
Asset Creation and Destruction in the Sporting Industry

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Sports, Leagues and Teams Deceptively Appear to Signal an Industry with Much Maturity

■ Major Team Sports Globally Have Storied and Decades / Centuries Long Histories



Cricket ~ Laws of Cricket Codified
in 1744



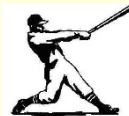
Rugby ~ Rugby School in England
Produces Written Rules in 1845



Soccer ~ Football Association in
England Codifies Rules in 1863



American Football / Gridiron ~
Developed From Colleges in Late
19th Century



Baseball ~ Many Antecedents.
Cooperstown Makes Disputed Claim
for 1839

Adding to Appearance of Maturity:

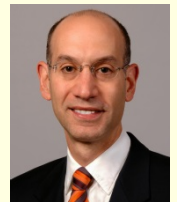
- Commissioners / Heads of Major Sporting Bodies Typically Have Long Tenures



FIFA ~ Joao Havelange (1974 – 1998) and Sepp Blatter (1998 →)



NBA ~ Larry O'Brien (1975 – 1984), David Stern (1984 – 2014), Adam Silver (2014 →)



MLB ~ Fay Vincent (1989 – 1992) and Bud Selig (1992 →)



NFL ~ Paul Tagliabue (1989 – 2006) and Roger Goodell (2006 →)



NHL ~ John Ziegler (1977 – 1992), Gil Stein (1992 – 1993) and Gary Bettman (1993 →)



MLS ~ Doug Logan (1996 – 1999) and Don Garber (1999 →)

Sporting Industry Shows Continuing Evidence of Much Vibrancy and Mega Asset Creation

- Apparel Industry ~ Nike Builds Scale in 1960s and 1970s; Under Armour (1996→)
- Agency / Marketing ~ IMG in 1960s and 1970s Builds Scale with Individual Athlete Representations and Marketing; Wasserman Media Group in Early 2000's builds scale.
- Television ~ Regional Sports networks Started in 1980s / 1990s and Now Dominate MLB, NBA and NHL Coverage
 - YES Network Launched in 2002 and is Now Most Valuable RSN
- Internet ~ MLBAM Started in 2000 and Now a Key Asset Owned Equally by MLB Teams
- New Ventures ~ Ultimate Fighting Championship (UFC) Started in 1993 and Close to Bankrupt in 2000
 - Zuffa Acquisition in 2001 Leads to Buildup of MMA Powerhouse
- College Sports – Pac-12 Network and Pac-12 Media Deal

Cable Television As Platform For Asset Creation

- ESPN
- YES Network
- NFL Network
- College Conference Networks
 - Pack-12 Network

ESPN (Entertainment and Sports Programming Network)

- Launched September 1979 in Bristol, Connecticut by Bill/Scott Rasmussen, Ed Eagan
- Getty Oil Provided Early Funding
- Approximate 2013 Monthly Subscriber Rate \$5.40 a month Yields \$6.480 billion Annual Revenues with 100 million Subscribers

QUESTION

Was ESPN a One-Off Opportunity?

YES Network (Yankees Entertainment and Sports Network)

1999 YankeeNets Pools Media Rights of (MLB)
N.Y. Yankees: N.J. Nets (NBA), N.J.
Devils (NHL).

2001 (June) YES Network Formed With Approximate
Valuation of \$850 million. YankeeNets
majority shareholder (+ Goldman Sachs
Providence Equity Partners, Leo Hindery, Bill
Bresnan)

2012 (Nov) News Corp. acquires 49% equity in YES
Network at reported valuation of \$3.000
billion.

2014 (Jan) 21st Century Fox moves to 80% equity.
Remaining 20% held by Yankee Global
Enterprises. Prior 2012 media report put
valuation implicit in 2014 transaction a
\$3.800 billion.

INDIAN PREMIER LEAGUE (IPL)

- 2007 (April). Zee TV Builds ICL (Indian Cricket League) – 6 Team Twenty/20 League. Mostly retired Players
- 2007 (Sept). BCCI Announces Twenty/20 IPL to Start April 2008 + Champions Twenty/20 League
- 2008 (Jan). Auction of 8 Franchises + Associated Assets
 - Franchises \$718 million/10 yrs
 - Mumbai Indians \$111.9 million Highest
 - Media \$1,026 million/10 yrs
- 2008 (April/May). Season 1 – Success Across Multiple Fronts
- 2010 Brand Finance values IPL at \$4.13 billion up from \$2.01 billion in 2009
- 2011 (April). Kochi Joins IPL with \$333 million franchise fee

