



# THE SPORTING BUSINESS: VALUE AND PRICE

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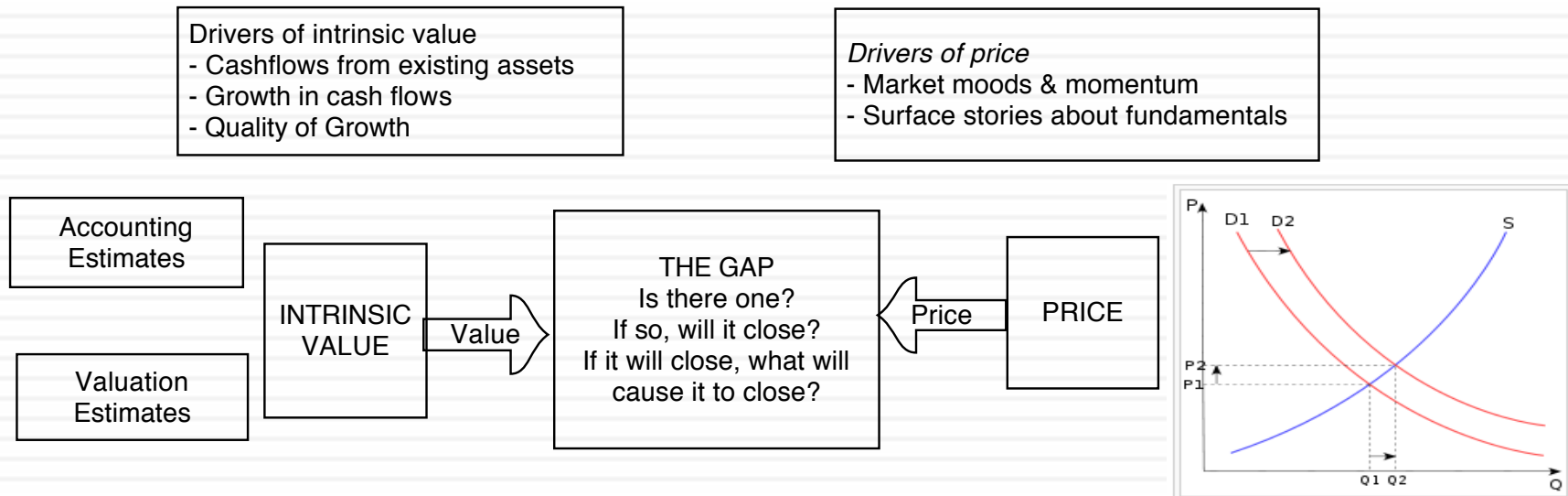
# Let's start with a few reality checks

2

1. It is easy to value a sports franchise.
2. It is difficult to price a sports franchise.
3. Forbes does not value sports franchises. It prices them, and through no fault of its own, it prices them badly.
4. If you are an investor, don't invest in a professional sports franchise. You may have a better shot if you invest in semi-professional sports franchise.
5. If you are a trader, you can get rich "trading" sports franchises, if you can predict the drivers of prices (and they have little to do with financials).

