



Impacts of COVID-19 on MLB

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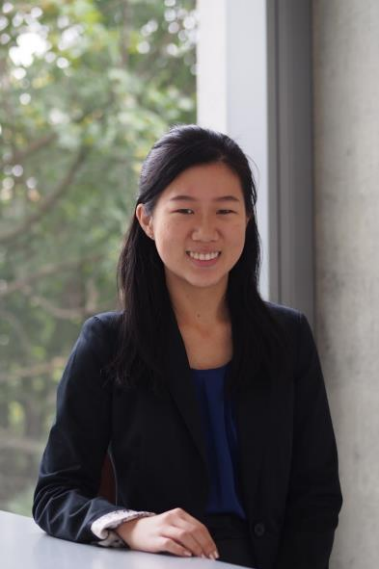
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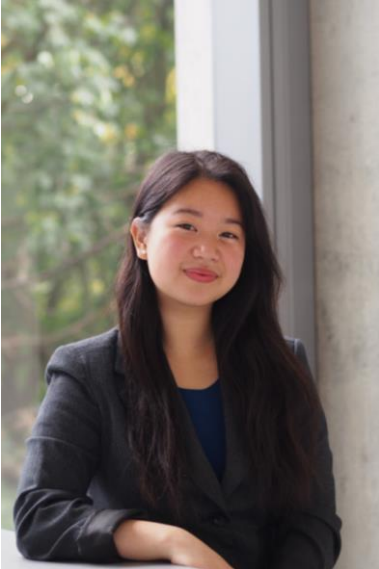
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Overview

Areas of Research



Analysis of prior major global events



Comparison of responses from other leagues



Examining the losses that the league will sustain



Key Takeaways

As technology progresses and the danger of the pandemic decreases, the method of viewing the sport will change

Once the imposed season begins, the outcome will be dependent on the response to COVID-19 from the USA

Losses from the current year will accumulate and affect the league's revenue structure in the coming years



Predictions

COVID-19 will force fans to get comfortable with viewing games from home, potentially reducing future ticket sales

Based on the US Government's approach to COVID-19, baseball will follow a "quarantine" format for the near future

R&D expenses will be on the backburner as current pay disputes will be the main topic at hand for teams and owners

Table of Contents

1. Global Events that Have Affected Baseball

- [Analysis of Events](#)
- [Prediction for the Short-Term](#)
- [Prediction for the Long-Term](#)

2. Impact of COVID-19 on Baseball Globally

- [Taiwan](#)
- [Korea](#)
- [Japan](#)

3. The Financial Impact of COVID-19 on MLB

- [Revenue Structure](#)
- [Salary Dispute](#)
- [Loss of Revenue](#)

How previous historical events impacted MLB

Taking a closer look at how the league previously dealt with unprecedented events that share elements of the COVID-19 risk



Spanish Flu & WW1: Set precedent for MLB response to a global pandemic including reduced consumer spending



Overview of Event

Geographic Impact

- Most affected: New Zealand, Tonga, Fiji
- Least affected: China, Russia, Japan

Impact on MLB Season

- 16th season (1918) ended one month early
- 17th season (1919) started a week late



Gov/League Response

- Umpires, players and staff had to **wear flu masks** until safe again
- Games were only played in **larger arenas** to accommodate social distancing
- **World Series** was one of the reasons Boston became an epicenter for the virus – approximately **20%** of the population got infected



Consumer Response

- MLB players who did not enlist were considered **"draft dodgers"**, negative reputation
- The **second wave** hit following the World Series, so the season was already finished when fear of the flu became more widespread
- **Consumer spending recovered** following the end of the War in the 20s

Relation to COVID-19



Both are **global pandemics**, showing safety measures taken



Reflects negative consumer sentiment towards health risks resulting from pandemics



Provides a timeline of how baseball responded to the various stages of a pandemic

Lockouts & Strikes: Prolonged closures are detrimental to league reputation and reduce attendance even following the continuation of games



Overview of Event

Geographic Impact

- Mainly centered around the **USA and Canada**

Impact on MLB Season

- **1736** games missed in total over all the closures
- Some strikes during spring training, regular season games, or post-season



Gov/League Response

- There was no government response, as the general public was not at risk/involved
- Common causes for lockouts/strikes were over **free agency and pay disputes**
- After the longest strike (1994/1995), the league has done its best to cooperate to **prevent further strikes**



Consumer Response

- The final strike resulted in so much frustration that some fans left the sport and **never returned** to games, even after the league resumed
- Pre-strike record attendance was **31000**, was not reached again until after **9-year recovery period**
- Average attendance dropped **6000** between 1994 and 1995

Relation to COVID-19



Focus was on Canada/USA, which helps understand the **local effects** of game stoppages



Timeline to resume games may be **further pushed** due to COVID-19 than if pay disputes were the only problem



Expect MLB to respond in a timely fashion to settle disputes due to impact it has had on fanbase in the past

SARS Outbreak: With the media increasing awareness and fear of the illness, teams leveraged costly promotions to encourage attendance



Overview of Event

Geographic Impact

- Global impact but on a **small scale** – most countries had ~10 cases
- Most affected: Canada, China, Singapore, Taiwan

Impact on MLB Season

- Only team impacted was Blue Jays
- Resulted in MLB appointing a permanent league-wide medical advisor



Gov/League Response

- WHO warned **against non-essential travel to Toronto**
- Players asked to avoid public transit, crowds
- Rogers bought each seat and resold tickets for **\$1** to encourage attendance at Toronto games
- League considerations to **move Toronto games** to California



