



# TOYS FOR BILLIONAIRES: THE TROPHY ASSET EFFECT IN SPORTS!

A fan's dreams come true...

# Sports and Markets

- I have always loved sports, playing tennis and cricket when I was growing up, before transitioning to fan status, cheering for my favored teams from the sidelines. I also like finance, perhaps not as much as sports, but there are winners and losers in the investment game as well.
- It should come as no surprise that when the two connect, as is the case when teams are bought and sold, or players are signed, I am doubly interested.
- The time is ripe now to talk about how professional sports, in its many variations around the world, has blown a financial gasket, as you see teams sold for prices that seem out of sync with their financial fundamentals and players signed on contracts that equate to the GDP of a small country.

# The Sporting Ideal!

- In its idealistic form, sports is about competition and the human spirit, and is divorced from money. That was the ideal behind not just the Olympic ban on athletes from being paid for performing, but also behind major tennis tournaments being restricted to just amateurs until 1968 and the entire collegiate sports scene.
- Both restrictions eventually fell, weighted down by hypocrisy, since the same entities that preached the importance of keeping money out of sports, and insisted that the players on the field could not make a living from playing it, engorged themselves on its monetary spoils.
- At this point, it seems undeniable that sports and money are entwined, and that trying to separate the two is pointless.

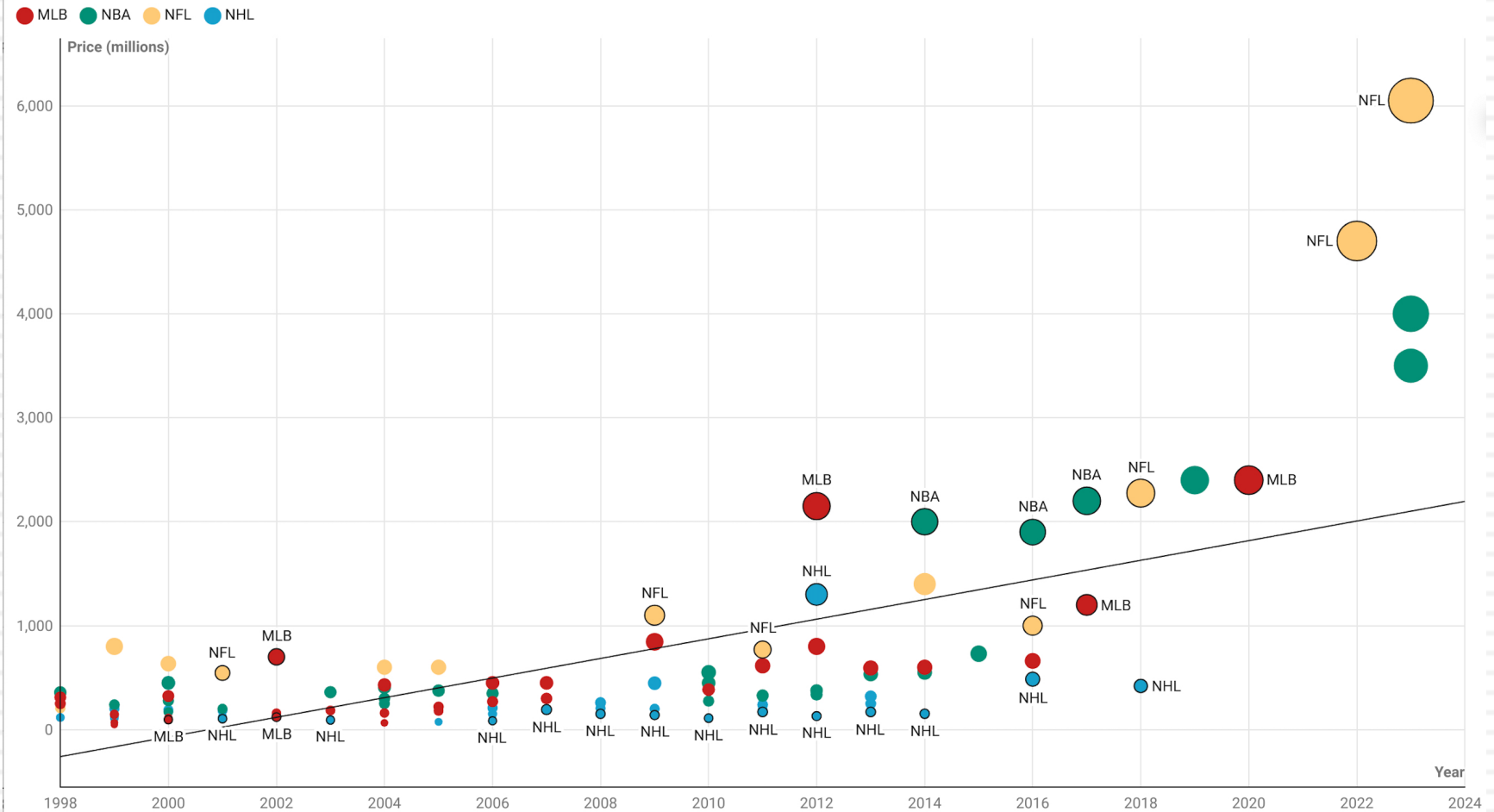
# The Story Lines

- Player contracts: While player contracts have become bigger over time, the [\\$776 million offer by Al-Hilal](#), a Saudi team, to Kylian Mbappe, the French superstar on contract with PSG, for a one-year contract to play with the team was eye-popping in magnitude.
- Sports franchise transactions: In 2023, the Washington Commanders, an NFL team with a decidedly mixed record on the field and a history of controversy around its name and owner, was [sold for over \\$6 billion to a consortium](#), making it the highest priced sports franchise transaction in history.
- Sport disruptions: When LIV made its bid by [signing up some of the best-known golf players](#) in the world to play in its tournaments, few gave it a chance of success against the PGA, but in 2023, it was the [PGA that conceded the fight](#) in the money game.
- Broadcasting upheaval: In 2021, we saw the NFL, the richest franchise in the world, enter into [new media contracts](#) to cover the next decade of broadcasting rights for the sport. The increasing importance of streaming in the media business was illustrated when the IPL, India's cricket league, [sold its media rights for the next five years](#) for television broadcasting to Star India, a Disney-owned subsidiary, for roughly \$3 billion, and the streaming rights for the same period to Viacom18, a Reliance-controlled joint venture, for about the same amount.

