WHY FAMILIES SHOULD ACQUIRE A SPORTS CLUB !

THE JOY OF OWNERSHIP

Family offices are increasingly interested in purchasing shares of sports teams or clubs and sometimes even championships. From ball sports to mechanical sports… there is a wide portfolio to pick from.

While it all starts with that “**FUN TO HAVE**” feeling and the opportunity to invite business partners, clients, prospects to join for one of the many competitions, things are not always that simple. Engaging with a sports team encompass far more than just the action on the field and things can quickly get out of hand, giving your ownership a sour taste.

So let us put in the right perspective what it means to invest in a sports club (or sport team).

Above all… if you do buy a club or team, do it in a sport you love!

FOR THE CHALLENGE

We all love challenges and buying a sports team to make it a successful team can be very motivating and rewarding.

Buying a top team can be a nice to have but from a P&L point of view, the best is to take in hand a 2nd level sports club/team (for example one playing in the 2nd league), invest in it heavily and most importantly, recruit the right people to push the team to glory. This can give you over time a multiplier of 12 to 15 of your investment!

Of course, you need to recruit and nominate the right staff and not necessarily take your son/daughter as general manager, your nephew as financial director… and so on as you risk never taking up the challenge as expected. As a family office, you never invest in a business that creates you worries so why should you do it with a sports club?

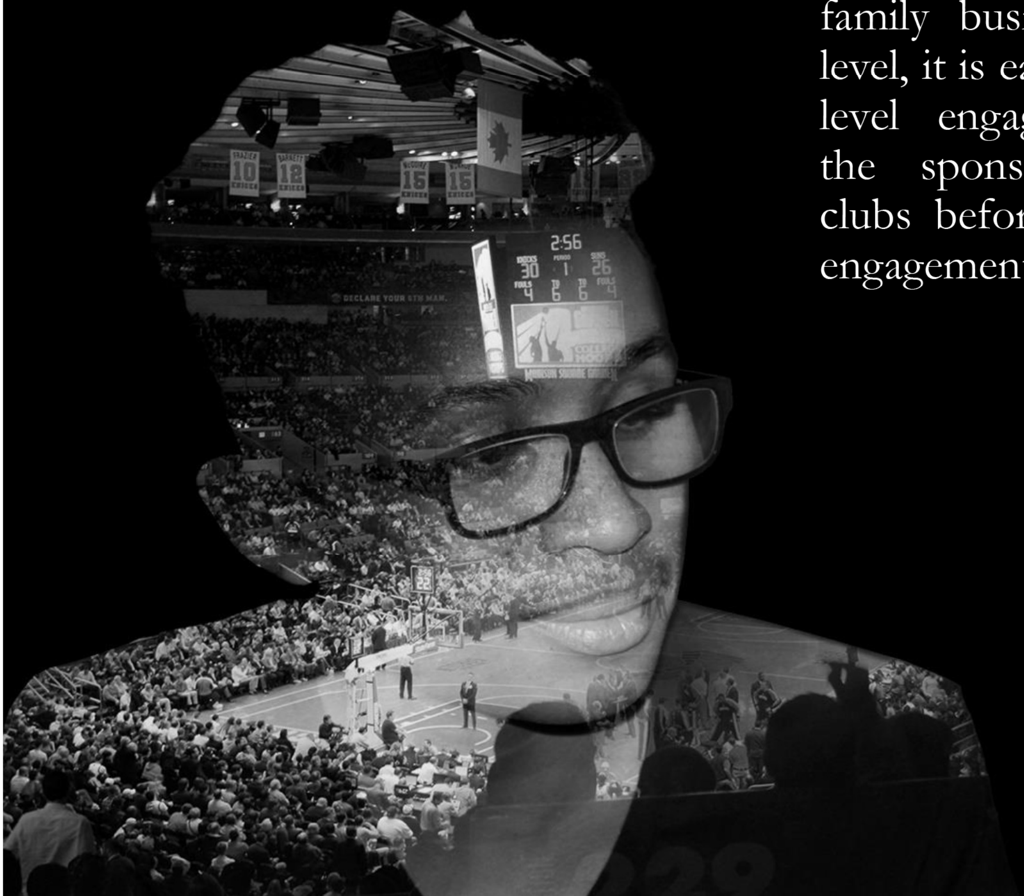
WHO INVESTS IN SPORT CLUBS?

