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International Speedway Corporation
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Company's Business

Have you ever heard of the Daytona 500? You probably have because it is the "Super Bowl" of NASCAR sporting events. While every driver dreams of winning this event, I dream of owning it. Can you imagine collecting the income stream from hundreds of thousands of people paying for admissions, hot dogs, and the most overpriced American beverage – beer? But that's not all. If you owned the Daytona 500, you would also receive income from television media rights fees, corporate sponsorship, advertising, royalties from licenses of trademarks, track rentals, and merchandise sales. As you can probably imagine, this is "big money." Even if you could afford to buy the Daytona 500, the current owners would not likely sell it to you because they know its value. But you might say, "Everything is for sale for the right price." I agree. But the right price would most likely be right for the current owners and too high for you. But in the stock market, it is a different story. Since shareholders often do not really act like real owners, but more like day traders, they get shortsighted, which allows you to scoop up fabulous businesses at pretty good prices.

International Speedway Corporation is an example of a fabulous company, and it owns and operates 13 of the nation's major motorsports entertainment facilities, including the home of the Daytona 500 – Daytona International Speedway. Other famous facilities include Talladega Superspeedway, Richmond International Raceway, and Darlington Raceway. At all of these facilities, the company promotes over 100 stock car, open wheel, sports car, truck, motorcycle and other racing events. The most prestigious is the Sprint Cup series which includes a total of 38 races; 21 of these belong to International Speedway Corporation.

NASCAR's Origins

To understand International Speedway Corporation, it is necessary to understand the history of NASCAR. Stock car racing was born in the South on the roads of the Appalachian Mountains. For years, farmers in the mountains made their own whiskey, and during Prohibition in 1919, they sold their product to residents of local towns. By 1933, the government repealed Prohibition, but this did not reduce the demand for whiskey because people turned to alcohol during the Great Depression.

During the Great Depression, the government needed revenue to fund the New Deal programs so it pursued farmers involved in illegal alcohol production by sending federal revenue agents to the Appalachian Mountains to stop their illegal activities. As a result, farmers conducted their entire business, including the transportation of alcohol, at night. This is where the term “moonshiner” comes from.

Drivers constantly worked on their cars to make them faster and more reliable to be able to escape the federal revenue agents who chased them. After a while, some of these drivers and their cars started to attract a following. They bragged about their cars’ performance and their driving abilities. Eventually, someone constructed a quarter-mile dirt track in the middle of a farm, and stock car racing was born. As more people started showing up to watch moonshiners race each other, the farmer fenced the track and charged admission. Over time, more and more drivers came because part of that admission was paid out as prize money.

NASCAR racing would probably not be what it is today had it not been for William Henry Getty France whose nickname was “Big Bill.” As a young man, he was a race car driver from Washington, D.C. Because he disliked cold weather, he decided to move his family to Miami, Florida. During the move, they stopped in Daytona Beach and realized they did not need to continue all the way to Miami. He opened a gas station and soon his business became a hangout place for race car drivers and mechanics.

To attract visitors, Daytona Beach held two races in 1936 and 1937. However, both of them were poorly run and, as a result, they were financial losers. Because France was very well liked in the community, the Daytona Beach Chamber of Commerce told him that there would be no more races unless he was the organizer. France agreed and started his promotional activities. The race took place on July 4, 1938, and it was a great success with 4,500 spectators attending.

Buoyed by his success in Daytona, France wanted to organize another race in Charlotte, North Carolina, after he learned that an oval dirt track was for rent. The media was reluctant to cover the race because it did not have any official sanctioning body. France contacted the Automobile Association of American (AAA), but he was turned down. So he decided to organize his own sanctioning body – The National Championship Stock Car Circuit (NCSCC).

He was not pleased that the business of racing did not have a good reputation. Track owners promised certain purses to the drivers and on numerous occasions did not deliver on these promises. The entire business of racing was disorganized and unethical. On February 15, 1948, France incorporated The National Association for Stock Car Auto Racing (NASCAR). The purpose of this organization was “to unite all stock car racing under one set of rules; to set up a benevolent fund and a national point standing whereby only one stock car driver would be crowned National Champion.”

