

Sports and Venture Capital Firms

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AUTHOR BIO

Annie R. Han is a high school student interested in entrepreneurship and sports. She has participated in many economic and business competitions and studied angel investments and venture capital. Annie has more than eight years of professional swimming experience and has won many swimming competition awards. Annie also has interests in ice skating, badminton, tennis, dancing, and other sports. Therefore, she has tried to explore the relationship between business entrepreneurship and sports, aiming to integrate her two interests in this paper. She analyzed the potential link between venture capital firms and sports startups, as well as the long-term development and prospects of these firms.

ABSTRACT

Venture Capital (VC) firms in sports have varied targets, timings, and budgets according to their firm types and they usually establish management teams to execute due diligence. This paper mainly focuses on the interaction between VC Firms and sports-related companies by introducing the background and differences among various VC firms in sports. A detailed analysis of a sports tech investing VC firm will be displayed and the execution of due diligence will be explained. Moreover, this paper will also illustrate the development of VC firms in the sports tech sector over time and evaluate their prospects.

Keywords: *Venture Capital, Sports, Sports Tech, Due diligence*

INTRODUCTION

Over 300 million innovative companies and 600 million entrepreneurs exist worldwide, boosting the world's intelligence, technological development, and the economy. Thousands of sole proprietorships, corporations, limited liability companies, partnerships, joint ventures, nonprofit companies, cooperatives, and other types of businesses are continuously entering the world market every day. Roughly, 305 million startups are established each year, many in the United States, which constitutes a home country for more than 70,000 startup companies ranging from tech and gaming to blockchain and artificial intelligence (Wise, 2023). Sports, one of the most well-known fields, attracts hundreds of innovative companies to enter the market. Venture Capital (VC) firms and angel investors play decisive roles in the prosperity of entrepreneurial companies in sports.

Venture capitalists are private equity investors who provide capital to companies they deem to have potential. VC firms are usually formed as limited partnerships and step in when their targeting companies start to commercialize their ideas. They provide funds and marketing advice to the companies, aiming to cash out substantial returns. Despite the earning potential, the risk of VC firms is evident -- an inaccurate evaluation of the targeting company leads to failure. Thus, VC firms evaluate each company carefully, aiming for a strong management team, a large potential market, and a unique product with a competitive advantage, but the overall failure rate is inevitably high. Even so, the riskiness of VC firms does not induce people to give up -- new VC companies are established yearly in the global market, and those in sports account for a large proportion. Notice that VC firms in sports are not limited to sports, but include multiple industries such as media & entertainment, networking & equipment,

information technology services, or consumer products & services. These industries take up 21.5% of the share of VC investment in the United States, just lower than Software, the industry that takes up the largest portion of the VC investment share in the United States (Hallet, 2017). VC firms have jumped into the sports world and we can expect more opportunities for jobs, entrepreneurs, and economic futures to come through this combination.

Differences between VC Firms in Sports

Taking an overview of the VC firms in sports in the world, each of them has its unique investment style, goals, timing, or budget limit. Even with the same goal, such as within the sports tech sector, each VC firm has different decision-making methods and focuses.

Differences in Target

VC firms in sports are not limited to investing in one type of company. Entertainment agencies, media companies, sports clubs, sports consulting businesses, sports magazines, sports bloggers, online sports shops, and sports-tech companies are all businesses in the sports industry that VC firms can target.

On one hand, sports technology companies are popular targets of VC firms in sports. ADvantage VC, for example, is an early-stage VC firm located in Jerusalem, Israel that invests in fan engagement and athlete connection (TRUiC team). The firm believes technological developments can foster fan engagement, shape better fan experience, and track the performances of athletes. SeventySix Capital, located in Conshohocken, Pennsylvania, focuses mainly on game-changing startups, esports, and sports technology (TRUiC team). Compared to ADvantage VC, which focuses on the interaction

between technology and fan engagement, innovation in gaming and esports technologies is the main target of SeventySix Capital. Their differences prove that although many VC firms focus on sports technology, they can still target different fields.

