Goldman Sachs Private Wealth Management

Getting in the Game

The Future of Sports Investing

We are excited to share this Sports & Entertainment Solutions Insights report with you. This paper provides an overview of the trends in the sports industry, as well as opportunities and considerations for interested investors. It draws on the perspectives of several professional sports team control owners and their limited partners across major US and international sports leagues, including women's and emerging sports, as well as our observations working with owners globally. We hope this report is helpful to those exploring exposure to sports — either as a control owner, limited partner, or passive investor in the growing number of sports-focused private funds.

Goldman Sachs is deeply attuned to the multifaceted needs of professional sports team owners and investors and has partnered with industry stakeholders for decades. Our firm currently works with over 100 owners and has supported them through acquisitions, sales, and financing — and advised them on their personal balance sheets, investment portfolios, philanthropic interests, family governance, and tax, trust, and estate planning. As valuations across sports assets rise and new opportunities emerge, clients are increasingly interested in investing in what has historically been an illiquid and generally inaccessible asset.

We consistently hear that our clients appreciate learning from each other, and we're delighted to facilitate that exchange and share insights from our work with owners. If you are interested in exploring this topic further, please contact your Goldman Sachs representative.

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Executive Summary

Over the last 20 years, consumers have increasingly prioritized live entertainment, such as sports, and advertisers, looking to target viewers at scale, have been willing to pay a significant premium to access sports' broad audience.

As a result of this shift, control of media rights has become incredibly valuable, bidding up contract values and becoming a major contributor to the global growth of sports and valuations.

As valuations have risen, it's become more difficult for a single individual to purchase control ownership, so leagues have become more open to institutional investor participation.

The emergence of institutional capital, particularly the approval of private equity investment in many US leagues, will likely improve liquidity, transparency, and access to sports investments.

When evaluating sports opportunities, interested investors should keep several considerations in mind, especially the amount of risk they can and are willing to take, as well as any non-financial benefits and risks.

Interested investors should understand past performance is no guarantee of future returns. While there are several tailwinds that support valuation growth, headwinds vary widely across leagues and the path to profitability, especially for women's and emerging sports, is not guaranteed.

Next-generation planning as a control owner can be challenging but also very rewarding.

Control owners are finding innovative ways to drive marginal revenue for their teams, including media expansion, athlete brands, real estate development, and sports betting.

There are many opportunities in sports, but women's and emerging sports, collegiate athletics, and youth sports are of particular interest to many of our team owner clients due to their untapped growth potential. Importantly, they note several considerations when evaluating these opportunities.

Overview of the Global Sports Landscape

The global sports landscape has changed dramatically over the last 20 years. Today's industry is dynamic, constantly evolving, and generates hundreds of billions of dollars in direct annual revenues and several hundred billion more through sports-adjacent industries. Media rights have been a significant contributor to this evolution. Owners understand this dynamic, and for that reason, no examination of the current opportunities in sports would be complete without a discussion of media rights and the subsequent impact on valuations, alongside the role of institutional capital and potential risks to future valuations.

Media rights & impact on valuations

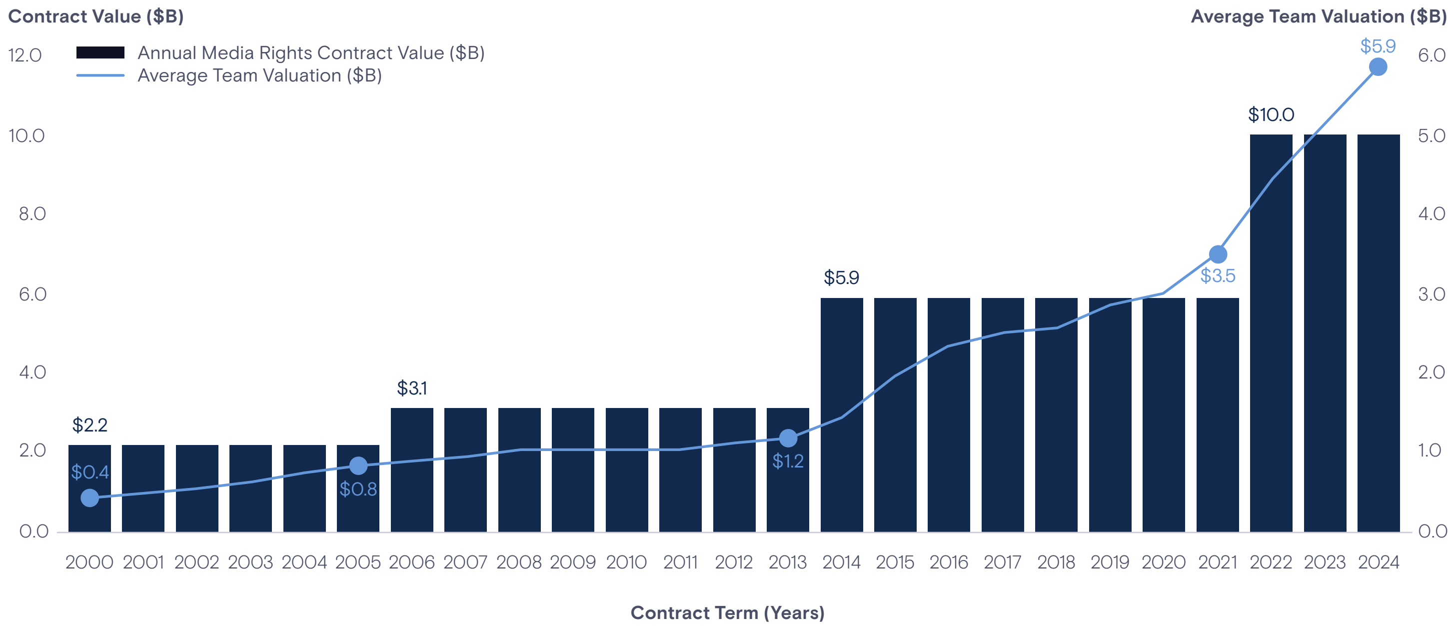
Over the last two decades, the traditional media model has been upended. Streaming has displaced the cable bundle and consumer preferences have changed, increasingly prioritizing high-quality, live entertainment, such as sports. Over the last five years, 40% of all US subscribers "cut the cord" on the traditional cable bundle, and just 45% of households still have cable subscriptions, down from a peak of nearly 90%.[1] At the same time, ratings for live sports have dominated the landscape. Of the top 100 most-watched broadcasts in 2023, 93 were National Football League (NFL) games.[2] After its new in-season tournament debuted in the 2023-2024 season, the National Basketball Association's (NBA) ratings were up 16% in early 2024 compared to the same period in 2023.[3] Major League Baseball's (MLB) local ratings were also up 7% in 2023 compared to 2022.[4] Since sports have become the primary type of live content many cable subscribers watch, advertisers have been willing to pay a significant premium to access these viewers. As a result, control of sports broadcasting rights has become the most valuable available intellectual property for legacy distributors and the Big Tech streaming services that have been disrupting them. Media contract values have subsequently skyrocketed — with leagues demanding increasingly higher prices for the rights to distribute their content.

