KEYNOTE INTERVIEW

PE finds new openings in accelerating sports sector

The fast-expanding sports industry offers an array of opportunities to investors that can navigate the ecosystem's complexities, say Simpson Thacher & Bartlett's Eric Geffner, Michael Kuh and Matthew Carpenter-Dennis

Sports teams have always played a vital role as cultural icons that bring people together. But more recently, the sector has become truly big business, with top teams in the US and Europe reaching multibillion-dollar valuations.

Michael Kuh and Eric Geffner, co-heads of the sports group at Simpson Thacher & Bartlett, and Matthew Carpenter-Dennis, a partner in the sports group, expect the sector to continue to grow on several fronts, particularly as more private markets firms look to establish their presence in the space. But to make the most of the opportunities the sports industry offers, they say, private equity investors must understand and navigate the complexities of the sports landscape and the nuances of investing in sports.

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Q To what extent have you seen private markets' involvement in the sports industry increase? And what is driving that enhanced appetite?

Michael Kuh: Private equity's entry into the sports market has been yet another catalyst of extraordinary valuation growth for teams. Not long ago, sports teams were considered trophy assets held by high-net-worth individuals. But today, sports has become an extremely attractive, high-performing asset class for all types of investors, including private equity funds.

Major League Baseball was the first major US professional league to open its doors to private equity investors in 2019. Then, in 2021, Arctos made the first private equity investment in a National Basketball Association team when it acquired an interest in the Golden State Warriors – this marked a significant step forward in private equity access to sports assets.

The drivers are straightforward. They include scarcity of assets, recurring revenue and media rights expansion, along with a track record of strong valuation appreciation. According to the Ross-Arctos Sports Franchise Index, North American franchise values have compounded at about 13 percent annually for decades. As valuations continue to rise, private equity is becoming an increasingly important source of liquidity for leagues and teams.

Private equity investment in sports is still very much in its early stages, but the asset class has established a strong foothold and remains highly attractive to sophisticated investors.

Eric Geffner: Valuations are skyrocketing, and the growth has been exponential over the last five years or so. While the recent surge has garnered more attention, sports teams had already been one of the top performing asset classes for decades.

In the US, the decision to allow private equity investment unlocked the space to a whole new set of capital providers. There were never the same restrictions outside the US and institutional investors still have more flexibility in controlling teams in international markets. Whereas in the US, in almost all instances, they have to be a minority passive investor.

We are still in the early innings. There may be some levelling off in valuations, but the opportunity remains tremendous. For example, the Washington Commanders were sold in 2023 for $6.05 billion, which, at the time, was the highest ever valuation for a National Football League team. But then we had the announcement this July that the Seattle Seahawks will be sold for $9.6 billion. We expect the momentum to continue across the board.

Q Which particular segments of the sports industry are proving most interesting?

Matthew Carpenter-Dennis: Capital allocators are evolving their approaches for identifying potential opportunities in the sports ecosystem and their strategies are more diverse, even compared with five or 10 years ago.

This includes more options for league-level investments, where, historically, investors have not been able to invest.

Today, several new leagues are emerging, including recently established leagues in up-and-coming sports, or new ventures from existing sports leagues that may be more receptive to direct capital investments.

The interest in exploring external capital solutions for the advancement of those leagues has been more robust. That has created a real opportunity not only for leagues and founding entities, but also for capital allocators to deploy investments in differentiated areas with significant upside potential.

Q How are media rights playing into private markets' appetite for sport?

MK: Long-term broadcast agreements, which provide predictable and recurring cashflows and media rights, have played a huge role in the increase of franchise valuations. In 2024, for example, the NBA inked an 11-year, $77 billion media rights package, which will generate over $200 million annually for each club.

Leagues are also partnering with streaming and digital platforms, which creates new distribution channels and leads to fiercely competitive bidding dynamics. As leagues seek innovative ways to reach global audiences and develop direct relationships with fans, investments in content platforms and emerging distribution models present fresh opportunities for revenue growth.