On the other hand, VC firms also invest in companies in fields other than technology. For instance, RSE Ventures' major success is the ideation and building of the International Champions Cup, an annual football exhibition competition with over 140 million viewers worldwide (TRUiC team). Liberty City Ventures, located in New York, NY, acts as an incubator and accelerator to fund e-commerce companies in sports (TRUiC team). Yao Capital, a private equity firm named after the famous basketball player Yao Ming, invests in the world's leading kickboxing league and an American sports nutrition company (TRUiC team). The diversified types of companies funded by VC firms demonstrate venture capitalists' difference in interests.

Differences in Timing

Secondly, VC firms have different investing stages. These stages include the pre-seed, seed, series A, series B, expansion, and mezzanine. In the pre-seed stage or the bootstrapping stage, companies build up their products' prototypes. The uncertainty and ambiguity of the products result in high risks that VC firms want to avoid, which reduces the likelihood for them to provide funds at this stage. During the seed stage, companies have pitch decks that illustrate their product potential and future opportunities to attract venture capitalists. Angel investors, individuals who invest their own money in startups, and early VC firms are more likely to participate in this stage. SeventySix Capital is an example of an early-stage VC firm in sports that looks for smartness and passion in entrepreneurs (TRUiC team). During the series A and series B

stages, companies complete their business plan and enter the manufacturing process. Late-stage VC firms provide funds for those companies to finalize their market research and production. RSE Ventures and D1 Capital Partners are two typical late-stage VC firms in sports, aiming to invest resources to achieve better marketing campaigns, strategies, and execution (TRUiC team). During the series C stage, companies are producing exponential growth and constant profitability, which attracts VC firms by the reduced risk of failure. Private equity firms such as Bruin Capital in sports are eager to invest in this stage (TRUiC team). During the mezzanine stage, VC firms usually sell their shares to earn returns since the companies achieve viable businesses. The majority of VC firms in sports diverge into either early-stage or late-stage VC firms, funding their chosen companies at different time periods.

Differences in Budget

Thirdly, the investment each VC firm in sports provides is different. During the seed stage, angel investors and early-stage VC firms are the most active investors. The main difference between them is their budget limitation. Usually, VC firms have considerably more to invest, at an average of \$9.9 million, but angel investors only put in between \$100,000 to \$1 million (Uncapped Technologies Inc.). However, at the seed stage, VC firms usually fund the same amount of capital as most angel investors to lower their risks because the functions and potential markets of their targeting products have not fully developed in this stage. According to Statista, "the median size of venture capital deals in 2020 was \$1.2 million in seed stage businesses", similar to the capital invested by angel investors (Uncapped Technologies Inc.).

Moving to the early stage, firms usually invest around \$4.5 million (Uncapped

Technologies Inc.). For example, Mindspring Capital, an early-stage VC firm in sports, has an investment range between \$1 million to \$5 million (TRUiC team).

After entering the late stage, the investment of VC firms increases, reaching a minimum amount of \$9.9 million (TRUiC team). As one of the top VC firms in sports in 2023 and an enormous late-stage VC firm, ION Crossover Partners has an investment range between \$50 million to \$100 million (TRUiC team).

While some VC firms focus on one stage, others may engage in all stages. Raptor Group is a VC firm in the United States that provides private and public funds to sports companies in the seed, early, series A, and late stages. The fund they provide weighs \$35 million (2022, Nicolás Cerdeira). For firms like Raptor Group that raise funds in all stages, the amount of capital they put in is often huge.

Case Study: Techstars

After being familiarized with the differences among various VC firms in sports, a detailed analysis of a typical sports tech investing VC firm will be illustrated.

Basic Information

As one of the most famous VC firms that fund startups in sports tech, Techstars is a perfect firm to analyze. Techstars is an early-stage VC firm that provides startups with capital, runs accelerator programs, brings access to one-on-one mentorship, and connects investors with startups. The firm was established in 2006 in Boulder, Colorado, by David Cohen, Brad Feld, David Brown, and Jared Polis (Wikipedia). Until now, it has recruited over 2,900 sports companies to its accelerator program, accomplishing over 6,000 investments, and making a total funding amount of \$109 million (Wikipedia). When the firm was first established, it had a funding range between

\$6,000 and \$18,000 as it was an early-stage VC investor that wanted to avoid risks (Wikipedia). After its maturity, it provides sports tech companies with \$20,000 plus a \$100,000 convertible note as its increasing firm size enables it to afford higher risks and incentives to approach higher revenues (Wikipedia).

