



Will Toronto Raptor Success Send BCE Inc. or Rogers Communications Inc. Higher?

Description

On Sunday, the Toronto Raptors finally got over the hump, eliminating the Miami Heat in game seven of the second round of the NBA playoffs to advance to the Eastern Conference Finals for the first time in the franchise's 21-year history. The team is set to face the Cleveland Cavaliers led by one of the NBA's true greats, LeBron James.

Many pundits aren't giving the Raptors much of a chance this series. They point to Toronto needing all seven games to eliminate opponents in the first two rounds, while the Cavs have yet to lose a game in the playoffs. Cleveland also finished with a better record than Toronto in the regular season, and the team did advance to the NBA finals a year ago, only to lose to the stacked Golden State Warriors in the championship series.

No matter what the Raptors do from this point on, the season has been a success, at least from a financial point of view. The team has generated all sorts of buzz, gotten eight extra home games (with at least two more coming), and generated a good chunk of other revenue. And remember, players only get paid for the regular season. That just adds to the bottom line in the playoffs.

BCE Inc. ([TSX:BCE](#))([NYSE:BCE](#)) and **Rogers Communications Inc.** ([TSX:RCI.B](#))([NYSE:RCI](#)) are the primary owners of Maple Leaf Sports and Entertainment, the parent company of the Raptors, Maple Leafs, and Toronto FC. Each company owns 37.5% of the sports conglomerate, with Kilmer Sports, the holding company of Larry Tenenbaum, holding the other 25%.

With interest in the team perhaps the highest it's even been, will that mean a boost to the bottom line of Rogers and BCE? Let's take a closer look.

The size of media

Both Rogers and BCE have big media divisions. Rogers owns dozens of different television channels, radio stations, and the Toronto Blue Jays. BCE has a similarly sized media portfolio as well as an ownership stake in the Montreal Canadiens.

As impressive as these media empires are, they're puny compared to the main part of the business: telecom. In its last quarter, BCE generated \$5.2 billion in revenue. Revenue from wireless was \$1.6 billion, revenue from wireline—which includes home phone, Internet, and cable television—was \$2.9 billion, and revenue from the media division was \$700 million.

The breakdown from Rogers is similar. It saw total revenue of \$3.2 billion in its most recent quarter, and \$1.9 billion of that came from wireless, approximately \$800 million came from wireline, and \$450 million came from the company's media assets. Rogers also got \$100 million in revenue from its business solutions division.

Not only are the media divisions comparatively small, they're also not terribly profitable. Rogers posted an adjusted loss of \$48 million from its media division in the last quarter. BCE's media division did make a profit of \$145 million in its most recent quarter, but investors need to keep in mind that margins from media were only 19.6%, compared to 44.9% from wireless and 42.1% from the wireline business.

Even if the Toronto Raptors made a total profit of \$100 million this year, it still wouldn't make much of a difference in the bottom line of its two majority owners. An extra \$50 million to BCE's bottom line works out to only \$0.05 per share. The boost to Rogers's bottom line would be a little better, coming in at \$0.12 per share.

The media strategy

Companies like BCE and Rogers don't own sports franchises because they love sports. They buy them because sports franchises have been traditionally good investments, and because owning them secures an ample amount of content for their media assets.

Live sports are increasingly becoming a big reason why cable subscribers don't cut the cord. By controlling the teams, both companies can ensure they have plenty of live sports. This keeps viewers subscribed to cable, which is the real money maker. The media divisions just exist to drive cable revenues.

So even though it may look like both BCE and Rogers are benefiting greatly from all the attention showered upon the Raptors, both these companies are too big for it to really have much of a difference.

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