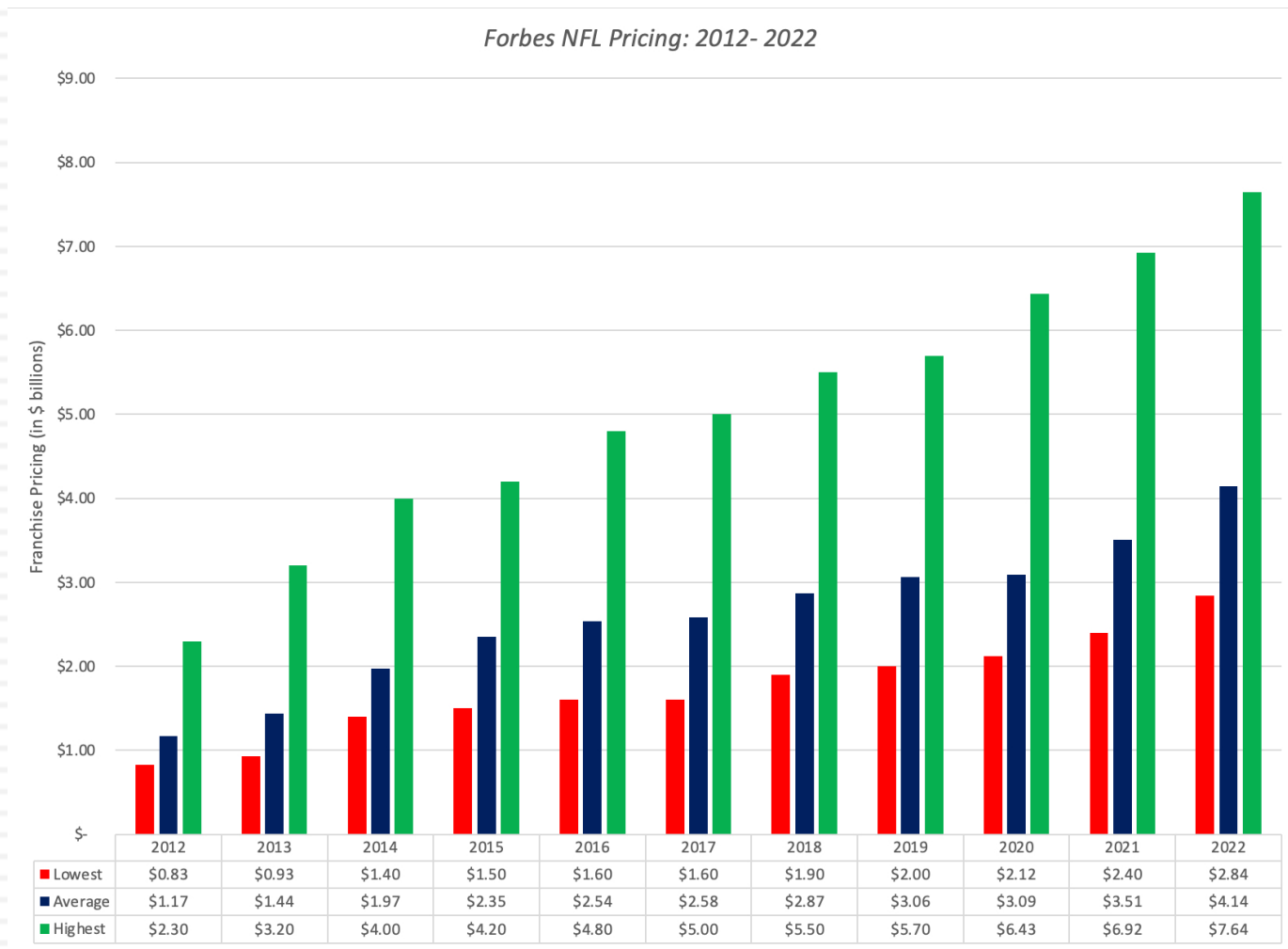
# Rising Franchise Prices!

<i>Team</i>	<i>League</i>	<i>Year</i>	<i>Price (in \$ billions)</i>
Washington Commanders	NFL	2023	\$6.05
Chelsea	Premier League	2022	\$5.30
Denver Broncos	NFL	2022	\$4.70
Phoenix Suns	NBA	2023	\$4.00
Milwaukee Bucks	NBA	2023	\$3.50
New York Mets	MLB	2020	\$2.40
Brooklyn Nets	NBA	2019	\$2.40
Carolina Panthers	NFL	2018	\$2.20
Houston Rockets	NBA	2017	\$2.20
Los Angeles Dodgers	MLB	2012	\$2.00

# A long-term trend...



# NFL Pricing (Forbes) over time...



# Pricing across Franchises...

	<i>Cumulative Pricing (in \$ mil)</i>	<i>Highest Priced</i>	<i>Lowest Priced</i>
NFL	\$132,500	\$7,640	\$4,140
NBA	\$85,910	\$7,000	\$1,600
MLB	\$69,550	\$7,100	\$1,000
NHL	\$32,350	\$2,200	\$450
MLS	\$16,200	\$1,000	\$350
Premier League	\$30,255	\$5,950	\$145
IPL	\$10,430	\$1,300	\$850



# Publicly traded franchises!

- There is a subset of sports franchises that are publicly traded, but it is a very small one.
  - ▣ Among US sports franchises, the one that comes closest is [Madison Square Garden Sports](#), which in addition to owning the arena (Madison Square Garden) also owns the New York Knicks (NBA) and the New York Rangers (hockey), but it is closely held, with the Dolan family firmly in control.
  - ▣ Outside of the US, [Manchester United](#) is the highest-profile example of a publicly traded company, but it too is closely held, with control in the hands of the Glazer family.
  - ▣ There are a few European soccer teams that are publicly traded, but they all tend to be closely held, with light liquidity.
- Question: Why are more sports franchises not more widely traded?

