What it Takes to Score in High-Stakes Sports Acquisitions
Sam Gandhi, Charles Baker, and Irwin Raij
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Sam Gandhi:
It's time to play ball, both on the field and off, and as the NFL season culminates in the big game, the business of sports continues to boom. More teams are for sale, buyers are lining up, and valuations are through the roof. In today's podcast, we find out what it takes to score in high-stakes sports acquisitions.

Charles Baker:
When you're investing in a system with limited supply, increasing revenue, and fixed cost, values should continue to rise.

Irwin Raij:
We're seeing more activity in the space than ever before, and worldwide, there are multiple teams for sale in the United States. There are multiple teams for sale in Europe. There are media rights.

Charles Baker:
These are mini Disneys, and so it's a multi-asset platform investment and growing. Growing globally, not just in the U.S.

Irwin Raij:
There's a level of scrutiny and passion and desire layered on, on top of a good business.

Charles Baker:
This particular buyer said, get me that team now before the price goes up.

Sam Gandhi:
From the international law firm Sidley Austin, this is *The Sidley Podcast*, where we tackle cutting-edge issues in the law and put them in perspective for businesspeople today. I'm Sam Gandhi.

Hello, and welcome to this edition of *The Sidley Podcast*, Episode Number 31, and today, we speak with two of Sidley's thought leaders on the sports industry, Charles Baker and Irwin Raij, about the acquisition of sports teams and their media assets, the lure for investors, and emerging trends in the industry.

Chuck is a partner in the firm's New York and Miami offices and Co-Chair of Sidley's Entertainment, Sports, and Media Team. He represents investors in professional sports businesses and teams and advises on sports entertainment transactions, with decades of experience in the industry. Chuck has represented sports franchises across numerous leagues, including the National Football League, Major League Baseball, Major League Soccer, National Basketball Association, and the National Hockey League.

Irwin is a partner in the firm's Miami office a Co-Chair of Sidley's Entertainment, Sports, and Media Team, and he focused his practice on the business of sports. This includes having handled matters involved in the European Soccer Leagues, Major and Minor League Baseball, Major League Soccer, the United Soccer League, Seie A, La Liga, the National Basketball Association, the National Football League, the National Hockey League, the National Women's Soccer League, and Formula 1 events. Chuck, Irwin, thanks for being on the podcast today.

Irwin Raij:
Thanks, Sam.

Charles Baker:
Great to be here.

Sam Gandhi:
So, I'm sure we're going to hit as many sports metaphors in this podcast as possible, but let's just start with the big game is coming up this Sunday, February 12, and it's a perfect time to talk about the business behind it all and take the pulse of the industry. Consumer interest in live, must-see events is obviously massive and has grown, certainly, in the last few years in a major way, and according to research by Parks Associates, sports streaming revenues are expected to increase by 73% over the next five

years. So, Chuck, just to start us off, give us the lay of the land. How is the sports industry fairing now that COVID, frankly, is more manageable?

Charles Baker:
It’s a great question, Sam. So, sports, like all live entertainment, took a big hit during COVID. If you couldn’t be out to see events live, including, obviously, your favorite teams, the teams were not able to earn revenues from what is often one of the bigger sources of revenue, which is game day. That’s tickets, food and beverage, parking, merchandise. However, sports has proved resilient.

The sports teams and leagues’ media partners remain good partners, and so, even though they were not able to broadcast, necessarily, live events, the media companies continued to pay their rights fees, and the sports teams and leagues continued. They adapted. They created clever ways, like bubbles, and other ways to play their games, and despite some softening in revenues, the teams are more valuable than ever before.

Currently, there are more teams, both by number as well as by dollar value, on the market, which is not necessarily an indication of bad times. In fact, we’d argue it may be a sign of good times than ever before, and so, notwithstanding COVID, I think sports and professional sports has bounced back in a major way.

Irwin Raij:
Yeah, that’s really interesting. During COVID, actually, a lot of the businesses became smarter, right? We saw operators look at technology, look at the technology to see how can they do things much more efficiently from the back of the house cleaning, to how they sell the merchandizing concessions, and actually, that would ultimately lead to increasing revenues from a per cap basis.

So, when I say per cap, it’s what is an individual spending each time they go to an event? And so, as we’ve come out of COVID, we’ve seen, first, this tremendous, pent-up demand that’s just exploding. We’re seeing concerts, more concerts than we’ve seen in a while. We’ve seen ticket demand, both in the primary and secondary ticket markets, at incredibly high levels, and we’ve seen per caps go up.

And the per caps have gone up because people are just more comfortable with the way people are delivering the goods. It's actually the customer service is better and people feel safe, and so, as you can imagine, everyone was taken aback by COVID. It was scary for multiple different reasons, from an economic perspective, from a health perspective.

