2006

Executive Interview: An Interview with Randy Vataha

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International Journal of Sport Finance, 2006, **1**, 71-76, © 2006 West Virginia University

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Conducted by Daniel A. Rascher and Dennis R. Howard

Randy Vataha grew up in Garden Grove, California, where he attended Rancho Alamitos High School. He lettered in four sports at Rancho and upon graduation decided to focus on football.

After a year and a half at Golden West Junior College, where he made the transition from high school quarterback to college wide receiver, Randy received a football and academic scholarship to Stanford University. He was a starting wide receiver in the 1969 and 1970 seasons. In his senior year, Stanford won the Pacific 8 championship and went on to challenge unbeaten Ohio State in the Rose Bowl. The Stanford team quarterbacked by Jim Plunkett defeated Ohio State 27-17 and Randy caught the final and decisive touchdown in the game. Randy went on to complete his academic career at Stanford, receiving a BA degree in political science in 1972.

In 1971, Randy was the 17th draft choice of the Los Angeles Rams. After attending training camp and being released by the Rams, he was picked up by the New England Patriots and reunited with Plunkett. Randy went on to play with the Patriots for six years and finished his career with the Green Bay Packers in 1977. In 1974, Randy was elected the player representative for the New England Patriots to the NFL Players Association. He became a leader in the Association and served on the Executive Committee for Collective Bargaining.

Randy entered the world of business in 1977 when he started the Playoff Sports and Fitness Clubs, and expanded the company to 10 facilities by 1981, all located in New England and New York.

In 1981 Randy attended the founding meeting of the United States Football League and helped give birth to the USFL. He became co-owner of the Boston Breakers Football Club, which played its inaugural season at Boston University's Nickerson Field in 1983. The team was moved to the New Orleans Superdome for the second season since a stadium of adequate size was not available long-term in downtown Boston. Randy served as president of the New Orleans Breakers in 1984. Ultimately, the team was sold to new ownership that moved the Breakers to Portland, Oregon, when the USFL decided to change its spring schedule to the fall.

After returning to Boston in late 1984, Randy became a partner and vice president in the world's largest executive search firm at that time, Korn-Ferry International. While doing a search for Bob Woolf Associates Inc., a sports agency that represented athletes and entertainers in contract negotiations, Randy's long-time friend and company founder, Bob Woolf, asked him to consider taking the position of Chief Executive Officer. Randy agreed and became CEO of Bob Woolf Associates Inc. in March of 1986. Randy negotiated major contracts and oversaw the daily operation of the company, which represented a virtual "Who's Who" roster of sports and entertainment superstars including Larry Bird, Tom Glavine, Joe Montana, The New Kids on the Block, and Larry King.

In 1994, Randy, along with his partner Robert L. Caporale, formed Game Plan LLC. Game Plan provides consulting and investment banking services to the sport and entertainment industry. The company's primary function is to represent professional sports teams or potential owners of professional teams in their acquisition, sale, financing, and/or capitalization. Some of Game Plan's transactions include the purchase of the Boston Celtics in 2002, the sale of the Ottawa Senators in September of 2003, the purchase of the Los Angeles Dodgers in 2004, and currently handling the sale of the St. Louis Blues. Game Plan has also been very active in minor league baseball, including raising $40 million of new capital for Mandalay Baseball Holdings, which owns five minor league baseball franchises.

Randy is probably the only person in the United States who has been a professional player, sports union negotiator, team president, owner, sports agent, and sports investment banker.

He is married to the former Deborah Ayn Young of Garden Grove, California, and is the father of three children, Collin, Kyle, and Courtney.

Role and Trends

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

A: First you need all of the fundamental financial skills and knowledge base that any traditional investment banker would possess. Second is a working knowledge of the professional sports team business. This includes such items as a complete understanding of the collective bargaining agreements with the various players associations, the inner workings of the leagues and how they interact and affect franchise operations, the future development of revenue sources such as international expansion and/or league owned media outlets and distribution, etc. Third, given professional sports is a very small industry and everyone knows everyone, you must have the ability to develop and maintain relationships with owners and senior league executives regardless of what side you are on in any particular transaction. This is really based on your ability to develop a reputation for being highly ethical and competent while dealing in a world that does not necessarily follow traditional financial structures or valuations.

Q: What are the recent trends in sports investment banking?