# Price versus Value

## *Tools for intrinsic analysis*

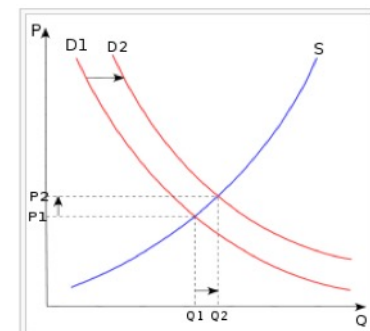
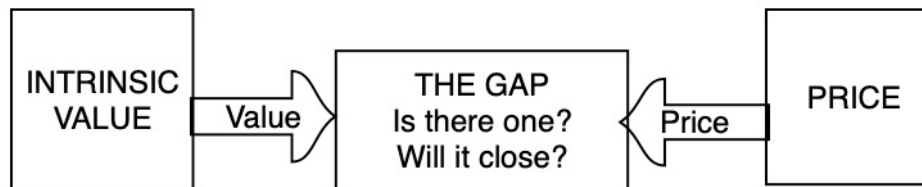
- Discounted Cashflow Valuation (DCF)
- Intrinsic multiples
- Book value based approaches
- Excess Return Models

## *Tools for "the gap"*

- Behavioral finance
- Price catalysts

## *Tools for pricing*

- Multiples and comparables
- Charting and technical indicators
- Pseudo DCF



## *Drivers of intrinsic value*

- Cashflows from existing assets
- Growth in cash flows
- Quality of Growth

## *Drivers of "the gap"*

- Information
- Liquidity
- Corporate governance

## *Drivers of price*

- Market moods & momentum
- Surface stories about fundamentals

# Investment Classification

Investment ▼	To value ▼	To price ▼	Invest/Trade ▼
Assets	Can be valued based upon expected cashflows, with higher cashflows & lower risk = higher value.	Can be priced against similar assets, after controlling for cash flows and risk.	You can invest, based on your assessment of value, or you can trade, based on expected price changes.
Commodity	Can be value based upon utilitarian demand and supply, but with long lags in both.	Can be priced against its own history (normalized price over time)	Mostly traded, based upon demand & supply, but can invest, with a long view on fundamentals and cycles.
Currency	Cannot be valued	Can be priced against other currencies, with greater acceptance & more stable purchasing power = higher price.	Can only be traded.
Collectible	Cannot be valued	Can be priced based upon scarcity and desirability.	Can only be traded.

# Trophy Assets

- There is a sub-grouping of assets, though, that is worth carving out and considering differently, and I will call these **trophy assets**.
- A trophy asset has expected cash flows, and can be valued like any other asset, but the people who buy it often do so, less for its asset status and more as a collectible.
- Powered by emotional factors, the prices of trophy assets can rise above values and stay higher, since, unlike other assets, there is no catalyst that will cause the gap between price and value to close.

# Trophy Assets: Ingredients

1. Emotional appeal overwhelms financial characteristics: The key to a trophy asset is that the core of its attraction, to potential buyers or investors, lies less in business models and cash flows, and more in the emotional appeal it has to buyers. That appeal may be only to a subset of individuals, but these buyers want to own the asset more for the emotional dividends, not the cashflows.
2. It is unique: Trophy assets pack a punch because they are unique, insofar as they cannot be replicated by someone, even if that someone has substantial financial resources.
3. It is scarce: For trophy assets to command a pricing that is significantly higher than value, they have to be scarce.
4. It is bought and held for non-financial reasons: If trophy assets are opened up for bidding, the winning bidder will almost always be an individual or entity that is buying the asset more for its history or provenance, not its financial characteristics.

