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On The Cover/Top Stories

Ultimate Cash Machine

Matthew Miller 05.05.08, 12:00 AM ET

Casino moguls Frank and Lorenzo Fertitta bought a violent fight club called Ultimate Fighting Championship--and built it into a billion-dollar sports empire.

On the evening before the Super Bowl a mix of celebrities (including home run king Barry Bonds and hip-hop impresario Jay-Z), high rollers and rabid fans crammed into the 12,000-seat arena at Mandalay Bay in Las Vegas. Like spectators at a gladiator fight, they were there to witness the highly charged and bizarre spectacle of men bloodying each other in what's known as mixed martial arts. It was the latest fightfest staged by Ultimate Fighting Championship, a Las Vegas company that started as a smutlike fight club that's now worth maybe \$1 billion and is drawing competitors like flies to blood.

UFC co-owner Lorenzo Fertitta, 39, wandered tunnels around the arena. He dropped in on a broadcast booth to pepper producers with questions about which countries would be receiving the night's pay-per-view event, and then checked in with the commentator, Joe Rogan of NBC's *Fear Factor*, to learn more about the matchups. He made small talk with some of the 18 fighters on the bill before joining the crowd to watch the fights taking place inside an eight-sided ring surrounded by a chain-link fence.

Former Heavyweight Champion Tim Sylvia, a tattooed brawler wearing red and black trunks and 5-ounce fingerless fighting gloves, had just spent two five-minute rounds punishing challenger Minotauro Nogueira with jabs to the face. The Brazilian's cheeks were cut and bruised in several places, leaving his face so swollen he could barely see. Pro wrestling is fake. This stuff is for real.

But in the third round Sylvia let his guard down for a split second, allowing Nogueira, a Brazilian jujitsu master, to grab his neck and pull. Sylvia could not escape the move--a guillotine choke--and was forced into submission. The crowd roared.

Americans will never understand cricket. The British can't grasp American football. But you can't get much more universal than this. "What makes UFC so great," says Fertitta, "is that every single man on the planet gets it immediately. It's just two guys beating each other up."

With his older brother, Frank Fertitta III, 46, and UFC President Dana White, 39, Lorenzo Fertitta has transformed UFC from a business once labeled by Senator John McCain as "human cockfighting" into a lucrative sports empire that competitors like Mark Cuban are now hoping to horn in on.

It's the Ultimate Money Machine. That night before the Super Bowl 10,700 fans packed the arena, paying an average of \$340 for a ticket to witness nine mixed martial arts fights. Another 500,000 fans paid \$45 (\$55 for high definition) to watch five of the nine fights at home. The total haul from the event: \$25 million.

This year UFC is likely to generate \$250 million, capturing perhaps 90% of mixed martial arts revenue. The majority of UFC revenues come from the monthly pay-per-view events. Additional

cash is made from ticket sales to live fights and licensing fees from its Spike cable shows *The Ultimate Fighter* and *UFC Fight Night*. These shows in turn act as promotional tools to drive fans to pay-per-view events. More scratch comes from sales of DVDs and T shirts, as well as downloads from UFC's library of past bouts.

The Fertittas field pleas from private equity and media firms to sell UFC. Those offers, they assert, exceed \$1 billion. Not a bad return on investment for something they paid a mere \$2 million for in 2001. (Indeed, in 2002 FORBES wrote skeptically about the Fertittas' ability to turn their new purchase into anything worthwhile.) The price, if they could get it, would be rich in comparison with the \$1.4 billion market value for publicly traded World Wrestling Entertainment, which has almost double the revenue. Both UFC and WWE racked up similar pay-per-view buys in 2007: UFC got 5.1 million buys for 11 fights while WWE got 5.2 million for 15 fights. Often UFC pay-per-view events draw as many male viewers ages 18 to 49--some 3 million--as one of last year's biggest college football games, Michigan versus Ohio State. That number assumes six people are gathered around the TV to watch each pay-per-view purchase. UFC has broadcast events to 170 countries and territories and recently sold out live fights in Manchester, U.K. and Montreal.

