

NHL FINANCES: SKATING ON THIN ICE

Introduction

This article will present a financial analysis of the four major U.S. professional sports leagues (the National Hockey League (NHL), National Football League (NFL), National Basketball Association (NBA), and Major League Baseball (MLB)) over the past nine years, in order to focus on the NHL's current and future fiscal problems. All franchise, revenue, and operating values have been taken from *Forbes Magazine*, *Forbes.com*, and *Financial World*, unless otherwise stated.

Professional sports are a vital part of the United States economy representing a \$213 billion industry. Team values and revenues have gone up almost threefold within the past decade. However, while going out and buying a team may sound like a good investment, it is not easy making it in the professional sports leagues.

The NHL is symptomatic of this problem. The average cost of operating an NHL team is approximately \$70 million per year. Yet, with two teams in bankruptcy, several other teams in serious financial trouble, television ratings falling, low attendance, and the distinct probability of a work stoppage or strike at the end of next bargaining agreement in September 2004, the NHL is faced with many potential financial difficulties.

In addition to the two most recent bankruptcies involving the Ottawa Senators and the Buffalo Sabres in January 2003, the Los Angeles Kings and the Pittsburgh Penguins have also gone bankrupt in the past eight years. The NHL's experience with four team bankruptcies is more than that of any other professional sports league. In fact, the NFL has not suffered through a bankruptcy since the Philadelphia Eagles in 1969, MLB has most recently been faced with the Baltimore Orioles bankruptcy in 1993, while the NBA has managed to stay bankrupt free throughout its existence.

The NHL problems are confusing at best. The Senators, one of the teams that filed for bankruptcy, have a \$30.3 million payroll, the sixth lowest in the league, are annually at the top of the league in cost-per-win ratio, stayed above the league average for attendance, and made it to the 2003 Stanley Cup Semi-finals. On the other end of the spectrum, the New Jersey Devils won the Stanley Cup in 2000 and 2003, and played in the finals in 2001, yet by the end of March 2003, they were only averaging 75.9% attendance capacity, almost 15% below the league average.

While all sports have their good and bad days, the NHL seems to consistently be at the bottom of the major sports leagues. From team values to team revenues, the NHL cannot seem to keep up with the other three leagues.

Team Values

Team values have skyrocketed over the past two decades to levels unimaginable twenty years ago. A good example is the Chicago Bulls. In 1985, a membership group headed by Jerry Reinsdorf purchased the team for \$9 million. Ten years later the team was valued at approximately \$163 million; now the team is valued at \$323 million meaning that Reinsdorf could potentially realize a thirty-six-fold profit on his initial investment if the team were sold today.

While team values for all sports have increased significantly over the years, the average team values for the leagues vary quite dramatically, with the NHL on the bottom. The two highest valued teams are MLB's New York Yankees, at \$849 million, and the NFL's Washington Redskins, at \$845 million. The NHL's highest valued team, the Detroit Red Wings, is valued at \$266 million, over \$100 million below the lowest valued team in the NFL, and almost equal to the league averages for the NBA and MLB. Additionally, the NHL average is almost \$100 million below the NBA and MLB averages.

Table 1.1 below shows the league average for team values from 1994 to 2003. The values have been generated by data compiled from the league's previous season. For example, the 2003 NBA league average of \$164 million is based on data from the 2001-2002 season. All values are in millions of dollars unless otherwise stated. The league average is in the same row as the year and the highest and lowest team values for that year are directly below the average. An "N/A" represents that the data was either not available or was incomplete for that particular year. Because of the lack of availability of data, all values for 1995 have been omitted. Current values for the individual teams can be found in the Updated Facility Reports.

Table 1.1: Average League Team Values

	NHL	NFL	NBA	MLB
2003	\$164	N/A*	\$248	\$295
<i>High</i>	266	N/A	426	849
<i>Low</i>	86	N/A	168	113
2002	157	530.5	223	286
<i>High</i>	277	845	403	730
<i>Low</i>	79	374	135	108
2001	148	466	207	263
<i>High</i>	263	796	395	635
<i>Low</i>	77	338	118	92
2000	135	423	183	N/A
<i>High</i>	235	741	334	N/A
<i>Low</i>	73	305	103	N/A
1999	125	385	167	220
<i>High</i>	195	663	303	491
<i>Low</i>	67	293	94	84
1998	N/A	288	N/A	194
<i>High</i>	N/A	413	N/A	362
<i>Low</i>	N/A	227	N/A	87
1997	90	205	148	134
<i>High</i>	151	320	250	241
<i>Low</i>	43	170	95	71
1996	74	174	127	115
<i>High</i>	126	272	205	209
<i>Low</i>	34	133	88	62
1994	61	153	99	107
<i>High</i>	104	190	168	166
<i>Low</i>	35	138	67	75