Consumer Response

- Individuals took advantage of the dollar promotion, positive sentiment to **cheap seats**
- Group purchases from company sales took a hit, however they **recovered after a few weeks** (to protect the company from liability)
- As a result of the \$1 promotion, **Rogers Centre was full**
- Lost **\$700,000** from the promotion

Relation to COVID-19



Similar response on behalf of the league, specifically with the consideration of **moving games** to California



Heightened fear resulting from modern media **decreases consumer confidence**



Lowered ticket prices will result in lower revenue, which results in **budget cuts**

9/11: Massive and permanent increases in spending were required to battle concerns over safety and the league follows precedent



Overview of Event

Geographic Impact

- Security and coverage of global affairs **increased** internationally
- Most affected: USA, Afghanistan, Pakistan, Middle East

Impact on MLB Season

- MLB took a **6-day hiatus** out of respect and fear of large public gatherings
- **Viewership dropped** for 6-8 weeks



Gov/League Response

- Support Anti-Terrorism by Fostering Effective Technologies (**SAFETY act**) was established to allow DHS to support private sector organizations
- All 15 games scheduled for Sept 11th were **cancelled**
- Reaction to 9/11 was **inspired** by response to D-Day and start of WW1
- SAFETY took 15 years to implement fully



Consumer Response

- Experts say sports "helped the nation heal"
- The **patriotism** that came with baseball was much needed, resulted in positive consumer sentiment
- Following the attack, interest rates dropped, people used **sports as a coping mechanism**
- **Broadcasting increased** as it brought familiarity amidst the fear

Relation to COVID-19



Increased International and widespread **public fear** of risks associated with crowds



Reflection of 21st century **approach to safety threats** with increased technology and capabilities



Assumes the league uses precedent to make plans, encourages **review of MLB history** when predicting COVID-19 response

2008 Financial Crisis: Consumers turn to free sources of entertainment during economic hardship, the league will see a decrease in seats filled



Overview of Event

Geographic Impact

- Most affected: Ukraine, Argentina, Jamaica
- Least affected: China, Japan, Brazil, India

Impact on MLB Season

- Revenue **increased** by 0.34 billion USD between 2007 and 2008
- Average operating income **increased** by 0.28 million USD between 2007 and 2008



Gov/League Response

- MLB attendance **dropped** for the first time in a 5-year span
- Baseball is considered a “**working class sport,**” making it more recession proof than other sports – while corporate spending reduced, it was not severe enough for league to seek alternative options



Consumer Response

- The **psychological impact** of recession resulted in spending on “needs” rather than sports
- Fewer businesses bought seats, **ticket prices dropped,** and some consumers took them
- Most consumers used free streaming sites to watch reruns **12.4% decline** in attendance since 2007

Relation to COVID-19



Make assumptions on **financial strain** through various time frames following COVID-19



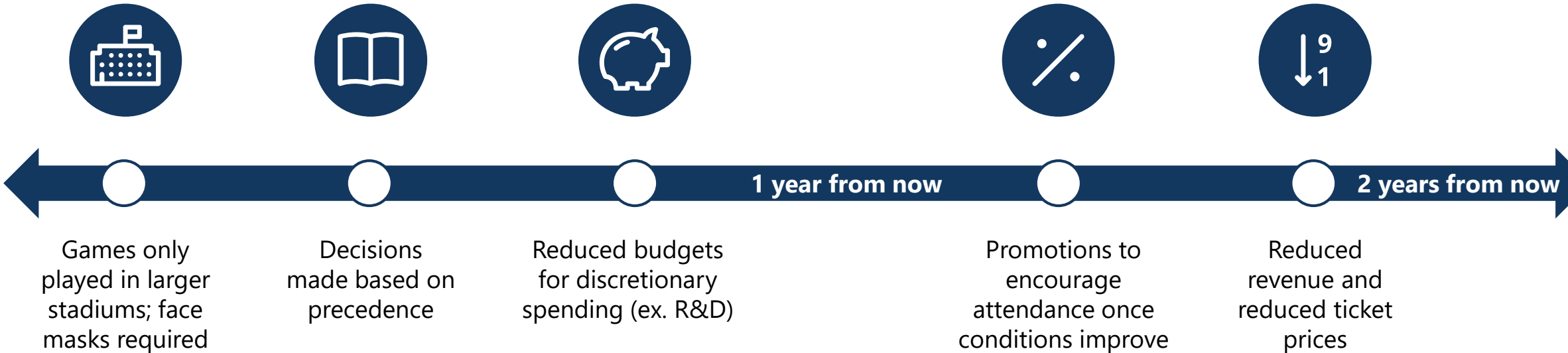
Consumers have **reduced funds** for discretionary spending



2008 was the last time the markets were this low, provides insight on when they will **recover**

Predictions for the Short Term

<p>Spanish Flu</p> <p>Social distancing requirements were used following the virus, so these measures will likely continue</p>	<p>Lockouts & Strikes</p> <p>Following pay disputes, fans perceive a negative view of the league and this reduces revenue</p>	<p>9/11</p> <p>Following a global safety crisis, permanent spending changes are made to increase safety</p>	<p>SARS Outbreak</p> <p>During the current media age, consumer fear of virus runs high, with teams taking extreme measures to fill seats</p>	<p>Economic Recession</p> <p>During recessions, consumers shift spending to "needs" and use free methods to watch reruns</p>
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Predictions for the Long Term

Spanish Flu

In the Roaring 20s revenue recovered, so the virus does not impact consumer choices in the long term

Lockouts & Strikes

Following pay disputes, fans perceive a negative view of the league and this reduces revenue

9/11

Technology improved to provide alternative viewing options for those unwilling to go to public spaces

SARS Outbreak

When the outbreak ended, so did the fear of crowded spaces and sports recover within 2 months

Economic Recession

The economy will expand again, and discretionary spending will increase within ~5 years



Increased spending on technology to improve broadcasting service, as increased at-home viewing will be a part of the new normal

Media budgets will increase to create new revenue streams to accommodate for more at-home viewing

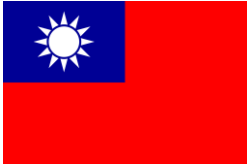
Seat revenue recovers to Pre-COVID-19 numbers

An aerial, high-angle photograph of a baseball field. The field is dark green, and the infield is a lighter, sandy color. A pitcher is on the mound in the upper left, and a batter is at home plate in the lower center. The bases are visible as white lines on the infield. The background is a dark, textured sky.

