**DEPARTMENT OF BUSINESS AND MANAGEMENT CHAIR OF M&A AND INVESTMENT BANKING**

# Private Equity investments in the Football Industry: a risk or an opportunity?

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**ACADEMIC YEAR 2020-2021**

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## Introduction

The main goal of this dissertation is to investigate the recent trend of private equity firms' investments in the European football industry, assessing the related opportunities and threats. The research aims at answering the following questions: is investing in a football club profitable for private equity funds? Which are the key drivers of the investments? Which are their key risks and mitigations? What are the opportunities in terms of asset enhancement and Internal Rate of return ("**IRR**") maximization?

The rationale of the first chapter is to introduce the reader to the most relevant aspects of private equity ("**PE**"). First, the chapter will provide an industry overview, with a brief review of PE background and current role within the private markets, and specific focus on funds' structure and functioning. Additionally, there will be the examination of a typical PE transaction, the Leveraged Buyout ("**LBO**"), with a focus on its structure, typical financing sources and key drivers of value creation. The chapter will finally provide an overview of the potential exit routes from an investment for a PE firm and the key measures of performance.

After an introduction to the topic from a theoretical point of view, a comprehensive analysis of the European football industry will be the focus of the second chapter of the dissertation. First, the functioning of a typical football club business model will be examined, with an analysis of the characteristic revenue streams and cost structures. Later, the effects of Covid-19 on the industry will be investigated, with a comparative analysis of the impact on the European "Big Five" leagues and a critical commentary on the main issues and prospects related to the "Super League" project. Then, the reasoning behind the PE appetite for European football will be investigated, with specific focus on the entry in both clubs and leagues.

The third chapter of the dissertation will provide the analysis of a case study to support, with empirical evidence, the arguments presented in the previous chapters. The object of the case study will be the acquisition of *AC Milan* by Elliott hedge fund ("**Elliott**"). An overview of the deal will be provided, with focus on its original structure, the fund's subsequent entry and its definitive establishment. The analysis will then be supported by the valuation of *AC Milan* at Elliott's hypothesized exit date. To this extent, a Business Plan will be drafted, based on the analysis of the historical performance and the main strategic perspectives. The multiples' approach will then be used for the valuation of the club, applying to the forecasted revenues an EV/Revenue multiple estimated from a panel of comparable transactions and listed companies.

Based on the analysis of the IRR on the investment, some final considerations on the deal and, more generally, on the entry of PE firms in the football industry will be provided.

# 1. Introduction to Private Equity

This chapter provides a background on the most relevant aspects of private equity ("**PE**"), to comprehend the outline of the analysis and introduce the topic from a theoretical point of view.

Firstly, an overview of the industry will be made, with a brief review of PE's background and current role within the private markets. The focus will also be on the potential types of PE investments based in the different stages of life of the target companies.

The structure and functioning of a PE fund will then be described, with particular emphasis on the main players involved, the investing mechanics and the compensation fees.

Later, a typical private equity transaction, the LBO, will be examined, with analysis of its structure, key financing sources and drivers of value creation.

The chapter will end with the examination of the potential exit routes from an investment for a PE fund and the key measures of performance.

## *1.1 Private Equity industry overview*

### *1.1.1 Private Equity background*

There is no consensus among academics on the definition of private equity. From a broad point a view, it consists of equity capital that is not listed on a public exchange. PE can be also defined as an alternative investment class with a medium-long term horizon in which accredited investors invest directly in private companies or participate in the purchase of publicly traded corporations[1].

The rationale behind private equity is very straightforward. Funds' managers attempt to acquire high-quality assets at attractive valuations, then apply operational experience and leverage to increase portfolio company value and performance. These value-enhancing possibilities are implemented with the goal of unlocking their potential and repositioning portfolio firms for sale at a multiple of the invested equity.

Despite its rapid expansion and increasing importance as an alternative asset class, the private equity market has received little attention in the financial press and academic research.

[1] Cendrowski, H., Petro, L.W., Martin, J.P., Wadecki, A.A., 2012. Private Equity: History, Governance, and Operations. Wiley Finance.

Part of the reason for this lack of attention is due to the nature of the instrument itself. Because it is issued in transactions that do not involve any public offering, a private equity security is exempt from registration with the relevant authority. As a result, information on private transactions is frequently limited, making market analysis difficult[2].

Even though it experienced incredible growth in the last decades, private equity finance - specifically venture capital ("**VC**") - can be traced back to private financings used by railroads and textile factories during the nineteenth century in the United States of America ("**US**"). However, VC essentially emerged into the investment scene around the turn of the twentieth century, with the support of the federal government due to the events of World War I[3].

The history of private equity can be divided into several phases[4]:

- The Early Stages (1946-1969): General Georges Doriot is generally credited with forming in 1946 the first organized venture capital firm in the US, the "American Research and Development Corporation". On the other hand, the buyout sector rose to prominence in the 1960s, with the increased popularity of "bootstrap" transactions. Lewis Cullman orchestrated what many regard as the first LBO in the US, when he took over Orkin Exterminating Company in 1964.
- Private equity downturn (1970-1977): the private equity industry took a hit in the 1970s, when the stock market crashed and investors were unable to get the returns they had come to expect from Initial Public Offerings ("**IPO**"). Furthermore, with the passage of the Employee Retirement Income Security Act (ERISA) by Congress in 1974, the sector was struck by an unintentional knockout blow. ERISA's "Prudent Man Rule" was designed to strengthen restrictions for pension funding and vesting, but it had the unexpected consequence of driving pension managers to stop investing in "high-risk" assets.
- Private equity boom (1978-1989): clarifications to ERISA's "Prudent Man Rule" in 1978 halted the negative cycle by explicitly allowing pension managers to invest in private equity; investment in venture capital and buyouts resumed. That amendment, together with the reduction of the capital gains tax rate from

[2] Fenn, G. W., Liang, N., & Prowse, S. (1997). The private equity market: An overview. Financial Markets, Institutions & Instruments, 6(4), p.1.

[3] Cendrowski, H., Petro, L.W., Martin, J.P., Wadecki, A.A., 2012. Private Equity: History, Governance, and Operations. Wiley Finance, p.39-42

[4] Cendrowski, H., Petro, L.W., Martin, J.P., Wadecki, A.A., 2012. Private Equity: History, Governance, and Operations. Wiley Finance, p.39-44.

49.5% to 20%, the resurgence of the IPO market and the large availability of bank debt, fostered the private equity boom in the 1980s, with an ever-increasing number of institutional investors and wealthy people diversifying their investments into the PE market. In the late 1980s, buyout investments eventually surpassed that of venture capital, as gigantic takeovers became fashionable.

- The downturn of the early to mid-1990s (1990-1995): the economic recession of the early 1990s and the entry into the arena of more players drove down returns.
- Private equity recovery (1995-1999): when the economy began to recover in the mid-1990s, the IPO market began to pick up. Investors looked to be particularly interested in IPOs focusing on the "new economy" of high technology and the Internet. Both venture capital and buyouts began to surge, growing at a compound yearly growth rate ("**CAGR**") of over 70% and 56% respectively.
- The dot-com bubble (2000-2002): the dot-com bubble was a fast surge in U.S. technology stock equity prices spurred by investments in Internet-based companies during the late 1990s bull market. Things began to shift in 2000, with equities entering a bear market; the bubble burst between 2001 and 2002, with a 76.81% fall of the Nasdaq from March 10, 2000 to Oct. 4, 2002. Private equity, and particularly venture capital, had a sluggish pulse for several years until late 2003, when it finally began to recover.
- Golden age of private equity (2003-2007): in the years following the dot-com bubble, investments in the PE industry resumed growth, with a leveraged buyout upturn as a result of the credit boom. This wave accentuated some previous trends, such as mega-deals and going-private transactions.
- The Global Financial Crisis (2008-2009): the subprime loan crisis and credit crunch of 2007-2008 put an end to the private equity boom. The aggregate value of global buyouts went from $665 billion in 2007 to $186 billion in 2008, decreasing further in 2009 ($71 billion) and starting to recover in 2010 ($180 billion)[5].

### *1.1.2 The Private Equity industry today*

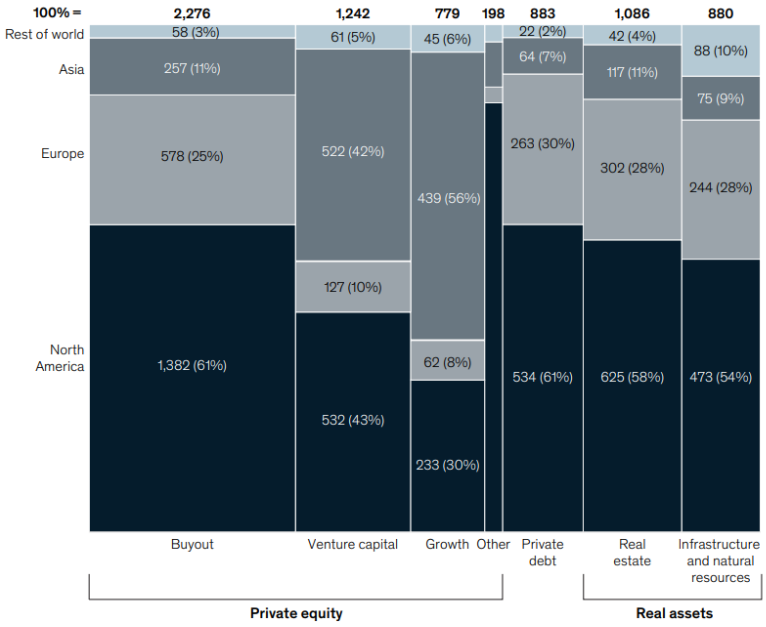
After a decade of growth and prosperity, today the PE industry is facing the impact of the Covid-19 downturn. Despite the negative economic consequences of the pandemic,

[5] Bain & Company, Global Private Equity Report 2011, p.1.

dealmakers continued to make transactions in 2020. On one hand, the global number of buyouts fell from 4100 in 2019 to around 3100 in 2020 but, on the other, the total deal value rose due to a 24% increase in average deal size to $776 million[6].

