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# U.S Professional Sports Team INVESTING 101



“Thinking of joining the world’s most exclusive club? Acquiring an ownership interest in a major U.S. professional sports team requires more than just “dollars and sense.”

The good news is, on average U.S. professional sports leagues have enjoyed a steady increase in value over the past 20 years. There is a perceived value and stability to investing in U.S. professional sports teams, which can be traced to several factors: That said, taking your seat in the coveted owners box can often be extraordinarily complicated, overwhelming and sometimes a frustrating process. Before embarking on such a journey, let’s highlight a few critical factors to consider when determining the suitability of such an investment.

## 1 Predictable Revenue Streams:

U.S. professional sports teams benefit from a high degree of recurring revenue streams that are contractual and predictable otherwise known as “Contractually Obligated Income.” (e.g. national and local media rights)

## 2 A Stable System:

All U.S. professional sports leagues provide for strict league governance, which affords its member teams stability, strength, and support. With a few exceptions, the leagues have enjoyed labor peace and stability via their equitable and stable Collective Bargaining Agreements.

## 3 Limited Supply & High Demand:

U.S. professional sports teams are unique and limited in supply, which makes them scarce and somewhat inelastic. Historically speaking, U.S. professional sports team values have had a low beta compared to other asset classes, providing a uniquely diversified alternative investment to an investor’s portfolio.

## 4 Barriers to Entry:

Lastly, leagues and teams possess high barriers to entry. With the exception of expansion, it is not possible for new teams to be formed. Further, the ownership application process is highly selective and exclusive in order to maintain high quality investors amongst a league’s ownership pool.

There are two ways to acquire a professional sports franchise in North America. First, franchises can be acquired through a traditional buy-side process during which due diligence is performed, the purchase agreement is negotiated and the league’s approval process is undertaken. The second option is through a league expansion. Some leagues may elect to increase the number of teams in the league to access new or growing markets, service strong demand for the product, and increase the league’s brand or global reach. A prospective owner of an expansion franchise will need to pay for an expansion fee, which is typically shared equally amongst the existing franchises in the league. In addition, there are usually requirements and financial commitment



ments for the construction of a new arena or venue. For example, this is occurring in several markets with Major League Soccer (MLS), and in Seattle with the National Hockey League (NHL).

Unlike stocks of publicly traded companies, the vast majority of professional sports teams are privately held. Consequently, acquisition targets are typically not widely marketed and information is limited, which presents challenges when attempting to identify and assess the appropriate asset to acquire. Understanding the individual characteristics of the target league and team are crucial to selecting the ideal asset. Each U.S. professional sports league and team possesses strengths and weaknesses that require specific industry knowledge, including revenue sharing, media rights, licensing, sponsorship deals, attendance, and global appeal of the league as well as individual brand to name a few.

On an individual team basis, a factor that is inextricably linked to the health of a professional sports team is the strength of its local market. For a real estate investment, it is said the investment is all about “location, location, location.” Similarly, for a sports team it’s about “market, market, market.” Understanding the demographics, strengths, weaknesses and trajectory of the team’s local market is



paramount. As a result, a sports team in Los Angeles or New York City will likely command a higher valuation than teams in smaller markets across the country. In addition, discerning how a team’s brand is defined and perceived in its home market is critical to understanding its prospects for success.



Each U.S. professional sports league possesses its own specific constitution and approval process. League governance is an important facet of every league. Commissioners and other league officials are keenly focused on always operating under the modus operandi “what is in the best interest of the league.” With variation, each respective league has its own unique set of requirements and restrictions to ownership such as minimum investable equity, syndicate size limit, debt limits, governance requirements, personal guarantees and much more. Generally speaking, with the exception of MLS, the leagues are owned equally by each of its member teams. As such, all of these aforementioned items as well as the financial strength of the other owners in the league need to be carefully considered before making an investment decision.

Owning a professional sports team garners a considerable amount of publicity. Public interest in sports is extraordinarily high. Being an owner of a professional sports team can instantly make you a public figure. It is important that prospective investors understand that they might receive a high degree of exposure from the community and the team’s fans and supporters. Prospective ownership groups should have a balance of capital and community commitment. A team is viewed as a community trust, with ownership being its steward.

Over the past 10 years the U.S. sports industry has witnessed growing interest by private equity investors, venture capitalists, and entrepreneurs in acquiring U.S. sports teams. Investors have come to learn that the U.S. professional sports industry is not just a niche market. There are considerable and lucrative ancillary benefits and opportunities afforded to owners as a result of their owning these “scalable enter-

tainment companies,” including opportunities in real estate, sports technology, apparel, media, e-sports and other add-on sports related investments.

Perhaps the most important factor to mention as it relates to acquiring a professional sports team isn’t the value proposition or the prestige that comes with being part of one of the most exclusive club in the world, but the simple fact that it is the most fun investment class out there.



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