NASCAR guaranteed the purses for the races it sanctioned. In order to hold a NASCAR race, track owners were required to deposit purse money with NASCAR before the race. This was instrumental because it earned drivers’ respect. NASCAR also created a national point system where drivers earned points depending on their placements and the driver with the most number of points was crowned the champion. This was very important because it motivated drivers to show up to all the races so that they would not lose points. Even today, this rule is instrumental because fans go to see their favorite drivers. The point system ensures that drivers show up and do not leave their fans disappointed.

Today, NASCAR is owned by the France family. When the organization was incorporated, four people invested in it including Bill France. Over the years, the France family bought out the other three partners.

The NASCAR Business and its Industry

Because the NASCAR organization is not a publicly traded company, investors can only indirectly benefit from it by owning related companies such as International Speedway Corporation. Track owners have three primary revenue providers: race fans, sponsors, and television networks.

NASCAR race fans are probably more loyal and fanatic about their sport than fans of any other sport. It is not uncommon to see them tattooing the faces of their favorite drivers on their bodies. Most of them attend one to two races per year and travel on average six hours to attend them. What is so different about these fans is that they are extremely aware of the different sponsors supporting the sport. If you ask most fans about the main sponsors of their favorite drivers, they will be able tell you their names without hesitation. In fact, they actually look down on drivers without sponsors. Not only are they aware of these sponsors, they also actively buy their products or services. They know that in order for NASCAR to survive, it needs sponsors, so they support the sponsors who support their favorite sport by voting with their wallets.

Sponsors are very happy to reach the captive audience at the stands and on TV screens. But it wasn't always like this. Unlike basketball or baseball, stock car racing is an expensive sport. In the past, drivers and teams struggled financially. They barely had enough money for replacement parts just to keep going from one race to another. The prize money was not enough to cover these expenses. In 1972, R. J. Reynolds Tobacco Company became the sport's primary sponsor because it was prohibited from advertising cigarettes on television. It was looking for other ways to advertise its cigarettes and found NASCAR. This gave birth to corporate sponsorship in NASCAR, which was a new form of marketing. The difference between sponsorship and advertising may not seem obvious, but advertising creates quick results without long-lasting effects while sponsorship creates a bond between the customer and the company and lasts longer than advertising. This is a win-win situation for everybody. Sponsors want their brands to gain greater exposure, so they make it possible for race teams to afford expensive equipment. Drivers return the favor by constantly talking about their sponsors to their fans. Fans go to the stores and buy their products because they know that without sponsors, ticket prices would be much higher.

You might think that television networks jumped on the idea of broadcasting the race to millions of fans around this time, but it wasn't until 1979. This was the first year that the Daytona 500 was broadcasted live. There were doubts whether such a move would be successful. NASCAR was a sport from the South and it was not certain that it would be well-received by other parts of the country. To everyone's surprise, the 1979 Daytona 500 live broadcast was an incredible success with 15 million viewers. This created headlines all over the country. Now NASCAR was being exposed not only to thousands of people, but to millions.

The media found a goldmine in NASCAR as racing became the second most-watched sport in America after football. Why did NASCAR become so successful in comparison to other sports? When you watch football, basketball, or baseball, you have to wait the entire season to watch the best teams play each other. In NASCAR, you get to watch the best drivers race each other every time there is a race. This is exciting. Another reason for the success is the limited schedule. There are only so many weeks in the year and NASCAR's Sprint Cup races 38 weekends in a year. The open weekends are used to reschedule events that are canceled due to weather. If you miss a race, you might have to wait a week or two for another one. In other sports, you are overwhelmed with the number of games that you can watch.

Moat

A moat is what gives a company an advantage over its competitors. It keeps competitors at bay so that a company can keep generating profits and grow over time. The two companies that dominate the NASCAR racing scene are the International Speedway Corporation (ISCA) and Speedway Motorsports (TRK). International Speedway Corporation owns 13 racetracks which constitutes half of all the tracks in the nation. Speedway Motorsports owns seven racetracks.

A competitor could technically build a state-of-the-art racetrack, but it wouldn't be worth much until the track could get a Sprint Cup race. Non-Sprint Cup races would not bring enough fans and broadcasting rights to make such a project financially feasible. It costs over $100 million to build a racetrack.

NASCAR determines every year which track gets what race. Because fans and drivers are used to having certain races at certain tracks, NASCAR tends to keep races at the same locations for years. But from the point of view of a track owner, NASCAR's power to revoke a race possesses a certain risk. If for some reason NASCAR decided to move the Daytona 500 from the facility owned by International Speedway Corporation to another facility owned by a competitor, this would result in a tremendous loss for the company and it would most definitely be reflected in a falling stock price. This, however, is unlikely to ever happen because International Speedway Corporation is controlled by the France family which also owns and controls NASCAR. The France family is unlikely to take races away from their own tracks.

