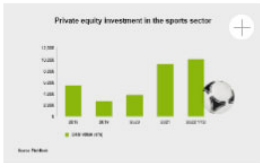
Sports

Private capital enters the arena on both sides of the Atlantic as leagues seek to attract private fund investments.

Sports leagues were once viewed as trophy assets in a hunting ground favored by high-net-worth individuals. Today the growing sophistication and escalating values of leagues, teams, and adjacent businesses are increasingly attracting private capital. Certain US leagues have taken notice of this trend, including the National Basketball Association (NBA) and Major League Soccer (MLS). Early in the pandemic, they permitted private equity to invest in their teams as another means for owners to achieve liquidity. PitchBook reported that total private equity sports investments in the US between 2018 and 2022 YTD has reached nearly US$16 billion.



Private equity investment in the sports sector

Deal value: 2008-2022

The sports investment opportunity is now global and continues to expand as new investors eye returns, driven by both the globalization and professionalization of franchises. The average team in the three major US leagues — the NBA, the National Football League, and Major League Baseball — has seen its valuation increase four times since 2011, compared to a tripling in value of the S&P 500. NBA teams stood out with a 6.7x average valuation growth over the same period. Since 2020, total private equity investment in the sports sector globally has increased almost threefold, from €3.6 billion to over €10 billion in 2022 YTD.

As values have grown, investment opportunities and capital structures have also become more complex. What was once either a straight equity or debt structure is beginning to resemble the shapes and sizes of non-sports transactions, in part driven by the shifting finance markets but also by an increasing sophistication and receptiveness by the holders of sports assets.

Patrick Mitchell
London
Entertainment, Sports & Media

Frank Saviano
New York
Entertainment, Sports & Media

Which kind of football?

As more established private capital funds develop targeted sports strategies and raise dedicated pools of capital and new "sports-only" funds continue to emerge, buy-side competition in the space has never been stronger. The larger universe of specialist investors in the US is now playing in Europe, meaning an even larger subset of funds looks at any given sports asset.

Structural differences dictate the development of an entirely different opportunity set on each side of the Atlantic. In the US, significantly stronger valuations and more onerous regulatory restrictions around expansion create higher barriers to entry. The relatively fixed supply of investable teams in the US, where there are 151 teams across the top five leagues, means rising demand translates into higher prices and valuation premiums.

In Europe, where many leagues feature the jeopardy of relegation and promotion, investors are circling second-tier clubs in the hope of kickstarting increased revenue through promotion. European teams are also typically less beholden to the professional structure of league management and franchise models, which often leads to more capital structure flexibility that in turn presents more private capital investment opportunities.

Media revenue — now streaming

A significant factor for the attractiveness of sports investments comes from potential unrealized commercial opportunities, with an inevitable focus on the value of broadcast and media rights. Public demand for sports as "must see" live entertainment remains at an all-time high, providing stable revenue bases for investors and upside for potential growth opportunities. According to data compiled by Bloomberg News, the total annual cost of domestic media rights for the largest professional US sports leagues has increased from US$3.4 billion before 2000 to an expected US$15.4 billion in 2023.

League-wide or club-specific investment opportunities composed solely of commercial or media rights (e.g., CommercialCo or MediaCo investments) have thus proved to be attractive targets, with potential upside to future centralized rights sales combined with inbuilt insulation against the performance of individual clubs.

Game on

In the coming year, we anticipate more capital to flow into teams, leagues, and competitions in Europe and the Americas, including into US franchises as firms familiarize themselves with the new rules.

We may also see more innovative structured investments further up the capital structure. Some private capital funds are already geared toward bringing more structured products to sports deals, and with rising interest rates and less availability of cheap capital in the public debt markets, sports enterprises are more likely to start turning to private funds for flexible capital and hybrid debt and equity solutions.

With more private capital investors circling sports assets, we expect many such investors to expand their horizons beyond the most obvious big-name sports and leagues. We anticipate funds adapting the strategies they have used in Europe to target US opportunities, looking outside the five major leagues to new markets like tennis, rugby, college sports, and women's sports, which offer the potential of higher returns and often more flexible investment rules.

Further, the investable landscape will continue to broaden to sports-adjacent opportunities — often touching up against other strategies. The intersections of pure sport with, for example, gaming, betting, and broader technology will be increasingly interesting to private capital. Technological innovation and growth company opportunities will attract investor attention and prove scalable, and we expect funds to start consolidating some of these parallel opportunities in pursuit of strong, integrated returns.