



Private Equity in Sports Playbook



In the ever-evolving arena of sports investments, ownership in a sports franchise, which was once dominated by high-net-worth individuals, is being transformed by the entrance of private equity, altering the very nature of franchise ownership. With sports franchises outperforming traditional markets, the allure for investors is undeniable, but navigating this landscape requires keen understanding of a game beyond the scoreboard. From pre-deal analyses that scrutinize asset valuations and risk potential, to the complexities of control and cultural alignment, a decision to enter the private equity investment arena requires strategic planning and a solid understanding of the interplay between finance, operations, and league dynamics.

Deloitte's Private Equity in Sports Playbook

As private equity reshapes the very fabric of sports ownership, the game plan for both owners and investors is clear: Understanding the business world of the sports industry is not just a choice but a necessity for those seeking to capture value off the field. Deloitte's Private Equity in Sports Playbook lays out concepts for consideration for both investors and owners considering an investment in a sports asset: the potential benefits, risks, and considerations for making an informed decision prior to striking a deal.

The game behind the game

Private equity's entrance into the sports industry has rapidly transitioned from novelty to necessity, reshaping the landscape of team valuations and changing how the sports ownership game is played. What was once a space largely dominated by high-net-worth individuals has evolved to allow for non-controlling ownership from corporate investors, ushering in a new era of diversified ownership structures.



Deloitte's Private Equity in Sports Playbook



In 2019, Major League Baseball became the first of the major US sports leagues to allow for private equity and institutional investment. Since then, all but the NFL—a league with particularly strong ties to family ownership—have followed suit. European franchises, however, have embraced private equity since the 2000s, paving the way for prominent investment firms to assume ownership roles and establish themselves in the global sports market. US sports leagues have generated a higher rate of return than the S&P 500 in recent years, making it a highly attractive asset class for private equity firms in pursuit of reliable revenue streams and high return on investment (ROI).

The recent surge in franchise valuations underpinned by steady income streams—media rights, sponsorship, brand value, team performance, strength of fan base, and market size, for instance—coupled with the growth potential of the sports industry, has propelled

sports investments into a distinct asset class, further fueling interest from investors and owners. As franchise valuations grow beyond the reach of individual investors, US sports leagues continue to relax and redefine their governance associated with private equity investment to create greater flexibility for owners and more opportunities for their franchises to grow in value. At the same time, this new dynamic of shared ownership poses certain risks (e.g., exit risks to both parties), some of which have yet to reveal themselves in the US market given how new the rise of private equity investments are in US sports leagues and franchises.

Deloitte's Private Equity in Sports Playbook



Private equity's playbook: **The power of the pre-deal analysis**

Before diving into the high-stakes world of sports team investments, private equity firms should first assess the playing field. A thorough pre-deal analysis focusing on the critical areas that inform the success of the investment can be essential. Firms should consider utilizing their M&A, operational, and transaction services expertise to evaluate potential investment opportunities through the lens of the sports business landscape. Understanding the complexities and risks of owning a franchise or asset is important to making informed decisions. In the lead-up to a deal, four key areas may require closer scrutiny:

Asset valuation: Determining the accurate valuation of the property under consideration sets the foundation for a sound investment strategy.

Risk assessment: Thoroughly assessing the business and financial risks associated with an acquisition is critical. Private equity firms may be able to safeguard themselves against unforeseen challenges down the line by identifying and mitigating potential pitfalls early on. Consideration of the risk profile can be a critical component of determining the overall deal pricing.

Cash-flow dynamics: What are the cash flows generated by a franchise? Understanding the underlying cash flows of a franchise can offer insights into the stability and predictability of income streams. By analyzing revenue sources—national media contracts, game day receipts, and sponsorship for instance—firms may more easily identify fixed-income prospects over the investment's life span.

Tax structure: Firms may increase their financial outcomes and reduce liabilities by first scrutinizing the tax structures associated with a potential investment.

Deloitte's Private Equity in Sports Playbook

Capturing value beyond the scoreboard

An investment in a sports asset may present a myriad of benefits for private equity firms, including the potential for substantial returns and unique opportunities for growth. Although sports investments represent a distinct type of investment requiring a longer hold period, they offer private equity firms a chance to diversify their holdings and tap into a growing industry with substantial value potential.

