



# Private Equity funds are pushing deeper into ProSports

April 2023



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## Introduction

If you had a billion dollars to spend, how do you think you might use it? Well, private equity firms are living the dream of every 15-year-old and have focused their attention on professional sports franchises. PE firms are investing substantial capital across the major professional sports leagues.

Broadly speaking, 2020 challenged the survival of sporting world with numerous restrictions, but we are well passed it and the current situation looks quite promising for the industry.

In the recent times, the National Basketball Association (NBA), the National Hockey League (NHL), Major League Baseball (MLB) and Major League Soccer (MLS) have opened doors for private equity funds to make multiple investments in franchises, but only for minority stakes – ensuring wary owners would not have to cede outright control.

### Top ownership regulations to keep an eye on:

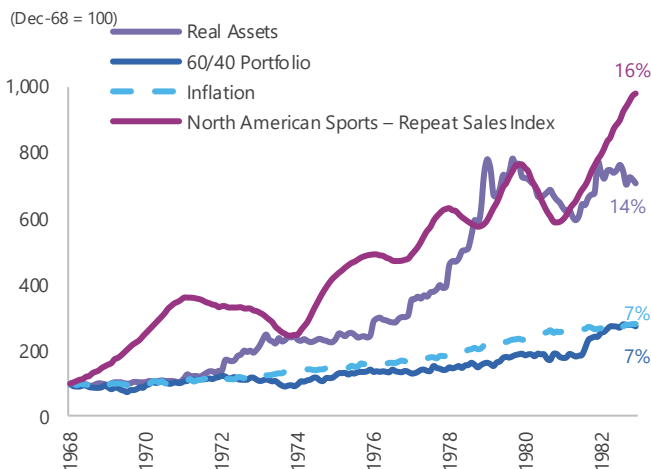
**NBA:** Private equity cannot own more than 30% in teams, with a maximum of 20% ownership for one fund

**MLS:** Similar rules to the NBA, with a minimum investment of \$20 million

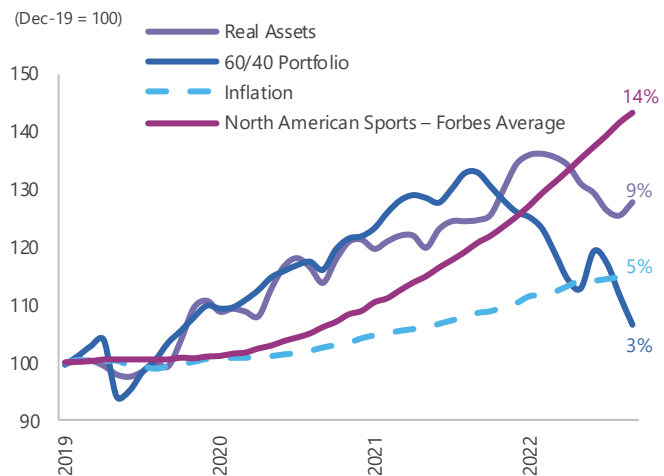
**MLB:** Doesn't have a set limit but evaluates investments on a deal-by-deal basis

The uptick in sports investment by PE firms can be attributed to several factors such as the long-term investment appetite of PE firms, scarcity of the asset (only so many franchises), and the fact that such investments have traditional real asset investments like characteristics. During both significant inflationary periods, 1970s 'Great Inflation' and Post-COVID Inflation, North American sport franchises strongly outperformed inflation and 60/40 portfolio and modestly outperformed traditional real assets (figure 1).

#### 1970s 'Great Inflation'



#### Post-COVID Inflation



Source: Arctos Sports Partners (Data estimated from source)



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The total PE investment in pro sports has increased from \$3.3Bn in 2018 to \$7.1Bn in 2021. Along with sports leagues, sports teams, and sports franchises, private equity firms are deploying capital in related media and entertainment platforms, especially since the onset of 2021.

Between 2002 thru 2021, the average price return for an NBA team was 1,057% compared to 458% returns on the S&P 500, according to estimates from PitchBook. Talk about significant outperformance.

## Clubs vs. Leagues investment

The economic performance of a sports league is more certain than the performance of sport franchises because unlike franchises, sports league's revenue doesn't depend on its sports outcomes. Leagues are more media focused than sports oriented, because for leagues, it is about improving the value of the product and the monetization of the content.