While it is still too early to assess the full impact of the Covid-19 downturn, evidence from previous crises such as the 2000 dot-com bubble and the 2008 global financial crisis suggests we may be entering one of the most attractive private markets investment environments of the last decade[7].

One of PE's enduring strengths, indeed, is its ability to survive in the face of economic uncertainty. Typically, downturns provide a chance for PE funds to find distressed assets and ride the cycle back up. This may be seen in the returns of the funds in the vintage years[8] following the last two economic downturns, in 2002 and 2009. They had internal rates of return in the 17–21% range, a respectable premium to the long-term PE average of 16%[9]. This asymmetry can then be explicated by lower entry valuations and by benefits of expansionary macro policies[10].




*(Figure 1: Private markets assets under management, $ billion, McKinsey 2021)*

[6] Bain & Company, Global Private Equity Report 2021, p.9.
[7] Morgan Stanley Investment Management, Post-Crisis Private Markets Investing, 06/01/2021, p.2.
[8] A vintage year is "the year of the first draw down of LP capital for investment purposes, which generally coincides with the first year of a partnership's term. Alternatively, the year in which the private equity fund makes its first investment". Source: Preqin.
[9] Bain & Company, Global Private Equity Report 2021, p.5.
[10] BlackRock, FrontLine research paper, Private Equity in the Covid-19 Year, December 2020, p.17.

*Figure 1* shows a segmentation of private markets assets under management ("**AUM**"), which, despite last year's volatility in fundraising, surpassed $7.3 trillion in 2020 (all-time high). Most private asset classes saw a growth in AUM in 2020, but PE was the main contributor, growing 6% to $4.5 trillion (about 61% of the total private markets AUM). Real assets were the second largest private markets' asset class in 2020 (about 27% of the total AUM). Private debt, finally, contributed to around 12% of the $7.3 trillion of AUM[11].

As far as concern the performance of private markets' asset classes, PE investments outperformed the other categories of assets for the fourth year in a row. In this sense, private equity quickly recovered from a steep drop in performance in the first quarter, posting a nine-month trailing pooled net IRR of 10.6% through September 30. All other private market asset types had negative returns during the same period. Closed-end real estate (–4.2%) and natural resources (–16.7%) confronted more difficult return situations, while infrastructure (–1.3%) and private debt (–2.1%) came closer to breaking even[12].

Private equity has also been the highest-returning asset class in private markets over the long-run, with an average net IRR of 13.3% between 2007 and 2017 and a better performance in terms of top-quartile and bottom-quartile cut-offs (the top-quartile cut-off, specifically, registered a net IRR of 21.3%)[13]. Considering just the period 2011-2020, PE asset class realized a 14.2% annualized return[14].

**1-year pooled IRR for 2000-2017 vintage funds**[15]


*(Figure 2: Global fund performance over 2000-2020 by asset class, McKinsey 2021)*

[11] McKinsey, Global Private Markets Review 2021, p.10-11.
[12] McKinsey, Global Private Markets Review 2021, p.11-12.
[13] McKinsey, Global Private Markets Review 2021, p.12.
[14] JP Morgan Asset Management, Guide to Alternatives, 3Q 2021.
[15] IRR for 2020 is 9 months (YTD, Q3 2020).

Even if we move the comparison to public market benchmarks, private equity is still the best performing asset class. Over the last 10 years, it has generated a 14.3% annualized return, beating the S&P 500's 13.8% return by 50 basis points. Over the previous 20-year period, PE outperformance has been even greater, yielding a 9.9% annualized return, compared to 6.4% for the S&P 500[16].

### *1.1.3 A standard classification of Private Equity investments*

Private equity looks to be a broad category that encompasses a variety of investing options. But, here too, there is no consensus among researchers on a single classification of investing activities. According to Cumming (2012), PE includes buyouts, venture capital, mezzanine capital and distressed investments, whereas Stowell (2013) considers buyouts, venture capital, mezzanine capital and growth capital.

Different classifications developed as a result of the increasing number of PE funds investing in activities that were previously beyond their traditional investment scope, making it difficult to identify the PE borders.

Buyouts represent the largest and most important class of private equity activities and refer to the purchase of a majority stake in established, cash-flow positive companies. They typically use leverage and the target company cash flows are used to repay the debt portion used for the acquisition.

Venture capital, instead, is equity capital provided to early-stage companies, with high potential of growth and risk at the same time. According to the European Private Equity & Venture Capital Association (EVCA), VC is a subset of private equity and refers to equity investments made for the launch, early development or expansion of a start-up business[17].

Growth capital, on the other hand, is a minority investment in mature companies seeking funds to grow or restructure operations, enter new markets, or finance large acquisitions.

Mezzanine loans are a type of financing that sits between growth capital and buyouts. They are typically subordinated to senior debt but senior to common equity. In addition to debt, mezzanine investors frequently acquire minor equity positions.

Finally, the special situations' category includes distressed debt, investments in infrastructure, energy & utilities and turnarounds.

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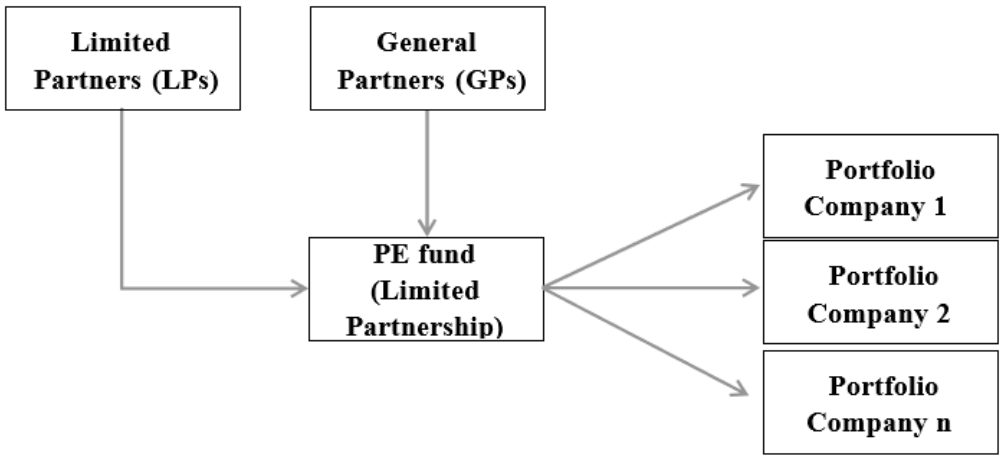
[16] McKinsey, Global Private Markets Review 2021, p.20-21.

[17] EVCA, Guide on Private Equity and Venture Capital for Entrepreneurs, November 2007.

Although the classification by investment strategy is the most used by academics, PE funds can be further categorized according to other parameters: by deal size (funds that invest in the small-mid cap market or in large corporations); by geography (local or global investments); by sector (specialist or generalist funds) and for governance issues (funds that invest in minority or majority stakes).

### *1.2 Structure and functioning of Private Equity funds*

Until the late 1970s, PE investments were primarily made by wealthy families, industrial companies, and financial institutions investing directly in issuing firms. By contrast, since 1980 professional private equity managers have made most of the investments. A limited partnership is set up to organize the PE fund's activity, with institutional investors as Limited Partners ("**LPs**") and investment managers as General Partners ("**GPs**")[18].




*(Figure 3: PE fund's standard structure)*

Limited Partners fund the limited partnership with an initial capital commitment. An initial amount is also paid in to get the fund started (the so called "start-up fee"). These investors are typically a mix of pension funds, insurance companies, university endowments, foundations, sovereign wealth funds ("**SWFs**"), fund of funds and family offices. LPs' capital is usually "called" by the fund multiple times (i.e., each time the fund is ready to make an

[18] Fenn, G. W., Liang, N., & Prowse, S. (1997). The private equity market: An overview. Financial Markets, Institutions & Instruments, 6(4), p.2.

investment), as opposed to a single initial capital call. Specifically, whenever GPs identify investment opportunities, the fund makes a capital call, and investors must transfer a portion of their capital commitment to the fund for the investment in the target company by the date required. The capital commitment is called over a period of typically up to five-to-six years and invested in the target companies. During this investment period, only minor distributions tend to be made to the investors[19].

As briefly mentioned, the fund is managed by the General Partners, who are responsible for the fund's investments, acting in the interests of the investors. The fund invests equity in various companies, with the aim of selling its interests in the portfolio companies after a certain period of time (usually five years) and receive exit proceeds. Those proceeds are then distributed by the fund to the LPs. Part of the proceeds, however, are retained by the GPs as carried interest (c.20% of capital gains) at the time the investment is sold.

GPs usually invest their capital alongside LPs and are remunerated with management fees. (c.1-3% of the capital per annum), which are charged on committed capital during the investment period and invested capital thereafter. General partners typically raises a new fund when the investment phase for the existing one has been completed by at least 75%, considering that each fund partnership is legally separate and is managed independently of other fund partnerships.

Given their fundamental role, it is critical to select the correct fund managers. In previous years, it was observed that GPs who performed in the top quartile would repeat their performance. However, after 2007, this tendency, known as persistency of outperformance, has decreased[20].

