

2013 NSLNC

FIRST ROUND:

Line Change

GENERAL FACTS FOR BOTH TEAMS

Since television and sports collided in the 1950's, the value of professional sports franchises, advertising revenue, and player salaries have continued to skyrocket. In the last 20 years, many teams, leagues, and collegiate conferences have decided to start their own networks to capitalize off the money generated from advertising dollars. Other sports entities have instead sold the rights to the broadcast of games to the highest bidder. Chicago is the third largest television region in the United States and has numerous networks that cover sports. WGN, Fox, NBC, CBS, ABC, and Comcast SportsNet Chicago, are among the local station affiliates televising the Blackhawks, Cubs, White Sox, Bears, and Bulls.

The Parties

WGN

WGN television is owned by the Tribune Company, which owns Chicago's largest newspaper, the Times-Tribune, and received the WGN call letters from the Tribune's slogan, "World's Greatest Newspaper." The local WGN network began over-the-air broadcasting in 1948, and moved to cable television in 1978, rebranding itself as "the Superstation." WGN is available through most cable and satellite providers, including DirecTV and Dish Network, but remains unavailable on Comcast, RCN, WOW!, and AT&T U-verse in the Chicagoland area.

Following the 2013-2014 NHL season, the Blackhawks television contract with both WGN and Comcast SportsNet are set to expire. Blackhawks officials are currently negotiating the broadcasting rights with interested parties. Under the expiring WGN deal signed in 2008, WGN had the right to televise 50 regular season games during the course of the deal that are not being televised nationally on either NBC or the NBC Sports Network. Under the former deal between WGN and the Blackhawks, the network paid \$20 million for the rights to televise Blackhawks' games locally during the term of the deal, and WGN has had a separate contract for exclusive local radio broadcast rights. WGN has similar deals with the Cubs, White Sox, and Bulls.

The Chicago Blackhawks

The Blackhawks began play as one of the original six NHL teams in 1926 and currently play in the NHL's Western Conference in the Central Division. The Blackhawks are one of the NHL's iconic franchises and have won five Stanley Cup titles. The most recent Stanley Cup championship team was in 2012-2013 and proved the 2009-2010 championship was no fluke. The Blackhawks have called the United Center home since 1994 and since moving into the United Center, the team has created new revenue streams, increased ticket prices, and the franchise value has dramatically increased for the Wirtz Corporation, owner of the Blackhawks.

During the 2009-2010 championship season, the Blackhawks posted record attendance, merchandise sales, television ratings, and sponsorship revenue. The team capitalized by increasing ticket prices 20% for the 2010-2011 season, and in May announced a 16% raise in ticket prices for the 2013-2014 season. The Blackhawks had the eleventh highest NHL ticket price during the 2012-2013 season and currently have 12,000 people on a season ticket waitlist.

With two Stanley Cup championships in the past three seasons, the Blackhawks have shown the club will likely be in contention to add to their five championships for several years to come. The rabid Chicago fan base is energized with the Blackhawks as no other local team has won a championship since 2004.

Issues to be Negotiated

There are several issues that each side wants to discuss during negotiations. These issues include: the number of games to be broadcast; the contract value; the term of the deal; the breadth of the deal, including additional broadcasting rights on other media platforms.

Number of Games Broadcast

In the previous 2008 WGN/Blackhawks deal, the network had rights to broadcast 50 games total over the course of the covered seasons. The games WGN broadcast were games not being televised under the terms of the national contract with NBC, which require all teams contain the provision their local television contracts, "local broadcast rights for each game are subject to change under the terms of the NHL/NBC Sports broadcasting contract." Under the NHL/NBC contract, NBC has the right to "flex" a game onto NBC or the NBC Sports Network, with 14 days' notice. Under the 2008 contract, if a game WGN was to broadcast got "flexed" to a nationally broadcast game, then WGN could pick a different game to broadcast under the same terms. During the 2012-2013 season, NBC televised seven games originally scheduled to be broadcast on WGN.

