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Sports Media Rights

Keeping Score with AAF – Implications for Select Companies

"We know that sports is appointment viewing. … We know that five, 10 years from now, this might be the only and final appointment viewing product in the market, other than news. Nobody's watching the Super Bowl on Monday morning."

– David Levy, Turner Broadcasting System President of Sales, Distribution & Sports

Attractiveness of Sports Media Rights

Once considered relatively stable and predictable, television and entertainment have undergone significant changes during recent years. In addition to the proliferation of new and increasingly specialized cable programming , consumers can now select from a broad range of entertainment content that is delivered from a diverse set of distribution methods (digital downloads, video subscription services, etc.). Moreover, those who still rely on conventional TV programming for entertainment often tailor their viewing behavior to fit their own schedule and preferences via devices such as DVRs (Digital Video Recorders). Importantly, such devices often allow consumers to also circumvent the advertising messages these programs have historically delivered to the viewing audience. As a result, it has become increasingly difficult for programmers and advertisers to reach audiences that are both large and captive, thus making such an audience an increasingly scarce and valuable commodity.

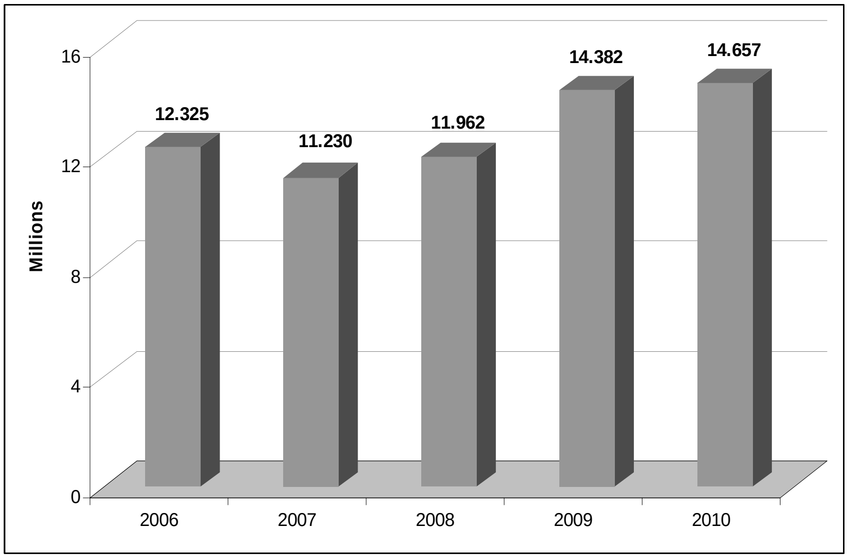
Given this changing backdrop, sports media rights have become an increasingly attractive asset. Sporting events continue to be highly popular with TV viewing audiences. Despite some of the dislocations occurring within the TV industry, viewership of sports events has actually been increasing during recent years.

"The value of sports content is increasing as it becomes more and more difficult to get people in front of a set – and a specific demographic in front of a set. … Sports is still able to attract that demographic, and it's pretty consistent in terms of the people it brings to the set. That isn't true of a lot of other programming on television."

– Sean McManus, chairman of CBS Sports

One only needs to examine the trends for Monday Night Football ("MNF") to appreciate these favorable fundamentals (see following chart). For five straight years, MNF has been the most-watched series on cable television, and MNF achieved a 5% CAGR in viewers during the 2006-2010 time frame. In addition to growth, sports event such as MNF typically offer advertisers a demographically attractive audience. In the case of MNF, it ranks second among all regularly-scheduled prime time TV programs among the valuable 18-49 year old demographic. It is important to note that robust results can be found in other sports as well. During the past year, the BCS college football championship game set a new record for cable viewership, with an audience of 27.3 million.

MNF Viewers



Source: Nielsen

In addition to overall growth in ratings and viewers, the value of sports media rights is benefitting from several other considerations. A key factor for sports media rights is that most event programming is broadcast live. As a result, viewers are much more likely to watch events live, as opposed to recording events via DVR or other methods in order to watch the event at a later date. This live and captive audience is an increasingly rare and valuable asset that allows advertisers to still reach large, desirable audiences through conventional marketing methods. Moreover, these events reach an audience that is more diverse than is generally appreciated. According to Nielsen, women typically account for over a third of the overall audience for major sporting events, and this figure exceeds 45% for events such as the Super Bowl.

Not surprisingly, the advertising industry has taken notice of the many attractive traits associated with sports media rights. In a recent article from industry publication *Broadcasting & Cable*, the Vice President and director of national television for Horizon Media, Dave Campanelli, made the following observation, *"Sports are a safe haven within the TV marketplace. Ratings are stable or in many cases growing, while the rest of the TV viewership is declining. There is a comfort level among advertisers about live sports telecasts."* Spending on both sport event advertising and overall media rights have clearly reflected this point of view. The average cost of a thirty second Super Bowl ad reached $3.1 million in 2011, up 30% from just 2007. As detailed later, several recently announced sports media rights serve to only reinforce the point. As just one example, even for the National Hockey League ("NHL"), a sport that is generally considered less desirable from a TV perspective, sports media right trends have been very robust. During April of 2011, NBC announced a 10-year, $200 million annual deal with the NHL for its TV broadcasting rights. Under its previous agreement, the NHL was being compensated $75 million per year for these rights.

