

Tokenizing Professional Sports Franchises

By: David M. Otto

The National Basketball Association (NBA) is considering a proposal to its owners that (i) seeks to provide additional liquidity to minority owners and (ii) enables a broader range of investors to secure an ownership interest in a team. This proposal presents a timely and unique opportunity to design and implement a model for tokenizing professional team ownership and democratizing access to the economic interests and related value that are currently locked up in major league professional sports franchises.

Tokenization involves the creation of a programmable digital representation of a fractional interest in an underlying asset (i.e. a professional sports team or minority interest therein), which fractional interest corresponds to a quantum of value in that asset. In sum, tokenization is the process whereby one transforms a traditional asset (e.g. commercial real estate, art, sports teams) into a liquid tradable digital contract (i.e. tokens) that exist and are otherwise transferable on a designated blockchain. By pegging the tokens, on a proportionate basis, to the value of the underlying asset (e.g. a particular percentage of an NBA franchise), and enabling that asset to be transacted securely on a blockchain, the token buyer/holder has both a mechanism for securing liquidity and a “currency” that enables the buyer/holder to realize an actual value relative to all other goods and services. This, in turn, addresses the current concerns of NBA minority owners, mainly (i) discounting minority positions, (ii) the illiquidity of the investment, and (iii) too limited and otherwise impracticable access to an economic stake in the underlying asset. Finally, tokenization also enables a majority owner, or a group of majority owners, to retain control of the

franchise while also tokenizing and buying out the minority stake, and then relocating a team to a new market.

Indeed, tokenization of pro sports franchises offers much more. In addition to enabling a team's fan base to participate in the economic benefits associated with the pro sports "asset class", teams can extend their brand globally. Token buyers/holders across the globe will be able to participate in both the economics of team ownership and in the governance of team operations via a representative and democratic voting model, which model allocates voting rights proportionally to particular token holders in a given token class. This model also enables teams to both grow their fan base and offer participants an opportunity to develop long-term, meaningful community engagement with a concomitant and potentially significant economic impact.

Further, tokenization better enables every team, and consequently, each league, to develop real-time and creative opportunities for additional revenue streams, cost savings, and value enhancement. Different token issuances, also referred to as a Medium of Exchange (MOE) or utility token, enable teams to offer the opportunity to acquire loyalty features and benefits, digital collectibles, discounts associated with sponsor promotions (which sponsors could have an economic interest in the team if they become a token buyer/holder) and private access to team or league events and/or other related functions.

The economic and transactional realities of the extant ownership model for professional sports franchises, in general, compels the adoption of tokenization. Team ownership is highly centralized, illiquid, and the province of a select few with the capital and net worth necessary to acquire some or all of a team. This model - as the NBA is currently experiencing - is inefficient,

cost-prohibitive, and, particularly with respect to the sale of minority interests, economically punitive to sellers. Tokenizing team ownership (i) democratizes access to the economic benefits associated with this asset class, (ii) creates liquidity (for minority and majority owners) by allowing market participants to buy and sell team tokens, (iii) enables teams both to build a loyal local fan base and to extend the team brand globally, and (iv) represents a sustainable and persistent model for broadening economic access to, and increasing fan engagement required by, professional sports franchises.

Given the economic concerns and realities that the NBA seeks to address, as well as the technological capabilities and global interest in this asset class, it is time that the ownership and economic benefits associated with professional sports franchises be more readily accessible, affordable, and transferrable. Tokenization enables fans, sponsors, communities, and other interested parties to participate in the growth, development, and value derived from professional sports franchises. As professional sports franchises become fractionalized and tokenized, the access to, and liquidity associated with, these tokenized assets will create new economic opportunities, re-write valuation models, and activate an increase in global wealth creation and distribution for all participants.

The time for re-arranging the relationship between those decentralized individuals and entities who create and support the economic endeavor and drive the value proposition associated with professional sports franchises, on the one hand, and the current centralized, illiquid, and exclusive ownership model, on the other hand, is here. It may be unconventional – but it is essential.

About the Author. David M. Otto has 32 years of experience in finance and corporate law, mergers & acquisitions, securities, and corporate governance. He is currently the Founder and Managing Partner of the law firm Martin Davis, PLLC, the private equity firm, Otto Capital, LLC, and the venture capital firm, CounterPointe Ventures, LLC, and a thought leader on decentralized business models, token economics and, capital markets and securities regulatory compliance. Mr. Otto holds a BA from Harvard University and a JD from Fordham University School of Law.