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Why sports focused SPACs are more than a current trend

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On October 8th, Sports Ventures Acquisition Corp., a special purpose acquisition company or SPAC, filed a registration statement with the Securities and Exchange Commission, making it the latest sports and entertainment-focused SPAC to register this year. The company intends to raise $200 million to acquire a business in the sports, media or entertainment sector. The filing specified that the company would target US-based sports teams, European soccer clubs and teams in cricket, rugby, and esports.

A SPAC is a company with no existing operations. It is formed to raise capital at an initial public offering and subsequently acquire one or more operating businesses within a specified time frame. Initial investors, called sponsors, form SPACs to acquire businesses that are generally within their industry expertise. The acquired company, which must not be identified at the time of the IPO, becomes public due to the acquisition.

SPACs are not new. However, 2020 brought a significant increase in the number of SPAC IPOs. This year, 157 SPAC IPOs have raised a total of $58.4 billion, a considerable increase from 2019, when $13.6 billion was raised across 59 IPOs. The average SPAC IPO size has also increased from $230.5 million in 2019 to $372.0 million so far in 2020.

SPACs are an attractive going-public option for companies that are not ideal candidates for traditional IPOs. Generally, merging with a SPAC is less expensive, and shortens the timeline to go public and trade on an exchange. SPACs also provide companies with access to crucial liquidity via the public markets and allow companies to negotiate favorable acquisition terms, including issuing additional debt or equity to raise further capital.

Numerous sports and entertainment-focused SPACs have either completed IPOs or filed with the SEC in recent months. Sports Entertainment Acquisition Corp. raised $400 million in early October. It intends to focus on the sports and entertainment sectors and associated technology and service areas, including media, ticketing, payments processing, gaming, and loyalty programs.

In September, Bull Horn Holdings Corp. filed a registration statement to raise $75 million. Bull Horn is led by Rob Striar, CEO of a leading strategy, marketing, and branding agency specializing in sports, entertainment, and consumer products. Michael Gandler, a sports business veteran, and Baron Davis, the former NBA all-star, will serve on Bull Horn's board. It is speculated that Bull Horn will focus on acquiring interests in European soccer clubs.

In August, RedBall Acquisition Corp. raised $575 million. RedBall is led by Gerry Cardinale, founder of private investment firm RedBird Capital Partners LLC, and Billy Beane, Executive Vice President of Baseball Operations for the Oakland Athletics. It was recently reported that RedBall plans to purchase less than 25% of Fenway Sports Group LLC, which owns the Boston Red Sox and Liverpool Football Club.

Sports focused SPACs may be more than just a current trend. While sports team valuations have tended to increase, the coronavirus pandemic will likely impact team values for the next few years. The pandemic has caused teams to lose revenue streams, and has likely impacted team owners' other businesses, and reduced the market for prospective investors.

As a result, teams need new sources of capital. In response, some major U.S. sports leagues have taken steps towards loosening ownership rules to permit investment funds to take minority positions in clubs. In Germany, the pandemic's financial impact on soccer clubs resurfaced a debate regarding the Bundesliga's 50+1 rule. The rule requires a German soccer club to hold a majority of its voting rights, effectively preventing external investors from taking over clubs, common across other soccer leagues in Europe.

European soccer clubs have become attractive targets for American investors, as European soccer is believed to offer better values than U.S. sports teams that generally carry higher valuations. In the last few years, wealthy Americans and American investment firms have invested in or acquired soccer clubs across Europe, including England and Italy. Additional deals are reportedly on the way.

The loosening ownership rules, need for capital, and currently depressed team valuations, could result in a flurry of investment activity during the next few years. SPACs can play a significant part as teams and owners welcome the broader pool of potential investors, the access to capital, and enhanced liquidity options. SPACs can also offer clubs an international shareholder (and potential fan) base, which can add significant brand value to any club.

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