Lessons from Owning a Professional Sports Team

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According to the National Collegiate Athletic Association (NCAA), the dream of playing professional sports is achieved by less than 2% of all college athletes. While becoming a professional athlete is undoubtably an exclusive club that takes immense amounts of grit, skill, and hard work, perhaps one of – if not the – most exclusive club in the world is owning a major professional sports team. Not only does it take immense amounts of capital, but it also requires unique access and opportunity that doesn’t present itself often.

Recently, I had the chance to engage with a panel of distinguished professional sports owners: Drew Brees, former NFL quarterback and owner of the Mad Drops Pickleball Club; Bill Haslam, former Governor of Tennessee and owner of the Nashville Predators; and John Ingram, businessman and owner of the Nashville Soccer Club.

The insights shared during the conversation shed light on the intricate world of sports ownership, offering valuable lessons for any investor exploring alternative investment opportunities.

Here are three key takeaways:

1. **Passion and Profit Go Hand in Hand**

Once upon a time, owning a sports team was perceived as a poor and unpredictable investment. However, over the last four decades, every major sports team in the United States has seen its value increase exponentially. Today, major professional sports teams are among the most coveted and valuable assets globally.

It's not surprising that those fortunate enough to enter the realm of professional sports team ownership often have a profound passion for sports. However, a consensus emerged among the panel members - beneath each person's passion, there was a business decision motivated by the bottom line.

Surprisingly, or perhaps unsurprisingly, the fastest growing sport in America – pickleball – was a hot topic that stirred controversy. Some panelists saw pickleball investments as a unique opportunity to invest in the early innings of a wildly popular sport taking the country by storm. However, others expressed doubts about the sport's ability to attract meaningful media broadcast revenue. This dynamic exemplifies the delicate balance between passion and financial strategy in sports ownership.

2. **Not all sports teams and leagues are created equal.**

"A rising tide lifts all boats" is a common aphorism that certainly applies to valuations of most major sports franchises. Mr. Ingram, owner of the Nashville Soccer Club, crystalized this point when discussing how “Messi-mania” – a reference to Lionel Messi joining soccer club Inter Miami – has been a godsend and boon for professional soccer in the United States. However, as with any investment, the merits of an investment need be evaluated independently.

This was clear as the panel discussed the various rules and structure of different professional sports leagues. For example, salary caps, revenue-sharing, and media rights often differ by team and league, which can lead to wildly different cash flow and long-term investment returns. In other words, not all professional sports investments are created equally.

3. **You don’t have to be a billionaire to gain exposure to this alternative asset class.**

It’s true that billionaires have a monopoly on majority stakes in major professional sports teams. However, today there are private funds and even public markets that offer opportunities to own fractional shares of various sports franchises. It might come as a surprise to some that any public market investor can own a small piece of the following franchises:

- Manchester United FC
- New York Knicks and New York Rangers (via Madison Square Garden Sports)
- Atlanta Braves
- Toronto Blue Jays, Toronto Maple Leafs, Toronto Raptors, and Toronto FC (via Rogers Communications)

Additionally, there are fledgling leagues, like Major League Pickleball, that offer investment opportunities at much lower entry points.

Conclusion

Owning a majority stake in a professional sports team remains an exclusive club with high financial barriers. However, the world of sports ownership is not entirely out of reach for the average investor. The insights shared by Drew Brees, Bill Haslam, and John Ingram underscore the need for a solid understanding of the unique dynamics of investing in this alternative asset class.

Moreover, these takeaways can be applied more broadly beyond the realm of sports. Many alternative asset classes offer non-correlated and diversified investments that can reduce overexposure to stocks, bonds, and the fluctuations of public markets. This includes private equity, venture capital, private credit, niche royalty and non-correlated assets such as hardware royalties, music royalties, media royalties, and boat marine portfolio financing.

In a recent letter, Evergreen Gavekal’s CEO, Tyler Hay, pointed out that equities are generally not the largest allocation in the investment portfolio of some of the most revered endowment funds. Thus, constructing portfolios that can deliver robust cash flow while augmenting them with non-public market opportunities through access to private funds, alternative investments, and non-correlated assets is of paramount importance.

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