National/Regional Sports Networks

Given the combination of strong (and typically loyal) viewership trends and high advertising appeal, the value of sports programming has increased dramatically. This is reflected in both the price investors/networks are willing to pay for original sports content and the affiliate fees the networks now command from multi-channel video programming distributors (MVPD; cable, telecom, satellite, etc.)—both have skyrocketed in recent years. ESPN's programming expenditures for its flagship channel have surged from $3.5 billion in 2006 to $5.2 in 2011, while NBA and NCAA basketball rights have fueled a 55% increase in Time Warner Inc.'s TNT channel programming costs over the same time frame to $1.1 billion in 2011.[1] In terms of network affiliate fees, according to SNL Kagan data and industry estimates, sports programming now accounts for as much as 50%

1 http://articles.latimes.com/2011/dec/08/business/la-fi-ct-cable-economics-20111208

of the wholesale cost of a MVPD subscription versus approximately 20% of total programming hours consumed.[2] Not surprisingly, Disney's ESPN Network is the biggest culprit for the escalating cost of programming. Monthly affiliate fees for ESPN/ESPN HD have reached an average of $5.06 per subscriber, according to SNL Kagan estimates. Secondary ESPN channels generated well over $1 per sub in additional affiliate fees in aggregate. The number of regional sports networks (RSNs) has also proliferated in recent years, as discussed below. RSNs generate large and loyal local audiences, and are attractive advertising platforms given the ability for more targeted ads. RSNs now garner among the highest carriage fees outside of ESPN, with SNL Kagan estimating RSN fees have grown 52% over the past 5 years to a current monthly average of $2.49 per sub with growth of another 8.3% expected in 2012.[3] As illustrated in the chart below, RSNs in prime markets or covering premier teams generate significantly higher fees; for example, the New England Sports Network garnered $3.35 per sub and the YES Network averaged $2.80 per sub in 2011.

Chart of the Week:

2011 Affiliate Fees for Sports Networks (estimates courtesy of SNL Kagan)

ESPN/ESPN HD	$	4.69
Average RSN License fee	$	2.28
NFL Network	$	0.81
ESPN2	$	0.62
FOX College Sports	$	0.37
BTN	$	0.37
VERSUS	$	0.30
Golf Channel	$	0.27
NHL Network	$	0.27
MLB Network	$	0.25
MountainWest Sports Network	$	0.22
SPEED	$	0.22
CBS College Sports Network	$	0.21
ESPN Classic	$	0.19
ESPNews	$	0.18
NBA TV	$	0.18
ESPNU	$	0.18
FOX Soccer Channel	$	0.17
Tennis Channel	$	0.16
FUEL TV	$	0.14
Outdoor Channel	$	0.04
The Sportsman Channel	$	0.03
Total	$	12.15

Source: SNL Kagan (reprinted with permission)

Source: SNL Kagan via PaidContent

Power Hitters | How some regional sports networks stack up

BASEBALL TEAM	NETWORK	2011 SUBSCRIBERS (millions)	NETWORK'S MONTHLY REVENUE PER SUBSCRIBER
Yankees	YES Network	12.0	$2.80
Braves	SportSouth	8.7	0.57
Rangers	Fox Sports Southwest	8.1	2.66
Mets	SportsNet New York	7.4	2.38
Angels	Fox Sports West	7.1	2.66
Dodgers	Prime Ticket	5.8	2.33
Red Sox	New England Sports Network	4.1	3.35
Phillies	Comcast SportsNet Philadelphia	3.1	3.03

Source: SNL Financial — The Wall Street Journal

Source: SNL Financial via the *Wall Street Journal*

Recent Sports Rights Deals

ESPN Renews Monday Night Football

"When the NFL comes to us and asks us for an extension, we enthusiastically say yes."

– Sean McManus, chairman of CBS Sports

In September 2011, EPSN and the NFL announced a long term contract extending the network's rights for Monday Night Football through 2021. While exact terms were not announced, it is estimated that ESPN will pay an average annual cost of $1.9 billion per year, up from $1.2 billion, when the current contract expires in 2013. The new deal also provides more than 500 additional hours of NFL branded programming per season and expanded highlights as well as digital rights for ESPN.com. The digital rights include the ability for paid cable subscribers to watch games on tablet devices such as iPads.

2 http://paidcontent.org/2012/04/06/by-the-numbers-the-spiraling-cost-of-sports-programming/

3 http://mobile.businessweek.com/articles/2012-04-05/for-sports-networks-you-gotta-pay-to-play

At $1.9 billion per year, ESPN will be paying 73% more than the $1.1 billion a year it is currently spending on MNF, the highest rated show on cable television. ESPN began carrying Monday night games in 2006. But when ESPN made that earlier deal, which will expire in 2013, it received no playoff games and no chance of carrying a Super Bowl, which is rotated among CBS, NBC and Fox. The new deal provides a path to adding a wild-card playoff game on the network by providing the league with an option to give one to ESPN. ESPN's agreement will allow it to further secure its role as the cable channel with more NFL content than any other channel except for the NFL Network. ESPN will expand its use of video highlights and add 500 hours of league branded studio shows almost immediately, including adding a third hour to the Sunday show "NFL Countdown"

Leading up to this renewal, MNF was the most-watched series on cable for five straight years. During this time, Monday Night Football registered the top 10 all time biggest household audiences in cable history, four of which occurred in 2010. Also in the 2010 NFL season, ESPN's MNF games rank as the 16 biggest audiences among households and the 12 biggest among total viewers for cable television. Since 2006, nine of the top ten most viewed programs in cable television history were MNF games.

Top Ten Most Viewed Programs In Cable Television History

Rank	Date	Program	Viewers (000)	Network
1	10/5/2009	Green Bay Packers-Minnesota Vikings	21,839	ESPN
2	11/30/2009	New England Patriots-New Orleans Saints	21,402	ESPN
3	12/27/2010	New Orleans Saints-Atlanta Falcons	19,137	ESPN
4	9/15/2008	Philadelphia Eagles-Dallas Cowboys	18,608	ESPN
5	10/25/2010	New York Giants-Dallas Cowboys	17,983	ESPN
6	12/3/2007	New England Patriots-Baltimore Ravens	17,522	ESPN
7	9/27/2010	Green Bay Packers-Chicago Bears	17,454	ESPN
8	10/11/2010	Minnesota Vikings-New York Jets	17,313	ESPN
9	8/17/2007	High School Musical 2	17,241	Disney
10	12/20/2010	Chicago Bears-Minnesota Vikings	17,094	ESPN

Source: Nielsen via satellitetv-news.com, April 2012

Maple Leaf Sports and Entertainment Sales

In December 2011, Rogers Communications and BCE teamed up to purchase a 75% interest in Canada's most valuable sports company, Maple Leaf Sports and Entertainment (MLSE) for $1.32 billion. The deal included ownership of the Toronto Maple Leafs, Toronto Raptors, Toronto FC (Major League Soccer) and Toronto Marlies (American Hockey League) sport teams as well as the Air Canada centre, the Maple Leaf Square condo development and three specialty sports channels. What made this deal noteworthy is that Rogers and BCE are two fierce corporate rivals in wireless, cable and broadband. Their willingness to team up with each other to buy MLSE reflects their urgency and value of owning live content such as sports entertainment. Neither BCE nor Rogers Communications wanted to see the other company or another company own MLSE and dictate how much they will have to pay for the right to show first rate sports programming on its networks. Also, Rogers already owns the Toronto Blue Jays baseball team and their stadium, the Rogers Centre, and broadcaster Sportsnet. Meanwhile, BCE owns CTV television network and top rated TSN sports channel. Therefore, for Rogers and BCE, owning MLSE bolsters programming on their respective networks with valuable appointment programming.

