mobile continued funding their teams even as they left the sport, without advertising their brand on the respective jerseys. (It is worth noting that this report from January 9 has yet to be substantiated or supported by any other media outlets.)

As a quick reference, Team Sky's [budget for 2017](#) (the most recent period publicly available) was £34.6 million (\$46 million) of which £21.5 million came from Sky. If the La Gazette report is true and Sky/Comcast was to deliver 70 percent of the £21.5 million they contributed in 2017, the team would receive about £15 million a year — or almost \$20 million. And if this rumored 70 percent continued commitment doesn't come with the demand for naming rights (as the La Gazzetta report suggested), it could give Sky the opportunity to sell that title sponsorship for perhaps an additional \$5-10 million. This could possibly result in a total team budget in the \$25-30 million range, a considerable sum, but less than the team was accustomed to over the past few years. And if the team was not able to close a new sponsorship deal, the \$20 million budget range would force it to make some very difficult roster choices at the end of 2019.

**Brailsford signs new talent for 2019 and beyond:** Sky Plc had been put on the block earlier in the summer, and an imminent deal was in the works by September. Team boss Dave Brailsford certainly knew that the team's future would be in some question if Sky were sold, but to all outward appearances, he acted like it would be business as usual going forward. He signed Tour de France winner Geraint Thomas to a [three-year contract](#) extension in early September, and announced Colombian climbing sensation Egan Bernal's five-year deal in early October, a few weeks after the announcement of Comcast's takeover of Sky. [The big deal with Ivan Sosa](#), however, was apparently not completed until late November, and not formally announced until several days later.

It would not be unusual in a \$40 billion deal if executive Comcast management took a few weeks to notice

and decide the fate of a \$50 million bike racing team hiding somewhere down in its new portfolio. The team's primary internal champion, James Murdoch, stepped down from Sky's board in early October, which had to make team officials a bit nervous. [But it reportedly](#) wasn't until sometime in late November that Brailsford was summoned to a meeting in London with the new brass, and informed that both Comcast and 21st Century Fox would cease funding at the conclusion of the 2019 season.

Was Brailsford hedging his bets throughout the fall by signing the riders? By shoring up the younger talent on the team he would be better able to woo potential new sponsors in the future, if necessary. And a new backer, especially if it was a non-UK-based one, would presumably want to shed the expensive contracts of Froome's aging supporting cast (Froome is signed with the team through 2020), and go forward with the promising young stars like Bernal, Sosa, Gianni Moscon, and Tao Geoghegan Hart.

Most of Brailsford's signings appear to have been completed before the impact of the Comcast deal was known. But if Brailsford continued to sign riders to longterm deals even after he knew the team's funding was in peril, the riders could have been misled. In particular, Sosa may have thought twice about giving up an offer from Trek-Segafredo to sign a long-term contract with Sky if he thought there was any doubt about the team's stability. (Brailsford did not respond to inquiries from The Outer Line.)

On the other hand, the details of Sky's rider contracts aren't public, and it's possible that they contain change-of-control protections. This would mean that new owner Comcast, which conducted a stock deal, implying that all assets and liabilities were acquired, is on the hook for those pre-existing long-term contracts anyway. (Rider agents contacted by The Outer Line indicated that athlete contracts vary widely on this matter.) In fact, this could be one reason why Comcast might be willing to continue contributing the 70 percent through the 2021 season. (A frequently-cited rule-of-thumb in the business is that rider salaries comprise 60 to 70 percent of total team budgets.) And if Comcast is on the hook and the team ends up somehow folding, Brailsford could actually have cut a couple of those riders a huge favor. They might find themselves collecting two salaries for a while somewhere down the road.

**The team faces new sponsorship realities:** It is our opinion that there will not be a queue of global corporations lining up to fill the hole that will eventually be left by Sky and 21st Century Fox, whether that is next year, or a couple years in the future. One challenging storyline throughout professional cycling's history has been the difficulty in finding companies willing to consistently shell out a significant amount of money, to sponsor even the most successful teams. Quick-Step Flooring for example, the most successful team in terms of 2018 victories, just went through a year-long struggle to find a sponsor to save its team. The team had to part with a few of its star riders due to major budget reductions even after Deceuninck signed on as the new title sponsor.