How baseball leagues around the world were impacted by COVID-19

Analyzing the responses that other leagues around the world took to continue playing the sport

How Baseball Leagues Around the World Were Impacted by COVID-19



Started with airing games on TV

Started with airing games on TV

Postponed opening day but did not cancel all games



Became the first league to re-open due to reduced COVID-19 cases

Re-opened following COVID-19 and currently airing games on TV

First league where three players on a team tested positive



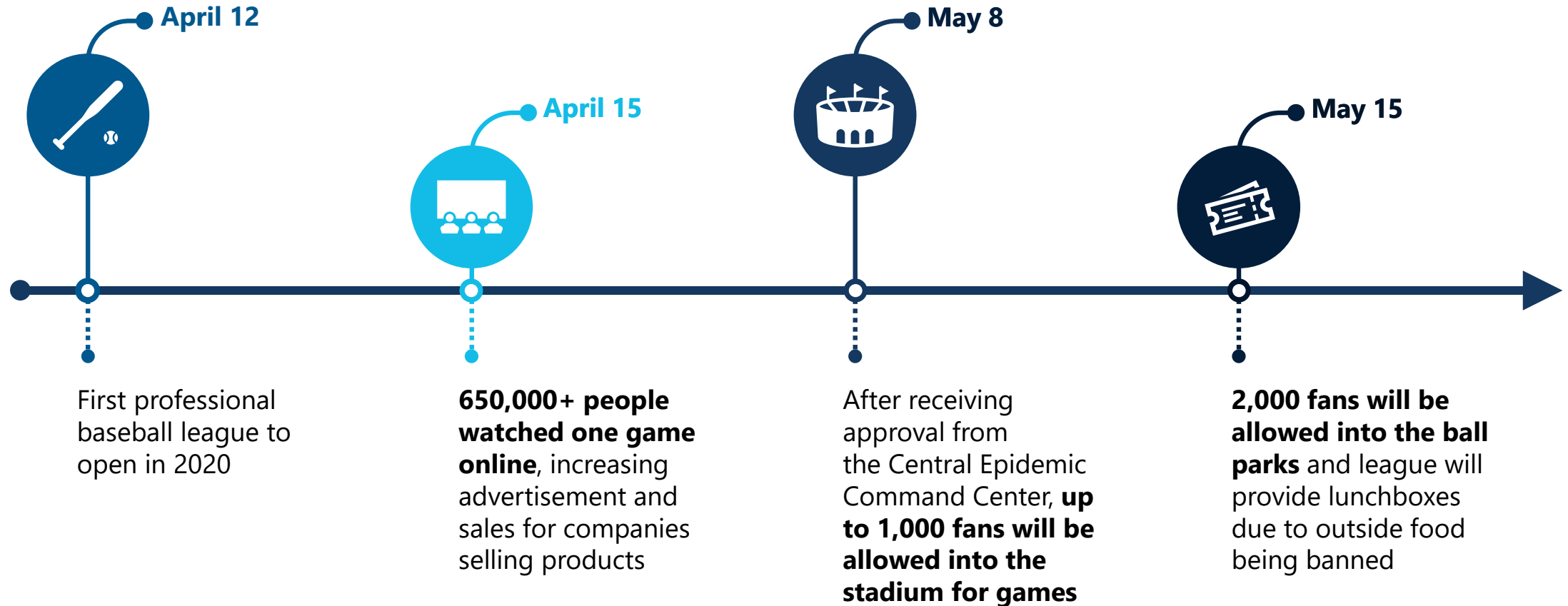
Currently the only league allowing a reduced number of fans into stadiums

Have set many safety measures in place to mitigate the risk of COVID-19

Provides a good reference for what measures and precautions will be taken if a player gets COVID-19

Taiwan Baseball Leagues – General Timeline of Major Events

Regular season was set to start March 14th



Taiwan Baseball League – A More In-Depth Look

Online airing

- On April 18th, they received over 1.5 million views during one of their online streamed games; it seems that they are attracting global audiences
- One US fan streamed two Taiwanese league games simultaneous and expressed that "[He's] not opposed to watching a bad team. [He finds] the sound of the bat to be almost therapeutic"



In-stadium health precautions

Some of the precautions that Taiwan leagues have put in place for fans watching in stadium games include:

- Temperature checks
- Wearing face masks
- Seated one meter apart
- No food or drink (concession stands are closed)



American consumer sentiment

Considering the turnout of Taiwan's in person baseball games, would American consumers have similar interest in attending ball games in person if MLB reached this point?