To capitalize their wealth, Family offices continue to focus on traditional asset classes such as private equity (90%), direct investments (88%), and real estate (70%) to name the top 3.

Looking to the numbers, 83% of the family offices with an origin of wealth in sports and media are based in North America, 15% in Europe and the rest of the world makes up the remaining 2%. Roughly 3% of the family office market comprises family offices that created their wealth in the sports and media spaces representing more than $75 billion AUM across the globe.

Family offices often prefer investing capital in verticals they understand, often in the industry that created their personal wealth so we see a lot of family offices from the media, entertainment or sports industry investing again in sport clubs and teams. We also see many family owners with an industrial background investing in "passion-driven" sports like motorsport, cycling or sailing teams.

Last but not least, as many family offices started their family business at a local level, it is easy to have a first level engagement through the sponsoring of local clubs before taking a higer engagement as shareholder.



FOR REAL ESTATE REASONS

All family offices know very well how to invest and manage real estate properties, they can also consider the facilities as a real estate investment. But owning a sports facility requires some particular handling as it is a mix of multiple activities like a stadium/event hall, one or more restaurants/bars, hotels, shops, ticket boots, shuttle services... All this requires mixed real estate investments, management costs, new extentions, renovations but also special security constraints before, during and after the events.

It makes sense as you will receive a rent for the premise(s) and in case of promotion of the club, the premise will increase its value.

If you buy a club for its' real estate assets, be sure to give all management of sport activites to others that know how to do things as part of the value of your estate will depend on the results of the sport activities which is rather frustrating as you won't have the full control of things.

FOR TAX REASONS

It is a basic accounting/tax rule to have in your portfolio a mix of money making and money loosing entities. Owning a piece of a team can create the kind of on-paper losses that cut a wealthy owner's bill to the IRS. At the end of the road (and if managed properly the family office is going to sell their investment and make the money.

For example, a $2 million loss at a sports club might shield from taxes in profits from owning a car dealerships, a chain of furniture stores…

What's more, sports teams often show losses that don't actually lose investors money. Investors are generally allowed to write down the value of the initial investment in a sports team over several years. Even though franchise values are rising, IRS rules automatically assume the opposite. The result is that a team can look like it's losing millions of dollars while, in managed by the right people, it's making profit.

Not to mention that when you bring a club or team to the frontline, you can even make bigger money!

FOR MEDIA REASONS

While 10 years ago, clubs could control content and messages, things have changed drastically. It is not only you as a team, but each individual player and each fan is going to create content and distribute it to their respective network. It is a multi-wave business and creating skyrocket-high visibility allows you to sell your communication spaces to many advertisers and brands to make lots of easy money.

With the Internet, TV stations do not longer rule the waves of sport business so up to you to hire the experts to make it work for your club. It also requires investments in computer-vision cameras, IoT cameras to track your players on the field, cloud-based streaming servers and special algorithms to measure media impact for your sponsors (not just numbers of views but also on strategic positioning as an advertisement in the middle of the screen is worth lots more than the one in the corner).

But when your team starts losing, it can also be used against you and your family office knowing that a bad buzz can get extremely fast. Having thousands of people spitting on your family name is something you want to avoid at any price. So where is all the smoke going ? That is something you can manage if you have the right experts in place !

OH MY IMAGE

Owning a major part in a sports club or team can be rewarding as it puts you (and your family) in the spotlight. Everyone in the city, region and perhaps country will know who you are. Just great to be seen as a hero.

But things can go wrong quickly with a bad performing sports club (2 weekends is enough). The whole fan club and even the whole city is going to blame you for the poor performance.

If you invited business clients to your premises, it is going to have a negative influence as you are the image of the team performance… and few want to deal with a loosing team.

Not to forget the embarrassment when your 5 year old son asks you why you have such a bad team and expects you to do something as you are his hero.

But such crisis management can also show you the real you and it with the good guidance or coaching, it can be turned into a positive experience for you and all people around you.