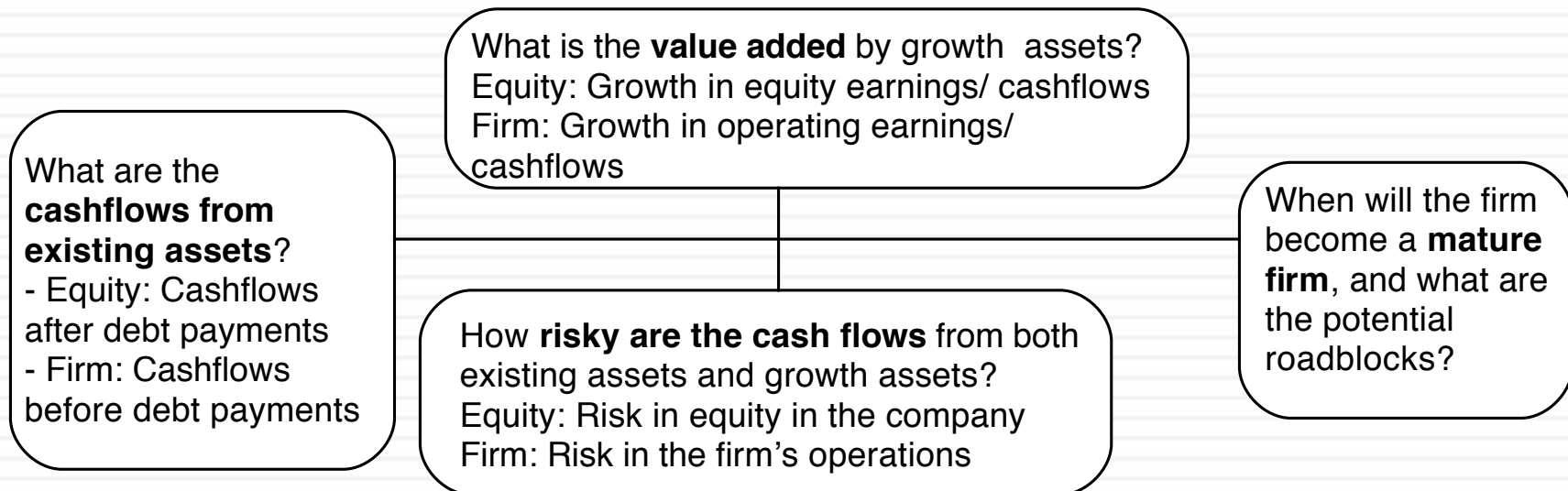
# Price versus Value: The Set up

3



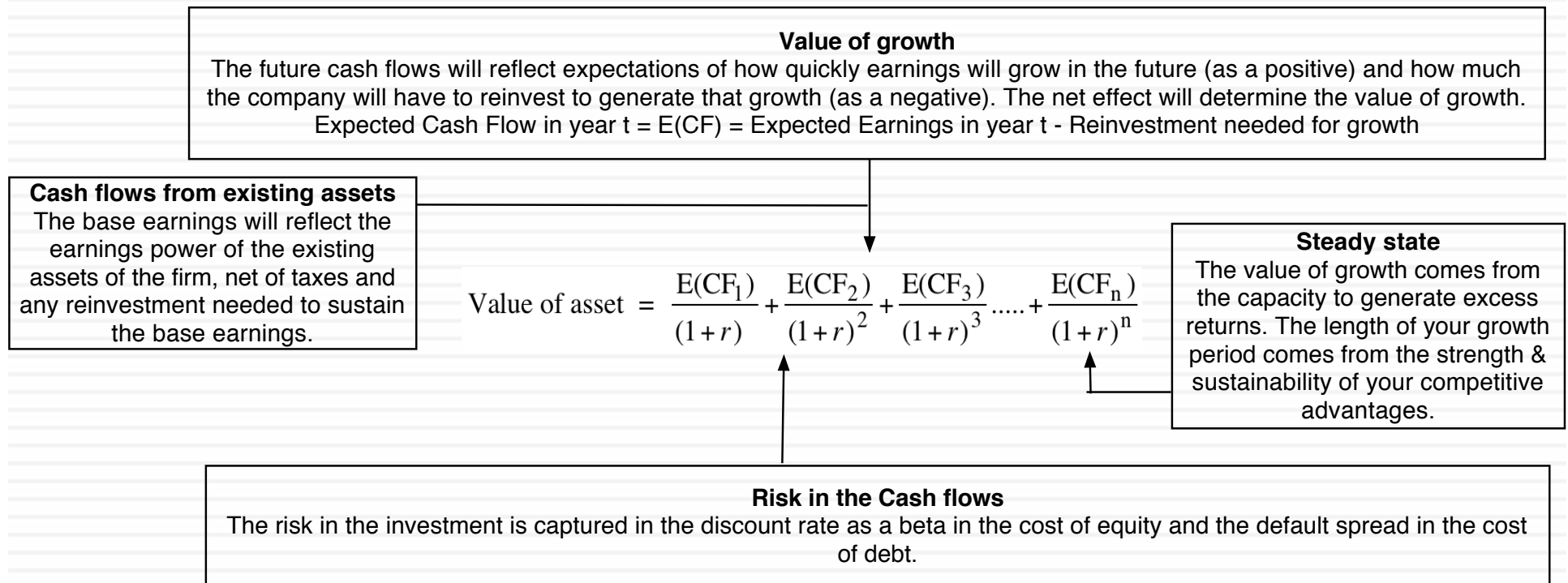
# The determinants of value

4



# DCF as a tool for intrinsic valuation

5



# The determinants of price

6

## **Mood and Momentum**

Price is determined in large part by mood and momentum, which, in turn, are driven by behavioral factors (panic, fear, greed).

