

The rise of private equity in sports: risky business or slam dunk?

By: Devyani Aggarwal

In 2019, Major League Baseball (MLB) [became](#) the first professional sports league to open its doors to private equity (PE) by allowing PE funds to buy passive stakes in teams.¹ The National Basketball Association (NBA), the National Hockey League (NHL), and Major League Soccer (MLS) quickly followed suit. Pitchbook [reports](#) statistics that demonstrate PE's steadily growing interest in acquiring minority stakes of sports teams.² This trend was partly prompted by the fact that, over the last few decades, US sports teams' valuations have grown faster than the S&P 500.³ Moreover, many of these leagues [found themselves](#) trapped in the absence of sufficient liquidity and growth capital.⁴ Ownership of sports teams, traditionally limited to ultra-wealthy families and individuals, is now a lucrative marketplace with solid returns for a variety of investors. Leagues benefit from this trend as it enables movement from a stagnant and cash-constrained landscape to a much more efficient marketplace.

Given today's market scenario, in which corporate lending is taking a rather conservative turn, why are private funds showing such keen interest in sports? One possible explanation is that lenders [can rely on](#) the stability of recurring revenue flows, multi-generational fanatical loyalty among consumers, and the upside of thriving adjacent markets such as sports betting.⁵

¹ Luisa Beltran. "Private Equity Investments in Professional Sports Teams Have Surged in the Past Four Years, per PitchBook," *Yahoo! Finance*, September 11, 2023, <https://finance.yahoo.com/news/private-equity-investments-professional-sports-114119564.html#:~:text=In%202019%2C%20MLB%20became%20the,but%20only%20for%20minority%20stakes>.

² Jordan Rubio and James Thorne, "Major League Investors: Private Equity's Pro Sports Ties," *PitchBook*, September 6, 2023, <https://pitchbook.com/news/articles/private-equity-sports-investment-dashboard>

³ Ibid.

⁴ Kirk Falconer, "How Private Equity Is Moving into the Big Leagues," *Buyouts*, October 2, 2022, <https://www.buyoutsinsider.com/theyre-in-the-big-leagues-now/>

⁵ George Pyne, "Lenders Want Into Sports. How Do They Open the Door?" *LinkedIn*, July 17, 2023, <https://www.linkedin.com/pulse/lenders-want-sports-how-do-open-door-george-pyne/>

Additionally, lenders can [rely on](#) guaranteed revenue streams from major advertising, broadcasting and sponsorship contracts as well as monetizing player intellectual property.⁶ These unique features insulate professional sports from many of the macroeconomic stressors that impact other areas of the economy. This is evidenced by the consistently strong debt ratings of major league sports which are typically [no lower than A-](#), according to Fitch Ratings.⁷

PE funds' strategy for sports investing is [markedly different](#) from other industries from a longevity perspective.⁸ PE funds are traditionally known for their short-term investment approach, typically aiming to exit within 3 to 5 years of ownership. However, sports related investments are different as they are held for significantly longer terms. This could partly be due to the consistent cash flows and returns brought by broadcasting and sponsorship deals, which makes sports assets highly liquid and yield-producing. On a technical level, this allows general partners (GP's) to return distributions to limited partners (LP's) at a greater frequency than might be the case with more traditional asset classes. This gives a level of stability and liquidity to an LP's wider investment portfolio, which is increasingly rare in the current PE landscape.⁹ An example of this long-term investment approach is CVC's 10-year holding period in Formula 1.¹⁰

Moreover, what makes sports a unique and arguably tricky industry to invest in is the salience of league tenets and loyal fan support. Therefore, PE firms' control over management

⁶ Kirk Falconer, "How Private Equity Is Moving into the Big Leagues," *Buyouts*, October 2, 2022, <https://www.buyoutsinsider.com/theyre-in-the-big-leagues-now/>

⁷ George Pyne, "Lenders Want Into Sports. How Do They Open the Door?" *LinkedIn*, July 17, 2023, <https://www.linkedin.com/pulse/lenders-want-sports-how-do-open-door-george-pyne/>

⁸ Anna Sykes, Tom Maturi, and Alex Willis, "Beyond the Pitch: The Rise of Private Equity in Sports," *Sports Business Journal*, May 3, 2023, <https://www.sportsbusinessjournal.com/SB-Blogs/OpEds/2023/05/03-SykesMaturiWills.aspx>

⁹ Ibid.

