

Senior Experience Final Report

22nd District Agricultural Association *Repurposing the Surfside Race Place*

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Executive Summary

The 22nd District Agricultural Association is a private state-run agency, which manages the Del Mar Fairgrounds. The fairgrounds encompass numerous facilities that are used annually. One of those facilities is the Surfside Race Place (SSRP), which is the satellite wagering facility that works both, in conjunction with the horse racetrack and also with other horse races occurring around the world. Due to a decline in attendance and revenue, the 22nd District has decided to repurpose the underutilized venue. The scope of this project required the senior experience team to work alongside an MBA team to determine the feasibility of building a 1900-seat concert venue. The renovation for the Surfside Race Place also involves a beer garden, a beer museum, a beer tasting room, and an expanded banquet facility. However, for this project the primary focus was geared towards the concert venue. The team's overall goal was to develop a financial model that would test pricing assumptions for each facet of the venue, test annual usage, and estimate the value of branding rights.

The team's methodology consisted of researching the background and location of the proposed venue, creating an industry analysis to gain further understanding of the proposal, preparing a competitor analysis, as well as constructing a SWOT analysis of the project. In addition, the team analyzed the profit and loss statement provided for the proposed venue, calculated the payback period of the project, and designed a capital budgeting model to assess the return on the investment.

The team's findings revealed that there is a demand for a concert venue of 1,900 seats in San Diego that has not been met by existing competitors. By analyzing the industry and the competitors in the local area, the team was able to determine that investing in a concert venue would be profitable. With minor adjustments made for the forecasted profit and loss statement, the team was able to confirm the validity of all relevant line items. The profit and loss statement served as a foundation for calculating the net cash flows of the project. The team was then able to determine when the project would be fully paid back, the internal rate of return of the project, as well as the net present value of the project.

Given the results of the capital budgeting model, the team supports the 22nd District Agricultural Association's decision to repurpose the Surfside Race Place. The results of the capital budgeting model revealed a five year payback period, an above-average internal rate of return and profitability index, and a positive net present value.

Introduction

The 22nd District Agricultural Association Background

The selected sponsor for this project is the 22nd District Agricultural Association, otherwise known as the 22nd District (DAA). The team had the opportunity of working with the CEO and General Manager of the 22nd District, Tim Fennell, for various tasks. The 22nd District manages the Del Mar Fairgrounds and the Horse Park. The District runs various operations with a mission “To manage and promote a world-class, multi-use, public assembly facility with an emphasis on agriculture, education, entertainment and recreation in a fiscally sound and environmentally conscientious manner for the benefit of all” (Del Mar Fairgrounds a, 2016). For instance, the District conducts events throughout the year like the Del Mar National Horse Show, The Scream Zone, The Festival of Lights, and operates the Surfside Race Place (SSRP). Additionally, the District rents and leases their buildings to companies and vendors seeking a location to host various events (Del Mar Fairgrounds, 2016).

The 22nd District is a private state run agency. The Standard Industrial Classification System (SIC) for the 22nd District is classified as a State Government-Agricultural Program (9641-02). The North American Industry Classification System (NAICS) for the 22nd District is classified as Agricultural Market and Commodity Regulation (926140) (ReferenceUSA, 2016).

In addition to working with Tim Fennell, we also interviewed Chris Goldsmith, the owner and talent buyer of the Belly Up Tavern in Solana Beach. Other interviews include Mark Anderson, the Vice President and General Manager of Premier Food and Beverage and Sue Walls, the Director of Catering and Dining Services for Premier. Last, we interviewed Rita Walz, the chief financial officer for the 22nd District.

SWOT Analysis

| | |
|--|---|
| <p style="text-align: center;">Strengths</p> <ul style="list-style-type: none"> • Brand recognition • Geographic location • Existing vendors • Substantial capital resources • Current infrastructure | <p style="text-align: center;">Weaknesses</p> <ul style="list-style-type: none"> • Underutilization of Surfside Race Place • Lack of pre/post-event amenities • Traffic congestion during peak hours and events |
| <p style="text-align: center;">Opportunities</p> <ul style="list-style-type: none"> • Sole venue in the region with a 1,900 capacity • Venue can be used for events other than concerts • New pre/post-event amenities • Increased market share in the concert and promotions segment | <p style="text-align: center;">Threats</p> <ul style="list-style-type: none"> • Compliance with local ordinances • Competitor loyalty can reduce market penetration • No exclusive partnership with talent buyers/promoters |

Strengths

Brand recognition, geographic location, and existing vendors are strengths that have bolstered the success of the 22nd District Agricultural Association.

The 22nd District's brand recognition is a result of the 350+ events each year that it hosts including the San Diego County Fair, Kaaboo Del Mar, and the Del Mar National Horse Show. The 22nd Districts' events range heavily in attracting diverse audiences and attendees from throughout the county ("Del Mar Fairgrounds", 2016).

The 22nd District is conveniently and geographically located on the central coast of San Diego county in the affluent neighborhood of Del Mar. Del Mar is no more than 40 minutes away from all major San Diego neighborhoods as seen in the map of the city of Del Mar (Appendix O). The 22nd District's close proximity to the 5 Freeway makes the venue an easy

travel location for residents and tourists as seen in the map of major concert venues in San Diego County (Appendix P). Del Mar's neighbors include Fairbanks Ranch, Solana Beach, Sorrento Valley, and La Jolla, which are typically considered safe towns that are not known for high crime rates.

The 22nd District has existing vendors that provide food and beverage products and services to all of its events. Premier Food Services is the food and beverage vendor that has a tenured relationship with the Fairgrounds. Premier will continue to provide the Fairground with their services should the 22nd District add to its portfolio of amenities.

The 22nd District has substantial capital resources in order to help fund additional projects. According to the 22nd District's financial statement and Mr. Tim Fennell, the 22nd District have roughly \$7 million to use for future growth investment such as the 1,900-seat concert venue.

The 22nd District has an existing infrastructure that allows renovations to the property to be fairly easy and uncomplicated. The 22nd District would not have to acquire more space if new facilities were to be made. The Del Mar Fairgrounds already has a large parking spot for events that provide maximum capacity for visitors.

Weaknesses

The underutilization of Surfside Race Place, lack of pre/post-event amenities, and traffic congestion are weaknesses that the 22nd District faces.

Due to the declining popularity of placing wagers on horse racing, the wagering facility has seen a decline in customers. Currently, the 22nd District lacks pre/post-event amenities for its visitors. Customers that visit the Del Mar Fairgrounds generally visit for specific events on specific days. Customers are prone to go to neighboring businesses before or after events instead of remaining on the Fairgrounds (T. Fennell, Interview, September 22, 2016). The 22nd District does not have an on-site restaurant or point-of-interest for casual passer byers. Traffic in Del Mar, especially on the streets around the 22nd District is heavily congested during peak hours and popular events. The Del Mar Fairgrounds has one-way roads in and out of the facility that can interrupt road access for locals.

Opportunities

There are several opportunities that the 22nd District may take advantage of including a central San Diego entertainment destination, becoming the only venue in the region with a 1,900 seat capacity, and new pre/post-event amenities.

The 22nd District would be providing San Diego with the only 1,900 seat capacity venue for musical concerts. Only 5 percent of the venues in San Diego have a capacity of 1,500 to 2,000 with 49 percent of the venues falling in the 200 to 500 capacity range. See appendix H for competing venue sizes. The venue will also be used for events other than concerts such as private parties, comedy shows, educational seminars, and all-age shows among others. The venue would not be limited to permanent floor seating making the space customizable for each event.

The development and execution of a music venue or other pre/post-event amenities would increase the growth rate and profitability of the 22nd District. The venue management would have the opportunity to work with Belly Up while still having the freedom of a non-exclusive partnership with talent buyers or promoters (T. Fennell, Interview, October 5, 2016). Belly Up's expertise would help the 22nd District gain market share in the concert and promotions segment of the industry. The 22nd District would be providing the Del Mar Fairgrounds with new pre/post-event amenities including craft beer tasting rooms, an outdoor beer garden, restaurants, bars, and a beer museum. These facilities would be available to visitors year-round and would provide patrons with entertainment options while already on-site.

Threats

Threats that the 22nd District may experience include compliance with local ordinances, competitor loyalty reducing market penetration, lower profitability, no exclusive partnerships with talent buyers or promoters, and increased competition in the industry.

The potential threats that the 22nd District may face are in direct relation to the music venue. The 22nd District already encounters problems with Del Mar city ordinances ("Del Mar Fairgrounds", 2016). During the San Diego County Fair and Kaaboo Del Mar, the Fairgrounds has received complaints about noise and traffic from neighboring businesses and residences according to an article from the San Diego Union Tribune (Sifuentes, 2015). Customer loyalty of

competing venues can reduce market penetration for the 22nd District. Customers may be reluctant to visit a new venue if they have grown accustomed to a competing and established venue. Booking the wrong talent for the venue can lead to lower profitability if performers do not meet their required quota. Having no exclusivity with a talent buyer or promoter can be detrimental to the 22nd District because of its infancy in the industry and lack of expertise.

Background Information

The 22nd District Agricultural Association is expressing its need to change a once thriving business into a lucrative one. In recent years, the 22nd District has been facing an ongoing issue with one of its facilities. The Surfside Race Place, which is a satellite wagering facility, has declined in revenue and attendance in the last 6 years. The facility uses 90,000 square feet of floor space, which the 22nd District says can be utilized in another way that could impact the company profits. The master plan is to repurpose the Surfside Race Place into a 1,900-seat music/entertainment venue and possibly a tasting room and related museum. The senior experience project was to work out the costs for building the 1,900-seat music venue in lieu of the Surfside Race Place.

The Surfside Race Place is an area designed for customers to watch and make bets on races occurring at other tracks. It has been underperforming in recent years in terms of customer attendance and revenue. In 2010, 108,000 people visited the Surfside Race Place. However, in 2014 only 62,028 people attended (Tash, 2015). Also, the 22nd District noted that average daily attendance was around 300 to 350 based on the district's staff report (Tash, 2015). Along with decreasing attendance over the years, net revenue has been declining. For instance, in 2010 net revenue was \$471,771 but dwindled to \$128,489 in 2014 (Tash, 2015). The district associates these declines to systematic changes in the gambling industry. In response, the board of the 22nd District has been actively searching for new alternatives to allow this facility to generate revenue. The board has declined a few different options such as "a high-end movie complex, a bowling and entertainment center, and a microbrewery to be operated by a subsidiary of beer giant Miller Coors" (Tash, 2015). The underlying goal of the project is to figure out how the district could reinvent itself to increase attendance of all ages.

The 22nd District was eager to get a master plan in effect. Houck (2016) mentions that the master plan was created five years ago in 2011. On January 12, the first renderings of the new venue were unveiled to increase attendance significantly. Plans to renovate the 90,000 square foot facility were broken down by levels. On the first level, there would be a stage with approximately 1,300 seats, an exhibit room that would highlight the history of San Diego's craft

beer industry, a tasting room (most likely for craft beer), and an outdoor area particularly for events to include a bar and food area. The second level would consist of a balcony that would seat about 550 people, a VIP area, a banquet area, and a kitchen (Kaplanek, 2016).

Tim Fennell plans to partner with the president of the Belly Up, Chris Goldsmith, to venture into the concert and event promotion industry. In an interview, Mr. Fennell had specified that the 22nd District will hire the Belly Up as a talent buyer for the venue (T. Fennell, C. Goldsmith, Interview, October 5, 2016). Fennell anticipates that the venue would host at least 60 concerts a year, or about one per week. Chris Goldsmith further elaborated that 60 shows per year is the worst-case scenario for the venue in case the District did not meet its expectations for annual usage. However, Fennell's intent is to not compete with local businesses, but to complement the local community.

When the Surfside Race Place was built in 1991, it had a capacity approved to hold 5,000 people. Peak attendance for this facility was recorded at 2,800 people. The daily attendance for this venue averages between 300 to 400 people (Kaplanek, 2016). It was not until mid-2013 when fairground officials began developing ways to make the facility a profitable venue again. Officials contemplated repurposing the facility into a microbrewery for local companies, but the proposals garnered no responses. Representatives from Del Mar and Solana Beach raised concerns for these plans. Fennell viewed this as a great opportunity that could provide jobs, stimulate the economy, and provide tax revenue for the city of Del Mar. This is currently a work in progress, which still needs discussion and may undergo a number of changes. The challenge is to figure out how to finance the plan. Based on the phase 1 renovation costs, construction was estimated at \$10,042,268. The team had confirmed with Mr. Fennell to use a construction cost of \$11 million for phase 1 in the team's financial model (T. Fennell, Personal Communications, November 2016). The remaining balance accounts for any unexpected costs. On a positive note, the venue could be profitable with 60 shows per year at 75 to 85 percent capacity after running some "preliminary numbers" (Kaplanek, 2016). In addition, repurposing the facility into an entertainment center can give locals a great option as a social hot spot in the northern San Diego County region.

In recent business ventures, Music Box, a downtown San Diego concert venue, will be combining their marketing and talent booking with the Belly Up Tavern starting January 1st, 2017. Damon Barone, a manager of Music Box, said that they began the relationship with Belly Up by initially booking shows together, which led to the discussion of a potential partnership. The two venues agree that the booking and marketing partnership will allow them to increase their scope of talent. The plan is to have Belly Up and Music Box share the ticket revenues (Varga, 2016). The team is currently uncertain of how this partnership will affect the 22nd District's venue plan.

Key Issues

1. Surfside Race Place is extremely underutilized

The main issue for the 22nd District is that their satellite wagering facility, the Surfside Race Place, is extremely underutilized. The wagering facility, built in 1991, was created for off-track betting, which features thoroughbred racing from major racetracks around the world (Kaplanek, 2013). It includes more than 1,000 TVs, casual dining, a sports lounge, and patios to accommodate up to 5,000 people. The mission statement of the Surfside Race Place is:

“To create a comfortable, entertaining and informative environment for our guests by providing a quality race presentation, knowledgeable staff, and a clean facility to create the premier satellite wagering facility in California” (Del Mar Fairgrounds b, 2016).

2. Attendance is severely declining and hurting profits

As previously mentioned, Surfside peaked in daily attendance recorded at around 2,800 people. However, current daily attendance for the facility has declined substantially to around 300 to 400 visitors a day. This is due in part to the rise of online gambling and the aging demographic. The satellite wagering facility had a 2015 net operating income of \$39,417. In comparison, 2014 net operating income was \$210,654. This \$171,237 decline in net operating income from 2014 to 2015 shows that the satellite wagering facility is losing money and underperforming rapidly in a short span of time. The low visitor turnout combined with declining operating income has led the District to seek other uses for the space to generate revenue.

The Proposal: Repurposing the Surfside Race Place

The District proposed repurposing the Surfside Race Place with an entertainment venue that could host various events such as: concerts, sporting events, educational seminars, private events, etc. The master plan was to repurpose the Surfside Race Place in two phases. The team's main focus concentrated on phase one, which includes the concert venue and the History of San Diego beer exhibit and tasting room. Phase two would include the distillery, outside beer garden, and the second floor banquet, given that the plans for phase one are feasible. The local music entertainment venue and promoter, Belly Up Tavern, has offered their talent booking services to assist the District should they decide to create the 1,900 seat multi-use entertainment venue. The 22nd District will also utilize existing Premier Food Services staff for food and beverages. Off-track betting will still be in operation under the proposed plan.

The satellite wagering facility is about 90,000 square feet. The renovation will include about 65 percent of the existing 90,000 square feet. For the concert space, about two-thirds of seating will be on the main floor and one-third of the seating will be on the balcony. This design will allow shows that expect a capacity of 1,200 or less to close off the balcony area. The design will also include VIP areas and easy access for touring bands. The total project cost for phase 1 as of April 4th, 2016 is \$10,042,268 including miscellaneous renovation costs of \$123,240. Tim Fennell has stated that the expected total cost will range between \$10-\$12 million. For the project, the team assumed the investment cost of \$11 million for the purpose of creating a capital budgeting model. In addition, the \$11 million would accommodate for any unexpected costs that were not applied to the \$10,042,268.

The objectives of the renovation are to make the concert venue a central San Diego entertainment destination. There is a significant demand for a concert venue of this size in North County San Diego. The closest competitors, in terms of size and location, will include House of Blues with 1,400 seats and Humphries with 1,300 seats. Both of which, are located about 45 minutes away in San Diego. This new concert space is supposed to complement, not compete, with existing venues. Belly Up has estimated that eighty concerts can be booked annually. This does not include the 26 day annual Del Mar County Fair or other events throughout the year that

can utilize the space. The venue will be a crossover business with the Del Mar County Fair and Thoroughbred Races. For example, the venue can host beer festivals, concerts, comedy shows, educational presentations, seminars, sporting events, fundraising events, and catering events. Tim Fennell has highlighted that after the races it would be ideal to give people something to do. By working with the Belly Up, the new concert venue will be able to book shows that have sold out at the Belly Up to accommodate for bigger audiences.

