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Executive Interview

An Interview with Charlie Faas

Conducted by Daniel A. Rascher

Charlie Faas enters his fourth year with the San Jose Sharks (of the National Hockey League) and Silicon Valley Sports & Entertainment (SVSE) as executive vice president and chief financial officer.

Faas oversees finance, accounting, information technology, and human resources. As the chief financial officer, he is responsible for all financial matters with regards to the Sharks and other properties, including HP Pavilion Management, Silicon Valley Sports & Entertainment, Logitech Ice at San Jose, Sharks Ice at Fremont, and the Worcester Sharks of the American Hockey League, the Sharks, top development affiliate. Faas works closely with the board of directors of SJSEE. His duties also include business acquisitions and compliance with National Hockey League and City of San Jose reporting requirements. He also serves as a board member of The Sharks Foundation.

Before joining the organization, Faas held various finance positions in California and New York, most recently as the chief financial officer at Pharsight Corporation. His additional experience includes stints as corporate controller for ZLand.com, methodology services controller and finance director with Cadence Design Systems, and numerous financial management positions at IBM.

A native of upstate New York, Faas earned a bachelor's degree in business administration and accounting from Siena College and graduated from the executive education program from the Anderson School at UCLA.

He is a member of the board of directors for the San Jose After-School All Stars (ASAS) and the San Jose Sports Authority (SJSA). In June 2006, he was honored as the 2006 recipient of the "Mary Angela DiGiovanni Beacon of Light Award," presented on behalf of the National Board of Directors of the After-School All-Stars program for outstanding contributions by an individual. ASAS is a non-profit organization that provides year-round sports, cultural, academic, and technology programs for at-risk youth throughout the greater San Jose community. It is part of the National ASAS program founded by California Governor Arnold Schwarzenegger. SJSA is a non-profit organization that serves as the sports marketing agency for the City of San Jose.

Faas also serves as an adjunct professor at the University of San Francisco, teaching finance and accounting for its master's degree program in sports management.

He and his wife, Joanne, live in Fremont, California, with their children, David, Rachel, and Matthew.

Role and Trends

Q: What are the essential skills needed for your job?

A: You need to have sound financial fundamentals, strong management abilities, and multi-tasking skills and the patience in knowing the NHL season is 82 games. Sound financial fundamentals come in three flavors:

- First is continuous education, including undergraduate, graduate, reading publications and best practices, and establishing a mentor system.
- Know what you know and know what you don't know. You need to be an expert in certain areas, but not every area. In the areas you are less versed in, make sure you have an expert on your staff or at your disposal.
- Establish your financial reporting system. This is much more than the monthly close or the budget cycle. Develop metrics unique to your business that convey your grasp of the fundamentals and provide even sophisticated recipients with information that can be readily used and understood.

Management abilities, by definition, require multi-tasking skills. A good senior manager needs years of formal and informal training and applied practice. Too few of today's "managers" have formal training. They have been promoted because they have mastered the previous level. Seek out professionals in similar roles at like companies and network. In the NHL, we compete on the ice, not office to office. There's a wealth of knowledge I have obtained from other team CFO's. You also need to be able to prioritize and weed out the many tasks that come your way. The number one intrinsic thing I can fall back on is my gut feeling or instinct. It is critical to understand how the various pieces of your business inter-relate with one another. With this background, you can quickly decipher the red herrings from the real issues.

Whether I'm working on NHL issues or arena capacity modeling, you always have to keep in mind that you're doing things for the long haul. The only quick fixes come with long term implications. You can't get too concerned with the day to day, but need to focus on periods of time (in hockey they're called segments). You need to develop a fundamentally sound business plan, and then you need the patience to execute against that.

Q: What is your role with SVSE and how do you spend your time?

A: My role with SVSE includes the usual financial disciplines (accounting, budgeting, forecasting, etc), but also entails, Information Technology, Human Resources, and M&A. These last three are also typically included in a CFO role, however the M&A portion is something new almost everyday.

Forecasting is very dynamic, as player trades, injuries, and slumps are not usual in most lines of business. Our business model encompasses many lines of business: hockey (pro and minor), an arena, ice rinks, lacrosse, tennis, merchandise (sports and corporate), and publishing (for all Bay Area franchises). Each of these businesses has its own set of desired expansions and ways to optimize the businesses. My role is to strategically support the business units.

I am continually asked to review new lines of business. We manage HP Pavilion in San Jose, one of the busiest arenas in the world. We want to fill as many open dates as possible. We always have to look at the trade-offs of concerts, hockey games, family shows, etc. The trade-offs are event margin, date optimization, customer experience, risk of losing events to competing venues, etc. Some of the recent activities I have pursued (that are public): purchase of an NBA franchise to play in San Jose, operating the Oakland Ice Center, building a new Ice Center in Pleasanton, purchase of the San Jose Earthquakes, building a new 5,000 seat Music Hall, and ROI for installing a new state of the art scoreboard.