And people, when they actually got a minute to take a deep breath, they sort of thought about what they were doing, and how can we do it better? And so, we've seen sort of this evolution. We're going to continue to see that. I think we've seen more companies in the tech space looking at how to bring technology into the business side of sports than ever before, actually, as well.

Charles Baker:
It's interesting. If you look at technologies like CLEAR, which started out in the airport, that's now being employed at sports venues across the country as well as in Europe, and there are many, many examples, to Irwin's point, of technologies that started out in a public sector, other than sports, and have been imported into sports to improve the experience, and the other way around, as well. So, many of the data metrics that measure heart rate, pulse, sweat, hydration all started in sports and have now migrated into the mainstream, as well, and so, there's a constant back and forth on the technology side.

Sam Gandhi:
Irwin, let's just follow up on that. What's driving the value? What's driving the attractiveness of these acquisitions that you saw in the last year and before?

Irwin Raij:
Well, before, I'd say…let's go back a little bit in time, because the business says as every business has evolved. When I started in the space 20 years ago, stadiums were the big driver of value or teams, and then, over time, right…because we saw huge upticks. When you were at an old stadium that didn't know how to drive revenue, didn't have enough concessions, didn't have enough ways to actually drive per caps up, there's a lot of money left on the table.

So, people spent billions of dollars to build these new facilities, and it really pushed value, but what happened next? The next thing that happened was media content valuations went through the roof, just through the roof, and that's domestic and internationally, right, and they've been going through the roof for some time.

Now, we're seeing some tensions in the marketplace in the United States with what's called regional sports networks, and what's happening there with Sinclair and the potential bankruptcy of those RSNs and the impact it could have on middle-market teams, but media really has driven the value at a much greater impact at this point, a much higher multiple than, actually, stadiums themselves.

So, we've seen this. You know, look, it's bricks and mortar. Then content, and then, after you get out of content, it became, well, wait a second. Why aren't we controlling our universe outside of our bricks and mortar? We should have what we call sports-anchored development. We don't talk about stadium development anymore. We talk about sports-anchored development at this point.

The stadium, it's this experiential retail event, right? You're not going to Nordstrom or Bloomindale's or Macy's. You're going to a stadium, and before the stadium, you're going to have dinner there, potentially in that area. You're going to make your purchases. You're going to hang out, and so, we're stretching that per cap not only...beyond the stadium, I guess is the best way to describe it.

So, started off with the building itself, how to drive revenue. Then we went to media content. Then, from media content, now we control our universe, our environment everywhere around us, and by the way, it's not just the retail itself. It's actually the underlying value of land, right? So, we've seen…you know, I look at it as three…these three pillars to value. Chuck, what do you think?

Charles Baker:
I think you need to view these sports teams as platform investments, right? These are mini Disneys. If you were to ask Adam Silver, who is the NBA of sport, he'd say, well, the basketball court is our content, but we are a global growth entertainment business, like a Disney. So, when you're investing in

a sport team, you're buying…let's take an NBA team to carry through the example.

You're buying 1/32nd of the league and the league revenues, because most of their revenue deals are national. You're buying a team, and so you're buying revenue that stays local that's generated by the team. You're conceivably buying the arena and development around the arena, and so, it's a multi-asset platform investment and growing, growing globally, not just in the U.S.

So, these are really fairly strategic and fairly stable assets that have proven to be non-correlated. They've continued to accrete in value faster than S&P, faster than NASDAQ. They've really been the best-performing asset class over the last 10 and 20 years than any other, and so they've proved to be very stable in an attractive investment opportunity for not just high network investors, but strategic investors, as well.

Sam Gandhi:
Chuck, let's follow up on that in terms of the performing assets, and you know, I think we've seen that, certainly, the average team in the NBA and NFL and the MLB, the valuation has increased by about four times to 2011, and that compares to where the S&P was, which is only tripled and still fluctuating down, but sports teams and sports franchises became…we had a transition between kind of a trophy property to private equity really getting involved in it, and what made it more attractive to private equity specifically?

Charles Baker:
So, private equity has always been able to invest in European sports. The structures around the league are a little bit less refined, and it is a little bit less structured, and they've been attracted to investing in Europe, primarily in media contracts and the media revenues, because it's contractually obligated income, but during COVID or just prior to COVID, the U.S. leagues began to loosen up their restrictions around private equity investment, and while COVID didn't trigger this, it probably helped accelerate the leagues approving.

So, it started with Major League Baseball and then National Basketball Association, Major League Soccer, and the NHL all approved private equity investment, and private equity was particularly attractive to this class, both because it's non-correlated and because it's a fairly broad platform. In addition, remember, in the U.S., teams are not relegated. There's no promotion or relegation, unlike Europe, and in addition, there's limited supply.