Amenities aside from the concert venue will include the History of Beer Museum and tasting area to tell the history of beer making in San Diego. This craft beer area will remain open even when concerts are not occurring. The craft beer area will represent existing breweries in the County with location maps and different styles of beers available. An outdoor garden with bars, cabanas, games, and regional food will supplement the space. Tours and private party space will also be included. Merchandise will be available for sale to promote the venue. Merchandise will include T-shirts, hoodies, glassware, and growlers, just to name a few. The 22nd DAA will maintain their relationship with San Diego Brewer's Guild and potentially participate in San Diego Beer Week. The History of San Diego Beer Exhibit will support the concert venue as a concession area during concerts and other events.

Food and beverage will be operated by Premier Food Services, which the 22nd District has had a long-standing relationship with. Premier operates many of the food booths that one would see during the County Fair. They also provide catering to many private events throughout the year. Premier uses food service contracts and employees are full, on-call union staff, which receive hourly rates. In all cases, the District pays for everything, then the District and Premier split the profit. Typically, Premier gets 12.5 percent of the profit and the District will receive 87.5 percent, but they can negotiate the split if necessary (M. Anderson, Interview, September 28, 2016). Through continuing the Premier partnership, the District will employ existing catering and food staff from Premier. Premier's services will be applied during concert events in the concession area and before or after events in the upstairs public dining area, suites, and VIP sections. Premier will be operating year round when the concert facility promotes conventions, banquets, and special events.

Research/Project Objectives

The team's goal was to research and analyze the 22nd District's initiative for a 1,900 seat entertainment venue with a focus on the financial feasibility of the project. Based on the team's work, the 22nd District could then reach a resolution and proceed with the repurposing of the wagering facility. The team's main activities include:

- o Develop a financial model that can predict the breakeven point should the 22nd District move forward with their decision with repurposing
- o Conduct market analysis and supplemental analysis to support facility usage
- o Test cost assumptions on ticket pricing, expected annual usage, and sale of branding rights
- o Confirm that the profit and loss statement (P&L) and other supporting documents from Belly Up Tavern are accurate and appropriate for benchmark analysis

Methodology

In order to appropriately assess the feasibility of the phase one renovation plan, the team would need comparable information from similar venues. Competitor benchmarks were used from venues such as: House of Blues San Diego, Humphreys by the Bay, Balboa Theater, North Park Observatory, and California Center for the Arts. Using these types venues as comparable data, the team researched several additional criteria. The team wanted to obtain information on venue capacity to see how large of an audience could be managed during a sold out event. Seating arrangements would help determine if concerts or other events were better off with seats or standing room only. Complimentary services would allow us to determine how much of the revenue was being brought in from food and beverage rather than just the ticket revenue.

Since the 22nd DAA has a partnering agreement with the Belly Up, it would be logical to refer to revenues and expenses from the Belly Up to forecast how much of a net gain or loss the new entertainment venue would bring in. The team received a forecasted concert venue profit and loss statement from the Belly Up based on benchmark numbers. In regards to forecasting revenue, Premier's food and beverage services for the 22nd DAA would serve as a substantial portion of the venue's profit. The team went on to further research every line item in order to validate the expected cash flows. The purpose of validating each line item was to ensure that all possible expenses were considered and that profits would be justifiable.

The team constructed a capital budgeting model in order to determine the overall feasibility of the project. The capital budgeting process is a measurable way for businesses to determine the long-term economic and financial profitability of any investment project (capital budgeting). A payback period was chosen so that the team could calculate when a break-even point would occur and the district could recoup its expenses. The team decided to use the profitability index, internal rate of return, and the net present value method in determining the profitability of the project.

Concert & Event Promotion Industry Analysis

Industry Overview

The 22nd District Agricultural Association falls under the industry category of “Concert & Event Promotion in the US.” The industry creates, manages, and performs live performances and events, ranging from concerts and theater performances to state fairs and air shows. While some companies in the industry may lease venues and stadiums, others own and operate venues (Petrillo, 2016).

The primary activities in this industry consist of managing a variety of venues such as arenas, amphitheaters, clubs, and stadiums. Additionally, booking talent and sponsors for events as well as promoting and marketing events. The industry is also responsible for organizing the logistics for events. There are many types of services offered which consist of live concerts, fairs, theatrical performances, and non franchise sporting events (Petrillo, 2016).

Supplier Power

Primary suppliers of this industry include commercial leasing, musical groups and artists, and advertising agencies. The commercial leasing industry supplies the concert and event promotions industry by providing a venue for events if a venue is not already owned by the promotions company. Musical groups and artists provide the concert and event promotions industry with talent and an audience. Concert and event promotions thrive on the live performances of musical groups and artists. Advertising agencies supply the concert and event promotions industry with creative services, media planning, buying, and providing representation. They are needed for event planners to promote their performers in order to generate an audience for their clients.

Buyer Power

Customers in the concert and events industry range tremendously due to the wide variety of live events available. The majority of events in this industry are targeted for the attendees aged 25 to 54 and who are more likely to spend their money on concessions and merchandise inside the venues. Attendees in this age group makes up 59.6 percent of the consumer base due

to their consistency over the last five years and the wide range of events they attend (Petrillo, 2016).

One sociocultural driver is the availability of leisure time, which directly reflects the consumer demand for the industry performance. Consumers with more time for leisure are more likely to attend concerts and events. The demographic segment also reflects the industry performance. Certain generations care more about the current pop culture scene than others. Consumers in this industry are shifting their demand from what we have seen in the past. They see more value in experience over objects (8 Trends). The industry can have positive demands if events align with consumers' values, needs, and quality of life (Wang, 2015). Another driving factor for the industry relies on whatever is the current social trend or fad. Companies aligning social trends and fads can attract more consumers to the industry.

Threat of New Entry

Starting a small, local, and live event promotions business requires a low level of capital investment, while a large-scale business requires a high level of capital investment (Petrillo, 2016). The industry's barriers to entry are slowly declining due to the increasing popularity of the internet as a source of socializing, publishing, and sharing new music and live performances. There has also been an increase in event promoters using the internet as a platform to target potential new customers.

The industry has recognized a push in creating larger and more modern facilities because of the increasing popularity of music festivals and live performances. The largest venues can cost more than \$500 million with additional costs being used towards technological costs. Although audiovisual equipment costs can be expensive, they are the key attraction used by artists to generate a greater revenue stream versus using ticket and concession sales alone (Petrillo, 2016).

In order to comply with the sale of concessions and merchandise, companies in the industry must have the appropriate paperwork and licensing (ex. liquor license) and permission from the promoter, venue, or sponsors. The industry is heavily regulated when it comes to the display of pyrotechnics. Licensed professionals must install all pyrotechnic devices. Both concert

promoters and performers' road technicians may be liable for potential hazards that may arise from the improper use of pyrotechnics (Petrillo, 2016).

Competitive Rivalry

The industry is considered to have a medium level of competition. There are no real close substitutes, but some events can be restrained to a specific region such as county fairs and stadium events. Not one company owns a majority of the market share, although Live Nation Entertainment leads at 19 percent. Smaller enterprises tend to have less competition in local markets because of region restraints and a wide range of entertainment. Consumers are unlikely or willing to travel far distances for small scale events; however, the local enterprise may obtain more of the local market due to travel restraints for the consumer. Larger enterprises tend to have stiffer competition from a handful of large enterprises. They compete for performance contracts, advertising revenue, sponsorships, and private funding (Petrillo, 2016).

Analysis/Results

Belly Up Background

The Belly Up opened in 1973. The venue can hold up to 600 people for an intimate concert setting. They host about 26 to 28 concert shows a month and about 3 to 4 private events per month. About 50 percent of their ticket sales are south of North County. Under the proposed concert venue, the Belly Up would provide in-house counsel to the 22nd District for a management fee. The Belly Up has said conservatively they can book 60 shows a year in a worst case scenario, 80 shows a year in a base case scenario, and 100 shows a year in a best case scenario.

The Vision for the Concert Venue

Chris Goldsmith, the owner of the Belly Up, has highlighted some key factors in the market that show there is a need for the 22nd District's concert venue and why the 22nd District and Belly Up partnership would be a success. For instance, Chris Goldsmith has stated there is an expanding music market in San Diego and the city continues to be a popular tourism destination, which represents growth opportunities. One of the main advantages that Chris Goldsmith and Tim Fennell see for the concert venue is the location. Both, Chris Goldsmith and Tim Fennell, have supported the idea that there are not many music venues in North County (C. Goldsmith Interview, October 4, 2016; T. Fennell Interview, September 21, 2016).

The team asked Chris Goldsmith whether the 22nd District would be able to book 60 to 80 events per year. Chris Goldsmith confirmed and then went on to say that, "The Belly Up currently programs 26 to 30 shows a month. Even at an easy 10 to 15 shows per month, that's 100 to 180 shows per year. So really you could take any number within that range." The team also asked Chris Goldsmith what the new concert venue could offer concert goers that perhaps the Belly Up is unable to offer at this time. He emphasized that there is a gap between music venue sizes in San Diego County, which can make it difficult for the artists to grow. The gap is in the 1,500 to 3,000 seat music venues, which means that there is a big gap between venue sizes that makes it difficult for smaller bands to move up. Chris Goldsmith also said that the concert

venue will complement what the Belly Up does now because the Belly Up currently turns away a lot of private events because they do not have the capacity with 600 seats. The concert venue will provide more private events and will better control demand according to Chris Goldsmith. Chris Goldsmith also said that the “all-ages” genre is underserved. An advantage for this venue, according to him, is that this venue can be for everyone. He went on to state that “The Belly Up does have its own unique vibe, but Del Mar (22nd District) already caters to a wide array of genres and demographics.” However, the demographic the venue will target is undetermined at this stage. (C. Goldsmith Interview, October 4, 2016),

The team also asked both Chris Goldsmith and Tim Fennell what their expectations of sponsorships were for the concert venue. Chris Goldsmith and Tim Fennell’s perspectives on sponsorships were similar. Chris Goldsmith envisioned some level of sponsorship without it being overt. He noted that the Belly Up has a lot of quiet/silent sponsors. He also would advise not to do things on a large-scale, concerning sponsorships, because sometimes it takes away from the vibe of the venue and the artist may want to charge more. Tim Fennell said that his expectation for sponsorships is low to moderate (C. Goldsmith, Interview, October 4, 2016; T. Fennell, Interview, September 21, 2016)

When opportunities arise, risk is usually involved. Chris Goldsmith mentioned some competing venues for the proposed concert venue. For instance, the House of Blues, Balboa Theatre, Humphrey’s, and North Park Observatory represent the direct competitors in the San Diego County area. Sports arenas and casinos were both identified by Chris Goldsmith and Tim Fennell as non-competitors based on music talent differences and their larger capacities (C. Goldsmith, Interview, October 4, 2016; T. Fennell, Interview, September 21, 2016).

Competitors

In order to get a better understanding of the 22nd District's concert venue, the team began with a competitor analysis. One key objective of competitor analysis was to address the capacity gap between the 1,500 to 3,000 seat music venues within the local industry. With the collaboration of the MBA team, the Senior Experience team started by identifying all potential venues in San Diego county where live events are the primary or secondary source of revenue through a list of the venues from the San Diego Reader. Each potential venue was put into a range of maximum capacity, its general location, and their primary operation. After gathering all the venue data, it was further examined to see how many venues would be a direct competitor to the 22nd District's venue. As seen in the pie chart of concert venues in San Diego (Appendix H), there are a total of 80 venues that host live concert events. The team was able to determine that of the 80 venues listed, only 15 venues would consider their primary operation to be live events. Of the 80 venues, 69 of them were not in the capacity range of the 22nd District concert venue. The team divided these 80 venues into six ranges or tiers based on the seating capacity. The six tiers were separated into these categories: 200-500, 500-1,000, 1,000-1,500, 1,500-2,000, 2,000-2,500, and 2,500+. The team found that 48 percent of the venues were in the 200-500 range representing the largest group. Another 20 percent of the venues were in the 500-1,000 range. The team also learned that 9 percent of the venues were in the 1,000-1,500 range. Similarly, 5 percent of the venues were in the 1,500-2,000 range and another 5 percent were in the 2,000-2,500 range. Lastly, 14 percent of the venues were in the 2,500 and up range. As you can see, there are a lot of venues in the 200 to 1,000 range but not a lot of venues in the 1,500 to 2,000, which align with what Chris Goldsmith said about the gap in the 1,500 to 3,000 range (C. Goldsmith Interview, 2016). This gap shows that the concert venue will not have many competitors in the 1,000 to 2,000 seating range.

Using the concert data and the recommendation from Chris Goldsmith (C. Goldsmith Interview, October 4, 2016), the team was able to determine five primary competitors; Balboa Theater, House of Blues, Observatory North Park, Humphrey's by the Bay, and California Center for the Arts. The primary competitors were determined either by venue capacity,

proximity to the 22nd District, and other similar features the 22nd District concert would offer. The team took each primary competitor and created an in-depth analysis to compare the average tickets prices, shows, genres, and any other relevant amenities. The team used the data collected as benchmarks or references for the projected profit and loss statement.

California Center for the Arts History/Background

The California Center for the Arts opened in 1994 located in downtown Escondido. The facility has a concert hall, which has capacity for 1,523 people and the facility has a center theatre, which has seating for 404 people. The venue has only seating room.

The team was able to conduct a phone call interview with the California Center for the Arts. The team was told that their average ticket price was between \$0 to \$85. The team also found out that their estimated monthly private events were around two. The California Center for the Arts seasonality is from November to February.

The California Center for the Arts has very few similarities to the 22nd District venue. They are both indoors and both include full service dining and banquet services. The two venues will both hold private events. On the other hand, the California Center for the Arts is not a concert venue. They primarily host performing arts, shows, and plays. (California Center for the Arts, 2016)

Balboa Theater History/Background

The Balboa Theatre was originally built in 1924 in the Gaslamp district of San Diego. In 2008 the theatre reopened after an extensive remodel. The theatre has a capacity of 1,339 and is a seated venue. The Balboa Theatre seasonality is in November and December. The theatre typically hosts performing arts such as the Lion King.

From the phone call interview, the team found that the average ticket price is between \$25 to \$100. This ticket price includes performances, plays, and concerts. The theatre typically hosts about 2-3 monthly concerts and does not host private events. The team also found that their best estimate of F&B profit per capita is about \$14.

The Balboa Theatre has very few similarities to the 22nd District's concert venue. One similarity is that both the Balboa Theatre and 22nd District's concert venue are both operated by public entities. The difference between the Balboa Theatre and the 22nd District's concert venue is that the Balboa Theatre was built primarily as a theatre, not a concert venue. (San Diego Theatres, 2016)

House of Blues San Diego History/Background

The House of Blues opened in 2005 in the Gaslamp district of San Diego. The venue has a seating capacity of 1,500 but has several rooms to increase, reduce, or combine capacity. The House of Blues has both standing room on the main dance floor and seating room on the balcony. House of Blues busiest months are March, October, and November.

In the phone interview, the team learned that their estimate of the average ticket price is \$30. They were also able to tell the team that they estimate monthly concerts around two per month.

The House of Blues is similar to the 22nd District's venue in a few ways. For instance, both venues will be indoor and the two venues are likely to pursue similar artists. Additionally, both will have a restaurant component and both will be available to host private events. The House of Blues does have some differences to the 22nd District's venue as well. The House of Blues has several side stages to accommodate smaller bands and "battle of the bands" type events, which the 22nd District's venue will not include. Another major difference is that the House of Blues is primarily standing room. (House of Blues, 2016)

Humphrey's by the Bay History/Background

Humphrey's by the Bay opened in 1982 in Shelter Island, San Diego. The venue has capacity for 1,400 people and has only seated room. Humphrey's busiest months are July, August, September, and October.

Humphrey's and the 22nd District venue are both primarily seated venues and they are both likely to pursue similar artists. Some differences include that Humphrey's is outdoors and they have a strong focus on concert packages with either dinner and/or a hotel room.

Humphrey's usually has A-list talent, which means they have a higher average ticket price.
(Humphrey's Concerts, 2016)

The Observatory North Park History/Background

The Observatory North Park first opened in the 1920's and was remodeled in 2014. The venue can hold up to 1,100 people and have standing room only. The Observatory's busiest months are October and November.

The main similarity between the Observatory and the 22nd District venue is that they are both indoors, they both have a restaurant component, and they both have VIP sections. The main difference between the two is that there is standing room only at the Observatory (Observatory North Park, 2016).

Profit & Loss Statement Validation

The profit and loss statement (P&L) was provided to the team at the initiation of the project by the 22nd District Agricultural Association. Many of the figures expressed in the P&L were contributed by the Belly Up Tavern. In addition to the P&L statement, the team was also provided with internal audited financial statements, a theatre pro forma from Belly Up, and data from Premier, which as previously mentioned, is the food and beverage provider to the Surfside Race Place as well as the entire fairgrounds. The team's main objective was to validate every line item and ensure its accuracy. The team was able to accomplish validation by a combination of research criteria. There were a multitude of sources provided by the sponsor and other relevant stakeholders, so the team's first instinct was to use historical data for support. Historical data proved extremely effective in validating support services as well as miscellaneous items. The team also utilized competitor benchmarks to help compare some of the ticket revenue and expenses indicated on the P&L. Perhaps the biggest component of the P&L statement was the food and beverage piece. The following section will provide a unique glimpse into how the team was able to validate the revenue and expense projections for each line item expressed on the profit and loss statement.