¹⁰ Ibid.

decisions may sometimes coincide with foundational league principles and what fans want. This is why the [legal framework](#) behind these investments should reflect a structure that ideally limits the control of PE firms to commercial rather than governance decisions.¹¹ This division of control is typically defined in the shareholders' agreement and articles of association. A common way to achieve this is for the PE fund to invest equity and/or debt in return for stake in a newly incorporated separate holding company or joint venture vehicle of the sports team. This entity then manages mainly the commercial side of the business by using the injected capital to explore monetization opportunities, such as purchasing players and creating new infrastructure.

Despite the influx of capital from private equity into sports in unique and creative ways, institutional investors and PE funds also face some barriers to entry and growth. For example, The National Football League (NFL) [is the only](#) major American sports league that bars private equity and sovereign wealth funds from ownership.¹² Earlier this year, [it was reported](#) that NFL team owners are pushing to allow PE firms and institutional investors to buy stakes in teams.¹³ However, the league is unlikely to change its ownership rules anytime soon. After all, a major part of its appeal and prestige comes from the exclusivity attached to NFL team ownership. Bloomberg [reports](#) that the NFL has some of the most restrictive rules for owning a team in global sports.¹⁴ The lead investor of an ownership group must have at least a 30% equity stake in the purchase.¹⁵

¹¹ Anna Sykes, Tom Maturi, and Alex Willis, "Beyond the Pitch: The Rise of Private Equity in Sports," *Sports Business Journal*, May 3, 2023, <https://www.sportsbusinessjournal.com/SB-Blogs/OpEds/2023/05/03-SykesMaturiWills.aspx>

¹² Luisa Beltran. "Private Equity Investments in Professional Sports Teams Have Surged in the Past Four Years, per PitchBook," *Yahoo! Finance*, September 11, 2023, <https://finance.yahoo.com/news/private-equity-investments-professional-sports-114119564.html#:~:text=In%202019%2C%20MLB%20became%20the,but%20only%20for%20minority%20stakes.>

¹³ Giles Turner, "NFL's Billionaire Owners Want to Let Private Equity Buy Stakes in Teams," *Bloomberg*, March 27, 2023 <https://www.bloomberg.com/news/articles/2023-03-27/nfl-s-billionaire-owners-want-to-let-private-equity-buy-teams?leadSource=uverify%20wall>

¹⁴ *Ibid.*

¹⁵ *Ibid.*

With current valuations of NFL teams, this translates to billions of dollars in ready cash. Additionally, no ownership group can exceed 25 individuals while public companies, sovereign wealth funds and PE investors are entirely barred from owning shares of teams.¹⁶ Interestingly enough, private credit is a creative alternative for restrictive leagues like the NFL to play around with other investment options. For example, the NFL [has issued](#) US\$1.27 billion in new 2023 term notes under the league-wide credit facility.¹⁷ With a debt-rating of ‘A’ from Fitch, these notes will be used to repay existing debt, as well as for general corporate purposes and to provide working capital.¹⁸

Outside the US too, private investment in sports is facing other types of challenges. For example, the Wall Street Journal [reported](#) in 2021 about New Zealand Rugby’s agreement to sell a 12.5% stake to American PE firm Silver Lake in a company that would control and develop the commercial rights of the All Blacks.¹⁹ In return, Silver Lake would invest \$273 million into the game locally and its global development via the All Blacks.²⁰ Unfortunately the news was met with some [skepticism from fans](#) regarding foreign ownership as well as players who feared the [over commercialization](#) of the game.²¹

¹⁶ Ibid.

¹⁷ Ed Dixon, “NFL Owners Push for Private Equity Investment in Teams,” *SportsPro*, March 28, 2023, <https://www.sportspromedia.com/news/nfl-team-ownership-private-equity-investment-rule-changes/>

¹⁸ Ibid.