While it's possible to imagine another company stepping in to sponsor the Sky team, it would almost certainly be at some fraction of the current budget level. [Cyclingnews reported](#) that close to half of the team has salaries of over \$1 million per year. This level of financial commitment is simply not sustainable for most sponsors. Those salaries would have to be brought down more in line with the competition, with probably only one or two riders cracking the \$1 million per year mark. Furthermore, due to its unusual operating structure, the team will need to be purchased from two different parent companies by a new owner for it to continue, and that could complicate the sale process.

No other team has been able to increase its budget to really compete with Team Sky for top talent in recent years. BMC, Tinkoff, and Astana attempted to but all were funded by angel investors that have either cut back their sponsorship or abandoned the sport entirely. Teams funded by companies like EF Education First or Ag2r are under more pressure to show a demonstrable return on investment, and due to broader marketing opportunities offered by other sports, the investment that new sponsors are willing to put into cycling typically falls far short of \$40 million a year.

Sky was able to negotiate an extraordinarily high sponsorship deal due to two key factors. At the time the team was founded, the Murdoch empire was in the midst of a reputation-damaging phone-hacking scandal, and raising the prestige of British sport was an opportunity to build goodwill with the British public. Strengthening the relationship between the cycling team and the boardroom was the role of James Murdoch, son of Sky founder Rupert Murdoch, an avid cyclist and friend of team principal Brailsford. It will be difficult for a new sponsor to duplicate that situation.

**How would Sky's decline impact cycling?** Whatever the future holds, the magnitude of Team Sky's transition for pro cycling is hard to overstate. Team Sky's massive budget has been close to double that of many other WorldTour teams. For example, Ag2r, the team of Romain Bardet, who finished second at the Tour de France in 2016, and third in 2017, had a [budget](#) of \$19 million USD for the 2017 season.

Sky has traditionally used its massive budget differential to sign the best riders in the world and stifle competition. This strategy has produced undeniable results and has allowed Sky to snap up the most talented up-and-coming riders. The team's dominance on the road and in the transfer market has influenced nearly every aspect of the sport. Yet, the team's ability to set an infernal pace on the front of the peloton, particularly on climbing stages, and to control grand tours from beginning to end has led race organizers to introduce steeper, shorter climbs, and severely reduce the number of time trial kilometers.

If the team is forced to take a significant budget reduction, or if it eventually disappears altogether, the racing landscape could experience a major power vacuum. We believe a redistribution of Sky's current talent across the other WorldTour teams could potentially lead to more open and exciting racing, and help to break up the stagnant racing that has become increasingly common at the Tour de France.

But there are clearly two sides to this evolving story. Yes, Sky's money benefited its riders, while forcing other teams to spend beyond their means and potentially diminishing their value for existing and potential sponsors. But one can also make the argument that it is never good for money to leave the sport. Even if a possible departure or reduction of Sky could foster positive competitive effects for the sport, it doesn't speak well to the situation if two major media companies, which enjoyed some of the greatest success imaginable, decide the sport is simply not worth it anymore. Even if the vague rumors are true that Comcast may continue funding the team for a few more years, this may just represent a band-aid on a serious wound.

Sky's nine-year run has been historic, yielding wins in all three of the sport's grand tours, along with a stunning six Tour de France victories by three different riders, as well as a wealth of other major events. Its dominant style of riding has literally changed the way organizers draw up race courses, and the way competing teams structure their programs. Sky's "marginal gains" approach revolutionized the sport and pushed the limits of sports science. But even if Brailsford is able to pull a rabbit out of the hat, and the team successfully transitions to a new owner/sponsor, it is likely that they will have to learn how to operate under more constrained funding. Hence, we believe it is unlikely that a revamped team will ever reach the heights of the former Sky glory days.

*By Spencer Martin, with Steve Maxwell and Joe Harris, February 6, 2019*