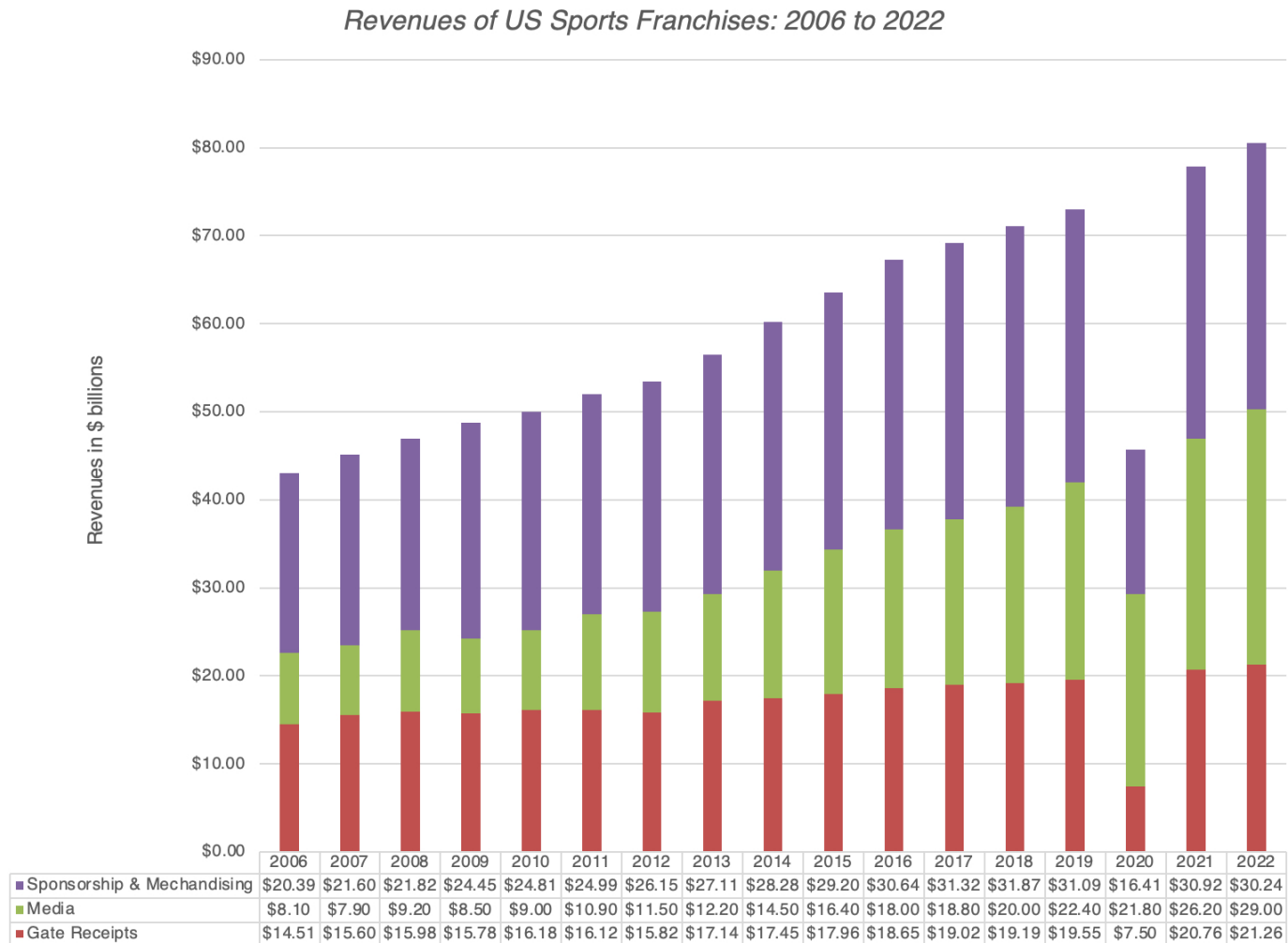
# Trophy Assets: Implications

1. *It will look over priced*, relative to financial fundamentals (earnings, revenues, cash flows), and relative to peer group assets that do not enjoy the same trophy status.
2. Even as price increases relative to value, *the mechanism that causes the gap to close, often stemming from a recognition that the you have paid too much for something, given its capacity to generate earnings and cash flows, will stop working*. After all, if buyers price trophy assets based upon their emotional connections, they are entering the transaction, knowing that they have paid too much, and do not care.
3. The forces that cause the prices of trophy assets to change from period to period will have a *weak or no relationship to the fundamentals* that would normally drive value.