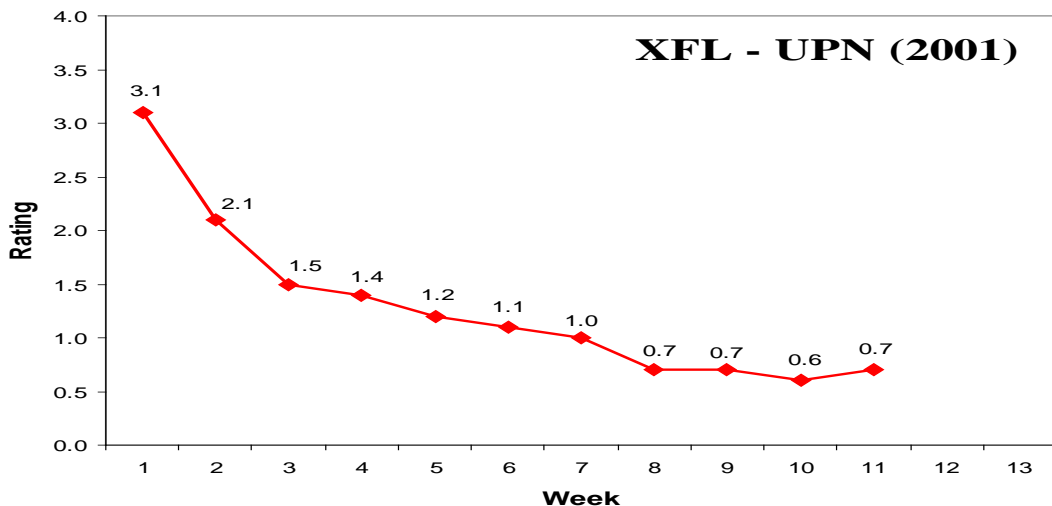
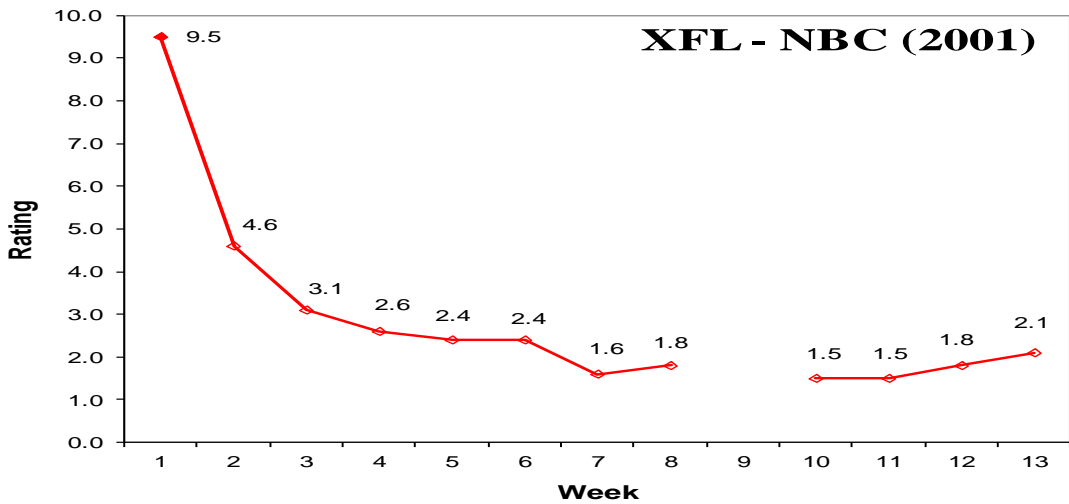
Sporting Industry Has Continuing Evidence of Mega Asset Destruction / Asset Writeoffs

- Competitors to Existing Leagues
 - USFL (1983 – 1987) and XFL (2001) in U.S.
 - Super League (1997) in Australia
- MMA Competitors to UFL Spill Red Ink – IFL and Pro-elite
- Shifts Within Competitive Landscape
 - Champs – IFL – IndyCar v. Nascar
- Declining Sectors
 - Horse Racing
 - Boxing
 - Bowling (Ten-Pin)
- U.S. Motor Raang – CART v. IRL While Nascar Solidifies!
- Dot-Com Implosions
 - Quokka

The XFL One-Season Flame Out



How Quickly can TV Ratings Sink?