> Of the top 100 most-watched broadcasts in 2023, 93 were NFL games.[2]

Media contract revenues are shared between leagues and teams. As a result, team revenue, player salaries, and team valuations have also increased. For example, in 2000, the annual value of the NFL's media rights contract was $2.2 billion, and the average team was worth $423 million.[5] Today, the annual value of the NFL's 11-year contract signed with CBS, NBC, Fox, ESPN, and Amazon in 2021 is $10 billion, and the average team is now worth 1,301% more.[6] Most of that growth occurred in the last 10 years, which is when the decline of traditional media began to accelerate.

This trend of soaring media rights contract values and team valuations has played out across all leagues, albeit in slightly different ways. In July 2024, the NBA signed a new 11-year, $76 billion media rights deal with Amazon, ESPN, and NBC, which will take effect after the 2024-2025 season — three times the value of its previous contract.[8] The average NBA team today is worth $4.4 billion, which is 100% increase since 2021.[9] The demand for NBA content is so high that TNT, the league's former media partner, invoked its right to match Amazon's offer in July 2024 and has initiated a legal challenge.[10] Whatever the final outcome, TNT's persistence demonstrates the value it ascribes to distributing this content. Given each NBA team roster has fewer players than the NFL, the impact on salaries has also been the most pronounced in the NBA. Players receive approximately

The Impact of NFL Media Rights Contract Values on Team Valuations[7]



51% of league revenues according to their current Collective Bargaining Agreement (CBA).[11] Several NBA athletes already earn $50 million per year, and a handful have the potential to earn $100 million per year by the 2032-2033 season, if the salary cap continues to increase as projected.[12]

The National Hockey League (NHL) and Major League Soccer (MLS) also have national (although smaller) media rights deals, which have contributed to their rapidly growing valuations. In 2021, the NHL signed a seven-year, $4.3 billion deal with Disney and WarnerMedia, double the value of its previous deal.[13] In 2022, the MLS signed a 10-year, $2.5 billion deal with Apple TV, a 450% revenue increase from its prior package.[14] The average NHL and MLS teams are now worth $1.33 billion and $658 million, respectively.[15] In contrast, MLB media rights are fragmented, with a high percentage of revenue coming from Regional Sports Networks (RSNs). Given the decline of RSN cable subscribers and the potential to generate higher revenues with larger, national contracts, many MLB teams are advocating to change their current model to allow more collective negotiation at the league level.[16]

Despite the eye-popping valuation growth over the last several years, it's important to note that professional sports team valuations may not be recession-proof or immune from declines in value due to exogenous factors. For example, during the 2008-2009 Financial Crisis, the average NFL team enterprise value remained flat, but eight teams saw mid to high single-digit declines in value.[17] In 2004, a labor lockout forced the cancellation of the entire 2004-2005 NHL season, causing a significant decline in valuations across all NHL teams. Steep declines in revenue were also seen across all major sports during the COVID-19 pandemic, although guaranteed revenue from long-term media contracts shared by leagues and teams mitigated some of the valuation impact. In other words, while revenue from large and long-term media contracts helps smooth some volatility from the business cycle or other factors, all professional sports teams face operating and other risks that should be seriously considered by interested investors.

Outside the US, similar demand dynamics are at play, but their impact on media rights deals has differed. In Europe, paid-TV subscriber growth has been stagnant, and TV advertising revenue was down 9% over the last five years.[20] European leagues are generally less mature compared to their US counterparts, and teams can individually negotiate their own media rights. The role of global distribution is also seen as increasingly important, especially as European domestic media rights deals begin to plateau. In 2023, the UK's Premier League signed a new, four-year £6.7 billion ($8.4 billion) contract beginning in 2025 that was only 4% higher than its previous contract.[21] Some of that inertia has been mitigated by the growing interest from US viewers, and in 2022, the value of the league's international rights exceeded UK domestic broadcast rights for the first time.[22]

