

# VALUATION METHODOLOGIES FOR SPORT FRANCHISES

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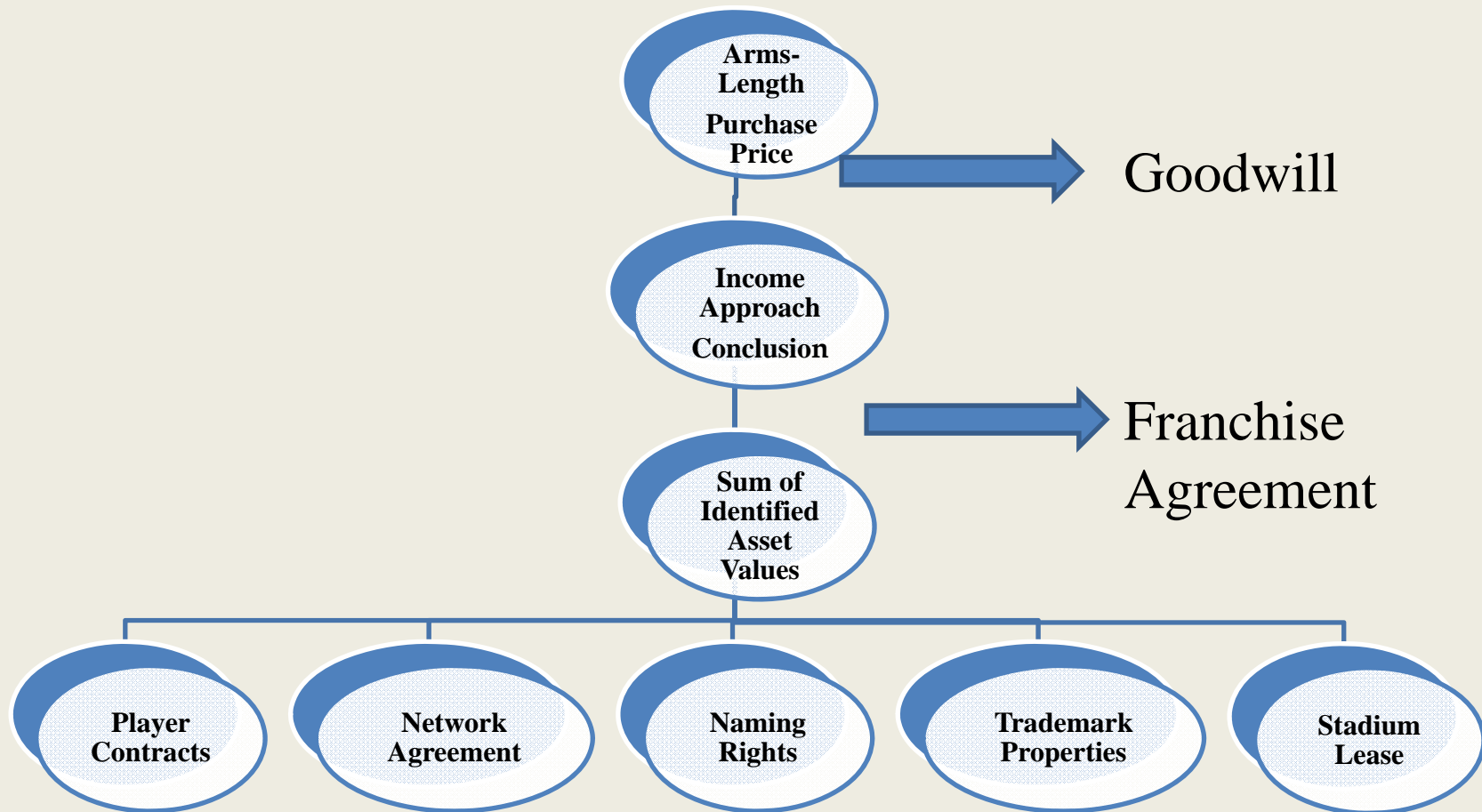
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# Assets of a Sport Franchise

Identified Asset	Fair Market Value
Player Contracts	\$60,000,000
National Broadcast Rights	110,000,000
Local Broadcast Rights	6,000,000
Properties (Trademarks, Films, etc.)	8,000,000
Stadium Naming Rights	14,000,000
Franchise Agreement	82,000,000
Stadium Lease	20,000,000
<b>Total</b>	<b>\$300,000,000</b>
<b>Business Enterprise Value</b>	<b>\$400,000,000</b>
<b>Goodwill</b>	<b>\$100,000,000</b>

