MLB Player Contract Analysis

An Analysis using <u>What If Financial Pro 2025 from App Store</u> by Cassiopeia Technology

Outline – DCF

- Off-Season Games: Contract Negotiations
- Shohei Ohtani's Contract with the Dodgers
- MLB Luxury Tax Calculation on Ohtani's Deferred Compensation
- Shohei Ohtani's Contract without Deferral
- Shohei Ohtani's Contract No-Deferral Present-Value Equivalent

Outline – PACF

- Discounted Cash Flow Analysis (DCF) vs. Presence-Adjusted Cash Flow Analysis (PACF)
- Shohei Ohtani's Contract PACF Analysis
- Aaron Judge's Contract PACF Analysis
- Mike Trout's Contract PACF Analysis
- Juan Soto's Guaranteed Contract PACF Analysis
- Juan Soto's Maximum Contract PACF Analysis
- Juan Soto's Yankees Contract Proposal PACF Analysis

Off-Season Games: Contract Negotiations

- Another Major League Baseball season has started, promising many exciting games, but lot of actions (maybe more important deciding postseason chances) happened during off-season months, when managers, players, and agents play the game of recruitment and contract negotiation.
- Almost every year there would ne a new historical contract signed by a superstar player, who do you think got the best deal?
- 'What if Financial' app follows standard valuation logic, Discounted Cash Flow Analysis (DCF) and an advanced version, Presence-Adjusted Cash Flow Analysis (PACF)
- Showcase these calculators analyzing several big contracts in recent MLB history.

What if Financial Stories on MLB Contracts

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"What If Financial' provides a collection of common financial calculators, stories and scenarios (on how to use these calculators), and important data for tracking economic trends.

FINANCIAL APPS

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9:29



Almost every year there would be a new historical contract signed by a superstar player, who do you think got the best deal?

SHOHEI OHTANI CONTRACT DCF - DISCOUNTED CASH FLOW ANALYSIS

Shohei Ohtani's Contract

MLB Luxury Tax Calculation on Shohei Ohtani's Deferred Compensation

Shohei Ohtani's Contract without Deferral

Shohei Ohtani's Contract No-Deferral Present-Value Equivalent

MLB PLAYER CONTRACTS PACF - PRESENCE-ADJUSTED CASH FLOW ANALYSIS

Shohei Ohtani's Contract

Aaron Judge's Contract

Mike Trout's Contract

Juan Soto's Contract Guaranteed

Juan Soto's Contract Maximum

Juan Soto's Yankees







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Juan Soto's Contract Maximum

Juan Soto's Yankees

- After the end of the 2023 season, Shohei Ohtani signed a 10-year contract with the Dodgers for a TCV (total contract value) of \$700 million
- For many good reasons, most of the contract is deferred, and he only gets paid \$2 million per year, while the rest \$68 million is deferred for 10 years, after the end of playing years
- Such deferral will cost Ohtani time value from deferred pays
- Assuming each year's salary was paid as a lump sum at end of season, what is the contract's NPV (net present value) at the beginning of the contract?
- We can use 'What If Financial' DCF (discounted cash flow analysis) with a discounted rate of 4.43% per year (explained later)

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Almost every year there would be a new historical contract signed by a superstar player, who do you think got the best deal?

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MLB PLAYER CONTRACTS PACF - PRESENCE-ADJUSTED CASH FLOW ANALYSIS

Shohei Ohtani's Contract	
Aaron Judge's Contract	
Mike Trout's Contract	
Juan Soto's Contract Guaranteed	
Juan Soto's Contract Maximum	
Juan Soto's Yankees	

Contract Pro

9:37

< Back After the end of the 2023 season, Shohei

Ohtani signed a 10-year contract with the Dodgers for a TCV (Total Contract Value) of \$700 million, with an AAV (Average Annual Value) of \$70 million. For many good reasons, most of the contract is deferred, and he only gets paid \$2 million per year, while the rest \$68 million is deferred for 10 years, after the plaving period is over. Such deferral will cost Ohtani some time value from deferred pays due to inflation and lost investment growing opportunities, etc. For simplicity, let's assume each year's salary was paid as a lump sum at the end of season. We can use What If Financial Pro 2025's DCF - Discounted Cash Flow Analysis calculator and estimate this contract's net present value (NPV) at the beginning of the contract, given

the discount rate of 4.43



% per year

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- Ohtani's contract is worth \$366 million in present value, \$334 million discounted from his \$700 million contract
- \$36.6 million per playing year

