Case 6: Winter Olympics Bidding

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Case Question

- Our client is a major US television network that is trying to figure out how much to bid for the 2018 Winter Olympics and has brought you into to help us figure out the right bid. The Winter Olympics are a huge deal and will require a significant amount of capital to secure the rights. Before our network bids on the Winter Olympics, we want to make sure that we've considered all the right things.

8
Quants.

4
Structure

Basic NPV B/E

Case tracker

- **Industry:** Media & Entertainment
- **Level of Difficulty:** Medium
- **Case format:** Opportunity Assessment
- **Concepts being tested:**
  - Basic NPV
  - Breakeven analysis

Fit Questions

Spend first 15 min on fit

- How would you describe your problem solving skills?
- Do you consider yourself a more visionary or more pragmatic thinker….and why?
- What did you like least about your last job?

Guide to interviewer

- This is a very quantitative case that requires the interviewee to run the numbers on an Olympics bid. The candidate will have to decide potential ad revenue/cost information, as well as the NPV, to determine bid size.
- The candidate will need to ask for additional information that is necessary to solve the problem, rather than relying on the interviewer to dispense it. After getting the initial calculations right, there are a lot of implications that may change the level of the bid.
- Especially for less finance-minded interviewees, you may have to help nudge candidates through the math.

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Clarifying answers and case guide

Clarifying answers to provide

Winter Olympics schedule (16 days)

- Day 1 – Friday - Opening ceremonies – 3 hours of programming from 8-11 PM
- Day 2-15 – Games – 10 hours/day
  - Weekday (9 – 12, 2 – 5, 7-11)
  - Weekend (11 AM – 9 PM)
- Day 16 – Saturday - Closing – 3 hours of programming from 8-11 PM

Revenues

- No subscription revenue, but can keep 100% of advertising revenue
- Ad rates are $400K/30 second ad for prime time (M-F 7-11 PM, all weekend) and $200K/ad for non-prime time
- Market research has shown that you can include no more than 10 minutes of advertising per hour.

Costs

- $428,000,000 of total costs
- Opportunity cost: $1M/hour
- Time value of money: 6 year lag for receipt of revenue

Guide to case

Part 1 – Quantitative discussion

- Some of the numbers are assumptions here are difficult, so nudge the candidate along if necessary.
- First of all, the candidate should find the revenues from hosting the Olympics.
- Then, the candidate will have to figure out if this is a good investment. They should identify 3 costs (production costs, opportunity costs, and time value of money). By factoring in these costs, the candidate will find out if the Olympics are worth the investment.

Part 2 – Qualitative discussion

- After finding the NPV of $177M, ask the candidate about intangible factors, benefits, and risks. Some critical factors:
  - Might give network access to new viewers
  - There is prestige associated with hosting this event
  - We can the air time to promote other programming
  - Opportunities for product tie-ins, supplemental revenue
- After finishing the discussion, ask the candidate for a recommendation.

Math questions

Math question

- 1) Calculate the revenue from broadcasting the Winter Olympics.
- 2) Factoring in costs, is this a good investment? Find the NPV.

Math solution

- 1) Total revenues should be equal to $928M for the project.
  - Primetime: Weekdays (M-F): 10 weekdays x 4 hrs/day x 10 min/hr x 2 slots/min x $400,000/ad = $320M
  - Non-prime: Weekdays (M-F): 10 weekdays x 6 hrs/day x 10 min/hr x 2 slots/min x $200K/ad = $240M
  - Weekend: 4 days x 10 hrs/day x 10 min/hr x 2 slots/min x 400K/ad = $320M
  - Opening/Closing: 2 days x 3 hrs/day x 10 min/hr x 2 slots/min x 400K/ad=$48M
- 2) Using the "Rule of 72," we know that 72/rate of return means the number of years to double our money. With a six year lag and a 12% WACC, we know that all future cash flows must be halved.
  - Revenues $928M - $428M of total costs - $146M of opportunity cost (2 days x 3 hours x $1M/hr + 14 days x 10 hours x $1M/hr) = $346M
  - $346/2 = $177M in present value (NPV)

Math information

Revenues
- $400K/ad for prime time (M-F 7-11 PM, all weekend) and $200K/ad for non-prime time
- 10 minutes/hour of advertisements

Costs
- $428,000,000 of total costs
- Opportunity: $1M/hr
- WACC: 12%

Solution and recommendations

Solution & Recommendations

- While the NPV of the project is $177M, the fact that there are other intangibles (new viewers, plugging our programs, and prestige) the bid should just be $177M. While there is no one correct answer, most answers should be in the range of $200M. If there is significant fluctuation from $200M, the candidate will have to provide in-depth justifications and make a concrete argument.

Bonus/Guide to an Excellent Case

- This case tests the interviewee's comfort with numbers and understanding of how intangible factors may influence financial value. The bid process requires another level of understanding around game theory and what dynamics will ultimately determine the value of the bid beyond NPV.
- Ultimately, the best interviewees will make a very strong argument using the facts provided and support their bid and explain why they moved their bid from the NPV figure.
- There is also a lot of room for creativity for the interviewee to discuss other factors, including supplemental streams of revenue, intangible factors, and things to consider during the bid process.