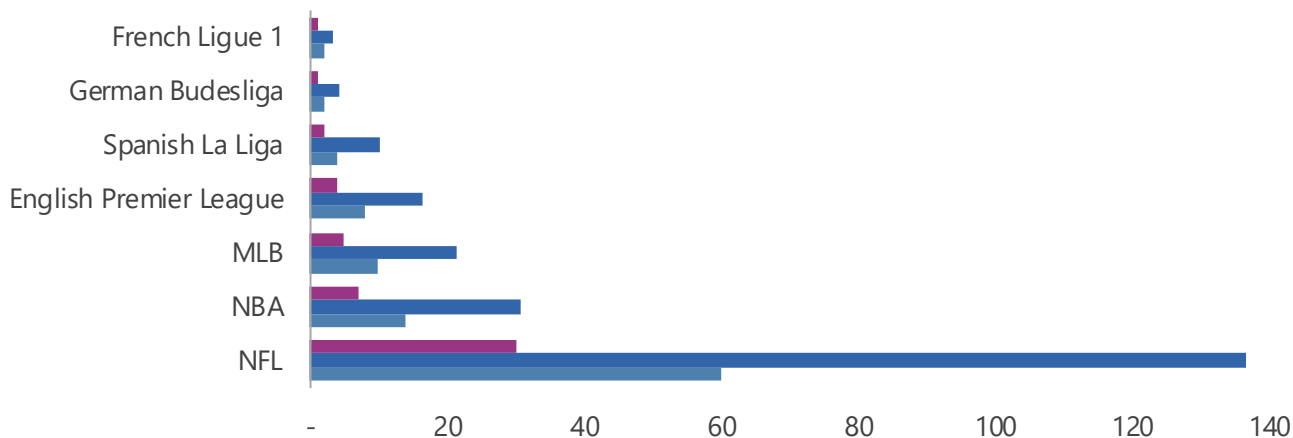
For franchises, it is more uncertain and difficult to make profit based on improving the value of their assets – players and infrastructure. The fluctuating earnings generated each year by such clubs depend on hospitality revenues, TV rights, sponsoring, merchandising, and sports performances. Despite loss of revenues from some of these sources and lack of liquidity, sport franchises continue to rise at ever high valuations and attract private equity investments.

## Most Valuable Sports Teams Worldwide (2022)

Despite the global popularity of soccer, rugby, and cricket, among many others, American sports teams dominate the rankings of the most valuable sports teams worldwide in 2022 according to brand value. The NFL franchise the Dallas Cowboys were the most valuable sports team worldwide in 2022, with an estimated brand value of 6.5 billion U.S. dollars.

**The World's 50 Most Valuable Teams: League Breakdown**

■ # of Teams in Top 50 ■ Total Value (\$bn) ■ % of 50 most valuable



Source: Forbes



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## Valuation Outlook for Baseball Pro Sports teams considering an example for the Analysis

The valuation of a professional sports franchise is primarily driven by supply and demand forces. There is a limited supply of teams and a growing number of billionaires (potential buyers)/sport focused funds that continue to bid acquisition prices higher as teams become available for sale. The major factors deriving the valuation demand is Income and Market approach.

Revenue and EBITDA multiples from the sports industry can be used as benchmarks for valuing a sports franchise. For reference, the following table shows the latest 2021 value, revenue, and corresponding revenue multiple for the top five teams from Major League Baseball (MLB):

#	MLB - Teams	Current Value (in US\$ millions)	Revenue (in US\$ millions)	Revenue multiple (x)
1	New York Yankees	5,250	108	48.6x
2	Los Angeles Dodgers	3,750	185	20.3x
3	Boston Red Sox	3,465	152	22.8x
4	Chicago Cubs	3,360	163	20.6x
5	San Fransisco Giants	3,175	151	21.0x

## Challenges in the space

1. The main challenge for private equity investment is that even though the structure brings in loyal fan base, recurring TV revenue etc. when all is going well, the other side of the coin can be really tricky if the team doesn't perform to its level, if it isn't successful or gets relegated – then the associated revenues and the investment is at risk.
2. Increasing probability of paying a high price owing to increasing certainty of revenue, success and profits, which can have a fundamental impact on the wider industry (financial failures of more clubs, inability to compete for lower teams against the financially backed giants) and eventually may influence future regulations around PE investment

## Conclusion

Sports is a unique investment due to the strong emotional connection of the fans who remain reluctant to an over-financialized sport. While there is certainly nothing wrong with investing in sports, it is important to ensure that the investment does not come at the expense of the sport's overall integrity and appeal to fans.



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The objectives of PE investors could be diverse: developing digital, renovating infrastructures, or creating new commercial structures. However, strategic decisions must be taken by mutual agreement between the investors and other stakeholders. The PE investors' objective is to structure the governance by offering opinion as advisors and identifying / building on the skills of the people.

The sports community is certainly more welcoming now for PE investments not only because of their ability to provide financing solution to their short-term needs but also for the wealth of long-term strategic expertise that these investors bring in. A neutral investor, like PE, can help to structure the governance and accompany such evolutions, since the funds are involved exclusively in the economic and commercial aspects, not in the sports ones.

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Source: Forbes



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**Thank You**  

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