- You may wonder how to pick a discount rate for estimating Ohtani's net present value
- We can follow how MLB did it!
- As Ohtani's contract is heavily deferred, MLB also calculated deferral's present value to estimate its contribution to Dodgers' luxury tax
- For season 2024, MLB could use the mid-term Applicable Federal Rates (AFR) from October 2023, which is 4.43%
- Note that you can adjust the discounted rate in the What If Financial app to suit your need

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Almost every year there would be a new historical contract signed by a superstar player, who do you think got the best deal?

SHOHEI OHTANI CONTRACT DCF - DISCOUNTED CASH FLOW ANALYSIS

Shohei Ohtani's Contract

MLB Luxury Tax Calculation on Shohei Ohtani's Deferred Compensation

Shohei Ohtani's Contract without Deferral

Shohei Ohtani's Contract No-Deferral Present-Value Equivalent

MLB PLAYER CONTRACTS PACF - PRESENCE-ADJUSTED CASH FLOW ANALYSIS

Shohei Ohtani's ContractAaron Judge's ContractMike Trout's ContractJuan Soto's Contract GuaranteedJuan Soto's Contract MaximumJuan Soto's Yankees

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You may wonder how to pick a discount rate for estimating Ohtani contract's net present value. We can actually follow how MLB did it! Shohei Ohtani's historical contract is going to contribute big to Dodgers's luxury tax (MLB Competitive Balance Tax) calculation, but it won't be \$70 million per year as \$68 million is deferred each year and MLB also follows good financial practices and calculates the deferral's present value. For season 2024, MLB could use the mid-term Applicable Federal Rates (AFR) from October, 2023, which is 4.43% published by IRS, for calculating the deferral's present value contribution to the luxury tax calculation. Notice that Ohtani's \$2 million pay for season 2024 was added directly to the luxury tax calculation.

\$68,000,000 dollars

with the discount

For

rate of

4.43 % per year

How would MLB calculate contribution to Dodgers's luxury tax calculation from Shohei Ohtani's 2024 season \$68 million 10-year deferral? We can use What If Financial Pro 2025's simple growth and inflation calculator for this scenario.

See calculation 10 years
Up to
Calculate

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What if I have	68000	Dollars
invested with interest rate	0	% year
for same purchasing power, adjusted by inflation rate	4.43	% year
what will it be in	10	years
Show Answer Sho	w Table)	lide Question





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Back	Pid.	10 10			
What if I h	nave	68000	Dollars		
nvested with interest rate		0	% year		
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purchasir	ng power,	4.43	% year		
inflation r	ate				
what will	it he in	10	Vears		
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Hide A	Show	/ Chart H	ide Question		
t will beco	ome \$44,08	31,476.50 d	lollars.		
0.648 ti	mes of the o	riginal.			
Inflation-ad	djusted for reta	ining same			
ourchasing	power)	A land	B. A. I.		
rears	Do	llars	Adjustment		
1	\$68,000,	000	\$65,115,388		
2	\$68,000,	000	\$62,353,144		
3	\$68,000,	000	\$59,706,076		
5	\$68,000,	000	\$54 749 798		
6	\$68,000	000	\$52,427,270		
7	\$68,000.	000	\$50.203.265		
8	\$68,000.	000	\$48,073,605		
9	\$68,000,	000	\$46,034,286		
10	\$68,000,	000	\$44,081,476		

9:46 < Back What if I have 68000... Dollars invested with 0 % year interest rate for same purchasing power, 4.43 % year adjusted by inflation rate what will it be in 10 years Show Table Hide Question It will become \$44,081,476.50 dollars 0.648 times of the original. (Inflation-adjusted for retaining same purchasing power)

Adjustment (X-axis: years) Inflated

- For calculating contribution to Dodgers' luxury tax base, Ohtani's deferral is not \$68 million a year, but instead \$44 million
- Notice that adding the non-deferred \$2 million, Ohtani contract's contribution to Dodgers' luxury tax calculation is \$46 million for season 2024

- After becoming a free agent, some other superstar player, like Soto, may also want a contract like Ohtani's, or even higher
- But without deferral
- Ohtani's deferral contracts have many benefits, but what is the present value of the contract without deferred payments?