*2003 NFL team values are currently not available

The overall values for the leagues can be a little misleading when compared to each other. The table shows a significant disparity between the overall average values of the leagues; however, with the NFL being the only exception, average team values have risen across the board at a fairly equal pace. As table 1.2 below shows, the NFL's percentage change is almost 100 percentage points above the other three leagues but the NHL, the NBA, and MLB are fairly close in percentage change.

Table 1.2 below shows the percentage change in average team values from 1994 – 2003. Because the 2003 NFL values have not been released, the percentage change includes the values only up to 2002. However, calculating the average yearly increase between 1994 and 2002 would give the NFL a league average of \$577.7 million for 2003 and would increase the percentage change from 247% to 277%.

Table 1.2: Percentage Change In Average League Team Values From 1994 – 2003

NHL	NFL	NBA	MLB
169%	247%*	150%	176%

*Excludes team values for 2003. Calculating the average yearly increase between 1994 and 2002 would give the NFL a league average of \$577.7 million for 2003 and would increase the percentage change from 247% to 277%.

Team values can differ for many reasons. For the most part, the value reflects future long-term revenue. That means that Team A and Team B could both have revenue of \$100 million for a given year, but Team B may have a higher value than Team A. For example, if Team A is playing in an outdated “no-name” stadium with an unfavorable lease and Team B has just moved into the brand new “Billion Dollars, Inc. Arena” built from public dollars, with a valuable naming rights deal, a lease that gives the team a high share of revenue without a related increase in team expenses (rent, maintenance, etc.), and sold out luxury suites, most likely Team B would be valued higher because of its long-term future revenue potential.

It is important to note that even though facilities have a big impact on team value, not all teams own the facilities that they play in. If a team owns the facility, the value of the stadium is included in the value of the team. For example, a significant portion of the Washington Redskins’ \$845 million value can be attributed to their stadium. Additionally, the financial worth of the owner and any other companies owned by that person might also influence the value.

The situation above explains the difference in individual team values but does not explain why NHL team values as a whole are far below the other three leagues. Additionally, a team's true value is only as high as someone is willing to pay, and does not, in itself, reflect the financial stability of a team or a league. Revenue and operating income are generally more reliable data and better reflect financial stability. The viability of a team, or league, is driven by the outcome of its revenues minus its player costs and operating expenses. With one exception, explained below, the NHL has not fared well in comparison to the other three leagues in either of these categories.

League Revenues

Over the years, some sports have received a larger share of the wealth within the industry. Additionally, some teams within each sport have received what many consider to be an unfair share of that sport's wealth. There are two extremes for both situations. The most solid financial sport, the NFL, has thirty-one teams with a total value of \$16.5 billion and total revenue of \$4.3 billion (These values exclude the Houston Texans). On the other end of the spectrum is the NHL. The thirty NHL teams have a combined value of \$4.9 billion and total revenue of only \$2.1 billion.

The individual teams do not fair much better. For example, in MLB there is a significant contrast between the New York Yankees -currently valued at \$849 million with revenues of approximately \$227 million - and the Montreal Expos - currently valued at \$113 million with revenues of approximately \$65 million - for a difference of \$736 million and \$162 million respectively. The NHL has a difference of only \$180 million between its highest and lowest valued teams and a difference of only \$71 million between the teams with the highest and lowest revenues. However, the NHL is still at the bottom of revenue intake. The 2003 average league revenue value of \$69 million is half that of the NFL's 2002 value. As table 2.1 below shows, the NHL has consistently taken in lower revenues compared to the three other leagues.

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Table 2.1 below shows the league average revenue per team. The table follows the same principles as **Table 1.1** above and once again the 2003 NFL values were not available. However, the average yearly increase would put the 2003 NFL revenues at \$147.7 million and would also increase the percentage change, as shown in **Table 2.2** below, from 121% to 136%. Additionally, team revenues for MLB were not available for the 2003 year. Based on an average yearly increase, 2003 revenues would equal approximately \$129 million, increasing the percentage change from 88% to 103%.