So, across the five U.S. leagues, there's approximately 150 teams, about 30 a league, and they're not making any more. Other than Major League Soccer, which had obviously expanded a fair amount in the last decade, you basically have fixed supply, increasing revenue on the back of their media contracts, no promotion and relegation, and your biggest cost, which is player salaries, is fixed.

As much as the players are paid, because of collective bargaining, the amount that is allocated toward player salaries in each league is a fixed number, subject to taxes and other penalties, and so, when you're investing in a system with limited supply, increasing revenue, and fixed cost, values should continue to rise, and that's a very, very attractive model for private equity.

One other thing I'd add is because these leagues have very, very strict limits around debt and how much debt a team can incur and what can be used to secure that debt, it's a relatively leverage-light asset class. Private equity likes, generally, to invest with leverage, and because this system is so light in leverage, it's another opportunity for private equity to increase their returns.

Irwin Raij:
That last point is incredibly important to the leagues, as well, right, and the U.S. leagues in particular. So, every league has a debt service rule, right, and some leagues, it's a set cap. The NBA, the NFL, it's a set cap. MLB, it's a function of revenues, and so, those caps have created challenges, right, from a valuation perspective and from a buying perspective. So, what they've done, it's really interesting what the U.S. structure is allowing private equity to invest.

Private equity can actually invest in multiple teams at a time here, but you can't control a team here, right? You could potentially control a team in Europe, but you cannot control a team in the United States, and then there's a series of additional governance rights related to you can't control it. You're limited in the information you give a team. So, the PE is truly limited partners in the U.S.

So, rather than the league sticking their neck out and extending or expanding their debt rules, they've actually allowed PE to come in and create this sort of mezzanine structure where, one, it allows liquidity for LPs throughout each of the leagues, and secondarily, it has allowed teams to bring in and generate, I don't want to call it revenue, because it's not revenue, but bringing investment without incurring debt.

And so, these teams aren't at risk of being foreclosed upon, which is always a major concern by the leagues and why the debt service rules exist. So, they brought in all this additional capital, which has allowed these valuations to continue to go through the roof with minimal risk to the franchise. So, the leagues love it, and PE loves it, because, as we've discussed on this podcast already, that valuations have been going through the roof.

Sam Gandhi:
I will say, the one question I had, and I don't know if you guys can answer it is, is why are NBA teams more valuable than others?

Irwin Raij:
I think it's been a fun league. I think the league is run incredibly well. Adam Silver, I think he's the best commissioner. Some say Goodell.

I think it's Adam. So, I say Adam, like he's my friend. It's Commissioner Silver, right? But I think he does a phenomenal job. I think they do a great job from a technology perspective. I think they get ahead of issues. I just think they're really well managed, and so, for an NBA perspective, that perspective in the marketplace is really interesting.

Charles Baker:
By the way, I mean, the NFL teams are worth more, all of them. So, the NFL is certainly worth more, and many European teams are worth more. The NBA has been increasing more quickly, I think for the same reasons

Irwin says, and your international expansion, and it’s a cool league now, right?

Players have a lot of influence. People want to get behind it. People have a lot of faith in Adam. I agree with that. There’s that cool factor, and they don’t have the existential issue of concussions hanging over the league. We’re going to need to deal with concussions in some way, I suspect, with the NFL somehow, but the NBA is just, it’s a juggernaut right now.

Sam Gandhi:
Can you talk a little bit about the landscape that you see in Europe for private equity investing? We’ve talked a lot about the U.S., but the European structures are a little but different. We’re seeing increasing interest in particularly clubs and other types of sports in Europe.

Irwin Raij:
In Europe, you know, it’s a different set of rules, and they’ve actually…and Chuck alluded to this earlier. You know, private equity’s allowed to buy whatever they want in Europe, right? There’s not a limitation. There’s not a limitation from a control perspective.

There’s not the same concerns about private equity investment in the European leagues as there are in the United States, and so, there’s a lot more flexibility. Frankly, I would say that the U.S. leagues vet investors in a much higher level than they do in Europe, and so Europe, where the money comes from, becomes relevant from a fan perspective more so than it becomes from a league governance perspective.

The leagues really want the teams to be well financed, and they’re not really as concerned with private equity. So, a lot less restrictions and not limitations on the number of investors you can have in any given group or how the fund is structured. I wouldn’t call it the Wild West, but there’s a lot more flexibility.

I mean, Chuck and I spent hours trying to structure investment into U.S. teams, and as much as we spent, when we’re dealing with European deals, we spend time on structure. I would say it’s simplified. Like, our concerns are different, right? Our concerns are related to cross-border tax issues more so than league governance issues or if there’s a publicly traded stock portion of that team, which, by the way, happens much more in Europe than it does in the understand.

And it's interesting, right, because you have the top-tier leagues, and then you have the secondary leagues. So, you have EPL versus Champions League, and what's the value? And some people see more value in Champions League and trying to move up than buying at the full valuation of Man U at $6, 7 billion, right?