Q: How does financial management in sports differ from that in your previous career in the technology industry?

A: My financial background included quite a bit of capacity analysis work; I continue to use this daily. All the 10K, 10Q, Sarbox, and software revenue recognition work, pretty much is left behind … not that any of us would miss that too much!

There are many parallels from technology to sports. When I was interviewing for the position, I thought I might be under-qualified because I had a limited sports finance background. The ownership group that acquired the Sharks back in 2002 is a who's who of Silicon Valley's technology companies. They were seeking a CFO that could run board meetings and the company, similar to what they were used to at their own companies.

The National Hockey League (NHL)

Q: What caused the NHL lockout and what solutions were created that ended it?

A: The underlying issue for the owners was cost certainty. The 30 teams and players operate under a Collective Bargaining Agreement (CBA). The recently signed agreement (7/05) now provides a salary cap and associated salary floor; revenue sharing, and clearly defined financial reporting requirements that enables both the league and the players to understand how money is made and spent. This was essential, as 23 teams were losing significant money and 74% of revenue was being spent on players' salaries. No business can maintain that level of salary to revenue. The new agreement now provides 54% of revenue to be spent on players' salaries.

As part of the new CBA, several other game-related areas were addressed, most notably strict and uniform enforcement of the rules. Too often in the past, referees would "swallow their whistles" in the third period or overtime. Also changed was the elimination of ties. A shootout was created at the end of a tied game. This has been a big fan favorite.

Q: In what ways are the Sharks financially better off after the lockout?

A: We are benefiting in three main ways: cost certainty, rule enforcement, and revenue sharing. We have always operated under a budget for our hockey salaries, but the salary cap ensures that other teams cannot significantly overspend on players or set an unreasonable market for player salaries. The enforcement of rules allows our team to exploit our strengths. We are young, big, and fast. Teams not able to keep up or be as physical will be exposed.

This provides for a much more exciting product; we see our fans coming out in record numbers (we are at 99% of capacity year-to-date). Even with high attendance, we are still eligible for league revenue sharing (many teams have significant television revenues). Our franchise has never been profitable. With the new CBA, we have significantly closed this gap.

Q: Is there more cost certainty in the NHL since the end of the lockout, and if so in what ways?

A: Teams now have a maximum of $44M to spend on player salaries (with a floor of $28M). Note that 26 of the teams are spending close to $40M or more. The key now is teams cannot buy their way out of mistakes. Drafting and development have become even more essential than before and something we have been doing well for a decade. The players also benefit directly with the new formula of 54% of League revenue going to them. Now both players and owners are aligned to increase revenues.

Q: In general, what are the financial risks involved in operating an NHL franchise and how is the NHL or individual teams addressing those risks?

A: Risks typically relate to the players, including individual or team performance, injuries, and player personnel management. Teams try to write a budget that is close to or breakeven. Playoffs are the upside, if your team advances into the later rounds. Risk management is important, deciding which players can/should be covered. An injury can cause a team to be much less competitive. Last season the Buffalo Sabres fielded a stellar lineup that advanced to the third round of the playoffs before they lost to eventual Stanley Cup winner Carolina. One of the primary reasons they lost was due to injuries; most of their defense couldn't play and they had to bring minor league players in during the playoffs to replace veterans.

You address this risk by having outstanding team physicians and training regiments. Player/trainer communication is mandatory. Our trainers keep player information up to date, which enables us to get the best salary insurance coverage possible, with the least amount of exceptions. We also ensure that we have multiple levels of talent at all positions in various minor league levels. If a goalie gets hurt in San Jose and we need a backup immediately, we can draw on our AA affiliate in Fresno, versus waiting 24 hours for someone to fly in from our AAA affiliate in Massachusetts.

Q: How did the Sharks cope with the loss of an entire season? What steps were taken to minimize the financial harm?

A: All NHL teams had $10M each in reserves at the League office. This helped offset the losses that we incurred. The year of the lockout was probably my busiest year. We had to reduce staff as much as possible, but no one envisioned losing an entire season. You had to be staffed to start the season at any point because a settlement might have been reached. Our organization elected to keep almost all of our ticket sales and service staff, along with corporate sponsorships. Our season ticket holders (STH) and corporate partners are our life blood. We needed to maintain those fan relationships during that difficult time. We are now seeing the benefit from that investment, as we retained almost all our STHs and partners.

We had three budgets that year—normal season, partial season, no season. There were countless permutations of the partial year, depending on when a settlement might be reached. With so many other lines of business, we were able in many cases to shift hockey sales/support activities to other properties.