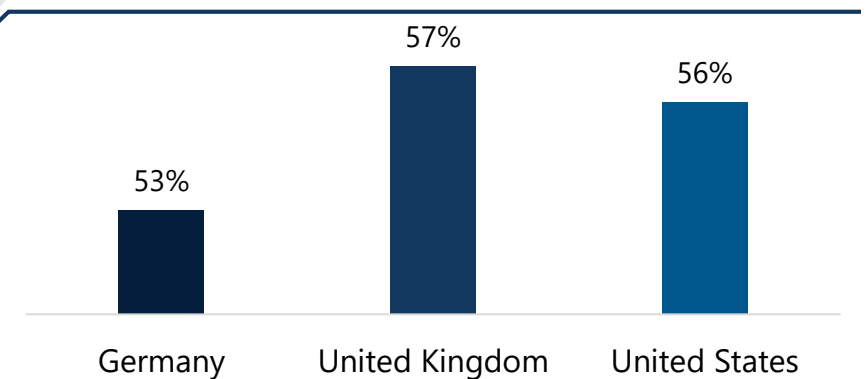
56% of 2141 respondents in the **US** said they would avoid sports events after COVID-19 restrictions are lifted



Key Takeaways

If MLB wants to start airing games and potentially allow fans back into the stadium, they will need to consider gaining government approval and putting similar health precautions in place

% of People That Will Avoid Sporting Events Once COVID-19 Restrictions are Lifted



Korean Baseball Leagues – General Timeline of Major Events

Regular season was set to start March 28th



Korean Baseball League (KBO) – A More In-depth Look

ESPN dispute/ online presence



- In mid-April ESPN and Eclat Media tried to reach an agreement to stream KBO games but it fell through when ESPN offered a percentage of revenue instead of an up-front payment
- However, they reached an agreement in May and ESPN is set to stream 6 live regular-season games every week in the U.S.
- This helped KBO quickly attract North American baseball fans, with a 77% increase in their opening day audience

Key Takeaway

Due to the increased attention from North American baseball fans, many people view the return of baseball through KBO as a sign of hope for MLB teams. However, there are many precautions that the league needs to take to ensure the players feel safe including daily COVID-19 testing, player transportation, etc.

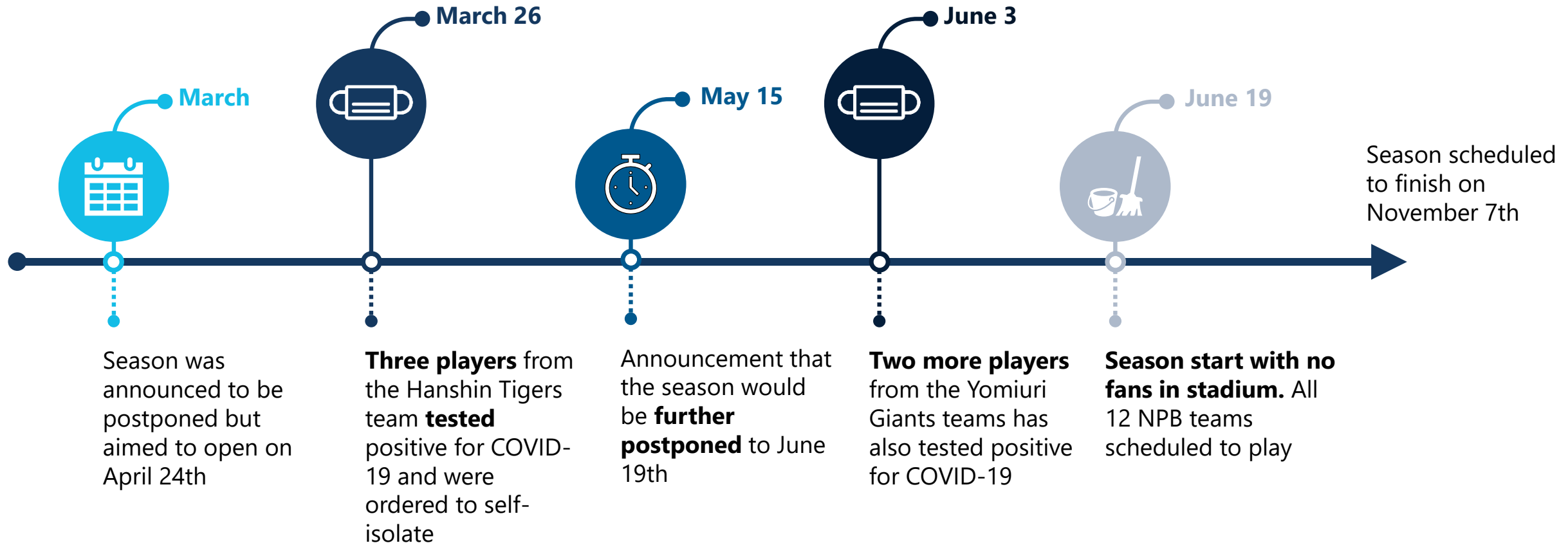


Player precautions

- Fever screening for players and coaches
- Umpires and coaches must wear masks during games
- Players are not allowed to sign autographs, high-five teammates with bare hands, chew tobacco
- Players must wear masks and latex gloves at training facilities

Japanese Baseball Leagues (NPB) – General Timeline of Major Events

Regular season was set to start March 20th



Japanese Baseball League (NPB) – A More In-Depth Look

Hanshin Tigers



- The first player on the team tested positive on March 26th
- Team activities and practice were cancelled for the week
- The home field and team offices was sterilized
- Dormitories were vacated
- Those who had close contact with the infected players were asked to remain home,
- Remaining team was allowed to proceed with regular activities with strict measures including temperature checks



Yomiuri Giants

- Two players tested positive on June 3rd
- Giants tested about 220 people in their organization, and the two players were found to have small traces COVID-19
- Practice game against another team was cancelled
- Given that this has happened relatively recently, NPB hasn't given any indication that plans to start the season will be changing