10:13

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Almost every year there would be a new historical contract signed by a superstar player, who do you think got the best deal?

SHOHEI OHTANI CONTRACT DCF - DISCOUNTED CASH FLOW ANALYSIS

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MLB PLAYER CONTRACTS PACF - PRESENCE-ADJUSTED CASH FLOW ANALYSIS

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Juan Soto's Yankees

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After becoming a free agent, some other superstar player (Soto?) may also want a contract with value same as Shohei Ohtani's (or even higher), but without deferral. Ohtani's deferral contract gives him flexibility that he may not need to pay Califonia state tax on the deferred part (Dodgers is located in California and he can move away after the contract's 10year playing period ends. However, this is up to interpretation of California tax laws). This other superstar player might worry less about paying state tax or woud like to invest their salary early for compounding investment returns. Without deferral, what would be the present value for Ohtani's contract, given

the discount rate of 4.43 % per year





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Enter Periodic Cash Flow Entries Here						
With initi cash flov	al outflow v of	0	Dollars			
what is t	he net					
present value (NPV) for the discount 4.43 % per year						
rate of						
Hide Ar.	Show	Chart Hid	de Question			
Average of present v playing s	net value per \$5 eason is	5,580,156.8	6 dollars.			
Total cas discounte	h flow ed is \$144	,198,431.42	dollars.			
Years	Cash Flow	Cumulative Cash Flow	Cumulative Discounted Cash Flow			
0 (2023)	-\$0	-\$0	-\$0			
1 (2024)	\$70,000,000	\$70,000,000	\$67,030,547			
2 (2025)	\$70,000,000	\$140,000,000	\$131,217,607			
3 (2026)	\$70,000,000	\$210,000,000	\$192,681,803			
5 (2028)	\$70,000,000	\$350,000,000	\$307 898 727			
6 (2029)	\$70,000,000	\$420,000,000	\$361,867,976			
7 (2030)	\$70,000,000	\$490,000,000	\$413,547,808			
8 (2031)	\$70,000,000	\$560,000,000	\$463,035,343			
9 (2032)	\$70,000,000	\$630,000,000	\$510,423,578			
10 (2033)	\$70,000,000	\$700,000,000	\$555,801,569			



- Ohtani's contract would be worth \$556 million in present value, \$144 million discounted from his \$700 million contract
- \$55.6 million per playing year

Shohei Ohtani's Contract No-Deferral Present-Value Equivalent

- Ohtani contract's present value evaluation is hugely different with or without the deferral clause
- A different player could ask for an equivalent contract in terms of present value, but without deferral
- Then, what's the nominal value of this equivalent contract?

Shohei Ohtani's Contract No-Deferral Present-Value Equivalent

% per year

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Almost every year there would be a new historical contract signed by a superstar player, who do you think got the best deal?

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Ohtani's contract with or without the deferral clause can make a huge difference in presentvalue evaluation, as the larger the discout rate, the bigger the difference. Discount rate is usually chosen based on inflation and/or growth expectation. Using

the discount rate of 4.43

the present value for the whole contract with deferral is estimated at \$365,887,955.99. While the present value for the contract without deferral is estimated at \$555,801,568.58.

The difference is \$189,913,612.58. For a fair equivalent contract, a different superstar player can ask for a no-deferral contract with the same present value as Ohtani's. We can use a time-value-of-money (TVM) contant annuity calculator to find the average annual value (AAV) for such a contract and the answer is \$46,081,476.50. Then the total contract value (TCV) for 10 years would be \$460,814,764.97. We can analyze this new equivalent contract with What If Financial Pro 2025's DCF -**Discounted Cash Flow Analysis calculator.** Notice that the present-value time is set at the beginning of Ohtani's contract. To maintain the same present value, this different superstar player might want an adjustment if a new contract is signed at a later year.