The agency relationship between fund managers (GPs) and investors (LPs) has been deeply examined by Robinson and Sensoy (2013). They observed that GPs earn more during fundraising boom times because percentage management fees tend to increase, consistent with their greater bargaining power and preference for stable compensation. Moreover, they observed that GPs who are paid on invested capital tend to exit investments more slowly (and thus lower their fee basis), whereas GPs who are paid on carried interest tend to exit investments faster. Then, evidence from their analysis suggests that the fundamental information asymmetry between GPs and LPs allows GPs to exploit contractual restrictions intended to preserve the LPs' returns. However, the researchers did not find evidence that high-fee funds underperform

[19] Riccardo Bruno, Structured Finance Course, internal material.
[20] McKinsey, Global Private Markets Review 2019, p.11.

on a net-of-fee basis. The performance of net-of-fee cash flow, in fact, is largely unrelated to management fees and carried interest, implying that more compensation for private equity GPs comes just in the form of larger gross returns[21].

Anyway, private equity firms usually have key compensation clauses to align GPs and LPs' interests. The hurdle rate is a minimum annual return that LPs are entitled to get before GPs may begin receiving carried interest (typically 8%). The clawback provision, instead, gives LPs the right to reclaim part of GPs' carried interest in case losses from later investments force GPs to withhold too much carried interest, resulting in LPs earning an annual return below the hurdle rate.

In addition to the fund terms (i.e., target fund size, minimum commitment, gross target return, management fees, carried interest and investment period), there could be also covenants and co-investments' clauses. Covenants usually set limits on the percentage of the partnership's capital that may be invested in a single firm and may preclude investments in publicly traded, foreign securities, derivatives or some specific industries. Co-investments' clauses, instead, may allow LPs to invest in portfolio companies alongside the private equity fund, but typically do not pay management fee or carried interest.

When it comes to the typical PE investment process, the first step is the origination activity. Depending on the degree of proprietary sourcing, opportunities can arise in different ways: through the local network (so relying on CEOs and managers' contacts in the industry and "external advisors"); making a general screening of companies based on selected criteria; creating a list of cold calls to managers and owners to assess their interest in selling; finally, through intermediaries such as investment banks and advisors (in this case the process is faster and more structured, but it is likelier to end up in a competitive auction).

The second step of the process consists of a first screening of the potential deals, in order to eliminate those that clearly fail to meet the investment criteria. Once an opportunity is targeted, the actual investment process can start, considering that it may widely differ in the case of a competitive auction or a proprietary deal. For reasons of simplification, only the competitive auction process is going to be analysed.

The competitive auction process can be divided into two rounds. After the signing of a "Confidentiality Agreement Proposal", the activities performed in the first round range from the Preliminary Due Diligence ("**DD**") to the analysis of the information available (e.g.,

[21] Robinson, D., Sensoy, B. (2013). Do Private Equity Fund Managers Earn Their Fees? Compensation, Ownership, and Cash Flow Performance. The Review of Financial Studies, 26(11), p.2760–2797.

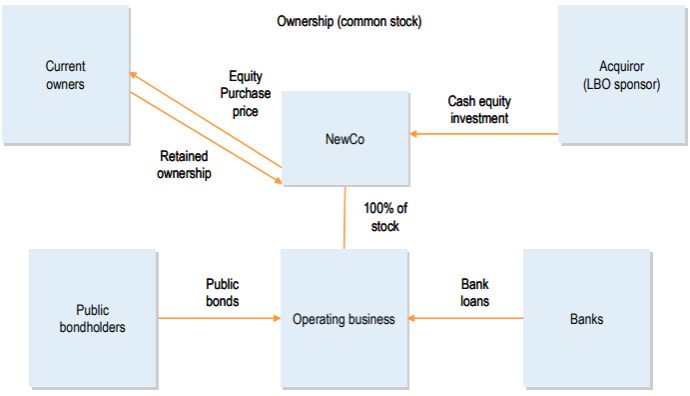
Information Memorandum) and the internal discussion with the fund's Investment Committee. If the committee gives its consent and the fund decide to move forward, the last step of the first round consists in the submission of a non-binding offer to the counterparty.

The second round starts with a comprehensive due diligence on the accounting, business, legal, fiscal, environmental and labour aspects, with analysis of the vendor DD reports if available. The following step consists in the management presentation. After that, there is usually the arrangement and negotiation of the financing package and the key legal documentation (share purchase agreement, management investment agreement, etc.). If the fund's Investment Committee confirms its position of going with the investment and there is the approval of the Board of Directors ("**BOD**"), the competitive auction process ends with the submission of a final binding offer that, if accepted, will bring the closing of the deal.

## *1.3 A typical Private Equity deal: the Leverage Buyout*

### *1.3.1 An overview of the transaction*

Leveraged buyouts are the most important investment subset inside private equity, to the point where the entire PE universe is often associated with LBO activity. With the term LBO we refer to a transaction in which "a company is acquired by a specialized investment firm using a relatively small portion of equity and a relatively large portion of outside debt financing" (Kaplan and Strömberg, 2009)[22].




*(Figure 4: LBO standard structure)*

[22] Kaplan, S., Strömberg, P., (2009). Leveraged Buyouts and Private Equity. NBER Working Paper No. w142076, p.2.

The target entity ("**target**") could also be a subsidiary, division, business or collection of assets. Due to their ability to support large amounts of debt, companies with stable and predictable cash flow, as well as substantial assets, are often appealing LBO candidates. Free cash flow ("**FCF**") is needed to service periodic interest payments and lower the principal amount of debt during the investment's lifetime. Moreover, a substantial tangible asset base improves the amount of bank debt accessible to the borrower by assuring lenders that the principal will be recovered in the case of bankruptcy[23].

The investment firm which funds the remaining portion of the purchase price with the equity contribution takes the name of financial sponsor (or just "**sponsor**"). The financial sponsor's term refers to traditional PE firms, investment banks' merchant banking divisions, hedge funds, VC funds, and special purpose acquisition companies ("**SPACs**"), among other investment vehicles. The focus of the equity sponsor is to increase the total Enterprise Value ("**EV**") through internal growth or acquisitions and to pay down debt, thereby increasing the value of the equity. The sponsor's ultimate goal is to make a reasonable return on its equity investment upon exit (ca. 20% IRR in a five-year investment horizon), typically through the sale or listing on the stock exchange of the target[24].

The LBO sponsor, then, generally injects equity capital into a new shell company (NewCo), which issues debt and uses the aggregate amounts of debt and equity to simultaneously acquire the target company's stock.

Debt typically accounts for 60-70% of the financing structure in a classic LBO, with equity accounting for the remaining 30-40%. The target's disproportionately high level of debt is supported by its projected free cash flows and asset base, allowing the sponsor to make a minor equity contribution compared to the purchase price. The ability to leverage the relatively small equity commitment is crucial for sponsors to earn acceptable returns[25].

When analysing the leverage component of an LBO, it's critical to establish whether changing a company's debt-to-equity ratio can affect the company's value. The use of debt has both benefits and costs relative to the use of equity.

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[23] Rosenbaum, J., Pearl, 2013. Investment Banking: Valuation, Leveraged Buyouts, and Merger & Acquisitions. Wiley, p.201-202.

[24] Rosenbaum, J., Pearl, 2013. Investment Banking: Valuation, Leveraged Buyouts, and Merger & Acquisitions. Wiley, p.202-203.

[25] Rosenbaum, J., Pearl, 2013. Investment Banking: Valuation, Leveraged Buyouts, and Merger & Acquisitions. Wiley, p.201.

One advantage is that interest paid on debt financing is tax deductible, therefore as tax rates increase, the tax benefits of debt increase. Another benefit of debt is related to the increased discipline of fund managers in project selection, since it requires the company to make interest payments which could increase the risk of financial distress in case of investments in too many bad projects[26].

The use of debt also has three main disadvantages relative to equity.

One is related to the expected cost of distress, which is affected by two components: the probability of bankruptcy, which increases together with debt, and the bankruptcy costs themselves. With "bankruptcy costs" we refer to legal fees, court costs and the effects on operations of being perceived as a company in financial trouble (i.e., customers stop buying company's products, employees start looking for more reliable employment elsewhere and suppliers stop extending credit)[27].

Another disadvantage is linked to the already mentioned agency costs between the competing interests of equity investors and lenders. Equity investors tend to accept more risk in their investments and to change financing and dividend policies to suit their needs. As a consequence, lenders will tend to change the terms of the loan, mostly in two ways: including covenants that limit future investment, financing, and dividend policies, but adding legal and monitoring costs at the same time; alternatively, charging higher interest rates to compensate for predicted future losses. The borrower, however, is responsible for the agency fees in both cases[28].

The last disadvantage is related to the firms' loss of future borrowing capacity as they borrow more money today. Because of the loss of future financing flexibility, the company may be unable to make profitable investments because it will be unable to secure funding for these initiatives[29].