Revenue

Ticket Revenue

The largest contributing line item, which accounted for 47 percent of all revenue was from ticket revenue. The initial figure provided to the team from the P&L stated ticket revenue to be \$57,000 per show. Our analysis of the average competitor ticket pricing led us to slightly adjust the projected revenue for tickets. Originally, the assumed ticket price was \$40, but after scrupulous research the team confirmed the ticket price to be closer to \$45.

According to table 1, the team made several phone calls to competing venues which include: Balboa Theater, House of Blues, Observatory North Park, Humphreys by the Bay, and California Center for the Arts. The team mainly spoke with box office to determine their average

ticket prices on a monthly basis. Balboa Theater gave a range between \$25 and \$100 as their monthly average ticket price range, to which the team calculated an average price of \$62.50. House of Blues confirmed that their monthly average ticket price was \$30. California Center for the Arts gave a range between \$0 and \$85, as they occasionally offer free admission to music concerts. Their monthly average ticket price was calculated to be \$42.50. Unfortunately, the team could not connect with the Observatory and Humphreys for this information. This prompted the team to research into the two venues' future concert lineup and find out how much general admission would cost. The average ticket price for the Observatory amounted to \$27.94 (Table 2). The average ticket price for Humphreys amounted to \$66.63 (Table 3).

Now that the team had determined all of the average ticket prices for each competing venue, the objective was to determine the total average of the amounts. The calculation is as follows: $(\$62.50 + \$30 + \$27.94 + \$66.63 + \$42.50)/5 = \45.98 (Table 1). The amount used to calculate the ticket revenue line item on a per show basis was \$45 average ticket price multiplied by the 1,425 attendees, which equals \$64,125.

This slight adjustment would allow a 12.5 percent increase in ticket revenue. The team's competitor analysis can be seen in Table 1 for further explanation. The team's methodology behind the competitor analysis used historical data from all competitors within the San Diego region. The drivers for increasing the ticket price from \$40 to \$45 were driven by the demand as well as identifying a higher ticket price for the type of concerts that the public enjoys.

Parking Revenue

Parking revenue was initially forecasted to be \$4 per ticket. After comparing other events at the fairgrounds and consulting with Tim Fennell, the team had arrived at a different calculation of parking revenue that took in account several other factors that would influence its price. One of such factors was the likelihood of concert participants electing to use Uber or another form of carpooling instead of driving themselves. Assuming that exactly one half of all concert participants decide to carpool, and the show is at 75 percent capacity, that would leave 712.5 cars that would be parking. This figure also assumes that each car would have two passengers, resulting in 356 cars. With \$10 dollars per car as the ticket fee multiplied by 356

cars, that led us to a parking revenue of \$3,560 per show as seen in the parking revenue analysis (Appendix A).

There were other methods of calculating parking revenue such as using a percentage of general admission parking and VIP parking. After doing several rounds of research the team was unsuccessful at validating exactly what percentage of concert goers would elect to use VIP or valet parking over general admission. Because of this, the team elected to use a rate of \$10, which was provided, on behalf of the district.

User Fee & Ticketing Fee Revenue

The original P&L provided the team with a user fee of \$3 per ticket and a ticketing fee of \$0.75 per ticket for 80 percent advanced ticket sales from Ticketmaster. The team's research found that the service fees vary by ticket cost and venue. The service fee typically includes a facility charge (or user charge), a convenience charge, and a processing charge. The facility charge is determined by the venue and is retained by the venue. The convenience charge is the charge added for buying through an alternative payment channel such as online or over the phone. Most venues do not include a convenience charge if tickets are bought in-person, at the box office. The processing charge is the third-party's (Ticketmaster, Axis) charge for processing the order and making tickets available. The processing charge is usually not a per ticket charge but a per order charge.

The team called and obtained information on the average user and ticketing fees in the marketplace from various venues and from third-party ticket providers like Ticketmaster. Ticketmaster stated that the facility fees are determined by and paid only to the venues. Ticketmaster also said that they keep an order processing fee between \$1-5. The team found user and ticketing fees from competitors as well. Balboa Theatre has convenience charges of \$10 for concerts. Balboa Theatre also has a processing charge from Ticketmaster of \$4. California Center for the Arts has a convenience charge of \$5.50 online, \$4 over the phone, and \$0 for in-person ordering. North Park Observatory has a facility charge added for any method of ordering. For instance, the facility charge is \$3 if paying in cash, \$5 if paying using credit card, and \$6 if ticket price is above \$70 per ticket. North Park Observatory was not able to comment

on their processing charges from Ticketweb because there is a range of prices. Symphony Hall has convenience charges that vary based on method of ordering. For example, there is an online or over the phone convenience charge of \$7 and no convenience charge for in-person. Soma has a convenience charge online of \$1.75-\$3.50. Soma does not allow ordering over the phone. If ordering in-person there is no convenience charge. Lastly, the Belly Up has a ticketing fee that ranges from \$2.75-\$9.75 for online purchasing.

Based on the team's research and their discussion with Tim Fennell, they decided to combine the user fee and ticketing fee for a total revenue of \$4 per ticket. This \$4 user and ticketing fee revenue comes out to \$5,700 per show at 75 percent capacity. The \$4 per ticket is an average based off of the North Park Observatory's fees.

Merchandise Revenue

The merchandise revenue from the initial P&L was net \$2.50 per person, which resulted in merchandise revenue of \$3,563 per show. However, Jeff Dorenfeld, an associate professor of Music Business Management at Berklee College of Music stated that venue will receive an industry average of 30 percent on merchandise sales. The most common merchandise sale is a t-shirt at \$30 (Dorenfeld, 2016). Also, based off of Mr. Tim Fennell's experience, he estimated no more than 10 percent of concert attendees will buy merchandise (Mr. Fennell Interview). The team created a model that assumes the 22nd District will receive \$10 for every shirt sold. Then the team multiplied the \$10 per shirt by the 10 percent of attendees per show, resulting in \$1,425 of merchandise revenue per show.

To support that no more than 10 percent of attendees would buy merchandise, the team researched into Live Nation's annual reports from 2010 (Appendix F). According to their \$627 million in ancillary revenue, only \$26 million of it was generated from merchandise sales (Live Nation, 2010). By dividing the \$26 million by \$627 million, the merchandise only accounts for 4 percent of the revenue stream. This validates the profit and loss model of merchandise revenue being \$1,425, since that amounts to 1 percent of the total concert revenue.

Food and Beverage Revenue

The first calculation the team did for food and beverage revenue was incorrect because the team used the original food and beverage profit without knowing that it was net profit. In the team's final profit and loss statement, the team calculated a food and beverage expense per person of \$13.19. The exact calculation for the food and beverage expense per person can be read in the food and beverage expense section of the report. This \$13.19 food and beverage expense per person was used to calculate the food and beverage revenue. During an interview with Mark Anderson of Premier, Mark mentioned that the 22nd District usually recognizes approximately 50 percent of food and beverage profit after food and beverage expense is incurred (M. Anderson, Interview, September 28, 2016). Based on the District and Premier split, the team multiplied the \$13.19 food and beverage expense per person by 2 to arrive at the food and beverage revenue per person of \$26.38. The \$26.38 food and beverage revenue per person was then multiplied by 1,425 people to derive a \$37,932 food and beverage revenue per show. The \$37,932 food and beverage revenue per show could then be multiplied by the number of shows to get a food and beverage revenue of \$2,255,490 for 60 shows, \$3,007,320 for 80 shows, and \$3,759,150 for 100 shows. Overall the F&B revenue accounted for 43 percent of all revenue from the concert venue.

Sponsorship Revenue

The P&L the team was provided did not account for sponsorship revenue. Tim Fennell and Chris Goldsmith had noted that they were expecting low to moderate sponsorship opportunities. Tim Fennell said that, "The possibility of a title sponsorship is always a possibility however there are those that feel it would cheapen the brand." With that in mind, the team's first task was to research competitors' sponsorship opportunities.

The California Center for the Arts had sponsorship costs listed on their website. On Appendix B, C, and D, you can see that California Center for the Arts has three different level sponsorships ranging from \$5,000 to \$20,000. For example, a Silver Level Sponsorship costs \$5,000, a Gold Level Sponsorship costs \$10,000, and a Platinum Level Sponsorship costs \$20,000. Humphrey's also had sponsorship opportunities listed on their website. In Appendix E,

you can see that Humphrey's has various sponsorships ranging from \$500-\$3,500. The extent and degree of branding rights varies based on type of sponsorship for different venues. However, from this research the team was able to see the possible sponsorship revenues that the concert venue could generate.

In the team's P&L, they allocated sponsorship revenue to \$25,000 per year regardless of how many shows occur. The \$25,000 was provided by Tim Fennell as an average sponsorship revenue the concert venue is expected to generate (T. Fennell, Personal Communication, November 2016). The \$25,000 sponsorship revenue would not occur until year 2.

Expenses

Headliner Expense

The largest expense forecasted to be incurred by the concert venue was from headliner fees. Belly Up advised that the average headliner costs were around \$40,000. This average was comprised of three different tiers of performers in terms of cost. When comparing the lineup of performers for Belly Up during the months of October and November, the team derived that a weighted average of \$43,000 was spent on a headliner. The team's analysis relied heavily on artist fees that were available through celebritytalent.net. Not all of the headliner fees were included in the database on celebritytalent.net. Another key factor that the team considered was the effect that seasonality had on the types of bands performing throughout the year.

Talent Buyer Flat Expense/Talent Buyer % of Gross Tickets Expense

Originally the assumption for the flat ticket buyer expense was forecasted to be ten percent of the total booking cost. The team was able to validate this flat fee by combing through the market to find the average fee for talent buyers. Ten percent was a widely represented number throughout the market and often expressed through various blog sites. Chris Goldsmith was able to confirm the flat expense of ten percent as well because that is the fee that he has negotiated over the years.

Also, very common with talent buyer negotiations is the agreed percentage of gross tickets. This is also a number that was highly represented throughout the community through online blog sources as well as confirmed by Belly Up.

Credit Card Fees Expense

Because it is common for a business to receive payment through various sources of legal tender such as cash, credit cards, and debit cards the team was able to verify the appropriate cost for credit card fees. For every business, there is what is known as a “swipe fee.” The term swipe fees, also known as interchange fees, refers to the hidden cost paid by merchants to card-issuing banks and credit card companies for processing credit card and debit card transactions (Swipe Fees). The team referred to an online source that represented the average credit card fees for each major credit card to include: Visa, MasterCard, Discover, and AmEx. The team took an average of these fees, which were represented in percentages of total revenue and came up with an overall cost of 2.23 percent of total revenue (Value Penguin).

Ticket Printing Expense

This expense is the smallest of all concert expenses and represents the cost of printing tickets from Ticketmaster at the location of the venue. In the appendix is a table depicting the cost breakdown of customized tickets. It should be notable to point out that the more tickets you print, the less expense incurred (Ticketmaster).

Box Office Labor Expense

Box office labor assumes that there will be one supervisor , four sellers, and three ticket takers. If you also assume that a usual shift for box office would be for about five hours at an average hourly rate of \$15 per hour for sellers and ticket takers and an hourly rate of \$20 per hour for the supervisor, you arrive at a per show expense of \$625. The team confirmed the hourly rate through both the bureau of labor statistics as well as with internal financial information provided by the district. The hourly rate for supervisors had been confirmed by Mr. Fennell in an effort to validate this expense (Mr. Fennell Interview). Belly up had provided the

team with a similar figure in their original profit and loss. Combined with their forecasted number, the bureau of labor statistics, and the districts hourly rate, the team feels that this expense is accurately reflected.

Miscellaneous Expense

Setting aside a miscellaneous budget is one of the most important line items for any business, but especially a new one. This budget accounts for unexpected costs, wear and tear, bad debt expense, utilities, interest, and administrative costs. According to the Internal Revenue Service, businesses will incur a miscellaneous expense that is greater than 2 percent of their adjusted gross income (IRS 2016). The reason for this is because that businesses would be able to write off this expense from their taxable income, which would essentially save the business a small margin of money. For the P&L, the miscellaneous expense was projected at \$6,000. This had calculated to be about 5 percent of the total revenue.

Event Labor Expense

In the original profit and loss statement the team was given separate labor expenses for security, medical, and stagehands. The security expense was based on one supervisor and eight peers for 5 hours, which resulted in a security expense of \$870 per show. The medical expense was based on one EMT at \$15 an hour for 5 hours, which derived a medical expense of \$75 per show. The stagehands expense was \$1,000 per show.

In our profit and loss statement the team decided to combine the security, medical, and stagehands expense into one expense called event labor. The team adjusted some of the expense numbers. For instance, the team's security expense was \$700 per show, which was based on 1 supervisor at \$20 per hour and 8 peers at \$15 per hour for 5 hours each. The team's EMT expense was \$154 per show, which was based on 2 EMTs at \$15.38 per hour for 5 hours. The team's stagehands expense was \$1,000 based on 10 stagehands at \$20 an hour for 5 hours. By adding the security expense of \$700, the EMT expense of \$154, and the stagehands expense of \$1,000, the team calculated the event labor expense of \$1,854 per show.

Marketing Expense

For many companies both small and large, as well as new and established always reserve a portion of their budget for marketing expenses. This budget is not always represented as a whole number but rather it is typically represented as a percentage of total revenue. The industry standard for a marketing budget should be between three to five percent. According to the Small Business Association (SBA), they recommend that a newer business utilize the higher side of the range so that they can use a greater portion to increasing their brand recognition.

Food and Beverage Expense

As previously stated, one very important component in the profit and loss statement the team had to estimate was the food and beverage expense. Premier had shared their various event profit and loss statements with the team. From these event profit and loss statements and the estimated food and beverage revenue number the team was given, the team was able to calculate a food and beverage expense. Premier's profit and loss statements were given to the team for seven different events during 2015. In these profit and loss statements the team had total profit percentages, total revenues, total expenses, and total attendance numbers.

The next step the team took was calculating a weighted average expense per person, which can be seen in the food and beverage expense analysis (Appendix K). They were provided the total expense amounts and the total attendance numbers from the seven events. By dividing each of the total expense amounts by the total attendance numbers, the team was able to calculate an expense per person amount for each event. Next, the team calculated the weighted average expense per person based on the expense per person for each event and the total expense amount for each event. The weighted average expense per person was \$28.41. Similarly, the team calculated an average expense per person, which was \$13.19. This \$13.19 was the number the team used in the profit and loss statement for the calculation for the food and beverage expense per show.

In the team's first calculation, they had used the weighted average expense per show of \$28.41 but later were told that it would be more appropriate to use the average expense per show of \$13.19 instead. The team had also done a calculation using the original food and beverage

profit amount provided by Belly Up of \$1,282,500 to calculate a total food and beverage revenue amount. The calculation was wrong because the team learned that the original food and beverage profit amount was the net profit. The \$13.19 in food and beverage expense is 50 percent of the food & beverage revenue. As stated earlier, Mark Anderson of Premier confirmed that the District recognizes approximately 50 percent of profit after expenses are incurred. In contrast, the food and beverage expense must equal to 50 percent of the revenue. According to IBIS World, the industry average of cost of goods purchased for Premier shows a percentage of 49.2 percent, which supports Mark Anderson's previous statement (Appendix J).

In the end, the team used the \$13.19 average expense per show multiplied by 1,425 people to get a food and beverage expense per show of \$18,796. This food and beverage expense per show of \$18,796 multiplied by the number of shows calculates a food and beverage expense of \$1,128,745 for 60 shows, \$1,503,660 for 80 shows, and \$1,879,575 for 100 shows.

Event Manager/Production Manager Expense

The profit and loss statement the team was provided had an event staff expense of \$480 per show, which consisted of 1 production manager and 1 event manager each at \$30 an hour for 8 hours.

In the team's profit and loss statement they have event manager/production manager expense of \$960 per show. This \$960 expense was based on 1 event manager and 1 production manager each earning \$60 per hour for 8 hours per show. The team used the \$60 per hour rate from the Bureau of Labor Statistics website. The team looked up event manager rates and found that the rate was \$60 per hour.

Capital Budgeting

Projects that require an extended period of time can be analyzed through a capital budgeting process. Capital budgeting is defined as “the process in which a business determines and evaluates potential expenses or investments that are large in nature” (Investopedia, 2016). The team chose the capital budgeting method to determine the feasibility of the project. This method also helped to determine what would be the optimal range of shows that the concert venue would host on a yearly basis. As the scope of the project required the team to develop a financial model under a straight-line plan of 20 years (T. Fennell, Interview, September 28, 2016), the team found the capital budgeting process efficient in showing their work. Through capital budgeting, the team was able to determine several key pieces of information: the profitability index, net present value (NPV), internal rate of return (IRR), and payback period.

