Asset Creation and Destruction in the Sporting Industry

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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


MLS ~ Doug Logan (1996 – 1999) and Don Garber (1999 →)
Sporting Industry Shows Continuing Evidence of Much Vibrancy and Mega Asset Creation


- 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

  - 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
  - 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?

**XFL - NBC (2001)**

**XFL - UPN (2001)**
MMA Illustrates

- Asset Creation
  - UFC
  - Strikeforce

- Asset Destruction
  - IFL
  - Pro-Elite
# MMA’s Competitive Landscape

<table>
<thead>
<tr>
<th>Year</th>
<th>UFC</th>
<th>PRIDE</th>
<th>IFL</th>
<th>Pro-Elite</th>
<th>Strikeforce</th>
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- 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

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MMA Red Ink

International Fight League

![Chart of Total Revenues and Net Income for International Fight League]

Pro-Elite

![Chart of Revenues and Net Income for 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):

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

[Image of race car and race scene]
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)

<table>
<thead>
<tr>
<th>ENGLISH PREMIER LEAGUE (EPL)</th>
<th>2007/08 Season Rankings/Points</th>
<th>2008/09 Season Rankings/Points</th>
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<tr>
<td></td>
<td>1. Manchester United (87)</td>
<td>1. Manchester United (90)</td>
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<td></td>
<td>2. Chelsea (85)</td>
<td>2. Liverpool (86)</td>
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<td></td>
<td>3. Arsenal (83)</td>
<td>3. Chelsea (83)</td>
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<td>4. Liverpool (76)</td>
<td>4. Arsenal (72)</td>
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<td>5. Everton (65)</td>
<td>5. Everton (63)</td>
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<td>6. Aston Villa (60)</td>
<td>6. Aston Villa (62)</td>
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<td>7. Blackburn Rovers (58)</td>
<td>7. Fulham (53)</td>
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<td>8. Portsmouth (57)</td>
<td>8. Tottenham Hotspur (51)</td>
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<td>9. Manchester City (55)</td>
<td>9. West Ham United (51)</td>
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<td>10. West Ham United (49)</td>
<td>10. Manchester City (50)</td>
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<td>12. Newcastle United (43)</td>
<td>12. Stoke City (45)</td>
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<td>14. Wigan Athletic (40)</td>
<td>14. Portsmouth (41)</td>
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<td>15. Sunderland (39)</td>
<td>15. Blackburn Rovers (41)</td>
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<td>17. Fulham (36)</td>
<td>17. Hull City (35)</td>
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<td>18. Reading (36)</td>
<td>18. Newcastle United (34)</td>
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<td>20. Derby County (11)</td>
<td>20. West Bromwich (32)</td>
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</table>

Promoted to EPL from Championship League for 2007/08 Season

- Promoted to EPL from Championship League for 2009/09 Season
  - 12. Stoke City (45)
  - 13. Bolton Wanderers (41)
  - 14. Portsmouth (41)
  - 15. Blackburn Rovers (41)
  - 16. Sunderland (36)

Relegated to Championship League from EPL for 2008/09 Season

- Relegated to Championship League from EPL for 2009/10 Season
  - 12. Stoke City (45)
  - 13. Bolton Wanderers (41)
  - 14. Portsmouth (41)
  - 15. Blackburn Rovers (41)
  - 16. Sunderland (36)
Leeds United and its Vicious Cycle Fall*

*From 1992/93 English Football Leagues Comprise 4 Senior Divisions:

<table>
<thead>
<tr>
<th>Tier</th>
<th>2007-08</th>
<th>2008-09</th>
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<tbody>
<tr>
<td>Tier 1: Premier League – 20 Teams</td>
<td>£1,932</td>
<td>£1,981</td>
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<tr>
<td>Tier II: Championship League – 24 Teams</td>
<td>336</td>
<td>375</td>
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<tr>
<td>Tier III: League One – 24 Teams</td>
<td>125</td>
<td>123</td>
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<tr>
<td>Tier IV: League Two – 24 Teams</td>
<td>65</td>
<td>68</td>
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Clubs in Vicious Downward Circle: Portland Trailblazers
NBA Team On-Field Track Record

Leveragable Assets
- History of Success/Above Average Win Percentage
- One Sports Town
- Paul Allen Owner/Microsoft Co-Founder
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**

<table>
<thead>
<tr>
<th></th>
<th>Player Salaries</th>
<th>Club Revenues</th>
<th>Club Profitability</th>
<th>Player Salaries/Revenues</th>
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<tbody>
<tr>
<td>1999-2000</td>
<td>$76.4</td>
<td>$97.3</td>
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<td>2000-2001</td>
<td>86.5</td>
<td>101.0</td>
<td>-19.3</td>
<td>85.6%</td>
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<td>2001-2002</td>
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<td>97.0</td>
<td>-85.1</td>
<td>103.1%</td>
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<td>88.0</td>
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<td>78.0</td>
<td>-31.5</td>
<td>111.5%</td>
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<td>-15.2</td>
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<td>2006-2007</td>
<td>82.0</td>
<td>82.0</td>
<td>-25.1</td>
<td>100.0%</td>
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<td>2007-2008</td>
<td>73.0</td>
<td>114.0</td>
<td>-0.9</td>
<td>64.0%</td>
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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