During the 2012-2013 season, every regular season game of the Blackhawks was televised, with the majority of those games televised on Comcast SportsNet. The contract with Comcast is also coming to an end, and all games not shown under the NHL/NBC contract are potentially available for the parties to broadcast.

Contract Value

The deal signed in 2008 was for fewer games and a shorter term because of the NHLPA strike that cancelled the 2004-2005 season, and each side was still trying to determine the long-term effect of the strike on NHL broadcasting revenue. WGN did not want to overpay for a commodity that may not have been a viable television option following the strike and the Blackhawks did not want to get locked into a long-term deal that would be undervalued.

Since the Blackhawks won the Stanley Cup in 2010, the team is ranked fourth in the league in Nielsen television ratings. The Blackhawks have learned from research, that because of team performance and their brand as an original NHL team, the Blackhawks' broadcasts garner viewers not only across the upper-Midwest, but also from across the United States and Canada.

The Blackhawks ratings have continued to increase in the last four years and last year the Blackhawks average posted the highest regular season TV ratings average in the history of Chicago regional sports television by receiving a 3.08 household season average rating (approximately 157,482 households watching per game), a 73% increase over the previous season's 2.11 final average rating (an increase of 39,183 more households tuning in per game this season) on games broadcast by Comcast. Comcast's record-setting season in 2012-2013 was a tremendous increase from the final season average in 2011-2012 (2.78), a 121% increase from the final season average in 2010-2011 (2.14), a 227% increase from the final season average in 2009-2010 (1.26), and a 454% increase from 2008-2009 (0.63).

The terms of the prior contract with Comcast did not reflect the actual value of the rights and Comcast was able to generate significant profits from Blackhawks' telecasts. In fact, the 33 highest-rated Blackhawks' regular season games in Chicago regional sports network history occurred during the 2012-2013 season. Both parties are looking to reach an agreement placing the proper value on the broadcast rights across the board for all areas discussed during this negotiation, so the team can generate the most revenue for the rights and continue to increase the team's exposure, and WGN wants to be able to generate viewership with a partner providing a desirable product that can generate a significant profit for the network.

Term

The prior contract between WGN and the Blackhawks signed in 2008 was signed in order to keep each party from being locked into a long term deal that could handcuff one party because of the speculative viewership numbers of the NHL following the strike. However, since the strike, ratings have increased each year and hockey has more television viewers than before the strike. Recently some NHL teams have entered into large dollar, long-term broadcast contracts.

Breadth of Broadcasting Rights

An area of uncertainty in many recent sports broadcasting agreements is what outlets, markets, and programming are covered in broadcast rights agreements. Both sides have acknowledged a multi-year agreement should determine what rights are available and the terms for internet broadcast of games and programming; additional Blackhawks themed programs, documentaries, and films; and broadcasting/distribution on mobile devices. Each of these particular areas, along with any others that may be available, should be explored to determine if some of these rights, or a combination thereof, would allow for a deal to be reached.

Directions

The parties have agreed to tackle the issues identified above during this negotiation. The Blackhawks are represented by their Chief Financial Officer and their General Counsel. WGN is represented by their Vice President for Licensing and their General Counsel. Each side may have other interests, but the parties concur the above terms could create the framework of a workable agreement. It is up to each side to determine the order of importance and any deal must be within the parameters given to each side. For many of these issues, the parties are willing to propose and listen to viable creative solutions which can meet each side's interests.

CONFIDENTIAL FACTS FOR THE CHICAGO BLACKHAWKS

The Blackhawks have a few different broadcast options apart from the WGN offer. Their last primary local broadcast partner, Comcast, has spoken to the Blackhawks about continuing its relationship and is the largest cable provider in the Chicagoland area. An additional option is Fox Sports Midwest. Fox had a local sports station called Fox Sports Net Chicago until 2006, and has begun preparing to reintroduce sports programming in Chicago through a local version of their St. Louis-based Fox Sports Midwest.