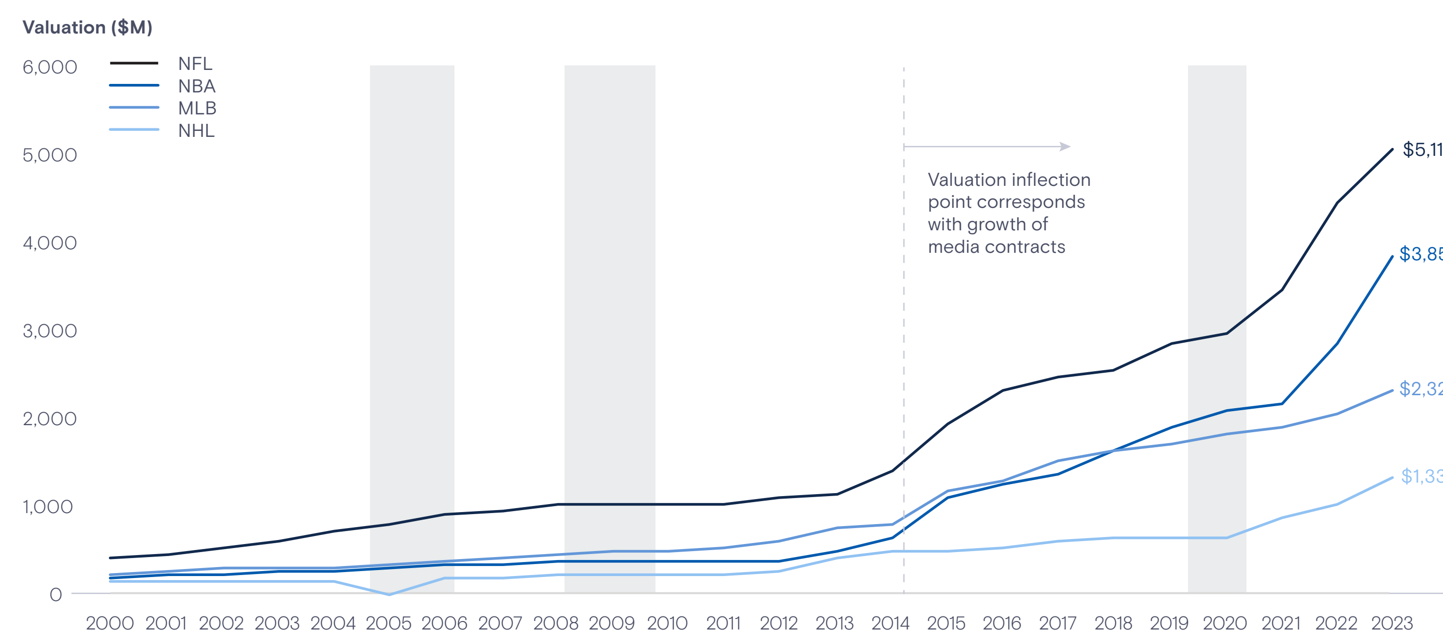
Major US Professional Sports Team Valuation Growth by League* (2000 to 2023)[19]

League	Cumulative Growth	CAGR
NFL	1,108%	11%
NBA	2,004%	14%
MLB	875%	10%
NHL	799%	10%

*MLS excluded given lack of historical public data

Other European soccer leagues have also faced similar difficulty in meaningfully growing domestic contracts in their most recent renegotiations: Spain's LaLiga was up 1%, Germany's Bundesliga was flat, Italy's Serie A was down 3%, and France's Ligue 1 negotiations were halted because no distributor met its minimum bid price.[23] Unlike their US counterparts, major European broadcasters have largely shifted their strategy away from loss-leading sports investments and are instead partnering with streaming platforms to offer sports content to their subscribers for an additional fee.[24] In other words, they avoid paying outright for the rights but still earn some revenue benefit from subscribers willing to pay to watch. This has essentially reduced the number of potential bidders, putting downward

Average Major US Professional Sports Team Valuations by League* (2000 to 2023)[18]



*MLS excluded given lack of historical data. Grey-shaded areas represent the 2004-2005 NHL lockout, the 2008-2009 Financial Crisis, and the 2020 COVID-19 pandemic, respectively.

pressure on rights demand and contract values. European media contracts also tend to be three to five years, which is much shorter compared to the US and opens the door for more frequent mark-to-market renegotiation.

Given Europe's challenges, there is some debate about whether US leagues will be able to continue commanding outsize media rights contract values moving forward, especially from a regulatory perspective. In June 2024, a jury ruled that the NFL violated antitrust laws by distributing out-of-market Sunday games on a premium subscription service and ordered it to pay $4.8 billion in damages.[25] That verdict was overturned on appeal in August, but it does not rule out future potential regulatory action.[26] On the demand side, if the current pace of cord-cutting continues, the traditional cable bundle may collapse. This change could potentially force networks to reduce or eliminate their investment in sports, which could drive down contract values.

> In the US major sports leagues, media contracts will provide significant and stable revenue over the next decade or longer, and valuations will likely continue growing, albeit at a slower pace than in the past.
>
> — Our control owner clients

However, unlike in Europe, many US legacy media companies have built their respective streaming services, and Big Tech has been extremely willing to supplant its competitors in contract bidding. When ESPN reduced its MLB schedule, Apple bid $595 million to stream Friday night games, and when Fox declined to renew their Thursday Night Football contract, Amazon bid $13 billion to assume the package.[27] As long as demand for live entertainment and sports content remains strong among consumers and advertisers, multiple streaming platforms will likely continue to step in if traditional companies pare their commitments. Whether or not the rate of contract growth slows, however, is an open question, but the long-term nature of US media contracts will likely mitigate some of this risk.

Valuation risk

Our control owner clients generally agree that at least in the US major sports leagues, media contracts will provide significant and stable revenue over the next decade or longer, and valuations will likely continue growing, albeit at a slower pace than in the past. They caution, however, that this should not be considered a rising tide that lifts all boats. One current NBA owner, who generated their wealth as an entrepreneur, likened some of the current enthusiasm across sports to the dot-com bubble of the late 1990s. While several of today's leading and most profitable technology companies were founded in that era, many did not survive, largely because valuations and investor enthusiasm became untethered to economic fundamentals. Given the significant enthusiasm around sports today, many of our owner clients who are considering higher-growth opportunities, such as women's sports or emerging sports, are laser-focused on those with the strongest revenue and profitability potential.

The NBA owner described above takes it a step further, noting they apply a "financing test" to their sports investments — if they were to hypothetically finance the entire purchase, they evaluate if they could service the debt from team revenue alone. Depending on the team, passing the test is difficult but may be possible across major US men's leagues. However, it is likely not possible for the MLS, women's leagues, or emerging sports based on their current revenue and valuation profile. The owner emphasizes this test alone may not dissuade them from buying a team, but instead, they note it highlights the importance of making that selection with a complete understanding of the risks. Evaluation criteria can include revenue and profitability potential, but may also consider the quality of the product and competition from other leagues. For example, although soccer is one of the few truly global sports, the MLS competes with the long-established Premier League which already captures significant American viewership. Using the NBA owner's framework, that dynamic may not dissuade an interested investor from buying an MLS team, but it should be considered and addressed as a risk factor.