The brothers each own 45% of UFC (White owns the rest), which is operated through their holding company Zuffa (Italian for "fight"), LLC. Add in personal assets and their stake in Station Casinos, which they took private with buyout maven Thomas Barrack for \$9 billion in cash and assumed debt last year, and each Fertitta has a net worth of \$1.3 billion, ranking each 380th on The Forbes 400.

Marketers salivate over the audience. "UFC has a deep, passionate fan base," says Mark-Hans Richer, chief marketing officer for Harley-Davidson, which along with Bud Light is a corporate sponsor. "Advertising to such an engaged group of young males is important to us because we want and need to be selling to the next generation of motorcycle riders." Ultimate fighting has also spawned a few side industries (which UFC doesn't own). Sportswear firms like Tapout, American Fighter and Warrior Wear sell an assortment of workout clothes and accessories (wallets, key chains, stickers). Children as young as 6 are taking MMA classes in place of the karate or tae kwon do lessons of a generation ago.

There is no surer sign of the appeal of this gladiator sport than the entrance of competitors. ProElite will broadcast four two-hour MMA specials on CBS this year. Billionaire Mark Cuban recently created HDNet Fights and plans "to make our network the de facto destination for MMA fans." He says HDNet Fights already has 24 live fights scheduled for this year--available to any of the 66 million homes that have access to HDNet from their cable or satellite provider.

UFC is vulnerable, Cuban argues, because the company is "completely dependent on pay-per-view," which used to be the primary way to see live MMA. Now with HDNet and CBS offering live events free, "fans may not be willing to pay 50 bucks a pop quite so often."

White, who believes MMA will be a \$1 billion (sales) industry within five years, has a different take: "I'm flattered that Frank, Lorenzo and I have made this business look so easy. But CBS doesn't understand the fight business, and Mark Cuban doesn't know anything about the fight business, either. All he's concerned with is drawing subscribers to HDNet so he can sell out to Time Warner or Comcast."

Lorenzo Fertitta says the competition will ultimately redound to his company: "We are like football and the NFL. The sport of mixed martial arts is known by one name: UFC."

Frank and Lorenzo Fertitta were raised in Las Vegas, the son of Frank Fertitta Jr. Their dad moved to Sin City from Texas at age 20. He became a dealer at the Stardust and eventually

graduated to management positions at the Tropicana, Sahara and Circus Circus casinos. Fertitta Jr. noticed that no casinos existed that catered to the city's residents.

In 1976 Fertitta Jr. built the Casino, a 5,000-square-foot joint with 100 slot machines, six table games and a snack bar, on Sahara Blvd., a few blocks off the Strip. "People thought he was crazy," Frank Fertitta III says. "But then he added bingo and a coffee shop, made sure the slots were loose [meaning better odds], renamed the place Bingo Palace, and it became an overnight success." (Today Bingo Palace is called Palace Station; it's where O.J. Simpson had his recent run-in with those pesky memorabilia dealers.)

Dad was also a marketing genius, enticing locals through his doors with promotions such as giving away cars and houses. "There weren't that many ways to finance new projects in those days," explains Frank Fertitta III, who got his start in the family business as a blackjack dealer. "You could finance projects using profits, local banks, or you could get a loan from the Teamsters Pension Fund. They made a movie about what happened when you took those loans [Martin Scorsese's mob-filled *Casino*], so we expanded with earnings and bank loans."

Frank Fertitta III became chief executive of the family business, now called Station Casinos, in 1993, and promptly took the company public, giving his father a chance to cash out and retire early. Lorenzo, who had come home from college almost every weekend to work at Palace Station, joined in, and the brothers went on an expansion binge in Vegas, building 4 casinos and acquiring another four by the end of 2001. Today Station Casinos is private again and owns 17 casinos around Las Vegas. The Fertittas have plans for many more--including a 3-casino monster costing as much as \$10 billion, just off the Strip.

The same year Station went public, the first Ultimate Fighting Championship was staged in Denver to a small pay-per-view audience. Created by Rorion Gracie, whose family had run fights in Brazil, and entrepreneur Robert Meyrowitz, the first UFC events were free-for-alls, pitting black belts against sumo wrestlers and kickboxers against jujitsu masters. There were no weight classes.