## **Liquidity & Trading Ease**

While the value of an asset may not change much from period to period, liquidity and ease of trading can, and as it does, so will the price.

## **The Market Price**

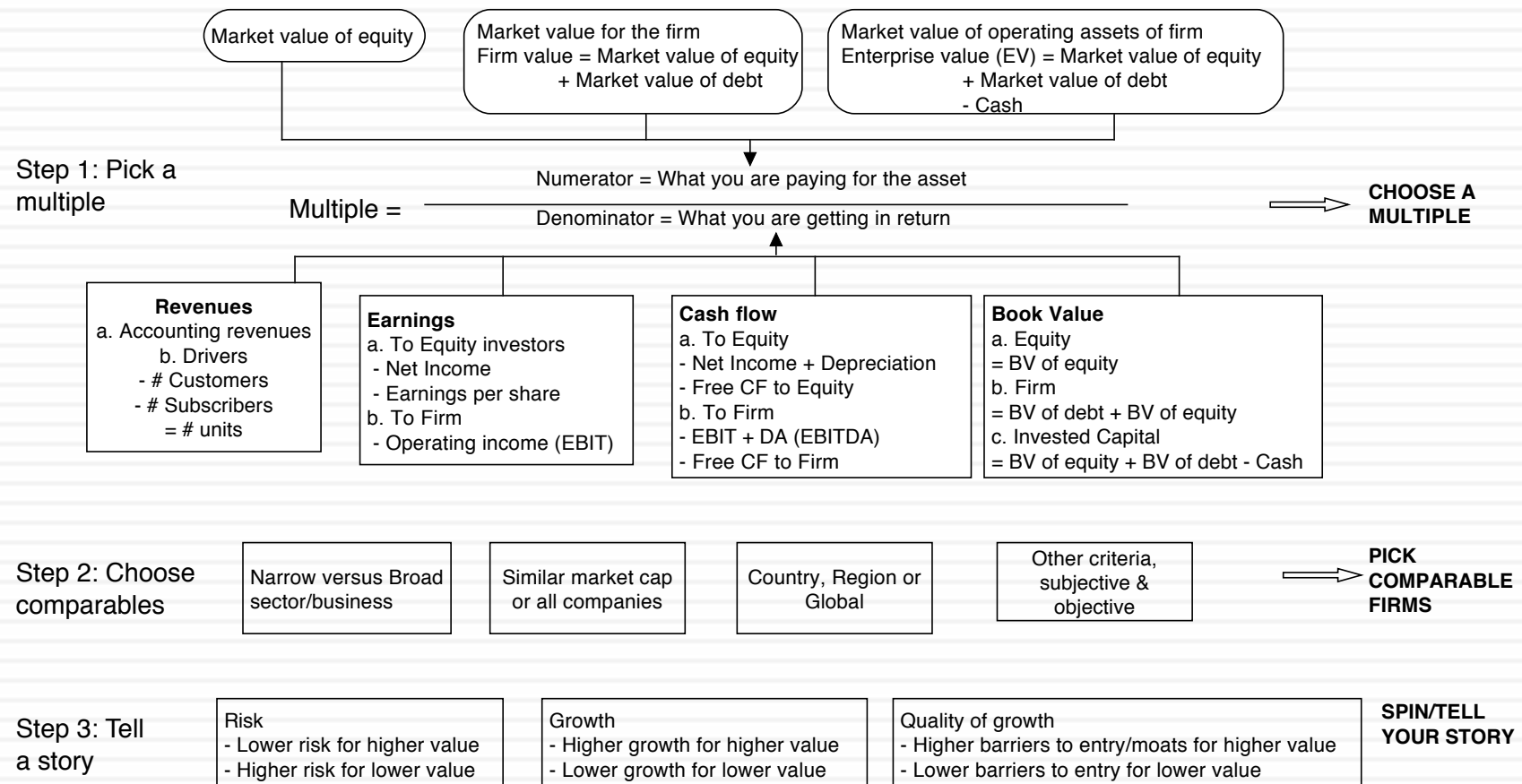
## **Incremental information**

Since you make money on price changes, not price levels, the focus is on incremental information (news stories, rumors, gossip) and how it measures up, relative to expectations

## **Group Think**

To the extent that pricing is about gauging what other investors will do, the price can be determined by the "herd".