Can you buy a Champions League team for under £100 million and invest money from a PE perspective and get some more upside? But a lot of people get sucked into that narrative and think it's easy to go from one to the other just by spending money. It's not that simple, of course. If it was, everyone would be in the EPL versus the Champions League.

But it's just an example of there's this belief and desire that financial fair play rules, they're just limited in the end and that there's a lot more flexibility there. The other thing I'd say that's interesting about Europe, and people have tried to play with it in the U.S., is the ability to buy content is fascinating, right? When people talk about private equity buying Barcelona's media rights or buying Barcelona…or are they buying La Liga?

They're actually not buying the leagues. They're buying the media arms, these freestanding media companies, and they're buying equity in that, not actually the teams themselves, although they're not prohibited from buying teams in Europe, but there's a broader array of opportunities for private equity to invest in the European space that makes it a pretty frothy space. Chuck alluded to it earlier.

We're seeing more activity in the space than ever before and worldwide, and there are multiple teams for sale in the United States. There are multiple teams for sale in Europe. There's media rights, not just we're talking the underlying media companies are available, both in Serie A, in La Liga, and other places. It's incredible how excited people are about this space, and it really goes down to stability.

One thing that's different about buying...you know, pick a stock. Buying Facebook stock, buying Meta stock, versus buying something you care about and are passionate about and you know the fans are going to come out for. There’s a level of scrutiny and passion and desire layered on, on top of a good business.

Sam Gandhi:
One thing that we didn't talk about is 6, 7 years ago, the concept of sports betting was really thought of, in Europe, as data. Now, with the proliferation of the state laws in the U.S. permitting sports betting, how much does sports gambling and sport betting really drive valuations of some of these teams and leagues and the activity around live events?

Irwin Raij:
I think we’re still in the early side of it in the U.S., right, from a value perspective, but we’re starting to see these larger, national deals that are creating value from a sponsorship perspective and otherwise. We’re still figuring it out here, is the truth, and how to monetize it, but there is real opportunity for the teams and leagues.

And that’s a whole new category, right, and those categories are meaningful. In Europe, it’s actually matured to the point where you’re seeing, actually, a pullback on what kind of sponsorship is permitted from a gaming perspective, but the data point you raised is really important. Data’s driving so many different points. It comes into play not just in gaming, but also in access control systems, as well.

20 years ago, if you’d had to deal with Ticketmaster, Ticketmaster actually owned the data. They owned the data of their season ticket holders. Now that’s no longer the case, right? There’s technology that has actually forced a change in the industry where the teams actually own the data of their season ticket holders and their patrons, right, in a way that didn’t exist before.

Of course, the betting side of things, sports betting, is actually creating a whole other layer of data. What is interesting? What are people focused on? And there’s going to be some very interesting cross-marketing opportunities that develop over time. But right now, in the U.S., I wouldn't say it’s the driver of valuations, though I think it’s one of the things that people look at as a potential upside, right, because it isn’t one of the areas that has matured, right?

As we're looking at there might be a slowdown in value for non-national rights deals for media content, at least for the larger leagues, we haven't seen the slowdown yet on sports betting. We haven't hit that cap. So, it is one of the things people look to as potential future value or driving future value, but it just hasn't matured yet in a way that… I mean, from a buying perspective, you see upside. As a current operator / owner, you're saying this is great. This is fantastic, but we haven't quite figured out what's the way to completely monetize if you're in the U.S. Europe, little bit more sophisticated, but like I said, they're starting to pull back just when the restriction's coming for the regulated because of some concerns that developed around it.

Charles Baker:
I don't disagree with Irwin. I agree that we are still in the development stage with sports betting in this country, not unlike crypto, frankly. There was a lot of excitement around it. A lot of sponsorships were created, but sports betting in the U.S. is continuing. As states, one by one, legalize it, more and more states, and therefore, teams and leagues, are embracing it.

Interesting story. When it was first legalized, Irwin and I were working on an NFL transaction, an acquisition of an NFL team at the time, and when the Supreme Court struck down the prohibition on sports betting, the prospective team owner, the buyer at that time, become concerned that he was going to lose the deal because of the impact it might have on valuations. You may recall Mark Cuban went on "Squawk Box" or somewhere right after the Supreme Court decision came down and said, wow, they just doubled the value of the Dallas Mavericks. And this particular buyer said, get me that team now before the price goes up.

And so, I think there are a lot of expectations, and there have been a lot of expectations created around how sports betting, gaming generally, will drive valuations, and I think, because of the uncertainty right now, some of it is reflected in the prices, but not entirely. It's still to be seen, I think is a fair statement.

