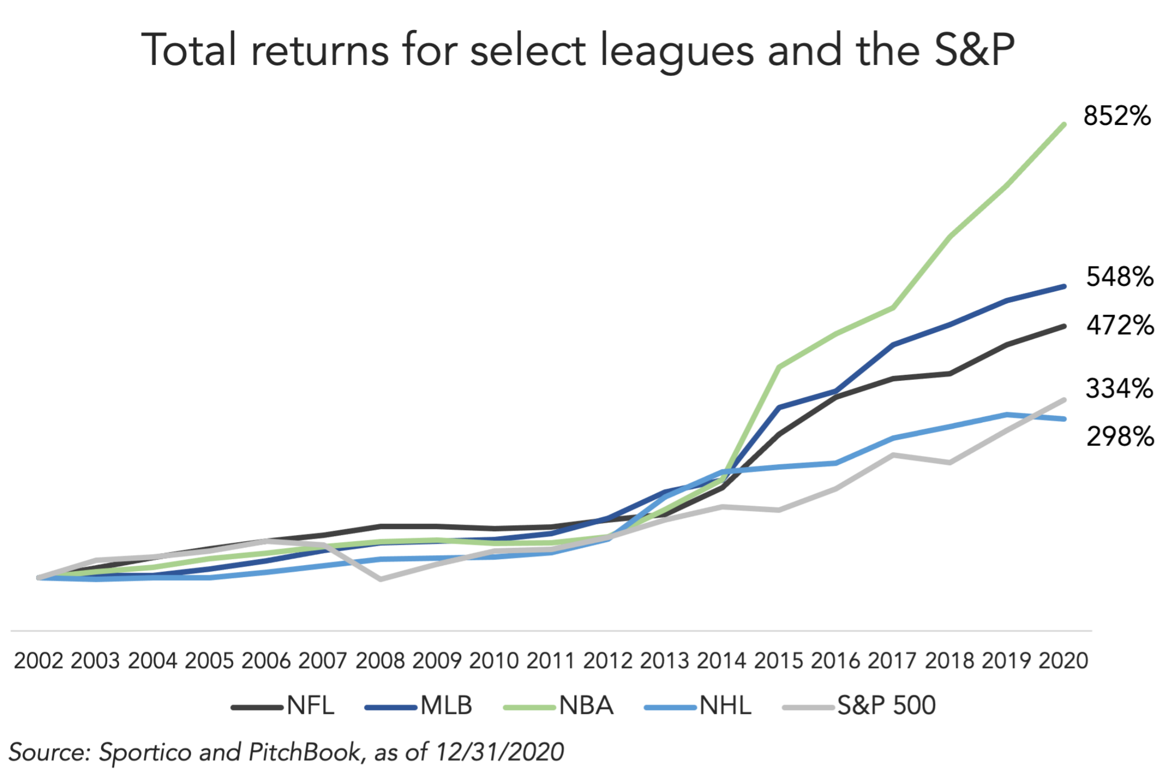
Institutionalizing sports investing

PitchBook | May 20, 2021



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Buying ownership stakes in professional teams has become a new credential for the most successful investors. A new PitchBook analyst note goes into detail about why that trend may continue, but with an institutional twist. In the last handful of years, the NBA, MLB and MLS have all altered their ownership rules to allow minority investments by PE-style funds into multiple teams. The return prospects are compelling—minority stakes investors target 15% to 20% in annual returns. Much of that is derived from capital appreciation, as opposed to income, but the chart above shows how much more valuable professional sport leagues have become, especially compared to the S&P. The NBA, head and shoulders above the rest, gets most of its revenue from media rights.

Most leagues—especially the NFL—are debt-averse and prevent owners from using a franchise as collateral. Debt-induced bankruptcies will wind up in court, and leagues don't want their revenues or profit figures to become public. Nonetheless, we're seeing new PE-style funds pop up explicitly focused on sport franchises. Arctos Sports Partners, cofounded by Ian Charles of Cogent Partners, is seeking $2 billion for its first fund, and has reportedly netted $950 million so far. Theo Epstein, the GM who turned around the Boston Red Sox and Chicago Cubs, provides advice to the fund, which was the first PE vehicle to buy a stake in an NBA franchise (5% in the Golden State Warriors at a $5.5 billion valuation). Dyal Capital Partners is another new investor, targeting $2 billion for its "HomeCourt Partners" vehicle. More funds will enter the space as time goes on. To paraphrase Kevin Costner in Field of Dreams, if you alter the ownership rules, they will come.

(Past performance is no guarantee of future results.)