The role of institutional investors

In general, valuation growth has outpaced the ability of high-net-worth individuals to acquire control ownership of teams. Although the number of global billionaires increased from 538 in 2001 to 2,640 in 2023, team ownership in one of the major US or European leagues would represent a sizable portion of these individuals' overall balance sheets.[28] As a result, leagues have become increasingly open to institutional investment capital. Several private equity firms have either announced or made equity or debt investments across global sports leagues and teams. All major US men's sports leagues and the National Women's Soccer League (NWSL) now allow minority ownership by private equity funds.[29] The NFL recently approved a select group of private equity firms to purchase up to a 10% ownership stake in a team, highlighting the increasing difficulty for a single individual to write a multi-billion-dollar control equity check.[30]

In European sports, institutional investors are well-established. Sovereign wealth funds (SWFs) began investing in European soccer teams in 2014. Abu Dhabi's International Petroleum Investment Company was the first entrant through a funding agreement with Real Madrid to support the long-term expansion of its stadium and global network of football academies.[32] Since then, SWFs have increased their exposure. A recent study found foreign individuals or entities have stakes in 43% of first- and second-division clubs across 10 European countries, and foreigners have a majority stake in 84% (or 122) of those clubs.[33] More recently, foreign ownership has sparked several lawsuits, alleging that foreign entities reduced competition by providing outsized funds for talent acquisition at above-market rates.[34] As geopolitical divisions deepen, there is increasing concern about potential national security threats and "sports washing" of alleged human rights abuses.[35] The landscape for future SWF investment remains unclear, but significant regulatory and geopolitical headwinds are likely to continue.

Measuring the true value of sports assets has historically been difficult for investors due to their significant illiquidity and the willingness of many buyers to pay a premium to own a "trophy asset." The widespread infusion of institutional capital across sports leagues has the potential to change that dynamic by dramatically increasing liquidity, transparency, and access for interested qualified individual investors — including control owners, limited partners, and passive investors in sports funds.

Private Equity Ownership Rules Across US Professional Sports Leagues[31]

League	NFL	NBA	MLB	NHL	MLS	NWSL
Maximum Equity Funds Can Own	10%	30%	30%	30%	30%	30%
Minimum Investment	3%	Unknown	Unknown	$20M	$20M	5%
Maximum Equity a Single Fund Can Own in One Team	10%	20%	15%	20%	20%	20%
Maximum Number of Teams a Fund Can Own	6	5	Unlimited	5	4	3
Minimum Holding Period	6 years	Unknown	Unknown	Unknown	Unknown	Unknown

*MLS excluded given lack of historical public data

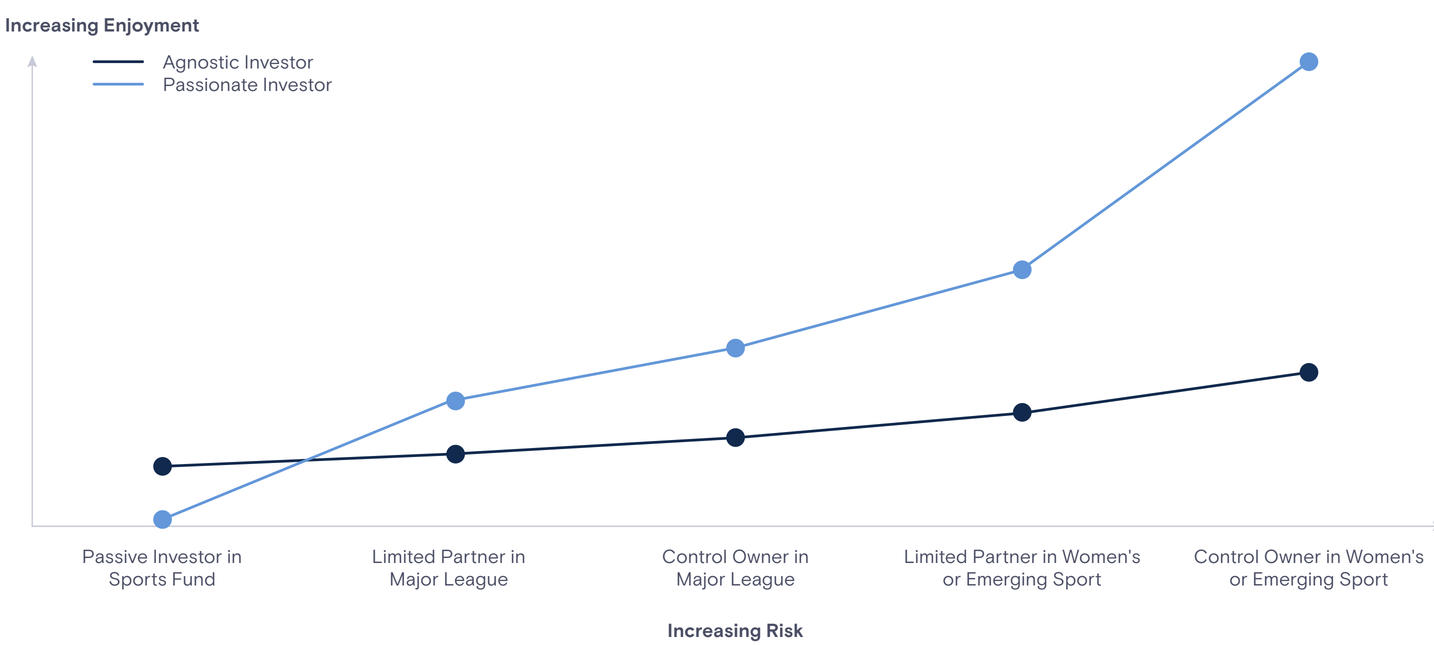
Evaluating the Different Avenues to Become an Owner

Selecting the appropriate exposure

Given the expanding liquidity brought on by the rise of institutional capital, how should an interested individual investor approach the space? What exposure may be appropriate based on the interested investor's goals and what are the relevant considerations to keep in mind?

