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Wednesday, August 06, 2003

By Hilary Kramer

### FOX NEWS

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**ADVERTISEMENT** Hey, MVP, you just won the World Series. What's next? Well, you won't be going to Disneyland. In fact, Mickey Mouse himself just sold your team to a new owner!

That's right, The Walt Disney Company (**DIS**) sold their Major League Baseball club, the **Anaheim Angels** ([search](#)), just months after the team won the World Series. Disney has also retained investment bank Lehman Brothers to sell its NHL franchise, the **Mighty Ducks** ([search](#)). The Ducks surprised the hockey world with their trip to the Stanley Cup Finals last season, so the team seems ripe for a quick sale if Disney's buy low and sell high Angels strategy is any indication of what is to come for the Ducks.

The Mouse House isn't the only major entertainment company divesting itself of sports properties. In fact, most of the major media conglomerates have sold or are in the process of selling their sports teams. News Corporation (**NWS**) is on the verge of selling its L.A. Dodgers to Malcolm Glazer, the Tampa Bay Buccaneer owner. AOL Time Warner (**AOL**) is about to complete their sale of their NBA franchise, the Atlanta Hawks, and their NHL team, the Thrashers, to David McDavid, a former minority owner of the NBA's Dallas Mavericks. The company has also been shopping their Atlanta Braves baseball club, though experts say that the sale will likely take time because of the franchise's higher value and because of the team's high payroll.

Time Warner claims it's selling its three professional sports clubs in an effort to pay down the nearly \$26 billion of debt on its books. Really, though, it seems that media companies have simply decided to throw in the towel on their strategies of building synergies around sports content.

With its acquisition of the Angels and its purchase of the Mighty Ducks franchise, Disney initially hoped to develop a southwest regional network rivaling Fox Sports Southwest. But now the Mouse House seems content to rely on its powerful ESPN franchise and expensive NBA broadcasting rights for its sports content. Turner Broadcasting -- prior to Time Warner's purchase of it -- grew by leveraging a cable network based on its Atlanta Braves games, but has since expanded beyond that to include a broader array of programming, namely college football on TBS, and NASCAR, golf, Wimbledon and NBA on TNT. The two media companies are parties to a blockbuster six-year, \$4.6 billion broadcasting deal with the NBA.

With soaring costs for sports programming rights, owning the properties you distribute would seem like a sound investment strategy. But even savvy private equity investor Tom Hicks largely abandoned his plan for a Southern-regional sports network centered around his Texas Rangers baseball club and Dallas Stars hockey team. And George Steinbrenner and his vaunted YES! Network is facing serious viability questions as well, despite its gold-plated investor roster, stellar sports property rights -- which include the N.Y. Yankees and N.J. Nets -- and a whopping \$750 million initial valuation. The cable network is facing difficulty securing widespread carriage, having alternating legal disputes with the two largest cable providers in the New York Metropolitan area - Cablevision and Time Warner Cable -- over access to the cable providers' basic cable lineup.



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Are professional sports franchises destined to lose money? Major League Baseball owners are certainly quick to complain about their accounting losses. Nevertheless, professional sports owners keep coming back for more. McDavid had already been a minority owner of a professional sports franchise and afterwards made several attempts to be a majority owner of several other NBA and NHL franchises before settling on the Hawks and the Thrashers. Grazer is a current owner of a professional football franchise and is looking to add a baseball team to his portfolio. He's even willing to navigate around NFL rules prohibiting cross-ownership of professional teams to do it.

Do big companies just make bad professional sports owners, or are they simply giving up earlier than wealthy individual team owners do? The answer may be that the public markets just aren't conducive to professional sports ownership -- my apologies to Green Bay Packers and Boston Celtic "shareholders". With an emphasis on consistent growth and return on equity, stock markets can be extremely harsh on a half-billion dollar investment that doesn't deliver dependable, double-digit annual returns. As a result, media companies are forced instead to make big bets on sports programming rights for their content.

Although securing those rights diversifies their programming lineup beyond local teams, the costs of professional sports broadcasting rights have been soaring. Investment bank Morgan Stanley estimates that losses from TV sports contracts between 2001 and 2006 may exceed \$6 billion. Meanwhile, Nielsen Research indicates that sports viewership is declining as overall content -- mostly cable offerings -- increases.

Media companies were trying with their synergy strategies to avoid overpaying for sports programming content. Perhaps their stockholders were signaling for them to swing for the fences, unlike individual sports owners who may be content to collect a couple of singles.

**Hilary Kramer** serves as a business news contributor at FOX News Channel. She joined the network as a regular guest on **Cashin' In** in May 2001.

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