Los Angeles Dodgers Transaction

In April 2012, Guggenheim Baseball Management LLC (a group of financiers) teamed up with ex-basketball player Magic Johnson to purchase the Los Angeles Dodgers for approximately $2 billion. This is a considerable increase in price since Frank and Jamie McCourt initially paid $371 million for the team in 2004. We suspect the new owners expect to extract some of this purchase price back from broadcast rights which come up for renewal in late 2012. Currently, Fox's Prime Ticket has the rights to broadcast Dodgers games through the 2013 season and earns approximately $135 million per year doing so. Having just lost broadcast rights to the Lakers, UCLA and USC, Prime Ticket will be desperate to keep the Dodgers on its network. As a result, we believe Fox will be paying a steep price to do this. Considering that Fox Sports West will pay $3 billion to carry the Los Angeles Angels games over the next 20 years and Time Warner Cable just signed a 20 year, $3 billion pact with the Los Angeles Lakers, we believe Prime Ticket may need to pay as much as $3.8 billion for a package that runs from 2014 to 2033. Alternatively, given the Dodgers' storied franchise and a strong global brand, the new owners may decide to start their own sports network similar to what the NY Yankees and the NY Mets did.

Professional Sports Leagues Establishing Their Own Networks

Recognizing the value of their content and the attractive dual revenue streams (advertising revenues and affiliate) provided by cable networks, each of the major professional sports leagues in the U.S. has launched their own network over the past decade. The NFL Network and NBA TV (NBA TV initially launched in 1999 as NBA.com TV) made their debut during 2003, followed by the NHL Network in 2007 and the MLB Network in 2009. Due to the fact that these leagues receive significant rights fees from established broadcast and cable networks, it is unlikely that these networks will bring all of their programming in-house in the near term. Nevertheless, these networks provide a good recurring ancillary revenue stream and serve as a valuable marketing/promotional tool for the leagues with 24/7 programming dedicated to their respective sport. In addition, as these networks gain critical mass the leagues will likely gain additional leverage helping ensure a robust market for league programming rights from major broadcast and cable networks. At some point, these networks may be able to make the case that it would be more lucrative to retain rights to their programming if they are able to boost their affiliate fee revenue. In addition, as we noted above, there have been a number of recent deals signed for highly sought after sports programming (e.g. Monday Night Football as discussed above) and these deals have been signed for multi-year terms.

It is estimated that each of the NFL Network, NBA TV and MLB network currently are available in ~60 million households (NHL Network subscribers are not known, but believed to be fewer given the content's less universal appeal). We would note that the current penetration rate of these networks is well below fully distributed networks in the U.S., which typically are available in upwards of 100 million households. The NFL Network has encountered challenges in securing distribution for its network, especially by cable distributors in the New York Metropolitan area. Time Warner Cable has yet to reach an agreement to carry the network, which is believed to command a subscriber fee of approximately $0.81 per month from distributors. Cablevision, another NY area distributor, does not carry the network and contends that it doesn't need to offer the network to its customers because it already carries all of the local team's (Giants and Jets) games. In addition, Cablevision has scoffed at the high price commanded by the network that carries just a handful of out of town games. During 2009, the NFL Network reached a 10 year carriage agreement with Comcast, but only after a costly three year legal battle. Conversely, the much younger MLB Network has had a much easier time securing distribution due to the fact that a number of the major distributors own a minority stake in the network including DirecTV, Comcast, Time Warner Cable and Cox Communications.

College Sports – Jumping on the Cable Network Bandwagon

In addition to the establishment of networks by professional leagues, a recent trend has emerged within college sports that have led to a number of major conferences establishing cable networks around their sports programming. The Big Ten conference was the first major conference to establish its own network. During 2007, the Big Ten Network, which is co-owned by the Big Ten and News Corp, launched its network. According to terms of the deal, News Corp could end up paying the conference $2.8 billion over the 25 year term of the deal. This translates to approximately $112 million a year (~$10 million per school – pre Nebraska joining the conference) if financial projections are reached, though the payments in the early years of the deal are expected to be lower than the agreement's average. In May 2011, the Pac-10 signed a 12-year deal valued at $250 million with ESPN and Fox representing the biggest TV rights deal in the history of college sports. Notably, the Pac-10 deal was a staggering $200 million more than the conference was receiving under its prior arrangement. If that was not enough, the Pac-12 (Colorado and Utah recently joined the conference formerly known as the Pac-10) recently created its own national network and six regional channels that are expected to launch in August and have already secured major distribution agreements with the largest distributors including Comcast, Time Warner and Cox. In another recent network deal, The University of Texas recently launched its own cable network dubbed the Longhorn Network. The Longhorn Network, which is wholly-owned by ESPN, was created per the terms of a 20 year $300 million deal in August 2011. The following table summarizes current college television deals.