As regards the main players involved in an LBO financing arrangement, bank and institutional lenders provide capital for the debt portion. Although the two figures frequently overlap, traditional bank lenders usually offer capital for revolving and amortizing term loans, while institutional lenders supply capital for longer-term, limited-amortization term loans (these forms of financing will be deeply examined later). Commercial banks, savings and loan institutions, finance corporations, and investment banks are the most common types of bank

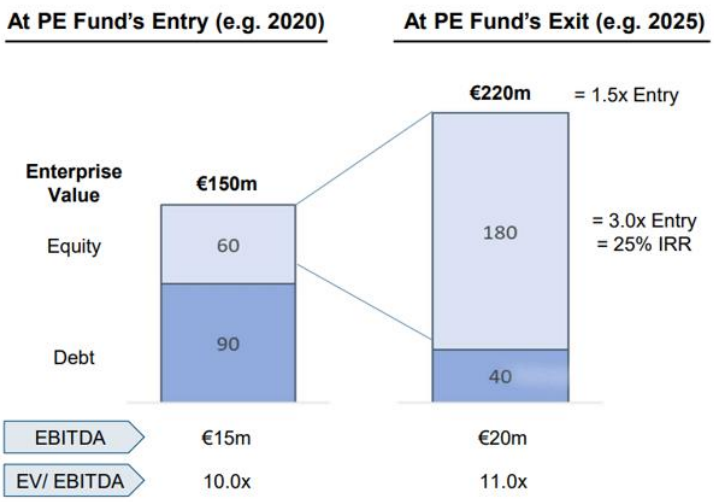
[26] Damodaran, A., (2008). The Anatomy of an LBO: Leverage, Control and Value, p.4-8.
[27] Damodaran, A., (2008). The Anatomy of an LBO: Leverage, Control and Value, p.4-8.
[28] Damodaran, A., (2008). The Anatomy of an LBO: Leverage, Control and Value, p.4-8.
[29] Damodaran, A., (2008). The Anatomy of an LBO: Leverage, Control and Value, p.4-8.

lenders. Hedge funds, pension funds, mutual funds, insurance companies, and structured vehicles such as collateralized debt obligation funds ("**CDOs**") make up the majority of institutional lenders[30].

Investment banks, specifically, play a key role in LBO transactions, both as providers of financing and as strategic M&A advisors. In this case, investment banks may be engaged by financial sponsors as buy-side advisors, in exchange for deal sourcing, knowledge, relationships, and in-house resources, or as sell-side advisors, to market sponsors' portfolio firms to potential buyers in a structured sale process[31].

Bond investors, on the other hand, are generally institutional investors, such as high yield mutual funds, pension funds, hedge funds, insurance firms, and CDOs, which purchase the high yield bonds issued as part of the LBO financing structure[32].

*Figure 5* shows the basic mechanics behind an LBO transaction.




*(Figure 5: LBO basic mechanics)*

Cash flow is largely utilized to repay the interest expenses accrued on the outstanding debt and the principal amount of debt throughout the time from which the sponsor purchases the target and until it exits, thereby growing the equity element of the capital structure. Simultaneously, the sponsor hopes to improve the target's financial performance and expand

[30] Rosenbaum, J., Pearl, 2013. Investment Banking: Valuation, Leveraged Buyouts, and Merger & Acquisitions. Wiley, p.204-205.
[31] Rosenbaum, J., Pearl, 2013. Investment Banking: Valuation, Leveraged Buyouts, and Merger & Acquisitions. Wiley, p.203-204.
[32] Rosenbaum, J., Pearl, 2013. Investment Banking: Valuation, Leveraged Buyouts, and Merger & Acquisitions. Wiley, p.205.

the existing business, so raising enterprise value and increasing potential returns. An appropriate LBO financing structure must strike a balance between the target's ability to service and repay debt and its need to manage and expand the business using cash flows[33].

The scenario presented in *Figure 4* is also an example of multiple expansion, which is usually driven by a better perceived value at exit, due to factors such as a more resilient business model, a diversified customers' base and products' range, or an enhanced value proposition.

### *1.3.2 LBO target companies*

Choosing the right target is critical for a financial sponsor. While there are few "steadfast rules", certain common traits emerge among traditional LBO target companies[34]:

- Strong cash flows' generation: given the highly leveraged capital structure, LBO target companies must be able to generate significant and predictable cash flows. Many good LBO candidates operate in a mature or specialist sector with a consistent customer demand. Low Capital Expenditures ("**Capex**") and Net Working Capital ("**NWC**") requirements also enhance a company's cash flow generation capability. As regards Capex, in particular, the sponsor and its advisors distinguish during DD between expenditures that are required to maintain existing assets at their current production levels (Maintenance Capex) and expenditures that are used to increase the asset base (Growth Capex). The latter might possibly be decreased or eliminated if economic circumstances or operating performance deteriorate.
- Low levels of debt: new layers of debt from the buyout fund will be more difficult to be repaid in case of significant pre-existing obligations to other debt holders. Moreover, debt investors require a business plan that can support periodic interest payments and the principal repayment over the life of the loans.
- Leading and defensible market position: a leadership market position is usually characterized by long-term relationships with a diversified customer base, brand recognition, superior products and services, an appropriate cost structure and scale advantages. Based on Porter's Five Forces Model, a good target is a company which operates in an industry characterized by a low level of

[33] Rosenbaum, J., Pearl, 2013. Investment Banking: Valuation, Leveraged Buyouts, and Merger & Acquisitions. Wiley, p.201.

[34] Rosenbaum, J., Pearl, 2013. Investment Banking: Valuation, Leveraged Buyouts, and Merger & Acquisitions. Wiley, p.206-209.

competition, high barriers to entry (capital, technological, know-how, sticky customers etc.), low cyclicality and regulatory threats, and a diversified supplier base.

- Growth opportunities: financial sponsors target firms which can grow both organically and through future bolt-on acquisitions. Companies with strong top-line growth's prospects are able to generate cash for debt payments and are more likely to achieve EBITDA multiple expansion throughout the sponsor's investment horizon, boosting returns even more. Moreover, larger firms are frequently rewarded with a premium valuation relative to smaller competitors because of their scale, market share, purchasing power, and reduced risk profile. Follow-on acquisitions or combinations with existing portfolio companies may also be implemented to extract synergies.
- Efficiency enhancement opportunities: while a good LBO candidate should have a solid core business model, sponsors are looking for ways to generate costs' savings and enhance operational efficiencies. Lowering corporate overhead, simplifying operations, adopting lean manufacturing and Six Sigma techniques[35], decreasing personnel, optimizing the supply chain, and deploying new management information systems are the usual cost-cutting strategies implemented. The sponsor may also try to find new suppliers and consumers (or negotiate better terms with existing ones).
- Strong asset base: a strong asset base pledged as collateral against a loan increases the chance of recovering the principle in case of bankruptcy and therefore the likelihood that lenders would provide debt to the target. The size of the asset base (e.g., tangible assets as a percentage of total assets) and the asset base's quality are the parameters used to assess its strength. Accounts receivable and inventory are considered high quality assets given their liquidity, while long-term assets such as Property, Plant & Equipment ("**PP&E**") cannot be converted into cash easily and quickly.
- Proven management team: given the requirement to operate under a highly leveraged capital structure with aggressive performance objectives, talented and experienced management is crucial in an LBO situation. Financial sponsors

[35] Six Sigma focuses on increasing output quality by detecting and removing defects and unpredictability, whereas lean manufacturing is a production method committed to minimizing waste.

value prior expertise operating under similar conditions, as well as success integrating acquisitions or implementing restructuring measures. It is also a good signal for the financial sponsor when the existing management team is willing to invest in the new transaction (with so called "**sweet equity**"). In cases where the target's management is weak, sponsors may add value by making significant changes to the existing team or creating a new team which will run the firm.

- Viable exit strategy: even if future business cycles and market circumstances are difficult to forecast, it is critical to prepare an exit strategy and build the business in preparation for that exit (which could be the sale to another PE firm, to an industrial buyer or through an IPO).

### *1.3.3 Drivers of value creation*

According to Kaplan and Strömberg (2009), there are three main drivers of value creation in an LBO transaction and more generally in the private equity industry: financial engineering, governance engineering, and operational engineering. These measures to increase value are not always mutually exclusive, although certain companies are likely to prioritize some of them more than others[36].

With financial engineering, private equity investors give substantial equity incentives to the management teams of their portfolio companies through stock and options. According to Kaplan (1989), managerial ownership percentages increase by a factor of four when transitioning from public to private ownership. PE companies also require that management make a large investment in the company, ensuring that it has both a significant upside and downside. Furthermore, the illiquidity of management's stock, considering that it cannot be sold or exercised until the value of the company is proven through an exit transaction, reduce their influence on short-term performance[37].

The other key ingredient is leverage, which puts pressure on managers not to waste money, because they must make the interest and the principal payments. However, if leverage is too high, the debt payment inflexibility increases the risk of financial distress.

As regards the optimal capital structure, there are two principal views. According to the first view, a firm's ideal capital structure is determined by the trade-off between the costs and

[36] Gompers, P., Kaplan, S., & Mukharlyamov, V. (2016). What Do Private Equity Firms Say They Do? 32 Journal of Financial Economics, 121(3), p.450.

[37] Kaplan, S., Strömberg, P., (2009). Leveraged Buyouts and Private Equity. NBER Working Paper No. w142076, p.13-14.

benefits of taking on debt. Alternatively, in the second view (the "market timing view") leverage and capital structure respond to overall debt market circumstances. Then, when interest rates are low, companies are more likely to take on additional debt; when equity prices are high, instead, they prefer to raise capital issuing more equity[38].

Going on with the second driver, governance engineering involves creating a better alignment of incentives between management and shareholders or providing greater supervision that can prevent empire building and opportunistic conduct. With governance engineering, PE investors increase the control over the BOD of their portfolio companies and are more actively involved in governance compared to public company directors and public shareholders. They replace senior management on a frequent basis, both before and after they invest. They also create smaller boards of directors that include a mix of insiders, private equity investors, and outsiders. Coles, Daniels, and Naveen (2008) investigated the relationship between board size and company characteristics and performance, assessing that small boards controlled by outsiders generally perform better[39].