Enter Periodic Ca	sh Flow Er	ntries Here
With initial outflow cash flow of	0	Dollars
what is the net present value (NPV) for the discount rate of	4.43	% per year
Hide Answer Show	v Table	Hide Question
Average net present value per \$3 playing season is	6,588,79	5.60 dollars.
Total cash flow \$94,	926,808.9	98 dollars.
		0.020
		0.020
		4.058
		4.068

4:32 K Back Enter Periodic Cash Flow Entries Here With initial outflow 0 Dollars cash flow of what is the net present value (NPV) 4.43 % per year for the discount rate of Hide Aney Show Chart **Hide Question** Average net present value per \$36,588,795.60 dollars. playing season is Total cash flow \$94,926,808.98 dollars. discounted is Cumulative Years **Cash Flow Cash Flow** Cash Flow 0 (2023) -\$0 -\$0 1 (2024) \$46.081.476 \$46,081,476 2 (2025) \$46,081,476 \$92,162,953 3 (2026) \$46,081,476 \$138,244,429 4 (2027) \$46,081,476 \$184,325,906 5 (2028) \$46,081,476 \$230,407,382 \$46.081,476 \$276,488,859 6 (2029) 7 (2030) \$46 081 476 \$322 570 335 8 (2031) \$46,081,476 \$368,651,812 9 (2032) \$46.081.476 \$414.733.288 10 (2033) \$46 081 476 \$460 814 765

Cumulative Discounted Cash Flow
 Discounted

Shohei Ohtani's Contract No-Deferral Present-Value Equivalent

- An equivalent contract with same present value as Ohtani's would be \$461 million in nominal compared to Ohtani's \$700 million
- \$46.1 million per playing year

Discounted Cash Flow Analysis (DCF) vs. Presence-Adjusted Cash Flow Analysis (PACF)

- DCF is a common method analyzing and comparing investment proposals or contracts over discounted cash flow returns
- It usually has an initial outgoing lump-sum (at present value) and a sequence of incoming net cash flows discounted by time of value, thus discounted
- However not all investment proposals start at the same (present) time!
- MLB player contracts are good examples
- Presence-Adjusted Cash Flow Analysis (PACF) improved DCF and discount/inflate cash flow anchored at a common present time

Shohei Ohtani's Contract PACF Analysis

- Set present time at the 0th year, which is at the end of season 2024, while Ohtani's contract started in season 2024
- His first year \$2 million pay is at present value
- The rest of the contract is discounted yearly (for simplicity)
- Use a growth and discounted rate of 8% as many business manager should be able to achieve this ROI goal if not higher year over year
- Note that you can adjust the growth and discount rates in the What If Financial app to suit your need

Shohei Ohtani's Contract PACF Analysis

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Almost every year there would be a new historical contract signed by a superstar player, who do you think got the best deal?

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MLB PLAYER CONTRACTS PACF - PRESENCE-ADJUSTED CASH FLOW ANALYSIS



10:22

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For season 2024, both Ohtani and Judge had a fantastic year and were awarded MVP of their respective MLB league, while Ohtani also won his first World Series with Dodgers beating Judge's Yankees in 5 games. Ohtani's contract deferral provided Dodgers cash flow (let alone a high discount towards Dodgers's luxury tax calculation) for signing other sought-after players, such as Yoshinobu Yamamoto, who Yankees also tried to sign before the season. Instead he became the winning picther beating Yankees in Game 2. To fairly compare contracts starting at different years, we would need to set a common present time/season for growing past and discouting future payments. Using 'What If Financial Pro 2025's' 'PACF - Presence-Adjusted Cash Flow Analysis', we can enter 0 and anchor the present time at the end of 2024 season when Ohtani finished his first year contract with the Dodgers. Enter