# The Mechanics of Pricing



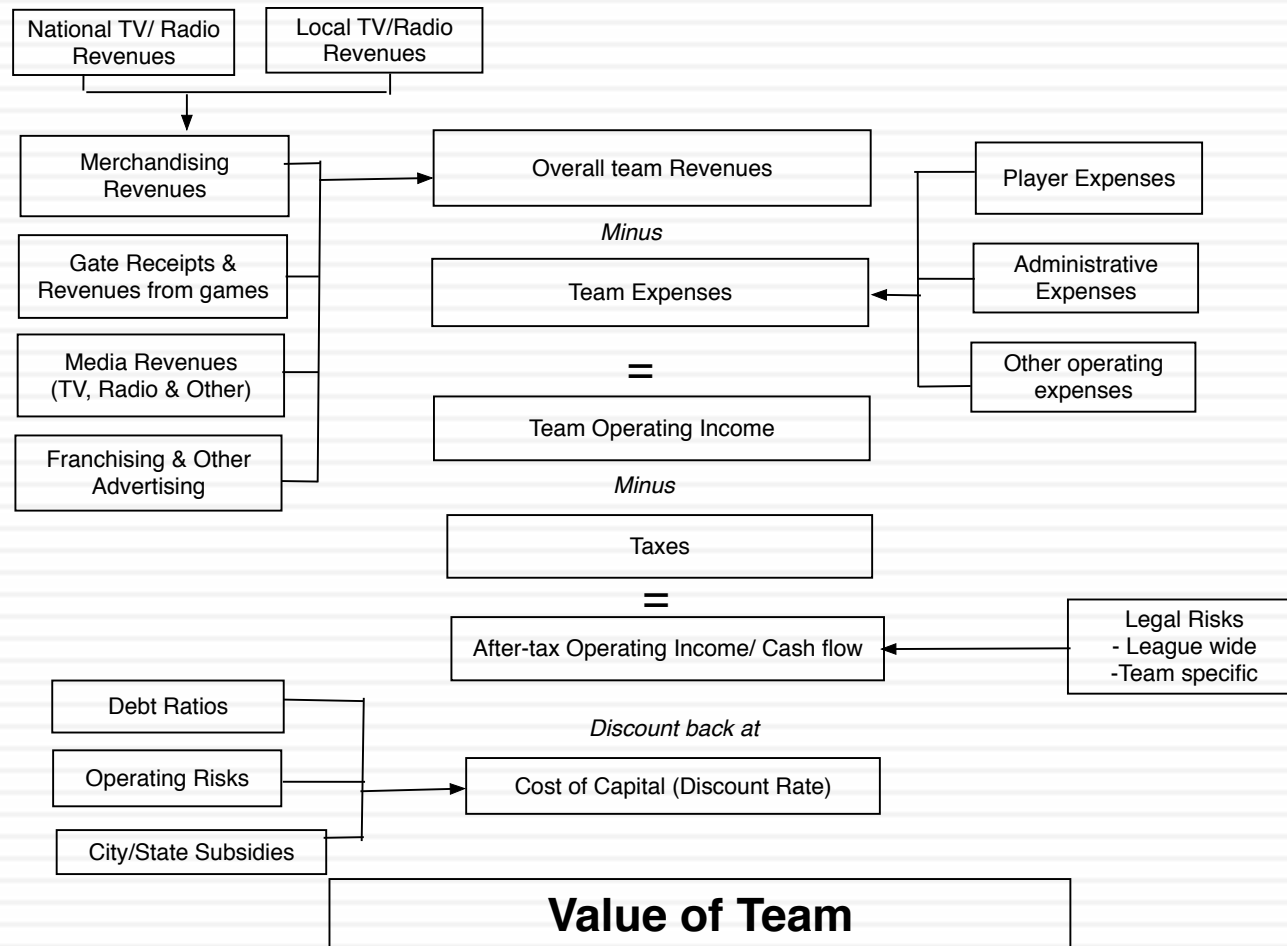


# THE VALUE OF A SPORTS FRANCHISE



# The Drivers of Franchise Value

9



# Revenue Breakdown across Franchises

10

	Baseball (MLB)	Football (NFL)	Basketball (NBA)	Hockey (NHL)	Soccer (European)	Cricket (IPL)
Gate Receipts	40.77%	19.90%	27.72%	34.45%	23.39%	31.79%
TV Broadcasting	32.39%	55.63%	42.36%	35.36%	36.66%	47.68%
Sponsorship	10.05%	11.67%	10.16%	15.55%	35.67%	13.91%
Merchandising & Other	16.79%	12.80%	19.75%	14.64%	4.28%	6.62%
Total Revenue	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

# EBITDA Margins across Franchises

11

	<i>Baseball (MLB)</i>	<i>Football (NFL)</i>	<i>Basketball (NBA)</i>	<i>Hockey (NHL)</i>	<i>Soccer (European)</i>
Total Revenues	\$7,375.00	\$9,167.00	\$4,556.00	\$2,630.00	\$7,005.00
EBITDA	\$290.60	\$1,377.30	\$711.60	\$210.30	\$1,264.00
Aggregate EBITDA margin	3.94%	15.02%	15.62%	8.00%	18.04%
Highest EBITDA margin	27.27%	46.51%	33.55%	34.30%	30.13%
Median EBITDA margin	2.71%	10.93%	11.29%	6.71%	19.69%
Lowest EBITDA margin	-24.89%	-14.11%	-10.00%	-16.79%	-18.26%
% of teams with negative	36.67%	3.13%	13.33%	36.67%	20.00%

# Player Expenses across Franchises

12

