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Why Private Equity is Eyeing the NFL – and Why It Matters

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The recent surge in private equity (PE) interest in the NFL stems from the league's decision in 2021 to allow PE investors to purchase up to a 10% stake in a team. For the first time, institutional investors now have access to one of the most valuable asset classes in professional sports—a privilege previously reserved for individuals and small groups.

This article explores how this investment opportunity benefits both PE investors and team owners, highlights the rapid rise in team valuations, and discusses potential challenges these new partnerships may present. It also speculates on the future impact of PE majority ownership and offers guidance to team owners on selecting the right outside counsel to navigate these evolving dynamics.

A Lucrative Opportunity for Both Investors and Team Owners

PE investors are attracted to the NFL due to its consistent value growth, driven by the league's immense popularity and massive media deals. Over the past two decades, the average NFL franchise has experienced a compound annual growth rate (CAGR) of 10.54%, a figure that aligns with returns often generated by private equity buyout funds. For example, according to Forbes, the average NFL team was valued at $5.14 billion in 2023, up from $3.48 billion in 2020—a 47.4% increase in just three years.

These returns, coupled with the scarcity and prestige of owning an NFL team, make this a particularly enticing investment. Unlike other opportunities in the entertainment and sports sectors, there are only 32 NFL teams, and their value has steadily risen—from $639 million in 2003 to $5.14 billion in 2023, making NFL franchises the most valuable in North American sports.

For team owners, PE investment brings substantial benefits. Many owners have a significant portion of their wealth tied up in their franchises, leading to estate planning and liquidity challenges. PE investments offer a solution, allowing owners to unlock liquidity without surrendering control. They also gain access to world-class resources to improve operations, finance capital projects, and enhance their fan offerings. This includes building modern practice facilities or stadiums, which are increasingly becoming multi-purpose entertainment hubs, contributing to increased team valuations.

Trends We Are Keeping an Eye On

Sky-rocketing Team Valuations. NFL team valuations have skyrocketed over the past decade and are expected to continue appreciating. The scarcity of available teams drives up both demand and prices, while also shrinking the pool of potential buyers. With the league's 10-year, $110 billion media rights deal signed in 2021, revenue is expected to continue rising, further boosting franchise values. PE firms, with their deep financial reserves, can step in as minority stakeholders, bringing not only credibility but also significant financial clout. Additionally, factors such as stadium-adjacent real estate developments, global expansion through international games, increasing sponsorship revenues, and the legalization of sports betting in more states are expected to drive NFL team valuations even higher. The U.S. sports betting market, for example, is projected to grow to $167 billion by 2029, and the NFL is positioned to capture a significant portion of that.

A Lack of Deals. Despite the new rules allowing PE investments, there are still no significant deals setting a precedent for what private equity ownership in the NFL looks like. While there were rumors in 2023 that Ares Management was in talks to purchase a minority stake in the Miami Dolphins, no deal has materialized yet. With typical PE investment horizons spanning 7-10 years, many questions remain. How will exits be structured? Will buyback provisions or approval restrictions be put in place, especially with a limited pool of buyers? If PE firms pursue strategic liquidation, we may see ownership stakes bounce between the league's list of permitted funds, creating an unusual game of "ownership ping-pong."

What Team Owners Should Be Aware Of

NFL owners must approach partnerships with private equity investors with caution. PE investors often demand rigorous accountability, introducing administrative burdens and complicating governance for franchises that have long operated as family-run businesses. According to a report by EY, private equity-backed companies generally experience more frequent board meetings and deeper financial reporting requirements, which could create friction for owners unaccustomed to this level of scrutiny.

Owners may also face reputational risks if their PE partners engage in controversial practices or pursue profit-driven strategies that alienate fans or sponsors. For instance, increased ticket prices or excessive sponsorship deals could harm the brand, as fans prize the authenticity of the NFL game-day experience.

Additionally, PE firms may exert financial pressure to rapidly increase franchise valuation, potentially pushing for cost-cutting or revenue-maximizing measures. These measures could compromise team culture or fan experience, as PE firms tend to prioritize profitability. Owners must balance these pressures while ensuring their team remains competitive on the field and fan-focused off it. Properly structured agreements will be crucial to ensuring this balance.

Potential Impact of Private Equity Majority Ownership

If NFL rules evolve to allow PE firms to hold majority stakes in teams, the league could undergo significant shifts. One concern is that PE-driven ownership could prioritize profit maximization, leading to aggressive commercialization strategies that may dilute the brand. Oversaturation of sponsorships or higher ticket prices could alienate fans and diminish the authentic game-day experience that has made the NFL the most popular professional sports league in North America.

Moreover, with PE firms' relatively short investment horizons, franchises may experience more frequent ownership changes, which could result in instability in leadership and long-term strategy. This type of "franchise flipping" could harm team culture and on-field performance. On a broader scale, PE-controlled teams might push for rule changes or league policies that prioritize boosting franchise values—such as global expansion or altered media rights agreements—which may not align with the priorities of traditional owners focused on football operations and team success.

Qualities to Prioritize When Selecting Outside General Counsel

Selecting outside counsel is crucial when navigating these complex dynamics. While in-house counsel handles day-to-day legal matters, outside counsel provides targeted expertise for complex, high-stakes situations. NFL owners should prioritize hiring counsel with experience in PE investment structures and the sports industry, ensuring their legal advisors can balance the goals of the team's ownership with the objectives of PE investors. These legal experts should also be adept at managing the risks, opportunities, and regulatory challenges that come with private equity involvement in sports.

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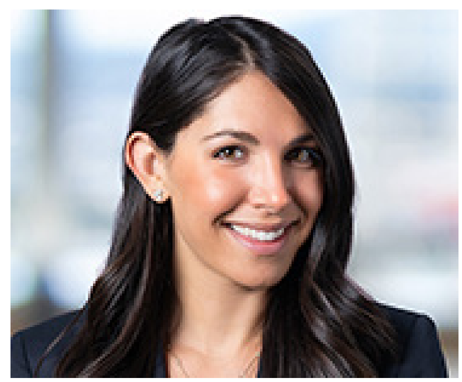

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