A: The primary trend is tied to the sources of capital for professional sports teams. There are an increasing number of equity funds and hedge funds looking seriously at professional sports both on the debt and the equity side. Now that all four major sports leagues have a salary cap, or in the case of Major League Baseball, debt service rules, these funds can better analyze the risks associated with investing or providing debt to professional sports franchises. Given a steady increase in the value of these teams, a new source of capital is generally welcomed.

With this new pool of capital has come greater creativity in the capital structure of franchises. Given that each league has its formal and informal limitations on secured debt on franchises, new capital sources are utilizing more complicated capital structures including preferred equity or debt, mezzanine debt, and holding company structures to create more value for their invested capital. Given the historical increase in franchise values and current franchise values, new capital sources have become a critical part of providing future financial fuel to sustain the growth in franchise values.

Q: What will we see in the near future in sports investment banking? What changes do you see with respect to franchise financing?

A: As stated above, I think the increasing involvement of equity funds and hedge funds will continue to change franchise financing. In addition, the more traditional banks that have sports lending specialties will continue to transition into more creative financing structures to remain competitive. Also, we are starting to see more traditional debt sources that have historically avoided professional sports, given the past risk and volatility, creating small sports specialty practices that are aggressively pursing various sports team and related financings.

Q: What sports have the most growth going forward (e.g., in terms of revenues and franchise values)?

A: At the franchise level, the NHL has the best opportunity to increase its average franchise value on a percentage basis over the next few years given its new collective bargaining agreement. Adding a hard salary cap and revenue sharing to a league that has sustained significant financial difficulties over the last 10 years should dramatically increase its franchise values in the short term. Long-term value will be determined more by the NHL's ability to significantly expand national media revenues and other potential league endeavors such as European expansion.

At the league level, the NFL Network is a sleeping giant that is waking up. This season the NFL Network will carry live regular season NFL games on Thursday nights and selected Saturdays. This will motivate the various national cable systems that are not currently carrying the NFL Network to do so. The result would be a national sports network with a subscriber base comparable to ESPN and the potential to be a major competitor to ESPN.

Major League Baseball has seen great success to date with Major League Baseball Advanced Media ("BAM") which shows substantial potential for future growth in revenue and value for MLB team owners.

Q: What are the challenges, benefits, and issues involved in running a boutique investment bank focused on sports?

A: The challenge in running a specialized investment bank in the sports industry occurred in the early years when we were trying to educate potential clients to the benefits of working with a group that only dealt in professional sports. Since we are generally involved with very successful businessmen that often have significant relationships at major investment banks, it took a lot of development time and some very successful transactions to demonstrate to the marketplace that Game Plan has a unique ability within the sports industry to get things done.

The benefit of operating Game Plan is that we are doing what we love. Many very successful people come to us saying they are tired of their current business and since they are huge sports fans, they want to know how to transition their business skills into an industry that they perceive they would really enjoy, i.e., sports. We are fortunate to be there already and in those trying moments that always occur in any transaction, we remain grateful that we are where we are.

The main issue we have in running Game Plan is selecting the right mix of projects to be involved with. We have been extremely careful to never extend ourselves to a point that it would inhibit our ability to provide the best possible service for any client. There is always that temptation to add that additional project given the revenue it would generate, but we have learned over the years what our capacity is and never exceed it.

Examples

Q: Please take us inside a deal, such as your work involving the purchase of the NHL. What were the key elements? How did you choose your price? What prevented it from being accepted?

A: Between my partner Bob Caporale and myself, we have been involved in every aspect of the professional sports industry. For many years, Bob was a practicing attorney with a very successful sports and entertainment legal practice, primarily representing professional sports teams. We both owned and operated our own team in the old United States Football League. In addition to owning a team, I have a somewhat unique background having been a player in the NFL, a member of the Executive Committee in the NFL Players Association, including involvement in negotiating collective bargaining agreements, and an agent with Bob Woolf negotiating player/entertainer contracts for people like Joe Montana, Larry Bird, Tom Glavine, and Larry King on CNN.