In the words of one owner who owns multiple control and limited partner stakes across leagues, where and how you invest comes down to your capital base and "an axis of risk tolerance vs. enjoyment." In other words, if you have sufficient funds to become a direct owner in a team, you must carefully evaluate how much risk you are willing and able to take, and whether any risk is mitigated by the non-financial benefits you derive as an owner.

Axis of Risk Tolerance vs. Enjoyment*



*This chart is illustrative and for discussion purposes only. It is not meant to measure the potential or realized risk of various sports investments.

While measuring a team's risk is often difficult, it can be approximated by the strength of the franchise's operating team and league infrastructure, the size and durability of media revenues, diversification of revenue sources beyond media, and growth trends in live attendance and viewership. As a rule of thumb, the risk/return profile of major men's teams (both in the US and internationally) can be compared to traditional buyout private equity — where there are generally mature underlying businesses, strong operating teams, and appropriately diversified revenue sources. In contrast, women's and emerging sports are more akin to venture or growth investments. They generally have less established infrastructure and may not currently be profitable, meaning the risk is much higher but so is the potential reward if expected revenue and profitability are realized. Using the axis of risk tolerance vs. enjoyment to evaluate these options, a hypothetical investor may feel so passionately about supporting women's sports, for example, that they are more willing to risk their capital compared to the average agnostic sports investor.

The role of being a control owner

In many ways, the axis of risk tolerance vs. enjoyment reflects a broader mindset shared by many control owners. While many were interested in the potential return profile when first making their sports investments, it was often a secondary or tertiary motivation — desire to make an impact, hometown ties, and/or passion for the sport were the primary motivating factors. One Women's National Basketball Association (WNBA) owner shared that they leveraged a personal impact framework when selecting their first investment in sports. Rather than prioritizing a traditional risk/return framework, this owner reflected on their values and skills and selected their investment based on where they felt they could drive the most meaningful outcomes.

Given the importance of impact, it's no surprise many control owners are intently focused on working with, and for, the surrounding community. As one NHL owner explained, being a team owner is "at its core a civic role, almost a political one, with significant responsibility." An NBA owner was more emphatic, saying, "Every owner should stop using the word 'owner' — we are stewards of community businesses and should make all decisions using that lens." A different NBA owner even declared "sports is community" because they tap into a basic human tribal instinct and forge deep, emotional bonds across generations, which can't be easily replicated in other leisure activities. Another owner with control and limited partner stakes across leagues sees sports as transcendent, bypassing society's current polarization and creating the "broadest definition of community" by fostering a shared identity. For many of these owners, community engagement is not just the right thing to do, but it's also good business practice. While fans will always be disappointed when their team loses, strong community engagement ultimately deepens fan engagement and, along with investments in the fan experience, will keep them coming back.

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>
> — NBA team governor

Hometown ties and passion for the sport were also cited several times as the primary motivator. One NHL owner took a hyperlocal approach, noting their belief that owners should live and work in the market in which they own because it's the only way to "truly know" the team and its fans. Another NBA owner acknowledged their initial approach was almost entirely driven by a passion for the sport. Importantly, however, that passion did not overrule the consensus among our owner clients

that once purchased, franchises must be run as operating businesses to create sustainable success. Significant investments in their leadership team, physical infrastructure, cost efficiencies, the fan experience, and marketing strategy are often necessary to improve profitability and ultimately, support teams' ability to acquire strong talent and win games. One NBA owner approached this challenge by developing a four-pillar team philosophy where improvements to the fan experience, workplace culture, positive community impact, and winning were critical to building a championship franchise. In other words, for that owner, winning was an important component of success but did not define success.

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Next-generation planning

For control owners with children, next-generation planning tends to be top of mind. Choosing whether to involve family members in team management is a highly personal choice, but those who do involve children tend to employ similar strategies for success. The most universal theme across the owners we work with is the request or requirement that children work elsewhere, or sometimes in an entirely different industry, before joining team management. Owners' children grow up around their respective teams and passion for the sport ultimately pulls many of them back into the family business. Importantly, once children do join, many owners highlight the importance of creating clear separation so other employees view them as independent entities from mom or dad. In practice, owners have achieved this separation by having children work across different team business lines to develop their unique skills and expertise. Many owners said it was also critical to push children outside of their comfort zones and encourage them to seek mentors outside of the immediate family, so they could develop their sense of accomplishment. Regardless of approach, all owners agree that while working with family can be challenging, it is an incredibly rewarding experience they wouldn't hesitate to repeat.

Leverage

Depending on the league, control owners may have the opportunity to leverage their ownership stake as collateral for personal debt. This strategy has historically been difficult to execute, given leagues' general discomfort with a financial institution seizing collateral in the event of default. However, as valuations have risen, owners have become more interested in generating liquidity without outright sales. Leagues have begun to develop policies to meet this demand. The NFL recently updated its debt policy to allow control owners to use their non-voting interest in excess of 30% as collateral.[36] The league reserves the right to review (and potentially reject) every proposed transaction. The leverage opportunity across leagues continues to evolve, but as valuations continue to rise, additional liquidity opportunities will likely be made available over time.

Structuring control & limited partner ownership

Asset protection and trust and estate planning are key considerations for both control and limited partner owners. Many owners purchase their interest within a single-member limited liability corporation (LLC) to limit personal liability and protect the rest of their balance sheet. Owners may also gift shares to irrevocable grantor trusts outside of their taxable estates. Each league has their own regulations dictating how many shares, if any, can be gifted. They also reserve the right to review and reject the proposed structure and any associated trustees and/or beneficiaries named in such trusts. Given the significant potential for appreciation across sports assets, devising the appropriate gifting strategy may generate substantial estate tax savings for the owner and their families.