# Valuation of a Sport Franchise



# Due Diligence for Appraising Sport Franchise Assets

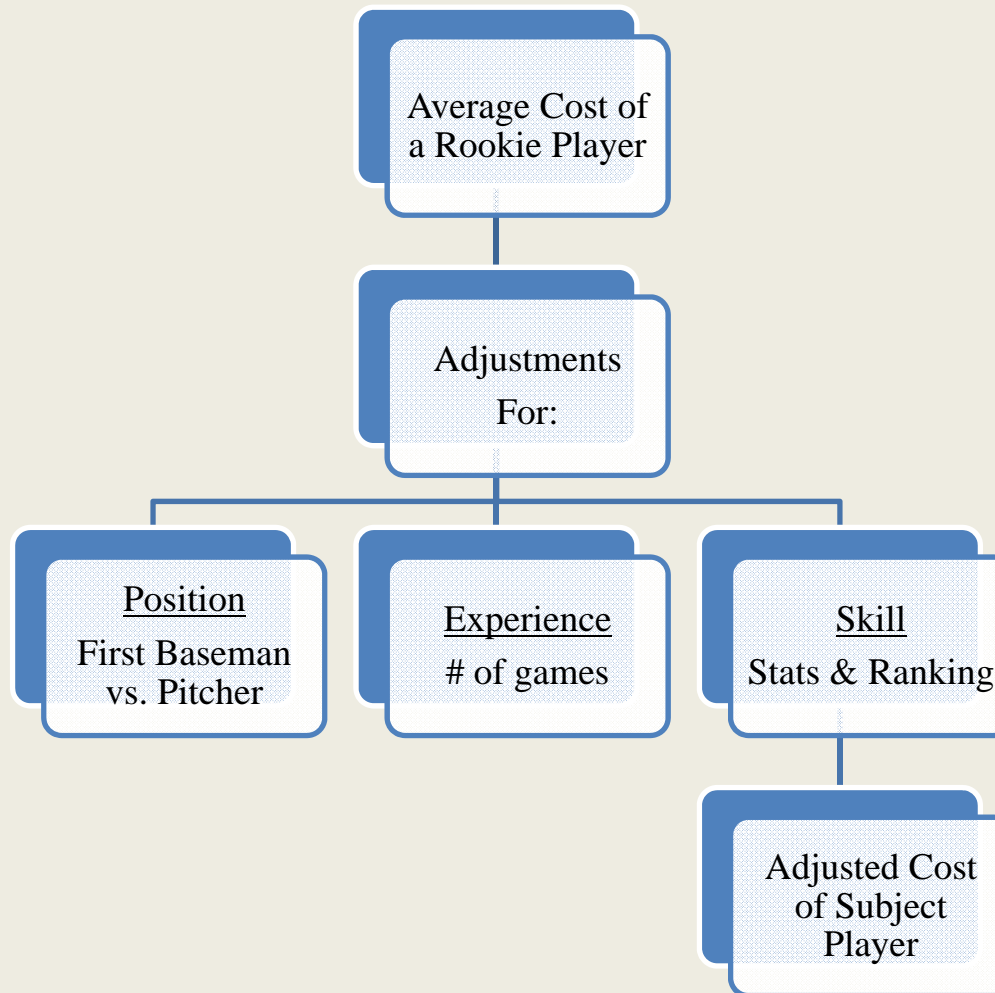
- ▣ Income Approach
  - Forecast Revenue and Expenses
  - Estimate Federal and Local Tax Burden
  - Develop Appropriate Discount Rate
- ▣ Market Approach
  - Analysis of Other Team Acquisitions
- ▣ Cost Approach
  - Replacement Cost New
  - Less Depreciation
    - ▣ Physical, Functional, and Economic

# Which Approach is the Best?

- ▣ Cost approach used for assets that cannot easily be assigned income.
- ▣ Market approach for marketable tangible assets and certain intangible assets such as player contracts.
- ▣ Income approach is the best approach if property can be directly associated with profits such as stadium rights.

# Player Contracts

## Cost Approach



# Player Contracts Cost Approach

- ▣ Determine Base Cost Per Average Rookie Player
  - Scouting & Recruiting
  - Training Camp
  - Legal Expenses
  
- ▣ Make Replacement Cost Adjustments
  - Position
  - Experience
  - Skill

# Player Contracts Cost Approach

Name	Position	Years in League	Avg. Cost for Rookie	(A) Position Adjustment	(B) Experience Adjustment	(C) Skill Adjustment	Adjusted Cost
Sam	Forward	4	\$800,000	1.171	0.994	1.076	\$1,001,553
Richard	Center	3	800,000	1.136	0.704	3.784	2,421,657
Jerry	Center	7	800,000	1.136	2.101	0.784	1,495,899
Charles	Forward	3	800,000	1.171	0.951	0.526	468,603
Steve	Center	11	800,000	1.136	1.698	0.377	581,799
Seth	Guard	1	800,000	0.786	0.418	1.666	438,114
Ron	Guard	8	800,000	0.786	1.258	0.723	571,436
Jerry	Forward	8	800,000	1.171	1.281	1.839	2,206,767
Robery	Guard	Rookie	800,000	1.786	0.391	2.746	675,208
							\$9,861,036
						Player RL/Avg. RL	0.50
						Total	\$5,112,617

(A) Median compensation for position / median compensation for all positions.