Over the 60 years of combined sports industry experience, Bob and I have developed several ideas about how to maximize the value of sports teams and leagues. As we observed the difficulties that the NHL was experiencing financially prior to their new CBA, we focused our attention on that league. We concluded that the NHL was a clear candidate for a single entity structure with the League (single company) owning all of the franchises. Most people immediately assume that this was based on creating a way to dramatically decrease player costs. Nothing could be farther from the truth. Certainly, player costs had become far too high, 75% of the NHL's gross revenue, but we assumed that this would be addressed in collective bargaining whether or not we owned the teams. Where we saw the opportunity was beyond just player cost reduction. On the expense side we believed there were significant reductions that could be achieved in the cost of operating each franchise as part of a single entity. For example, increasing the league-wide scouting program, of which the cost is shared by 30 teams while significantly reducing the duplication at the team level for scouting costs. The result was a very significant savings overall without hurting the product in any way. On the revenue side there were opportunities such as eliminating the exclusive local media territorial rights that each NHL franchise holds and negotiating all media contracts, local and national, at the League level. This would eliminate a franchise's right to block the showing of other NHL games in its territory even if it generated more overall revenue for all of the teams.

Based on these and many other innovative principals, we developed a full business plan for the acquisition of all 30 NHL teams. We then approached our first equity source, Bain Capital, with the goal of raising about 30%

of the capital we projected would be necessary. After reviewing the plan, Bain agreed to provide all of the equity necessary to acquire the NHL. We then approached a traditional sports bank lender for the debt component and they agreed to provide the debt. In aggregate we raised about $4.5 billion.

We determined the price based on the business plan for the operations of all 30 teams. Once fully vetted with our equity and debt partners, we balanced the projected IRR equity return with the risk factors associated with the plan. This resulted in a final offer in excess of $4.2 billion, or an average around $140 million per team. Obviously, this price would be scaled based on each team's financial performance, market size, etc.

It is our feeling that the deal was not accepted primarily due to the condition we imposed that all 30 teams must agree to sell or there was no deal. Apparently some owners decided not to sell at virtually any price because they enjoyed owing their franchise and their primary motivation was not financial. However, this might have changed had the collective bargaining agreement not been settled.

Q: What were the key elements in your work involving the purchase of the L.A. Dodgers?

A: The acquisition of the Los Angeles Dodgers was both the most challenging and rewarding project we have worked on from a financial perspective. Our relationship with Frank McCourt started when he retained us in regards to his bid for the Boston Red Sox. We quickly learned how bright, determined, and creative Frank was. Although we did not win that bid, it was clear that the Red Sox process had opened Frank's eyes to the value and rewards of owning a Major League Baseball team. After the Red Sox sale, Frank asked us which MLB franchise that was either for sale or might be for sale would we go after. Our immediate response was the L.A. Dodgers. Eventually the team became available. However, the sale process started slowly because the franchise had lost an average of $42 million a year for three straight years and the owner, FOX, wanted a price between $350 and $450 million. Frank started his quest to buy the Dodgers in the summer of 2003 in spite of the team's financial performance to date. Frank agreed with us on the underlying value of the franchise based on the following:

- The Dodgers are one of the premier franchises in all of professional sports with a great tradition on and off the field.
- They are in downtown Los Angeles, which is the second largest market in the US.
- Their fan base is incredibly stable. Since opening Dodger Stadium in 1962, the Dodgers have drawn more fans that any other MLB team. Over the last 10 years, they are the only MLB team to exceed three million in attendance for all 10 years, with the Yankees and Cardinals second, exceeding that mark seven of 10 years.
- The franchise included Dodger Stadium and the nearly 300 acres of prime real estate surrounding it.
- Their local television contract was undervalued since FOX owned the team and the team's local TV contracts were with FOX owned companies.
- We believed that the losses could be eliminated with a different approach to managing the franchise while producing a better on-field product.

The key problem was to develop a capital structure to be able to pay FOX's price while properly financing the acquisition of a franchise that had suffered such severe losses. We faced three major problems with the acquisition, 1) procuring enough debt to make the transaction work at FOX's price, 2) meeting MLB's "Debt Service Rules," which significantly restricts the amount of secured debt a franchise can have, and 3) convincing everyone that the franchise would be quickly turned around financially.

Ultimately, we overcame all of these issues by focusing on a carefully developed business plan and presentation that was built around all of the positive factors listed above. We received great cooperation from MLB, and FOX worked tirelessly with Frank and our team to complete the transaction.

Details

Q: What are your thoughts on the merits of the following franchise valuation methods: price/revenue, price/earnings ratio, or discounted cash flow method?