Irwin Raij:
It's interesting Chuck brought up crypto, because I totally...it's so spot on, right? I mean, crypto…I was speaking to some teams not that long ago, and they were like, this is the new lottery for us. This is fantastic, this

category. It's never-ending. It's going to be huge. It's going to be tremendous, and you know, are you concerned? What are your guarantees? There's so much money in it, it can't fail.

It's too big to fail type of attitude, and they really were paying outrageous numbers for sponsorship, really changing the marketplace. Well, we see what's happened with that right now, and I don't see it recovering in the near-term future. You know, I heard Mark Cuban talking about crypto, and he said, you know, when crypto finds a purpose is when it will take off.

It's like, when the internet found a purpose, it's when the internet took off. So, that crypto still has tremendous potential. It's just not quite there yet, but crypto's another great example of, you know, the hopes and dreams of values and future values, because, remember, we get multiples, right? It's a multiple revenue.

So, it is 6, 7, 8, 9, 10, whatever the multiple is. It changes by league. You get an extra $50 million of revenue a year, that your franchise has just gone up from $300 to 500 million, depending on what it is. That's meaningful, right? So, when you think about the sponsorships, whether it's crypto or gaming, that's where it is right now.

Sam Gandhi:
We're speaking with two of Sidley's thought leaders in the sports industry, Chuck Baker and Irwin Raij, about the resilience of the industry during the pandemic and how media rights are reshaping investing and the lure of investing among private equity funds. Irwin, you talked about stadiums before, and let's just talk about that.

We kind of have moved from, you know, these white elephants that are stadiums to potential huge opportunities, but *The New York Times* recently reported that New York could lose $516 million in tax revenue from its deal to place a new soccer stadium in Queens, and that's according to an independent budget analysis, and government subsidies for sports stadiums have long been a third-rail issue, and economists who study the area argue that public costs generally exceed the public benefits.

That being said, we've also seen the resurgence of cities, such as Cleveland, Baltimore, and others, that are putting these stadiums into their downtown areas, and I know you've heard about the move that Josh Harris has had to try to build a City Center stadium for the Sixers in Center City, as well. What's your take on this? You've had a lot of experience in stadium development.

Irwin Raij:
Well, I love talking about stadiums, and really, the best thing about stadiums is there's no real right or wrong answer. The truth be told, these are very bespoke deals and transactions based on what the community's needs are, what people are trying to do.

I'm very bullish on stadiums when they're structured right. They have tremendous impacts on communities, as you were alluding to, as you were touching upon, and almost virtually every building we see, the new stadiums that are built has an impact in its surrounding community.

And it's mostly good. Sometimes bad, but ultimately, it comes down to structure and thinking through it. So, look, when people come up with these studies and they say, oh, there's an impact on the taxes because we get a tax break. Well, they give tax breaks to other businesses. Sports industry is not the only industry to get a tax break on occasion. They don't get it always, right?

Depending on where you are in the country, it's very geographically focused on where you get your subsidies and what kind of subsidies you're going to get. Will you get a grant? Will you get a tax incentive? Real estate entitlements? What I mean by that is buying land that is zoned at a…for simplicity purposes, single-family point, and we're going to upzone it so you can put large-scale commercial on it.

But you bought it at a value single-family home. That is a government subsidy, right? We don't call it as much because it's a private investment that has to actually take the risk to build it out, but it's still a public subsidy, and it's an incentive. So, we come up with incentives for businesses all over the place. In sports in particular, where people react is there's so much passion.

You know, I was talking about the passion about it. People care. We're under the microscope. You know, I started my career in the public sector.

You know, I worked in the White House counsel's office many moons ago, and I worked for Al Gore on his campaign, and that one thing I always remember about that experience is everything we did was always under a microscope, right? And so, when I look at sports, it's the closest thing to that. When a sports owner says something, it's in the news.

When we want to build a stadium, it's in the news, right? When someone wants to build a storage facility down the street, is that in the news? Not always, or if it is in the news, it doesn't elicit the same reactions. So, it's not to say that these aren't valid points and concerns at times. Sometimes it is. But you really have to look at this, really focus, and really focus in on it from a community perspective, you know, in a very localized level.

So, would a stadium be built in a certain community if the public subsidy didn't exist? Would there be redevelopment around that stadium? What is the public's goal? Do you want to create this redevelopment area that's going to spur further economic investment and excitement, or would you rather just have a freestanding stadium in the middle of, you know, a suburb?

Everywhere is different, and what your political goals and objectives are is different, and keeping a team in a community is also meaningful, right, for certain cities. Again, it means something different in New York than it would mean, potentially, in Cleveland or San Francisco or Tampa or Miami, for that matter. So, it's a little bit different everywhere else, but look, in the end...and I've had the fortune of representing government.

I've had the fortune of representing leagues, and I've had the fortune of representing teams, and so I've worn, you know, a different hat, depending on where the community is, and so, these are not easy deals to work through, but you know, I like the eyeball test, right? And I think of Washington Nationals Park, which is the first stadium I ever worked on, which is over 95% publicly subsidized.