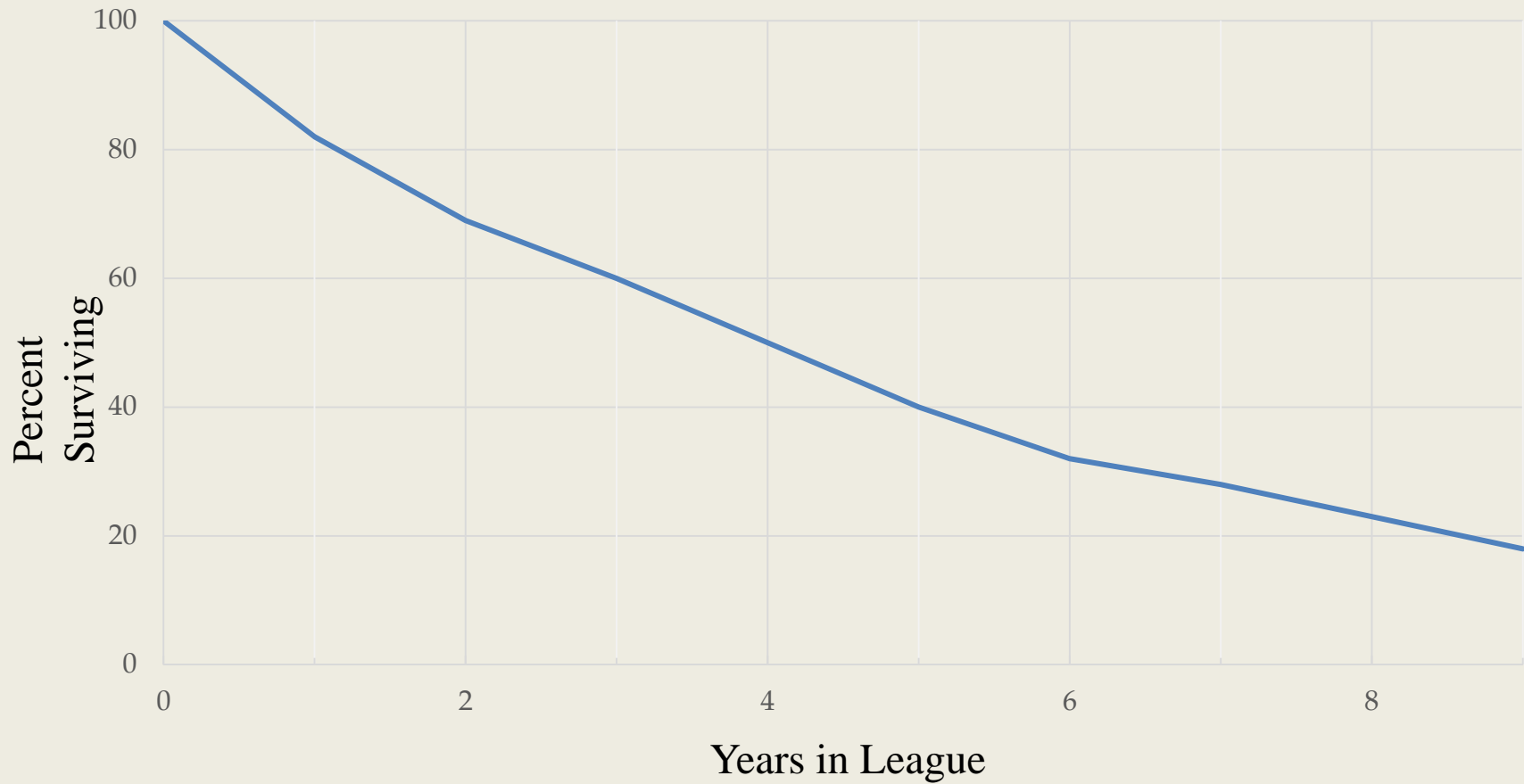
(B) Median compensation for position and years in league / median compensation for all positions.

(C) Player's total compensation / median compensation by positions and years in league assumes player salary at market.