FOR MERCHANDISING

Even when your family office has a very strong track record in doing business, your family is perhaps not a champion in « sports merchandising ». Designing and selling shirts, sneakers, caps, mugs… is a special business and requires sometimes a very « aggressive » approach.

Sports merchandising is also linked to social media and can have very short sales campaigns. For example if your club plays against an international team, you can print and sell dedicated shirts, caps, bags for the event… meaning increased revenues but also a risk in unsold items.

Merchandising is a mix between online and brick & mortar. Your goodies have to be distributed online but can also be distributed globally through dedicated partner-shops.

And you have to be agressive and one-step ahead as once your club has success, you will find lots of « made in… » counterfeit t-shirts and goodies on the net.

THINK NFT & BLOCKCHAIN

You never know when a technology-based application is going to make a difference but you should follow all trends and talk to people who can explain you in simple words how this or that can work for you. If they talk technology… forget it.

NFT's is not just a geek' buzzword but it allows you to edit your own valued items – like baseball cards or signed player shirts and track/play on the respective valuations. NFT's allow you to insource a business that you could never touch before – and not to forget, create new loyalty programs inside your fan club.

Let others invest in technology! As in your own business, be a close follower as technology-based applications around sport can give you some interesting extra revenues.

DON'T FORGET FEMALE TEAMS

As any investor, you need to see data, proof of product-market fit and upscaling opportunities in time. In a lot of cases, that data is not available for women's sports because the industry fails to collect.

While revenues from ticketing can be lower, money can come through fan behavioural data, analysing media consumption, tracking sponsorship and brand affinity. US research shows that women comprise 44% of the fan base for National Football League (NFL), 47% for Major League Baseball (MLB), 48% of National Basketball Association (NBA) and 50% of NASCAR. Knowing 70% of important family decisions are made by the female head of the household… it makes it strategic.

And we can continue as Female clothing lines are as important as male clothing lines, mother day promotions always work…

From a pure investor point of view, it requires a lower investment but with the opportunity to achieve a much higher multiplier when selling the team in 10 years' time.

THINK LOCAL AND ACT GLOBAL

Sport business is not like any other business. Where all business schools teach us to act local and think global, sport businesses require us to think local and act global and that makes a big difference!

Every sport has its own DNA and its own rules to success. So there are several ways to make a difference and for this, you don't necessarily need to invest in a Formula One Team, a Premier League Football club… to win.

Invest in what you like so you can have that « JOY OF OWNERSHIP » and well structured passion-driven investments always give satisfaction.

Be an athlete yourself and think outside the traditional schemes ! Investing in female clubs or events around disabled athletes/drives makes sense.

WHAT INVESTMENT VEHICLE?

As a family office, you always select the most appropriate finance vehicle for your investments, so this should also be the case when acquiring a significant part of a sports club.

SPECIAL PURPOSE VEHICLE

- A Special Purpose Vehicle is a subsidiary created by a family office to isolate financial risk as acquiring a sports club can be a risky venture. This allows to reduce any negative financial impact upon the family office and its co-investors.
- It allows to have a dedicated entity with a budget and recruit an executive on a mission to acquire major shares in the most appropriate sports club or team.
- Once operational, it also allows you to hide the details (like the wages of the different sportspeople) from shareholders in your parent company.
- Alternately, the SPV may be a holding company for the securitization of debt.

SPECIAL PURPOSE ACQUISITION COMPANY

- A special purpose acquisition company (SPAC) is formed to raise money through an initial public offering to acquire a company, in this case a sports club or team. Depending on the amount raised through the SPAC, the entity can then go to the market to acquire the club depending on the budget.
- Sport SPACs have two years to complete an acquisition or they must return their funds to investors. Once executed, they disappear and business operations go to a SPV vehicle.
- At the time of their public offering, SPACs have no existing business operations or even stated targets for acquisition. It allows to prepare not only the acquisition but also all media, sponsoring, player acquisition contracts.