A: Of the three mentioned, only the price/revenue method has any real value in professional sports since many teams have negative earnings and cash flow. However, the price revenue methodology looks only backwards and is generally a scale that only applies to teams sold over a finite period, usually five years. The result is generally a very wide-value range. For example, 2 to 3.5 times revenue range would not be uncommon utilizing this method, so if revenues were $100 million, your range would be from $200 to $350 million. We would not find that particularly helpful in valuing a team. Many other factors must be analyzed before determining a team's value. Gross revenues is certainly one of them but comparable sales, the market size, stadium/arena deal, portability of the franchise, local media contracts, quality of the team, committed long-term player and other contracts, etc. all have a significant impact on franchise values.

Q: In general, what are your bases for determining the controlling interest premium for a sports entity and how does this differ, if at all, from non-sports entities?

A: Most partnership agreements today, that include minority investors, usually have some type of tag-along-rights provision to protect the minority investors from the controlling partner selling just the controlling interest at a premium and forcing the minority partners to remain in place. Absent such provisions, a controlling interest partner could sell control of a franchise at a significant premium given the typical benefits that are included in the controlling interest, i.e., management fees, operational control, notoriety, etc. Given the wide variance of these benefits from team to team, it is impossible to put a general value on the control premium in sports. In non-sports businesses, the control premium is generally a function of operational control and does not include the notoriety factor that can add significant value to the control premium of a professional sports team.

Q: Why are there not more publicly traded professional sports franchises, given that there is likely to be a built-in fan base of potential stock purchasers?

A: First, the NFL does not allow them. The other three leagues do but with restrictions. The Boston Celtics (NBA), Cleveland Indians (MLB), and Florida Panthers (NHL) are examples in each league that were publicly traded for some period of time. The trend has gone the other way with all three of these being taken private and teams that were owned by public companies such as Disney and AOL Time Warner have been sold or are in the process of being sold. Even though it is likely that many fans would purchase stock in their favorite team not expecting any financial return, over time, dealing with the SEC requirements and filings is very time consuming and a major distraction for professional teams. More importantly, there has been an active market for team sales or the sale of ownership interests in teams, so there is liquidity and a constant pool of capital available to team owners without the complications of operating a public company.

Q: Do you see any minor sports franchises perhaps issuing equity using direct public offerings (DPO), as opposed to the more expensive IPO?

A: This may happen in an isolated case or two but we do not think that there will be any trend in this direction. Various ownership requirements in minor league baseball reduce the likelihood of this as a significant capital source.

Future

Q: What are some of the big unanswered questions in sports finance that you wish you had answers to?

A: Since all transactions must be approved by their respective leagues and there are significant debt restrictions and equity requirements, most of the major financial issues have enough history to be understood by experienced sports investment bankers.

One major question will be the impact of increased and enhanced revenue sharing in the leagues. The NHL added revenue sharing for the first time as a component in its new CBA; the NFL just increased its already substantial revenue sharing program in its CBA extension; and MLB is already suggesting that the League would like to increase the level of revenue sharing in its CBA negotiations at the end of the 2006 season. In addition, there are always evolving questions like the future value of the NFL Network, the ultimate impact of the new CBA on NHL franchise values, the future value of Major League Baseball Advanced Media, or the battle over team controlled Regional Sports Networks (RSN) versus the independent RSNs.

Q: Similarly, what are the most critical research needs in the area of sport finance? What are the unanswered questions and what type of empirical support or data would be most valuable?

A: A better understanding of why franchises are financially successful and what are the critical drivers on both the revenue and expense side that produce those results. It is far too simple to assume that winning teams are also successful financially. The question of cause and effect becomes very important. If you assume that a winning team is the cause with the effect being financial success, then you are dooming 50% of your league's franchises to financial failure (that half that does not have a winning team). Correlating and analyzing such data as the team's market size, team performance, stadium/arena deal, management, player costs, etc., in a standard format and ranking system that would allow a much better understanding of what are the real factors in a franchise's financial success would be a very valuable exercise.

To accomplish this, you would first need accurate data as to which teams have been profitable historically and which teams have not. You would also need to develop a complete list of those factors that could impact a team's financial operations and have access to data for each factor for each franchise. Once this data has been assembled, a matrix could be developed that would rank and compare the various factors and their ultimate impact on financial success. This analysis would be extremely useful for current owners, prospective team buyers, and league offices in their effort to assist their franchises in creating financially successful teams.