present time at 0

For the completed part of the contract, Ohtani or his business manager could invest his earnings and grow them with a higher return rate than the Applicable Federal Rates (AFR) used in previous stories. For simplicity, let's assume each year's payment was made as a lump sum at the end of season and use the

vear

growth rate of 8 % per year

As for discounting the rest of the yet-to-finish contract seasons, he can use a



Cumulative Adjusted Cash Flow
Adjusted

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Average net present value per \$24,275,014.35 dollars. playing season is Total cash flow					
discount	ed is	Cash Flow			
0 (2024)	\$2,000,000	\$2 000 000	\$2 000 000		
1 (2025)	\$2,000,000	\$1,851,852	\$3,851,852		
2 (2026)	\$2,000,000	\$1,714,678	\$5,566,529		
3 (2027)	\$2,000,000	\$1,587,664	\$7,154,194		
4 (2028)	\$2,000,000	\$1,470,060	\$8,624,254		
5 (2029)	\$2,000,000	\$1,361,166	\$9,985,420		
6 (2030)	\$2,000,000	\$1,260,339	\$11,245,759		
8 (2032)	\$2,000,000	\$1,100,531	\$12,412,740		
9 (2033)	\$2,000,000	\$1,000,498	\$14,493,776		
10 (2034)	\$68,000,000	\$31,497,157	\$45,990,933		
11 (2035)	\$68,000,000	\$29,164,034	\$75,154,967		
12 (2036)	\$68,000,000	\$27,003,736	\$102,158,703		
13 (2037)	\$68,000,000	\$25,003,459	\$127,162,162		
14 (2038)	\$68,000,000	\$23,151,351	\$150,313,513		
16 (2039)	\$68,000,000	\$19 848 552	\$191 598 500		
17 (2041)	\$68,000,000	\$18,378,289	\$209,976,789		
18 (2042)	\$68,000,000	\$17,016,934	\$226,993,723		
10 (00 4 2)	¢00,000,000	\$1E 7EC 400	0040 750 440		

Shohei Ohtani's Contract PACF Analysis

- Ohtani's contract would be worth \$243 million in present value, \$457 million discounted from his \$700 million, 10-years contract with payments over 20 years
- \$24.3 million per playing year

Aaron Judge's Contract PACF Analysis

- Set present time at the 1st year, which is at the end of season 2024, while Judge's contract started in season 2023
- The contract is discounted yearly (for simplicity)
- Use a growth and discounted rate of 8% as many business manager should be able to achieve this ROI goal if not higher year over year
- Note that you can adjust the growth and discount rates in the What If Financial app to suit your need

Aaron Judge's Contract PACF Analysis

2:55

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Almost every year there would be a new historical contract signed by a superstar player, who do you think got the best deal?

Shohei Ohtani's Contract

MLB Luxury Tax Calculation on Shohei Ohtani's Deferred Compensation

Shohei Ohtani's Contract without Deferral

Shohei Ohtani's Contract No-Deferral Present-Value Equivalent

MLB PLAYER CONTRACTS PACF - PRESENCE-ADJUSTED CASH FLOW ANALYSIS

Shohei Ohtani's Contract

Aaron Judge's Contract

Mike Trout's Contract

Juan Soto's Contract Guaranteed

Juan Soto's Contract Maximum

Juan Soto's Yankees Contract Proposal



K Back

By the end of season 2024, Judge won the American League MVP and helped Yankees reaching World Series. To fairly compare contracts starting at different years, we would need to set a common present time/season for growing past and discouting future payments. Using 'What If Financial Pro 2025's' 'PACF -Presence-Adjusted Cash Flow Analysis', we can enter 1 and anchor the present time at the end of 2024 season when Judge just finished his second year contract and Ohtani finished his first with the Dodgers. Enter

present time at the no.