Overview

The Blackhawks believe a broadcast rights agreement will put the team on solid financial footing for the next decade. In addition to this agreement the team has advertising, ticket, national broadcast, NHL licensing, merchandise sales, parking, and other revenue sources. The money brought in with this local television contract will be able to cover the vast majority of team payroll, allowing the team to be flexible in other areas of the business. Your primary focus should be to maximize the overall value of the agreement and to at least gain a contract worth \$280 million in total revenue for the next six years; with suitable compensation for any years over six. The Blackhawks want to focus their return in the next five to seven years because they hope to opt out of any period longer than that.

In order to achieve these goals, the Blackhawks are willing and able to agree to contract provisions within the following parameters:

Number of Games Broadcast

The Blackhawks ownership would like to have 60-70 games of the Blackhawks total games televised. The reason the team wants to keep some games off the air is to solidify season ticket and luxury packages. The team has conducted studies and has concluded revenue is maximized by having around 15-25% of games kept off regional television available to their local fan base. The Blackhawks are aware of studies by other hockey teams that suggest that they can gain the same benefits by keeping as little as 10% of their games off of regional television.

Contract Value

The Blackhawks want to capitalize on their recent success and with Comcast not a likely landing spot, the broadcast rights should be at a premium. Because they do not believe either Fox or Comcast are viable options, they are willing to give WGN an attractive package deal which would include not only TV, but internet and mobile devices as well. The Blackhawks realize that this is a generous deal which gives up some of the potential for maximizing these

new media, but they consider the new media revenue speculative and the prospect of getting a deal in the neighborhood of \$300 to \$400 million dollars is attractive.

The team is looking for a six year deal for \$280 million, with any additional years above six carrying an Average Annual Value (“AAV”) of \$50 million for all of the rights to be discussed during this negotiation. However, the Blackhawks need to have a deal of at least five years; if it is to be a five-year deal the team will accept no less than \$200 million for this period. Between internet broadcasts (NHL.com broadcasts all televised games online under a subscription service), radio, additional Blackhawks related programming, other new media options, and the ability to sell rights to broadcast possible Blackhawks playoff games, the team has a variety of ways to be able to reach their target.

Term

The Blackhawks’ minimum term is a five or six-year deal at or above the prices indicated in “contract value.” They will not commit to more than seven years unless they have an opt out, but would be and is willing to extend the broadcast deal to ten years if they can opt out in order to get out of a deal undervaluing their rights in the future. They would prefer to be able to opt out after five years, but will not commit to a binding term of more than seven years. So they must have unconditional opt outs in each year after year seven. They would prefer to have no opt out for WGN, but realize that that is probably not realistic and would reluctantly agree to opt outs for WGN after year seven. They would prefer to keep such opt outs to instances where ratings were low, but it is a deal breaker for unconditional opt outs after seven years for both parties.

In addition, the Blackhawks seek an option to end the deal if certain benchmarks for viewer ratings or team performance are reached. The Blackhawks would like an option to opt out of a seven-year deal after the fifth season if the team reaches a household average rating of 3.25 rating per televised game in three of the first five seasons, or if the team reaches the Stanley Cup Playoffs three of the first five seasons. The Blackhawks are certain viewership will continue to reach a minimum average of 3.3 because of the growth of hockey in the United States and Canada.

The Blackhawks are confident this rating number can be reached because the team averaged a 3.2 rating last season and ratings are up 47 percent overall to 6.8 from last season (3.2 to 6.8). The reason the Blackhawks want to be able to option out of the deal is to be able to negotiate with other broadcasters for a higher overall value if the team generates more viewers. The Blackhawks also want an opt-out if the rating numbers continue to increase at the current pace. Last season, a WGN broadcast of a Blackhawks vs. Redwings game drew a 4.3 rating in Chicago. The team would like to stick with one broadcast partner; however, if viewership

continues to increase, the team wants an ability to renegotiate the terms if viewership reached a 3.6 average rating in any one year of the term.