It is evident that International Speedway Corporation enjoys a wide moat that serves a tremendous barrier to entry to another competitor.

Management

International Speedway Corporation is controlled by the France family who owns 40 percent of the shares and controls 68 percent of voting power. In 1992, Bill France passed away and his son William Clifton France (also known as Bill, Jr.) took over. There was some concern whether he would do a good enough job running NASCAR and International Speedway Corporation. Under his leadership, NASCAR exploded. He really put International Speedway Corporation on the map as a big business. Bill Sr. saw NASCAR as a sport, and Bill Jr. saw it as a product. Bill Jr.'s children, Brian and Lesa had an even greater vision for NASCAR because they saw it not just as a product, but as entertainment that could attract not only men, but also families with children. Today, women constitute 40 percent of NASCAR's fan base.

By owning such a significant portion of the company, the France family's interests are aligned with the interests of shareholders.

Analysis

Bill France founded International Speedway Corporation in 1953, but back then it was under a different name – Bill France Racing, Inc. In 1957, he renamed it Daytona International Speedway Corporation and, as the name implies, the company only had one track. When it acquired Talladega Superspeedway in 1968, the name of the company changed to what it is today. Over the years, the company strategically acquired different racetracks. Today, the company owns the majority of racing's prime real estate.

On November 4, 1996, the company went public at $20 per share. Today, it can be purchased for about $26 per share. It has been 13 years and the stock only appreciated $6 per share. The company must not have grown very much since then, right? Well, let's take a look at a chart comparing 1996 and 2008.

	1996	2008	Change
Number of Racetracks	4	13	225.0%
Total Revenues	$97,996,000	$787,254,000	703.4%
Net Income	$18,834,000	$134,595,000	614.6%
Earnings per Share	$0.54	$2.80	418.5%
Book Value per Share	$3.10	$23.43	655.8%

It can be seen that the number of tracks increased by 225 percent, which pales in comparison to the performance of the other metrics. Revenues increased 703.4 percent, net income by 614.6 percent, earnings per share by 418.5 percent, and book value per share by 655.8 percent. Despite these increases, the stock is trading only 30 percent higher than what it was in 1996. Isn't this just ridiculous? I think it is. You might say that in 1996, the stock was overpriced because it had a P/E ratio of 37. If we use a P/E ratio of 20 instead, the stock would have had a price of

$11 per share. Comparing it to $26 per share, this would be an increase of 136 percent. Either way, I still cannot believe that investors have the opportunity to buy this company for $26 per share.

How could the company only increase the number of tracks by 225 percent and increase other metrics by 418 to 703 percent? As mentioned before, the company has three sources of revenues: race fans, sponsors, and television networks. The company not only increased revenues from race fans by increasing the prices of tickets, concessions, and parking, etc., but also by adding seating capacity at its racing facilities. Since the demand from race fans was so strong over the last decade, the company was barely able to keep up with all of the ongoing expansion projects.

The company also increased revenues from sponsorships. This type of revenue growth is cheap in comparison to capacity expansion. This is because the company does not have to build anything from concrete to add more sponsors. NASCAR sponsorship was created in 1972 and kept growing because as more people became saturated with advertising, sponsorships allowed companies to sneak in their marketing message to race fans without being totally explicit about their marketing.

Revenues from television broadcasting rights also grew much faster than the number of tracks that International Speedway Corporation owns. Similarly to sponsorship dollars, broadcasting rights revenues can grow without much capital. Since there is only one NASCAR, television networks are fighting over the rights to broadcast the event in order to attract viewers. From the point of view of NASCAR and International Speedway Corporation, it is a good place to be. These revenues are likely to keep going up.