MMA Illustrates

- Asset Creation
 - UFC
 - Strikeforce



- Asset Destruction
 - IFL
 - Pro-Elite



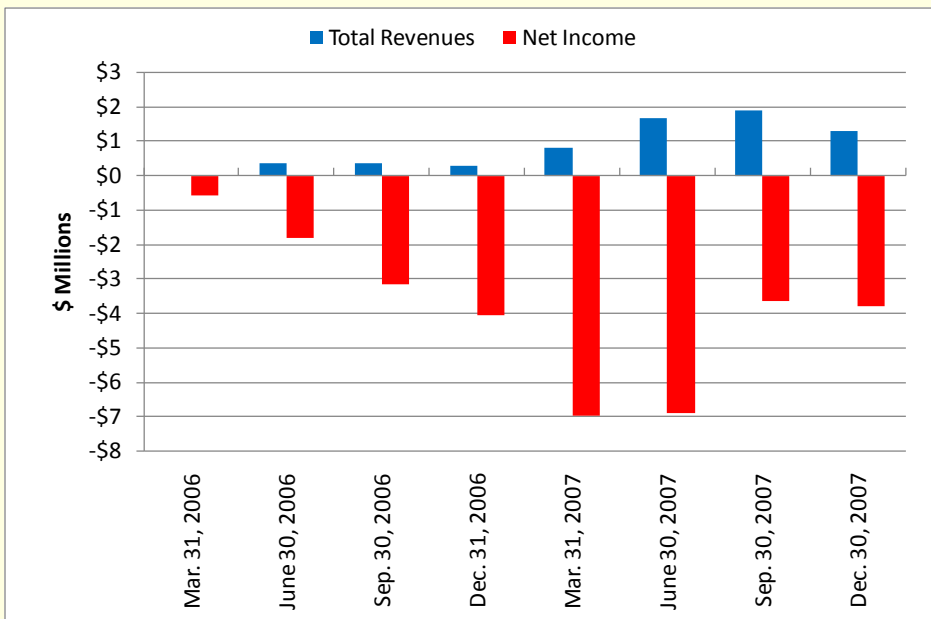
MMA's Competitive Landscape



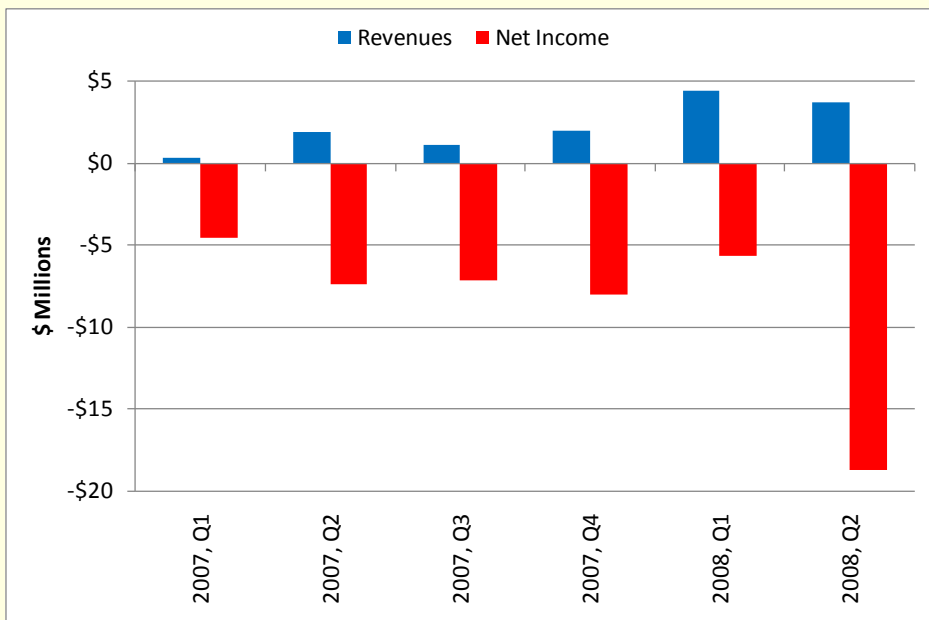
	UFC	PRIDE	IFL	Pro-Elite	Strikeforce	Affliction	Bellator
1993	┌───						
1994	│						
1995	│						
1996	│						
1997	│	┌───					
1998	│	│					
1999	│	│					
2000	│	│					
2001	│	│					
2002	│	│					
2003	│	│					
2004	│	│					
2005	│	│					
2006	│	│	┌───	┌───	┌───		
2007	│	│	│	│	│		
2008	│	└───	└───	└───		┌───	┌───
2009	│			Feb		└───	│
2010	│						│
2011	│				└───		│
2012	└───						└───
	1993 →	1997-07 to Zuffa	2006-08 Shut Down	2006-09 Shut Down	2006-11 to Zuffa	2008-09 Shut Down	2008 → Acquisition by MTV