Breadth of Broadcasting Rights

The Blackhawks are aware any potential broadcast partner will want to have the ability to broadcast content on any format available. As noted above, the team is willing to sell all the rights as a package, but if they can't get their stated minimums, they can theoretically sell those rights separately to other buyers. Although the Blackhawks realize that such separate deals are not likely to be viable because of the economic synergies of cross-screen advertising, for purposes of this negotiation, the Blackhawks may wish to pursue separate prices for each screen as means of demonstrating to WGN the value of the overall package.

TV Rights

Given the increasing popularity of Blackhawks hockey broadcasts, the Blackhawks would not sell TV rights alone for less than \$35 million.

Internet Rights

The team has and will continue to license the team material for statistics, reporting, etc. for no additional charge. However, if the broadcast partner looks to generate online video content or other online rights, the team is looking for additional compensation. The team is willing to provide online rights to WGN either as part of an overall package or *a la carte* for \$15-24 million AAV for each year of the deal.

Mobile Devices

Perhaps the biggest potential growth industry for content distribution is on mobile devices. The NHL allows teams to sell the broadcast rights on mobile devices within the team's broadcast territory. The Blackhawks have not yet sold these rights, but are looking to sell them now. The team believes mobile devices will be the way a significant portion of fans will access game broadcasts in the next few years, and the team is asking a premium for this right. The Blackhawks are willing to sell mobile broadcast rights within the Blackhawks broadcast area for an *a la carte* price of \$10-15 million AAV during the term. Even though the potential of this market is significant, the Blackhawks would rather have guaranteed annual returns in the next five to seven years because the short-term revenue projections are highly uncertain. If the market turns out to be a bonanza, the team will use the opt-out provisions to either get out or renegotiate.

Offers from Comcast and Fox

Beginning in July, your club executives began holding discussions with a number of interested parties and have decided to continue discussions with WGN, Comcast, and Fox.

Discussions with WGN are the most advanced and if you can reach a deal with WGN that is as good as the other possibilities, you can sign the deal today.

Comcast Offer

In July, Comcast executives met with your negotiating team to discuss possible renewal of the prior agreement. However, it was clear to your team Comcast was only interested if a bargain was available. You have tried to move along discussions with Comcast, but these talks have not passed the preliminary stages. Comcast opened discussions by offering a five-year deal without option years, for the rights to broadcast 60 games per season for \$30 million in AAV. The Blackhawks believe Comcast is willing to pay for the Internet broadcasting rights but would not generate additional content or enter the mobile media market under a new deal.

You believe Comcast executives do not want to add another nine-figure deal onto their balance sheet following the purchase of NBC. One Comcast negotiator even said in passing “even if you don’t sign with us, our properties will be able to broadcast some of your games”, a reference to NBC’s current agreement with the NHL to broadcast select games nationally. The \$16.7 billion finalization of Comcast’s purchase of NBC put the brakes on the company’s ability to take on additional debts, and your team has told you to avoid making Comcast the only bidder because Comcast is not a viable broadcasting partner going into the future.

Fox Offer

While WGN is carried nationwide on a number of cable and satellite providers, Fox Sports Midwest would allow for the Blackhawks to be on a sports focused network. Fox closed the doors to Fox Sports Chicago in 2006 after it lost the broadcasting rights to all of the major Chicago teams. However, Fox acquired a new large-scale television transmission location in Joliet, Illinois, and now has the ability to supply the Chicago market with Blackhawks broadcasts in the Chicagoland area using the Blackhawks as their premier partner for the 2013-2014 season.

In July, Fox presented the Blackhawks with a six-year offer of \$220 million for broadcasting at least 55 games across all media each season, with Fox holding an option for the seventh, eighth, and ninth years, and a mutual option for the tenth year. Each option year would be worth the AAV of the first seven years. Fox has made it clear any broadcast deal cannot be less than seven years, and it will not give the team an option to opt out of the agreement until the ninth year without paying a \$20 million dollar penalty for each year remaining on the deal. The Blackhawks believe Fox may raise their offer as much as 10% if negotiations continue.