For the completed part of the contract, Ohtani or his business manager could invest his earnings and grow them with a higher return rate than the Applicable Federal Rates (AFR) used in previous stories. For simplicity, let's assume each year's payment was made as a lump sum at the end of season and use the

vear

growth rate of 8 % per year As for discounting the rest of the yet-to-finish contract seasons, he can use a

alculate

discount rate of 8 % per year



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	1 (2024)	\$40,000,000	\$40,000,000	\$83,200,000			
	2 (2025)	\$40,000,000	\$37,037,037	\$120,237,037			
	3 (2026)	\$40,000,000	\$34,293,553	\$154,530,590			
	5 (2028)	\$40,000,000	\$29,401,194	\$215,685,074			
	6 (2029)	\$40,000,000	\$27,223,328	\$242,908,401			
	7 (2030)	\$40,000,000	\$25,206,785	\$268,115,187			
	8 (2031)	\$40,000,000	\$23,339,616	\$291,454,802			

Aaron Judge's Contract PACF Analysis

- Judge's contract would be worth \$291.5 million in present value, \$68.5 million discounted from his \$360 million contract, 9-years contract
- \$32.4 million per playing year

Mike Trout's Contract PACF Analysis

- Set present time at the 5th year, which is at the end of season 2024, while Trout's contract started in season 2019
- The contract is discounted yearly (for simplicity)
- Use a growth and discounted rate of 8% as many business manager should be able to achieve this ROI goal if not higher year over year
- Note that you can adjust the growth and discount rates in the What If Financial app to suit your need

Mike Trout's Contract PACF Analysis

2:57

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Almost every year there would be a new historical contract signed by a superstar player, who do you think got the best deal?

Shohei Ohtani's Contract

MLB Luxury Tax Calculation on Shohei Ohtani's Deferred Compensation

Shohei Ohtani's Contract without Deferral

Shohei Ohtani's Contract No-Deferral Present-Value Equivalent

MLB PLAYER CONTRACTS PACF - PRESENCE-ADJUSTED CASH FLOW ANALYSIS

Shohei Ohtani's Contract

Aaron Judge's Contract

Aike Trout's Contract

Juan Soto's Contract Guaranteed

Juan Soto's Contract Maximum

Juan Soto's Yankees Contract Proposal

2:57

K Back

Before the start of the 2019 season, Ohtani's former teammate, Mike Trout, signed a 12year, \$426.5 million extension contract with the Los Angeles Angels. The contract included a \$20 million signing bonus, assuming payments spread out during the whole contract. To fairly compare contracts starting at different years, we would need to set a common present time/season for growing past and discouting future payments. Using 'What If Financial Pro 2025's' 'PACF - Presence-Adjusted Cash Flow Analysis', we can enter 5 and anchor the present time at the end of 2024 season when Trout finished his sixth year contract and Ohtani his first with the Dodgers. Enter

present time at	E	WOOT
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For the completed part of the contract, Ohtani or his business manager could invest his earnings and grow them with a higher return rate than the Applicable Federal Rates (AFR) used in previous stories. For simplicity, let's assume each year's payment was made as a lump sum at the end of season and use the

8 % per year

As for discounting the rest of the yet-to-finish contract seasons, he can use a

discount rate of 8 % per year



growth rate of



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~	K Back								
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Cumulative Adjusted Cash Flow

Mike Trout's Contract PACF Analysis

- Trout's contract would be worth \$416 million in present value, \$10.5 million discounted from his \$426.5 million, 12-years contract
- \$34.7 million per playing year

Juan Soto's Guaranteed Contract PACF Analysis

- Set present time at the 0th year, which is at the end of season 2024, while Soto's contract started in season 2025
- The contract included \$75 million signing bonus, assumed paid at the end of season 2024
- The contract is discounted yearly (for simplicity)
- Use a growth and discounted rate of 8% as many business manager should be able to achieve this ROI goal if not higher year over year
- Note that you can adjust the growth and discount rates in the What If Financial app to suit your need

Juan Soto's Guaranteed Contract PACF Analysis

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Almost every year there would be a new historical contract signed by a superstar player, who do you think got the best deal?

