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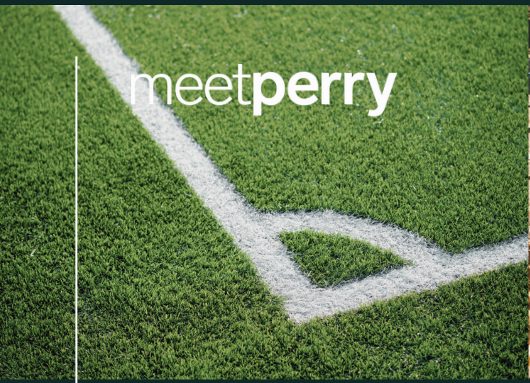
Game On: The Rise of Institutional Investment in Sports




Executive Summary

The global sports ecosystem has undergone a dramatic transformation over the past decade, evolving from an undervalued industry into a dynamic and rapidly growing market. This white paper examines key trends driving this transformation and explores emerging opportunities for investors and stakeholders across the sports landscape. Key areas of focus include:

01 The influx of institutional capital into sports franchises and leagues

02 The evolving media rights landscape and its impact on valuations

03 The finite supply of teams creates a scarcity value unique to sports assets

04 Sports investments exhibit low correlation to traditional markets

05 New revenue streams and fan engagement models

06 Opportunities in adjacent businesses and infrastructure

07 Sports as an Asset Class: A Point in Time Opportunity

Sports investments provide a resilient and low-correlation hedge against economic volatility due to their unique market dynamics.

As the sports ecosystem continues to expand and mature, it presents compelling opportunities for those able to navigate its complexities. However, realizing the full potential of these investments requires deep industry expertise and strategic partnerships.

1. The Rise of Institutional Capital in Sports

Historically, sports team ownership was limited to ultra-high-net-worth individuals who viewed franchises as trophy assets rather than profit-generating investments. However, skyrocketing valuations have made it increasingly difficult for even billionaires to purchase teams outright. This has driven leagues to open up to institutional investors, creating new opportunities for private equity firms, sovereign wealth funds, and dedicated sports investment vehicles.

Key developments:

- Major US leagues have revised ownership rules to allow private equity investments, with the NFL being the latest to do so in August 2024.
- Private equity firms like Arctos Partners and RedBird Capital have emerged as pioneers in sports investing, taking stakes in franchises across multiple leagues.
- Sovereign wealth funds have shown willingness to make large, long-term investments in sports properties, particularly in European soccer.
- New sports-dedicated funds are formalizing the thesis that sports represent a viable alternative asset class.

The influx of institutional capital is driving more sophisticated management practices and creating opportunities to unlock value through operational improvements and strategic growth initiatives. However, the unique aspects of sports investments - including league governance structures, revenue sharing models, and the need to balance financial returns with on-field performance - require specialized expertise and often league-specific approvals at the investor level.

- **NFL:** Permits private equity funds to own up to 10% of a team with a 6-year minimum holding period and a cap of 6 teams per fund. Approved funds undergo rigorous vetting, and sovereign wealth funds are barred from direct ownership.
- **NBA / MLB / NHL / MLS:** Allow up to 30% institutional ownership per team, with cross-league investment limits (i.e. NBA restricts funds from owning stakes in competing businesses tied to players).
- **MLS:** Imposes “qualified fund” rules, requiring $500M+ in committed capital and limiting investors to 25% ownership of any fund.