I lived in Washington, D.C. at the time. That area would've never developed the way it is, and now it's a tremendous, booming area. People want to be there. People enjoy walking around the building. People enjoy spending money there. The city is proud to have the team there, and so, I think that's been, in my view, a pretty successful example of how it can be done correctly.

But look, stadiums are controversial, and they're tough, and they're tough issues to work through, but they're fun, and I think the best deals are the ones where people are working together to find ways to drive broader economic development and deliver services to a community.

I'm working on a project in a community that is underserved from an affordable housing perspective and from a grocery stores perspective and from a restaurant perspective. At all levels, and the project will address probably 50, 60% of the concerns and needs, but for the building, none of it is built. Does that work in every city? No. It works in some. You have to be thoughtful about it and what the subsidy should be, and if any, is one of the toughest debates. Some of these deals you'll talk about won't get any public subsidy. What they'll get is expedited permitting in zoning.

Sam Gandhi:
Chuck, how much do these stadium opportunities actually drive investment and drive investors to go ahead and bid for these properties?

Charles Baker:
It's interesting, Sam, and it varies from deal to deal. Remember, not every stadium is necessarily owned by the team. So, there are many teams out there, both in Europe and the U.S., where the stadium is owned by the municipality.

And there's no real opportunity to create any additional revenue streams or any growth in value through the stadium itself, but there are often deals where the stadium is a significant driver, and modernizing or redoing the stadium is an important component to the transaction. When we represented Mr. Boehly and Clearlake and their acquisition of Chelsea, you know, folks are familiar with Stamford Bridge. It's a classic, iconic venue.

But many would say certainly in need of improvement, or if there was an opportunity, putting it differently, to improve the venue and to commercialize it further to drive per cap, which we've talked about a little bit before, to drive traffic and to increase revenues, and I think the stadiums and arenas are an area where the U.S.— one of the few areas, frankly — where the U.S. has been ahead of Europe in terms of monetizing the asset.

You know, Europe may be ahead of the U.S. in terms of sports betting and in terms of fan passion around some of their clubs, but we've really done a tremendous opportunity here finding the most practical and effective ways of monetizing the venue. I think we're going to see a lot of venue development in Europe over time. Remember, many of these venues are iconic.

They have been around for a very, very long time, and they haven't been monetized, and so whether it's creating better traffic patterns, better opportunities to merchandize, selling merchandise throughout the venue as opposed to in one small space, better food and beverage options, increasing ticket prices, improving fan views. All of these things that we've been taking for many years in the U.S. are, you know, in my mind, finally coming to Europe over the last 5 or 10 years.

And so, we see venues like Tottenham and Etihad Stadium for Man City that've recently been completed and are driving foot traffic and revenues, and I think, as we look at some of the more iconic venues, like Stamford Bridge and in Rome where A.S. Roma plays, we're going to see a lot of efforts and a lot of transactions driven by the real estate opportunity.

Irwin Raij:
Yeah, there was a time in which living next to a stadium was actually viewed as a negative, right, and we would only build stadiums in the poorest neighborhoods you could find. Now, living next to a stadium is actually the cool place to be, depending on what stage of life you're in. There's a sort of dynamic and energy around it, and so, from a value perspective, when people build stadiums, the land around those stadiums usually goes up significantly, the value. In some instances, triple what the value was prior to the announcement. Forget the completion of the building, the announcement of the construction of a stadium. We saw that here in the states.

You know, I was pretty public with SoFi, right? When it was announced that Kroenke bought land, everyone started speculating and buying all the land around the current SoFi site, and valuations went through the roof. It happens in almost every deal.

Frankly, when I'm on the team side, it's one of the things that you have to be really delicate and careful about. How do we acquire land? How do we get control of land, and how do we buy additional land surrounding the building so we can control our environment, because we know the minute we announce our building, the valuation of that land's going to go up, and it's going to become harder for us to do some of the things we want to do.

And you know, Chuck's point about Europe, we've seen a lot of U.S. investors going to Europe, and what opportunities do they see? Well, the media rights there have gone through the roof, right, and sports betting, they're more sophisticated, as we've talked about, but the real estate's really fascinating, right? The real estate values are pretty high anyway in some of these facilities, around these facilities, and no one has known what to do with them.

Previous ownership, prior to U.S. and PE investment in Europe, we've seen these…nothing come around these stadiums. On the flip side, you look at the U.S. and look at what's…you know, you go to the Truist Park in Atlanta, that's Disney World. You walk in, there's 100 restaurants. There's corporate. There's residential, and it is active seven days a week. It's a little village in and of itself, and it breeds excitement and interest and creates opportunities to make money.

Sam Gandhi:
Chuck and Irwin, we really haven't talked about the proliferation of professional women's sports and women's leagues, and where do you see value in those leagues, and do you see those as new investment opportunities?

