

Financial Valuation of a Professional Sports League Case Study

Objectives. A major investor and founder of Major League Soccer, LLC sought to determine the fair market value of the league and his ownership interest.

Challenges & Methodologies. There were numerous challenges in valuing MLS because of:

- Its single entity structure that rewards team owner-operators in a formulaic fashion,
- The related party transactions that take place with stadium operations,
- Its non-arms' length relationship with a marketing entity that also has non-MLS business,
- Its relative youth as a sports league, and
- Its recent high and expected future growth through media, sponsorships, and expansion.

Moreover, given the limited number of ownership changes in MLS and other professional sports, comparable transactions data was limited. Another factor compounding the issue was how to treat the debt and other cash-calls made by other investors in the league, and the impact that those transactions had on assessing league value.

While there are many approaches to valuing an asset, a business, or an interest in a business, they can all be categorized into one of the following three conceptually distinct methods: the market approach, the income approach, or the cost approach. The final valuation determination depends on the standard of value being used. All three approaches were examined to determine the fair market value of the league.

In order to provide a comprehensive analysis, no stone was left unturned. Dozens of transactions were examined using different multiples. A mixed methods approach was used by calculating a discounted cash flow model for the league's intellectual property combined with comparable transactions, allowing us to account for the unique nature of the property. Appropriate discount rates were created. Adjustments for marketability and controlling interest were made to finalize the valuation.

Outcomes. Expert and Rebuttal reports were submitted along with slide presentations showing the value of the entity and the steps used in creating that value. Testimony was given at an arbitration hearing.