

IBA YOUNG LAWYERS PRIVATE EQUITY FORUM

INVESTING IN SPORT: HOW TO AVOID SCORING AN OWN GOAL - KEY TAKEAWAYS

Panel:

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Theme 1 – Institutional capital and sport: market trends and drivers1. *Buyer universe*

- Traditional owners of sports assets (such as teams or franchises) were high-net worth individuals (often local to the team or with some form of personal connection / affiliation).
- The market has now evolved with increasing numbers of sports assets receiving institutional investment (this includes traditional private equity, sovereign wealth funds and other investment firms with institutional sources of capital).
- Transition from a trophy asset based on personal affinity to (on the whole) a legitimate financial asset where the aim is ultimately to generate a return for investors.
- Recent examples include the acquisition of Chelsea FC by a consortium co-led by Clearlake Capital, Silver Lake's investment in New Zealand Rugby and CVC Capital Partners' investment in The Women's Tennis Association.

2. *Drivers of institutional investment in sport*

- Recent sustained increases in revenue have created a market of sufficient size for institutional capital to consider the opportunities.
- There has been an increase in the value of live sport as content (hard to replicate in other forms of content / entertainment).
- New revenue streams have emerged based on technological innovations in how content is distributed to the audience (e.g. direct to consumer platforms, social media).
- Sports teams as an asset class have historically produced uncorrelated returns (as against the wider economy) and are often unique opportunities in combining a real estate / infrastructure strategy with the profile of a growth equity opportunity.
- The partial lifting of restrictions on institutional investment in US sports leagues (e.g. NBA, MLS) has resulted in an increasing number of funds looking to deploy a sports strategy.
- There has been a greater focus in recent years on stronger regulatory frameworks / governance controls designed to increased financial stability (e.g. financial sustainability regulations in European football).
- Opportunities for institutional investors to add value in terms of professionalising the industry and providing expertise to take advantage of growth opportunities.

3. *Deal structures*

- There is a broad range of investment structures including:
 - the acquisition of majority or minority equity stakes in individual teams / sports assets;
 - investments in commercial rights vehicles at the competition organiser level (e.g. CVC Capital Partners' investment in Six Nations Rugby);
 - debt financing (often secured against particular revenue streams (e.g. TV rights));
 - structured equity / hybrid deals; and
 - stadium financing.

Theme 2 – Investing in a football club – deal specific points1. *Valuation*

- There is no single truth on the methodology of valuing football clubs.
- Valuation is, however, commonly based on a multiple of revenues.
- There are specific valuation models which have been created for football clubs (e.g. Markham Multivariate Model which also incorporates factors such as wage ratios and stadium capacity).
- Benchmarking against transaction values involving comparable teams in the relevant league.

2. *Due diligence process*

- Financial, commercial, legal, property (opportunities relating to the stadium and real estate) and football (e.g. squad valuation) are the common key areas of due diligence.
- Given a large proportion of revenues will derive from the league, a key part of the diligence phase will be commercial due diligence on league level revenues (e.g. strength of the next TV rights cycle).
- Regulatory risks are a key focus of the due diligence process (e.g. compliance with football specific rules such as financial sustainability regulations, payments to agents and transfers of youth players). The impact of these issues can be particularly significant (e.g. sporting sanctions such as bans on transferring players) highlighting the need for specialist advice / sector expertise.

3. *Regulatory clearances*

- The football specific regulations for a change in ownership will need to be considered in the relevant jurisdiction.
- This is a current area of focus for the Premier League and the level of scrutiny on prospective owners under the Premier League's "Owner's and Director's Test" is increasingly significant.
- For example, the Premier League will undertake a detailed analysis on the fund structure and require certain disclosures about the limited partner base.
- In certain jurisdictions (e.g. Italy), the clearance from the football regulator will not be included as a condition precedent to closing but, in practical terms, an investor will want comfort prior to signing that there will not any issues with the approval being received post-closing.

Theme 3 – Looking to the future

1. *Impact of further regulation*

- The trend is towards the industry becoming more heavily regulated. This is primarily being driven by greater focus from Government given the public interest in sport and the wider societal benefits that it can bring.
- Examples include the new independent regulator for men's elite football as well as the reforms in the regulatory structure of English cricket (both of these changes are being driven by the UK Government).
- A further area of regulatory scrutiny in European football is likely to be on the existing multi-club ownership rules (given the increased prevalence of certain investors holding interest in multiple clubs). The tension for regulators is encouraging investment into the industry whilst maintaining the sporting integrity of competition.
- From the viewpoint of private equity investing in sport, interests may be aligned with greater regulation (e.g. further rules being introduced in order to improve financial sustainability and maintain competitive balance).

2. *Impact of new players in the market*

- Sport and entertainment forms one pillar of Saudi Arabia's Vision 2030. There has already been significant investment in sports from the country (e.g. investment in men's professional golf and the emergence of the Saudi Pro League).
- This is already disrupting the landscape and there may be further investment aimed at challenging the historical structures / governance of sport.
- This is also an example of a new market which is opening up to the industry and providing an opportunity for sports rightsholders to increase revenues (several sports have been enticed to bring live events to KSA).

3. *Growth of women's sport*

- There has been a shift from a largely grassroots participation area of the ecosystem to an area where there is an intense focus on commercial investment.
- There is potential to replicate the revenue growth in men's sports in relation to media and sponsorship revenues (sponsorship revenues in women's sports more than doubled in 2022).