Lastly, through operational engineering private equity firms build industry and operational expertise in order to create value to their portfolio companies, with the ultimate goal of increasing EBITDA[40].

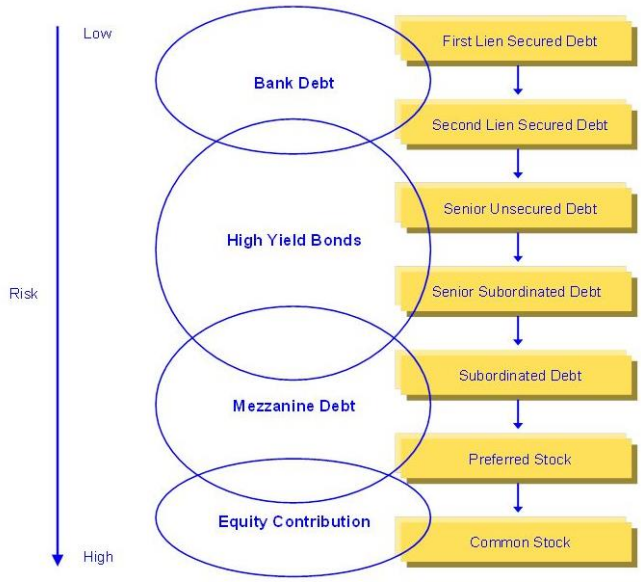
There are essentially three ways to expand EBITDA (some of which have already been mentioned): through revenues increase, with cost reduction or through strategic M&A transactions. Revenues can be expanded increasing the volume and/or the price of the goods/service sold. At the same time, there are many actions that can be taken to reduce costs: increasing the labour productivity and effectiveness, optimizing the distribution process, improving quality and compliance, through outsourcing & offshoring, improving the R&D expense's effectiveness, with portfolio rationalization and so on. The last route for increasing EBITDA is through a strategic transformation of the business. The main possibilities in this sense are strategic follow-on acquisitions (following a "buy-and-build" strategy), the introduction of new product lines, capacity expansion or launches in new markets.

[38] Gompers, P., Kaplan, S., & Mukharlyamov, V. (2016). What Do Private Equity Firms Say They Do? 32 Journal of Financial Economics, 121(3), p.450.
[39] Gompers, P., Kaplan, S., & Mukharlyamov, V. (2016). What Do Private Equity Firms Say They Do? 32 Journal of Financial Economics, 121(3), p.449-476.
[40] Gompers, P., Kaplan, S., & Mukharlyamov, V. (2016). What Do Private Equity Firms Say They Do? 32 Journal of Financial Economics, 121(3), p.449-476.

Multiple expansion is another driver of value creation pursued by PE firms within their investments. An increase in the EBITDA multiple between entry and exit can be attributed to a change in the economic or capital markets environment, a repositioning of the company on the market or to negotiation and market-timing skills of the PE sponsor, in addition to the previously mentioned EBITDA growth drivers[41].

### *1.3.4 The financing structure: primary sources*

The capacity of the sponsor to raise the necessary financing to acquire the target is critical to the LBO's success. Investment banks have traditionally played a key role in this regard, notably as arrangers/underwriters of the debt needed to pay for the purchase price. The debt used in an LBO is raised by the issue of various types of loans, securities, and other instruments that are classified according to their security status and seniority in the capital structure[42].




*(Figure 6: General Ranking of Financing Sources in an LBO Capital Structure)*[43]

[41] Achleitner, A. et al. (2010). Value Creation Drivers in Private Equity Buyouts: Empirical Evidence from Europe. The journal of private equity, 13.2, p.21.
[42] Rosenbaum, J., Pearl, 2013. Investment Banking: Valuation, Leveraged Buyouts, and Merger & Acquisitions. Wiley, p.201.
[43] Rosenbaum, J., Pearl, 2013. Investment Banking: Valuation, Leveraged Buyouts, and Merger & Acquisitions. Wiley, p. 216.

In general, the higher a debt instrument ranks in the capital structure hierarchy, the lower its risk and, as a result, the cheaper the cost of capital of the borrower. The cost of capital, on the other hand, is inversely proportional to the degree of flexibility provided by the debt instrument in question[44].

Bank debt is the highest source of financing in the pyramid. Also known as "senior secured credit facilities", bank debt is typically made up of a revolving credit facility (that can be borrowed, repaid, and reborrowed) and one or more term loan tranches (that can't be reborrowed once they've been repaid)[45].

A revolving credit facility (also known as a "**RCF**") is a credit line issued by a bank or group of banks that allows the borrower to draw variable amounts up to a certain aggregate limit for a set period. Its uniqueness arises from the fact that the sums borrowed can be repaid and reborrowed at any time during the period of the facility, according to the terms of the credit agreement. RCF are generally used to provide ongoing liquidity for seasonal working capital needs, capital expenditures and to fund a portion of the acquisition price in a leveraged buyout, although they are normally undrawn at closure. RCF is usually the least expensive source of capital in the LBO financing structure. However, lenders typically demand a first priority security interest ("**lien**") on the borrower's assets as well as adherence to numerous covenants. RCF typically have a term (or "**tenor**") of five to six years[46].

A term loan, instead, is a loan with a set maturity date that requires principal payments on a predetermined schedule, usually quarterly. Like a RCF, a standard term loan for an LBO financing is structured as a first lien debt obligation and requires the borrower to maintain a specified credit profile by adhering to the credit agreement's financial covenants. A term loan, however, is generally fully funded on the date of closing (alternatively, we may have an availability period within which borrower is entitled to make multiple drawdown) and cannot be reborrowed once the principal is repaid. In accordance with their lender base, amortization schedule, maturity date, and other terms, term loans are classed by an identifying letter such as "A," "B," "C," and so on[47].

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[44] Rosenbaum, J., Pearl, 2013. Investment Banking: Valuation, Leveraged Buyouts, and Merger & Acquisitions. Wiley, p.216-217.

[45] Rosenbaum, J., Pearl, 2013. Investment Banking: Valuation, Leveraged Buyouts, and Merger & Acquisitions. Wiley, p.219-222.

[46] Rosenbaum, J., Pearl, 2013. Investment Banking: Valuation, Leveraged Buyouts, and Merger & Acquisitions. Wiley, p.219-222.

[47] Rosenbaum, J., Pearl, 2013. Investment Banking: Valuation, Leveraged Buyouts, and Merger & Acquisitions. Wiley, p.219-222.

"A" term loans are commonly referred to as "amortizing term loans" because they require substantial principal repayment throughout loan's life. They are the least risky typology of term loans and, consequently, the lowest priced in the capital structure[48].

"B" terms loans, also known as "institutional term loans", are the most common form of term loans in LBO financings. They are usually bigger than amortizing term loans and they are offered to institutional investors, which, unlike banks, normally prefer non-amortizing loans with longer maturities and larger yields. As a result, B term loans usually amortize at a nominal rate with a bullet payment at maturity, which is typically more extended (up to seven years)[49].

Second lien term loans are floating rate loans secured by second priority security interests in the borrower's assets. They rank junior to the first lien term loans but prior to unsecured claims. Unlike first lien term loans, second lien term loans typically do have bullet amortization and are structured to have a longer tenor. These kinds of loans are a viable alternative to more typical junior debt instruments like high yield bonds and mezzanine financing for borrowers. On one hand, they provide borrowers with improved prepayment flexibility and no ongoing public disclosure requirements, if compared to high yield bonds. On the other hand, they are usually subject to financial covenants, even if they are less stringent than first lien debt[50].

High yield bonds are the second source of financing in the pyramid after bank det. They are non-investment grade debt securities that require the issuer to pay bondholders' interests at regular intervals (usually semi-annually) and repay principal at a specified maturity date, which is typically seven to ten years after issuance. Unlike term loans, high yield bonds are non-amortizing, with the whole principal payable as a bullet payment at maturity. They also provide a larger coupon than bank debt to compensate investors for the increased risk, due to their generally unsecured position in the capital structure, longer maturities, and less restrictive incurrence covenants. High yield bonds usually pay interest at a fixed rate. They are typically used in conjunction with bank debt, allowing sponsors to significantly boost leverage levels above those accessible in the leveraged loan market alone[51].

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[48] Rosenbaum, J., Pearl, 2013. Investment Banking: Valuation, Leveraged Buyouts, and Merger & Acquisitions. Wiley, p.219-222.

[49] Rosenbaum, J., Pearl, 2013. Investment Banking: Valuation, Leveraged Buyouts, and Merger & Acquisitions. Wiley, p.219-222.

[50] Rosenbaum, J., Pearl, 2013. Investment Banking: Valuation, Leveraged Buyouts, and Merger & Acquisitions. Wiley, p.219-222.

[51] Rosenbaum, J., Pearl, 2013. Investment Banking: Valuation, Leveraged Buyouts, and Merger & Acquisitions. Wiley, p.222-223.

During periods of strong credit markets, companies are able to issue bonds with unconventional "issuer friendly" features, such as a payment-in-kind ("**PIK**") toggle. The PIK toggle, allows an issuer to pay interest in-kind (in the form of new notes) or in cash. This flexibility allows the issuer to keep cash in hand during times of difficult economic conditions, particularly in the early years of the investment term when leverage is highest[52].