MMA Red Ink

International Fight League

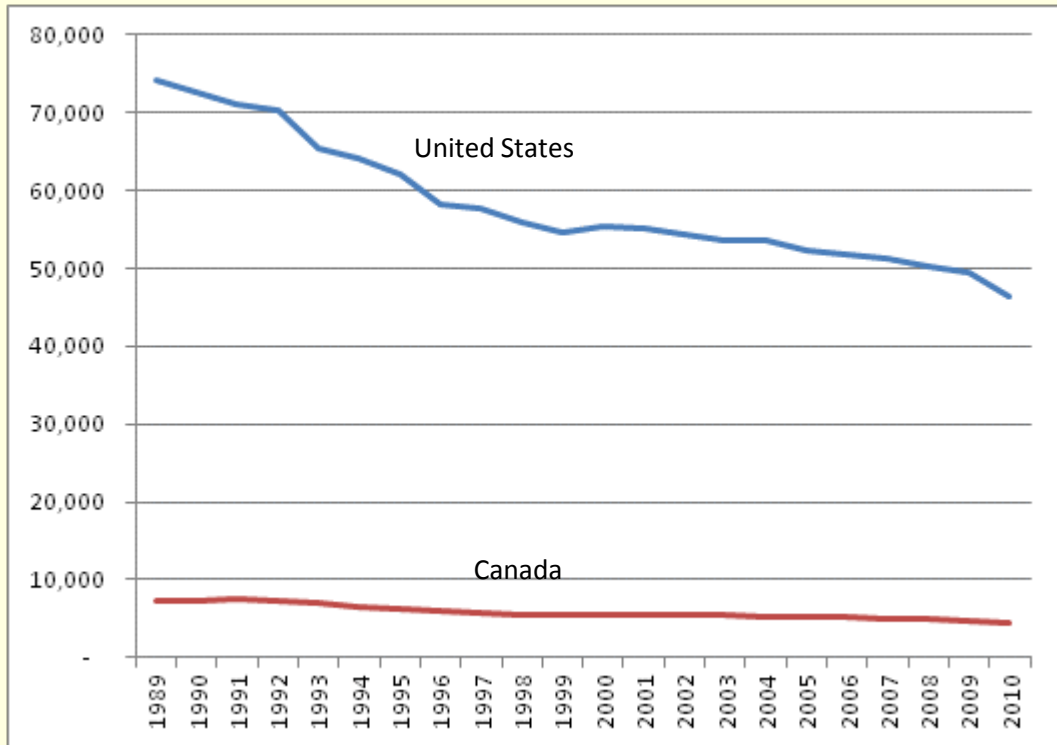


Pro-Elite



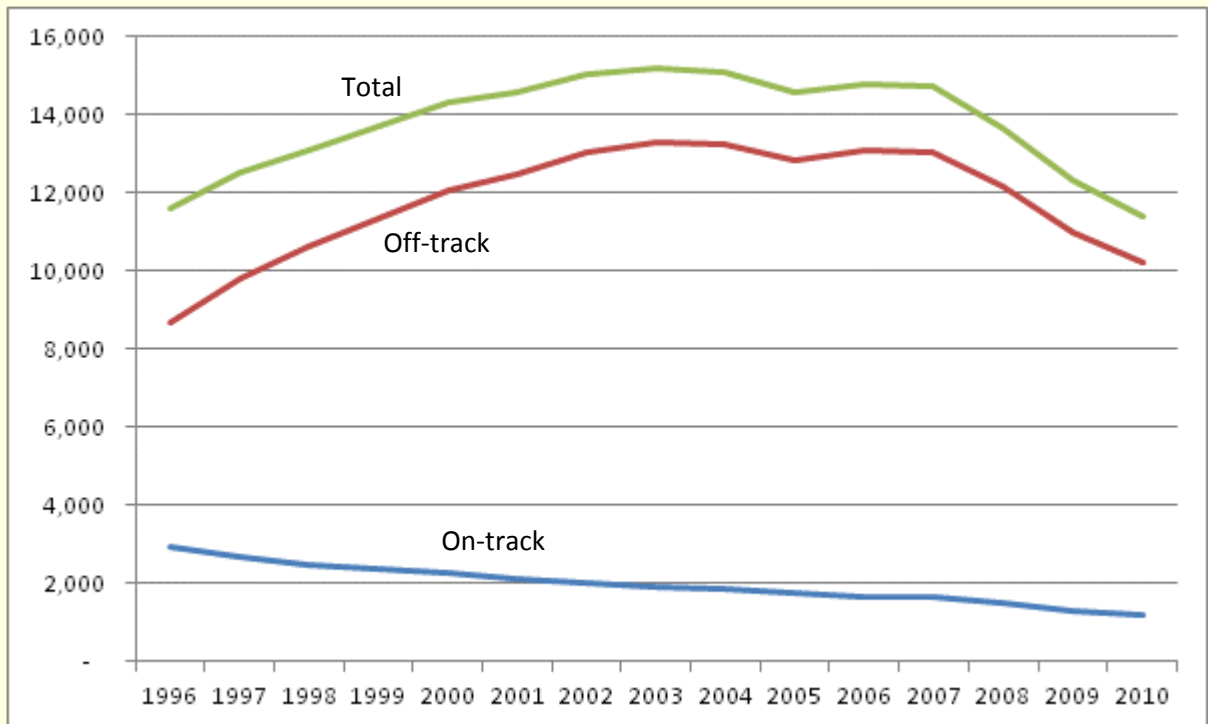
The Decline of a Major U.S. Sport: North American Thoroughbred Racing

Annual Races held in the United States and Canada



On-Track Betting Decline in Horse Racing

The pari-mutuel handle in the U.S.
(in millions of nominal dollars):