Considerations for becoming a limited partner or a passive investor in a sports-focused private equity fund

While many limited partners have similar motivations to control owners, they are not typically able to effect change or direct overall team strategy, given their lack of control. The limited partners we've encountered generally fall into two groups: one who leverages their minority stake on an eventual path to control and one who elects to remain a minority owner. The latter group either tends to be interested in further diversifying a private asset portfolio, would prefer not to commit significant capital to a single illiquid asset, or is sizing their investment based on perceived risk. Limited partners may also be entitled to additional nonmonetary benefits, including tickets, special access, and/or the ability to network with other owners. For limited partners leveraging their investment on a path to control, accessing league leadership and the owner network is especially critical — as they ultimately approve (or reject) bids for majority control.

Regardless of limited partners' motivations, they should consider liquidity risk and potential exit strategies. Most minority stakes trade at a discount due to a lack of control. The discount can vary widely (anywhere between 10% and 40%), depending on the league, team, geography, and size of the stake. By increasing liquidity, the entrance of institutional

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capital will likely shrink this discount over time — but it may take a decade or more, given the typical 10-year lifecycle of a private equity fund. In other words, potential limited partner investors should have a clear time horizon and net return expectations of any potential discount.

The increased prevalence of private equity firms has democratized access to sports ownership for a broader pool of interested and qualified, passive investors. Passive investors have the advantage of avoiding the lengthy approval process to own a team directly, and accessing diversified exposure easily and immediately — which reduces potential concentration risk. However, like limited partner owners, passive investors may face some liquidity risk. When funds invest in leagues or teams, they are making the investment with the intention of selling it after some period once sufficient returns have been generated. The fund's ability to sell rests on the ability to find a buyer, either another private equity fund or a qualified individual. Liquidity is expanding rapidly across the sports landscape and the demand for these assets is certainly high. However, it's unclear how these stakes will be traded at scale, given that most sports funds made investments only recently and haven't sold them yet. Investors should be aware of this potential illiquidity and understand that private equity funds reserve the right to extend the fund life or limit distributions for a variety of reasons.

Trends & Innovations Expanding Revenue Opportunities

Many control owners generated their wealth as founders, public company executives, private equity sponsors, and/or hedge fund principals. Naturally, they often continue to act as operators with their sports team(s), constantly evolving their teams' business models to build successful, durable, and profitable franchises. By capitalizing on the trends they observe in the marketplace — including creative media expansion, the star power of athletes, the value of multi-experience real estate, and/or the rise of sports betting — owners are innovating, helping drive marginal revenue across their respective enterprises.

Media expansion

Given the media's significant role in the growth of sports and as a primary source of revenue, it's no surprise that leagues and teams are exploring ways they can expand and more directly control that revenue. Leagues like the NFL and NBA have been doing this for several years through international distribution. The NFL organized its first international game in 2005 when the Arizona Cardinals hosted the San Francisco 49ers at Estadio Azteca in Mexico City. It has since hosted 50 international regular season games.[37] The league continues to emphasize global growth as a major strategic pillar. Beginning in 2025, it will schedule eight international games annually in new markets.[38] The NBA has followed suit, hosting two international games in the 2023-2024 regular season.[39] In 2019, the NBA also founded the 12-team Basketball Africa League, which helps drive media expansion for a growing number of potential global viewers.[40]

Control owners are also innovating on the team level. In February 2024, the MLB's Red Sox announced a partnership with Netflix to produce a docuseries covering the 2024-2025 season with the explicitly stated goal of growing global and local baseball audiences.[41] The PGA Tour leveraged a similar strategy to expand its reach through the Netflix show, "Full Swing," in the face of competition from LIV golf.[42] Teams are also exploring more direct control of their media distribution. The NBA's Phoenix Suns launched its own direct-to-consumer streaming platform, "Suns Live," in October 2023, enabling the team to reach out-of-market fans willing to pay to watch games they can't typically access.[43] In this way, the Suns not only expand viewership but also gain direct control of media revenue by displacing local broadcasters who traditionally act as the middleman. Many control owners have cited this example as the future model for watching sports. Local broadcasters have taken notice of the trend and in some cases, such as with the launch of Gotham Sports by YES and

MSG Networks, have created their own streaming apps to re-bundle regional sports content to combat declining cable subscribers.[44] As legacy media continues to struggle, teams have an emerging opportunity to recapture some distribution directly alongside the streaming services that are increasingly controlling national distribution. Our owner clients who have done so acknowledge that while streaming revenue remains a small percentage of overall revenue, it is an important diversifier and tool to reach a broader audience willing to subscribe.

Talent strategy & brand monetization

It's no secret that talent helps win championships, and championships drive viewership and future revenue. Most control owners, however, will agree that high draft picks and the right trades aren't sufficient for success. Building a winning and profitable franchise requires a carefully planned and executed talent strategy. Luxury taxes, or the surcharge placed on the aggregate payroll of a team when it exceeds pre-determined league limits, can factor into a team's strategy and ownership philosophy. This is particularly important in the NBA and the MLB, as the NFL has a hard salary cap that prevents teams from spending more than the stated limit.