At the forefront of these benefits lies the potential for capital appreciation, offering private equity firms a pathway to realizing a significant ROI. One appealing aspect of investing in sports for private equity is the potential for uncorrelated returns. Unlike traditional investments tied to market performance, sports investments offer diversification into a new asset class and may shield investors from market volatility. Divergence from conventional asset classes adds

an extra layer of appeal for PE firms by positioning sports investment as a lucrative avenue for expanding their portfolios into new territory. The appreciation of sports teams is somewhat tied to league economics but remains largely uncorrelated to other asset classes—partly due to the resilience of the sector. The growth of sports team valuations may also be dependent on factors such as future media contract cycles and enhanced fan experiences.

A notable trend toward premium experiences also has the potential to positively affect an investment in a sports asset. Teams offering premium opportunities, such as on-field access or player meet-and-greets are realizing a surge in cash flow. New stadium developments are increasingly incorporating more premium spaces, which can lead to higher ROI.



Deloitte's Private Equity in Sports Playbook

Game plan dilemmas:

Control, complexity, and competition

Investing in sports presents unique risks and challenges that differ from traditional investments. One significant challenge is the limited control PE firms have over their investments once they acquire a stake in a sports team. Firms typically can do little to exert influence over management decisions. In many cases, controlling shareholders retain decision-making power, leaving PE firms with limited influence over their investment.

This lack of control may extend to the firm's exit strategy. While much remains to be seen in coming years as more firms exit from non-controlling ownership positions, today's PE firms typically must obtain approval from both the majority owner of the team and the league commissioner prior to exiting. Firms should be prepared to work with these majority owners and league personnel, which can potentially result in obstacles when executing their preferred exit strategy. Sports investments typically require a longer holding period compared to traditional PE investments. While PE funds typically operate on a five-to-seven-year life cycle, investments in sports teams may require a commitment of 10 years or more before firms can expect to see significant appreciation. This longer timeline may add complexity to fund management and requires a careful consideration of exit strategies from the start.

Additionally, the competition among potential investors may be fierce. The scarcity of sports assets contributes to increased valuations across the industry, making it challenging for PE firms to acquire stakes in desirable franchises at reasonable valuations in anticipation of private equity-like returns. Despite these challenges, the allure of investing in the sports industry remains strong, driven by its unique position as a growing and increasingly valuable asset class.

Deloitte's Private Equity in Sports Playbook

Playbook for owners: Evaluating private equity's fit

The decision to seek outside investment varies greatly among team owners, who are each driven by their unique perspectives and motivations. One significant decision-making factor for majority owners can be cultural alignment. Bringing in a PE firm as a non-controlling owner is akin to welcoming someone into your home. For this relationship to be fruitful, a shared vision for the team is essential. Owners may consider evaluating the firm's approach to managing teams to determine compatibility.

Monetization may be one of the driving forces behind owners seeking investment from private equity. With valuations soaring, team owners may opt to sell a portion of their stake to capitalize on the top-dollar bids private equity firms are known for. Private equity firms typically seek controlling stakes; but in sports, non-controlling interests are more common based on various league governance factors.

These dynamics highlight the need for alignment between a team's goals and an investor's expectations. For owners, finding the appropriate balance between financial gain and maintaining autonomy is a critical step in navigating the introduction of private equity investment to their team.

Game-changing moves that can transform franchise ownership

The introduction of private equity investments into sports is reshaping the landscape for teams and owners, creating more opportunities for diversification and growth. Owners are increasingly seeing private equity involvement as an intriguing opportunity to optimize their financial positions. One of the greatest advantages owners may realize by bringing in non-controlling private equity ownership is the ability to tell a valuation story without having to sell the entire franchise.

One of the greatest advantages owners may realize by bringing in non-controlling private equity ownership is the ability to tell a valuation story without having to sell the entire franchise.



One measure of success for franchise ownership is how owners can demonstrate their impact on franchise values over time. The infusion of private equity into a franchise adds liquidity into the system, giving owners more options for how they can invest in franchise growth and enhance the value of their asset. Owners can leverage this liquidity to diversify their investments while retaining control. More private equity interest and activity from opportunities related to globalization is also allowing owners to broaden their global appeal through international media rights deals and partnerships.