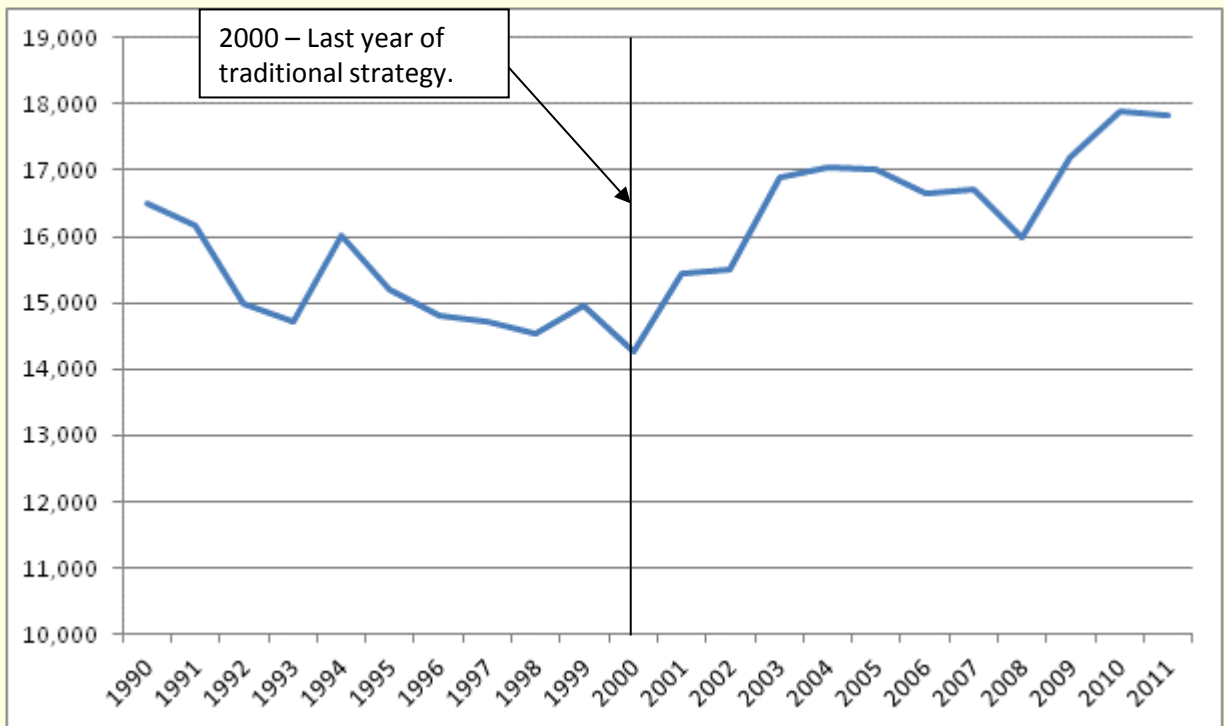


Source: Data from "Pari-Mutuel Handle," The Jockey Club Online Fact Book, accessed September 16, 2011.



Del Mar Racetrack Defies the Decline!

Del Mar Average Daily Attendance, 1990-2011



The Del Mar race meeting was 43 days, except for 1999 (42 days) and 2010-11 (37 days).

Source: Data from Del Mar racetrack 2011 Media Guide, p. 33. Data is for on-track attendance.

Del Mar Racetrack



Overview of track and vicinity



Del Mar racetrack

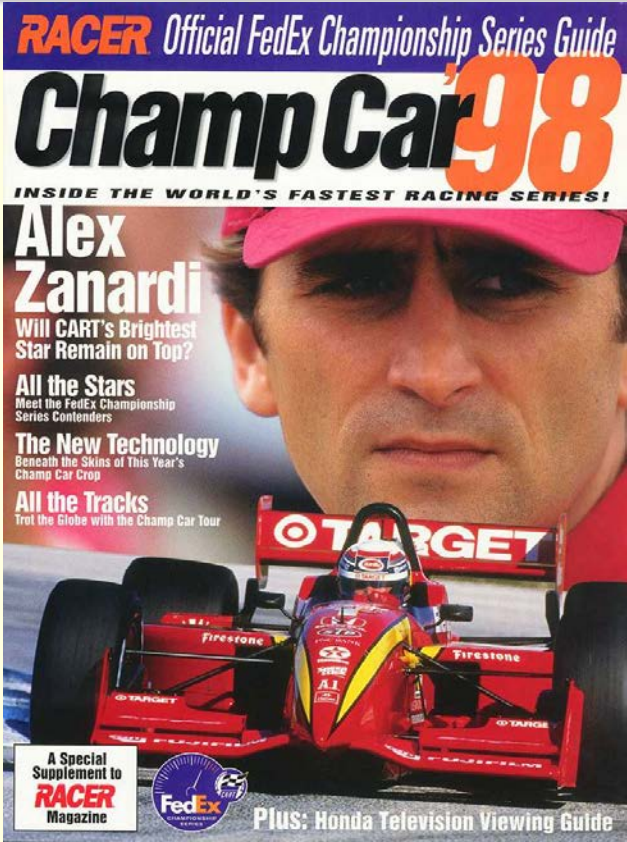


Racetrack is just off the beach.



Fans with fancy hats at Opening Day.