	<i>Baseball (MLB)</i>	<i>Football (NFL)</i>	<i>Basketball (NBA)</i>	<i>Hockey (NHL)</i>	<i>Soccer (European)</i>	<i>Cricket (IPL)</i>
Total Revenues	\$7,375.00	\$9,167.00	\$4,556.00	\$2,630.00	\$7,005.00	\$251.67
Total Player Expenses	\$3,453.95	\$4,731.00	\$2,286.00	\$1,241.00	\$2,436.97	\$90.00
Aggregate Player Expenses % of Revenues	46.83%	51.61%	50.18%	47.19%	34.79%	35.76%
Lowest Player expense as % of Revenues	21.73%	27.46%	31.01%	29.58%	15.44%	NA
Median Player expense as % of Revenues	48.40%	53.34%	52.22%	49.15%	38.48%	NA
Highest Player expense as % of Revenues	72.40%	67.79%	70.94%	66.67%	60.15%	NA

# Valuing the Clippers (2014)

13

	<i>Clipper: 2012 numbers</i>	<i>Median values</i>	<i>Laker-like (2012)</i>	<i>Best/best scenario</i>
Revenues	\$128.00	\$139.00	\$295.00	\$295.00
EBITDA margin	11.72%	11.29%	22.51%	49.31%
EBITDA	\$15.00	\$15.70	\$66.40	\$145.45
DA	\$0.00	\$0.00	\$0.00	\$0.00
EBIT	\$15.00	\$15.70	\$66.40	\$145.45
Taxes	\$6.00	\$6.28	\$26.56	\$58.18
EBIT (1-t)	\$9.00	\$9.42	\$39.84	\$87.27
Reinvestment	\$1.80	\$1.88	\$3.98	\$8.73
FCFF	\$7.20	\$7.54	\$35.86	\$78.55
ROIC	12.50%	12.50%	25.00%	25.00%
Risk free rate	2.50%	2.50%	2.50%	2.50%
Cost of capital	7.50%	7.50%	7.50%	7.50%
Expected growth rate	2.50%	2.50%	2.50%	2.50%
Value of team	\$147.60	\$154.48	\$735.05	\$1,610.18