What is even more ridiculous about the current stock price is that the comparison chart between 1996 and 2008 does not include the full impact of television rights that NASCAR negotiated for the eight-year period from 2007 and 2014. In 2007, NASCAR entered into an eight-year contract with FOX, ABC/ESPN, TNT and SPEED for the broadcasting rights for three national touring series – Sprint Cup, Nationwide, and Craftsman Truck. The agreement is for $4.5 billion over the eight-year period. This equates to $560 million average per year for the entire industry, which is 40 percent higher than the last contract for $400 million per year. The contract also contains annual increases of about 3 percent per year. This income stream provides stability and predictability. It is particularly important to all the companies in the industry when race attendance is down. This income is also easy because it doesn't require any work. It is like saying to the television networks, "I am running a number of race events. Bring your cameras and do what you need to do to expose my sport. After you are done, take your stuff, come back next year, and don't forget to write me a check for half a billion dollars. Once the contract is up in 2014, we will probably jack up the price because we are pretty sure that NASCAR will be even more popular and advertisers on your television networks will be fighting each other to get a chance to have a 30-second commercial exposed to NASCAR fans."

However, International Speedway Corporation is not getting the entire $560 million because this is for all the companies in the industry. In 2008, the company received $257 million and only $189 million went straight into operating income. The reason why the entire $257 million wasn't retained was because about 25 percent goes to the drivers. Still, the operating margins on the television rights are about 73.5 percent. Based on the current stock price, the company is trading for a market capitalization of $1.3 billion. If you just take the television rights at $189 million and place a conservative multiple between 6 and 8, the value of these television rights is between $1.1 and $1.5 billion. In other words, the television rights on its own are worth as much as the entire company. By purchasing it at $26 per share or $1.3 billion of market capitalization, you are paying for the television rights and getting all the racetracks and sponsorship dollars for free.

Why is International Speedway Corporation's stock so cheap?

As mentioned before, track owners have three primary revenue providers: race fans, sponsors, and television networks. It costs about $50 to $100 for an admission ticket, but if the hotel, travel, food and everything else is included, it is not unreasonable to say that it costs approximately $1,000 per person to attend a race. Since most fans attend one to two races per year, this equals to an annual expenditure of $1,000 to $2,000 which comes from discretionary income. Half of NASCAR's fans earn $50,000 or less annually. The current recession definitely has negative effects on their attendance, but this happens because fans are less able to afford it and not because they dislike the sport. I believe that this is only temporary for as long as the economy stays weak.

Sponsors that are seeing the attendance down and their own businesses struggling from the effects of the recession are cutting down on their marketing budgets. Some of them might not be able to afford sponsorship and others might be cutting expenses to protect their stock prices. For whatever reason they are pulling back, I believe this also is temporary. In the end, there is only one NASCAR. If they want to advertise in a newspaper, they have plenty of choices, but if they want to reach NASCAR fans, they can only do so through NASCAR or racetrack owners. Sponsors will be back because if they don't, there will always be someone who will want to reach NASCAR's fans even if it means that it will be foreign companies. NASCAR has a toll bridge and whoever wants to drive through has to pay up. It is that simple.

When the top line revenue declines, expenses stay relatively stable because the majority of them are fixed. The expenses include sanctioning fees to NASCAR, prize money to drivers, and other operational costs. The track owners have to pay a NASCAR sanctioning fee and drivers' prize money no matter how many people show up to the race. The costs that are variable are the operating costs such as the number of employees during the race. Track owners usually hire one employee for every 75 race fans and this expense can obviously be reduced as fewer fans show up. The good news is that when the recession ends, the top line will recover, the bottom line will grow much faster.

Valuation

I believe that the normalized earnings power of International Speedway Corporation is about $3 per share. For a company of this caliber, I have estimated an earnings multiple between 15 and 20. Based on this, the stock is worth between $45 and $60 per share. The average is $52.50 per share.

On Yahoo finance, you might notice that earnings per share are $0.65 which means that the P/E ratio is about 40. This is misleading because the earnings per share listed includes a non-cash equity impairment charge in the second quarter of 2009 for $57 million or $1.18 per share. This impairment charge is a one-time hit against earnings. Without this charge, earnings per share would have been much higher and the P/E ratio much lower.

Conclusion

Wall Street, with its short-term mentality, is giving this company away for about 50 cents on the dollar because it is unable to see past the current weaknesses in the company's earnings. This is why recessions produce investment opportunities because they make investors do unwise things such as selling wonderful businesses at cheap prices. But the key here is patience, which is always in short supply on Wall Street. NASCAR is not going anywhere and owning International Speedway Corporation is the best way to benefit from this sport. The time will come when this company will shine again, and when it does, Wall Street will pay us a price much higher than what is it is today because it will see all the positive things about this company that now it refuses to acknowledge.