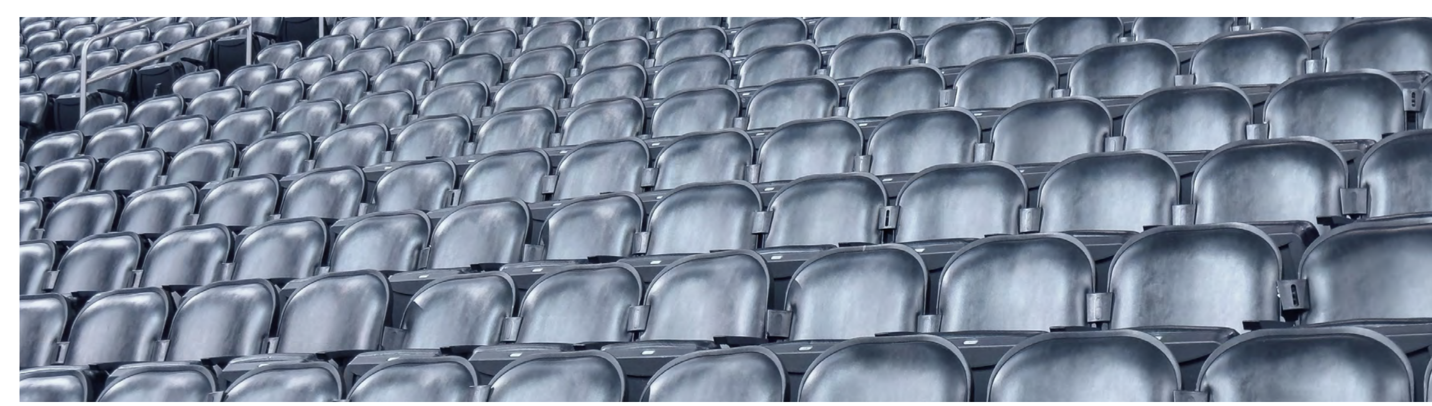
Some owners feel strongly that small payrolls show fiscal discipline, while others see the luxury tax as simply the cost of acquiring the best talent possible. In the 2023-2024 NBA season, the biggest luxury tax bills were paid by the Golden State Warriors ($177 million), Los Angeles Clippers ($142 million), Phoenix Suns ($68 million), Milwaukee Bucks ($53 million), and the Boston Celtics ($44 million).[45] There is some correlation between payments and championships, as many of these teams have reached or won the finals in recent years. That correlation, however, is far from strong. In the MLB, the luxury tax system, or the competitive balance tax, is tiered, with an additional 12%

Building a winning and profitable franchise requires a carefully planned and executed talent strategy.

fee applied to teams exceeding the limit by $20-$40 million, a 42.5% or 45% fee for teams exceeding by $40-60 million, and a 60% fee for teams exceeding by more than $60 million.[46] While overpaying can help teams acquire the best talent, those same teams haven't necessarily won the World Series by increasing their spending.

As new media contracts are signed, caps will continue to rise. In the NBA, the salary cap will reach 10% annual growth by the 2025-2026 season, the maximum annual growth currently allowed by its CBA.[47] That growth may lead some leagues to consider the example of the NFL and institute hard caps to prevent teams from overspending. Until then, the control owner's approach to luxury taxes will continue to be a critical decision point in the development of the team's talent strategy, as it directly impacts team profitability and should be considered from the onset of the owner's purchase.

Once top-level talent has been acquired, teams can choose to leverage their star player brands into an additional revenue source. The best recent example of this is in the MLS, where Inter Miami more than doubled its 2023 revenue to $118 million after acquiring Lionel Messi on a contract paying him ~$20 million per year.[48] This is also clearly seen in women's sports, where several star players are fueling interest and enthusiasm in the space, driving record viewership, live attendance, and new media contracts. As one NBA owner describes it, harnessing the power of star players creates a virtuous cycle, whereby star players help win games, drive fan engagement, and support



revenue through live attendance and viewership growth, increased merchandising sales, and potential sponsorship opportunities. That cycle also deepens the civic role many owners see themselves playing by engaging the fans and communities, ultimately binding fans closer to the team.

Multi-experience real estate development

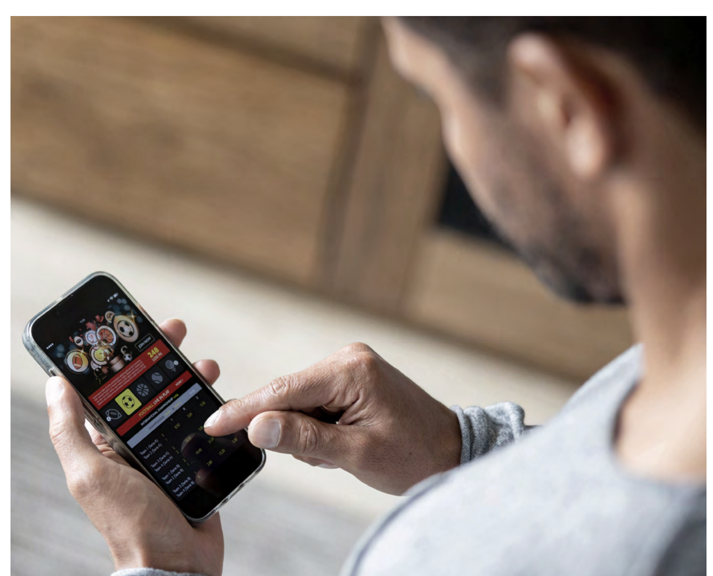
Control owners are increasingly looking to capture fans and other potential consumer dollars by creating additional experiences beyond traditional home games. Many owners, especially across major US men's leagues, own their stadiums, which allows them to profit from a variety of events during the off-season. It also may allow them to use the land immediately outside the stadium. This presents opportunities to develop entertainment complexes, which draw both traditional fans and others who may have never attended a game. Many owners are considering building music venues, apartment units, and/or retail, office, and medical spaces around the team's stadium. These developments transform the team into an anchor tenant for broader commercial real estate development. Some owners see the opportunity as so significant that they are independently investing in entertainment complexes outside of their home market. Cosm, a venue for watching sports and other entertainment, recently raised $250 million to expand its presence nationally in a funding round that included several control owners.[49] To paraphrase an owner currently building their entertainment complex, there isn't a single owner who isn't thinking about how to capitalize on consumers broadly, not just their immediate fans.

> There isn't a single owner who isn't thinking about how to capitalize on consumers broadly, not just their immediate fans.
>
> — Owner currently building an entertainment complex

Sports betting

In addition to real estate development, sports betting is another key strategy owners have utilized to monetize a broader set of fans, with additional upside potential as the space matures. For many years, sports betting was illegal in the United States. In 2018, the Supreme Court struck down the federal ban, declaring it violated states' rights.[50] Today, 38 states and the District of Columbia allow sports betting, and 30 of those states allow online gambling.[51] Since the ruling, sports betting has exploded in popularity, opening additional potential revenue sources across the sports industry. A recent study found NBA and NHL viewers are exposed to three gambling advertisements a minute, which is about 20% of the time it takes to watch a game.[52] Overall commercial sports betting revenue increased 12-fold since 2019 and now generates over $10 billion a year in revenue.[53] In the words of one NBA owner, the legalization of sports betting creates an enormous monetization opportunity to capture the "99% of fans who don't come to games." Another MLB owner agreed, saying, "Even if someone puts a $5 bet on a game, that's time and money they're spending that they otherwise might direct elsewhere."