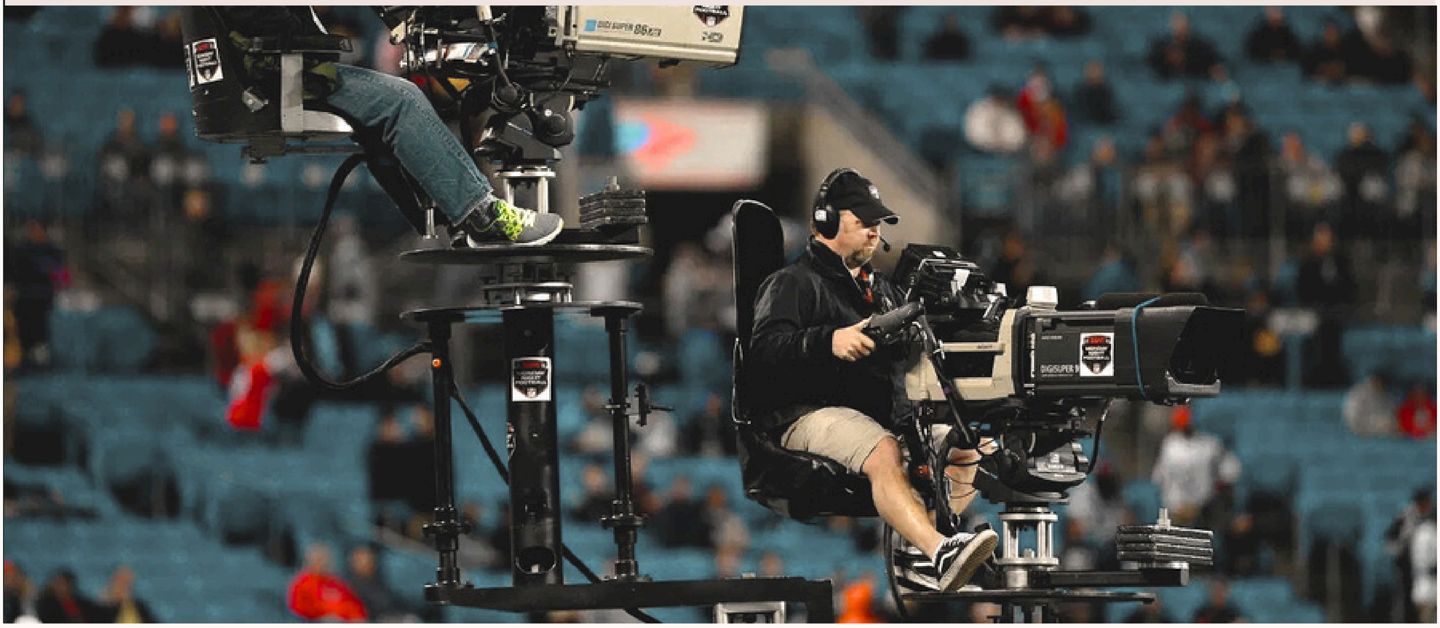
2. The Evolving Media Rights Landscape

Media rights have been the primary driver of sports franchise valuations over the past three decades. However, the landscape is undergoing significant disruption as cord-cutting accelerates and streaming platforms emerge as major players in sports broadcasting.

Key Trends:

- Legacy broadcasters face increasing competition from tech giants and direct-to-consumer (DTC) platforms for premium sports content.
- The shift to streaming is driving a price discovery process as the industry determines how much fans will pay directly for sports content
- Personalized viewing experiences and enhanced fan engagement are becoming key differentiators in the battle for eyeballs.
- Short-form content and behind-the-scenes access are growing in importance, particularly for reaching younger audiences

This transformation presents both challenges and opportunities for franchise valuations, as traditional revenue models evolve to accommodate new digital consumption habits. Successfully navigating this shift will require leagues and teams to embrace innovative distribution strategies while maintaining the high-value appeal of live sports.



3. Scarcity Value and Exclusivity

The inherent scarcity of professional sports franchises is a fundamental driver of their investment appeal. This scarcity creates a unique value proposition that sets sports investments apart from many other asset classes:

- **Limited Supply:** Major sports leagues have a fixed number of teams, creating a supply-demand imbalance that supports valuations. For example, the NFL has maintained 32 teams since 2002, despite significant market growth.
- **Barriers to Entry:** Establishing new leagues or expanding existing ones is extremely challenging, preserving the value of existing franchises. The last successful major league launch in the U.S. was Major League Soccer in 1996.
- **Exclusive Rights**: Teams hold exclusive rights to their market and intellectual property, creating monopolistic advantages within their regions.
- **Prestige and Social Capital:** The scarcity of ownership opportunities adds a level of prestige and social capital that goes beyond pure financial returns.
- **Resilient Valuations:** The fixed supply of teams has contributed to resilient valuations, even during economic downturns. For instance, NBA franchise values increased by 30% on average in 2020, despite the pandemic's impact.[1]

This scarcity factor has several implications for investors:

1. Premium Valuations: The limited supply often results in premium valuations that may exceed what traditional financial metrics would suggest. However, the scarcity value of the asset justifies a premium.

2. Long-term Hold Strategies: The scarcity of exit opportunities encourages longer investment horizons, aligning well with patient capital strategies.

3. Alternative Investment Structures: To access this scarce asset class, investors are exploring innovative structures like fractional ownership and tokenization.

4. Focus on Value Creation: Given the high entry costs, successful investors often focus on operational improvements and revenue growth to increase valuations.