The most violent acts--eye-gouging, biting, head-butting--were not encouraged, but they couldn't be stopped either, because there was no judge or point system. "The way those acts were stopped was by implementing a rule that said if you head-butt or bite someone, your opponent gets your paycheck that night," explains Big John McCarthy, who officiated at some of the early UFC events.

Broken bones and nasty cuts were rampant, and UFC became a hit on pay-per-view and video. Lawmakers soon stepped in and banned no-holds-barred fighting in nearly all 50 states and got cable operators to stop broadcasting it.

In 2001 Lorenzo Fertitta's high school pal Dana White approached the brothers with an idea. UFC was nearly bankrupt, and Meyrowitz was looking to sell. White, a fight manager, saw a cheap opportunity. He persuaded the Fertittas to pay \$2 million for UFC. "Our lawyers were confused and kind of laughing at us," Frank Fertitta III says. "There wasn't anything to buy except a small library of fights and the UFC name."

By this time fighters had begun to learn a variety of fighting disciplines, giving birth to mixed martial arts. But Lorenzo Fertitta understood his company was going nowhere without state approval. He worked with the Nevada State Athletic Commission to get UFC sanctioned in Nevada after adopting some rules: There would be weight classes, judges, point systems and a limited number of rounds. The referee could also stop a bout when a fighter could no longer protect himself or lost consciousness. The Fertittas say it is this rule, and the fighter's ability to

quit at any time, that makes mixed martial arts safer than boxing because it limits the number of blows a fighter takes.

With the new rules, states began to sanction the bouts again, allowing UFC to return to pay-per-view. Today the sport is legal in 32 states.

UFC began to regain traction among fans, but the Fertittas--who spend 90% of their time running Station Casinos while White runs the day-to-day operations of UFC--were having trouble breaking even. They had dumped \$44 million of their family's money into the venture in their first three years, often blowing cash on flashy magazine spreads in men's publications like *Maxim* and *Playboy*. "One morning in 2004 I called Dana and said we wanted out," says Lorenzo Fertitta. "We were spending our family fortune. Dana called back and said he had found a buyer offering \$4 million."

The offer was too low, and the brothers decided to spend a little more. After producing a reality-TV show called *American Casino* about life at their Green Valley Ranch hotel outside Vegas, the Fertittas spent \$10 million filming another show, *The Ultimate Fighter*. The show featured White putting up-and-coming fighters through rigorous training sessions--and then fighting one another at the end of each episode until one man was crowned the champion and given a six-figure multiyear UFC contract. Several networks passed, but Spike picked it up; the Fertittas paid production costs.

The show was a hit, and the brothers created new shows, including *UFC Unleashed* and *UFC Fight Night*. The library of fights is one of the firm's most valuable assets, the Fertittas say, because it can be repackaged and resold as new fans emerge.

The shows made White and the UFC fighters instant celebrities. Today White cannot walk into an airport without being mobbed for autographs. The same goes for many of the company's 275 fighters, most of whom take home at least \$100,000 a year (for three or four fights each). Several of its stars, including Chuck Liddell and Rampage Jackson, make several million dollars a year between fights and endorsements from such marketers as Dell and Nike.

Does White want his partners to cash out while the price is high? "Absolutely not," he says. "I love what I do and think we are just scratching the surface with this sport." Neither brother seems inclined to sell, either. "I'm sure we could find something to do if we did," Frank Fertitta III laughs. "But we're having too much fun."

The Billion-Dollar Blood sport

In just six years Frank and Lorenzo Fertitta have turned ufc from a cash-bleeding loser into a \$1 billion champ. Here's a look ...

Price the Fertittas paid for UFC in 2001: **\$2 million**

Value today: **\$1 billion-plus**

UFC estimated 2008 sales: **\$250 million**

UFC is estimated to control **90%** of the mixed martial arts industry.

UFC pay-per-view buys in 2001: **145,000**

UFC pay-per-view buys in 2007: **5.1 million**

The average UFC pay-per-view event draws **3 million** male viewers between 18 and 49--often the same as a big college football GAME.

UFC employs **275 fighters**.

Most make more than **\$100,000** a year.

Superstars make millions.

The average ticket price of a live UFC event in 2007: **\$250**