Fox has always been innovative with additional rights outside traditional television. The team thinks Fox would be interested in additional shows (Fox already produces and airs *Before the Bigs*), and it has a mobile media department so it is likely to be interested in this area as well.

Fox's offer with the option years is the optimal length the Blackhawks are looking for and allows the team to leave a bad contract after just a few seasons. The additional terms Fox has offered create a situation in which it would be a high likelihood that even in the case the team play poorly towards the end of the deal, Fox would likely exercise its options because of the value of the additional programming.

CONFIDENTIAL FACTS FOR WGN

Overview

WGN needs to sign the Blackhawks in order to take the place of a longtime broadcast partner, baseball's Chicago Cubs, who will be leaving WGN after being with the network for more than 60 years. The Cubs and WGN have not announced the end of this deal yet, but WGN is scrambling to find another sports partner to generate the revenue the network will lose when the Cubs jump to another network. They do not want to be going through a similar process any time soon and will not accept a deal of less than seven years. Thus, WGN is willing to spend up to \$350 million for a seven-year deal (and a proportional amount for additional years) but only if there is enough value in the deal so a significant profit can be earned. That top-dollar offer should include internet and mobile device rights in addition to TV broadcast rights, but because WGN is conservative about their ability to create a substantial revenue flow from new media such as internet and mobile phones and apps, the economics of the deal must yield them a gross profit of at least 20% of the contract price based solely on projected TV broadcasting revenues.

For the last six months, rumors within the television world have circulated regarding Fox and Comcast also speaking with the Blackhawks about broadcast rights. WGN has tried to determine if these rumors are true and to find out the details of any other offers. Thus far, WGN executives have been unable to find out any additional information about offers from these other companies.

Number of Games Broadcast

In the last broadcasting deal with the Blackhawks, WGN was only authorized to broadcast 50 games over three years. In this offer, WGN wants to broadcast at least 60 games per season and would like to televise all Blackhawks games if the terms are right because WGN generates substantial new revenue from every game it broadcasts.

WGN, still has broadcasting deals with the White Sox and Bulls, but wants to make the Blackhawks their signature broadcasts. The network has stood by as Comcast broadcast the vast majority of Blackhawks games, and WGN is not going to let this opportunity slip through its fingers.

Contract Value

The bottom line for WGN is the bottom line: gross profits from TV broadcasting. WGN has substantial overhead and needs to maintain a gross profit margin on this deal of at least 20%. Station management believes if it gets the broadcasting rights for seven years for \$290 million, it can make a gross profit on the rights over its 20 % requirement. It measures gross profits as the

difference between advertising revenues from broadcasts and the fees paid for the rights to broadcast. WGN considers the demand for watching the Blackhawks growing and does not believe that it will diminish by saturation. So the more games it gets the better.

WGN estimates that it can generate \$850,000 in revenue per TV broadcast. If it broadcasts 60 games per year over the seven-year contract, the costs for the rights would be approximately \$690K per game (assuming a \$290 million contract price). This would mean a gross profit of \$160K per game or \$67.2 million over the course of a seven-year contract for the rights priced at \$290 million. This \$67.2 million profit is only representative of the amount WGN would make from the broadcasting of the hockey games if the television ratings continue to generate between a 2.6-3.4 viewer rating, and does not include the revenue generated from pregame or postgame shows, additional programming, online content, etc. The more games they broadcast, the greater their profit margin can become. If the Blackhawks will grant the rights to broadcast as many as 70 games, WGN could go to almost \$350 million for the overall contract price for a seven-year deal as long as the deal meets the 20% gross margin requirement. WGN's CEO has directed that that is the maximum WGN will go for seven years, but you do have authority to pay the AAV of \$50 million for each year over seven as long as WGN has opt out rights after seven years.