Depreciation Schedule

Assets hold a certain value as long as it is in service. Overtime, assets will become less valuable due to depreciation. The depreciation expense is an essential part of this project as it used to find the expected annual net cash flows. There are three possible methods for depreciation that could be executed: Straight-line, double declining balance, and sum-of-years digits. However, for this project the team was specifically told to follow the straight-line method for 20 years according to Tim Fennell. According to a few university finance professors: Bacon, Kang, Kim, and Kim, “The straight-line depreciation method is a function of time. The cost of an asset less its estimated salvage value is allocated in an equal amount each year over its useful life” (Bacon, Kang, Kim, Kim, 2013, P.32).

First, the team specified the number of years that the project would be depreciated. In this case, 20 years would be the time depreciated over its useful life, which is illustrated in the first column of Table 9, labeled periods (years). The second column shows the depreciation base, which is equal to the initial cash investment, or the \$11 million in construction costs. The third column, labeled depreciation (%), shows the percentage of depreciation each year, which amounts to 5 percent per year. As mentioned earlier, the financial model follows a straight line

analysis of 20 years. This means that depreciation would need to be the same every year over its useful life. The fourth column, labeled annual depreciation, represents the annual depreciation of \$550,000 each year. To calculate this, the depreciation base of \$11 million (column B) is multiplied by the 5 percent depreciation each year from the third column. To show that initial cash investment of \$11 million is being depreciated, the fifth column labeled remaining balance, calculates the remaining balance after each year the depreciation is incurred. This ultimately brings the remaining balance to zero at the end of year 20.

Annual Net Cash Flows

In order to determine the project's NPV, IRR, and profitability index, the expected annual net cash flows would need to be calculated. The team generated a timeline of expected annual net cash flows based on the 20 year model. By textbook definition, net cash flows are "net economic benefits caused by an investment project. The benefits expected from the project must be measured on an incremental after-tax basis" (Bacon et al, 2013, P. 231).

First, the team started by calculating the taxable income which is equal to the operating revenue (concert revenue) less the operating expenses (concert expenses) plus food and beverage net less depreciation. Using the data from the adjusted profit and loss statement (Table 5), at 60 shows per year operating revenue of \$6,744,090 is used for year one, given that sponsorship of \$25,000 does not incur until year two as shown in annual net cash flow table (Tables 10, 11). For years 2 through 20, the operating revenue amounted to \$6,769,090. The operating expenses remain the same at \$5,302,604 for 20 years. Then they add in the food and beverage net revenue, which also remains constant at \$457,500 per year. Then finally they subtract the depreciation expense of \$550,000 because it is a tax deductible expense.

For year one, they calculate a taxable income of \$1,348,986. For years two and forward, the taxable income comes to a total of \$1,373,986. At this point, the team subtracted any income taxes, however, the 22nd DAA is a state agency, which means they are not subjected to income taxes. Since the district did not incur any income taxes, the earnings after taxes are equal to the taxable income.

The last step is to add back in the depreciation expense. At 60 shows per year, the team determined the annual net cash flow for year one is \$1,898,986. For years 2 through 20, the annual net cash flow came to \$1,923,986. The team applied the same methodology for 80 shows per year. The net cash flow for year one is \$2,343,253 and net cash flows for years 2 through 20 are \$2,368,253. For 100 shows per year, year one has a net cash flow of \$2,814,691, whereas years 2 through 20 produces a net cash flow of \$2,839,691. From these calculations, the team observed noticeable increases in cash flows from the low to high circumstances of shows hosted per year. Between each range of shows, there is a difference of several hundred thousand dollars per year.

WACC (Using Bond Yield Risk Premium Method)

In deciding which discount rate to use for the purpose of determining the net present value, the team had to first calculate the weighted average cost of capital. The weighted average cost of capital is defined as the overall cost of capital for all funding sources in a company, and is commonly used in private businesses as it is in public businesses (Strategic CFO). The weighted average cost of capital was calculated using a fifty percent target debt and equity ratio, as expressed by the 22nd District. The team calculated the cost of debt to be 4 percent based off of internal financial records of long-term debt indicated on the 22nd District's audited financial statement. Deriving the cost of equity proved more challenging as the 22nd District is a private state operated entity with a unique tax structure. Initially, our group approached the cost of equity utilizing the Capital Asset Pricing Model (CAPM). The team realized that although the CAPM model is highly regarded and often used in this type of analysis, there was a more accurate approach to calculating the cost of equity. The team decided to use the Own-Bond-Yield-Plus-Risk-Premium approach to calculate the appropriate cost of equity.

Through careful examination of the 22nd District's audited financial statements the team found that the 2015 series bonds yielded a 2 to 5 percent return, as seen in appendix K. In combination of the series 2005 bonds in appendix L, the team calculated the bond yield to be 4 percent. Then applying their own judgment risk premium, the team concluded that the risk premium should also be 4 percent. This led the team to a 8 percent cost of equity weighted at 50

percent. When they applied the cost of debt and equity into the weighted average cost of capital equation, they arrived at 6.55 percent using a weighted average cost of capital calculator (Appendix N). The weighted average cost of capital was used as the discount rate for calculating the NPV of the project.

Net Present Value

Based on the numbers the team has adjusted and validated for the profit and loss statement, they have found it most fitting to solve for the net present value of the project under low, medium, and high circumstances. Bacon et al, defined the net present value as “the present value of the net cash flows minus the present value of the net investment” (Bacon et al, 2013, P. 239). Using this method allowed the team to determine how lucrative the project would be if the concert venue were to have 60, 80, or 100 shows per year. The two vital pieces of data required to calculate the net present value are the annual net cash flows and the discount rate, both of which have been calculated in previous workings.

Beginning with the annual net cash flows, the team starts with cash flow at year zero, or CF₀. This is basically the initial cash investment of \$11 million, which is entered as a negative number due to the cash going out. Starting with 60 shows per year as shown in the NPV analysis (Table 12), for cash flow at year one, the team used the \$1,898,986 from the year one column of expected annual net cash flows (Table 10). Years 2 through 20 will remain constant at a cash flow of \$1,923,986, due to the incurred revenue from sponsorship. Then the team used a discount rate, which was the WACC that was calculated earlier. By plugging in 6.55 percent as the discount rate, the team generated an NPV of \$10,092,052 for the 60 shows per year. This value is essentially the net profit that would be earned if all of the future cash flows were applied to the \$11 million investment today.

If we repeat this process for 80 shows per year, we get an NPV of \$14,967,829. Respectively for 100 shows per year, the NPV would amount to \$20,141,804. According to university finance professors, Bacon et al, “The net-present-value method tells us to accept all projects whose net present values are greater than zero and to reject all projects whose net present values are negative. Because the accept-reject decision is based on the zero net present

value, the higher the positive net present value, the better the project” (Bacon et al, 2013, P. 241). Theoretically, as more shows are held at the venue per year, the net present value would increase because of the influx of revenue streams in comparison to the expenses. Therefore, the 22nd District would want to aim for a target number higher than 60 shows per year in order to optimize their initial investment. This method accounts for time value, which makes it a valuable method to investors when deciding between investment opportunities.

Internal Rate of Return

As mentioned by Bacon et al, the internal rate of return, or IRR, can be defined as “The discount rate that equates the present value of the net cash flows to the present value of the net cash investment, or the rate that provides a zero net present value” (Bacon et al, 2013, P. 243). Usually in capital budgeting, the net present value is more effective to use as a means to evaluate a project. This is because NPV accounts for changing discounts rates in long-term projects, whereas the internal rate of return does not. However, this does not disqualify IRR to be an adequate method for evaluating projects. IRR can still determine which projects are more attractive among others by calculating which projects yields the highest rate. Companies want to accept projects that yield an IRR that is higher than the cost of capital, and reject those that are lower.

In order to calculate the IRR of a project, the same procedure as the NPV would be completed with the exception of not using the discount rate, since the discount rate is what is being solved for. Starting with the scenario that the venue would host 60 shows per year in the IRR analysis (Table 12), cash flow at year zero would be the initial cash investment of \$11 million. Next is the cash flow at year 1, which would be \$1,898,986. Year 2 until year 20 would remain constant, adding in the \$25,000 of sponsorship revenue, bringing the amount to \$1,923,986. The financial calculator can easily determine the IRR, which is 16.66 percent for 60 shows per year. This means that in order for the initial cash investment to be paid off, an IRR of 16.66 percent would be required to discount future cash flows to zero out the construction costs. The IRR for 80 and 100 shows per year, are 21.02 percent and 25.49 percent respectively. Larger future cash flows would require a higher internal rate of return to pay off the investment.

Profitability Index

One final method for evaluating a project's attractiveness is by calculating the profitability index. According to Bacon et al, the profitability index is "the present value of the net cash flows divided by the present value of the net investment" (Bacon et al, 2013, P. 237). Although this method is not as popular amongst the other appraisal methods, it provides an efficient way to determine which investment opportunities are valuable. In order to calculate the profitability index, the team needed the present value of future cash flows, as well as the initial investment. Similar to the NPV analysis, cash flows are identical except there is no input for initial investment.

For 60 shows per year, cash flow at year zero is \$0, as seen in the profitability index analysis (Table 13). Cash flow at year one is \$1,898,986 and cash flow years 2 through 20 are \$1,923,986. Using the cost of capital, 6.55 percent, as the discount rate gives a present value of future cash flows of \$21,092,052. The \$21,092,052 divided by the initial cost of \$11 million produces a profitability index of 1.92. Using the same methodology for 80 shows and 100 shows per year will yield a profitability index of 2.36 and 2.83 respectively.

These numbers represent how profitable an investment opportunity would compare with other investments. According to the online source, Investopedia, "A ratio of 1.0 is logically the lowest acceptable measure on the index, as any value lower than 1.0 would indicate that the project's PV is less than the initial investment. As values on the profitability index increase, so does the financial attractiveness of the proposed project" (Investopedia, 2016). It is apparent that each project has an index that is greater than 1.0, meaning that each scenario would yield a profit. The 22nd DAA could host anywhere between 60 and 100 shows per year and still profit.

Payback Period

The payback period is very straightforward in this context. University finance professors, Bacon, et al define the payback period as, "the number of of years required to recover the original cost of a project by its net cash flows" (Bacon, et al, 2013, P. 237). The team had used the payback period method to figure out which number of concerts per year would produce a

quicker payback period. Referring back to the profit and loss statement (Table 5), values were derived from the columns marked for 60, 80, and 100 shows and the rows highlighted in yellow. These are the total values that were calculated for the concert revenue, concert expenses, and the year round food and beverage revenue streams. Since the construction cost of \$11 million is the initial cash investment, it has been incurred in year zero (period 0).

With that said, if the concert venue were to hold 60 shows per year as indicated in payback table (Table 6), the team would use the \$6,769,090 indicated in the total revenue of the profit and loss table and apply that to year two and on in the concert revenue column for the payback period table. This is because sponsorship is a revenue that was not recognized in the first year according to Tim Fennell. Therefore, for year one the team calculated the \$6,769,090 less the sponsorship revenue of \$25,000, which equals to \$6,744,090. This is the amount you apply to year one's concert revenue in the payback table. The concert expense is the \$5,302,604, indicated in the total expense section of the profit and loss statement for 60 shows. This amount is incurred continuously for 20 years on the concert expense column for the payback table. Next the team applied the year round food and beverage revenue. This is not included with the food and beverage profit that is listed in the concert revenue section of the profit and loss statement. This is because these are revenues that are generated throughout the year and not on a per show basis. Since this revenue stream is generated throughout the year, there is no variance in the amount between the number of shows. Therefore, the \$457,500 that is generated from year round food and beverage net revenue is listed for each year for all of the payback tables differing in the number of shows.

Now that all revenue and expenses are accounted for on the payback table, the team created two columns for the annual cash flow (green column) and the cumulative cash flow (purple column). The cash flow column calculates the difference between the revenue streams and the expenses each year of the project. The cumulative cash flow column calculates the difference between the initial cash investment, \$11 million, and the annual cash flows whether they are positive or negative. The cumulative cash flows initially begin to decrease over time. This shows that the cash flows from the green column are all positive, implying that a net profit occurs every year rather than a net loss. The payback period is shown where the cumulative cash

flows transitions from a negative amount to a positive amount. For 60 shows per year, the final year with a negative cumulative cash flow is year five, whereas year six and forward the cumulative cash flows remain positive. Using the payback period formula, the team was able to calculate that it would take 5.73 years for the 22nd District to recover the cost of \$11 million to renovate the venue, given that the venue hosted 60 shows per year.

Intuitively, the payback period would become shorter as the number of shows per year increased. The team had also solved for the payback period when the concert venue would host 80 shows and 100 shows per year. Using the same methodology to produce the payback period for 80 shows and 100 shows per year, the team had determined a payback period of 4.66 years (Table 7) and 3.88 years (Table 8) respectively.

Reviewing the Calculations

The team observed a trend for each capital budgeting technique. As the number of shows hosted per year increased, so did the value for each technique used. Based on the scale of low, medium, and high circumstances, the 22nd District would want to aim between the medium and high range in order to optimize the initial investment. According to Mr. Fennell, the 60 shows per year was used as a conservative number. This may imply that the 22nd District may host at least 60 shows every year. In that case, the team found the target range to lie between 80 and 100 shows per year. This can drive up expected annual net cash flows substantially. In addition, the 22nd District can recover the cost of the initial investment more quickly this way. Despite the original profit and loss statement (Table 4) showing higher profits, the team was able to get an accurate depiction of the project's value using more "authentic" numbers from the adjusted profit and loss statement (Table 5).

Limitations

As with many large projects, there are bound to be time constraints and limitations that can adversely affect the success and completion of a project. Fortunately for the team, they did not face many limitations. Of the limitations that they did face, time was perhaps the biggest obstacle. Throughout the project there would be times where the group would need explanation of a certain line item. They would then have to communicate with the team lead that would communicate with the team liaison. Depending on the issue, the team liaison would then reach out to the advisor or to the appropriate source to determine the next step. As the semester progressed, the issue of communication got easier and the team lead was able to contact whoever he needed to directly for most issues. The district was extremely cooperative and helpful whenever the team would have questions.

Another limitation that the team experienced revolved around the scope of our project. The team focused on primarily financial based measures, while the MBA team focused on the larger issue of determining aggregate demand and other market issues. Initially, the team was under the impression that they would be involved in a more collaborative type of project. During the semester, half of the senior experience team assisted the MBA team in determining a competitor benchmark analysis. This analysis was both beneficial for the MBA and for the senior experience team as it helped establish appropriate ticket pricing.

Understanding the legal structure of this project was something that the team was unfamiliar with in the beginning. This made it difficult to apply an appropriate financial model to evaluate the project given its tax structure. Once the team determined which type of financial analysis to use, they were able to calculate cash flows and the discount rate of the project. Because there are no other state agencies in the immediate vicinity to compare, they were left with comparing private venues within San Diego County to validate some of the expenses and revenue associated with the project.

Specific to the profit and loss statement that the team was provided with, the team was faced with some unique challenges. One of the most notable challenges they faced was validating the year round food and beverage net profit. The team's original profit and loss

statement listed the net food and beverage profit, but excluded the food and beverage expense. Additionally, there was no G&A expense for the concert venue, which was worrisome as the team did not want to understate the concert expenses. Once the team had reached out to the district and discussed their concern, the team was reassured that some expenses left out of the profit and loss statement would still be accounted for. Also worth noting is that, an increase in the minimum wage could also drive up some of the labor-related expenses. The increase in minimum wage was not forecasted in our model.

Recommendations

1. Conduct further research and hire a consultant to provide a consolidated financials including beer garden/museum/tasting room and confirm validity of numbers
2. Form a binding agreement with the Belly Up to provide music booking services
3. Reevaluate master plan for construction
4. Evaluate competitive bids for construction
5. Repurpose the Surfside Race Place
6. Evaluate and establish sponsorship opportunities

Conclusion

After careful evaluation of all revenue streams and anticipated expenses the team has concluded that the proposed project to repurpose the Surfside Race Place would be very beneficial for the 22nd District Agricultural Association to undertake. Despite the large capital investment required for the construction phase of the concert venue, the District will be able to enjoy a return on their investment within five years, given that the District would host 60 shows per year as Mr. Fennell had anticipated. After that period, the District would realize substantial gross profit margins that would never have been possible with their existing business. Compared to other investments or projects, a concert venue is the best use for the District in terms of return.