The introduction of private equity investments into sports has also resulted in a trend toward heightened professionalism, ushering in an era of enhanced operational excellence across the industry. Teams are increasingly redefining the benchmarks for what constitutes a high-performance asset, recognizing the value of investing in operations that could include human resources, finance, legal functions,

and strategic planning, to name a few. This shift underscores the importance of investments that bolster operational efficiency and allow owners to capitalize on new opportunities within the industry.

Navigating the risks: Balancing profit with team success

The introduction of private equity investment into a franchise carries risks that stakeholders should carefully consider. One primary concern is that fans may fear the prioritization of profit over the team's success. When financial interests drive decision-making, there may be a fear that the team's on-field pursuits could take a back seat to financial gains. Athletes may question whether investors have their best interests at heart, making way for the rise of conflicting agendas between athletes' career goals and investor returns. Owners may also worry that private equity investments could be linked directly to on-field performance. While success on the field often correlates with financial success, the pressure

Deloitte's Private Equity in Sports Playbook

to deliver results could lead to decisions that prioritize quick wins over the team's long-term stability. These potential risks underscore the need for a careful assessment of the mutual interests and goals of owners and investors from the start.¹

Understanding the business world of the sports industry

In the dynamic world of sports, the game extends far beyond the field. Today's sports business is no longer just about game day profits; it's about understanding the elements of the industry that drive success in this arena. Private equity investors and franchise owners looking to maximize an investment should seek a deeper understanding of the breadth of the business landscape of the sports industry. From navigating the complexities of league governance to tapping into the potential of international markets, the playbook for sports investment demands a comprehensive strategy.

In 2024, as US private equity sets its sights on European teams, a global perspective on the sports industry becomes more important than ever. Last year, more than 36% of Europe's Big Five soccer teams had a US investor.² Understanding the nuances of league operations, governance structures, and market dynamics may shed light on untapped potential and unforeseen challenges for both owners and investors.

From a broader point of view, owners and investors should consider how other significant components of the industry may affect an investment: the impact stadiums and real estate development have on franchise value, for instance, or how media contracts are distributed across teams. Even players' unions and salary caps can have an impact on the bottom line. Fan engagement is also a critical factor.

Today's sports business is no longer just about game day profits; it's about understanding the elements of the industry that drive success in this arena.

A multidisciplinary approach to sports investing that combines leading experts in sports with seasoned business consultants can change the game when it comes to establishing a holistic view of the industry, giving owners and investors alike an unparalleled edge for unlocking new revenue, identifying emerging trends, mitigating risks, and more.

Deloitte's Private Equity in Sports Playbook

Playing to win

The entrance of private equity into the realm of sports ownership has reshaped the industry, offering both opportunities and challenges for stakeholders. As the sports investment landscape continues to evolve, it's crucial for both owners and investors to understand the complexities of this dynamic arena. From pre-deal analyses to navigating the intricacies of league dynamics and market trends, understanding the business world of sports is essential for those seeking to capture value beyond the field. Whether considering an investment or evaluating partnership opportunities, working with an experienced organization can provide invaluable insights and guidance in navigating this ever-changing landscape. As private equity continues to redefine sports ownership, those who adapt and embrace a strategic approach to investment will be well-positioned to succeed in this dynamic and lucrative industry.



Deloitte's Private Equity in Sports Playbook

Authors

Jason Menghi

Audit & Assurance Partner

**National Audit & Assurance Private
Equity Leader**

Deloitte & Touche LLP

+1 516 918 7842

Steve Amato

Advisory Partner

**National Media & Entertainment
Sector Leader**

Deloitte & Touche LLP

+1 212 492 4378

Shawn Bryant

Managing Director

Deloitte & Touche LLP

+1 212 653 6288

Kat Harwood

Consulting Principal

Deloitte & Touche LLP

+1 213 996 4924



Endnotes

1. Deloitte, [2023 sports industry outlook](#), 2023.
2. PitchBook, ["Top private equity sports deals of 2023,"](#) December 17, 2023.

This publication contains general information only and Deloitte is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional adviser. Deloitte shall not be responsible for any loss sustained by any person who relies on this publication.

About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. In the United States, Deloitte refers to one or more of the US member firms of DTTL, their related entities that operate using the "Deloitte" name in the United States and their respective affiliates. Certain services may not be available to attest clients under the rules and regulations of public accounting. Please see www.deloitte.com/about to learn more about our global network of member firms.