



WHEN IT COMES TO NBA SNEAKER DEALS, MAKE SURE THE FINANCIAL SHOE FITS

By Chris Lack

Cleveland Cavaliers' guard J.R. Smith had a slow start to his season. Through his first 10 games he barely reached double-digit scoring and was shooting a mere 27.5% from the field and 23.4% from three-point land during that stretch. Then he busted out of the slump with 20 points on 7-for-12 shooting (5-of-7 from deep) in a 124-119 Cavaliers' win over the Milwaukee Bucks. In the Cavaliers' five games after the Milwaukee win, Smith reached double digits scoring four times and shot 46.3% from the field and 43.2% from the three-point area.

What was the magic elixir that spawned this abrupt change in Smith's game? Was it the extra time during practice running drills? Or a boost of confidence from the coach or a mentor? Or was it because he started wearing the official Nike LeBron James 15 sneaker? Could there be a better endorsement? What 15-year old playing on a concrete court in Brooklyn, Inglewood, or Wichita, isn't going to pressure his or her parents into ponying up \$185 so they can become the next LeBron James or J.R. Smith?

According to FORBES, endorsement deals in the NBA payout at least \$7.5 million to the top dozen endorsers and \$233 million cumulatively from endorsements, licensing, memorabilia, appearances and media deals. Clothing, soft drinks and head phones are all common in the endorsement arena. However, shoe apparel companies are the driving force behind the off-court hauls for these players. As FORBES further points out, the U.S. is the biggest market for a company to produce a signature shoe for an NBA player, but the company will send their shoe stars to China first to product-test among the 300 million people playing basketball.

Here's a look at some of the biggest NBA sneaker deals for 2017, broken out by player, total endorsement income and shoe sponsor:

- LeBron James: \$55 million (Nike)
- Kevin Durant: \$36 million (Nike)
- Stephen Curry: \$35 million (Under Armour)
- James Harden: \$20 million (Adidas)
- Russell Westbrook: \$15 million (Nike/Jordan)
- Derrick Rose: \$14 million (Adidas)
- Kyrie Irving: \$13 million (Nike)
- Dwyane Wade: \$13 million (Li Ning)

What is the downside to any NBA player lucky enough to be on the receiving end of such a large corporate endorsement deal?

What the public doesn't realize, but more importantly perhaps even the players' agents and their influencers aren't always up-to-speed on, is that almost all endorsement contracts have standard built in language stipulating that the player needs to appear in specific minimum amount of games out of the 82-game NBA season. If a player is injured, sick, or benched, then that player is going to lose a significant chunk of endorsement money. For example, new Boston Celtic's Kyrie Irving was with Cleveland in 2015 when he signed a deal with Nike for \$10 million. That year he was injured and only able to play in 53 out of a possible 82 games. If Kyrie Irving's contract included the standard endorsement language, by missing 29 games he would lose out on \$3.5 million of his projected \$10 million endorsement.

As a more extreme example, if Stephan Curry had a \$35 million endorsement deal that pays him over \$426,000 per game to dominate the court in his brand-new Under Armour sneakers, and he went down for 20 games with a twisted ankle, then he will have lost over \$8.5 million of his endorsement money. This type of financial blow can be softened, but it is up to the player's insurance advisor to make sure their client is protected.

Fortunately, there are a number of insurance products in play that can supplement a player in the event they are physically unable to fully honor their endorsement contract. These plans call for a competitive premium of the total amount insured and will reimburse a player up to 60% of the contract deal. The rates are based on age, injury history, past performance, deductible, etc. A 30-year-old player with a history of injury and a 20-game deductible will have a different policy pricing structure than a 23-year-old with no injury history and an 82-game deductible. Either way, it is protection well worth investing in.

There is a consensus that the big sneaker players like Nike and Adidas are hedging their money by going after the most visible NBA players, who often have the ball in their hands at the game's biggest moments. By the very nature of handling the ball frequently, these players are the most susceptible to draw a crowd and at the same time, the most susceptible to be injured. Smart money says these are the players who need to have their endorsement money protected whenever possible.



Chris Lack
Partner

Chris.Lack@ExceptionalRiskAdvisors.com



EXCEPTIONAL RISK ADVISORS

Exceptional Risk Advisors is one of the country's foremost experts on specialty life, accident and high-limit disability programs. Serving as Lloyd's of London Coverholders, Exceptional Risk Advisors maintains binding authority with certain syndicates at Lloyd's of London. For more information visit: www.ExceptionalRiskAdvisors.com.

Coverholder at **LLOYD'S**