Another typical form of unsecured term loan is the bridge loan facility ("**bridge**"), an interim and committed form of financing provided to the borrower to "bridge" the gap between the issuing of permanent capital, generally in the form of high yield bonds (the "**take-out securities**"). The bridge is only financed if the take-out securities are unable to be issued and sold before the closing of the leveraged buyout. Generally, bridge loan facilities are refinanced with the drawdown of senior long term facilities. In practice, however, the bridge loan is rarely financed and is only used as a last-resort financing option. From the sponsor's perspective, the bridge loan is a potentially costly financing option, with interest rates increasing the longer it is outstanding, until it reaches the cap level. To sum up, the rationale of bridge financing is to ensure that the purchase consideration will be financed even if market conditions for the take-out securities worsen between the signing and closure of the transaction[53].

The third main source of financing in an LBO transaction is mezzanine debt which, as the name suggests, is a hybrid form of capital that lies between traditional debt and equity. Mezzanine debt is a highly negotiated instrument between the issuer and investors designed to satisfy the specific transaction's financing needs and required investor returns. Mezzanine debt offers to sponsors extra cash at a lower cost than equity, allowing them to achieve larger leverage levels when other capital sources are inaccessible. At the same time, it provides a greater rate of return to investors than typical high yield bonds, and it can be structured to provide equity upside potential in the form of purchased equity[54].

The residual portion of an LBO financing comes from the financial sponsor's equity contribution (generally from 30% to 40%, but it could vary depending on debt market circumstances, the kind of firm, and the acquisition multiple paid). The equity contribution provides a cushion for lenders and bondholders in case of decline of the company's EV. It is

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[52] Rosenbaum, J., Pearl, 2013. Investment Banking: Valuation, Leveraged Buyouts, and Merger & Acquisitions. Wiley, p.222-223.

[53] Rosenbaum, J., Pearl, 2013. Investment Banking: Valuation, Leveraged Buyouts, and Merger & Acquisitions. Wiley, p.222-223.

[54] Rosenbaum, J., Pearl, 2013. Investment Banking: Valuation, Leveraged Buyouts, and Merger & Acquisitions. Wiley, p.223-224.

also common that the target's management reinvest part of their stock (generally 2% to 5% of the total equity portion)[55].

## *1.4 How Private Equity funds approach divestments*

### *1.4.1 Possible exit alternatives*

Generally, three different exit strategies for private equity funds can be identified: the sale to a strategic buyer (or "**trade sale**"), the sale to another financial sponsor (or "**secondary buyout**") and the IPO.

The most common exit route for PE funds is the sale of the portfolio company to a strategic buyer. The buyer expects to obtain from the acquisition an advantage in terms of competitive position and market share increase over competitors. PE firms prefer to sell their holdings to a strategic buyer for at least two reasons. Firstly, because the counterparty may have a strategic interest in the purchase and hence be ready to pay a greater price. Secondly, compared to deals involving public marks, negotiations are faster, cheaper, and subject to less regulatory responsibilities. Although it is an appealing option for private equity funds, these deals frequently face the opposition of target management, who are concerned about being replaced at the conclusion of the takeover. These deals may also be indirectly influenced by the industry consolidation activity moment.

A second way to exit an investment is through the sale to another financial sponsor. This exit route is usually activated if there is still room for value creation for the target company. The re-investment of part of the sale proceeds is sometimes requested. A secondary buyout may also occur when a PE fund has already earned a high rate of return on its investment and needs to exit it. In that case, the sponsor-to-sponsor deal is a good exit route, as it allows the fund to exit the investment much faster than the other two options.

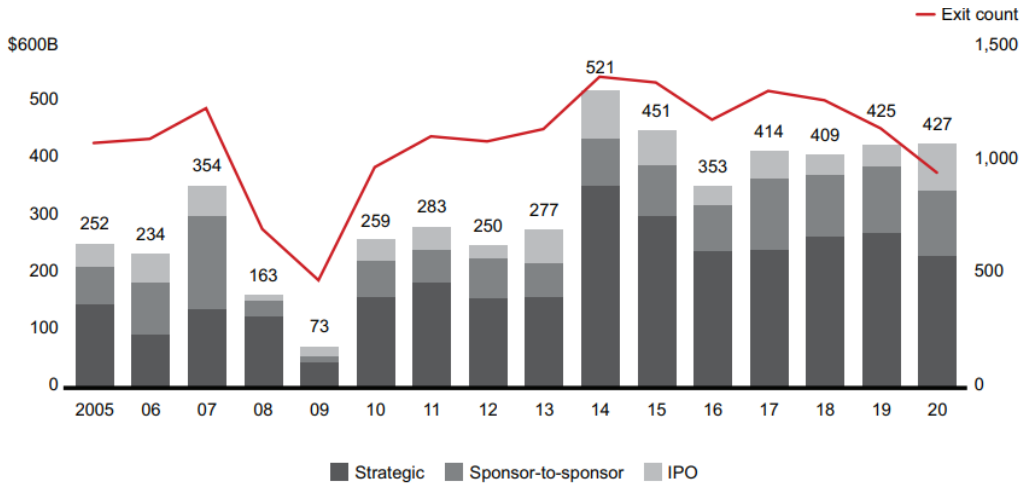
The IPO is the most complex way for private equity funds to exit an investment, because of the regulatory restrictions and the significant fixed costs connected with the listing on a public market. An IPO needs critical size to attract interest and is not a viable option if the fund wishes to leave the investment fully and soon, since it would signal a lack of confidence for investors. In addition, lock-up agreements typically limit the ability to disinvest at the IPO date,

[55] Rosenbaum, J., Pearl, 2013. Investment Banking: Valuation, Leveraged Buyouts, and Merger & Acquisitions. Wiley, p.224.

either partially or fully. In this case, returns are not realized at the time of the IPO but are contingent on the share price at the time of the exit. On the other hand, an IPO could be a very attractive exit route if the target company has a solid equity story and an equity stock price that is expected to increase. In that case, the target company can be well appreciated by the market and obtain higher levels of visibility.

Schmidt, Steffen and Szabo (2010) found a positive correlation between the holding period's length and the profitability of an IPO exit when compared to alternative exit options, finding that PE-backed IPOs are the most profitable exit routes in case of goods economic conditions[56].

*Figure 7* gives an overview of the global buyout-backed exit value by different route over the last 15 years.




*(Figure 7: Global buyout-backed exit value by channel, Bain & Company, 2021)*

Despite the Covid-19 pandemic hit in the second quarter, the number and global value of exits in 2020 trailed 2019's total, in line also with the five-year average.

Furthermore, sales to strategic buyers have been the most frequently chosen exit route in the last 15 years, followed by sales to other financial sponsors and IPOs. As regards the holding period, finally, the median has been progressively decreasing over the last five years, settling at 4.5 years in 2020[57].

[56] Schmidt, D. M., Steffen, S., & Szabo, F. (2010). Exit strategies of buyout investments: an empirical analysis. The Journal of Alternative Investments, 12(4), p.58-84.
[57] Bain & Company, Global Private Equity Report 2021, p.17-18.

### *1.4.2 Key measures of performance*

Private equity funds' performance may be measured in different ways, with the IRR and the investment multiples (or "**multiple of invested capital**") as most used indicators. The former measures the annualized internal rate of return of the LPs based on contributions and distributions, net of the fees and carried interest paid to the GPs. The IRR metric incorporates the estimated value of any unrealized investments as a final cash flow (the residual net asset value, or "**NAV**") until all fund's investments are realized and cash returned to the investors. Investment multiples, on the other hand, compare the total amount of investors' contributions to the total amount of fund's distributions and the residual NAV, again net of fees and carried interest[58].

The internal rate of return is the most relevant performance benchmark for PE investments. It is the discount rate that equates the cost of an investment with the present value of the cash generated by that investment and the revenues from its sale. The sponsor's ultimate goal is to generate an IRR at least equal to 20% in a five-year investment horizon. Funds normally exhibit both gross and net IRR. The gross IRR is the total annual rate of return on an investment before fees, carried interest, and fund's operating expenditures are deducted. Net IRR is the same calculation but including fees, carried interest and fund's operating expenses, and so it is a more significant metric for investors.

The main advantage of the internal rate of return is that it takes into account the time value of money. All other parameters being equal (i.e., same purchase and sale prices and constant expenses), the metric will decrease over time. On the other hand, the IRR has the drawback of being too biased on early distributions. In fact, it is based on the reinvestment assumption that cash distributed to LPs early on would be reinvested at the same IRR as generated at the initial exit during the fund's lifetime. As a result, a high IRR achieved by a successful exit early in a fund's lifecycle is likely to overstate the actual economic performance.

Unlike IRR, investment multiples are performance measures which do not take into account the time value of money. They are relatively unsophisticated metrics, but easy to understand and calculate, and so they are widely used in the PE industry.

[58] Harris, R., Jenkinson, T., & Kaplan, S. (2014). Private Equity Performance: What Do We Know? The Journal of Finance, 69(5), p.1851-1882.

The Distributions to Paid-in capital ("**DPI**") multiple refers to the total amount a fund has distributed to its investors relative to their total capital contributions. This metric is again net of fees and carried interest.

The Residual Value to Paid-in capital ("**RVPI**") multiple compares the current value of the fund's remaining assets to the total amount contributed by investors to date.

The Total Value to Paid-in capital ("**TVPI**"), is the ratio of the value of a fund's remaining investments and other assets ("**NAV**") and total value of all distributions to date, relative to the total capital contributions made by the investors. The TVPI ratio's numerator should contain any recallable distributions and the denominator should include any reinvested capital.

The three indicators are related by the following formula: TVPI= RVPI +DPI.

The Cash-on Cash ("**CoC**") return multiple, is another investment multiple's measure of performance which shows the ratio of the money returned to the money invested (specifically the amount of cash distribution plus the remaining value of the fund, divided by the total capital contribution made by the investors).