# THE PRICING OF A SPORTS FRANCHISE

# The Pricing Problem

15

- Accounting Earnings is fiction:
- Differences may be difficult to control for:
- Transactions are infrequent:



# MLB Team Transaction: History

16

Decade	Number of franchise sales	Average price paid	Revenues for average team	EV/Sales
1910-19	6	\$0.59	NA	NA
1920-29	9	\$1.02	NA	NA
1930-39	4	\$0.67	NA	NA
1940-49	11	\$1.56	NA	NA
1950-59	10	\$3.52	NA	NA
1960-69	10	\$7.64	NA	NA
1970-79	9	\$12.62	NA	NA
1980-89	12	\$40.70	28.33	1.44
1990-99	14	\$172.70	56.94	3.03
2000-09	12	\$345.17	\$115.00	3.00
2010-13	4	\$1,001.25	\$246.25	4.07
2010-13 (not including LA Dodger sale)	3	\$2,005.00	\$660.00	3.04



# NFL Team Transaction History

Team	Owner	Acquisition price	Acquired in	Revenues in year of acquisition	EV/Sales
Arizona Cardinals	Bill Bidwill	\$0.05	1932	NA	NA
Atlanta Falcons	Arthur Blank	\$545.00	2002	\$120.00	4.54
Baltimore Ravens	Steve Bisciotti	\$600.00	2000	\$139.00	4.32
Buffalo Bills	Ralph Wilson	\$0.03	1959	NA	NA
Carolina Panthers	Jerry Richardson	\$206.00	1993	NA	NA
Chicago Bears	Halas	\$0.00	1920	NA	NA
Cincinnati Bengals	Mike Brown	\$8.00	1967	NA	NA
Cleveland Browns	Haslam	\$1,000.00	2012	\$256.00	3.91
Dallas Cowboys	Jerry Jones	\$150.00	1989	\$32.00	4.69
Denver Broncos	Pat Bowlen	\$78.00	1984	NA	NA
Detroit Lions	Bill Ford	\$5.00	1964	NA	NA
Green Bay Packers	Community shareholders	\$0.00	1919	NA	NA
Houston Texans	Bob McNair	\$700.00	2002	\$170.00	4.12
Indianapolis Colts	Jim Irsay	\$15.00	1972	NA	NA
Jacksonville Jaguars	Wayne Weaver	\$208.00	1993	NA	NA
Kansas City Chiefs	Hunt Family	\$0.03	1960	NA	NA
Miami Dolphins	Stephen Ross	\$1,100.00	2008	\$242.00	4.55
Minnesota Vikings	Zygi Wilf	\$600.00	2005	\$170.00	3.53
New England Patriots	Robert Kraft	\$172.00	1994	NA	NA
New Orleans Saints	Tom Benson	\$70.00	1985	NA	NA
New York Giants	Mara	\$0.00	1925	NA	NA
New York Jets	Woody Johnson	\$635.00	2000	\$109.80	5.78
Oakland Raiders	Al Davis	\$0.18	1966	NA	NA
Philadelphia Eagles	Jeff Lurie	\$185.00	1994	\$50.00	3.70
Pittsburgh Steelers	Rooney Family	\$800.00	2009	\$243.00	3.29
San Diego Chargers	Alex Spanos	\$70.00	1984	NA	NA
San Francisco 49ers	DeBartolo & York	\$13.00	1977	NA	NA
Seattle Seahawks	Paul Allen	\$194.00	1997	NA	NA
St. Louis Rams	Stan Kroenke	\$750.00	2010	\$228.00	3.29
Tampa Bay Buccaneers	Malcolm Glazer	\$192.00	1995	\$55.00	3.49
Tennessee Titans	Ken Adams	\$0.03	1959	NA	NA
Washington Redskins	Dan Snyder	\$750.00	1999	\$176.40	4.25
Average					4.11
Median					4.12
Maximum					5.78
Minimum					3.29