Table 2.1: Average League Revenues Per Team

	NHL	NFL	NBA	MLB
2003	69	N/A*	91.8	N/A
<i>High</i>	114	N/A	156	N/A
<i>Low</i>	42	N/A	64	N/A
2002	64	138.2	86	119
<i>High</i>	103	204	157	215
<i>Low</i>	39	110	53	63
2001	60.6	127	N/A	N/A
<i>High</i>	97.6	194	N/A	N/A
<i>Low</i>	40.4	107	N/A	N/A
2000	N/A	116.2	N/A	N/A
<i>High</i>	N/A	176.4	N/A	N/A
<i>Low</i>	N/A	91.9	N/A	N/A
1999	51.4	109.1	64.6	88.8
<i>High</i>	80.1	161.7	112.2	175.5
<i>Low</i>	25.1	90	37.8	46.5
1998	N/A	81.6	N/A	79.1
<i>High</i>	N/A	118	N/A	144.7
<i>Low</i>	N/A	66.8	N/A	43.6
1997	42.3	77.7	57.4	66
<i>High</i>	73.1	121.3	99.9	133.3
<i>Low</i>	20.6	65.7	35.4	39.9
1996	28	68.6	52	50.4
<i>High</i>	55.8	111.2	82.3	93.9
<i>Low</i>	12.8	42.9	34.7	24.9
1994	29	62.6	38.2	63.4
<i>High</i>	47.9	92.9	68.7	107.6
<i>Low</i>	16.8	54.4	25.4	43

*2003 NFL revenues are currently not available

The three major areas of revenue for teams in the four major sports leagues are gate receipts, venue revenues and media revenues. All four sports bring in fairly equal shares of gate receipts and venue revenues. However, media revenue reflects the largest gap in league revenue. The NFL brings in three times as much as the second highest league and is over two-thirds more than the other three leagues combined. The NFL brings in about \$2.2 billion a year in national media revenue. Each team gets \$77 million per year from this revenue. The NHL, NBA and MLB bring in an average of \$5.7 million, \$26 million and \$14 million per team, respectively.

The reason for the disparity is obvious; the NFL has the smallest inventory of games. The NFL plays a total of 512 regular season games and almost all of them are

played on Sunday. MLB plays a total of 145,800 regular season games and plays every day during the week. The concentration of viewers for any single football game greatly outweighs that of any baseball game, and concentration of viewers is exactly what the media is looking for.

While the NHL posts the lowest revenues of the four sports, it actually had the second highest percentage increase over the past nine years. Even when the NFL and MLB values are adjusted to reflect the estimated 2003 values, the NHL is still in second place. Additionally, table 2.2 shows that the leagues have increased in value at a relatively equal rate.

Table 2.2: Percentage Change In Average League Revenue From 1994 - 2003

NHL	NFL	NBA	MLB
138%	121%*	140%	88%**

*Excludes revenues for 2003. Based on the average yearly increase, 2003 revenues would equal approximately \$147.7 million and would increase the percentage change from 121% to 136%.

**Excludes revenues for 2003. Based on the average yearly increase, 2003 revenues would equal approximately \$129 million and would increase the percentage change from 88% to 103%.

The financial worth of a league depends on the contributions from the individual teams. Because the size of a market has a significant affect on the three major areas of revenue intake - gate receipts, venue revenues, and media revenues - and because team revenue within a sport is exceedingly market oriented, revenues can differ significantly between teams. For example, the New York Yankees and Mets consistently fill their stadiums because of their large market area and they have their local broadcast agreements bringing in higher revenues from both gate receipts and media revenues than other teams in MLB. On the other hand, with virtually no local media revenue, and low attendance, the Montreal Expos have limited revenues that may even rise when they do not play their own home games in Montreal, as the team posts higher attendance rates when it plays in Puerto Rico. A larger market often translates into higher levels of local media revenue that most teams can keep, and higher attendance that increases the revenue from gate receipts and venue operations.

Of particular note in the NHL is the lack of revenue contributed by four out of the five least valued teams that are also in Canadian markets. While these four teams make up approximately 13.5% of the league, they only contributed 9.5% of the NHL's total revenue for 2003. Teams in these, and other small U.S. markets, add to the NHL's financial struggles. If the team cannot generate sufficient revenue in its particular home market, operating income dips into negative numbers. As a result, some creditors or players do not get paid. This is exactly what happened to the Buffalo Sabres and Ottawa Senators. Both teams filed for bankruptcy in January 2003 after they failed to pay their players by January 1.

Operating Income

While a single year's operating income is not the best indicator of a financially solid team, over the past decade league averages for team operating income for the NHL and MLB have declined into negative numbers.