¹⁹ Stephen Wright, “A Financial Boost for Rugby’s All Blacks Meets Resistance in New Zealand,” *The Wall Street Journal*, August 18, 2021, <https://www.wsj.com/articles/rugby-all-blacks-new-zealand-11629225012>

²⁰ Ibid.

²¹ Kirk Falconer, “How Private Equity Is Moving into the Big Leagues,” *Buyouts*, October 2, 2022, <https://www.buyoutsinsider.com/theyre-in-the-big-leagues-now/>; Stephen Wright, “A Financial Boost for Rugby’s All Blacks Meets Resistance in New Zealand,” *The Wall Street Journal*, August 18, 2021, <https://www.wsj.com/articles/rugby-all-blacks-new-zealand-11629225012>

On the other side of the pond, fans of English soccer are closely watching the increasing number of PE firms buying minority stakes in their beloved teams. Most notably, Chelsea FC recently benefited from an investment from American PE fund Clearlake Capital, in its acquisition of former Benfica player Enzo Fernandez.²² Despite the advantages of extra capital, however, fans are [concerned](#) about the growing role of PE in English soccer due to fears that the PE model's perceived focus on profitability will destroy the historic and sentimental value attached to their favorite teams and players.²³ For example, [if a fund decides](#) that a fan-favorite star striker is not bringing in the moolah, is it time for them to say goodbye?²⁴ Additionally, PE also tends to rely on debt to fund significant tranches of their deals, which can be seen as problematic in times of high interest rates.²⁵ Even so, however, it is too soon to judge just yet since many of these projections are born out of uncertainty and conjecture in this new era of sports financing.

On the international front, therefore, fears surrounding PE investment have so far been mostly speculative. Since PE firms are primarily interested in minority stakes, the majority of strategic decision-making power is still vested in the hands of the team's original management. In fact, minority stakes can prove to be a trusted way to raise finance and offer a breadth of growth opportunities, especially for sports such as rugby that are ["in need of a financial boost"](#) and have been suffering from losses and fading popularity in recent years.²⁶

²² Matt Rogan, "Is Private Equity Good News for English Football?" *Evening Standard*, February 1, 2023, <https://www.standard.co.uk/sport/sport-comment/english-football-private-equity-good-news-clubs-b1057215.html>

²³ Selin Bucak, "Private Equity Financing of Sports Met with Resistance after Super League Fiasco," *CityWire*, May 25, 2021, <https://citywire.com/wealth-manager/news/private-equity-financing-of-sports-met-with-resistance-after-super-league-fiasco/a1511618>

²⁴ Matt Rogan, "Is Private Equity Good News for English Football?" *Evening Standard*, February 1, 2023, <https://www.standard.co.uk/sport/sport-comment/english-football-private-equity-good-news-clubs-b1057215.html>

²⁵ Ibid.

²⁶ Stephen Wright, "A Financial Boost for Rugby's All Blacks Meets Resistance in New Zealand," *The Wall Street Journal*, August 18, 2021, <https://www.wsj.com/articles/rugby-all-blacks-new-zealand-11629225012>

Private investment strategies in sports are fast-evolving. While professional men’s sports has always been of interest to private investors, more private funds are now making plans to enter the lucrative business of [college sports](#) and [women’s sports](#), which show increasingly promising potential.²⁷ While it is certainly an exciting time for dealmaking in sports, the trend has only just begun. Owing to its nascency, there is still insufficient data for LP’s to holistically evaluate potential returns despite the fact that such minority investing implies lower risk and volatility. In that way, this new wave of sports investments closely mirrors first-time funds. This may as well explain the quiet enthusiasm of PE firms with respect to their sports investing strategy. Time will tell now how robust these investments prove to be and the role they play in shaping the world of sports financing.

²⁷ Eric Fisher, “Private Equity Eyes College Sports as Next Big Potential Opportunity,” *Front Office Sports*, September 03, 2023, <https://frontofficesports.com/private-equity-eyes-college-sports-as-next-big-potential-opportunity/>; Sinead O’Sullivan, “Why Investors Are Cashing in on Women’s Sport,” *Financial Times*, July 26, 2023, <https://www.ft.com/content/a7a70dc7-e3b9-4c94-8659-3afa3efd72e0>