The scarcity principle extends beyond team ownership to other areas of sports investment, such as media rights for premium events (e.g., the Olympics, World Cup) and limited licensing opportunities, further enhancing the sector's appeal to discerning investors.

4. Uncorrelated Returns: A Unique Alpha Opportunity

Sports investments have demonstrated remarkable resilience and low correlation with traditional financial markets, offering investors a valuable hedge against broader economic volatility. This characteristic stems from several unique factors:

- **Inelastic Demand:** Fan loyalty and cultural significance create consistent demand regardless of economic conditions. During the 2008 financial crisis, NFL franchise values grew 5% while the S&P 500 fell 38%. [2]
- **Diversified Revenue Streams:** Teams generate income from media rights (long-term contracts), sponsorships, merchandise, and stadium operations - a mix less tied to cyclical economic trends than corporate earnings
- **Global Audience Base:** The globalization of sports fandom (i.e. Premier League viewership across 188 countries, especially the USA) creates geographic diversification absent in most traditional investments.

This uncorrelated performance is attracting institutional investors:

- The Ross-Arctos Sports Franchise Index (RASFI) delivered stronger performance than major market indices with a 14% CAGR from 2013-2023, outpacing both the S&P 500 (11%) and Russell 2000 (7%).[3]

- European soccer clubs in the top 5 leagues saw enterprise values grow 8.6% annually from 2012-2022, compared to 6.9% for the STOXX Europe 600 Index. [4]

5. New Revenue Streams and Fan Engagement Models

As the media landscape evolves, sports organizations are exploring new ways to monetize their intellectual property and deepen fan relationships. Key areas of focus include:

1

Data and analytics:

Teams are leveraging mobile apps and other digital touchpoints to capture first-party data, enabling more personalized fan experiences and targeted marketing opportunities.

2

Direct fan monetization:

Subscription-based fan clubs, exclusive content offerings, and virtual experiences are creating new revenue streams that bypass traditional intermediaries.

3

Legalized sports betting:

The rapid expansion of online sports betting in the US is opening up new sponsorship and data licensing opportunities for leagues and teams.

4

Global expansion:

Leagues and franchises are increasingly focused on tapping into international markets, with initiatives ranging from hosting games abroad to launching localized content and merchandise offerings.

Successful execution of these strategies requires significant investment in technology infrastructure and digital capabilities. This creates opportunities for investors to add value through operational expertise and access to capital.

6. Opportunities in Adjacent Businesses & Infrastructure

While team ownership garners the most attention, the broader sports ecosystem offers numerous investment opportunities in adjacent businesses and infrastructure. Key areas include:

1

Stadium development:

Modern, multi-use venues with premium amenities and year-round programming are driving significant increases in matchday revenues. Private capital is playing an increasingly important role in financing these projects.

2

Sports technology:

Innovations in areas like player tracking, performance analytics, and fan engagement platforms are attracting venture capital and strategic investments from both traditional sports stakeholders and technology firms.

3

Content production:

The growing demand for sports-related content beyond live game broadcasts is creating opportunities in areas like documentary production, social media content creation, and interactive experiences.

4

Esports and gaming:

The convergence of traditional sports with competitive gaming and virtual experiences presents new avenues for engagement and monetization. These adjacent opportunities often offer more accessible entry points for investors compared to direct team ownership, while still providing exposure to the overall growth of the sports industry.

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Why Now?

We stand at a generational inflection point where institutional capital is gaining unprecedented access to an industry historically reserved for billionaires. This convergence of structural, technological, and regulatory shifts creates a rare asymmetric opportunity over the next 5 to 10- years, as the sports industry will likely move from an inefficient market to a more efficient one.

Conclusion

The transformation of the global sports ecosystem has created a wealth of opportunities for investors able to navigate its complexities. As the industry continues to evolve, partnerships between experienced sports operators and sophisticated capital providers will be crucial in unlocking the full potential of these investments.

While challenges remain, the unique combination of financial upside, brand prestige, and cultural impact offered by sports investments is likely to drive continued interest from a diverse range of stakeholders. Those able to bring together deep industry expertise, operational capabilities, and patient capital will be best positioned to capitalize on the next phase of growth in this dynamic market.

[1] Forbes NBA Team Values 2020

[2] Forbes, The Business of Football 2009

[3] Correlation of sports returns to selected category based on annual returns from 2000-2022 (using june-to-june basis to match forbes reporting schedule). source: rasfi, burgiss private capital index, capital iq

[4] Deloitte Football Money League 2025

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