Charles Baker:
Sam, I think those are absolutely stellar investment opportunities. Women's sports finally has the tailwinds that we've been expecting for so long. It was recently announced that the NWSL has approved three teams for expansion. Boston, the Bay Area, and Salt Lake, which was already in the cards with the sale of Real Salt Lake, the $50 million rumored franchise

prices, I can tell you those are close, having been involved with 1 or 2 of the buyers.

I think women's sports is attracting a lot of investment talent, private equity, institutional, and high net worth individuals. The women athletes in soccer and basketball and other sports are some of the best athletes on the planet. They have loyal followings, huge fan bases, and media impressions, and I do think we're going to continue to see values increasing around all of the major women's sports. I think the media deals are coming around.

I think, as the NWSL renegotiates its media deal, it's going to be a significant multiple over its current media deal. I think a lot of corporations are investing in women's sports now and not just because they need to. I think because they want to. They recognize the growth there, and so, I think we're poised for significant increases in valuation and activity around women's sports.

Irwin Raij:
I tend to agree. I think women's sports, it is a phenomenal time. I love the asset class when they were filling franchises under $10 million. As the assets have gone up to, you know...when you think of Boston and San Francisco at $50 million a pop for a franchise, those are some big numbers. Very bullish on the league. Lot of work to do. You know, talking earlier a little bit about MLS and how MLS revenue has to match up to valuations.

I think there's work to be done, but there is an appetite for it. There's a pent-up demand for it, and I think there's a lot of excitement for it, and hey, look, I have a daughter. We have clients in the NWSL, and I was meeting with them, and I was talking about their stadium project and how exciting it's going to be for them and their stadium.

And at one point, I said, you know, I was mentioning to my daughter that I was working with the women's soccer team, and my daughter's young. She's 6. She said what do you mean? There's professional women's soccer players? Said absolutely, and she lit up, and she was so excited, and to the point now she's taking soccer lessons, and what does that say? Well, it says we have a whole generation of opportunity coming.

So, I believe talent is great right now, in particular in women's soccer and women's hockey, and I think there's just an unending supply of talent that's continuing to grow with the sports as they go, but now the challenge is going to be shifting it…there will be challenges, from a revenue perspective, but I think it's something that folks are excited about. I would rather invest in a women's sports team than an e-sports team, personally.

Sam Gandhi:
As we wrap up the podcast, I'm going to ask you both certain terms of predictions for the year coming up. Do you see this momentum of high valuations and more sports transactions continuing, despite the somewhat tepid environment that we see in M&A, and what do you see the challenges that are on the horizon?

Charles Baker:
I continue to see valuations increasing and a fair amount of investment activity in the sports, media, and entertainment space, and I view that space as a bit broader than just the teams themselves. It's the teams and the ecosystem around the teams. Other sports assets, I think, as we've discussed, this asset class has proven to be relatively non-correlated, recession-resistant, and is not a highly leveraged environment.

And so I think, with the media deals, while there may be an end in sight in terms of the increasing numbers being paid, but I look at that as, you know, 5, 10 years out. I think for the next 12 to 24 months, the NBA will negotiate its media deal. That's expected to be a big number, a multiple of several times their current deal, and I think that's going to continue to drive valuations in that league and all U.S. leagues, for that matter.

I think the teams, the full teams, are not coming on the market that regularly. We still have scarcity value. We still have seen, in past auctions, where we've been representing buyers, NFL, NBA, and soon, the NHL with the Ottawa senators that there are many more buyers than sellers, and the demand is strong. So, I think prices are going to continue to go up. I think the fact that the U.S. leagues are now permitting private equity investment, and at least with the NBA and Major League Baseball, institutional investment.

Meaning, in certain cases, sovereign wealth, pension plans, endowments, I think it’s going to continue to drive valuations. I think we’ll see a lot of secondary trades of minority positions. I think we’ll see the same thing in Europe. I think perhaps 5, 10 years down the road, we may see softening, but I don’t see that occurring anytime in the near future.

Irwin Raij:
I agree with Chuck. I think we’re see going to see valuations going through the roof. I think in this environment, you may see an occasional value opportunity, but in an auction setting, the value opportunity’s going to start to disappear quickly, because most of these assets trade at an auction structure, and so if someone sees a distressed asset, it, on occasion, pushes it up higher.

But I’m pretty bullish about the M&A side of things from a stadium development perspective. It’s an interesting time. Interest rates have moved up from historic lows, and so, I think we’ll see a little bit of a slowing on the construction side, but a lot more activity on the planning side so that, over the next probably 24 months, we’ll have more buildings in process than we do at this exact second.

But there’ll be real opportunity there. I think this is an opportunity for teams to be negotiating with the public sector, who’s looking for safe economic development projects, to work together and find the right partnerships. Like, Miami’s just finished their Inter Miami stadium deal. The Buffalo Bills, that’s a done deal.

