

A twist in the Pirates' television rights negotiations: The possible sale of the network

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By Bill Brink / Pittsburgh Post-Gazette

An intersection between the possible sale of a television network and the expiration of a rights agreement could have interesting effects on the Pirates against the backdrop of a shifting media landscape.

AT&T is [considering selling its four regional sports networks](#) in order to reduce debt, according to a report from Bloomberg earlier this month. Among those: AT&T SportsNet Pittsburgh, which broadcasts Pirates and Penguins games.

The Penguins' rights agreement runs through 2029, but the Pirates' contract expires after this season. It is already unusual for this much time to have passed without a deal in the final year of a contract, and the potential of a sale could add one more moving part.

"Clearly if you're AT&T and you are interested, having the Pirates locked up for a period of time does create more value to be sold," said Ed Desser, who spent 23 years negotiating media rights deals while working for the National Basketball Association and launching NBA TV before founding a media consulting firm. "On the other hand, the Pirates are no doubt looking for a big increase, and if that makes the network less profitable, then that has a negative impact on the valuation."

One possible reason for the delay in the Pirates' negotiations is the recent activity of Sinclair Broadcast Group, whose acquisitions confirm industry belief in the importance of live sports. When [Disney purchased 21st Century Fox](#), a deal that became official in March, the U.S. Department of Justice required it to sell 22 regional sports networks, known as RSNs. Sinclair purchased them for \$9.6 billion in May.

Sinclair also will [partner with the Chicago Cubs](#) to launch an RSN called Marquee Sports Network, which will exclusively broadcast Cubs games beginning next year. Bloomberg reported that Sinclair could be interested in purchasing AT&T's RSNs.

Any acquiring company will perform due diligence on the four RSNs. An expiring contract with the Pirates could lower the value if the team asks for more money, while a long-term deal with the club could increase value.

“It works both ways,” said Chris Bevilacqua, who negotiated TV contracts for the Texas Rangers and San Diego Padres and led the creation of the Pac-12 Network during three decades of work in the media industry. “I think you just have to also kind of step back and look at the reality of the marketplace.”

The Pirates, Penguins and AT&T declined to comment.

Great importance

AT&T SportsNet Pittsburgh has already changed hands in recent years. In 2006, News Corp. sold the network, then FSN Pittsburgh, to Liberty Media as part of an asset swap. Liberty formed a new company with DirecTV in 2009 that operated the RSN, and AT&T bought DirecTV in 2015. Not much changed except the logos on the microphones, but this time could be different.

Even if AT&T doesn't sell, the coming negotiations hold great importance for a Pirates team that has lost local revenue in recent years due to declining ticket sales.

The [Pittsburgh Post-Gazette reported in 2013](#) that the current TV deal, a 10-year contract that took effect in 2010, pays the Pirates in the neighborhood of \$20 million each year. Pirates president Frank Coonelly has disputed that number but said nondisclosure agreements prevent him from providing the actual figures. Though decreased attendance has resulted in less local revenue, that will correspond with larger revenue-sharing receipts after years of decline in that area.

The Pirates have an average attendance of 19,485 per game this year, up about 1,000 per game from last year but down from 30,847 in 2015. They went 98-64 that year and made the playoffs for the third year in a row, but lost the wild-card game for the second consecutive season. Since then, they went 78-83, 75-87 and 82-79, and after a weekend series against the New York Mets, they were 46-59 and in last place in the National League Central Division.

Their opening-day payroll, which increased from \$34.9 million in 2010 to \$98.8 million in 2016, was \$76.6 million this year.

The collective bargaining agreement between Major League Baseball and the Major League Baseball Players Association assigns each team a market score, based on population, cable households and income, for the purposes of revenue sharing. The Pirates rank 27th out of 30 teams. The San Diego Padres (25th) agreed to a 20-year deal in 2012 with Fox Sports that will reportedly pay them an average of \$50 million a year along with a 20% equity stake in Fox Sports San Diego (a deal Mr. Bevilacqua

helped negotiate). The Cleveland Indians (24th) receive \$400 million on a 10-year deal that began in 2013.

The passage of time could help the Pirates get even more than that, but television realignment does not make renegotiation easy.

“I’ve got this expiring deal with AT&T, who may or may not be my partner ... when I’ve got to redo this deal, what do I think about all the potential outcomes here?” Mr. Bevilacqua said. “You’re trying to think through all this without having perfect information.”

In the end, according to industry experts, a reunion with AT&T SportsNet, whatever its name and parent company, makes a good deal of sense. Splitting up the Pirates and Penguins doesn’t do anybody any favors, and given the lack of other local options, a reunion seems plausible. There could be a trade-off — another company acquires the RSNs, but AT&T receives help on the distribution end, for example.

Or, the dark-horse option.

“Ever since the three Fox networks, Denver, Pittsburgh and Seattle went to, originally DirecTV and then to AT&T, there has been speculation that since all three of those markets are Comcast cable markets, that it would make sense that Comcast be the buyer,” Mr. Desser said. “That hasn’t happened for whatever reason. Maybe price, maybe lack of interest, I don’t know. And Comcast is still in that business in many other markets, so there’s a certain logic to it.”

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