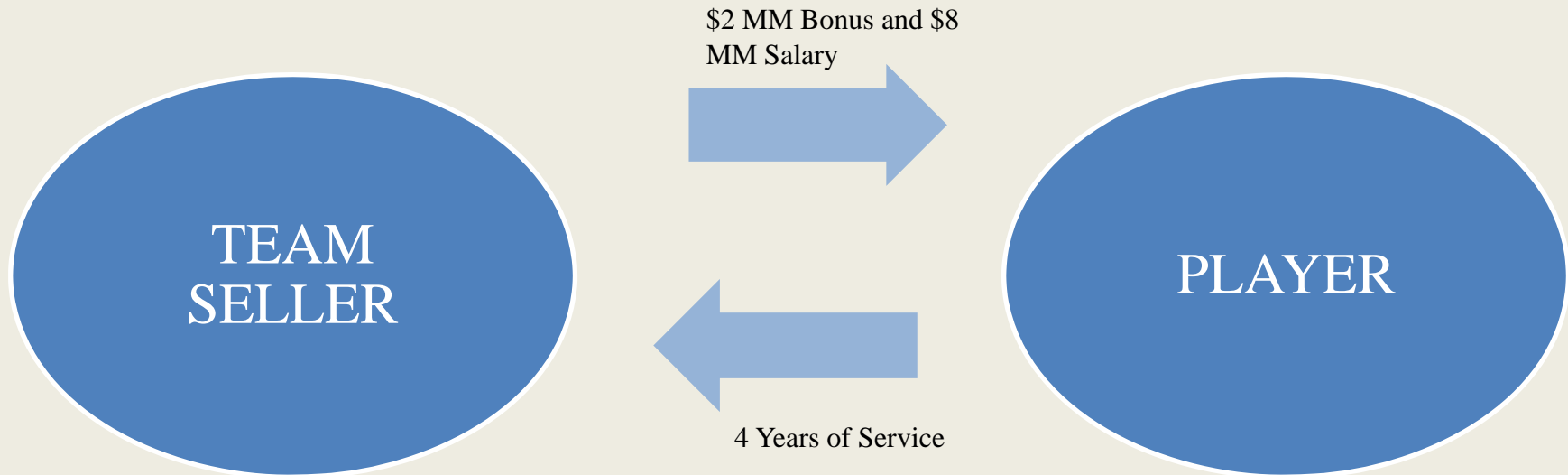


# Player Contracts Cost Approach

Player Survival Rate

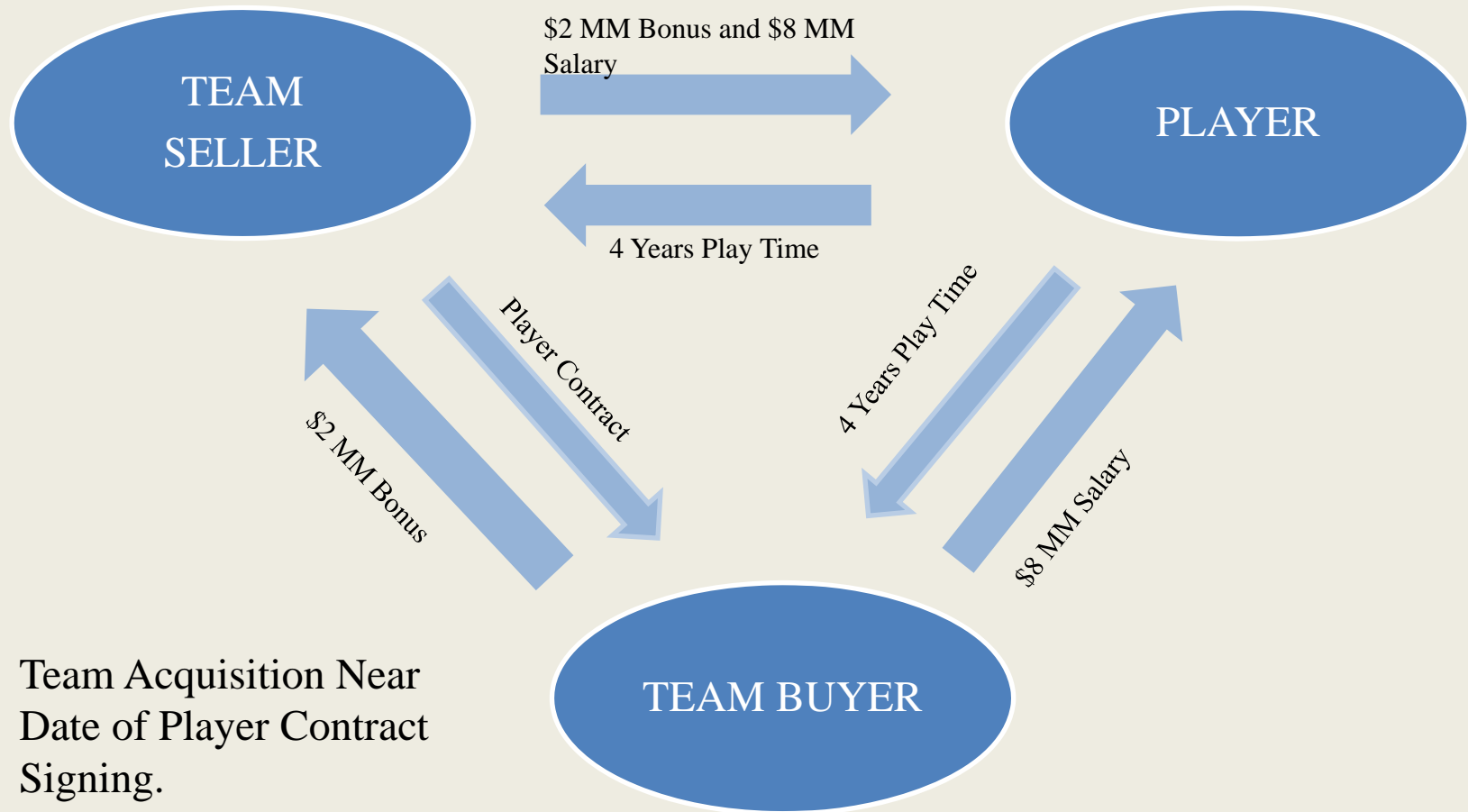


# Player Contract Market Approach

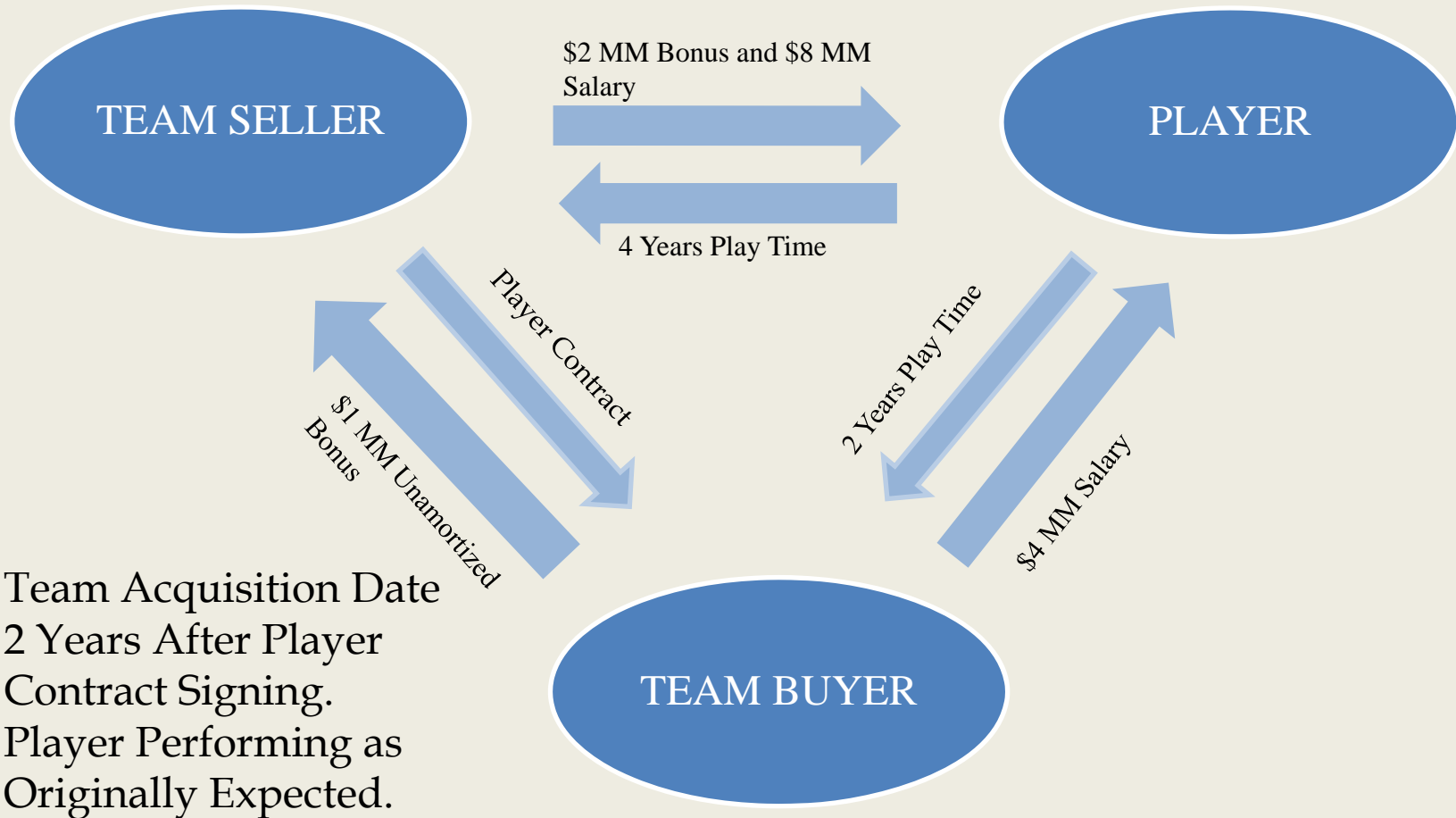


# Player Contract – Market Approach

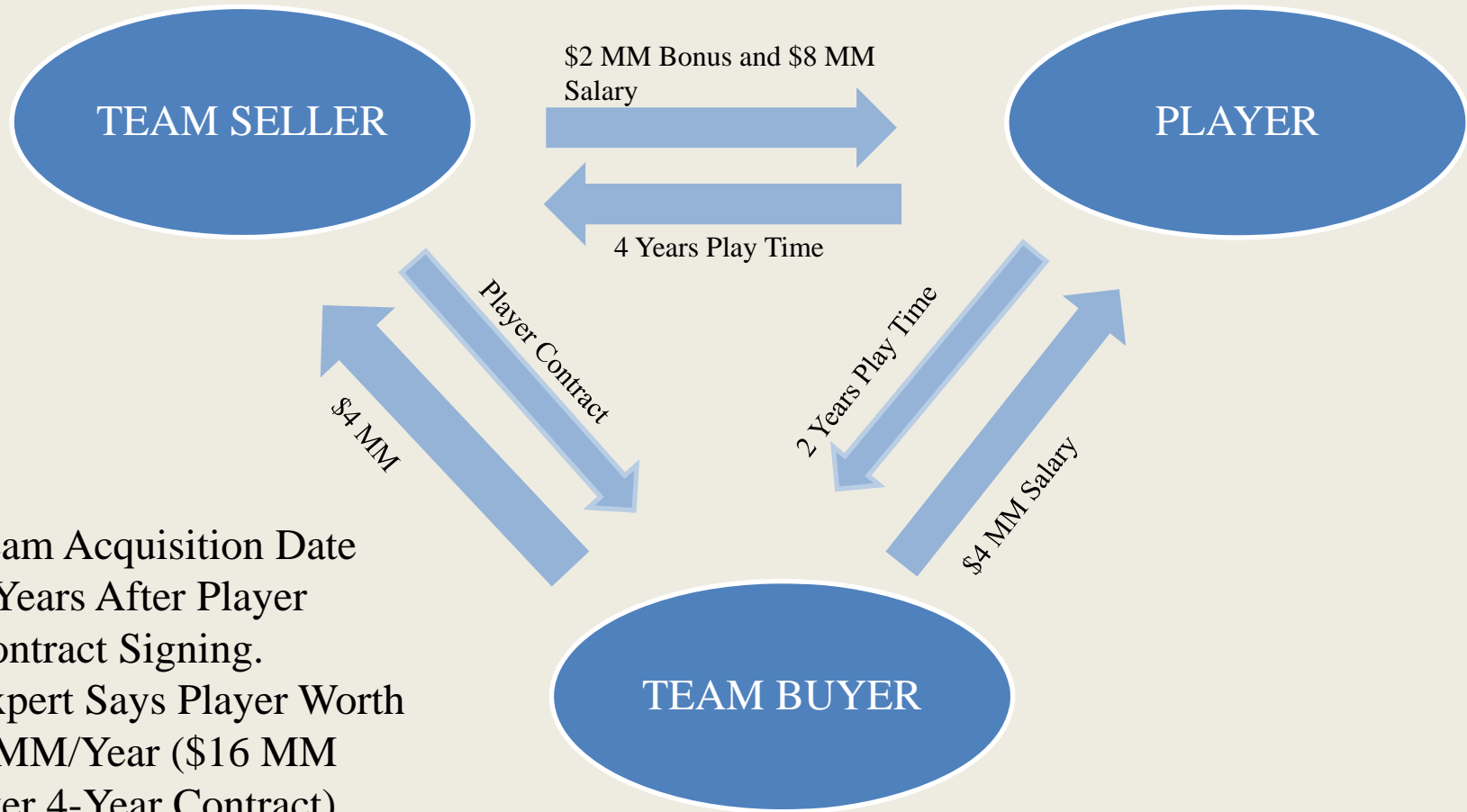
## Scenario 1



# Player Contract – Market Approach Scenario 2



# Player Contract – Market Approach Scenario 3



# Player Contract Market Approach

- ▣ Determinants of Player Contract Value