Q: What are the financial pros and cons of the NHL's TV deal with Versus?

A: The jury is still out on the TV deal with Versus. It provides the NHL with a partner that wants our programming and plans to build around us. They are able to highlight and showcase the sport in ways that ESPN could not. The upside is we are in 76 million households in primetime. We have all our playoff games televised and weekly shows promoting the sport. The downside is people are still looking for Versus on their cable dial and it requires some effort compared to most sport fans who know where ESPN and ESPN2 are. Financially it is more money than we would have gotten from an ESPN renewal and has significant upside to grow, as the network grows. However, it's a haircut from what we were previously getting from ESPN.

Q: What is the role of the Internet in the NHL's future?

A: We're seeing more and more activity, whether it's as the primary news provider for the team (prior to other outlets), streaming of highlights, and in the case of the AHL, they are broadcasting games for a fee. As in any media business, the owner of the content has an upper hand. Several teams have premium sites now and I see this increasing in the future with insider content that only teams can provide.

Sports are statistic-based, and as more and more fantasy leagues get created, the internet is where people will get that data. Currently, fans can go to www.nhl.com and get great information on games, from the usual goals and assists, to face-off win %, to shift charts. For the general hockey fan this information gives even more insight than just watching or listening to the game. It provides some insight in the coaches' decisions and changes in decisions.

We are seeing more impact from blogs and other connecting websites. In the past, radio, print, and TV would provide information to our fans. We are granting greater access to bloggers, as they deliver an important piece of the message to core fans. Print and TV continue to have much more access, but the gap in closing.

Q: What are your thoughts on whether the NHL should put together a fund to help finance facilities, similar to the NFL's G3 fund?

A: I am not aware of any ground swell to have a fund like this created. It's truly needed for the NFL, as their stadiums are used so infrequently and really only for football. It's hard to justify spending $1B for a new stadium that gets used 15 days a year. Hockey and basketball arenas are used more nights/days in a year for other events than for one sport. A good venue is busy 140+ days a year, with hockey or basketball accounting for 50+ of those dates. City governments can see an economic return on an arena and therefore approve much more public funding.

Q: What are the financial benefits or implications for SVSE of ownership of so many different organizations (e.g., merchandise, publishing, tennis, lacrosse)?

A: We find that being vertically integrated provides huge economies of scale. The process and servicing of tickets sales, marketing, and sponsorships is very similar from hockey to tennis to lacrosse. We do all of our own merchandise and publishing. This improves our margins, but the real gain comes from adding additional clients that have similar needs. For example, we design and print the magazine and media guide for the Sharks. It is relatively easy to expand to do the same for the Raiders and 49ers. Similarly, our merchandise team does corporate buys for our organization. That same team also has added numerous Fortune 500 clients and allows us to spread our overhead over many more customers.

We operate for the City of San Jose, the largest ice facility west of the Mississippi, Logitech Ice at San Jose. We started with two sheets and have since expanded to four and the Sharks training facility. This has been accomplished with minimal resource adds, only direct staffing. We added an additional facility in Fremont and are looking to add rinks in Oakland and Pleasanton. Our rink model is easy to replicate and needs only additional direct resources, as the operations staff can absorb more rinks with very moderate additional resources.

This is similar to the arena events methodology we deploy. Adding complementary events doesn't increase expenses very much and adds a tremendous amount of revenue.

Future

Q: What will be the drivers of growth in the NHL in the future, in your opinion?

A: Today most revenue comes from the gate (tickets, sponsors, suites). As the sport continues to grow, the national TV deal(s) and League sponsors will expand at a much faster rate. As stated earlier, the players now have an equal incentive as owners to grow all the revenue streams. As the players' association truly grasps the meaning of this, more and more players will be business partners with the teams. We're seeing some very creative TV commercials now using the NHL's star players. These are getting good reviews. When the above phase solidifies, then expansion is possible again. There are also some natural overseas tie-ins, particularly in Europe. This would be similar to basketball in China and baseball in Central America. Hockey is already popular in Europe, in contrast to the NFL, where it was non-existent in Europe.

Q: What are some of the big unanswered questions in sports team financial management and what type of research support of data would be valuable in answering those questions?

A: Team valuations are always a very subjective process. Adding more relative analytics to that process where teams/venues/ventures were more easily compared would be great. I have always been puzzled about why certain markets flourish, while seemingly similar markets languish. Denver is a city that seems to be able to sell any sport, in any venue. What's the secret of that towns' success? Can it be replicated?

I'd love to see some sort of financial model that would predict the variable nature of ticket sales/sponsorships as compared to team performance. Is there a single year or multi-year lag? Can you ever get it back? What's the success of franchises that have moved—short term and medium term?