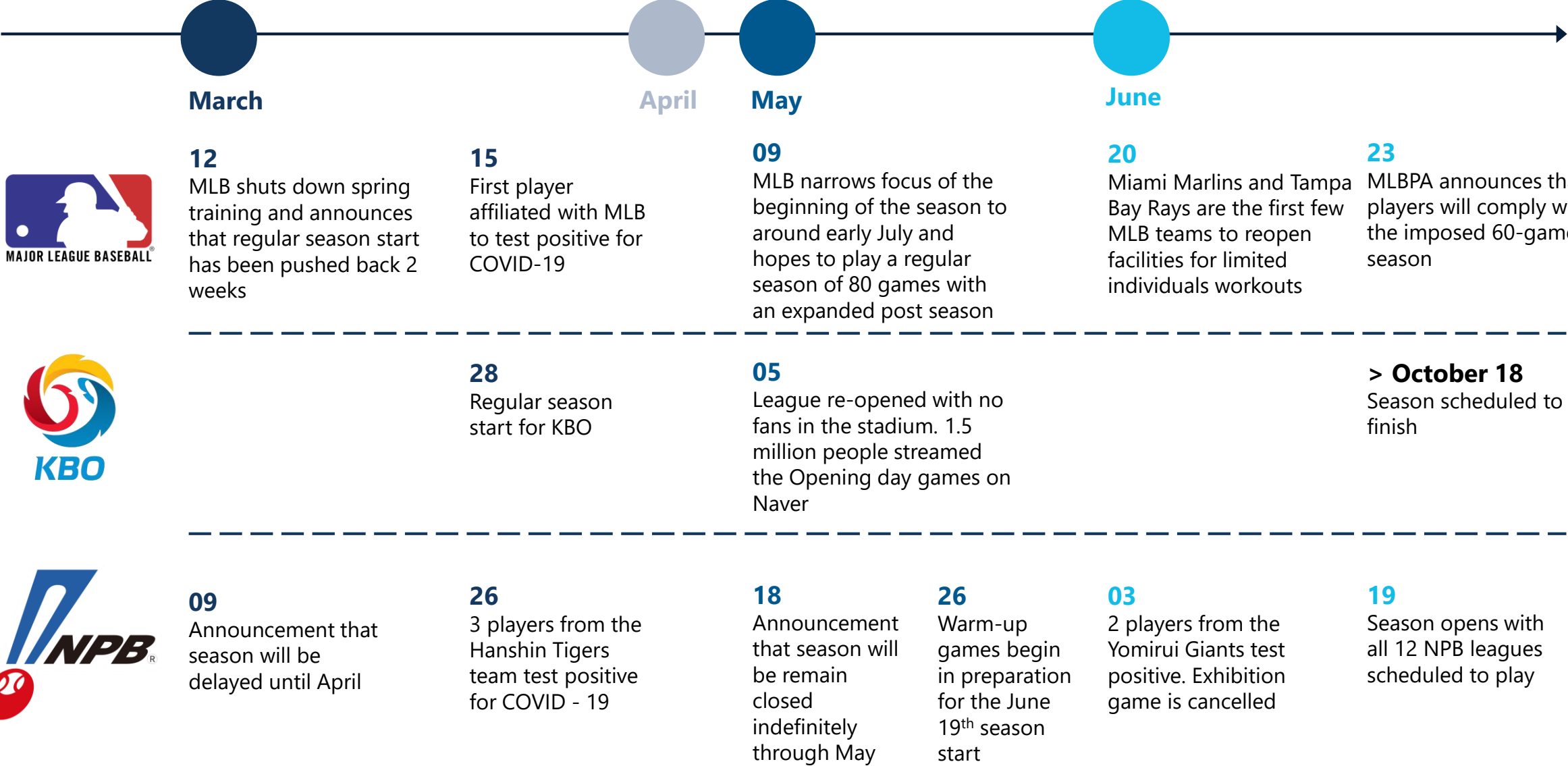
Key Takeaway

The NPB is a good example of what can happen if a league tries to start the season too early. In the case that MLB reopens even to play in an empty stadium, they need to plan for the possibility of a player contracting COVID-19, and how they would work around a potential 3 week shut down of the league

Cautionary tale for MLB

- When COVID-19 hit, NPB initially stopped spring training but subsequently resumed exhibition games in empty stadiums
- However they did take precautions like quarantining teams, taking players' temperatures, etc
- Despite this, the 3 players from Hanshin Tigers still tested positive

Comparison of League Timelines Throughout COVID-19



COVID-19 Comparison of Preventative Measures



First Case

February 22nd

January

January 20th

Testing

Started with limited testing but later established walk-through testing system

Not enough testing or test kits and shortage of hospital capacity

Free drive through testing with limited contact

Tracing

Recently launched contact tracing apps despite privacy concerns

No huge effort in tracing or tracking COVID-19 patients

Used app to track location of where COVID patients have been

New Cases Daily as of June

< 100

~30,000

< 100

Takeaway

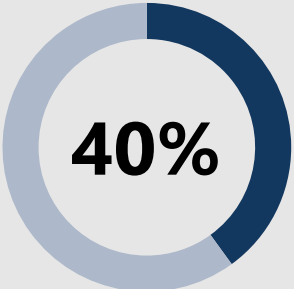
Given the MLB's similarity with NPB's timeline, and the fact that new cases for COVID-19 has not seen a positive progression in the United States, the best-case scenario for MLB this season in terms of revenue generation, will be to follow NPB in a late season start and look towards earning revenue from airing games and practices.