  - Compensation/Contract Length
  - Ability (Stats)
  - Experience (Years in League)
  - Age
  - Position
- ▣ Compare Player's Salary to that of Peers to Determine if Contract is Favorable to Owners

# Player Contract – Market Approach

## Subject Player Information

Statistical Information as found in *The Sporting News Pro Football Register*

	<u>Games</u>	<u>Completion Percentage</u>	<u>Yards</u>	<u>TD</u>	<u>Int.</u>	<u>Avg. Yards</u>	<u>Rating</u>	<u>Rushing Avg.</u>
1995 Statistics	13	61.50%	2,883	17	10	7.4	87.8	3.4
1993-95 Year Average	12.3	57.70%	2,418	15.7	12.3	7.3	81.4	3.1
Nine-Year Career Average	12.6	53.50%	2,453	13.7	16.5	7	70.1	4.4

Salary Information as found in *USA Today*

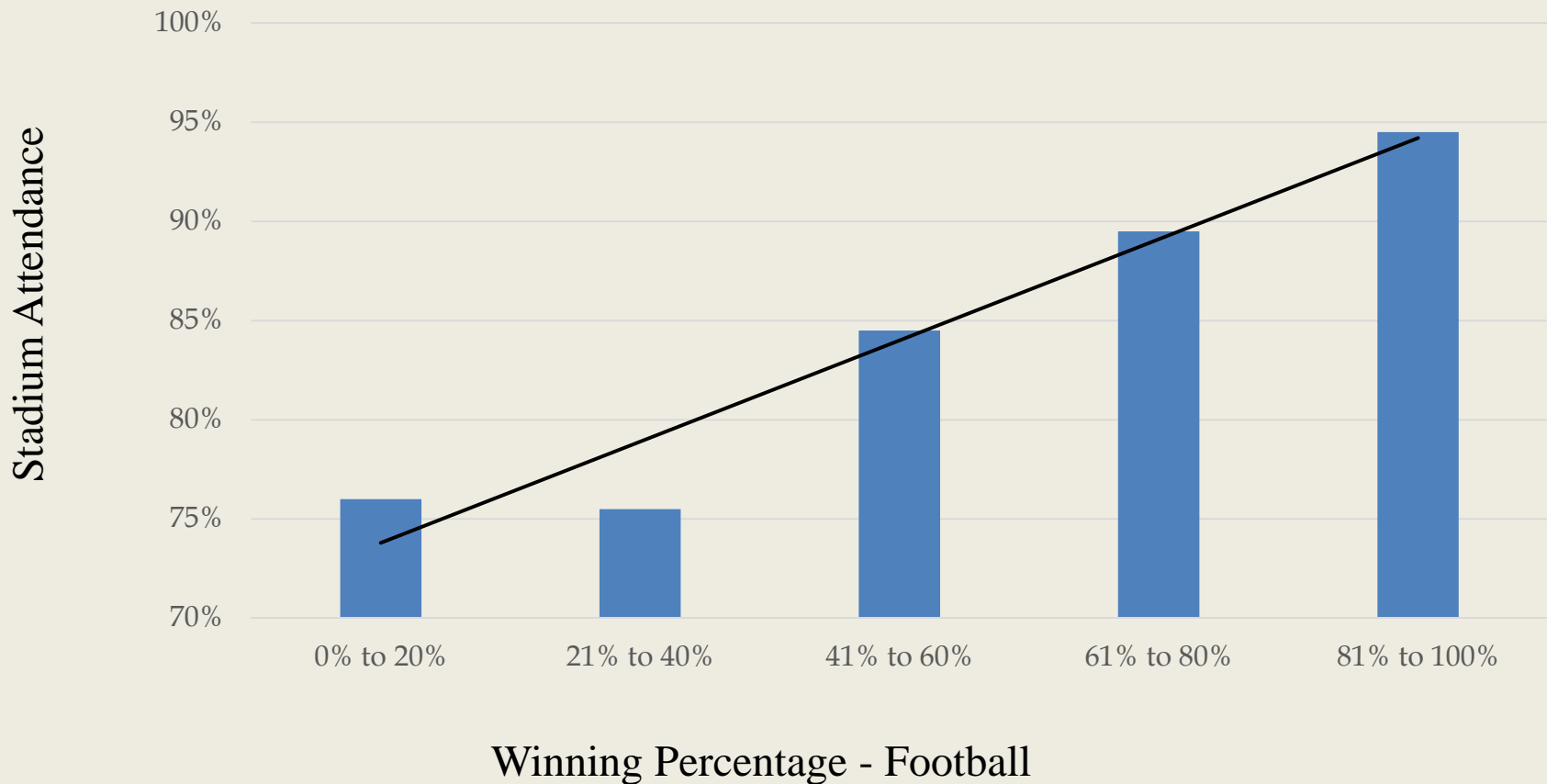
<u>Name</u>	<u>Position</u>	<u>Base Salary</u>	<u>Bonus</u>	<u>First Year Total</u>
	Quarterback	\$5,215,000	3,660,700	\$8,815,700

