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How GPs Can Help Professional Athletes Break into PE

Former NFL player LaDainian Tomlinson is an investor in Brand Velocity Partners-backed BBQGuys.

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THE NFL SEASON IS NOW in full swing. For general partners marketing their next fund, many can't help but think, "Some of these players are making more than we are. They should be attending our AGM as LPs, not as expensive guest speakers."

The thought is not unwarranted.

Professional athlete earnings have skyrocketed in recent years. Forbes estimates that the top 50 paid athletes made a combined $2.8 billion in the year that ended May 1, 2021.

Those fortunate 50 – and many hundreds who did not make the list – have also become more systematic about building multi-generational wealth for their families. The most successful athletes are setting up their own investment offices and engaging in entrepreneurship at many levels. At the same time, the leagues, players associations and team owners have done a better job of prepping their talent for life after their playing days are over.

In our experience, few athletes want to be passive investors in direct deals. If their celebrity can help drive the growth of a business they're involved in – whether as a spokesperson, brand ambassador or board member – they want to actively participate in their investment portfolio.

Private equity firms have made investments in sports-related businesses over the years, and some executives have acquired enough wealth to purchase professional teams of their own. But the industry has done very little to tap into the trends described above. The appeal of venture investing and a lack of network crossover are two reasons why.

The Appeal of Venture Capital

It's common to hear about star athletes investing in venture-backed, consumer-facing startups that are still building towards profitability. The nature of venture investing is consistent with an athlete's mindset of working towards a "big win" of sorts. Plus, it's always fun for investors in popular brands to tout that they own a piece of the company.

We as deal professionals hear a lot about the big winners – Kevin Durant's investment in Coinbase comes to mind – but seldom do we hear about the deals that lose money. The reality is that many venture investments fail. So, while venture deals might seem appealing, losing money is not.

If the private equity industry is to tap athletes' capital, expertise and brand value, there needs to be an education process before any pitch is made. Not every deal has to be a home run. By investing in an already profitable company – my firm uses a $10M of Ebitda threshold – with good growth prospects alongside an experienced sponsor, the investment is far less risky than a startup. But much work remains on the educational front.

Whom You Know

Many agents and business managers tell me that for their savvier clients, there is appetite to invest in private equity but that "it's hard to break into." This is not surprising.

Private equity professionals talk to other private equity professionals. Athletes talk to other athletes. Occasionally these worlds collide, but not often.

The traditional clients for material private equity investment have been institutional investors, and so GP distribution teams spend all of their professional time educating and building relationships with that audience. Few of them are pitching athletes' agents or business managers. They simply do not run in the same circles.

Similarly, LPs collaborate and invest together in the managers they prefer based on upon decades of mutual trust and positive outcomes. Athletes do the same when it comes to their business ventures or investment portfolio.

Case Study: BBQGuys

By way of example, I never worked a day in finance before I co-founded Brand Velocity Partners in 2019. My career has been in sports marketing, building a network with current and former players, agents, team owners, league executives and corporate sponsors. After years of bringing these parties together on various ventures – and learning about private equity from my peers – I thought more could be done to insert athletes into this ecosystem in creative and thoughtful ways.

A case study for this approach would be our investment in BBQGuys, a leading e-commerce platform for BBQ grills, grilling accessories, and outdoor kitchen projects. As of Q2 2021, the company has generated 43 consecutive quarters of YOY top-line growth and positive Ebitda. Even with that outstanding track record, as with all of our portfolio companies, our goal was to bring a "venture" mentality to private equity by accelerating growth through enhanced marketing execution. Our athlete investors would become a part of that marketing.

As a newer firm without a formal fund, we assemble investor syndicates for each deal based on which investors may be most beneficial to that particular business. The independent sponsor model can work well for athletes as they are used to being choosy about their business relationships. For BBQGuys, our team includes the Manning family (Archie, Cooper, Peyton, Eli), NFL Hall of Famers LaDainian Tomlinson and Steve Hutchinson, and lifestyle-entrepreneur Landyn Hutchinson.

This transaction went beyond the traditional model of athletes serving as paid spokespeople in exchange for cash and equity. With BBQGuys, this group has real skin in the game. They have all invested out of their own pockets, strongly believing in the mission and values of the company. Additionally, all four Mannings serve as brand ambassadors, and LaDainian Tomlinson and the Hutchinsons are slated to do the same in the coming months.

In July, we announced that BBQGuys would become a public company by merging with a SPAC, Velocity Acquisition Corp. While we work towards a deal closing, we encourage football fans to enjoy the BBQGuys commercials on ESPN and the SEC Network this fall.

What Can GPs Do to Embrace Athletes into Their Ecosystem?

1. **Network.** Before building that aforementioned trust, one must first get access to this community. If GPs are seeking athlete's personal capital for investment – whether for name recognition or some other strategic purpose – they must build a network of agents, business managers, financial advisors and players associations. This is a far different world than pitching the usual slate of institutional consultants, funds-of-funds and other intermediaries.
2. **Establish a Pipeline.** Contrary to popular belief, not all the best investment talent comes from top MBA programs. Inviting interested athletes into your firm's fold, whether through a fellowship or advisory role, not only brings notoriety, diversity of thought and experience to a GP's staff, but also plants a seed for a career after their playing days are over.
3. **Educate.** Many sports fans are aware of the cautionary tale of athletes who didn't plan ahead and squandered the wealth from their playing days. Much improvement has been made in recent years, but we still do see athletes take some needless investment risk. With thoughtful engagement, private equity can be part of their process to build generational wealth. **M&A**

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