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Appendices

Appendix A

Parking Revenue for the Renovated Facility

| Parking Revenue | | |
|---|------------------|--|
| General Admission | \$10 | Per vehicle |
| Valet | \$20 | Per vehicle |
| Max Capacity | 1900 | |
| Capacity at 75% | 1425 | |
| 1425 attendees / 2 | 713 | Attendees taking uber/other transportation |
| The other half | 713 | Attendees driving their car to concert |
| 2 passengers per car for people driving | 356 | Cars that will be parked in the lot |
| | | |
| | | # of Shows Per Year |
| | # of Cars | Per Show |
| | | 60 |
| | | 80 |
| | | 100 |
| Parking Revenue (\$10 Per Car) | 356 | \$3,560 |
| | | \$213,600 |
| | | \$284,800 |
| | | \$356,000 |

Appendix B

California Center for the Arts Sponsorship Opportunities - Platinum

SPONSORSHIP OPPORTUNITIES

PLATINUM

\$20,000; Select two of the following

Present two performances in the Concert Hall (1,500 seat venue)

- Receive four tickets to each performance, value depends on the show
- Logo on select print advertising
- Logo included in the house program, provided to 7501,500 patrons
- Logo on website, with 25,000+ visitors monthly
- Two dedicated social media posts to 10,000+ fans
- Public thank you from the stage at selected performances

Present A Museum Exhibition (6-8 week run)

- Presenting sponsor acknowledgement and logo included on the Museum banners hanging at the entry of the Museum during the run of show
- Acknowledgement on the dedication panel for the exhibition inside the Museum
- Acknowledgement on all Museum flyers, bookmarks, and mailers as well as acknowledgement in the Museum catalogue that is given to all visitors (2,000 per exhibition) during the run of the show

Present the My Story Literacy through the Arts Program in eight school classrooms and inspire 280 students

- Acknowledgement on programs for the annual smART Festival on April 9, 2016, provided to 4,000 students and families
- Acknowledgement as a supporter of Education Program events; including six Center Stage school performances with 306 adults and 3,675 students

Present A Community Festival. Select from the Independence Day Festival & Fireworks, Día de los Muertos Festival, Holiday Tree Lighting & Winter Wonderland Festival

- Acknowledgement on programs (up to 2,000 when applicable)
- Logo on website, 25,000+ visitors monthly
- Two dedicated social media posts to 10,000+ fans
- Public thank you from the stage during selected Community Festival
- Complimentary 10' x 10' booth space; sponsor is required to staff the booth throughout the duration of the event.



"When we moved to our current home in Escondido nearly a decade ago, it seemed like a natural fit for us to begin working with the California Center for the Arts, Escondido. In the last two years, Stone has shown additional support for the Center, aligning with their mission and endeavors that are making a positive impact on the community."

- **Greg Koch**
CEO & Co-founder, Stone Brewing Co.

Appendix C

California Center for the Arts Sponsorship Opportunities - Gold

GOLD
\$10,000: Select two of the following

Support two Performances in the Center Theater (400 seat venue)

- Receive two tickets to each performance, value depends on the show
- Logo on select print advertising
- Logo included in the house program, provided to 400 patrons
- Logo on Website, 25,000+ visitors monthly

Support a Museum Exhibition (6-8 week run)

- Acknowledgement on the dedication panel for the exhibition inside the Museum
- Acknowledgement on all Museum flyers, bookmarks, and mailers as well as acknowledgement in the Museum catalogue that is given to all visitors (2,000 per exhibition) during the run of the show.

Support two Center Stage Performances for Youth

- Acknowledgement from the stage at two Center Stage school performances with 68 adults and 1,225 students
- Acknowledgement as a supporter at Education Program events; including professional development trainings and Educator's Night Out

Present a Community Event. Select from Jazz Jam Sessions, Música en la Plaza, or 1st Marine Division Band Annual Concert

- Logo on website, 25,000+ visitors monthly
- Public thank you from the stage during selected Community Event
- Complimentary 10' x 10' booth space; sponsor is required to staff the booth throughout the duration of the event. Booth space is valued at \$500.

Appendix D

California Center for the Arts Sponsorship Opportunities - Silver

SILVER

\$5,000; Select two of the following

Support one performance in the Concert Hall (1,500 seat venue)

- Receive two tickets to selected performance, value depends on the show
- Logo on select print advertising
- Logo included in the house program, provided to 1,500 patrons

Support A Museum Exhibition (6-8 week run)

- Acknowledgement in the Museum catalogue that is given to all visitors (2,000 per exhibition) during the run of the show

Support one Center Stage Performances for youth

- Acknowledgement from the stage as an Education Supporter at one Center Stage school performances with 34 adults and 612 students

Support one First Wednesdays Performance Date (4pm & 7pm)

- Receive two tickets to both the 4pm & 7pm performance on the date selected, valued at \$48
- Public thank you from the stage before each of the two show times for the date selected, to a total audience size of 800
- Complimentary 10' x 10' booth space; sponsor is required to staff the booth throughout the duration of the event. Booth space is valued at \$500.

Appendix E

Humphrey's Sponsorships

Marina Sponsor- \$3,500 (Limit 5)

- Company logo included on event promotional materials including invitations and eblasts
- Recognition at meetings preceding the event
- Logo as part of video advertising during the event (on the big screen)
- Recognition in Mission Awards program
- Ten (10) tickets to the event & Ten (10) drink tickets for the event
- Opportunity to present an award on stage at the event

Balboa Sponsor- \$1,500 (Limit 15)

- Company name listed on event promotional materials including invitations and eblasts
- Logo as part of video advertising during the event (on the big screen)
- Recognition in Mission Awards Program
- Four (4) tickets to the event & Four (4) drink tickets for the event

Presidio Sponsor- \$500 (Limit 15)

- Company name listed on event promotional materials including invitations and eblasts
- Logo as part of video advertising during the event (on the big screen)
- Recognition in Mission Awards Program
- One (1) ticket to the event & One (1) drink ticket for the event

Photo Booth Sponsor- \$1,800 (Limit 2)

- Company name listed on event promotional materials including invitations and eblasts
- Company logo on the photo booth photos
- Recognition in Mission Awards Program
- Two (2) tickets to the event & Two (2) drink tickets for the event

After Party Sponsor- \$1,200 (Limit 4)

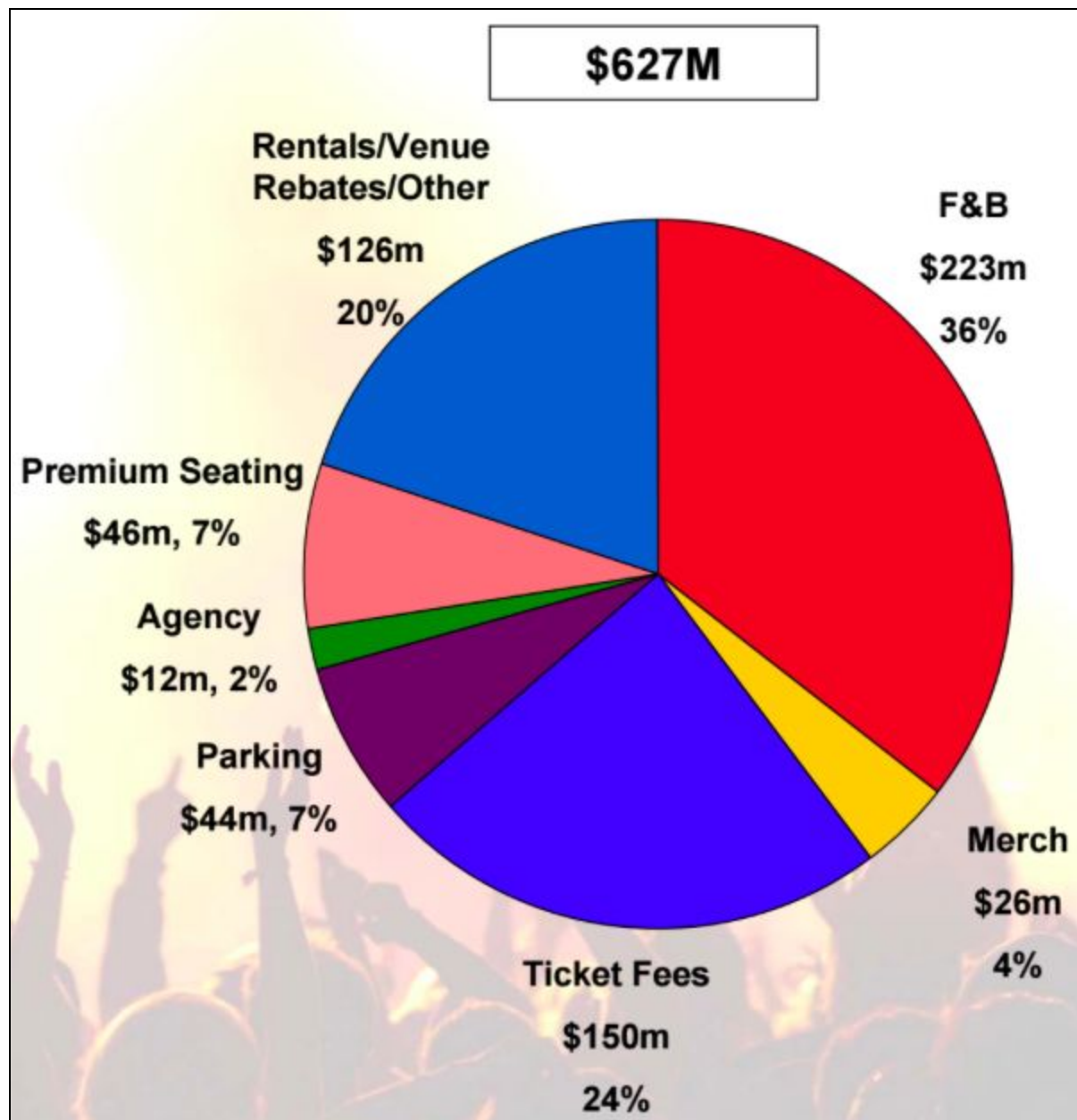
- Company name listed on event promotional materials including invitations and eblasts
- Company logo displayed at the event
- Recognition in Mission Awards Program
- Two (2) tickets to the event & Two (2) drink tickets for the event

Wine Sponsor- \$1,500 (Limit 2)

- Company name listed on event promotional materials including invitations and eblasts
- Company logo displayed on each table at the event
- Recognition in Mission Awards Program
- Two (2) tickets to the event & Two (2) drink tickets for the event

Appendix F

Live Nation Ancillary Revenue Breakdown



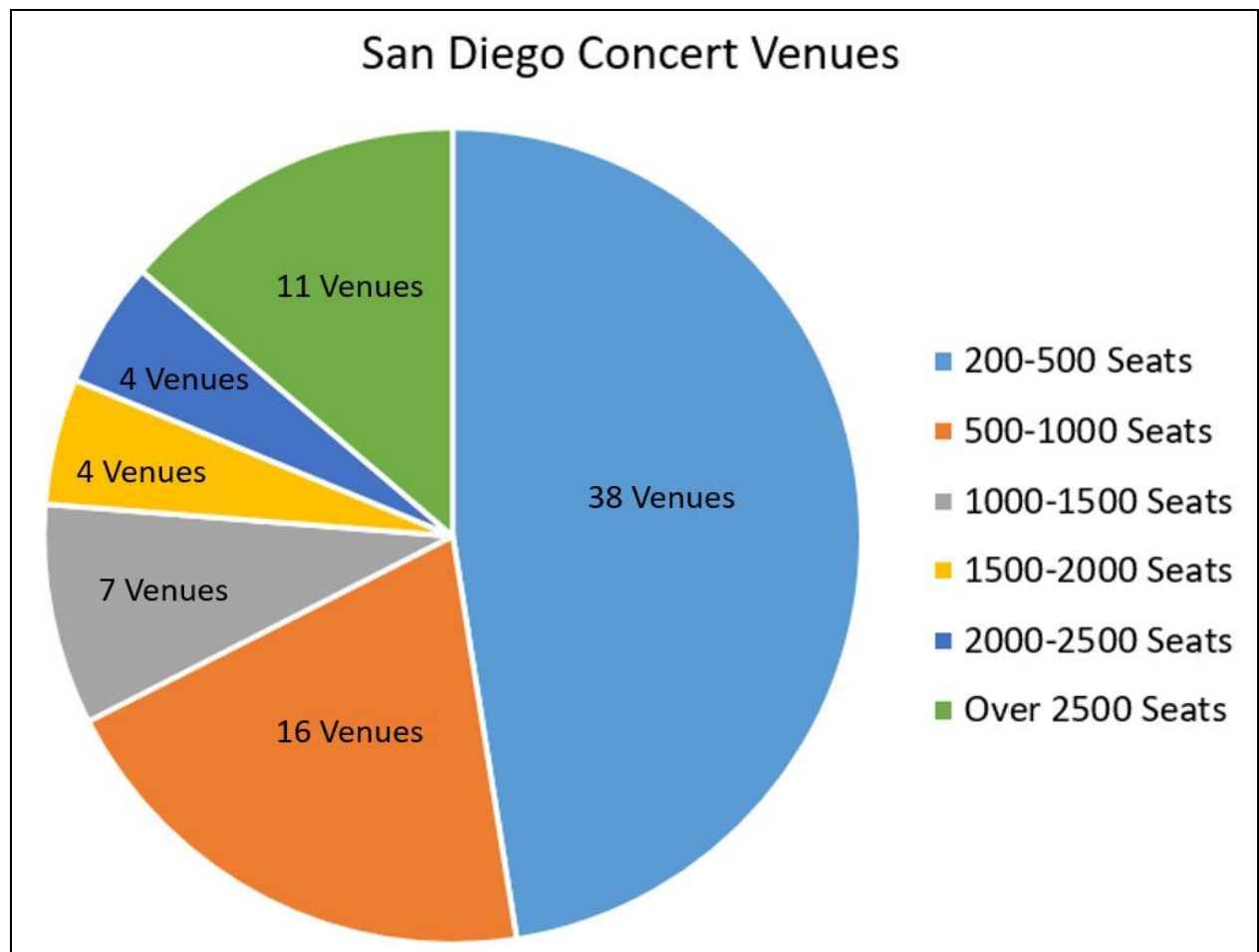
Appendix G

Average Credit Card Processing Fees

| Average Credit Card Processing Fees* | |
|--------------------------------------|--------------|
| MasterCard | 1.55% - 2.6% |
| Visa | 1.43% - 2.4% |
| Discover | 1.56% - 2.3% |
| American Express | 2.5% - 3.5% |

Appendix H

Pie Chart of Concert Venues in San Diego



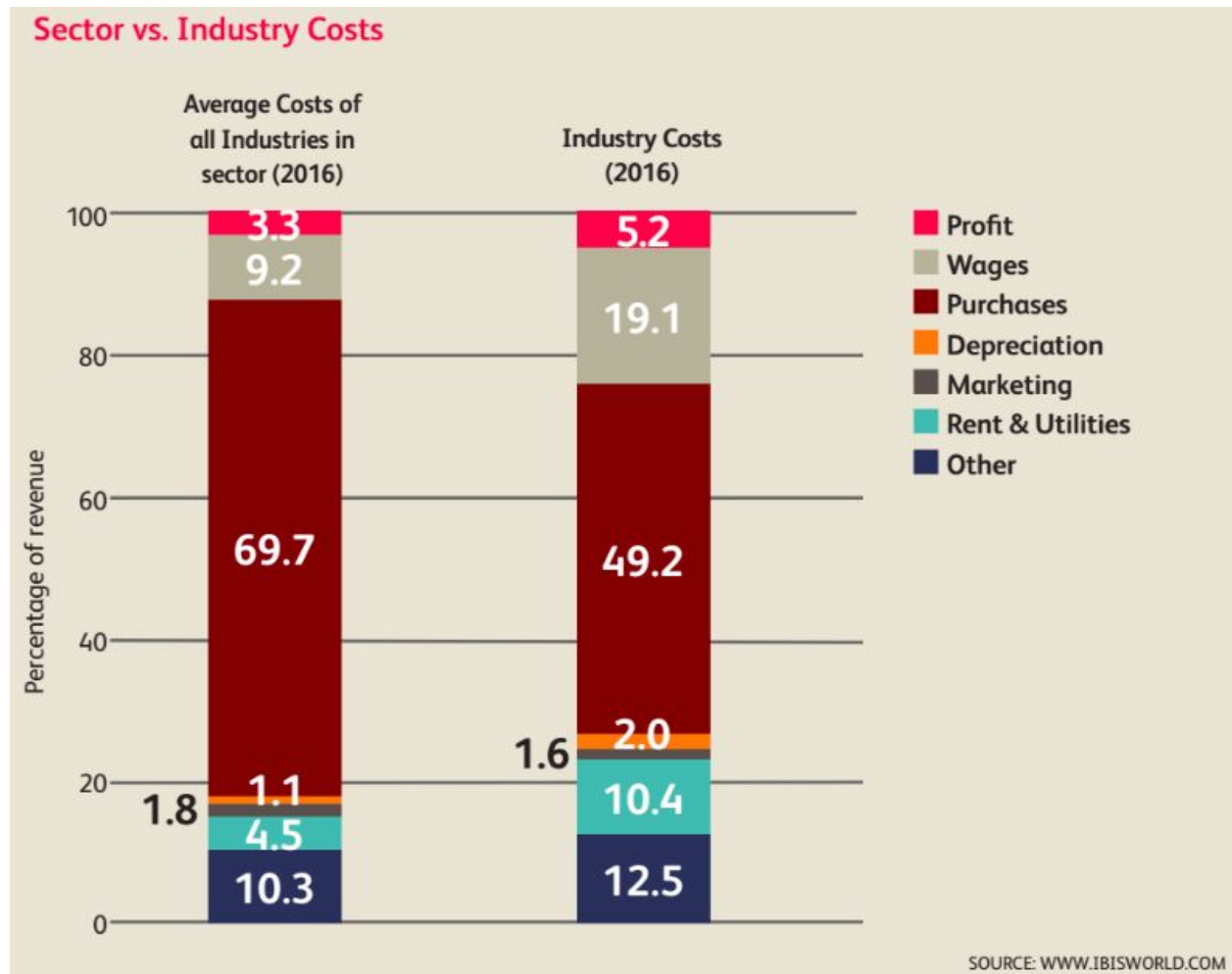
Appendix I

Custom Ticket Printing Pricing Per Tier

| Number of Tickets | Cost |
|-------------------|--|
| 1 - 300 | \$39.95 |
| 301 - 400 | \$47.50 |
| 401 - 600 | \$59.95 |
| 601 - 1,999 | \$0.10 per ticket |
| 2,000 + | \$0.09 per ticket |
| 3,000 + | \$0.08 per ticket |
| 4,000 + | \$0.07 per ticket |
| 5,000 + | \$0.06 per ticket |
| 10,000 + | \$0.055 per ticket |
| 20,000 + | \$0.05 per ticket |
| Reserved Seating | \$0.20 per ticket minimum charge \$95 |