# Player Contracts Income Approach

- ▣ Difficult to Use for Valuing Individual Player Contract
- ▣ Could be Useful to Value Team's Aggregate Player Contract Value and as a Check for Other Approaches
- ▣ Base Assumption is that Good Teams Increase Stadium Attendance and TV Viewership
- ▣ Isolate Additional Revenue Caused by Good Team Performance
- ▣ Subtract Player Payroll that is Above Average



# Player Contracts Income Approach



# Player Contracts Income Approach

<b>Revenue Source</b>	<b>2000</b>	<b>Percent Attributed to Player Contracts</b>	<b>Total</b>
Ticket Sales	\$15,000,000	20.00%	\$3,000,000
Club Seat Sales	10,000,000	20.00%	2,000,000
Concessions	5,000,000	20.00%	1,000,000
Parking	1,200,000	20.00%	240,000
Local Broadcast	2,500,000	20.00%	500,000
Local Advertising	3,000,000	20.00%	<u>600,000</u>
<b>Revenues Attributed to Player Contracts</b>			<b>\$7,340,000</b>
Player Payroll Above (Below) Average Team Payroll			\$0
Average Player Remaining Life			4 Years
Capitalization Rate			14%
Annuity Factor			2.91
<b>Indicated Value</b>			<b>\$21,359,000</b>

# Valuing Stadium Leases

- ▣ Key Items
  - Case Law
    - ▣ New Orleans Saints v. Commissioner of IRS
  - Judge Did Not Support Using Data from Stadium Leases in Other Cities
    - ▣ Rent Charged Versus Market Rent
    - ▣ Location
    - ▣ Duration and Termination Provisions
    - ▣ Date of Most Recent Negotiations
    - ▣ Arm's Length Nature of Negotiations
  - Types of Consideration
    - ▣ Fixed Rent
    - ▣ Concession Revenue
    - ▣ Naming Rights/Signage Revenue
    - ▣ Ticket Revenue
    - ▣ Parking Receipts

# Stadium Lease

## Fair Market Lease

- ▣ The amount at which property would rent between a willing leaser and a willing lessee when neither is acting under compulsion and when both have reasonable knowledge of relevant facts.

# Benefits from a New Stadium

## CITY BENEFITS

- ▣ National Recognition
- ▣ Share in Stadium Revenue
- ▣ Additional Tax Revenue from Game Day Support (hotels, restaurants, transportations)
- ▣ Increase in Local Employment
- ▣ Goodwill & Pride from Residences & Local Businesses
- ▣ Stadium Remains on City Balance Sheet as Asset

## TEAM BENEFITS

- ▣ New Stadium at less than Cost to Own it
- ▣ Club & Premium Seating for Higher Revenue
- ▣ Ability to Attract Better Athletes & Management due to Better Workplace Environment

# Stadium Lease

- ▣ Is lease favorable on Valuation Date?
  - At time of signing, lease payment is at fair market rent – therefore of little value
  - City stadium subsidy is dependent on team having League franchise and therefore subsidy value should be allocated to franchise agreement
  - Market Place is entire US as team owners negotiate with many cities before signing leases
  - Cost to build stadium is not a factor determining lease value as stadium would not be built without subsidy (not an alternative for team owners)
  - The primary analysis is comparing the subject lease with comparable leases

# Local TV Contracts

- ▣ Usually Determined by Income Approach
- ▣ Amortizable
  - Be Readily Valued
  - Have a Determinable Life
    - ▣ No Evergreen Contract
      - Require Significant Resources to Market to TV Networks  
(Usually a bidding Process)

# Literature Review

## Data on Sport Franchises

### GENERAL PUBLICATIONS

- ▣ Case Law
- ▣ USA Today & Other Newspapers
- ▣ Professional Sport Franchises, Present Unique Valuation Problems
- ▣ Inside the Ownership of Professional Sports Teams
- ▣ Sports, Jobs & Taxes
- ▣ Internet