# Sports Franchises as Trophy Assets

- Media businesses: The fundamentals are changing, as the business of sports franchises shifts away from the field to media. They can be valued as businesses, though, with this new business model.
- Disconnect from fundamentals: The pricing of sports franchises is disconnected from financial fundamentals, and value, and is becoming more so over time.
- New Owners: There is a new breed of owners of sports franchises, and their characteristics make it reasonable to assume that they are not buying franchises as businesses.

# 1. Changing Business Models





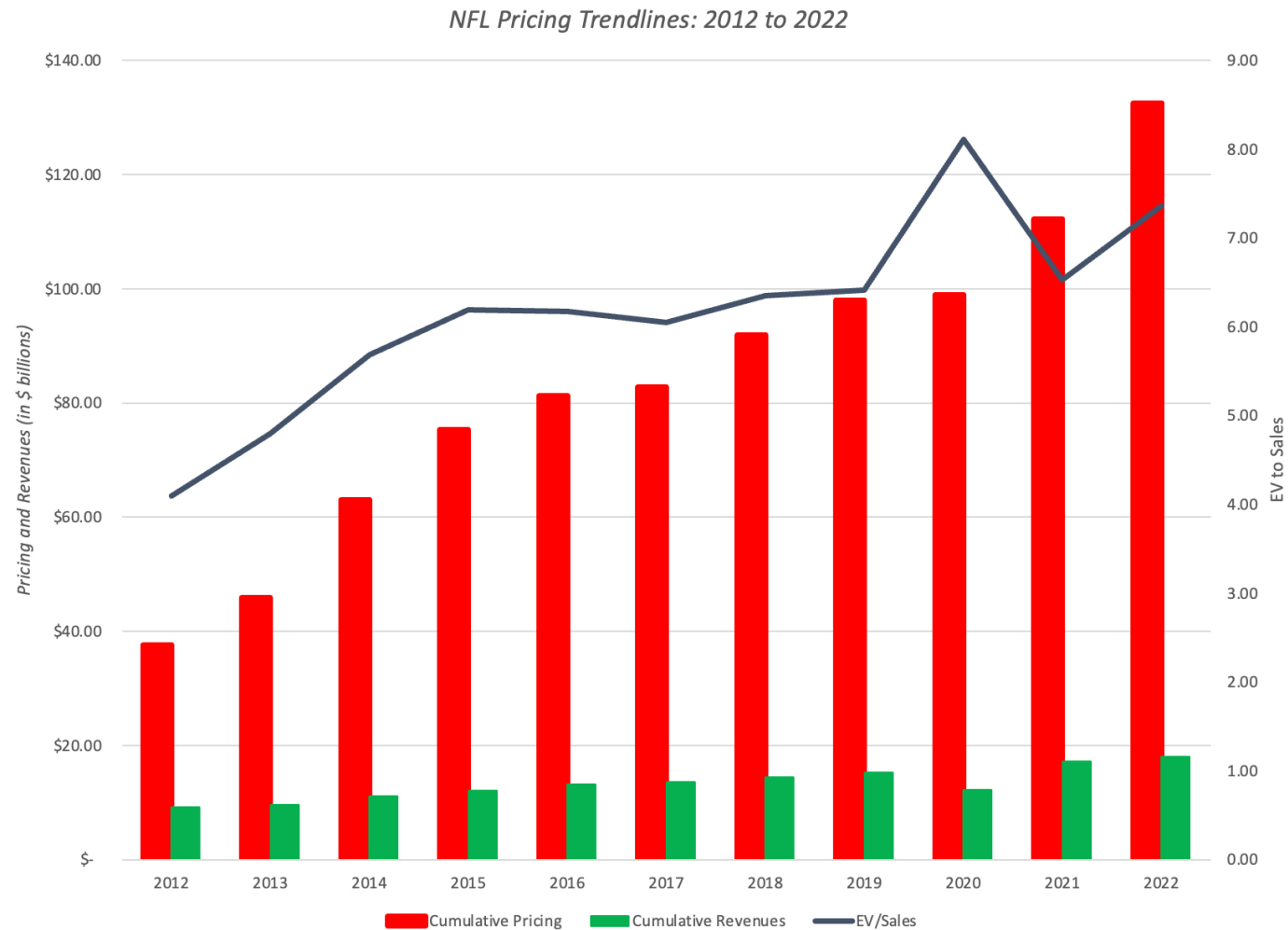
# With media at its center...