Sports betting has not only significantly boosted independent gambling businesses, but it's also contributed to individual sports teams' profitability. Sports betting creates additional viewership, which supports strong annual growth and enables leagues to potentially fetch higher prices for media rights. All major US sports leagues also now have partnerships with betting platforms, giving them direct access to annual commercial sports betting revenues.[54] Those revenues ultimately trickle down to teams and create an additional marketing opportunity for teams in states that allow betting. As an example, one MLB owner has leveraged the momentum to capture additional sponsorships and partnered with large casinos in the team's home state. Regardless of where individual teams are based, all will likely continue benefitting from the increased revenue at the league level.



Future of Sports Ownership

Women's sports & emerging sports

Women's sports are on the precipice of a radical transformation. Stars including Caitlin Clark, Angel Reese, Simone Biles, Alex Morgan, and Coco Gauff, among others, are supercharging the space by doing what was previously unthinkable: selling out stadiums night after night and commanding record viewership and live attendance numbers that often exceed the growth rates of equivalent men's sports. Replicating some of the success of men's sports, especially media rights, will be critical to their future trajectory. The potential transformative power of media rights is so significant that in the words of one WNBA owner, they are "the beginning, middle, and end" of the success story (or failure) of women's sports.

Recent viewership and live attendance across the major women's leagues have smashed records and support larger media rights contracts. The NWSL has already capitalized on its expanded leverage, signing a four-year, $240 million contract in 2023 with CBS, ESPN, Prime Video, and Scripps Sports that is 40 times larger than its previous deal.[55] The WNBA continues to negotiate its rights with the NBA and will earn $2.2 billion of the 11-year, $76 billion media rights deal signed in July 2024, 233% more than what it previously earned on an annual basis.[56] Players, however, have yet to benefit. As an example, under the terms of their current CBA, WNBA players receive 50% of incremental revenue that exceeds league-defined targets, which grow by 20% annually. In 2022, that formula translated to players earning only 9.3% of total revenues, contrasting with the NBA where players earn 51% of league revenue.[57] Given expanded media contracts, players will likely renegotiate this sharing arrangement when their CBA expires in 2027.

Several owners have also capitalized on the recent momentum in women's sports by raising capital or selling teams outright at significant valuations. In July 2024, Angel City of the NWSL set a new women's sports valuation record, announcing the Los Angeles-based club would be sold at a $250 million valuation after being founded for a $2 million expansion fee in 2020[58] — a stunning 12,400% cumulative return on investment in four years. Assuming teams continue to invest in human capital, operations, and physical infrastructure, and revenues from expanded media contracts are realized, future return potential across women's leagues may be strong. Our team owner clients agree, and generally see returns in women's sports and other emerging sports, such as sailing, motocross, volleyball, professional bull riding, lacrosse, and others, potentially outpacing equivalent men's teams in established leagues — assuming expected revenue and profitability is realized. They acknowledge, however, that the risk is significantly higher and should not be discounted. Without a substantial increase in profitability, women's teams and other emerging sports may struggle to justify their rapidly expanding valuations if enthusiasm around the space declines. To learn more about the opportunities and considerations in women's sports, please review our recently published paper, *A New Era Dawns in Women's Sports*.

> Media rights are "the beginning, middle, and end" of the success story (or failure) of women's sports.
>
> — WNBA team governor

Collegiate sports and youth athletics

For several of our owner clients, collegiate sports and youth athletics represent the final frontier of sports investing with large, untapped potential. It has historically been incredibly difficult, if not impossible, to invest in collegiate sports due to federal laws prohibiting National Collegiate Athletic Association (NCAA) athletes from profiting from their name, image, and likeness (NIL). There were also very few opportunities in youth sports, given the highly fragmented nature of youth leagues and the overall lack of investor demand. That landscape changed with the 2021 Supreme Court decision that allowed collegiate athletes to profit from their NIL and the explosion in demand for live entertainment that accelerated after the COVID-19 pandemic. One owner who has explored youth sports noted that because the business is highly fragmented but cash-flow positive, there is an enormous opportunity to build operational efficiencies and increase profits — not unlike the traditional private equity buyout fund strategy.

Institutional investors are also increasingly focused on collegiate sports. After the NFL, NCAA football is the biggest commercial sport in the US. The most valuable teams have many of the characteristics found in their professional counterparts, including contractually obligated revenue and unique brands.[59] Those features make them attractive candidates for private equity funds looking for diversified sports exposure. It could offer top-tier NCAA programs capital infusions to further professionalize and expand their reach. Should private equity or credit funds begin investing, interested individuals or family offices with significant balance sheets could potentially co-invest alongside these funds to gain direct exposure to collegiate athletics.

Like women's or other emerging sports, both youth sports and collegiate athletics have largely been untapped by individual or institutional capital, making them attractive candidates for investors exploring exposure to sports. They also carry similar risks that should not be discounted. Interested investors should thoroughly evaluate operating, regulatory, and valuation risks before moving forward.

Conclusion

The sports landscape is evolving rapidly, and interested investors continue to seek opportunities with attractive risk-adjusted return potential. Using the history of major men's sports as a guide, there are several potential areas where success can be replicated — assuming revenues are realized, and media assets continue to proliferate. That argument, of course, rests on the assumption that the trends supporting growth over the last 20 years will continue or perhaps encounter a new accelerant. It also requires teams and their owners to make the necessary investments in revenue diversification and profitability to justify rapidly expanding valuations. While no one can foresee the future — including the several control and limited partner owners who contributed to this report — there is a clear consensus among this group that ample opportunities for those interested in sports investments exist. Who ultimately capitalizes on them is an open question, but success will depend on seizing the first-mover advantage, building awareness to recognize key trends, and innovating across the acquired assets over time.

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