U.S. Motor Racing



U.S. Motor Racing

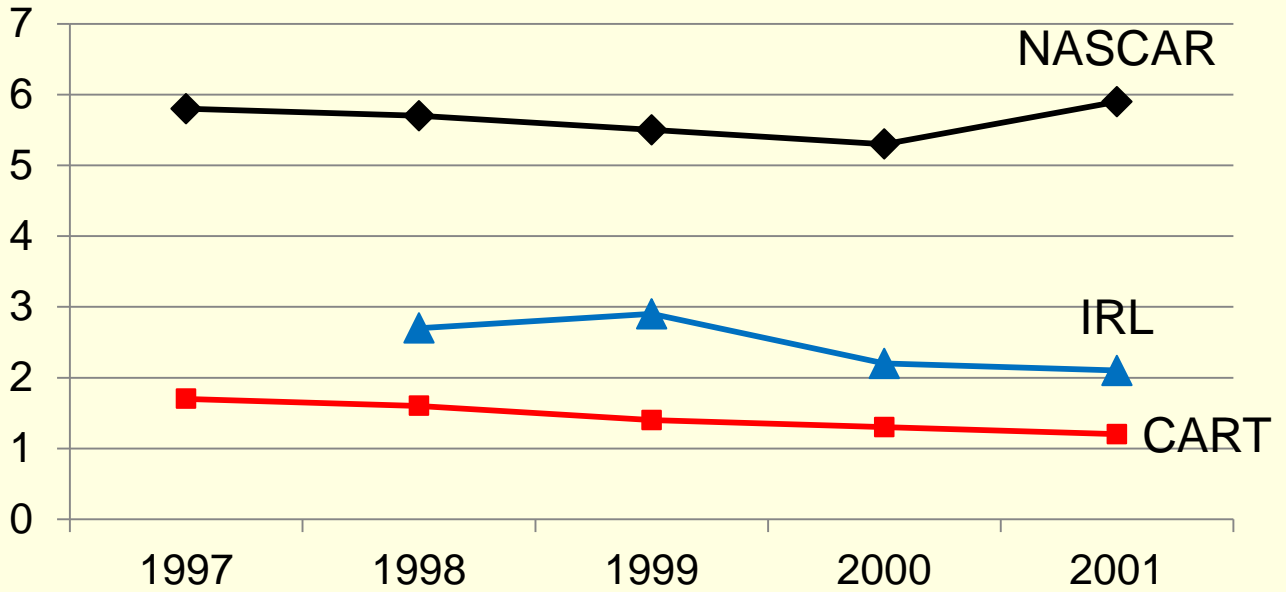
CART and IRL Turn Guns on Each Other

- 1992 CART Reorganizes to 7 Man Board (with Indianapolis Motor Speedway Non-Voting Status)
- 1995/96 Tony George Sets Up IRL with 3 Race Season
- 1996 CART Boycotts Indy 500
- 1998 CART Goes IPO (Raises \$73 Million)
- 2000/03 CART Management Changes
 - Allegations of Conflicts of Interest
 - Allegations of Side Deals
 - Honda Leaves CART
- 2003 CART Bankruptcy – Emerges as Champ Car
- 2002-2006 CART vs. IRL Competition Over Declining Economic Base While NASCAR Grows
- 2008 Indy Racing League Absorbs CHAMP CAR

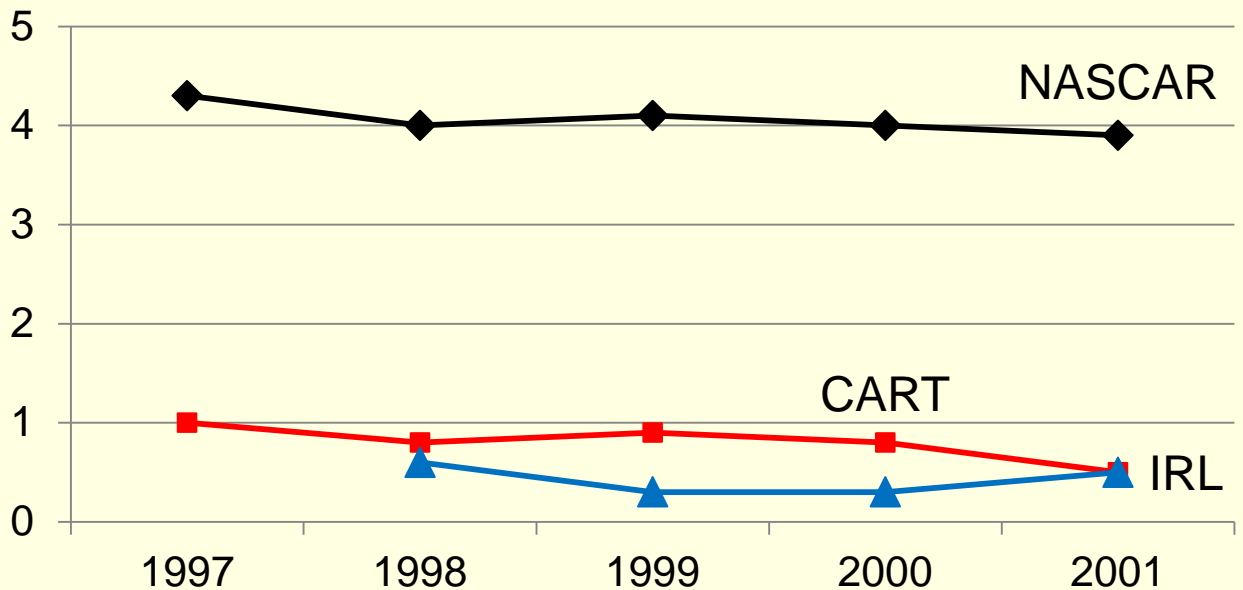
Management Failure on Both CART and IRL Sides to Appreciate Destructive Nature of Their Decisions

IRL v. CART at Time when NASCAR Solidifies Dominant Position

A. Broadcast Ratings



B. Cable Ratings



Club Management and Asset Destruction

Leeds United



Portland Trailblazers



“We Reminisce: The Portland Jail Blazers”

Clubs in Vicious Downward Circle: Leeds United Rolls the Dice and Loses!!

