

# WHEN THE PREDS WIN WE ALL WIN

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The Predators reaction to my Tennessean op-ed originally entitled "This deal ain't over until it's over" reveals how defensive this lame-duck ownership has become. Most of us have nothing to gain or lose in this relocation circus, but this is our town and this is still our team. The Predators personal attacks against their own supporters are self-defeating. The original argument is still valid—the Nashville Predators are not going anywhere.

The Predators current ownership claims that it has lost \$70 million since 1999. The question is how such an impoverished franchise could be priced at \$220 million, 25 percent above the NHL average. There are only two explanations. First, according to the "greater fool theory," no matter how much someone overpays for an investment, there is always someone else who will buy it from them for more.

Second, the true value of a franchise sold in an auction is best approximated by the average bid, and always over-valued by the winning bid (Balsillie's \$220 million plus). The second highest bid for the Preds was below \$190 million (\$183 million) from Boots Del Biaggio. Del Biaggio is minority partner in the San Jose Sharks and has a side deal with Anschutz Entertainment Group (AEG) for the new \$276 million Sprint Center in Kansas City.

According to the core theorem of finance the value of any asset is equal to the present value of the expected net cash flow from that asset. Franchise depreciation tax shelters can turn positive cash flow into paper loss, but it is impossible for club value to increase with negative cash flow. This is why economists would question a negative cash flow for the Predators with \$190 million-\$220 million sitting on the table.

From the outside, the value of the Preds is probably closer to \$160 million-\$180 million. Forbes valued the Preds at \$134 million in 2006 (27th), the 40 percent share shopped for \$50 million implies a self-evaluation of \$125 million, the St. Louis Blues went last year for \$150 million, and Forbes average NHL value was \$180 million.

If the current owner sells to a local group in this price range, then he could become a local hero and his rate of return would be fair and reasonable. Sports investors know going in that NHL teams are not great investments. Then again, they are usually in it for love of the game and their community.

If DelBiaggio buys the Preds in the same price range, then it makes more sense for AEG to come to Nashville and run the Sommet Center than for the Preds to move to the Sprint Center. (AEG also owns the Los Angeles Kings and Staples Center and will manage the new Prudential Center for the New Jersey Devils). After damages, the option value of Preds relocation to KC is probably negative (see the lease below). Nashville is still the best option.

If the current owner takes the \$220 million deal with Balsillie and runs, then he has sold something that was not altogether his. It is hard to tell what part of a franchise belongs to the owner and what part belongs to Nashville, but turning the Predators into prey for more cash is way over the line of what is fair and reasonable. See "It's a shame how the Predators continue to twist in the wind" (Scott Burnside, ESPN.com.)

## Devil in the Details

The Predators current ownership had some questions about their own lease. Here are the independent findings from KPMG's audit of the Predators lease in 2003 ([http://www.nashville.gov/finance/Internal\\_Audit/gec\\_audit.htm](http://www.nashville.gov/finance/Internal_Audit/gec_audit.htm))

Sommet Center is managed by Powers Management which is owned by the same guys who own the Predators. Having the same owner is not unusual (23/30 arenas), but the facility operator usually assumes operating losses. "Metro's case is unique in that Metro is responsible for funding any operating deficit."

Although original projections had the GEC breaking even, Metro's operating subsidy increased from \$1,947,214 in 1999-2000 to \$ 5,390,781 in 2003-04. The arena deficit was \$4 million in 2006-07.

Fiscal Year	GEC Subsidy
2000	\$ 1,947,214
2001	\$ 3,451,809
2002	\$ 4,165,420
2003	\$ 5,043,563
2004	\$ 5,390,781
2005	\$ 3,679,800
2006	\$ 3,679,800
2007	\$ 4,084,000
<b>8-year total</b>	<b>\$31,442,387</b>

KPMG concludes that "Metro's operating subsidy of the GEC is in large part the result of the existing lease agreement with the Predators which tends to be more favorable to the Predators than peer lease agreements." This is what I meant when I said, "Nashville paid for the entire \$144 million arena and absorbs all its operating losses for the Preds (Powers)." The present value of a \$4 million annual subsidy over 30 years is \$60 million-\$70 million.

The Predators pay rent equal to 5 percent of ticket revenue (about \$1.15 million per season). The team retains 100 percent of naming rights and luxury suite sales, 90 percent of club seat money, 100 percent of NHL advertising revenue, 50 percent of non-NHL advertising, and 40 percent of concessions (Metro gets 5 percent). This is what I meant when I said the "Preds get everything," but as we have been told the team gets none of the parking revenue.

KPMG estimates annual revenue for Metro from the Preds lease at \$2,376,000. This is the Preds contribution to the \$144 million arena. If the Preds faced the same lease that the Stanley-Cup Champion Anaheim Ducks have at the Honda Center, for example, the Preds contribution would triple to \$8,139,000. The present value of the foregone \$5,763,000 difference over 30 years is about \$80 million. This is what I meant by a sweetheart lease.

It's too late to carp about the over-subsidization of the Preds at the Sommet Center. The sweetheart lease is a done deal but the variable subsidy can still be cut. When the Preds win it is a positive sum game—team revenue increases and the arena subsidy decreases.

The good news and the bad news are the same for Nashville. The bad news is the sweetheart deal for the club and the ongoing subsidy for the city. Once the deal was done, the good news is that this lease makes Nashville very attractive, especially compared to the mid-sized markets still on the prowl for an NHL/NBA franchise.

Can the Preds be saved? You bet. Consider the case of Columbus (same size as Nashville) and the Blue Jackets (same expansion litter as the Preds). One month before the 1997 expansion decision, Columbus voters nixed a sales tax financed arena. With backs against the wall--could the Blue Jackets be saved in a month?

You bet. Dimon McFerson of Nationwide Insurance quickly put together over 80 percent private funding for a \$150 million downtown arena. After outsider Lamar Hunt balked at the lease, local businessman John McConnell stepped up for 80 percent of the \$80 million fee and \$40 million start up without even seeing the lease. Three others, including John Wolfe, publisher of the Columbus Dispatch, covered the rest. Hello, Columbus.

NHL Commissioner Gary Bettman called this "one of the most heroic feats I have seen in the more than 20 years I've been involved in major-league sports."

Hockey is unique because it is a self-policing game. Sooner or later all problems are handled internally by the players on the ice. There is something very Southern about that self-reliance. Southerners haven't grown up skating on frozen ponds, but we have grown up taking care of our own business—right down to local ownership. Hello Nashville, lace up your skates—this is still our team.

Vanderbilt Economics Professor. Vrooman has published extensive research on the economics of professional sports, including venue finance and franchise relocation, and served as an expert on sports franchise valuation.