Current College Television Deals

CONFERENCE	TERMS	CONTRACT YEARS	NETWORK(S)	DEAL SIGNED
BIG TEN	$1 billion/10 years	2007-08 through 2016-17	ESPN/ABC	June 2006
	$72 million*/6 years	2011-12 through 2016-17	CBS	June 2011
	$2.8 billion/25 years	2007-08 through 2031-32	Big Ten Network	August 2006
Notes: With the addition last year of former Big 12 member Nebraska, there are 12 schools in the Big Ten. Big Ten Network debuted in 2007. The conference and News Corp. jointly own the network and share expenses.				
** Basketball only*				
BIG EAST	$200 million/6 years	2007-08 through 2012-13	ESPN/ABC	August 2006
Note: Pitt and Syracuse will be moving to the ACC, and West Virginia is leaving to join the Big 12. In response, the Big East will add Boise State, Central Florida, Houston, Memphis, Navy, San Diego State, Southern Methodist and Temple.				
SEC	$2.25 billion/15 years	2009-10 through 2023-24	ESPN/ABC	August 2008
	$825 million/15 years	2009-10 through 2023-24	CBS	August 2008
Note: Missouri and Texas A&M will join the conference later this year, giving it 14 members.				
ACC	$1.86 billion/12 years	2011-12 through 2022-23	ESPN/ABC, ACC Network/Raycom	May 2010
Note: Pitt and Syracuse will join the ACC, giving it 14 members.				
BIG 12	$1.17 billion/13 years	2012-13 through 2024-25	Fox	March 2011
	$1.3 billion/13 years	2012-13 through 2024-25	ESPN/ABC	March 2012
	$78 million/4 years	2008-09 through 2011-12	FSN	April 2007
Note: Last year the conference lost Colorado and Nebraska, reducing it to 10 members, and this year it will lose Missouri and Texas A&M to the SEC. In response, it has added Texas Christian and West Virginia, keeping it at 10 members.				
PAC-12	$3 billion/12 years	2011-12 through 2022-23	ESPN and Fox	May 2011
Note: Former Big 12 member Colorado and former Mountain West member Utah became the 11th and 12th members of the conference last year.				

Sources**:** Conference Form 990s filed with the IRS; conference officials, via Street & Smith's *Sports Business Journal* http://www.sportsbusinessdaily.com/Journal/Issues/2012/03/19/Media/Big-12.aspx

Olympics – NBC Maintains its Broadcasting Rights

During 2011, NBC won the rights to the next four Olympics at a cost of $4.38 billion. NBC has carried every Olympic game since 2000. The deal breaks down to $2 billion for the 2014 and 2016 Olympics and $2.38 billion for the 2018 and 2020 Olympics. The deal represents a slight premium to what NBC paid to broadcast the 2010 and 2012 Olympics. While the broadcast of the Olympics has typically been a money loser (NBC lost $223 million on the 2010 Vancouver Olympics), NBC believes that its future Olympic deals can be profitable. According to Mark Lazarus, chairman of NBC sports group, there are now more ways to make the Olympics profitable than the old NBC was capable of.[4] Comcast/NBC's Olympic rights are expected to help drive distribution for NBC Sports Network, which currently has 76 million subscribers. With golf making its Olympic debut in 2016, The Golf Channel, a cable network owned by Comcast/NBC, could benefit from expanded distribution.

4 "NBC Wins U.S. Television Rights to Four More Olympics," http://www.nytimes.com/2011/06/08/sports/nbc-wins-tv-rights-to-next-four-olympics.html?pagewanted=all

Costs to Acquire Sports Programming Likely to Remain Elevated

Considering the favorable viewership and advertising trends, we would expect sports programming to continue to increase in value going forward. As described in greater detail later, Internet-delivered video is also increasing the value of sports programming. For one, the wide variety of largely unmonetized Internet content makes the stable viewing audience offered by sports programming an increasingly valuable commodity for networks, video distributors, and advertisers alike. The Internet has opened the door for a large number of new companies (including many cash-rich technology companies) to become bidders for content. The list includes Google, Apple, Amazon, Wal-Mart, Netflix, Hulu, and many more. While these companies still have made minimal entry into sports, nonetheless it may happen over time. For example, the Pac-12 college athletic conference reportedly considered partnerships with Google or Apple in 2011 before choosing more traditional alternatives.

As we look at the *Asset Analysis Focus* stock universe, two companies standout as prime beneficiaries of the growing value of sports content: International Speedway and Madison Square Garden. International Speedway is an indirect beneficiary of the NASCAR media rights. Although NASCAR negotiates broadcast/media rights, track operators such as International Speedway receive a large revenue share from these agreements. MSG is more than the eponymous 'world's most famous arena.' The Company owns the iconic Knicks and Rangers franchises and the MSG regional sports network which broadcasts the teams' games.

International Speedway – Implications of Recent Sports Rights Trends

The increased demand for sports media rights has positive implications for multiple players. We would highlight International Speedway (**Ticker: ISCA; $26.69**) as a significant beneficiary of this trend. Clearly, ISCA has faced its share of challenges related to the difficult economic environment during recent years. During the 2007-2010 period, both attendance and average ticket prices for ISCA events declined by nearly 20%. Much of ISCA's customer base has been adversely affected by issues such as unemployment, poor consumer sentiment, and overall economic uncertainty. About half of its customers are over 45 years old with an annual income of $50,000 or less. Given the less than robust market environment for ISCA, investors have been concerned about the ramifications for the Company's future television broadcasting contract. For ISCA, fees received for media rights is a key driver of earnings and overall Company performance. During fiscal 2011, 44% of the firm's total revenue was derived from fees related to TV and Ancillary Media.

NASCAR's prominent position within the sports industry has been evolving over many years. It was in 1999 that NASCAR first consolidated its media rights with the TV networks. Previously, each race would negotiate broadcasting terms with TV networks on an individual basis. As a result of the consolidation, NASCAR members enhanced their bargaining power with the broadcasters, elevating NASCAR's commercial significance to rival the other major sports. This ultimately lead to a 6-year, $2.4 billion deal with several broadcasters in 1999, serving to roughly quadruple NASCAR's overall revenue derived from broadcasting. In 2005, NASCAR signed an 8-year, $4.5 billion domestic TV agreement with ABC/ESPN, FOX, TNT, and SPEED networks. The contract began in 2007 and expires in 2014, and represented over a 40% increase in annual fees relative to the previously mentioned 1999 agreement. This resulted in an approximate $560 million gross average annual rights fee for the industry with annual increases between 2% and 4% over the life of the contract. The fees are shared among three groups: 65% of the rights fees are paid to the tracks, 25% of the fees are paid to the teams, and 10% go to the NASCAR sanctioning body.