We’ll start construction probably the next six months. Tennessee Titans, the same story. So, you’re already starting to see deals that are coming through in this interesting time. I think you’ll see a lot of planning for buildings and ultimately, buildings being built over the next 18 to 24 months. I do have concerns. There are some clouds to be really keep a close eye on.

What’s happening with Sinclair and the regional sports network that’s in the United States has a real…it’s going to be a really interesting study of, you know, what can happen. Just as background, right, this was the asset that Disney bought from Fox for 20 billion dollars. Couldn't keep it. DOJ, you know, Department of Justice said couldn't keep it for anti-trust purposes and sold it, I believe, for around $9 billion to Sinclair.

Sinclair, basically, has been writing it down to $3 billion, and you know, looks like they're about to declare bankruptcy, and that's because you have cord cutters, and folks with never cords, right? Folks that've just never used the cord at all. By the way, I still think there's still millions upon millions upon millions that have not cut the cord, and people are still buying content.

I think what we're trying to figure out is…people are trying to figure out how to make the business model work, right, and how to reconstitute the business model, but in that process, while the people are figuring that out, I think you're going to see some bump, and it's going to have an impact on some of the middle-market teams.

And so, do I think their valuations are going to go down? No. Do I think people are going to make money? Yes. Do I think valuations for certain markets, will they go up at the same pace? Maybe not. Until they figure out what's going on with the RSNs and how we redevelop that business. I think Disney's investing a lot of money to try to figure that out.

I think others are trying to figuring out a lot of money, how to go direct-to-consumer and how to do other things that create the valuation proposition, the revenue proposition, or will everyone go national rights deals only, like the NFL and MLS? I mean, NFL and MLS have local deals, but they're so small, they're meaningless, and so, I think there'll be some changes in that media rights structured business in the U.S. that could impact some values.

But again, nothing that's going to push values down. I just see them going up. Just it's a question of how fast? It's going to be another fun year, right? And when COVID hit, you know, we started this conversation talking about the impact of COVID. I remember sitting in my office for the first…well, I wasn't in my office. I would say at home, you know, with the family, working from home.

Like, what's going to happen? For 30 days, it was like, is this going to be busy? An then, all of a sudden, the light turned out, and everyone realized we still have to do business, and it's been at an insane pace ever since.

April 2020 to now has been something…it's the busiest I've seen this space in 20 years of being in it, and I just see that continuing for some time.

Sam Gandhi:
Let me ask you both a question that maybe you could give me a short answer to. Say you had a few billion dollars swishing around your bank account and you decided to buy a sports property. What's the sports property each of you would buy?

Charles Baker:
I'll go first, Sam. Given television ratings and the fact that the NFL still puts out 49 of the top 50 broadcasts every year, I would invest in an NFL team. I don't see any end in sight.

Irwin Raij:
I agree with Chuck. NFL is the way to go, except for the fact that a couple billion won't get you a team anymore, and I'm kind of a control guy. I would look carefully at the NBA, though I'm getting a little worried the valuations are getting a little stretched.

If you're a value person, I'd take a look at Major League Baseball. That although they haven't had as good press as of late, their metrics are not bad from a sponsorship perspective and otherwise, and their attendance numbers are larger because of the number of events and games.

So, if MLB can recapture some of the excitement it had when we were younger, I think that league would be really well positioned. So, I think MLB's a little bit more of a value opportunity. NFL is the premium product, and then Chuck and I have both invested in some assets along the way.

MLS is getting pretty expensive. Really, there needs to be a catch-up on the revenue side, but it's worked well, right? The league is growing and expanding tremendously, and obviously, the World Cup 2026, there's some excitement around that, as well, but metrics wise, I think value propositions, baseball. Premium is football. I love basketball. I really do. I mean, I love them all, is the truth.

Sam Gandhi:

We've been speaking with two of Sidley's thought leaders on acquiring sports media assets and teams, Chuck Baker and Irwin Raij. Chuck and Irwin, this has been a great look at the sports industry as we get into Super Bowl week. Thanks for sharing your insights and being on the podcast.

Charles Baker:
Thanks, Sam. Thanks for having us. As you can tell, Irwin and I love this business. Love the industry. Enjoy discussing it, and would be happy to come back anytime and share our views.

Irwin Raij:
Thank you so much for the opportunity. Loved chatting about it. Anytime, anywhere, you let us know. We'll be there. We're happy to chat.

Sam Gandhi:
You've been listening to *The Sidley Podcast*. I'm Sam Gandhi. Our executive producer is John Metaxas, and our managing editor is Karen Tucker. Listen to more episodes at Sidley.com/SidleyPodcast, and subscribe on Apple Podcasts or wherever you get your podcasts.