Appendix J

Industry Average - Cost of Food Products and Goods Purchased



Appendix K

Weighted Average Expense per Person and Average Expense per Person

| Event | Total Expenses \$* | Total Attendance* | Total Expenses/Total Attendance |
|--|---------------------------|--------------------------|--|
| Beer Fest (2016) | \$142,449.00 | 5,995 | \$23.76 |
| Fair | \$1,825,356.45 | 60,000 | \$30.42 |
| Fred Hall | \$30,889.96 | 12,166 | \$2.54 |
| Good Guys | \$47,929.01 | 27,597 | \$1.74 |
| KSON | \$27,699.97 | 4,918 | \$5.63 |
| Spirit Fest | \$8,822.46 | 812 | \$10.87 |
| Wine Fest | \$14,020.80 | 806 | \$17.40 |
| Average Expense/Person | | | \$13.19 |
| Weighted Average Expense/Person | | | \$28.41 |

Appendix L

22nd District's Cost of Debt for Series 2015 Bonds

Series 2015 Revenue Bonds: On August 1, 2015, the RTA issued \$44,435,000 in Series 2015 Bonds at a premium of \$2,969,958 and net issuance costs of \$666,741. The Series 2015 Bonds have fixed interest rates of 2.00 percent to 5.00 percent and mature annually on October 1 from 2016 to 2038. These bonds were issued for the purpose of refinancing the \$25,460,000 outstanding principal amount of the Authority's Revenue Bonds, Series 2005 and to provide additional funds for grandstand improvements and other long-term improvements including electrical, sewer, roofing and elevator improvements. The refunding resulted in the recognition of an accounting net gain of \$568,233 for the year ended December 31, 2015. The source of repayment of these bonds includes pledged revenues and the interest or profits from the investment of money in any account or fund established under the Indenture. Pledged revenues consist of race track net revenues, satellite wagering net revenues and concession net revenues.

Appendix M

22nd District's Cost of Debt for Series 2005 Bonds

Series 2005 Revenue Bonds: In 2005 the RTA issued \$49,380,000 in Series 2005 Bonds at a premium of \$2,149,783 and net of issuance costs of \$789,829. The Series 2005 Bonds have fixed interest rates of 4.00 percent to 5.00 percent and were issued to advance refund \$24,985,000 of outstanding Series 1996 Bonds with fixed interest rates of 6.00 percent to 6.45 percent, finance improvements at the Del Mar Fairgrounds, fund a debt service reserve account for the Series 2005 Bonds, and pay the costs of issuance relating to the Series 2005 Bonds. During the fiscal year ended December 31, 2015, these bonds were refunded with the issuance of the Series 2015 Revenue Bonds.

Appendix N
WACC Calculator

» WACC (Weighted Average Cost of Capital)

The weighted average cost of capital (WACC) is the rate that a company is expected to pay on average to all its security holders to finance its assets.

Initial Data

$$WACC = \frac{E}{D+E} \times R_e + \frac{D}{D+E} \times R_d \times (1-t)$$

Cost of equity (Re) %

Total equity (E)

Cost of debt (Rd) %

Total debt (D)

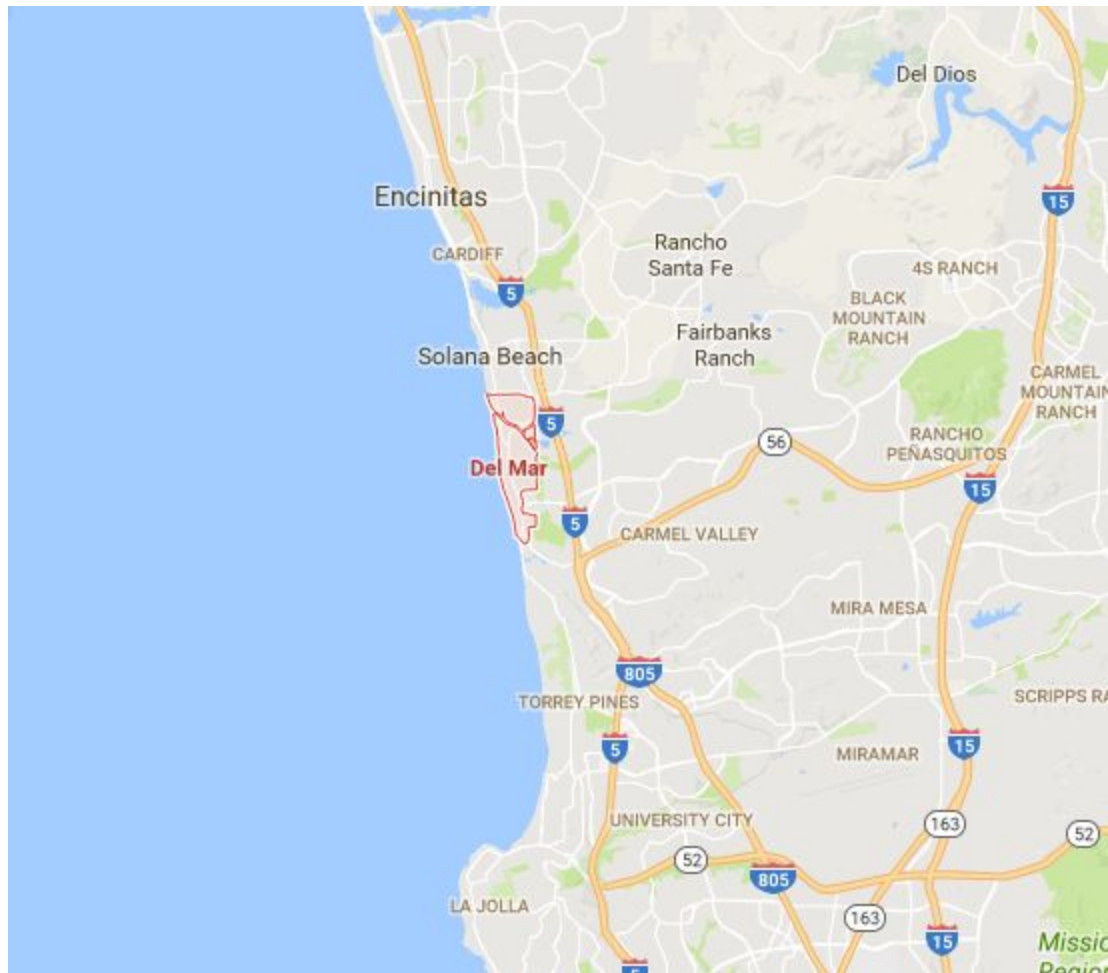
Corporate tax rate (t) %

Result

Weighted Average Cost of Capital (WACC) Calculator: **6.55 %**

Appendix O

Map of The City of Del Mar



Appendix P

Map of Major Concert Venues in San Diego County

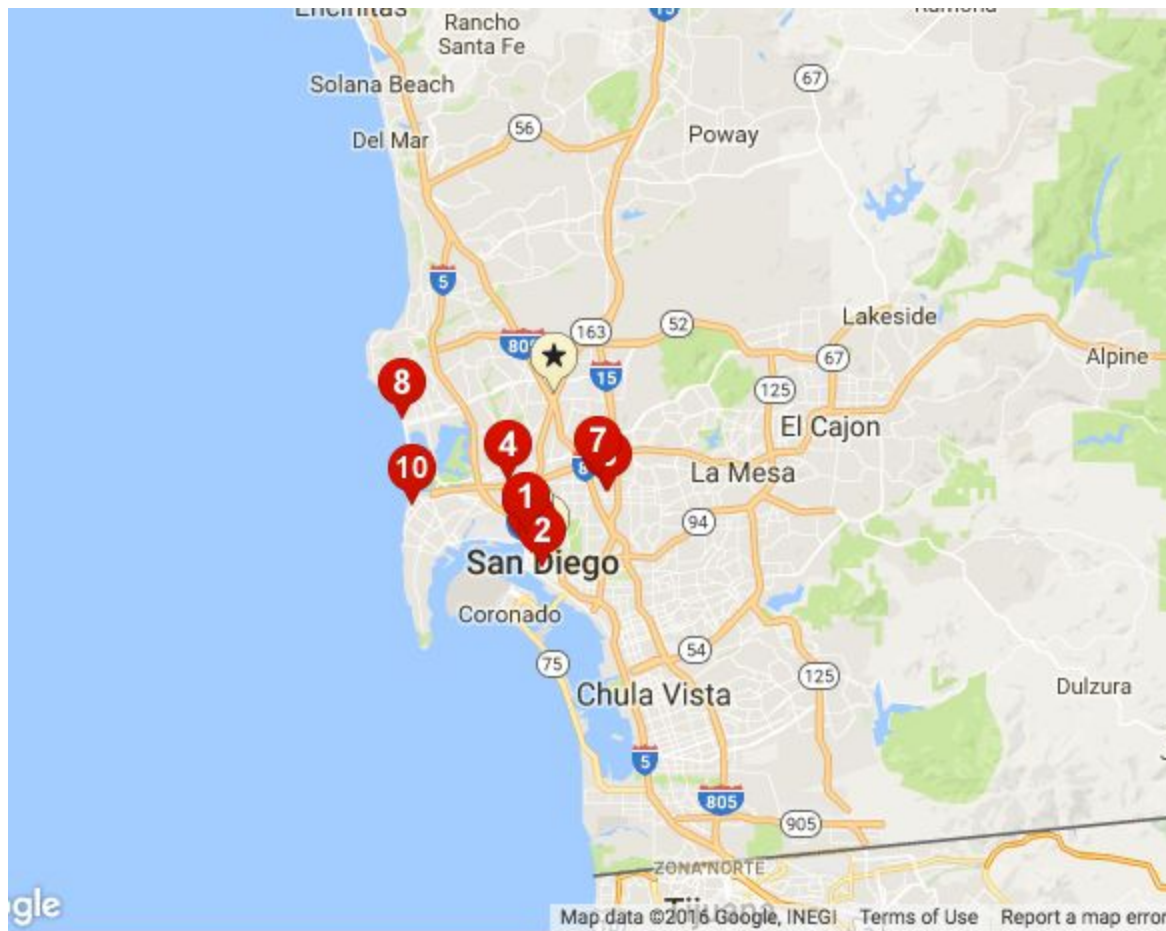


Table 1

Concert Venue Data - Competitor Information

| Venue Name | General Location | Seating Capacity | Average Ticket Price [Range] | Estimated Monthly Concerts (Music only) | Estimated Monthly Private Events | F&B profit Per Capita |
|--------------------------------|------------------|---|------------------------------|---|----------------------------------|-----------------------|
| Balboa Theater | Gaslamp | 1335 | [\$25-100]; \$62.5 | 2-3 | 0 | \$14 (best estimate) |
| House of Blues | Gaslamp | 1500 | \$30 | 16-32 (No estimate from operator) | 2 | (No answer); \$16.14 |
| Observatory North Park | North Park | 1100 | (No answer); \$27.94 | 10-24 | N/A | \$55.75 |
| Humphreys by the Bay | Shelter Island | 1400 | (No answer); \$66.63 | 4-17 | N/A | \$74.22 |
| California Center for the Arts | Escondido | Concert Hall - 1,523, Center Theatre -404 | [\$0-85]; \$42.5 | 2 | call | N/A |

**Info received from phone call to venue

| | |
|-------------------------------|----------------|
| Total Avg ticket price | \$45.98 |
|-------------------------------|----------------|

Table 2

Competitor Ticket Pricing - Observatory North Park

| Event | Date | Show/Artist | GA | VIP* |
|----------------------|------------|--|---------|----------|
| 1 | 11/1/2016 | The Adicts and Lower Class Brats | \$20.00 | |
| 2 | 11/2/2016 | Autograf-Goldroom with Speaker of the House | \$25.00 | |
| 3 | 11/3/2016 | Tory Lane w/ Special Guest Dreezy Kranium & Kurt Rockmore VeeCee | \$25.00 | \$99.00 |
| 4 | 11/4/2016 | Bithch Sech | \$37.50 | |
| 5 | 11/7/2016 | Suicide Boys, Germ Rvmires, Shakewell, Mikey the Magician, Don Krez, HEKS BUND | \$20.00 | |
| 6 | 11/8/2016 | Bush | \$35.00 | \$250.00 |
| 7 | 11/9/2016 | Death Grips | \$27.00 | |
| 8 | 11/9/2016 | Denzel Curry w/ Boogie* | \$18.00 | |
| 9 | 11/10/2016 | STRFKR with Gigamesh & Psychic Twim | \$22.00 | |
| 10 | 11/11/2016 | Sleigh Bells w/ The Regrettes | \$25.00 | |
| 11 | 11/12/2016 | Slightly Stoopid w/ Fortunate Youth and Perro Bravo | \$35.00 | |
| 12 | 11/14/2016 | Mac Miller | \$35.00 | |
| 13 | 11/15/2016 | MO | \$20.00 | |
| 14 | 11/16/2016 | Rae Sremmurd w/ Lil Yatchy | \$35.00 | \$95.00 |
| 15 | 11/18/2016 | Hopsin with Joyner Lucas & Token | \$15.00 | |
| 16 | 11/19/2016 | Gogol Bordello | \$27.50 | |
| 17 | 11/20/2016 | Snakehips w/ Abjo | \$25.00 | |
| 18 | 11/21/2016 | Method Man & Redman | \$30.00 | |
| 19 | 11/22/2016 | Warpaint w/ Goldensuns & Vs Colours | \$25.00 | |
| 20 | 11/25/2016 | Yelawolf, Bubba Sparxxx, Struggle Jennings, Jelly Roll | \$25.00 | \$99.00 |
| 21 | 11/27/2016 | Jai Wolf with Jerry Folk & Ramziod | \$20.00 | \$65.00 |
| 22 | 11/28/2016 | Young Thug w/ 21 Savage | \$35.00 | \$100.00 |
| 23 | 11/29/2016 | Peter Murphy | \$35.00 | |
| 24 | 11/29/2016 | Porter Robinson & Madeon & Madeon* | \$53.50 | |
| Average Ticket Price | | | \$27.94 | |

VIP* - Extra Features to GA, does not include second level VIP packages

Denzel Curry w/ Boogie*- Offsite event

Porter Robinson & Madeon & Madeon*-Offsite Event

Table 3

Competitor Ticket Pricing - Humphreys by the Bay

| Artist | General Admission | Artist | General Admission |
|-----------------------------|-------------------|---------------------------------|-------------------|
| Joan Armatrading | \$185.00 | Andra Day | \$59.00 |
| America | \$129.50 | Willie Nelson & Family | \$58.00 |
| UB40 | \$127.00 | Kamasi Washington | \$57.00 |
| Tower of Power | \$125.00 | Colbie Caillat | \$57.00 |
| Gordon Lightfoot | \$125.00 | Aaron Lewis | \$55.00 |
| The Mavericks | \$125.00 | The Four Tops/The Temptations | \$55.00 |
| Dark Star Orchestra | \$125.00 | Jim Jefferies | \$55.00 |
| Jesse Cook | \$125.00 | Echo & The Bunnymen | \$55.00 |
| Chicago | \$118.00 | Cyndi Lauper | \$55.00 |
| Air Supply | \$115.00 | Herman's Hermits | \$55.00 |
| Dave Koz/Rick Braun | \$105.00 | Air Supply | \$53.00 |
| The Beach Boys | \$102.00 | O.A.R. | \$53.00 |
| Paula Poundstone | \$98.00 | Trombone Short & Orleans Avenue | \$52.00 |
| The Gipsy Kings | \$94.00 | The Mavericks | \$50.00 |
| The B-25s | \$85.00 | YES | \$50.00 |
| Joe Bonamassa | \$85.00 | Lost 80's Live | \$50.00 |
| Pink Martini | \$85.00 | Jake Shimabukuro | \$50.00 |
| Melissa Etheridge | \$78.00 | Ryan Bingham | \$50.00 |
| Chris Isaak | \$78.00 | Jake Shimabukuro | \$50.00 |
| Kevin Nealon | \$75.00 | Huey Lewis and The News | \$49.00 |
| Echo & The Bunnymen | \$72.00 | The Australian Pink Floyd | \$48.00 |
| Big Head Todd & The Monster | \$70.00 | Dave Koz/David Sanborn | \$47.00 |
| Steve Miller Band | \$70.00 | Smokin' Mule | \$46.75 |
| Happy Together Tour | \$69.00 | Tower of Power | \$46.00 |
| Mavis Staples | \$68.50 | Gary Clarke Jr. | \$45.00 |
| Brian Willson | \$65.00 | Kansas | \$45.00 |
| Smash Mouth | \$65.00 | America | \$45.00 |
| John Butler Trio | \$65.00 | Indigo Girls | \$45.00 |
| Indigo Girls | \$65.00 | Grace Potter | \$45.00 |
| David Gray and Amos Lee | \$65.00 | The Fab Four | \$45.00 |
| Boz Scaggs | \$65.00 | Culture Club | \$45.00 |
| Lyle Lovett | \$65.00 | Straight No Chaser | \$42.00 |
| George Thorogood | \$64.00 | Happy Together Tour | \$41.00 |
| The Doobie Brothers | \$63.00 | Case/Lang/Veirs | \$40.00 |
| Noel Gallagher | \$62.00 | Mudcrutch | \$40.00 |
| Tony Bennett | \$61.00 | Lyle Lovett | \$40.00 |
| The Waterboys | \$61.00 | Boston | \$40.00 |
| Ride | \$60.00 | The Psychedelic Furs | \$40.00 |
| Steely Dan | \$60.00 | Bob Dylan | \$38.00 |
| Michael McDonald | \$60.00 | Generation Axe | \$35.00 |
| The Moody Blues | \$60.00 | Steve Miller Band | \$35.00 |
| ThePianoGuys | \$60.00 | The Cult | \$35.00 |
| | | Avg. Price Per Show | \$66.63 |