However, the potential terms associated with the next NASCAR contract (after 2014) has become a source of concern for some investors due to declines in event attendance and television ratings during recent years. Although some viewership declines have occurred, NASCAR remains a highly popular sport relative to its competition. NASCAR still enjoys the second highest ratings among all sports (after the NFL). Moreover, it retains high popularity with several attractive demographic groups. It also warrants mention that ratings and viewership trends did show improvement in 2011 (the first increase experienced in several years). For example, average viewership for the Sprint Cup rose by 8% according to Nielsen. In our view, concerns about diminished broadcasting revenue have become overblown, and several cable sports networks would likely view NASCAR as an attractive venue for acquiring viewers and enhancing its overall sports content.

Attendance/Ratings Have Been Under Pressure

A challenging economic environment since 2008 has led to continued weak attendance at the Company's racing events as admissions revenue has declined for 17 consecutive quarters. As a result, ticket and concession revenues have declined by 43% between 2007 and 2011. Furthermore, the Company has experienced a compressed sales cycle with its customers making their ticket purchasing decisions closer to the event date. Despite selling out the Phoenix event in November 2011 (the first sell out event since February 2008), the Company indicated that advance ticket sales for Sprint Cup events this year are running about 8% lower than last year. It is important to note that the sell out event in Phoenix was due to the racetrack's reduced capacity and the fact that the race was moved from February to November.

To counter the weak attendance trends, the Company lowered prices throughout its facilities, unbundled a substantial number of tickets to better respond to consumer demand, offered single-day purchasing at the Kansas City and Chicagoland speedways for all of their events, provided customers that renew early various incentives such as special access privileges, and created ticket packages that provide added value opportunities, making it more affordable for fans to attend live events. While these incentives may negatively impact near term operating profit, ISC is aiming to expand its audience which could lead to pricing power down the road when the economy improves. Another initiative the Company is undertaking to increase attendance is attracting the youth market. These include education on the sport with introductory and fan experience videos and webinars. Currently, only about 30% of the youth market are NASCAR fans. This is an attractive demographic that is also targeted by advertisers. Without mortgages and other obligations, this demographic generally has more discretionary income, making this an attractive group for both NASCAR ticket purchases and advertisers.

NASCAR is the Second Highest Rated Sport on Television

We believe the long term ratings health of NASCAR Sprint Cup series events remains robust, as it remains the second highest rated regular season sport on television and the number two sport among all key demographic groups, trailing only the NFL. While television ratings will fluctuate year to year, NASCAR events still command large audiences. Furthermore, live sporting events such as NASCAR races tend to be TIVO/DVR proof since fans typically prefer to watch them live. For advertisers, watching events real time is preferable and more valuable to them because their ads cannot be skipped. Nevertheless, despite recent ratings decline, NASCAR is consistently the second highest rated sport on television and the Sprint Cup's rating of ~5.0 is twice that of regular NBA Basketball games and 3 to 4 times the ratings of regular MLB games. Furthermore, they have 40% of the ratings of an NFL game. Even the Nationwide NASCAR series has ratings as high as NBA regular season games and even higher than MLB games.

In preparation for the upcoming contract negotiation, NASCAR moved to reclaim its digital rights in 2013 from Turner Sports, which had paid Turner a fee to run its websites. This will help resolve conflicts that have hampered NASCAR's exposure. For instance, a television station currently can shoot video at a track and broadcast it, but it has not been allowed to post the video on its website because it competes with Turner's website. That issue will be resolved when the rights are reclaimed. In addition, reclaiming those rights will allow NASCAR to bundle them with the television broadcast rights and allow the new rights owners to stream races online. This will create a more robust broadcast package for the new rights owners.

Potential Bidding War for NASCAR Media Rights – A Number of Interested Participants

As cable sports networks enjoy high profitability, a number of media companies have expressed their desire to build their own sports networks, rivaling the wildly successful ESPN. Given the wide viewing audience that NASCAR events command, the rights to broadcast a NASCAR event are an excellent way for a sports network to boost its profile. Because these rights are highly sought by a number of network companies, NASCAR is in an enviable position with meaningful leverage. Below we review a few of the major participants that will likely have a keen interest in the upcoming NASCAR media rights negotiations.

ESPN – Becoming Fully Invested in NASCAR

ESPN returned to broadcasting NASCAR races in February 2007 after a five year hiatus. It broadcasts substantially all of the NASCAR Nationwide Series and provides that series additional promotional support. ESPN has a subscriber base of approximately 100 million and the ability to attract younger viewers, creating more exposure for the sport over the longer term. Also, ESPN (and other cable broadcasters also) can support a higher investment through subscriber fees not available to traditional networks, which is a potential benefit when NASCAR negotiates the next consolidated domestics broadcast and ancillary media rights contract.

FOX and the Speed Channel – Seeking a Larger NASCAR Presence

Fox Sports has been a strong supporter of NASCAR racing since 2001 and played a major role in the sport's increase in popularity. Fox also owns the SPEED channel, which until now has been primarily airing Formula One Racing. ISC's management has expressed on many occasions that both the Fox broadcast network and the Speed Channel remain very interested in broadcasting NASCAR races. In February 2012, Fox Sports Chairman indicated that the network will begin its negotiations on the NASCAR contract extension this season, even though NASCAR's current television contract runs through 2014. Also, there are speculations that Fox may start an all-sports network to compete with ESPN. Fox can use NASCAR broadcasting rights to anchor its program line-up for the new all-sports network. However, to quickly enter as many homes as it can right out of the box, Fox Sports may convert the SPEED channel to the all sports network since it is already in more than 80 million homes. This may be a negative for NASCAR as SPEED currently broadcasts NASCAR Camping World Truck Series races and shows an average of 25 hours a week of NASCAR shoulder programming, which is significantly more than the approximately five hours ESPN offers. Further, converting SPEED to a multisport channel does not create incremental demand/bidders for the broadcasting rights.

On the broadcast station side, Fox plans to remake its Saturday night lineup by offering more than 100 hours of primetime live sports programming stretching 28 weeks, from April 14 to December 8. The new Saturday night lineup will include live NASCAR races, Major League Baseball games, Pac-12 college football and Ultimate Fighting Championship (UFC) bouts. The new sports schedule is designed to draw more viewers to Fox on Saturday nights and make the network a target for advertisers, many of whom have written off the low-viewing night on the broadcast networks. This new Saturday night sports programming package had been in the planning stages for more than a year as Fox Sports Network had to acquire rights and permissions to air certain games and events on Saturday nights.