Q What makes for success in this space? What can PE firms do to avoid pitfalls when investing in sports?

Matthew Carpenter-Dennis: As sports lawyers, we see that, while these transactions might seem run-of-the-mill, they are inherently more complicated than a lot of other investments. Governing bodies and leagues may apply somewhat idiosyncratic rules that are not always intuitive to investors who are making initial forays into this space.

It is important to be able to translate not only the letter of the overlying rules, but also the intention behind those rules, to provide clients with a more nuanced understanding of what becoming a sports investor or team owner will entail. As investors expand into sports internationally, they may find that each market has its own unique dynamics and considerations, which can take time to fully understand when pursuing opportunities across a global sports investment strategy.

Eric Geffner: As the industry attracts larger pools of institutional capital and transactions become more sophisticated, private equity firms will benefit from counsel that can not only navigate today's sports landscape, but also anticipate the trends and opportunities shaping its future.

Q What other ancillary opportunities fit into the growth prospects of sports teams?

MCD: Real estate development is a great example. The US has built a lot of impressive stadium and arena infrastructure over the last 10-15 years. That trend is continuing and investors are seeking opportunities, not only in building world-class venues, but also in expanding the footprint around the stadium.

That can include mixed-use development, residential inventory and new entertainment districts that revitalise metropolitan areas and downtown cores. Traditional investors and institutional capital providers are increasingly drawn to these developments as a differentiated way of investing in the sports ecosystem.

EG: Another attractive aspect is that sports continue to draw live viewership at scale, supporting advertising revenues that many other industries have seen erode as viewing habits shift towards on-demand content.

Q How significant are opportunities for internationalisation in sports investment?

MCD: There has been increased attention from US investors towards investing in sports internationally.

Sports is going through what I would call organic globalisation. US investors that are going into European football or Indian cricket or South African rugby increasingly have the benefit of direct expertise and experience they can draw upon from sports investing domestically and can be applied to potential international investments. In some ways, that capital flow is correlated with the export of the commercial success of sports leagues and teams in North America, which can inform how sports properties across the globe develop their own business strategies.

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> **MICHAEL KUH**

At the same time, many of the sports leagues and brands are themselves wrestling with how to expand internationally. American sports teams that want to grow their fan base beyond the US need to find ways to thoughtfully engage with potential fans who come from different backgrounds and different cultures, and who may interact with sports much differently than fans in the US market.

MK: This is also why having a global platform and multijurisdictional expertise, like we do at Simpson Thacher, is so important to a sports practice.

Q How is the sports sector likely to evolve over the next few years?

EG: It is an extremely exciting time for sports. Activity is continuing to surge, and the rate of growth is unprecedented. New players continue to enter the space. There is more and more interest from private equity firms, including traditional private equity firms that are watching the space and preparing to make their first investments.

The media rights packages will only increase in scale, and global exposure will accelerate as teams, brands and players see their fan bases expand across the globe. We believe all of those factors will drive the ongoing momentum of this sector.

One area where there continues to be a lot of runway is women's sports. Valuations have been rising, and a lot of investors have been interested in women's sports inside and outside the US. There is still plenty of room for growth, and we expect persistent enthusiasm and investment in that space.

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> **ERIC GEFFNER**

MK: One reason why institutional investors are so attracted to sports is the industry has demonstrated a remarkable ability to withstand economic disruptions. Just a few years ago, sports faced huge challenges during the pandemic. But the industry benefits from certain structural advantages that make it unusually resilient across economic cycles.

The supply of premium teams and leagues is finite. Fan loyalty is exceptionally durable. Media partners place enormous value on live sports content. Even through the pandemic, investors saw that revenues could be temporarily disrupted, but the underlying demand for sports remained intact. That has strengthened the view of sports as a long duration asset class with characteristics that are not as correlated to broader economic cycles.

Also, in a world increasingly dominated by AI, sport remains one of the only forms of content that is unscripted and consumed live. Big tech and media interests are looking for ways to reach audiences with authentic experiences, and leagues and teams can continue to find ways to capitalise on that desire for authenticity. ■