INVESTING IN SPORT-DATASETS

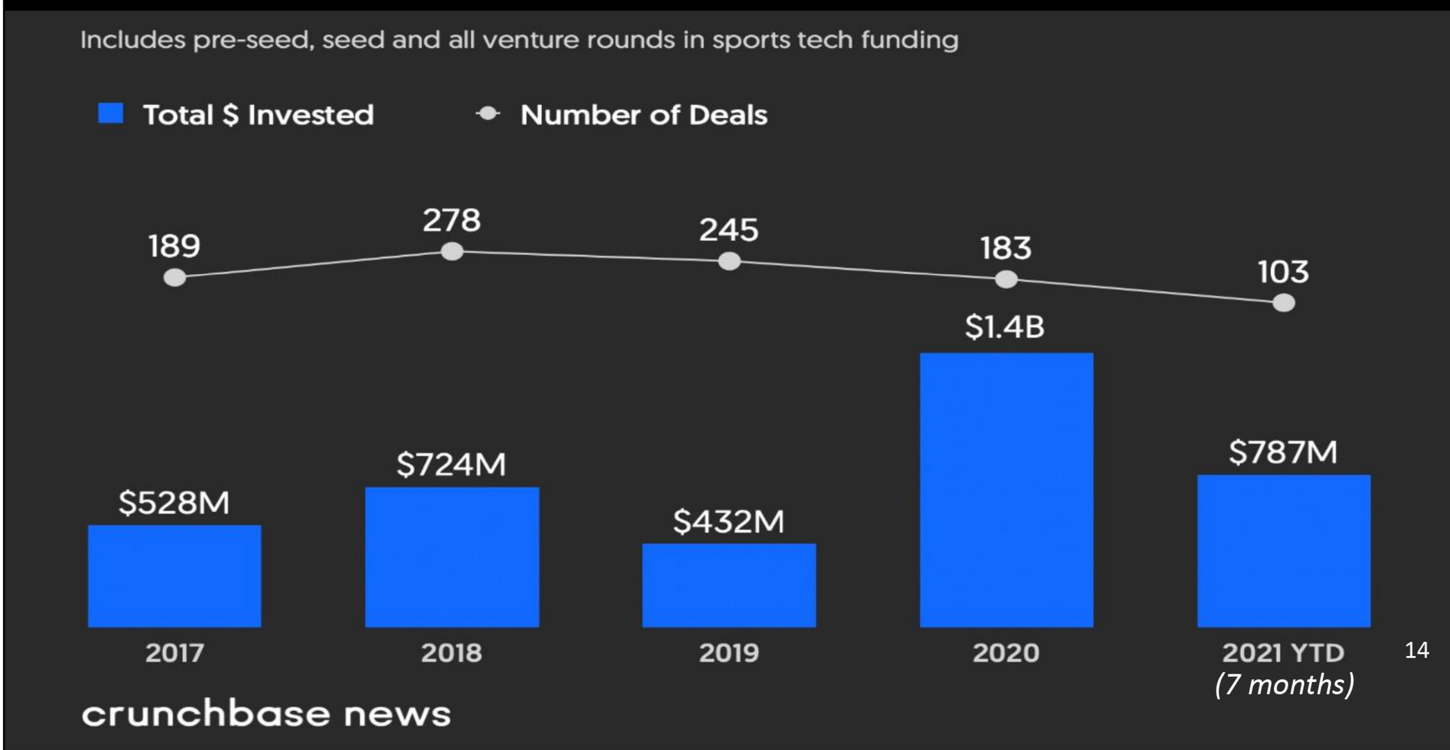
Data and data-analysis has affected everything from how we shop to how we work to even how we consume media. Now investors and team owners are increasingly looking at technologies involving data, analytics, fitness and biotechnology to help their athletes and teams play and perform better.

Many sports and leagues have kept stats since their inception and nowadays, mainstream datasets are very robust foretelling how to behave and react influencing the win/loose of a team.

And this data can also be shared with fans creating higher engagements (so higher revenues).

Through the first 7 months of 2021, $786.8 million of venture capital has been invested in the industry in 103 announced rounds.

Having a TEAM with its own SMARTDATA analytics is key (and strategically fun to own) !



TIME TO SHIFT THE GEAR !

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focusing on co-investments & special acquisitions

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