Time Warner Networks Continue to Expand Sports Programming

Time Warner has been quietly building up its sports programming on its TNT and TBS cable networks. TNT has been broadcasting NBA basketball games since 1988, and owns cable rights to the first two rounds of two of golf's major championships (British Open and PGA Championship). Meanwhile, TBS currently airs national Sunday afternoon and playoff MLB games. On April 22, 2010, TNT and TBS agreed to a 14-year agreement to broadcast, along with CBS, the NCAA Men's Division I Basketball Championship. TBS originally aired NASCAR racing before it was shifted to TNT in 2001, as Time Warner at the time thought NASCAR was a better fit there. TNT currently runs six June and July races, which it calls the *NASCAR on TNT Summer Series*. In our view, TNT could be a potential bidder for additional NASCAR races when the NASCAR media contract comes up for renewal, as additional races will strengthen its sports lineup and further its sports ambitions.

Comcast – A Potential New NASCAR Player

Finally, Comcast's desire to own a sports network is no secret to anyone. Comcast owns two sports related channels: The Golf Channel and NBC Sports Network. NBC Sports Network (formerly Versus) owns the rights to Sunday Night Football as well as various professional golf tournaments. Between 2001 and 2006, NBC aired a series of NASCAR races, but NBC's then parent, General Electric, decided to not renew the contract in 2007. Now that Comcast owns NBC Sports coupled with its desire to continue to expand its sports programming slate, we would not be surprised if NBC emerges as a potential bidder during NASCAR's upcoming media rights negotiations.

NASCAR Could Adjust Allocation of Future Contract Proceed

During negotiations of the new contract, NASCAR may choose to keep a higher percentage of the fees and give less to the tracks, making the potential economics for track operators less favorable. We don't think this is a highly probable scenario as the France Family owns both NASCAR and track operator ISCA. Therefore, we believe the family's interests are aligned with its minority shareholders and we don't believe the France Family will do anything drastic that will harm the economics and value of its tracks. Finally, with high barriers to entry, there are only limited amounts of racing tracks in premium locations throughout the country and most of them are either owned by ISCA or by Speedway Motorsports.

Revisiting Madison Square Garden – Jeremy Lin Helps Boost Cable Networks' Long-Term Profitability

After a spectacular debut mid-way through the Knicks strike shortened 2011/2012 season, Jeremy Lin has been sidelined during the season's second half. While his return for the team's playoff run is uncertain (as of this writing, Mr. Lin was not available for the team's first playoff series vs. the Miami Heat), his impact on the Company's profitability will likely be felt (favorably) for many years to come. Mid-way through the strike shortened season, the Knicks picked up Mr. Lin as a free agent. Mr. Lin, an undrafted player out of basketball powerhouse Harvard, had yet to secure meaningful playing time with any of his two previous NBA teams. As a result of a number of injuries on the Knicks roster, Mr. Lin was inserted into the Knicks starting line-up during early February as the team's point guard. With Mr. Lin at the helm, the Knicks would go on to win seven games in a row, positioning the team well for a playoff bid.

The timing of Mr. Lin's arrival was extremely auspicious for Madison Square Garden. Mr. Lin's arrival and the Knicks resurgence occurred in February during MSG's programming dispute with Time Warner Cable, one of MSG's largest distributors. According to published reports, Time Warner Cable acknowledged that they were willing to commit to a 6.5% increase while MSG was reportedly seeking a 53% increase for MSG's regional sports networks (MSG and MSG+). Unable to come to an agreement over affiliate fees, MSG pulled its RSNs from Time Warner Cable on January 1st. With Mr. Lin becoming a global phenomenon, a large number of Time Warner Cable customers (approximately 2.8 million in the NY Metropolitan area) became frustrated that they were unable to view Knicks programming. Following intervention by NY's Governor, the two companies ultimately came to an agreement, 48 days after the network's blackout on Time Warner Cable. While the companies did not disclose the terms of the affiliate fee agreement, we believe the rate secured was extremely favorable for MSG and represented a meaningful increase over the prior rate.

As we illustrated in our May 2011 Asset Analysis Focus report on Madison Square Garden, we estimated the monthly per subscriber fee that Cablevision paid for MSG's RSN's for its ~3 million subscribers in 2010 at $4.30. We were able to estimate this rate based on the amount of revenue that MSG receives (and publicly discloses) from Cablevision, a related party. Based upon information contained in MSG's filings and utilizing a number of assumptions including affiliate fee payments that MSG receives for its fledgling Fuse music network and advertising revenues as a portion of MSG Media revenues, we estimate that MSG realized a per monthly subscriber fee from its non-Cablevision (~6 million) RSN subscribers of ~$3.61. We note that this represents a meaningful discount to the amount Cablevision is paying for the RSNs per the terms of its 10-year affiliate fee agreement signed in 2010 shortly before Cablevision spun-off MSG.

Assuming that Time Warner Cable had previously been paying a per sub fee of $3.61 a month, we have attempted to illustrate the potential impact/upside to MSG as a result of the new agreement. We believe that our monthly per sub rate assumption for Time Warner's prior affiliate agreement is conservative as Time Warner's previous deal was negotiated in 2005 during a time when the Knicks were struggling. In addition, sports media rights have become increasingly valuable in recent years. Mike Bair, President of MSG Media stated in February 2012 during the middle of MSG's impasse with Time Warner Cable, "*Our last agreement with Time Warner Cable was reached in 2005. Since then, the market value of our content has risen meaningfully, and we have reached affiliate agreements with a number of top operators. We have been attempting to reach a new carriage agreement with Time Warner Cable, with Time Warner Cable rejecting multiple offers which are based on fair market value and reflect what other top operators in the market are paying for our product.*" Assuming the agreement was reached somewhere in between the 6.5% increase TWC was willing to pay and the 53% increase that MSG was seeking, we estimate that the new agreement could boost MSG's annual revenue over the next year by ~$34 million, and increasing at a low-mid single digit rate over the term of the new agreement.