The CoC multiple is a very similar metric to the TVPI multiple, differentiating just in the case of fund netting calls and distributions. If this is the case, indeed, the amounts stated as capital called and distributed in the TVPI multiple will not match the amounts paid from the investor's bank account (because of recallable distributions and reinvested capital respectively).

## 2. Analysis of the European Football Industry

After having introduced the topic from a theoretical point of view, a comprehensive analysis of the European football industry will be the focus of the second chapter of the dissertation. The analysis aims at assessing the convenience of investing in professional football clubs for private equity funds. The focus will specifically be on the European football market, with its latest industry trends and structural changes in light of the impact of Covid-19.

With this purpose, the determinants of the football business model will firstly be examined, together with its characteristic revenue streams and cost structures. At the same time, the intangible component that explain a big part of a football club's EV will also be investigated.

The impact of Covid-19 on the industry and how it has re-shaped the European football ecosystem will be the subsequent focus of the analysis. The effects of the pandemic will be examined both from the investors and clubs' perspectives, with the former looking at football as an interesting asset class for diversification purposes with still a lot of unexpressed value, and the latter worried for the damaged business conditions after the pandemic and looking for structural changes in the industry. Relying on the most accredited football sector reports (e.g., Deloitte Annual Review of Football Finance, KPMG Football Benchmark, Deloitte Football Money League), a comparative analysis on the impact of Covid-19 on the "big five" European leagues will be carried out. Moreover, the ways in which depressed post-pandemic context favored the genesis of the European "Super League" project will also be analyzed, with a critical comment on the main issues and prospects related to the topic.

Finally, the rationale behind the recent private equity appetite for European football will be examined. In particular, the football industry will be defined as an "emerging asset class" with unique characteristics which, due to the pandemic economic context, is increasingly fueling the interest of institutional investors (particularly PE funds). In this sense, the main opportunities and threats related to a professional football club's business will be investigated. The chapter will end with an overview of the main private equity deals in the European football industry, with a primary focus on the considerations behind the entrance in both the individual clubs and the leagues.

## *2.1 The determinants of the business*

Football has drastically evolved since its creation in the 17th century. The beautiful game has experienced numerous modifications to achieve its current place in the modern era. The most significant shift, though, is how it has evolved into a business over a sport. As for any other industrial sector, football has its own characteristics and peculiarities in terms of its business model.

When analysing the key determinants of the business, the first thing that should be highlighted is that football companies have very specific value drivers that are not fully explained by the most rational and generally accepted business valuation approaches. In fact, even if the average financial returns in the industry are negative, the difference between market and book value is often positive, indicating that the market recognizes a *quid pluris* in terms of value for these enterprises that cannot be justified by the traditional methods of business valuation. Then, a football company's value cannot be estimated solely on the basis of the expected financial results, but it must also take into account the overall benefits for shareholders, which include private benefits of control as well as socio-emotional benefits[59].

### *2.1.1 Revenue streams and cost structures*

A professional football club has three main sources of income: matchday revenues, broadcasting revenues and commercial revenues.

The first revenue line is related to a club's ability to generate income from matchdays including ticket sales, hospitality sales, and other related sales. Stadium size, utilisation, and average attendance are other parameters that have an impact on matchday revenue.

Broadcasting revenues depend on the broadcasting rights linked with the participation in national leagues and international competitions. In addition to participation, broadcasting revenues are positively influenced by performances on the pitch. Broadcasting rights are directly negotiated between national and international leagues and media distributors; therefore, clubs have no direct influence on the outcome of contract negotiations.

In Italy, for example, the division of the broadcasting revenues among the teams participating in "*Serie A*" is governed by legislative decree no. 9 of 9 January 2008, so-called

[59] Tiscini, R., Dello Strologo, A. (2016). What drive the value of football clubs: an approach based on private and socio-emotional benefits, Corporate Ownership & Control, Volume 14.

"*Legge Melandri*". Based on the latest amendment to the law, the distribution of TV rights in Italy is currently as follows:

- a 50% share in equal parts between all the clubs participating in the *Serie A* league.
- a 30% share on the basis of the sports results achieved.
- a 20% share on the basis of the fan base. As regard the fan base, the division will be made on the basis of the attendance at the stadium, the certified television audience.

The third source of revenues is made up of kit, shirt, sponsorship partnerships, merchandising, and any other relevant commercial operations. Sponsorship values and merchandising are inextricably linked to a club's performance, history, brand, and global fan base[60].

Even if they differ from each other, all the three sources of revenue share the indirect dependence on sports results. Many industry experts distinguish between events that have a short-term but significant influence and sporting successes that have a longer-term and more significant impact on business value. In this sense, they distinguish between "transitory effects" and "lasting effects" of sports performance. Sporting performance generates higher revenues while also increasing the value of the same football players, contributing to the generation of net capital gains on disposals, and thus, to earnings[61].

As regards the typical cost structures of a professional football company, the one with the greatest impact typically relates to personnel costs.

The amount payable to players and key football management personnel for each contract period is charged to operating expenses on a straight-line basis over the contract periods. Any performance bonuses are recognized when the company believes it is likely that the payment condition will be achieved. While clubs enter into employment contracts with each of their key personnel with the intention of securing their services for the duration of the contract, they cannot guarantee that they will remain with them for the full term of the contract due to potential contract disputes or approaches from other clubs.

[60] Brand Finance Football 50 (2021).

[61] Tiscini, R., Dello Strologo, A. (2016). What drive the value of football clubs: an approach based on private and socio-emotional benefits, Corporate Ownership & Control, Volume 14.

As regards the impact of personnel costs on the profitability of a football company, according to Markham (2012), it is important for a prudent management of costs, ensuring that the expenses incurred to pay the salaries to the players be equal to or less than 50%. However, as stated by his research, income rose by 267% between 1996/97 and 2010/11, while player salaries increased by 450%[62].

Football companies struggle to meet the 50% threshold, particularly nowadays in light of the strong negative effect on revenues of the pandemic (the ratio was equal to 65% for the top ten European clubs by EV in 2021, 7% more than it was in 2020)[63].

Although there seems to be a contradiction between personnel cost and generation of value, with renowned players' high salaries causing a reduction in operating income, the conflict is only apparent. In fact, a squad of talented players is a resource that helps to improve not only sporting performance but also the club's reputation and overall appeal, attracting a greater number of fans, increasing revenues from ticket sales, TV rights, sponsorships and merchandising, thus generating a positive impact on the value of the football club. In other words, players are one of the assets of clubs, and the gap between greater income and higher expenditures attributed to them only partially explains their impact on value[64].

In addition to personnel costs, the income statement ("**IS**") of a football club generally includes other operating expenses such as matchday catering, policing, security, stewarding and cleaning at the stadium, property costs, maintenance, human resources, training and developments costs, and professional fees.

The third big cost structure for a professional football club is related to amortization and depreciation. A football club must amortize the capitalized expenses connected with the acquisition of players and key football management staff registration. The acquisition expenses are also inclusive of any intermediation service and fee incurred in player acquisitions. These expenses are usually amortized over the duration of players and key football management staff's employment contract on a straight-line basis. If a player or key football management personnel extends his contract prior to the conclusion of the pre-existing period of employment, the remaining unamortized component of the acquisition cost is amortized throughout the term of the new contract.

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[62] Markham, T. (2012). What is the optimal method to value a football club? ICMA C.

[63] KPMG Football Benchmark, The European Elite 2021.

[64] Tiscini, R., Dello Strologo, A. (2016). What drive the value of football clubs: an approach based on private and socio-emotional benefits, Corporate Ownership & Control, Volume 14.

Depreciation, on the other hand, shows the straight-line depreciation of PP&E investments and is largely related to the depreciation of the stadium when it is owned. Alternatively, if the stadium is not owned, a club's Income Statement should include the charges for the concession for the use of the stadium and the related commercial structures.

Then, there are some exceptional items in the Income Statement of a professional football club whose impact has increased significantly over the years.

The most important in this sense is the profit or loss on disposal of intangible assets (primarily players' registrations), also known as "player trading". As mentioned above, football players are treated as intangible assets with a useful life limited to the length of the contract; they are then amortized on a straight-line basis over the term of each player's contract.

The rationale of player trading is to sell a player at a price higher than its book value (acquisition cost less any accumulated amortization and impairment loss), thus generating a capital gain, which would have a positive impact on the profit and loss account. Due to the constant increase in the purchase price of players over time, the use of player trading has become so common in football that it can be considered a fourth source of revenue in addition to the already mentioned lines (matchday, broadcasting and commercial).

Going back to the typical cost structures of a professional football club, a key component in addition to operating expenses is generally related to financial interest costs. On a general level, the impact of financial interests on football clubs' profit and loss accounts has increased dramatically in the last years, particularly due to the outbreak of the Covid-19 pandemic. According to the Football business blog "*The Swiss Ramble*", just the 12 clubs who were part of the Super League project contribute to a cumulative financial debt of £3.5 billion.

Finally, the last source of cost for a football club could be related to the payment of taxes, depending on whether the club closes the IS with a profit or loss.

### *2.1.2 The intangible value of a football club*

As already mentioned, the EV of a football club cannot be explained only on the basis of the expected financial results, but it should take into account also the intangible component of the business. Specifically, it should take into account the market value of the intangible assets, which is related to the sporting success and the commercial reputation of the football club, as well as the private benefits of control and socio-emotional benefits[65].

[65] Tiscini, R., Dello Strologo, A. (2016). What drive the value of football clubs: an approach based on private and socio-emotional benefits, Corporate Ownership & Control, Volume 14.

