Private Equity News

Private equity's sports boom: 'Everyone knows it's a bubble'

Will this year see a correction or will more investors join the game?

By Sebastian McCarthy
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Gerry Cardinale might be all smiles at AC Milan but he has been calling for calmer investing in sports | AC Milan via Getty Images

When Walmart heir Rob Walton bought the US National Football League's Denver Broncos for $4.65bn in 2022, it became the highest price ever paid for a sports franchise.

Walton held his record for less than a year.

Within months, private equity mogul Josh Harris formed a consortium that paid just over $6bn for another American football team, the Washington Commanders.

Sports valuations have soared in the wake of the pandemic, as a swathe of US private equity firms, Middle Eastern sovereign wealth funds and globe-trotting trophy hunters look to buy up the world's most coveted teams.

Buoyed on by scarcity value, lucrative TV deals and loyal fan bases, many of these buyers are hoping that their sports investments will be protected from the wider economic downturn.

Yet as a fresh deal pipeline emerges in the new year, some of the industry's most prominent figures are sounding the alarm.

"Everyone knows it's a bubble," says Gerry Cardinale, founder of RedBird Capital Partners, which owns Italian football giant AC Milan and holds minority stakes in the English Premier League's Liverpool FC owner Fenway Sports Group and the Alpine Formula 1 team.

"There is a tremendous amount of inexperienced capital chasing sports. I just think everybody has to calm down a little bit. We need some sober, unemotional, non-trophy-hunting investing in sports."

Cardinale says that some private equity firms are piling into the once-niche sector amid demand from their institutional investors to gain exposure to it. "It's built around a very facile notion that sports is non-correlated to the general market, that it's outperformed the S&P over a long period of time, and that it always goes up."

He adds: "You now have aggregators of capital who are playing on that. They're raising 2+20 kind-of-money to give investors exposure to sports and I think it's very dangerous. It will potentially lead to continued artificial inflation of asset valuations."

The fears of frothy valuations come after signs of economic turbulence in parts of the sports industry last year.

Much of the broadcasting market is in flux, for instance, amid questions over the traditional cable model and its rivalry with streaming services.

"The challenge for the sports world is how do you manage both parties? How do you have them work together and create content that works for all delivery systems?" says Don Cornwell, a co-founder of US investment firm Dynasty Equity, which bought a minority stake in Liverpool FC last year.

He adds: "That creates opportunities for investors who see opportunity to help teams and leagues navigate through a complicated ecosystem with real upside."

Signs of distress

Signs of distress appeared in US Major League Baseball, where regional sports networks (RSNs) have faced acute financial pressure. Media rights in the sport are now expected to be restructured in the wake of recent financial troubles.

And while the English Premier League agreed a new record £6.7bn domestic television deal in 2023, the Italian top-flight Serie A league originally delayed its auction after bids for domestic rights came in below the €1bn annual price tag, while France's Ligue 1 broadcast rights auction was halted after its minimum valuation was not met.

Yet for all the economic uncertainty, there is little sign of retrenchment from private equity firms. "When I started out in this in 2015, maybe there were two or three of us. Now there are 25 or 30," says George Pyne, founder of sports and entertainment company Bruin Capital.

To gain an edge over their competitors, Pyne says that some buyout shops are taking more minority stakes or using structured equity – a financing tool that often offers both debt and equity to provide business owners with the capital they need without ceding control.

US investment firm Ares, for instance, has raised a $3.7bn sports, media and entertainment fund that allows the firm to invest across both debt and equity, including senior debt, junior debt, preferred equity and minority equity.

Its deals last year included a $500m loan to Chelsea's private equity owners.

Colin Neville, a banker at The Raine Group who led the recent sales process at both Chelsea FC and Manchester United FC, expects more such deals. "A lot of big institutions have seen the success that people like Ares and Sixth Street have had and now they're trying to replicate some of that success."

He adds: "Five years ago, there were a couple of funds active in sports, but certainly not the breadth that we are seeing now: there are probably 20 funds that are taking a serious look at sports businesses."

PE veteran Steve Pagliuca, who co-owns US basketball team the Boston Celtics and Italian top-flight football club Atalanta, also expects the sports field to get more crowded: "There will be growth in specialist sports funds because sports assets tend to retain their value and they've had a large appreciation every year, like the art market or antique car market."

Attention is now turning to where investors will be deploying their capital in 2024.

Pagliuca sees opportunities in pickleball, Formula One and women's football, for instance.

Once an unloved corner of the investment market, women's football clubs are now being sold at all-time high prices: An investor group led by Sixth Street was awarded the 14th franchise of America's National Women's Soccer League for a record $53m franchise fee and a total investment of $125m, marking the largest institutional investment ever made in a professional women's sports franchise.

Emerging sports
So-called emerging sports are on the rise too. Accountancy giant EY is planning an "investor roadshow" early this year, speaking to private equity firms about potential investment in fast-growing but less well-known markets such as climbing, according to Tal Hewitt, sports strategy lead at EY-Parthenon.

"For both women's sports and more emerging sports, you can create a business plan where you can get to profitability," says Dynasty's Cornwell. "It used to be dependent on one thing and one thing only: can I get a TV deal from a cable provider or broadcast network? Now lots of entrepreneurs are saying to themselves that they can probably figure out a way to get content out there using technology".

Even as emerging sports garner more attention, so too are the traditional major European football leagues who are planning to sell a slice of their media rights income. Germany's top football clubs have voted to back private equity investment, with EQT, Blackstone and CVC all vying for a stake in the media rights business of the country's Bundesliga.

There are hopes of a similar investment in Italy's top-flight football league, Serie A, which has also held talks with buyout shops in the last year.

Emerging leagues are opening up their broadcasting rights to private capital too: a breakaway football league in Brazil has agreed to a conditional 50-year deal with two investment firms and the Saudi Pro League has begun mulling partnerships and broadcasting deals with private equity firms after its sovereign wealth fund acquired four of its Pro League clubs in the summer, according to *Bloomberg.*

Back to college
Youth sports are also attracting more interest, as investors see opportunities in a largely fragmented and under-monetised system.

Two prominent sports investors and private equity veterans, Josh Harris and David Blitzer, have inked several acquisitions in the space including: an Oregon-based extreme sports group, a vast 115-acre youth sports complex and two of the leading youth baseball brands that they have since merged.

In the American college system, changes to rules around name, image and likeness (NIL) have given young athletes a greater financial stake in the game and the transfer portal allows them to switch teams without penalty.

RedBird's Cardinale says: "College has been pretty much walled off from the private sector, and now because of NIL, capitalism is finding college."

Cardinale sees opportunities to repeat the success of major brands he helped launch, such as YES Network and Legends. “With technology having disintermediated the consumption of these rights, there’s an opportunity to re-underwrite the monetisation of this intellectual property.”

However, challenges remain: “One of the biggest challenges is that because of capital now finding sports, you’re starting to see the greater divergence of the haves and the have-nots…It can’t just be more and more of a consolidation for the big schools and then the smaller schools fall away.”

Whether it’s the new frontier of college sports or the next round of Europe’s top-tier football leagues selling off a share in their media rights revenue, investment firms show little sign of taking their feet off the brake.

As Dynasty’s Cornwell says: “We’re just in the first innings of private equity in sport.”