<i>Sports Franchise</i>	<i>Media Revenue Sharing</i>
NFL	Almost all media revenues are from national TV contract, and every team gets an equal share of those revenues
MLB	National revenues from media rights are equally shared, but teams keep 52% of revenues from local broadcasting, giving big-market teams more revenues.
MBA	National TV is equally shared, but local TV accounts for a large portion of media revenues. Revenue sharing across teams does allow for some of these revenues to be transferred from richer to poorer teams.
NHL	Mostly local TV revenues, with revenue sharing; richer teams provide subsidies to poorer teams.
MLS	Teams do not have owners, with the investor-operators who run these teams invested in the MLS, which collects all television revenues.
Premier League	Every Premier League team splits base payments of the broadcasting rights each season. Additional revenue is then added to each club based on how often their matches are selected for live TV.
IPL	Share of media revenue based upon ranking of team at the end of the season, with higher ranked teams getting a higher percent.

# And rising player costs keeping profitability in check...

<i>Sports Franchise</i>	<i>Collective Pricing</i>	<i>Revenues</i>	<i>Operating Income</i>	<i>Operating Margin</i>	<i>EV/ Revenues</i>	<i>EV/ Operating Profit</i>
NFL	\$132,500	\$16,101	\$4,671	29.01%	8.23	28.37
MLB	\$69,550	\$10,320	\$874	8.46%	6.74	79.62
NBA	\$85,910	\$10,023	\$2,948	29.41%	8.57	29.15
NHL	\$32,350	\$5,931	\$1,573	26.53%	5.45	20.56
MLS	\$16,200	\$1,549	\$34	2.19%	10.46	476.47
Premier League	\$30,255	\$6,442	\$520	8.07%	4.70	58.23
IPL	\$10,430	\$1,087	\$150	13.80%	9.60	69.53

## 2. Pricing disconnect rising over time...



# An Example: Price versus Value- Ballmer buys Clippers for \$ 2 billion (in 2014)

	<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

# 3. The Influx of Billionaire Owners

<i>Team</i>	<i>Owner</i>	<i>Wealth (billions)</i>	<i>Year Bought</i>	<i>Business Background</i>
LA Clippers	Steve Ballmer	\$75.60	2014	Microsoft CEO (and employee #30)
Cleveland Cavaliers	Dan Gilbert	\$44.80	2005	Quicken founder
Portland Trailblazers	Paul Allen (family)	\$20.30	1988	Microsoft co-founder
Brooklyn Nets	Joseph Tsai	\$14.20	2019	Alibaba co-founder
Memphis Grizzlies	Robert Pera	\$14.10	2012	Ubiquiti founder
LA Lakers	Phillip Anschutz	\$10.10	1998	Oil, Railroad, Telecom, Entertainment
Denver Nuggets	Stanley Kroenke	\$8.30	2000	Real Estate
Miami Heat	Mickey Arison	\$5.90	1995	Carnival Corp (Founder's son)
Detroit Pistons	Tom Gores	\$5.70	2011	Private Equity (Platinum Equity)
Orlando Magic	Richard DeVos	\$5.40	1991	Amway co-founder
Philadelphia 76ers	Joshua Harris	\$4.60	2011	Private Equity (Apollo Global)
Dallas Mavericks	Mark Cuban	\$4.20	2000	Company founder and Venture Capital
Houston Rockets	Tilman Fertitta	\$4.10	2017	Restaurant & hotel owner
Atlanta Hawks	Tony Ressler	\$3.90	2015	Private Equity and Venture Capital
New Orleans Pelicans	Gayle Benson	\$3.30	2018	Car dealerships and banks
Indiana Pacers	Herb Simon	\$2.80	1983	Real estate
Minnesota Timberwolves	Glen Taylor	\$2.50	1994	Taylor Corporation owner
New York Knicks	James Dolan	\$2.00	1994	Cablevision (Founder's son)
Utah Jazz	Gail Miller	\$1.90	2009	Car dealerships
Milwaukee Bucks	Marc Lasry	\$1.80	2014	Private equity
Charlotte Hornets	Michael Jordan	\$1.60	2010	Basketball player (and legend)
Chicago Bulls	Jerry Reinsdorf	\$1.50	1985	Real estate
Toronto Raptors	Larry Tanenbaum	\$1.50	1998	Construction and Broadcasting
Washington Wizards	Theodore Leonsis	\$1.40	2010	Media and Entertainment
Golden State Warriors	Joe Lacob	\$1.20	2010	Venture Capital
Sacramento Kings	Vivek Ranadive	\$0.70	2013	Software
Phoenix Suns	Robert Sarver	\$0.40	2014	Banking and Real Estate
Oklahoma City Thunder	Clay Bennett	\$0.40	2006	Media (inheritance)
Boston Celtics	Wyc Grousbeck	\$0.40	2002	Venture capital
San Antoni Spurs	Peter Holt	\$0.20	1993	Tractor dealership