Estimated Annual Revenue Upside From New TWC Agreement ($MM)

MSG Media Advertising Revenue - % of Total MSG Media Segment Revenue	TWC - % Increase in per sub rates						
Per month sub fee	$3.84	$3.97	$4.15	$4.51	$4.69	$5.05	$5.41
	6.5%	**10.0%**	**15.0%**	**25.0%**	**30.0%**	**40.0%**	**50.0%**
2.5%	$10.0	$15.4	$23.1	$38.5	$46.2	$61.6	$77.0
5.0%	$9.6	$14.7	$22.1	$36.8	$44.2	$58.9	$73.7
7.5%	$9.2	$14.1	$21.1	$35.2	$42.2	$56.3	$70.4
10.0%	$8.7	$13.4	$20.1	**$33.6**	$40.3	$53.7	$67.1
12.5%	$8.3	$12.8	$19.2	$31.9	$38.3	$51.1	$63.8
15.0%	$7.9	$12.1	$18.2	$30.3	$36.3	$48.5	$60.6
17.5%	$7.4	$11.5	$17.2	$28.6	$34.4	$45.8	$57.3

Note: Assumes MSG Receives a monthly per sub fee of ~$0.10 for its 49 million Fuse Subscribers

With a large percentage of affiliate fee payments falling into free cash flow, the new agreement with Time Warner Cable should translate into a meaningful increase in MSG's Media segment's profitability and free cash flow. In addition, the new agreement likely helps set the bar higher for affiliate fee agreements when they come up for renewal. If we were assume that the non-Cablevision and non-Time Warner subs (~3.2 million) are renewed at the same affiliate fee rate we estimate for the new Time Warner Cable agreement ($4.51 monthly per sub), MSG's annual revenues would be favorably impacted by another $36 million. We believe that the agreements associated with these subscribers could be reset over the next couple of years. In fact, MSG Media is also likely to receive a per subscriber boost in the near term as MSG's RSNs are now offered to FiOS customers (effective late 2011) in HD. Previously FiOS subscribers were only allowed to view the Company's programming in standard definition.

Considering these affiliate fee developments, we project that the MSG media segment's free cash flow could approach $200 million. We would note that this does not factor in any advertising improvement that may be experienced at the Company's RSNs or Fuse. With ratings for the Knicks improving (up 118% for 2011/2012 season) following the second consecutive year that the team has made the playoffs, we would not be surprised if high margin advertising revenues received a significant boost as well, providing additional upside to our projection of the Media segment's free cash flow.

What to do with Madison Square Garden Shares?

With Madison Square Garden shares (**Ticker: MSG; $35.97**) up 31% since they we featured in May 2011(64% since they were initially probed in March 2010) in Asset Analysis Focus, investors may be wondering if it is time to sell. In our view, we believe that there is still a significant discount between the Company's share price and the business' underlying or intrinsic value. At current levels, we believe the value of the Company's MSG Media segment approximates the current market value of the entire Company. Accordingly, we believe investors are acquiring the rest of the Company's valuable assets for free including its air rights, sports teams and iconic venues such as Radio City Music hall. We believe that these assets could represent an additional $15-$20 per share in value. While some investors remain skeptical of utilizing a sum of the parts valuation to value sports franchises, we believe the approach to be sound due to the vibrant market for trophy sports franchises. In March 2012, the financially troubled owners of the NY Mets sold a minority stake in the NY Mets to 12 investors for $240 million. It should be noted that the NY Mets are an inferior franchise to MSG's NY Knicks and that the minority stake was sold *without* the sports rights.

With the first phase of the Company's Garden transformation complete and 58 mid-level suites opening up for the 2012/2013 season, MSG is poised to generate significant incremental revenue. While the Company's transformation project is not an inexpensive endeavor, the project is being funded by the Company's current robust balance sheet (no debt and $231.4 million or $3 a share in cash) and free cash flow.

When the transformation project is complete (expected 2013), we estimate that the new transformed Garden will generate a significant amount of free cash flow from high advertising/entitlement (official sponsor) revenues and higher suite revenues. MSG should emerge from its transformation project with a robust balance sheet with no debt and in a position to return a meaningful amount of value to shareholders through dividends/special dividends and share repurchases.

Programming Cost Implications of Rising Sports Rights—a la Carte on the Menu?

The recent MSG/Time Warner Cable battle is just one small example of the large impact that escalating sports content programming costs is having on MVPDs. MVPDs have seen programming costs rise at high single digit annual rates in recent years with similar increases expected going forward, largely driven by sports programming costs. Overall, MVPDs appear to have exhibited a relatively strong ability to pass through these price increases over the long term (increasing rates at ~2x the domestic rate of inflation since 1996), although this has proved more challenging in recent years with the domestic industry suffering modest video subscribership losses. While we believe the subscribership declines primarily reflect the unusually challenging employment environment and depressed household formation rates, they have led many in the media to proclaim a new era of 'cord cutting' in favor of Internet-delivered viewing habits. Interestingly, the cord cutting risk may partially explain the recent explosion in sports programming costs, as sports content ownership offers a key foundation for maintaining the existing business model for both networks and MVPDs.

Asset Analysis Focus has discussed the cord cutting topic more fully in prior issues, but in short, we believe rumors of the demise of cable are highly exaggerated, for several reasons: Perhaps most importantly, we would note that within the home, cable versus Internet-delivered video is at the most basic level just a change in packaging/delivery method of the same data, and the same cable/telco company is already best positioned to provide high-speed data access in mature markets. Furthermore, television still provides a far superior viewing experience than over the Internet (larger screen, ease of navigation, far fewer problems with network latency and other technical issues, etc.). These viewing factors are of particular importance for sports programming. Wireless data access via cellular networks could be a longer-term risk to the current business model, but the network technology to handle high-quality video still appears very far away and will require an extremely expensive buildout. For one noteworthy insider's perspective, Liberty Media chairman John Malone noted in May 2011, *"I think cable is very strong on the broadband side and I think the threat of wireless broadband taking away high-speed connectivity is way overblown. There is just not enough bandwidth on the wireless side to substantially damage cable's unique ability to deliver very high speed in activities … ."*[5] Cable companies are also responding with TV Everywhere offerings, which bundle mobile access with regular television programming for authenticated cable subscribers. This well-rounded approach appears to offer the most viable long-term model.

