

Now at Bat: Financiers

ON SPORTS

By SAM WALKER

Bill Shea will never be mistaken for George Steinbrenner. His new ball club, the Lexington Legends, is a lowly Single-A franchise in Kentucky where the players are pimply kids, box seats cost \$7, hot dogs can be had for as little as a nickel and a crowd of 6,000 is a banner night.

But there's one aspect of the Legends even the Boss could appreciate: the price. Mr. Shea bought the team and its ballpark this year for \$24 million, by far the highest price ever paid for a team at that level of the minor leagues.

"I paid a lot," says Mr. Shea, the chief executive of a Pennsylvania oil-pipeline company, "but it's the kind of entertainment and fun you don't get by buying a stock."

Minor-league baseball, once known for hokey promotions and paltry profits, is starting to look a little like the real-estate boom. Some investors are now happily paying double the average market price to get a team, but some analysts say the last of the smart money got into the game a few years ago.

Behind the money there's a disparate group of buyers — ranging from Hollywood entertainment moguls with Wall Street backing to investment syndicates of

ordinary professionals who just want to own a piece of the sports business. What they have in common is the relatively new notion that minor-league baseball is a nice little business, one that can be more consistent (and cash-flow positive) than owning a Major League team. "This is a legitimate place to park money, and a safe place," says investment banker John Moag of Moag & Co. "We're seeing a more sophisticated investor."

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Making Headlines

Prices for minor-league teams first started to multiply at the end of the 1990's, making headlines in 2000 when Comcast-Spectacor, owners of the Philadelphia 76ers and Philadelphia Flyers, paid \$34.5 million for three minor-league teams in Maryland. What the early investors saw was a nearly perfect confluence of factors: mom-and-pop team owners willing to sell low, dozens of municipalities eager to build ballparks, the increasingly prohibitive cost to families of attending Major League games and a nearly bottomless demand for cheap, local family entertainment.

By building ballparks with \$25,000 luxury boxes, negotiating cheap leases and borrowing sales and sponsorship practices from the majors, savvy operators turned some of these teams

into virtual cash spigots. The Triple-A Memphis Redbirds, for example, had sales of \$18 million last season, according to public filings, and buyers who have seen the books say some elite teams are turning seven-figure profits.

Frank Boulton, a former Wall Street bond trader who owns the independent Long Island Ducks, says he has operated at full capacity for five years. "Am I getting filthy rich? No," he says. "Am I getting bond-trader money? Probably."

Hollywood executives Paul Schaeffer and Peter Guber of Mandalay Entertainment bought their first minor-league team in 1996. They now own five, including two of the most admired: the Dayton Dragons (Ohio) and Frisco (Texas) Roughriders. In 2002, they raised \$20 million in private equity from New York-based Seaport Capital with an eye to creating a minor-league empire.

At first, Mandalay considered buying a big-league hockey or basketball team, but backed away after looking at the books. In affiliated minor-league baseball (where teams have a relationship with a Major League parent club), they found a more reliable business model. The biggest single expense — player salaries — is covered by the Major League club. And while the fortunes of a big-

league team turn largely on wins and losses, minor-league owners live in a competitive vacuum. "I always kid with people that 50% of the fans probably don't know the name of the home team and 90% don't know who won the game or care," Mr. Schaeffer says.

Success in the minors depends far less on baseball than weather, ballpark amenities, customer service, the mascot and how often you shoot off fireworks. "You're basically running a theme restaurant with a cover charge," says Randy Vataha of Game Plan LLC, a Boston investment bank.

Some new owners take a hands-on approach. Lou DiBella, a boxing promoter and former HBO executive, recently paid \$10 million for the Norwich (Conn.) Navigators, roughly 30% above the average cost of a Double-A team. Though the Navigators are losing money and rank low in league attendance, Mr. DiBella is confident that he'll see a return on his investment, largely because the 160 affiliated minor-league teams are like waterfront real estate: "There's only so many of them." To help promote the team, Mr. DiBella has spent recent weeks meeting with businesses and civic groups. "I know how to sell tickets," he says.

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The Tipping Point?

To buy the Navigators, Mr. DiBella formed a limited partnership with 30 investors, many of whom are in for relatively small stakes. He bought now, he says, because the market is “about to tip beyond the point where it’s affordable to businessmen.” Soon the minor leagues will be “a folly and a toy for rich guys.”

Indeed, bigger fish are circling. The new owner of the Triple-A Salt Lake Stingers is Larry Miller, the longtime owner of the NBA’s Utah Jazz, who plunked down \$20 million for the team – ballpark not included. (One

of Mr. Miller’s first acts was to raise ticket prices.) In California, a prominent group of venture capitalists is backing the Golden Baseball League, a concept thought up by two Stanford business-school students. With no ties to Major League Baseball, the independent Golden League isn’t subject to territorial restrictions and has placed teams in seven cities in Arizona and Southern California – often stocking them with journeyman ballplayers and faded stars who earn about \$1,200 a month.

Not that minor-league baseball is a license to print

money. Informed buyers estimate that 70% of teams are either losing money or breaking even. And even sophisticated operators can have problems. Marshall Glickman, a former NBA team president, resigned as managing partner of the Triple-A Portland Beavers in 2001 after debt service, city taxes and lease payments drove the team into the red. The Beavers had a loss of \$10 million in their first season. “You have to pause and keep your eye on the bottom line at all times,” he says.

Nevertheless, revenue for affiliated minor-league teams

has risen 9% a year for the past decade, to about \$500 million this season, according to Minor League Baseball. Moreover, the average minor-league ticket went up 12% this season, nearly double the increase in the majors. And if recent buyers like Mr. Shea are worried about their money, they have a peculiar way of showing it. In April, wearing a green Lexington Legends hat and windbreaker, he took the mound at his new stadium, Applebee’s Park, and threw out the first pitch. Then he took a prime seat behind home plate.

“It’s not Treasury bills,” he says.