1996-1999 ERA

- Steady/Managed Growth
- Financing For New Player Acquisition From New Equity Issues

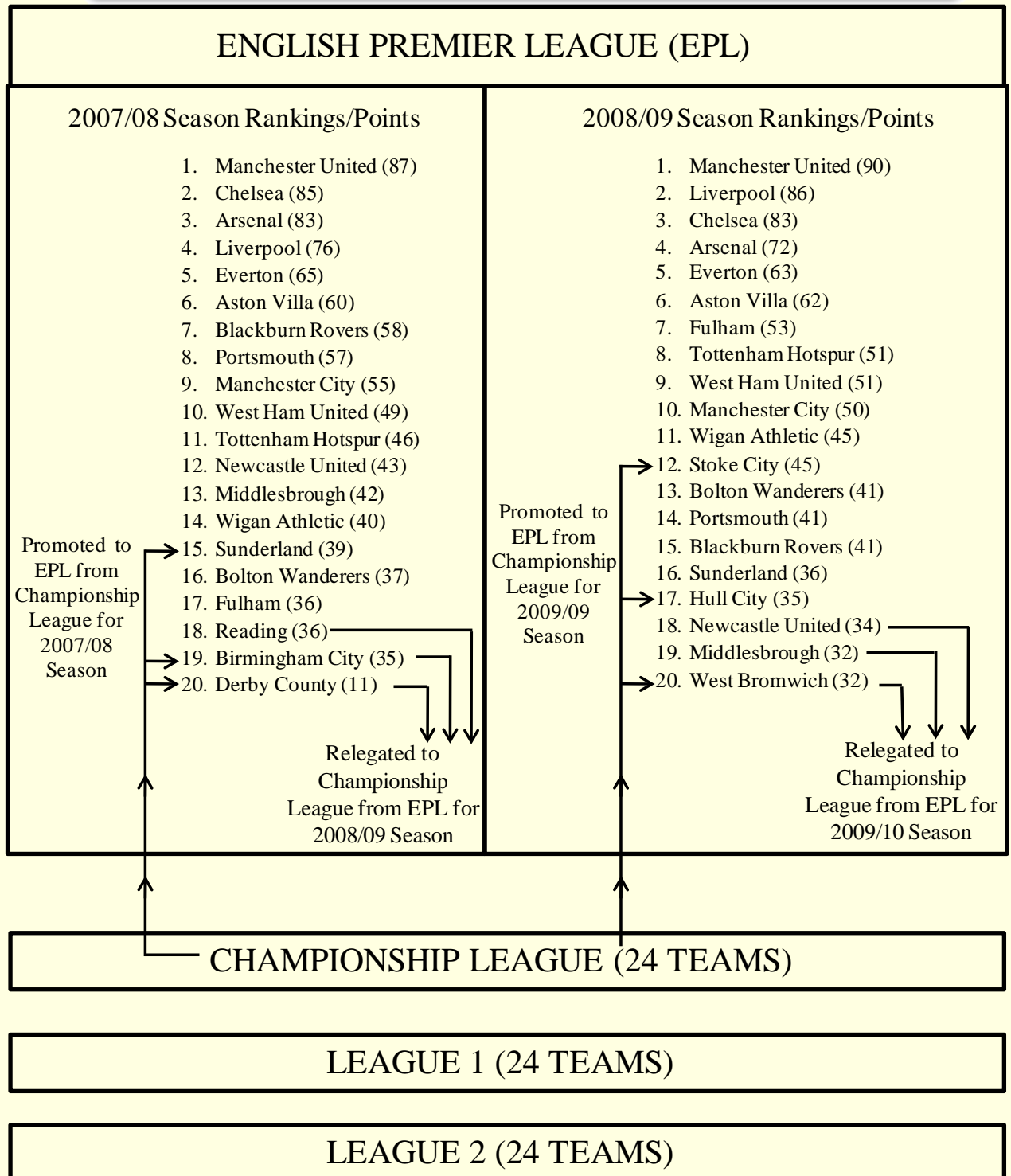
1999-2002 “Roll The Dice” Era

- Strong Attendance At Elland Road
- High Wage Cost Fueled By Debt-Related Financing (£60 Million Securitization)