The cable television medium also still provides a far superior economic model to over the top distribution for most large content owners. To maintain subscription revenues, any network would have to charge multiples of their current carriage fee to make up for lost MVPD subscribers—*before* accounting for all the additional costs involved. These would include investing in increased marketing, selling, account management and collection expenses, authentication/access, etc. For larger media companies (like Disney/ESPN), MVPD also allows the companies to bundle and sell additional channels, and MVPD distribution remains a far more attractive medium to quickly build monetizable viewership than over the fragmented Internet.

On the other hand, alongside long-tail content (which is already largely un-monetizable through traditional media outlets) sports programming may still present the greatest long-term risk for Internet-based disintermediation—particularly if leagues decide to bypass networks entirely. Popular sports do not face the same advertising/marketing and distribution challenges as most content given their already well established and loyal fan base, and ownership is typically controlled by a single organization, which would make direct distribution much more feasible. We have seen some moves toward disintermediation along the edges, with Major League Baseball perhaps the most instructive example. MLB.TV currently offers Internet streaming, HD

5 Liberty Media 1Q 2011 Earnings Conference Call, May 2011

access to the full season of games for only $115, direct to consumers without cable/telecom subscription authentication requirements. However, we would note this service has been offered since 2005 and uptake remains limited. Video streaming quality/latency is still a major issue, particularly given the importance of live viewing, and appears unlikely to be sufficiently resolved anytime soon (particularly in the case of consumers' quality demands for demands live sports viewing). Fans also face blackout restrictions, including on most local teams' games, due to the terms built into networks' carriage contracts. For all of the aforementioned reasons, we do not believe moving away from lucrative network contracts to a fully disintermediated distribution model would make economic sense for MLB or other sports leagues.

Nonetheless, the threat of disintermediation has likely been a significant factor in the rise of sports programming costs in recent years. As in the MLB.TV case, this issue is a threat to broadcast/cable networks as well as MVPDs and has led networks to pay up to control digital rights. For example, ESPN reportedly refuses to signs a sports rights deal unless it covers broadband and mobile provisions—likely a meaningful contributor to the rise in ESPN's content acquisition costs in recent years.[6] ESPN now offers TV Everywhere streaming viewing through Comcast, Time Warner Cable, and Verizon. ESPN Executive Vice President for Sales and Marketing Sean Bratches described, *"Our ability to enter the authentication marketplace has really been the byproduct of a strategy that was born probably [nine] years ago in terms of our investment in rights for multiple platforms."*[7] Yet we would note that the ESPN case does seem to confirm, at least at the moment, our take on the favorability of TV Everywhere and MVPD partnership versus full disintermediation. Mr. Bratches also noted that *"the aggregation of all of the nonlinear components is meaningful but also driving incredible value back to the core"*[8] (television). Regarding the threat of ESPN 'going over the top,' Mr. Bratches recently stated, "We have no plans to bisect our partnership with distributors."[9]

Nonetheless, over the longer term Internet-delivered content does have the potential to continue to impact MVPDs' programming costs and technology investment requirements, eat into VoD/payTV sales, and threaten video subscribership rates around the edges. One possible response frequently discussed would be for MVPDs to put sports content on a separate, premium pay tier or 'a la carte' menu. Some MVPDs including Time Warner Cable, DirecTV and Cox Communications have recently experimented with 'essentials' or budget subscriptions offering limited cable channels and sports content. However, uptake has been minimal and further segregation of sports programming appears unlikely for several reasons. Many channels mix sports with other programming; network owners would be unwilling to unbundle sports channels; the premium sports package price necessary to maintain current overall ARPU rates may be prohibitively high; some MVDPs already have economic interests in sports channels; and perhaps most importantly, such a move could actually drive sports content owners to accelerate (and fans to demand) the development of over-the-top strategies.

Alternatively, a top response may be for MVPDs to look to directly acquire content—particularly sports content—as a foundation for holding video subscribers, and we have already seen much evidence of this. Comcast's purchase of NBCUniversal in 2011 is a prime example. NBCUniversal has stepped up its investment in sports content since the merger and continues to emphasize sports; NBCUniversal CEO Ron Burkle recently stated, *"Sports is how we're going to move forward with the rest of the company."*[10] Regarding the Comcast-NBC merger news, John Malone suggested DirecTV could consider *"horizontal or vertical acquisitions"* such as programming in response, noting, *"If regulators don't control costs and the market power of a content owner, then basically the other players in the [MVPD] industry have to play the same game."*[11] Last year, Time Warner Cable also signed a reported $3 billion, 20-year agreement for rights to Los Angeles Lakers games and plans to use the Lakers rights as the base for launching two new regional sports networks

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6 "TV Everywhere." Street & Smith's Sports Business Journal, Vol. 15 Issue 3, 30 April 2012.

7 Ibid.

8 Ibid.

9 http://www.nytimes.com/2012/04/28/business/media/developers-are-working-on-television-apps-but-tv-industry-is-wary.html?pagewanted=2&_r=2&ref=technology

10 http://paidcontent.org/2012/03/10/419-why-arent-more-people-cutting-the-cord-regional-sports-networks/

11 Chen, Roger. "DJ Liberty's Malone: New DirecTV CEO Expected to Expand Globally." Dow Jones Newswire, 11/11/2009

(one English language and one Spanish language station). Time Warner Cable programming head Melinda Witmer also suggested the Company will continue *"looking at all available sports in the marketplace."*[12]

Company	Ticker	Clients of Boyar Asset Management, Inc. Own Shares	Analysts Own Shares
International Speedway Corporation	ISCA	18,100 shares at $26.04 avg. cost	✓
The Madison Square Garden Company	MSG	58,930 shares at $18.14 avg. cost	✓

12 http://latimesblogs.latimes.com/entertainmentnewsbuzz/2011/02/time-warner-cable-has-struck-a-massive-deal-with-the-los-angeles-lakers-to-create-two-new-regional-sports-channels-that-wil.html