### SPECIFIC TO FOOTBALL

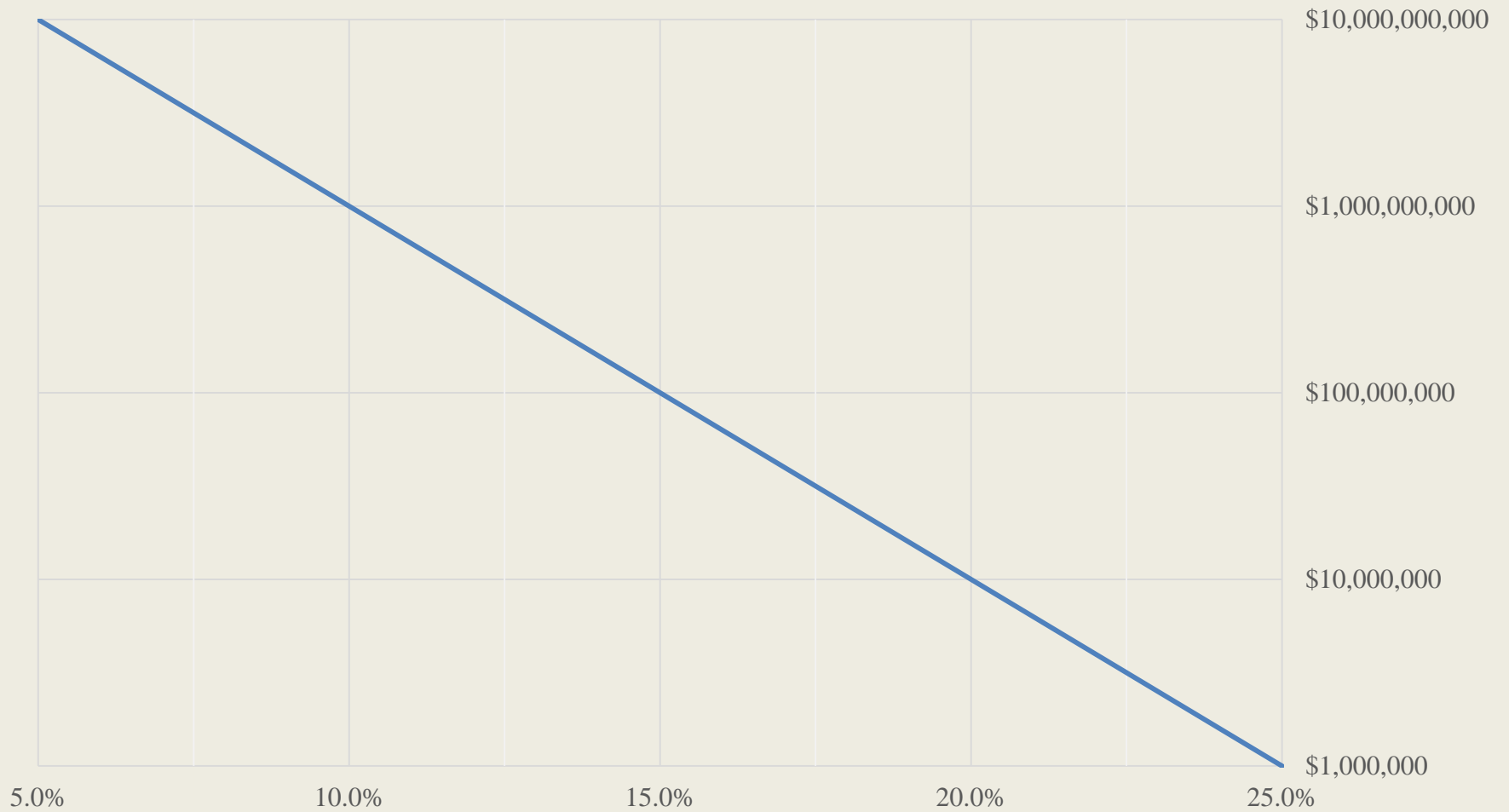
- ▣ Street & Smith's Guide to Pro Football
- ▣ The Sporting News Pro Football Register
- ▣ Total Football, The Official Encyclopedia of the National Football League
- ▣ NFL Player Association
- ▣ NFL



# Determining the Appropriate Discount Rate

- ▣ Typically use Weighted Average Cost of Capital (WACC)
- ▣ Guideline Companies Selection
  - Publicly Traded Sports Teams
    - ▣ Boston Celtics Ltd. Partnership
    - ▣ Green Bay Packers, Inc.
    - ▣ Northwest Sports Enterprise, Ltd. (Vancouver Canucks)
  - Publicly Traded Parent Companies
    - ▣ Entertainment Industry

# Market Value v. Rate of Return



# Capital Asset Pricing Model

Risk Free Rate of Return	20 Year Treasury	6.7%
Equity Risk Premium	NYSE Return	7.4%
Beta	Price Volatility	1.3%
Excess Small Company Risk Premium	Ibbotson Associates	2.5%

$$\text{Equity Rate} = 6.7 + (7.4 \times 1.3) + 2.5 = 18.8\%$$

# What to look for in a Sport Franchise Appraisal

- ▣ Detail
  - Calculations and Assumptions
- ▣ Documentation
  - Report
- ▣ Audit Trail
  - Workpapers

# Common Valuation Errors

- ▣ Arithmetic
- ▣ Appropriate Use of Methodologies
- ▣ Consistency
- ▣ Reasonable and Supporting Assumptions