Shohei Ohtani's Contract

MLB Luxury Tax Calculation on Shohei Ohtani's Deferred Compensation

Shohei Ohtani's Contract without Deferral

Shohei Ohtani's Contract No-Deferral Present-Value Equivalent

MLB PLAYER CONTRACTS PACF - PRESENCE-ADJUSTED CASH FLOW ANALYSIS

Shohei Ohtani's Contract

Aaron Judge's Contract

Mike Trout's Contract

luan Soto's Contract Guaranteed

Juan Soto's Contract Maximum

Juan Soto's Yankees Contract Proposal



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Juan Soto also had a terrific 2024 season, reaching World Series with Judge and other Yankees teammates. As the season ended, he became a free agent and signed an gigantic contract with the Mets among many teams fighting for him. His contract is guaranteed for \$765 million, 15 years, and \$75 million signing bonus. To fairly compare contracts starting at different years, we would need to set a common present time/season for growing past and discouting future payments. Using 'What If Financial Pro 2025's' 'PACF - Presence-Adjusted Cash Flow Analysis', we can enter 0 and anchor the present time at the end of 2024 season when Soto received his signing bonus (assuming signing bonus was paid full when the contract was signed or soon after, though his contract starts in season 2025) and Judge just finished his second year contract, Ohtani finished his first with the Dodgers. Enter

present time at 0

For the completed part of the contract, Ohtani or his business manager could invest his earnings and grow them with a higher return rate than the Applicable Federal Rates (AFR) used in previous stories. For simplicity, let's assume each year's payment was made as a lump sum at the end of season and use the

year

% per year

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As for discounting the rest of the yet-to-finish contract seasons, he can use a



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Juan Soto's Guaranteed Contract PACF Analysis

- Trout's contract would be worth \$511.5 million in present value, \$328.5 million discounted from his \$765 million, 15-years contract and \$75 million signing bonus
- \$32 million per playing year

Juan Soto's Maximum Contract PACF Analysis

- Set present time at the 0th year, which is at the end of season 2024, while Soto's contract started in season 2025
- The contract included \$75 million signing bonus, assumed paid at the end of season 2024 – included in the 0th year cash flow
- The contract is discounted yearly (for simplicity)
- Use a growth and discounted rate of 8% as many business manager should be able to achieve this ROI goal if not higher year over year
- Note that you can adjust the growth and discount rates in the What If Financial app to suit your need

Juan Soto's Maximum Contract PACF Analysis

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Almost every year there would be a new historical contract signed by a superstar player, who do you think got the best deal?

Shohei Ohtani's Contract

MLB Luxury Tax Calculation on Shohei Ohtani's Deferred Compensation

Shohei Ohtani's Contract without Deferral

Shohei Ohtani's Contract No-Deferral Present-Value Equivalent

MLB PLAYER CONTRACTS PACF - PRESENCE-ADJUSTED CASH FLOW ANALYSIS



3:01

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Juan Soto also had a terrific season in 2024, reaching World Series with Judge and other Yankees' teammates. As the season ended, he became a free agent. Among many teams fighting, he was able to sign an even bigger contract from the Mets than Shohei Ohtani's, just made a year earler. To fairly compare contracts starting at different years, we would need to set a common present time/season for growing past and discouting future payments. Using 'What If Financial Pro 2025's' 'PACF -Presence-Adjusted Cash Flow Analysis', we can enter 0 and anchor the present time at the end of 2024 season (assuming his signing bonus was paid full when the contract was signed or soon after, though his contract starts in season 2025) and Judge just finished his second year contract, Ohtani finished his first with the Dodgers. Enter

present time at the no. 0 year

For the completed part of the contract, Ohtani or his business manager could invest his earnings and grow them with a higher return rate than the Applicable Federal Rates (AFR) used in previous stories. For simplicity, let's assume each year's payment was made as a lump sum at the end of season and use the

growth rate of 8

As for discounting the rest of the yet-to-finish contract seasons, he can use a

% per year



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Juan Soto's Maximum Contract PACF Analysis

- Trout's contract would be worth \$530 million in present value, \$350 million discounted from his maximum \$805 million, 15-years contract and \$75 million signing bonus
- \$33 million per playing year

Juan Soto's Yankees Contract Proposal PACF Analysis

- Set present time at the -1st year, which is at the end of season 2024, while Soto's contract started in season 2025
- The contract is discounted yearly (for simplicity)
- Use a growth and discounted rate of 8% as many business manager should be able to achieve this ROI goal if not higher year over year
- Note that you can adjust the growth and discount rates in the What If Financial app to suit your need

Juan Soto's Yankees Contract Proposal PACF Analysis

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Almost every year there would be a new historical contract signed by a superstar player, who do you think got the best deal?