Table 4

Original Profit and Loss Statement - Belly Up's Forecasted Numbers

| 22nd District Agricultural Association SSRP Renovation Profit/Loss Statement | | | | |
|--|-------------------------|--------------------------------------|-------------|-------------|
| Capacity at 75% | 1425 | (1,900 seats x 75% capacity) = 1,425 | | |
| CONCERT REVENUE | | | | |
| | | # of Shows Per Year | | |
| | Per Show @ 75% Capacity | 60 | 80 | 100 |
| Ticket Revenue | \$57,000 | \$3,420,000 | \$4,560,000 | \$5,700,000 |
| Parking | \$5,700 | \$342,000 | \$456,000 | \$570,000 |
| User Fee | \$4,275 | \$256,500 | \$342,000 | \$427,500 |
| Ticketing Fee (Ticket Master) | \$855 | \$51,300 | \$68,400 | \$85,500 |
| Merchandise | \$3,563 | \$213,750 | \$285,000 | \$356,250 |
| F&B Profit | \$21,375 | \$1,282,500 | \$1,710,000 | \$2,137,500 |
| Total Revenue | \$92,768 | \$5,566,050 | \$7,421,400 | \$9,276,750 |
| CONCERT EXPENSES | | | | |
| Headliner | \$40,000 | \$2,400,000 | \$3,200,000 | \$4,000,000 |
| Talent Buyer Flat | \$4,000 | \$240,000 | \$320,000 | \$400,000 |
| Talent Buyer % Gross Tickets | \$5,700 | \$342,000 | \$456,000 | \$570,000 |
| Credit Card Fees | \$1,740 | \$104,400 | \$139,187 | \$173,984 |
| Ticket Printing | \$29 | \$1,710 | \$2,280 | \$2,850 |
| Box Office Labor | \$650 | \$39,000 | \$52,000 | \$65,000 |
| Security | \$870 | \$52,200 | \$69,600 | \$87,000 |
| Medical | \$75 | \$4,500 | \$6,000 | \$7,500 |
| Misc. | \$4,500 | \$270,000 | \$360,000 | \$450,000 |
| Stagehands | \$1,000 | \$60,000 | \$80,000 | \$100,000 |
| Marketing | \$1,000 | \$60,000 | \$80,000 | \$100,000 |
| Event Staff | \$480 | \$28,800 | \$38,400 | \$48,000 |
| Total Expenses | \$59,563 | \$3,602,610 | \$4,803,467 | \$6,004,334 |
| Net Revenue for Concerts | \$33,204 | \$1,963,440 | \$2,617,933 | \$3,272,416 |
| YEAR ROUND F&B (NET) | | | | |
| Mezzanine Banquet Room | | \$62,500 | \$62,500 | \$62,500 |
| Museum Bar Fair | | \$65,000 | \$65,000 | \$65,000 |
| Museum Bar Live Meet | | \$35,000 | \$35,000 | \$35,000 |
| Museum Bar Interim | | \$100,000 | \$100,000 | \$100,000 |
| Beer Garden Fair | | \$65,000 | \$65,000 | \$65,000 |
| Beer Garden Live Meet | | \$35,000 | \$35,000 | \$35,000 |
| Beer Garden Interim | | \$50,000 | \$50,000 | \$50,000 |
| OTB | | \$58,500 | \$58,500 | \$58,500 |
| Total F&B Year Round | | \$471,000 | \$471,000 | \$471,000 |
| Total Concert + Year Round F&B Profit | Gross Profit | \$33,204 | \$2,434,440 | \$3,088,933 |
| | Gross Profit Margin | 35.79% | 40.32% | 38.40% |

Table 5
Profit and Loss Statement - Adjusted Numbers

| 22nd District Agricultural Association | | | | | |
|--|---------------------------|--------------------------------------|-------------|-------------|--------------|
| SSRP Renovation | | | | | |
| Profit/Loss Statement | | | | | |
| Capacity at 75% | 1425 | (1,900 seats x 75% capacity) = 1,425 | | | |
| CONCERT REVENUE | | | | | |
| | | # of Shows Per Year | | | |
| | | Per Show @ 75% Capacity | 60 | 80 | 100 |
| Ticket Revenue | | \$64,125 | \$3,847,500 | \$5,130,000 | \$6,412,500 |
| Parking | | \$3,560 | \$213,600 | \$284,800 | \$356,000 |
| User + Ticketing Fee | | \$5,700 | \$342,000 | \$456,000 | \$570,000 |
| Merchandise | | \$1,425 | \$85,500 | \$114,000 | \$142,500 |
| F&B Revenue | \$26.38 | \$37,592 | \$2,255,490 | \$3,007,320 | \$3,759,150 |
| Sponsorship | | Cannot be calculated | \$25,000.00 | \$25,000.00 | \$25,000.00 |
| Total Revenue | | \$112,402 | \$6,769,090 | \$9,017,120 | \$11,265,150 |
| CONCERT EXPENSES | | | | | |
| Headliner | | \$43,000 | \$2,580,000 | \$3,440,000 | \$4,300,000 |
| Talent Buyer Flat | | \$4,300 | \$258,000 | \$344,000 | \$430,000 |
| Talent Buyer % Gross Tickets | | \$6,413 | \$384,750 | \$513,000 | \$641,250 |
| Credit Card Fees | | \$1,287 | \$77,219 | \$139,187 | \$173,984 |
| Ticket Printing | | \$143 | \$8,550 | \$11,400 | \$14,250 |
| Box Office Labor | | \$625 | \$37,500 | \$50,000 | \$62,500 |
| Misc. | | \$6,000 | \$360,000 | \$480,000 | \$600,000 |
| Event Labor | | \$1,854 | \$111,240 | \$148,320 | \$185,400 |
| Marketing | | \$5,000 | \$300,000 | \$400,000 | \$500,000 |
| F&B Expense | \$13.19 | \$18,796 | \$1,127,745 | \$1,503,660 | \$1,879,575 |
| Event Manager/Production Manager | | \$960 | \$57,600 | \$76,800 | \$96,000 |
| Total Expenses | | \$88,377 | \$5,302,604 | \$7,106,367 | \$8,882,959 |
| Net Revenue for Concerts | | \$24,025 | \$1,466,486 | \$1,910,753 | \$2,382,191 |
| YEAR ROUND F&B (NET) | | | | | |
| Mezzanine Banquet Room | | | \$62,500 | \$62,500 | \$62,500 |
| Museum Bar Fair | Year Round F&B (net) | | \$65,000 | \$65,000 | \$65,000 |
| Museum Bar Live Meet | Cannot be calculated | | \$35,000 | \$35,000 | \$35,000 |
| Museum Bar Interim | on a per show basis | | \$100,000 | \$100,000 | \$100,000 |
| Beer Garden Fair | since each year generates | | \$65,000 | \$65,000 | \$65,000 |
| Beer Garden Live Meet | same totals | | \$35,000 | \$35,000 | \$35,000 |
| Beer Garden Interim | | | \$50,000 | \$50,000 | \$50,000 |
| OTB | | | \$45,000 | \$45,000 | \$45,000 |
| Total F&B Year Round | | | \$457,500 | \$457,500 | \$457,500 |
| Total Concert + Year Round F&B Profit | | Gross Profit | \$24,025 | \$1,923,986 | \$2,368,253 |
| | | Gross Profit Margin | 21.37% | 26.62% | 24.22% |

Table 6
Payback Period for 60 Shows

| 60 Shows Per Year | | | | | | |
|-------------------|--------------|-----------------|-----------------|----------------------|--------------|---------------|
| Periods (Years) | Construction | Concert Revenue | Concert Expense | Year Round F&B (Net) | CF | Cumulative CF |
| 0 | \$11,000,000 | | | | \$11,000,000 | \$11,000,000 |
| 1 | | \$6,744,090 | \$5,302,604 | \$457,500 | \$1,898,986 | \$9,101,014 |
| 2 | | \$6,769,090 | \$5,302,604 | \$457,500 | \$1,923,986 | \$7,177,028 |
| 3 | | \$6,769,090 | \$5,302,604 | \$457,500 | \$1,923,986 | \$5,253,042 |
| 4 | | \$6,769,090 | \$5,302,604 | \$457,500 | \$1,923,986 | \$3,329,056 |
| 5 | | \$6,769,090 | \$5,302,604 | \$457,500 | \$1,923,986 | \$1,405,070 |
| 6 | | \$6,769,090 | \$5,302,604 | \$457,500 | \$1,923,986 | \$518,916 |
| 7 | | \$6,769,090 | \$5,302,604 | \$457,500 | \$1,923,986 | \$2,442,902 |
| 8 | | \$6,769,090 | \$5,302,604 | \$457,500 | \$1,923,986 | \$4,366,888 |
| 9 | | \$6,769,090 | \$5,302,604 | \$457,500 | \$1,923,986 | \$6,290,874 |
| 10 | | \$6,769,090 | \$5,302,604 | \$457,500 | \$1,923,986 | \$8,214,860 |
| 11 | | \$6,769,090 | \$5,302,604 | \$457,500 | \$1,923,986 | \$10,138,846 |
| 12 | | \$6,769,090 | \$5,302,604 | \$457,500 | \$1,923,986 | \$12,062,832 |
| 13 | | \$6,769,090 | \$5,302,604 | \$457,500 | \$1,923,986 | \$13,986,818 |
| 14 | | \$6,769,090 | \$5,302,604 | \$457,500 | \$1,923,986 | \$15,910,804 |
| 15 | | \$6,769,090 | \$5,302,604 | \$457,500 | \$1,923,986 | \$17,834,790 |
| 16 | | \$6,769,090 | \$5,302,604 | \$457,500 | \$1,923,986 | \$19,758,776 |
| 17 | | \$6,769,090 | \$5,302,604 | \$457,500 | \$1,923,986 | \$21,682,762 |
| 18 | | \$6,769,090 | \$5,302,604 | \$457,500 | \$1,923,986 | \$23,606,748 |
| 19 | | \$6,769,090 | \$5,302,604 | \$457,500 | \$1,923,986 | \$25,530,734 |
| 20 | | \$6,769,090 | \$5,302,604 | \$457,500 | \$1,923,986 | \$27,454,720 |

**No sponsorship @ yr1

\$6,744,090

Payback Period

Formula to calculate payback period:

| | |
|---------------------------------|------------------|
| Last (-) cum. CF Period + | Last (-) cum. CF |
| 5 | 0.7303 |
| First CF after last (-) cum. CF | |

5.73 Years

Table 7
Payback Period for 80 Shows

| 80 Shows Per Year | | | | | | |
|-------------------|--------------|-----------------|-----------------|----------------------|--------------|---------------|
| Periods (Years) | Construction | Concert Revenue | Concert Expense | Year Round F&B (Net) | CF | Cumulative CF |
| 0 | \$11,000,000 | | | | \$11,000,000 | \$11,000,000 |
| 1 | | \$8,992,120 | \$7,106,367 | \$457,500 | \$2,343,253 | \$8,656,747 |
| 2 | | \$9,017,120 | \$7,106,367 | \$457,500 | \$2,368,253 | \$6,288,494 |
| 3 | | \$9,017,120 | \$7,106,367 | \$457,500 | \$2,368,253 | \$3,920,241 |
| 4 | | \$9,017,120 | \$7,106,367 | \$457,500 | \$2,368,253 | \$1,551,988 |
| 5 | | \$9,017,120 | \$7,106,367 | \$457,500 | \$2,368,253 | \$816,265 |
| 6 | | \$9,017,120 | \$7,106,367 | \$457,500 | \$2,368,253 | \$3,184,518 |
| 7 | | \$9,017,120 | \$7,106,367 | \$457,500 | \$2,368,253 | \$5,552,771 |
| 8 | | \$9,017,120 | \$7,106,367 | \$457,500 | \$2,368,253 | \$7,921,024 |
| 9 | | \$9,017,120 | \$7,106,367 | \$457,500 | \$2,368,253 | \$10,289,277 |
| 10 | | \$9,017,120 | \$7,106,367 | \$457,500 | \$2,368,253 | \$12,657,530 |
| 11 | | \$9,017,120 | \$7,106,367 | \$457,500 | \$2,368,253 | \$15,025,783 |
| 12 | | \$9,017,120 | \$7,106,367 | \$457,500 | \$2,368,253 | \$17,394,036 |
| 13 | | \$9,017,120 | \$7,106,367 | \$457,500 | \$2,368,253 | \$19,762,289 |
| 14 | | \$9,017,120 | \$7,106,367 | \$457,500 | \$2,368,253 | \$22,130,542 |
| 15 | | \$9,017,120 | \$7,106,367 | \$457,500 | \$2,368,253 | \$24,498,795 |
| 16 | | \$9,017,120 | \$7,106,367 | \$457,500 | \$2,368,253 | \$26,867,048 |
| 17 | | \$9,017,120 | \$7,106,367 | \$457,500 | \$2,368,253 | \$29,235,301 |
| 18 | | \$9,017,120 | \$7,106,367 | \$457,500 | \$2,368,253 | \$31,603,554 |
| 19 | | \$9,017,120 | \$7,106,367 | \$457,500 | \$2,368,253 | \$33,971,807 |
| 20 | | \$9,017,120 | \$7,106,367 | \$457,500 | \$2,368,253 | \$36,340,060 |

**No sponsorship @ yr1

\$8,992,120

Payback Period

Formula to calculate payback period:

Last (-) cum. CF Period + $\frac{\text{Last (-) cum. CF}}{\text{First CF after last (-) cum. CF}}$

4 Last (-) cum. CF year

0.6553 $\frac{\text{Last (-) cum. CF}}{\text{First CF after last (-) cum. CF}}$

4.66 Years

Table 8
Payback Period for 100 Shows

| 100 Shows Per Year | | | | | | |
|--------------------|--------------|-----------------|-----------------|----------------------|--------------|---------------|
| Periods (Years) | Construction | Concert Revenue | Concert Expense | Year Round F&B (Net) | CF | Cumulative CF |
| 0 | \$11,000,000 | | | | \$11,000,000 | \$11,000,000 |
| 1 | | \$11,240,150 | \$8,882,959 | \$457,500 | \$2,814,691 | \$8,185,309 |
| 2 | | \$11,265,150 | \$8,882,959 | \$457,500 | \$2,839,691 | \$5,345,618 |
| 3 | | \$11,265,150 | \$8,882,959 | \$457,500 | \$2,839,691 | \$2,505,927 |
| 4 | | \$11,265,150 | \$8,882,959 | \$457,500 | \$2,839,691 | \$333,764 |
| 5 | | \$11,265,150 | \$8,882,959 | \$457,500 | \$2,839,691 | \$3,173,455 |
| 6 | | \$11,265,150 | \$8,882,959 | \$457,500 | \$2,839,691 | \$6,013,146 |
| 7 | | \$11,265,150 | \$8,882,959 | \$457,500 | \$2,839,691 | \$8,852,837 |
| 8 | | \$11,265,150 | \$8,882,959 | \$457,500 | \$2,839,691 | \$11,692,528 |
| 9 | | \$11,265,150 | \$8,882,959 | \$457,500 | \$2,839,691 | \$14,532,219 |
| 10 | | \$11,265,150 | \$8,882,959 | \$457,500 | \$2,839,691 | \$17,371,910 |
| 11 | | \$11,265,150 | \$8,882,959 | \$457,500 | \$2,839,691 | \$20,211,601 |
| 12 | | \$11,265,150 | \$8,882,959 | \$457,500 | \$2,839,691 | \$23,051,292 |
| 13 | | \$11,265,150 | \$8,882,959 | \$457,500 | \$2,839,691 | \$25,890,983 |
| 14 | | \$11,265,150 | \$8,882,959 | \$457,500 | \$2,839,691 | \$28,730,674 |
| 15 | | \$11,265,150 | \$8,882,959 | \$457,500 | \$2,839,691 | \$31,570,365 |
| 16 | | \$11,265,150 | \$8,882,959 | \$457,500 | \$2,839,691 | \$34,410,056 |
| 17 | | \$11,265,150 | \$8,882,959 | \$457,500 | \$2,839,691 | \$37,249,747 |
| 18 | | \$11,265,150 | \$8,882,959 | \$457,500 | \$2,839,691 | \$40,089,438 |
| 19 | | \$11,265,150 | \$8,882,959 | \$457,500 | \$2,839,691 | \$42,929,129 |
| 20 | | \$11,265,150 | \$8,882,959 | \$457,500 | \$2,839,691 | \$45,768,820 |