Term

WGN's offer of a seven-year term is the minimum length WGN will agree to in any broadcast deal with the Blackhawks. The network will gross an acceptable profit margin from this deal even if WGN pays close to \$350 million for the broadcasting rights alone if the station gets enough games to broadcast and revenue from internet and mobile devices would make the deal even sweeter. WGN likes the idea of having option years toward the end of the term because it gives the Chicago superstation an opportunity to get out of a deal if the broadcast rights have been overvalued, or the ability to opt-out to pursue a smaller range of rights if those areas (such as new media) are more profitable in the near future. It would prefer not to give the Blackhawks the same opt outs, but realizes that might not be realistic.

WGN was pleased last season when several Blackhawks games received viewership ratings between 3.03- and 3.3, but the network does not expect these numbers to continue at such a high level despite the team's success. The network is willing to also provide the Blackhawks an out if viewership reaches an average rating of 3.9 or above, but this average must be over the course of considerable time (not less than two consecutive seasons) in order for WGN to make enough profit to justify renegotiating a deal based on increased viewership. They would prefer to not allow opt outs during the first seven years and even after seven years, they would prefer that opt outs be based on the 3.9 rating benchmark not just an unconditional right to opt out.

WGN will not grant opt outs to the Blackhawks without reciprocal opt out rights for itself. In addition, WGN would also like to protect itself in case the Blackhawks perform poorly in the future. While the Blackhawks have substantially increased their value during the Stanley Cup Finals last year by earning a rating over 6.0 for Game Three alone, WGN is aware that this number has external factors driving the viewership in the Chicago area and this number cannot be expected for regular season games.

Breadth of Broadcasting Rights

WGN is interested in obtaining as much of the broadcast rights as possible. Any offer the station makes will cover all broadcast, internet and mobile rights, but it is believed the team will look to separate topics in order to maximize the value. WGN wants to have a large online presence, has interest in additional Blackhawks programming, and wants to utilize their expanding ability to reach viewers on mobile devices, but it is only willing to pay for these rights if the number of TV broadcast games is sufficient to justify the deal on TV revenue alone. Moreover, WGN does not believe that piecemeal sales of TV rights separate from internet or mobile is a viable business model. The three screens are synergistic; for example, TV drives traffic to the internet. The deal has to be for all three screens. However, for purposes of negotiating this deal it is willing to value the items separately in order to arrive at a package deal.

TV Rights

WGN would theoretically pay up to \$33 million AAV for TV rights alone. You can agree to this *a la carte* price for internet, but only if the total package deal fits within the profitability guidelines for a total package stated in contract value above and the ultimate deal is for all three screens.

Internet Rights

WGN already has a tremendous online broadcast presence for an independent network. The Superstation is looking to acquire Internet rights for Blackhawks broadcasts, highlights, and additional material exclusively within the Blackhawks territory. The network has the web infrastructure to provide content immediately, and would provide it free and subscription based.

Internet rights would allow WGN to sell typical Internet advertising, provide another outlet for WGN content to reach interested viewers, and market future broadcasts to viewers at low rates. The potential additional revenue from internet rights makes the deal more attractive to WGN. They want the internet rights and those rights must be included in any deal. They are willing to spend \$10-19 million per year to make this happen. You can agree to this *a la carte* price for internet, but only if the total package deal fits within the profitability guidelines for a total package stated in contract value above and the ultimate deal is for all three screens. In

general, WGN wants to make sure it receives as much as it can. Across the United States, the number of televisions in households dropped by nearly a half a million from 2011-2012. WGN has plans in place to adjust its business model in order to keep up with changing technology and the ways people consume content, and as such, WGN wants this deal to generate revenue the last years of the contract if television numbers continue to decline.

Mobile Devices

WGN is looking for broadcast rights across the board. This includes the ability to broadcast on mobile devices and to have exclusive material for mobile devices because of the large sum being paid for broadcast rights. WGN has already test marketed team specific applications for mobile devices for use at the event site, and for cable subscribers. The application WGN wants to utilize if it secures the broadcasting rights for the Blackhawks is for use at and near the United Center. WGN is willing to pay \$7-13 million in order to secure these rights *a la carte* as long as the total contract for seven years does not exceed \$350 million, the gross margin based on TV revenues alone exceeds 20% and the ultimate deal is for all three screens.