Operating income is the one exception, mentioned above, where the NHL is not alone. As shown in tables 3.1 and 3.2 below, over the past nine years both the NHL and MLB have posted significantly low numbers. The results for the NHL have been obvious. The reality for MLB is apparent in the situations faced by the Montreal Expos and Florida Marlins, and previously with the Minnesota Twins.

Table 3.1 shows the operating income for the four leagues.

Table 3.1: League Average Operating Income

	NHL	NFL	NBA	MLB
2003	-0.3	N/A*	8.5	-1.3
<i>High</i>	24.2	N/A	44	23.3
<i>Low</i>	-25.4	N/A	-22	-24.5
2002	2.1	22	5	2.5
<i>High</i>	15.4	75.4	51.7	18.8
<i>Low</i>	-15.5	2.7	-23	-29.6
2001	1.9	14.5	N/A	N/A
<i>High</i>	17.5	76.3	N/A	N/A
<i>Low</i>	-11.3	-16.4	N/A	N/A
2000	N/A	15.6	N/A	N/A
<i>High</i>	N/A	68.7	N/A	N/A
<i>Low</i>	N/A	-3.9	N/A	N/A
1999	2.3	19.7	6.6	1.9
<i>High</i>	18	56.7	34.2	23
<i>Low</i>	-13.4	3.4	-9.1	-11.7
1998	N/A	5.3	N/A	2.5
<i>High</i>	N/A	41.3	N/A	38.3
<i>Low</i>	N/A	-20.9	N/A	-20.5
1997	3.5	5.5	11.2	7.3
<i>High</i>	26.9	30.2	33.5	38.3
<i>Low</i>	-11.7	-8	-3.5	-14
1996	4.2	7.9	14.7	2.1
<i>High</i>	22	19	31.8	24
<i>Low</i>	-3.2	-18.9	4.2	-11.8
1994	3.1	-0.4	6.3	6
<i>High</i>	19	15.6	29.1	28.9
<i>Low</i>	-5.5	-17.3	-7.9	-6.3

*2003 NFL operating incomes are currently not available

Table 3.2 shows the percentage change in operating income.

Table 3.2: Percentage Change In Average League Operating Income From 1994 - 2003

NHL	NFL*	NBA	MLB
-110%	2100%	35%	-122%

*Excludes operating income for 2003. Additionally, a value of \$1 million was used for the 1994 average to calculate the percentage change.

Similar to the numbers for franchise values and revenues, operating income can also be misleading. For example, the NFL started with a negative number in 1994, so any increase in value was necessarily significant. On the other hand, both the NHL and MLB had relatively low positive numbers in 1994. Therefore, any decrease in value can be perceived as significant. The reality is, if a team or league is consistently losing money, it has to cut costs somewhere or it cannot compete.

Cutting Costs

Player salaries in all sports have skyrocketed over the past two decades but the NHL is the only league that has not tried to curtail the effects of the increase on team checkbooks. The other leagues all have some form of salary cap or luxury tax. The NFL has a hard salary cap at \$75 million per team, the NBA has a soft salary cap at \$40.2 million and a luxury tax, MLB uses a luxury tax and new revenue sharing formulas, and all three have some form of revenue sharing other than media revenue.

Average Yearly Player Salary (\$/Millions)

NHL	NFL	NBA	MLB
1.64	1.1	4.5	+2.4

A salary cap must be considered at the bargaining table in negotiations for the next NHL collective bargaining agreement. Over 68% of NHL revenue goes to player compensation. While NHL salaries are lower than the NBA's and MLB's, NHL players still make more, on average, than NFL players. Granted, the NFL has twice as many players, but they also bring in twice the revenue. If the NHL teams followed their trend of being at the bottom of values and revenue, it is not unreasonable to assume, if not expect, that their salaries should be at the bottom as well.

Conclusion

This article has only skimmed the surface of financial straits that the NHL finds itself. Some of this situation can be understood through the NHL's lower team values than the other three major sports leagues, team revenues that have not risen as fast in those in the other major sports leagues, and negative league operating income, coupled with ever escalating player salary costs. The fact that the percentage change in revenue for the NHL is relatively equal to the other three leagues does not help the NHL's case. Every year, expenses for NHL teams are increasing at faster rates than their revenues. This can be explained by the negative percentage change in operating income over the past nine years. While teams may not have control over how much rent they will pay annually, or how much they pay in expenses related to their facility, they can control the increase in how much they pay their players by imposing a salary cap or other financial mechanism to curb these costs before the league is in worse financial shape.

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