Shohei Ohtani's Contract

MLB Luxury Tax Calculation on Shohei Ohtani's Deferred Compensation

Shohei Ohtani's Contract without Deferral

Shohei Ohtani's Contract No-Deferral Present-Value Equivalent

MLB PLAYER CONTRACTS PACF - PRESENCE-ADJUSTED CASH FLOW ANALYSIS

Shohei Ohtani's Contract

Aaron Judge's Contract

Mike Trout's Contract

Juan Soto's Contract Guaranteed

Juan Soto's Contract Maximum

Juan Soto's Yankees Contract Proposal



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When Soto became a free agent at the end of season 2024, Yankees wanted to keep him and proposed a could-be historical contract to him, too. However, it's longer and lower than Mets's contract proposal. To fairly compare contracts starting at different years, we would need to set a common present time/season for growing past and discouting future payments. For this Yankees proposal, we can enter -1 and anchor the present time at the end of 2024 season had he accepted Yankees's contract and starts in 2025 (there is no mentioning of signing bonus). End of season 2024 was also when Judge finished his second year contract and Ohtani his first. Enter

present time at the no. -1

For the completed part of the contract, Ohtani or his business manager could invest his earnings and grow them with a higher return rate than the Applicable Federal Rates (AFR) used in previous stories. For simplicity, let's assume each year's payment was made as a lump sum at the end of season and use the

% per year

vear

As for discounting the rest of the yet-to-finish contract seasons, he can use a

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growth rate of





umulative Adjusted Cash Flow

3:04				
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Juan Soto's Yankees Contract Proposal PACF Analysis

- Trout's contract would be worth \$420.4 million in present value, \$339.6 million discounted from his \$760 million, 16-years contract
- \$26.3 million per playing year

Observations

- DCF and its improvement, PACF, can fairly compare contract or investment proposals
- 8% discount rate corresponds to a reasonable, long-term ROI rate, while MLB (or IRS) uses mid-term Applicable Federal Rates (AFR), which is based on Fed's rates

Observations – based on 8% rate for growth and discount

	#playing years	Contract nominal value	Contract present value at end of season 2024	Average present value per playing year
Shohei Ohtani	10	\$700 million	<mark>\$243 million</mark>	<mark>\$24.3 million</mark>
Aaron Judge	9	\$360 million	\$291.5 million	\$32.4 million
Mike Trout	12	\$426.5 million	\$416 million	\$34.7 million
Juan Soto Guaranteed	15	\$840 million	\$511.5 million	\$32 million
Juan Soto Maximum	15	\$880 million	\$530 million	\$33 million
Juan Soto Yankees Proposal	16	\$760 million	\$420.4 million	\$26.3 million

Observations

- For many good reasons (won the World Series in the contract's first year!), Shohei Ohtani chose a heavily deferred contract, diminishing much of the contract's present value
- Among all these superstar contracts, Ohtani's 2024 present value is the lowest overall (\$243 million) and per-playing-year average (\$24.3 million)
- Juan Soto's Mets contract is the biggest, worth \$511.5 million to \$530 million in 2024 present value, average \$32 million to \$33 million
- Mike Trout \$34.7 million average is the biggest as his contract started much earlier than others and had time to grow

Observations

- Yankees' proposal to Juan Soto is only worth \$26.3 million in average, much smaller than the Mets contract Soto accepted, \$32 million to \$33 million
- No wonder Yankees cannot retain Soto
- Notice that these analyses highly depend on the chosen rates, try some other rates and see how their valuation changes!

The End

- What If Financial Pro 2025 from App Store
- A financial and economic tool for professionals and common folks!





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