# And here's why...



# Sports franchises are trophy assets

- Scarcity: Sports franchises are the ultimate trophy assets, since they are scarce and owning them not only allows you to live out your childhood dreams, but also gives you a chance to indulge your friends and family, with front-row seats and player introductions.
- Sovereign Trophies: It also explains the entry of sovereign wealth funds, especially from the Middle East, into the ownership ranks, especially in the Premier League.
- Winner-take-all Economics: If you couple this reality with the fact that winner-take-all economies of the twenty-first century deliver more billionaires in our midst, you can see why there is no imminent correction on the horizon for sports franchise pricing.

**As long as the number of billionaires exceeds the number of sports franchises on the face of the earth, you should expect to see fewer and fewer owners like the Rooneys and more and more like the Steves (Cohen and Ballmer).**

# Consequences for Owners

- For the owners of franchises that are not members of the billionaire club,
  - there will be pressure to cash out, and the key to getting a lucrative offer is to increase the team's attraction to potential buyers, as toys.
  - Adding a high-profile player, even one who is approaching the end of his or her playing life, can add to the attraction of a sports team, as a trophy, even as it reduces its quality on the field, as is moving to a city that a potential buyer may view as a better setting for their expensive toy (Oakland A's and San Diego Clipper or Charger fans, take note!).
- For billionaire owners of franchises, the reactions to owning an expensive toy that does not perform as expected, can range from impatience with managers and players, to trades driven by impulse rather than sports sense.



# Consequences for Players

- As sports franchises become trophy assets, players become the jewels that add dazzle to these trophies.
  - ▣ Not surprisingly, the superstars of every sport will be prized even more than they used to be, not just for what they can do on the field, but for what they can do for an owner's bragging right.
  - ▣ The recent billion dollar bid for Mbappe and the upcoming bidding war for Shohei Ohtani make sense from this perspective, and you should expect to see more mind-glowingly large player contracts in the future.
- To the extent that a player's trophy appeal is as much a function of that player's social media presence and following, as it is of performance on the field, you should expect to see sports players aspire for celebrity status.

# Consequences for Fans

- If you are the fan of a sports franchise that is owned by someone to whom money is no object, you will have much to celebrate, as your team chases down and signs the biggest names in the sport. As a negative, if your team owner tires of their trophy asset, you may be stuck with the consequences of benign (or not so benign) neglect.
- If on the other hand, you happen to be a fan of the team that continues to be owned by an old-guard owner, intent on running the team as a business, you will find yourself frustrated as homegrown stars get signed by other teams.
- The old divide of rich teams/poor teams that was based on unequal media markets or stadium sizes will be replaced with a new divide between rich team owners and poorer team owners, where the latter still have to make their teams work as businesses, whereas the former do not.