How the league has been financially impacted

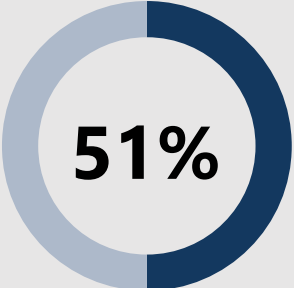
Taking a closer look at the revenue structure of the league and how it will be affected by COVID-19 in the long-run



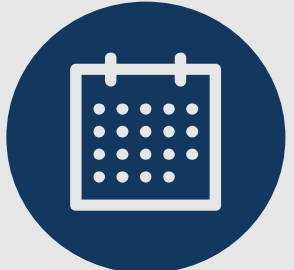
Revenue Structure of MLB: COVID-19 can potentially decrease revenue by 40%



of the revenue in MLB is received on game days; assuming games proceed with zero spectators, this can be considered **fully lost**

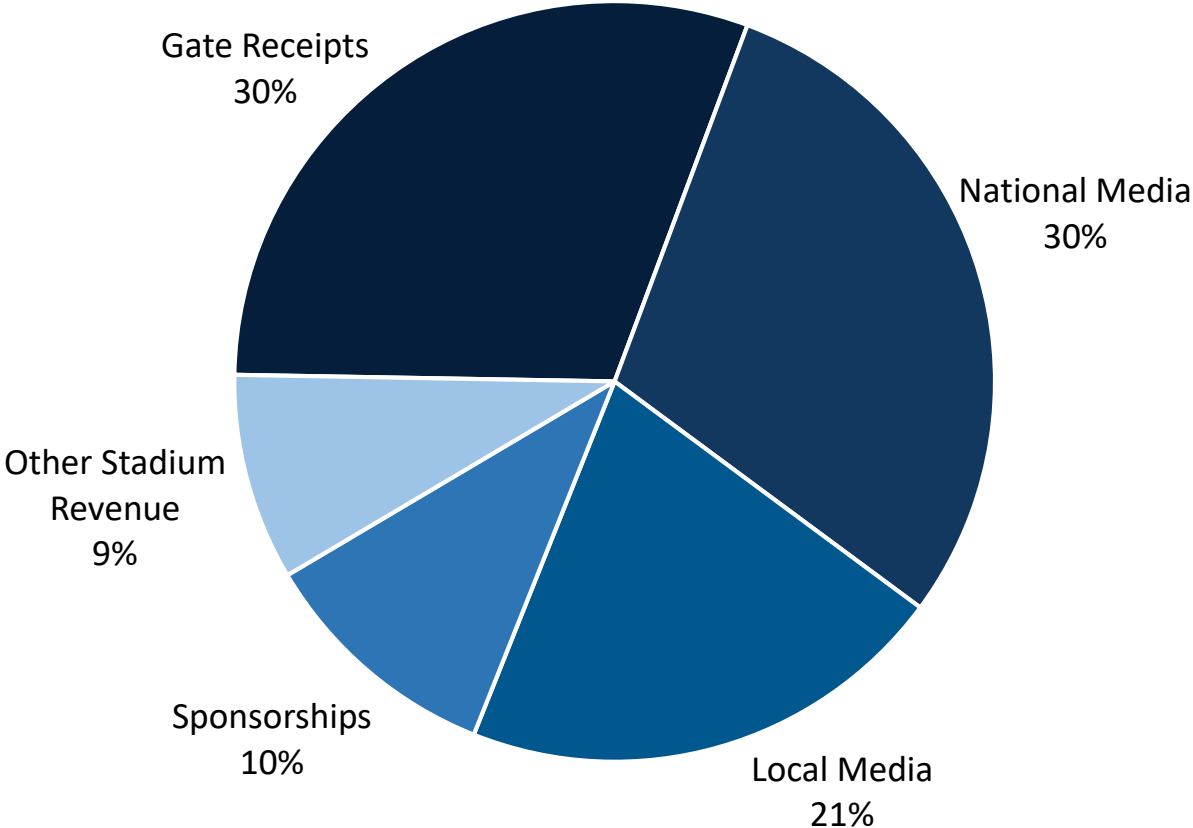


of revenue represented by media contracts (local & national) is **entirely dependent on games played**



Media contracts are paid on a **per game basis**, and are thus scaled up or down based on the reopening date

2019 MLB Revenue (\$MM)



**Other stadium revenue includes concessions, parking, etc.*

**Sponsorships includes team wide corporate sponsorships, not player sponsorships.*

COVID-19's Impact on Revenue: MLB seeks alternative revenue sources and predicts income after social-distancing is implemented

Additional Revenue Sources During COVID-19



Advertisements on Jerseys:

original plan was to introduce this in 2022 but then they decided against it because of 2020 season and playoffs at empty ballparks

Club-owned regional sports networks:

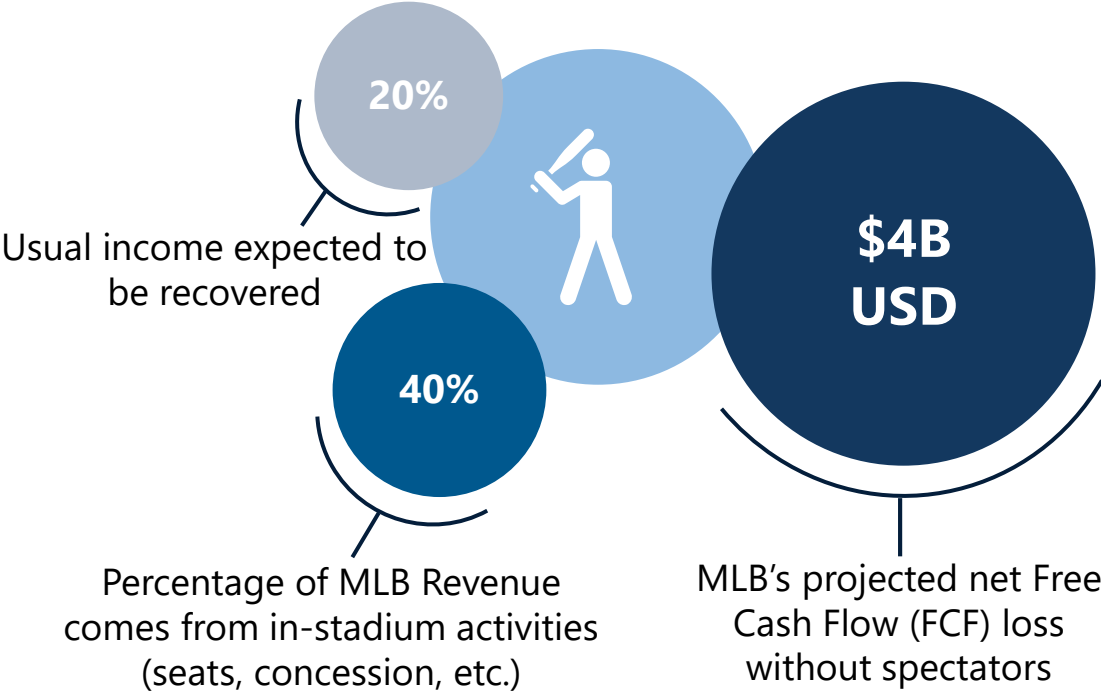
Yankees, Mariners, Dodgers, Red Sox, and Cubs have invested in their own regional sports network which are still running



Ballpark villages

Stores and businesses surrounding the stadiums owned by MLB will start opening up soon/already have begun to open, bringing in retail revenue

Financial Impact of Empty Stadiums



Major disagreements in talks between Players and MLB could lead to a further delayed or cancelled season



- Previously proposed agreement was to have players paid a prorated salary based on games played
- This would lead to player salaries equaling approximately half of their usual total amount
- MLB claimed this plan would result in a \$4B loss in free cash flow



- Current proposed agreement by MLB would be a 50-50 revenue share, which is preferred by owners, and not by players as it is less rewarding to them

Key Takeaways

With the 60-game imposed season being complied with by the MLBPA, it will force negotiations between owners and players to conclude by the time the season begins

March 16th
MLB
Commissioner
Rob Manfred
Suspends the
season

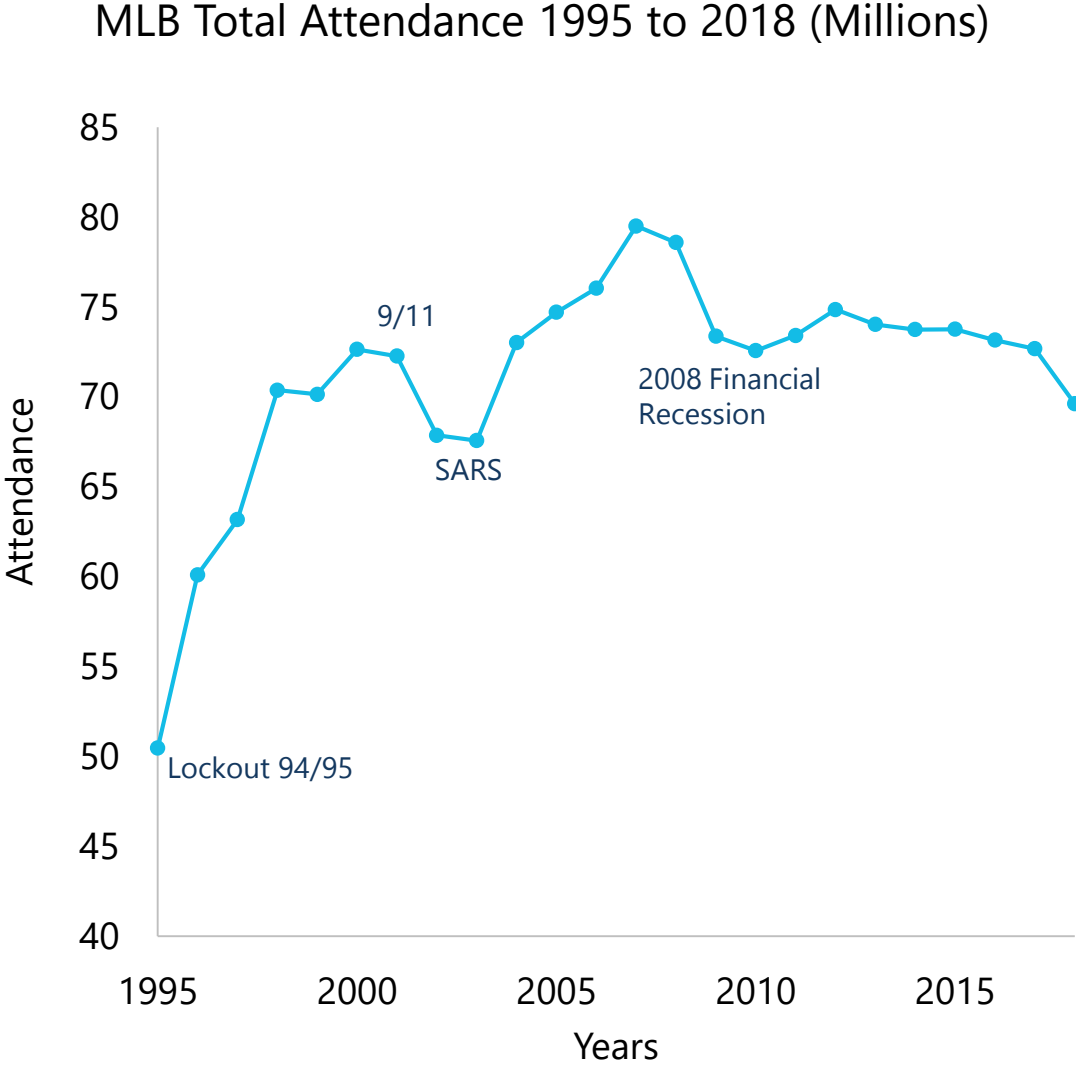
March 27th
MLB and the MLBPA
finalize a deal that
establishes a
potential framework
for the 2020 season.