Due Diligence

Usually, VC firms go through the funding process by first pitching the business they want, then conducting some early-stage due diligence on that business, opening a partner sponsor meeting, arranging visits to the investment committee, signing a term sheet, and finally signing the funding contract. Techstars functions like this as well. Although the process seems simple, it is often hard for most startups to even pass the due diligence test, which is an investigation that a businessman should take to evaluate his company, pitch, or products before he signs agreement sheets with others. To pass this test, companies must meet all requirements from their funding VC firms.

Techstars has Managing Directors to judge the viability of startups that apply for its accelerator program. Their due diligence test requires sports startups to have a legal entity that Techstars can invest in, loads of documents that illustrate founders' shares and option pool allocation, and tables that shows the company's current product development and capitalization (Legal Nodes Team). Most importantly, Techstars requires startups to transfer all of their intellectual property to the new company (Legal Nodes Team). These restrictions discouraged hundreds of startups in sports with either low-potential products or products that already exist in the sports market. Fortunately, after the due diligence process, sports companies who pass get a high chance to be enrolled in the Techstars accelerator program, meaning their appliances are being approved. When they sign

the finalized contracts, Techstars will not only provide considerable capital but also help them to ameliorate their products, analyze the current sports market situation, and design suitable market plans.

Overall Evaluation

Although Techstars seems like a well-known VC firm that funds substantial amounts of startups, its success is being doubted. Compared to YCombinator, a VC firm that competes with Techstars in the same market sector, Techstars lacks large exits as proof of its success. There is no data to support Techstars' claim that its investments pay back great returns. Some statistics even show that Techstars' accelerator program failed to accelerate the startups by labeling numbers. According to their calculation, "Over 10% of Techstars companies fail, 11.66% have been acquired or had an exit, and 77.62% are still active and their fate is not yet known" (Stephanie). The failure rate is actually still within the normal range for most VC firms, but it is certainly dangerous for a huge VC company that is growing rapidly. It creates certain threats and potential dangers to Techstars' future development.

Nevertheless, in any case, Techstars is still one of the most outstanding VC companies in the sports tech market for now. One cannot say that it was unsuccessful, only that there were some flaws on its way to success. Regarding the current prosperous status of the sports tech market, solving the low return rate issue will not be hard for Techstars.

Development of VC Firms in Sports Tech

While Techstars is overcoming its internal issues to become more successful, other VC firms in the sports tech sector are achieving maturity over time as well.

Development of VC Firms

Sports tech is a long-developed sector in human history that has received much attention. With the rapid development of technology and the continuous improvement of human intelligence, more and more sports-related innovations have developed, allowing athletes to train and interact with fans in new ways. In 1964, a new electronic automated timing system with improved accuracy was launched by Seiko; in the 1980s, an updated RFID timing was designed (Hire Intelligence). Professional clothing, such as flat tracker shoes, athletic clothes that measure heart rate, and clothes to wick sweat were created over time as well (Hire Intelligence). The development of sports tech is rapid and progressive, not only in the previous fields but also in neuroscience, goal-line technology, video technology, photo technology, and fan-engaging technology (Hire Intelligence).

Along with the long innovative history of sports tech, VC firms behind them are also rapidly developing and have played a vital role. During 2010, opportunities in sports have not been fully explored by VC firms, and the amount of venture investment in sports tech was only about 37 million (TechCrunch). However, it wasn't long before VC firms in sports had their first heyday. According to a TechCrunch Tableau study, venture funding for sports tech startups is growing nearly 30% year over year since 2012, hitting a peak number of \$927 million in sports tech investment in 2014, and investors have spent over \$1 billion in venture deals for sports-related startups over the year of 2015 (TechCrunch). In the past years, the sports tech sector achieved overall funding of \$27.8 billion in 16,800 countries worldwide, with one-third of its fund raised from 2020 to 2022 (Tracxn). In 2022, this sector had over 14,900 startups that engage sportsmen, fans, and other stakeholders in sports industries (Tracxn). The most famous investors that fund these startups include Techstars, Sequoia Capital, Elysian Park, 500

Global, and Y Combinator. Most recently, some experts predict that the total investment in the global sports tech sector “will surpass \$31 billion by 2024, with rising investor interest ensuring that the current influx of capital will only accelerate” (Michael Long, 2020).