# NBA Team Transaction History

<i>Team</i>	<i>Acquired by</i>	<i>Acquired in</i>	<i>Acquisition price</i>	<i>Revenues in the year of the acquisition</i>	<i>EV/Sales</i>
Atlanta Hawks	Levenson, Gearson	2004	\$208.00	\$80.00	2.60
Boston Celtics	Grousbeck	2003	\$360.00	\$95.00	3.79
Brooklyn Nets	Michael Prokhorov	2010	\$430.00	\$89.00	4.83
Charlotte Bobcats	Michael Jordan	2010	\$425.00	\$98.00	4.34
Chicago Bulls	Jerry Reinsdorf	1985	\$16.00	\$10.00	1.60
Cleveland Cavaliers	Gilberts	2005	\$375.00	\$115.00	3.26
Dallas Mavericks	Mark Cuban	2000	\$285.00	\$59.70	4.77
Denver Nuggets	Stan Kroenke	2000	\$202.00	\$67.50	2.99
Detroit Pistons	Gores	2011	\$325.00	\$147.00	2.21
Golden State Warriors	Jacob & Guber	2010	\$450.00	\$153.00	2.94
Houston Rockets	Leslie Alexander	1993	\$85.00	NA	NA
Indiana Pacers	Herbert Simon	1983	\$11.00	NA	NA
Los Angeles Clippers	Donald Sterling	1979	\$20.00	NA	NA
Los Angeles Lakers	Buss Family	1979	\$20.00	NA	NA
Memphis Grizzlies	Robert Pera	2012	\$377.00	\$99.00	3.81
Miami Heat	Arison	1995	\$68.00	NA	NA
Milwaukee Bucks	Edens/Lasry	2013	\$550.00	\$109.00	5.05
Minnesota Timberwolves	Glen Taylor	1995	\$89.00	NA	NA
New Orleans Pelicans	Benson	2012	\$338.00	\$109.00	3.10
New York Knicks	James Dolan	1997	\$300.00	NA	NA
Oklahoma City Thunder	Clayton Bennett	2006	\$350.00	\$81.00	4.32
Orlando Magic	RDV Sports	1991	\$85.00	NA	NA
Philadelphia 76ers	Joshua Harris	2011	\$280.00	\$116.00	2.41
Phoenix Suns	Robert Sarver	2004	\$401.00	\$120.00	3.34
Portland Trail Blazers	Paul Allen	1988	\$70.00	NA	NA
Sacramento Kings	Ranadive	2013	\$534.00	\$115.00	4.64
San Antonio Spurs	Peter Holt	1993	\$75.00	NA	NA
Toronto Raptors	Larry Tanenbaum	1998	\$125.00	\$55.00	2.27
Utah Jazz	Greg Miller	1985	\$14.00	\$8.00	1.75
Washington Wizards	Leonsis	2010	\$550.00	\$107.00	5.14
<b>Average</b>					<b>3.46</b>
<b>Median</b>					<b>3.30</b>
<b>Maximum</b>					<b>5.14</b>
<b>Minimum</b>					<b>1.60</b>

# Pricing the Clippers

19

	<i>Clipper revenues + Median EV/Sales for NBA</i>	<i>Laker-like revenues + Median EV/Sales for NBA</i>	<i>Laker-like revenues + Maximum EV/Sales for NBA</i>	<i>Your estimates</i>
Revenues	\$128.00	\$295.00	\$295.00	\$300.00
EV/Sales	3.30	3.30	5.14	5.25
Estimated Enterprise value	\$422.56	\$973.87	\$1,516.36	\$1,575.00

# The Bottom Line

20

- We talk about sports as a business but it is not run like one. While decisions in every business are skewed by behavioral quirks, decisions in sports franchises are more affected by hubris, greed, price and ego than almost any other business.
- The pricing of sports franchises may always run ahead of their value, because there are only a limited number of franchises for sale and more than enough wealthy people who are willing to pay a “play toy” or “celebrity” premium to buy them.
- Don’t invest in a sports franchise as a value proposition. You can make money trading franchises, if you can forecast mood, momentum and celebrity ego.