May 11th
Owners approve
their plan for a 82
game season and
50/50 Owner/Player
revenue

May 31st
MLBPA propose
112 game
season with
pro-rated
salaries

June 23rd
MLBPA announces
that players will
comply with the
imposed 60-game
season

Fans may be able to return, but only in limited numbers, aggravating ongoing decline in attendance



12.4%

Decrease in attendance since 2007

20%-33%

League revenue from ticket sales

3%-4%

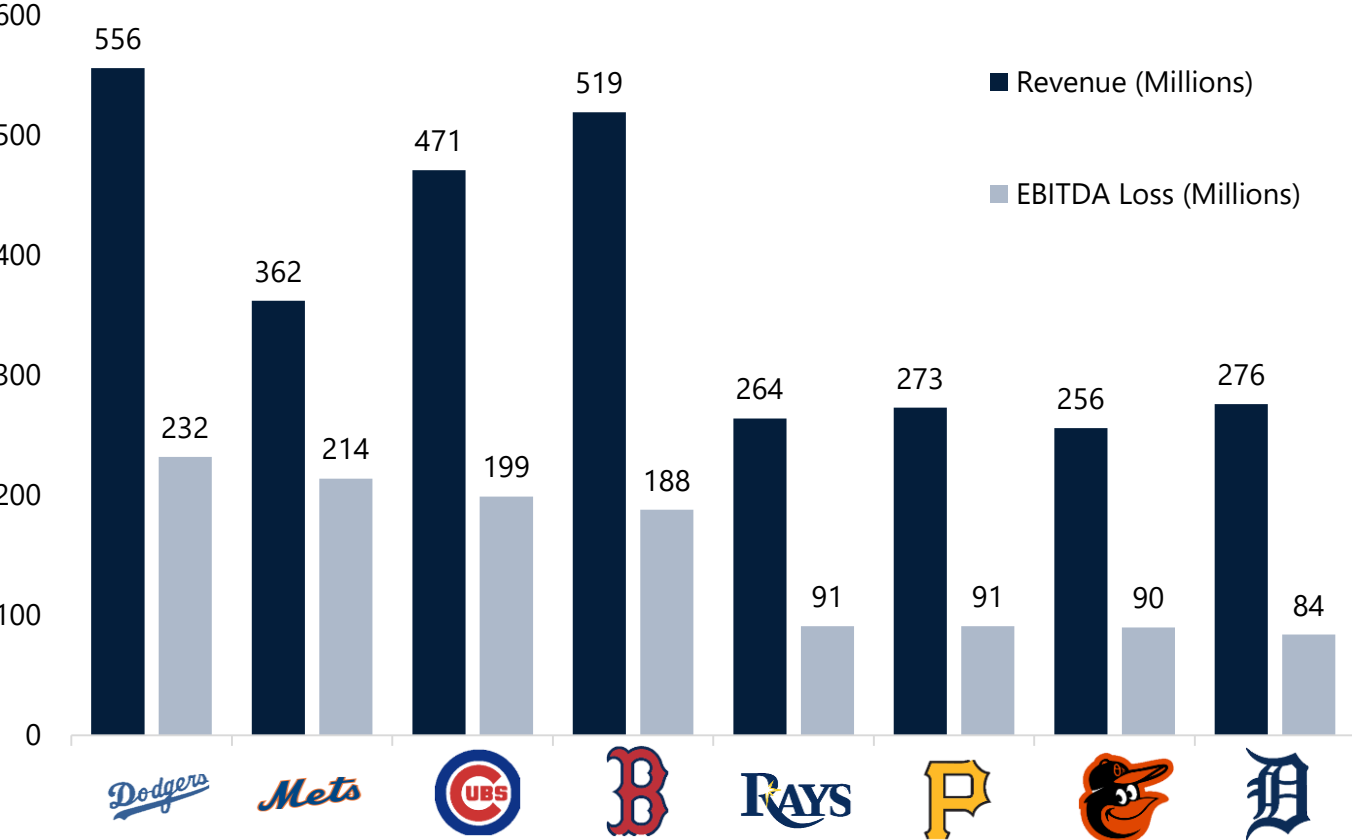
Unadjusted loss in an average team's ticket revenue if stadiums are empty

Key Takeaway

COVID-19 may exacerbate an existing decline in attendance, reducing future ticket revenues

Record revenues and low comparable leverage mean losses are not as dangerous as they look

Projected Impact of COVID-19 on EBITDA by Team for the 2020 Season vs 2019 Revenue (4 Highest/Lowest)



Leverage

- The mean debt/earnings ratio of MLB teams is significantly less than other benchmark entities and industries
- With relatively low leverage ratios, **teams face a less severe consequence from reduced cash flow**



Bottom Line

- Individual EBITDA losses among teams would result in negative EBITDA ranging from \$30mm to \$150mm
- Based on the mean operating income of \$50mm (2019), we can assume it would take **1 year to 3 years for each team to fully recover**

Conclusion

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Once the imposed season begins, the outcome will be dependent on the response to COVID-19 from the USA

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Based on the US Government's approach to COVID-19, baseball will follow a "quarantine" format for the near future

Team expenses will be on the backburner as current pay disputes will be the main topic at hand for team and owners