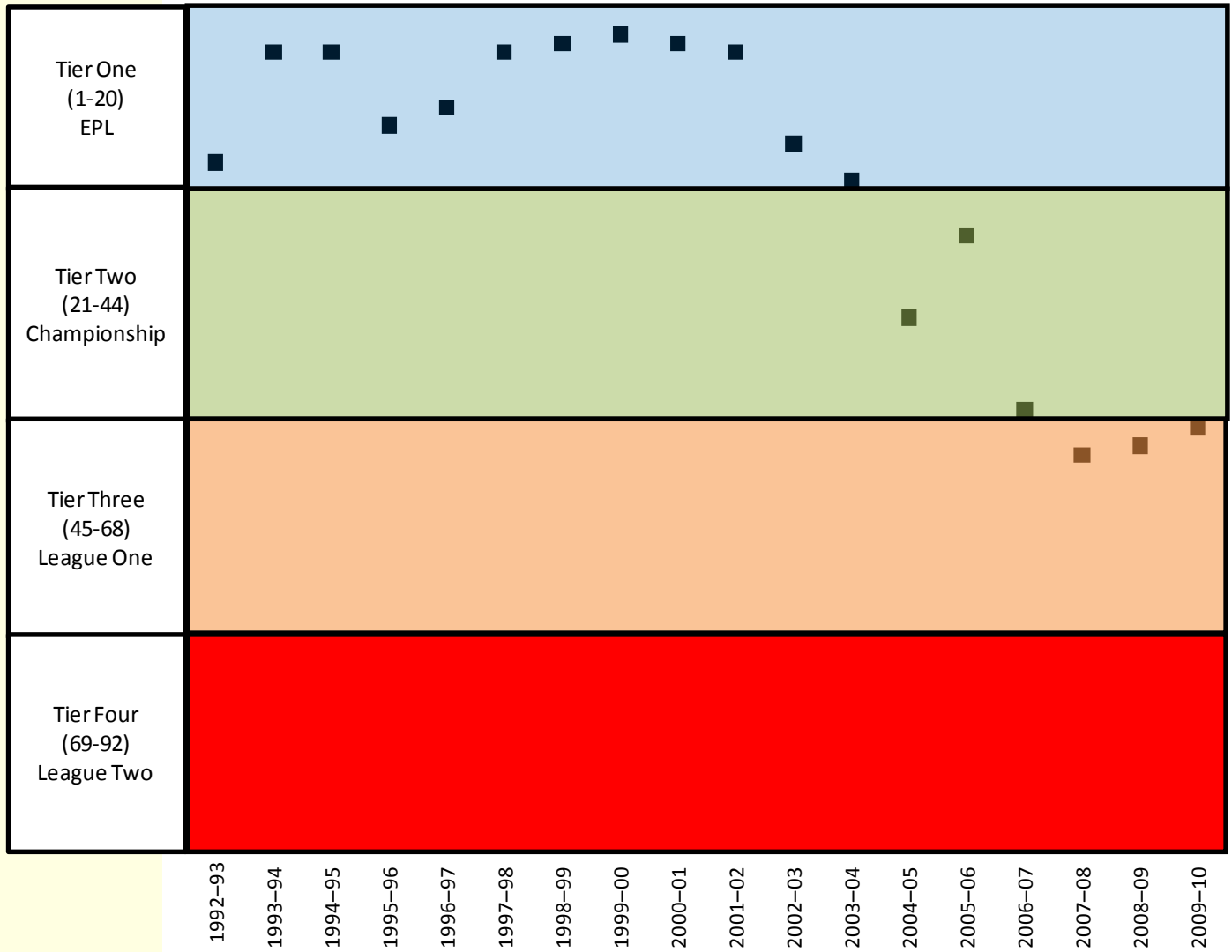
2003 → Vicious Downward Cycle

- High Level of Debt/Public Listing Status Created Crushing Financial Crisis
- Fire Sale of Players Provided Short-Run Cash Infusion
- May 2003 – Avoid Relegation But Sword Remains Over Their Heads. Little Progress on Re-Negotiating Debt
- May 2004 – Relegated To Championship League
- May 2007 – Relegated to League One

Promotion and Relegation in English Professional Soccer (1)



Leeds United and its Vicious Cycle Fall*



	TOTAL REVENUES	
	2007-08	2008-09
*From 1992/93 English Football Leagues Comprise 4 Senior Divisions:		
Tier 1: Premier League – 20 Teams	£1,932	£1,981
Tier II: Championship League – 24 Teams	336	375
Tier III: League One – 24 Teams	125	123
Tier IV: League Two – 24 Teams	65	68

Risk Management Issues at Portland Trailblazers

- Multiple High Risk Strategy
 - Aging Players Risk (Scotty Pippen Highest Paid)
 - Badly Behaving Player Recruiting Risk
 - High Payroll Risk
 - High Debt on Arena Risk
- Financial Consequences/Forbes Estimates

	Player Salaries	Club Revenues	Club Profitability	Player Salaries/ Revenues
1999-2000	\$76.4	\$97.3	-\$12.8	78.5%
2000-2001	86.5	101.0	-19.3	85.6%
2001-2002	83.7	96.0	-22.8	87.2%
2002-2003	100.0	97.0	-85.1	103.1%
2003-2004	84.3	88.0	-47.0	95.8%
2004-2005	87.0	78.0	-31.5	111.5%
2005-2006	66.0	77.0	-15.2	85.7%
2006-2007	82.0	82.0	-25.1	100.0%
2007-2008	73.0	114.0	-0.9	64.0%

Themes

- Sports Industry One in Which Entrepreneurship on the March
- Many Examples of Huge Asset Creation in Short Time Periods
- Much Evidence of Innovation Opportunities at Club Level
- Many Examples of Asset Destruction.



**Pivotal Role of
Self-Inflicted
Wounds**