Notably, Sportstech X is the best source for data and insights about innovation and startups in sports. It published a Global SportsTech VC Report that gives the most detailed analysis of the venture capitalists' investment in the sports tech sector. Benjamin Penkert, one of the co-founders of SportstechX, and his team conducted this research and analyzed 3000 deals and funding rounds across five continents between January 2014 and September 2019 (Michael Long, 2020). In 2014, North America accounted for the highest percentage of VC funding worldwide, with an amount of \$8.16 billion spent across 1,357 funding funds (Michael Long, 2020). Startlingly, its funded capital nearly comprises double the amount of the funds provided by the ten countries ranked after it in the sports tech sector. New York City, most outstandingly, yields over \$3.6 billion of investment, followed by San Francisco with \$868 million of funds invested, which together accounts for around 40 percent of the total global investment in 2014 (Michael Long, 2020). During the whole 5-years period, the US spends a total of \$12.6 billion in sports tech funding and has a compound annual growth rate of 25 percent (Michael Long, 2020). In the meantime, other regions in the world have increased spending by which the VC firms in China fund a total of \$1949.3 million, \$465.3 million in India, \$457.2 million in the UK, and \$304.3 million in Brazil (Michael Long, 2020). For the first time, the North American share of investment fell below 50 percent, reaching only 35 percent in the global market, down from 86 percent in 2014 (Michael Long, 2020). The increase in the share of other regions in the world and the decrease in the share of North

America demonstrates the phenomenon that the spread of investment has grown more equal than before and the VC firms in the sports tech field are getting more prosperous globally.

Development of Former Athletes

Although the participation of formal VC firms constitutes a large proportion of the total amounts of investment in the global sports tech market, private equity or personal investments held by former professional athletes account for a portion of sports tech investment as well. According to Miles Clements of Accel, "Every professional athlete looks at the tools they have available, and the way that analytics are transforming their preparation for games, and now they are realizing that they have a front-row seat for the changing landscape of sports" (TechCrunch). The fact that the status of former athletes can bring them more convenience in investing in the sports field has led many retired athletes to join the ranks of venture capital. Investing in sports fields brings them more benefits since they understand this field better than other investors, and many of them cannot find other jobs smoothly after retirement. The majority of them who have spare money will choose to use the money to invest in companies they believe have market value or to start their own companies.

Carmelo Anthony is an American professional basketball player who last played for the Los Angeles Lakers of the National Basketball Association. He and Steve Nash, a Canadian professional basketball coach and former player who most recently served as head coach of the Brooklyn Nets of the National Basketball Association, both ran their own venture funds and invested in sports tech companies that they deemed to have potential (TechCrunch). Both of the former athletes acted like VC firms that explore the potential of companies in the sports tech sector.

When VC firms in the sports tech sector thrive, more and more retired athletes will be attracted by this field and participate in the investing process, increasing the number of private equity in the global market. Thus, VC firms in the sports tech field are anticipated to be even more prosperous in the future.

Prospects

Regarding the surging amount of global investments in the sports tech market and the rapid development of private equities established by former athletes, it is only a matter of time before VC firms in sports tech achieve prosperity. In the future, the success of former VC firms will attract new firms to enter the market, enlarging the sports tech sector through millions of capital funded.

Furthermore, many VC firms are attracted by e-sports, a form of competition using video games and electronic devices, in recent years. The advance of technology promotes its development, making it a convenient sport that everyone can do at home. Hundreds and thousands of VC firms in the sports tech sector discover the potential of e-sports and start to connect with startups in this category. Those VC companies and e-sports are complementary partners. While gaining benefits for themselves, they also achieve prosperity for each other. VC firms provide e-sports companies with enormous initial capital, and the huge profits brought by e-sports companies have also given returns to VC firms.

The cooperation between VC firms and others will bring risks and benefits to them at the same time since they are not entirely sure whether their investment goals are good or bad. But at present, as long as their due diligence process and early judgment are careful enough, the final results are mostly acceptable. Thus, the future of VC firms is very promising.

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