**No sponsorship @ yr1

\$11,240,150

Payback Period

Formula to calculate payback period:

| | |
|---------------------------------|------------------|
| Last (-) cum. CF Period + | Last (-) cum. CF |
| First CF after last (-) cum. CF | |

| | |
|---------------------------------|------------------|
| 3 Last (-) cum. CF year | |
| 0.8825 | Last (-) cum. CF |
| First CF after last (-) cum. CF | |

3.88 Years

Table 9
Depreciation Schedule

| <i>Depreciation Schedule (Over 20 Years)</i> | | | | Remaining Balance |
|--|-------------------|------------------|---------------------|---------------------|
| Periods (Years) | Depreciation Base | Depreciation (%) | Annual Depreciation | \$11,000,000 |
| 1 | \$11,000,000 | 5% | \$550,000 | \$10,450,000 |
| 2 | \$11,000,000 | 5% | \$550,000 | \$9,900,000 |
| 3 | \$11,000,000 | 5% | \$550,000 | \$9,350,000 |
| 4 | \$11,000,000 | 5% | \$550,000 | \$8,800,000 |
| 5 | \$11,000,000 | 5% | \$550,000 | \$8,250,000 |
| 6 | \$11,000,000 | 5% | \$550,000 | \$7,700,000 |
| 7 | \$11,000,000 | 5% | \$550,000 | \$7,150,000 |
| 8 | \$11,000,000 | 5% | \$550,000 | \$6,600,000 |
| 9 | \$11,000,000 | 5% | \$550,000 | \$6,050,000 |
| 10 | \$11,000,000 | 5% | \$550,000 | \$5,500,000 |
| 11 | \$11,000,000 | 5% | \$550,000 | \$4,950,000 |
| 12 | \$11,000,000 | 5% | \$550,000 | \$4,400,000 |
| 13 | \$11,000,000 | 5% | \$550,000 | \$3,850,000 |
| 14 | \$11,000,000 | 5% | \$550,000 | \$3,300,000 |
| 15 | \$11,000,000 | 5% | \$550,000 | \$2,750,000 |
| 16 | \$11,000,000 | 5% | \$550,000 | \$2,200,000 |
| 17 | \$11,000,000 | 5% | \$550,000 | \$1,650,000 |
| 18 | \$11,000,000 | 5% | \$550,000 | \$1,100,000 |
| 19 | \$11,000,000 | 5% | \$550,000 | \$550,000 |
| 20 | \$11,000,000 | 5% | \$550,000 | \$0 |
| Total | | 100% | \$11,000,000 | |

Table 10
Net Cash Flows - Years 1-10

| 60 Shows Per Year | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 | Year 8 | Year 9 | Year 10 |
|-----------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Operating Revenues | \$6,744,090 | \$6,769,090 | \$6,769,090 | \$6,769,090 | \$6,769,090 | \$6,769,090 | \$6,769,090 | \$6,769,090 | \$6,769,090 | \$6,769,090 |
| Less: Operating Expenses | \$5,302,604 | \$5,302,604 | \$5,302,604 | \$5,302,604 | \$5,302,604 | \$5,302,604 | \$5,302,604 | \$5,302,604 | \$5,302,604 | \$5,302,604 |
| F&B Net | \$457,500 | \$457,500 | \$457,500 | \$457,500 | \$457,500 | \$457,500 | \$457,500 | \$457,500 | \$457,500 | \$457,500 |
| Less: Depreciation Charge | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 |
| Taxable Income | \$1,348,986 | \$1,373,986 | \$1,373,986 | \$1,373,986 | \$1,373,986 | \$1,373,986 | \$1,373,986 | \$1,373,986 | \$1,373,986 | \$1,373,986 |
| Less: Tax at 40% | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Earnings After Taxes | \$1,348,986 | \$1,373,986 | \$1,373,986 | \$1,373,986 | \$1,373,986 | \$1,373,986 | \$1,373,986 | \$1,373,986 | \$1,373,986 | \$1,373,986 |
| Add: Depreciation Charge | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 |
| Annual Net Cash Flow | \$1,898,986 | \$1,923,986 | \$1,923,986 | \$1,923,986 | \$1,923,986 | \$1,923,986 | \$1,923,986 | \$1,923,986 | \$1,923,986 | \$1,923,986 |

| 80 Shows Per Year | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 | Year 8 | Year 9 | Year 10 |
|-----------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Operating Revenues | \$8,992,120 | \$9,017,120 | \$9,017,120 | \$9,017,120 | \$9,017,120 | \$9,017,120 | \$9,017,120 | \$9,017,120 | \$9,017,120 | \$9,017,120 |
| Less: Operating Expenses | \$7,106,367 | \$7,106,367 | \$7,106,367 | \$7,106,367 | \$7,106,367 | \$7,106,367 | \$7,106,367 | \$7,106,367 | \$7,106,367 | \$7,106,367 |
| F&B Net | \$457,500 | \$457,500 | \$457,500 | \$457,500 | \$457,500 | \$457,500 | \$457,500 | \$457,500 | \$457,500 | \$457,500 |
| Less: Depreciation Charge | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 |
| Taxable Income | \$1,793,253 | \$1,818,253 | \$1,818,253 | \$1,818,253 | \$1,818,253 | \$1,818,253 | \$1,818,253 | \$1,818,253 | \$1,818,253 | \$1,818,253 |
| Less: Tax at 40% | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Earnings After Taxes | \$1,793,253 | \$1,818,253 | \$1,818,253 | \$1,818,253 | \$1,818,253 | \$1,818,253 | \$1,818,253 | \$1,818,253 | \$1,818,253 | \$1,818,253 |
| Add: Depreciation Charge | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 |
| Annual Net Cash Flow | \$2,343,253 | \$2,368,253 | \$2,368,253 | \$2,368,253 | \$2,368,253 | \$2,368,253 | \$2,368,253 | \$2,368,253 | \$2,368,253 | \$2,368,253 |

| 100 Shows Per Year | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 | Year 8 | Year 9 | Year 10 |
|-----------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Operating Revenues | \$11,240,150 | \$11,265,150 | \$11,265,150 | \$11,265,150 | \$11,265,150 | \$11,265,150 | \$11,265,150 | \$11,265,150 | \$11,265,150 | \$11,265,150 |
| Less: Operating Expenses | \$8,882,959 | \$8,882,959 | \$8,882,959 | \$8,882,959 | \$8,882,959 | \$8,882,959 | \$8,882,959 | \$8,882,959 | \$8,882,959 | \$8,882,959 |
| F&B Net | \$457,500 | \$457,500 | \$457,500 | \$457,500 | \$457,500 | \$457,500 | \$457,500 | \$457,500 | \$457,500 | \$457,500 |
| Less: Depreciation Charge | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 |
| Taxable Income | \$2,264,691 | \$2,289,691 | \$2,289,691 | \$2,289,691 | \$2,289,691 | \$2,289,691 | \$2,289,691 | \$2,289,691 | \$2,289,691 | \$2,289,691 |
| Less: Tax at 40% | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Earnings After Taxes | \$2,264,691 | \$2,289,691 | \$2,289,691 | \$2,289,691 | \$2,289,691 | \$2,289,691 | \$2,289,691 | \$2,289,691 | \$2,289,691 | \$2,289,691 |
| Add: Depreciation Charge | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 |
| Annual Net Cash Flow | \$2,814,691 | \$2,839,691 | \$2,839,691 | \$2,839,691 | \$2,839,691 | \$2,839,691 | \$2,839,691 | \$2,839,691 | \$2,839,691 | \$2,839,691 |

Table 11
Net Cash Flows - Years 11-20

| Year 11 | Year 12 | Year 13 | Year 14 | Year 15 | Year 16 | Year 17 | Year 18 | Year 19 | Year 20 |
|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| \$6,769,090 | \$6,769,090 | \$6,769,090 | \$6,769,090 | \$6,769,090 | \$6,769,090 | \$6,769,090 | \$6,769,090 | \$6,769,090 | \$6,769,090 |
| \$5,302,604 | \$5,302,604 | \$5,302,604 | \$5,302,604 | \$5,302,604 | \$5,302,604 | \$5,302,604 | \$5,302,604 | \$5,302,604 | \$5,302,604 |
| \$457,500 | \$457,500 | \$457,500 | \$457,500 | \$457,500 | \$457,500 | \$457,500 | \$457,500 | \$457,500 | \$457,500 |
| \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 |
| \$1,373,986 | \$1,373,986 | \$1,373,986 | \$1,373,986 | \$1,373,986 | \$1,373,986 | \$1,373,986 | \$1,373,986 | \$1,373,986 | \$1,373,986 |
| \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| \$1,373,986 | \$1,373,986 | \$1,373,986 | \$1,373,986 | \$1,373,986 | \$1,373,986 | \$1,373,986 | \$1,373,986 | \$1,373,986 | \$1,373,986 |
| \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 |
| \$1,923,986 | \$1,923,986 | \$1,923,986 | \$1,923,986 | \$1,923,986 | \$1,923,986 | \$1,923,986 | \$1,923,986 | \$1,923,986 | \$1,923,986 |

| Year 11 | Year 12 | Year 13 | Year 14 | Year 15 | Year 16 | Year 17 | Year 18 | Year 19 | Year 20 |
|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| \$9,017,120 | \$9,017,120 | \$9,017,120 | \$9,017,120 | \$9,017,120 | \$9,017,120 | \$9,017,120 | \$9,017,120 | \$9,017,120 | \$9,017,120 |
| \$7,106,367 | \$7,106,367 | \$7,106,367 | \$7,106,367 | \$7,106,367 | \$7,106,367 | \$7,106,367 | \$7,106,367 | \$7,106,367 | \$7,106,367 |
| \$457,500 | \$457,500 | \$457,500 | \$457,500 | \$457,500 | \$457,500 | \$457,500 | \$457,500 | \$457,500 | \$457,500 |
| \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 |
| \$1,818,253 | \$1,818,253 | \$1,818,253 | \$1,818,253 | \$1,818,253 | \$1,818,253 | \$1,818,253 | \$1,818,253 | \$1,818,253 | \$1,818,253 |
| \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| \$1,818,253 | \$1,818,253 | \$1,818,253 | \$1,818,253 | \$1,818,253 | \$1,818,253 | \$1,818,253 | \$1,818,253 | \$1,818,253 | \$1,818,253 |
| \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 |
| \$2,368,253 | \$2,368,253 | \$2,368,253 | \$2,368,253 | \$2,368,253 | \$2,368,253 | \$2,368,253 | \$2,368,253 | \$2,368,253 | \$2,368,253 |

| Year 11 | Year 12 | Year 13 | Year 14 | Year 15 | Year 16 | Year 17 | Year 18 | Year 19 | Year 20 |
|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| \$11,265,150 | \$11,265,150 | \$11,265,150 | \$11,265,150 | \$11,265,150 | \$11,265,150 | \$11,265,150 | \$11,265,150 | \$11,265,150 | \$11,265,150 |
| \$8,882,959 | \$8,882,959 | \$8,882,959 | \$8,882,959 | \$8,882,959 | \$8,882,959 | \$8,882,959 | \$8,882,959 | \$8,882,959 | \$8,882,959 |
| \$457,500 | \$457,500 | \$457,500 | \$457,500 | \$457,500 | \$457,500 | \$457,500 | \$457,500 | \$457,500 | \$457,500 |
| \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 |
| \$2,289,691 | \$2,289,691 | \$2,289,691 | \$2,289,691 | \$2,289,691 | \$2,289,691 | \$2,289,691 | \$2,289,691 | \$2,289,691 | \$2,289,691 |
| \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| \$2,289,691 | \$2,289,691 | \$2,289,691 | \$2,289,691 | \$2,289,691 | \$2,289,691 | \$2,289,691 | \$2,289,691 | \$2,289,691 | \$2,289,691 |
| \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 | \$550,000 |
| \$2,839,691 | \$2,839,691 | \$2,839,691 | \$2,839,691 | \$2,839,691 | \$2,839,691 | \$2,839,691 | \$2,839,691 | \$2,839,691 | \$2,839,691 |

Table 12
IRR & NPV Analysis

NPV Formula:

$$NPV = \frac{CF_1}{(1+k)^1} + \frac{CF_2}{(1+k)^2} + \dots + \frac{CF_n}{(1+k)^n} - C_0$$

IRR formula:

$$\frac{CF_1}{(1+r)^1} + \frac{CF_2}{(1+r)^2} + \dots + \frac{CF_n}{(1+r)^n} = C_0$$

| 60 Shows Per Year | | | | | |
|-------------------|---------------|--|--|---------------|--|
| Calculating IRR | | | Calculating NPV | | |
| CF0 | -\$11,000,000 | | CF0 | -\$11,000,000 | |
| CF1 | \$1,898,986 | | CF1 | \$1,898,986 | |
| F1 | 1 | | F1 | 1 | |
| CF2 | \$1,923,986 | | CF2 | \$1,923,986 | |
| F2 | 19 | | F2 | 19 | |
| IRR | 16.66% | | NPV --> *I = 6.55% Using WACC & Bond-yield | | |
| | | | NPV | \$10,092,052 | |

| 80 Shows Per Year | | | | | |
|-------------------|---------------|--|---|---------------|--|
| Calculating IRR | | | Calculating NPV | | |
| CF0 | -\$11,000,000 | | CF0 | -\$11,000,000 | |
| CF1 | \$2,343,253 | | CF1 | \$2,343,253 | |
| F1 | 1 | | F1 | 1 | |
| CF2 | \$2,368,253 | | CF2 | \$2,368,253 | |
| F2 | 19 | | F2 | 19 | |
| IRR | 21.02% | | NPV --> I = 6.55% Using WACC & Bond-yield | | |
| | | | NPV | \$14,967,829 | |

| 100 Shows Per Year | | | | | |
|--------------------|---------------|--|---|---------------|--|
| Calculating IRR | | | Calculating NPV | | |
| CF0 | -\$11,000,000 | | CF0 | -\$11,000,000 | |
| CF1 | \$2,814,691 | | CF1 | \$2,814,691 | |
| F1 | 1 | | F1 | 1 | |
| CF2 | \$2,839,691 | | CF2 | \$2,839,691 | |
| F2 | 19 | | F2 | 19 | |
| IRR | 25.49% | | NPV --> I = 6.55% Using WACC & Bond-yield | | |
| | | | NPV | \$20,141,804 | |

Table 13

Profitability Index Analysis

Cost of Investment **\$11,000,000.00**

Profitability Index

$$PI = \frac{\text{PV of Future Cash Flows}}{\text{Initial Investment}}$$

OR

$$PI = \frac{\text{NPV} + \text{Initial Investment}}{\text{Initial Investment}}$$

| # of Shows | PV of Future Cash Flows | Profitability Index |
|------------|-------------------------|---------------------|
| 60 | \$21,092,052 | 1.92 |
| 80 | \$25,967,829 | 2.36 |
| 100 | \$31,141,804 | 2.83 |

60 Shows Per Year

PV of Future CF

| | |
|-----|-------------|
| CF0 | \$0 |
| CF1 | \$1,898,986 |
| F1 | 1 |
| CF2 | \$1,923,986 |
| F2 | 19 |

PVCF --> *I = 6.55% Using WACC & Bond-yield

| | |
|-------------|---------------------|
| PVCF | \$21,092,052 |
|-------------|---------------------|

80 Shows Per Year

PV of Future CF

| | |
|-----|-------------|
| CF0 | \$0 |
| CF1 | \$2,343,253 |
| F1 | 1 |
| CF2 | \$2,368,253 |
| F2 | 19 |

PVCF --> I = 6.55% Using WACC & Bond-yield

| | |
|-------------|---------------------|
| PVCF | \$25,967,829 |
|-------------|---------------------|

100 Shows Per Year

PV of Future CF

| | |
|-----|-------------|
| CF0 | \$0 |
| CF1 | \$2,814,691 |
| F1 | 1 |
| CF2 | \$2,839,691 |
| F2 | 19 |

PVCF --> I = 6.55% Using WACC & Bond-yield

| | |
|-------------|---------------------|
| PVCF | \$31,141,804 |
|-------------|---------------------|