The main intangible assets of football clubs are represented by the registration rights of the players and the brand, which are connected to the reputation and number of followers/fans and the sporting success.

The brand is one of the most significant components of a football club's value, being also the one with the lowest volatility. It has, in fact, an autonomous asset relevance, as evidenced by recognition and reputation that are independent, within certain bounds, of contingent factors such as sports results[66].

Brand Finance defines brand as a "*marketing-related intangible asset including, but not limited to, names, terms, signs, symbols, logos, and designs, intended to identify goods, services or entities, creating distinctive images and associations in the minds of stakeholders, thereby generating economic benefits*". Brand Finance has also developed the Brand Strength Index, an indicator which analyse the performance of a football club brand in three key areas: Marketing Investment, Stakeholder Equity, and their impact on Business Performance. These three areas are influenced by metrics such as the stadium capacity and utilization, the squad size and value, the presence on social media, the performance on the pitch, fan engagement and fair-play rating[67].

The biggest strength of a football club's brand is the so-called "brand loyalty", or public faith in the club, which is a crucial success element for the firm. The brand value of a football club is linked to the notoriety gained by advertising sporting events in newspapers and on television, and to the loyalty of the fans for their favourite team[68].

Another significant typology of intangible assets in a football club is, as previously mentioned, the portfolio of rights to player performance, the value of which is highly dependent on sporting results and hence has a high level of volatility. The total value of the performance rights should be maintained and increased through a dynamic management of the players[69].

The sporting title, namely the right to compete in official tournaments, is another intangible asset of clubs. However, because the sports title is not transferrable outside of the firm, it cannot be valued separately from the other corporate assets. In this sense, the brand and the sportive title are two intangible assets that are inextricably linked because, if the club were

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[66] Tiscini, R., Dello Strologo, A. (2016). What drive the value of football clubs: an approach based on private and socio-emotional benefits, Corporate Ownership & Control, Volume 14.

[67] Brand Finance Football 50 (2021).

[68] Tiscini, R., Dello Strologo, A. (2016). What drive the value of football clubs: an approach based on private and socio-emotional benefits, Corporate Ownership & Control, Volume 14.

[69] Tiscini, R., Dello Strologo, A. (2016). What drive the value of football clubs: an approach based on private and socio-emotional benefits, Corporate Ownership & Control, Volume 14.

to lose the sportive title, the brand would lose a portion of its economic potential. In fact, while retaining the economic potential related to the team's prestige the brand will lose the economic potential that is related to participation in major competitions[70].

As mentioned before, the EV of a football club is also influenced by private benefits of control and socio-emotional benefits. In general terms, the presence of the former is demonstrated by the existence of control premium, the phenomenon wherein shares that guarantee control of a business are valued more than minority shares. In football, there are clear private benefits of control (i.e., community reputation, attachment to the team, business opportunities indirectly related to the ownership of the football club or exploitation of the communicational resonance). The socio-emotional private benefits are, on the other hand, psychological or emotional benefits, such as the pleasure of being the head of a large corporation, the emotional gratification of community recognition, the pride of belonging to a family business transmitted through generations, or, in our case, to a football club with fans[71].

There is a lot of ambiguity and technical difficulty in estimating these external benefits. As regards the private benefit of control, their estimation can be based on the avoidance of marketing expenses, i.e., the costs that the controlling shareholders would have to pay to have a similar amount of media exposure. The assessment of socio-emotional benefits is, on the other hand, very subjective and difficult to be anchored in measurable criteria. However, observing the under-remunerations tolerated by investors on the market allows the estimation of the overall size of external private benefits and thus, once the private benefits of control have been estimated on the basis of avoided marketing costs, the socio-emotional benefits are equal to the difference between the firsts and the seconds[72].

### *2.2 The impact of Covid-19 on the football ecosystem*

The evolving circumstances of the pandemic, the uncertain return of fans to stadiums, and differing approaches to broadcasting and commercial contracts have made it difficult to

[70] Tiscini, R., Dello Strologo, A. (2016). What drive the value of football clubs: an approach based on private and socio-emotional benefits, Corporate Ownership & Control, Volume 14.
[71] Tiscini, R., Dello Strologo, A. (2016). What drive the value of football clubs: an approach based on private and socio-emotional benefits, Corporate Ownership & Control, Volume 14.
[72] Tiscini, R., Dello Strologo, A. (2016). What drive the value of football clubs: an approach based on private and socio-emotional benefits, Corporate Ownership & Control, Volume 14.

accurately quantify the financial impact of Covid-19, during what has been one of the most challenging times the football industry has ever had to endure. Leagues all across the globe adapted in different ways to the challenges faced. Many matches were postponed until safer circumstances could be found, and some were cancelled. Each outcome had consequences for broadcasting and commercial partners, with several of them seeking rights fee rebates as a result of the modifications to the on-pitch product's distribution. The outcome pursued by the different leagues, as well as the reactions of their broadcasting and commercial partners, therefore, had a considerable impact on clubs.

Based on Deloitte Money League's analysis, the top 20 clubs of the 2019-2020 season produced €8.2 billion of revenue, an average of €408 million per club, a decrease of 12% from previous year's top 20, which generated €9.3 billion (an average of €464 million per club).

The drop in revenue (€1.1 billion) was primarily due to a decrease in broadcasting income of €937 million (down 23%), due to a combination of broadcasting revenue deferrals into the following financial year ending in 2021 and broadcaster rebates for the 2019/20 season.

Matchday income dropped €257 million (-17%), in line with the proportion of postponed games. Matchday operations are an important part of a club's economic strategy since they assist to drive other revenue-generating activities. While many fans are likely to want to resume their old habits, it is unclear how soon and easily clubs' revenue-generating abilities will recover to pre-pandemic levels.

Commercial revenue, on the other hand, grew by €82 million (+2%), temporarily resuming its position as the largest contributor to revenue after a three-year break. While clubs have adapted and, in some cases, benefited from strong and long-standing relationships, the fear is whether this can be sustained as contracts expire or bad debts will accrue for clubs if some sponsors are unable to meet their financial obligations due to the impact of the pandemic on their own businesses. From a commercial perspective, matches performed behind closed doors forced a rapid shift to digital platforms as the sole means to communicate and engage with fans, as well as activate commercial partners' sponsorship rights. Those clubs who had previously begun to move toward a more digital approach benefited from a quicker transition. While this may not bring immediate revenue-generating benefits, the combination of matchday attendance and digital interaction might be attractive once normality returns.

Extending the analysis to the 32 most valuable European football clubs, KPMG Football Benchmark's annual report has estimated an aggregate 15% year on year drop in 2020, a decrease equal to €6.1 billion. The overall EV reduction has mainly been a result of the annual decline in total operating revenues for the 32 clubs, in contrast with the continuous growth in

the five years before the pandemic (with the 32 teams' aggregate EV rising by 27% from 2016 until now)[73].

The coronavirus pandemic also undoubtedly delivered a huge blow to football teams outside of Europe's elite. According to KPMG's estimation, top division clubs across all 55 UEFA Member Associations reported an 11% reduction in aggregate operating income in the 2019-2020 season (equal to a €2.5-2.7 billion decrease). Based on available annual accounts for the 2019/20 season, such estimates result in a reduction of aggregate operating revenues to around €20.4 billion, a decrease for the first time in the past decade in contrast to the constant and steady growth of previous years, reverting the football sector back to the levels of the 2016-2017 season[74].

Player values have not been immune either, with the aggregate market value of the 500 most valuable football players which has decreased by 10% between February 2020 and April 2021. Furthermore, net result numbers for the 2019/20 season give an alarming picture of Covid-19's negative consequences[75].

Again, on the basis of KPMG annual report, eighty clubs, including all European football giants, which have made public their financial results as of the date of the report, have accumulated a net loss of €2.04 billion, meaning that this sample of 10% of the approximately 700 UEFA first division clubs has already accumulated more losses in the 2019-20 season than the previous overall negative record of €1.7 billion of losses in 2010-2011, prior to the introduction of UEFA Financial Fair Play ("**FFP**")[76].

### *2.2.1 A comparative analysis among the "Big Five" European leagues*

As the Covid-19 pandemic expanded over Europe in the spring of 2020, it immediately became clear that top level football, including the "big five" European leagues, would be severely impacted. The graph in the next page provides a brief description of how the initial onset of Covid-19 affected the top five European football divisions (i.e., the English, German, Spanish, Italian and French ones).

[73] KPMG Football Benchmark, The European Elite 2021.
[74] KPMG Football Benchmark, The European Elite 2021.
[75] KPMG Football Benchmark, The European Elite 2021.
[76] KPMG Football Benchmark, The European Elite 2021.

| | Premier League | Bundesliga | LaLiga | Serie A | Ligue 1 |
|---|---|---|---|---|---|
| Date suspended | **13 March** 2020 | **13 March** 2020 | **12 March** 2020 | **9 March** 2020 | **13 March** 2020 |
| Date resumed | **17 June** 2020 | **16 May** 2020 | **11 June** 2020 | **20 June** 2020 | **n.a.** |
| Date completed | **26 July** 2020 | **27 June** 2020 | **19 July** 2020 | **2 August** 2020 | **n.a.** |
| 2019/20 matches played in FY21 | **66** | **0** | **57** | **98** | **0** |
| Rebate to broadcasters | Yes - **c.£330 m** | **Minimal** | Yes - **c.€100m** | Yes - **c.€130m** | Yes - **c.€123m** |
| Broadcast revenue recognition for 2019/20 season | Across **FY20** and **FY21** | **FY20** | Across **FY20** and **FY21** | Across **FY20** and **FY21** | **FY20** |

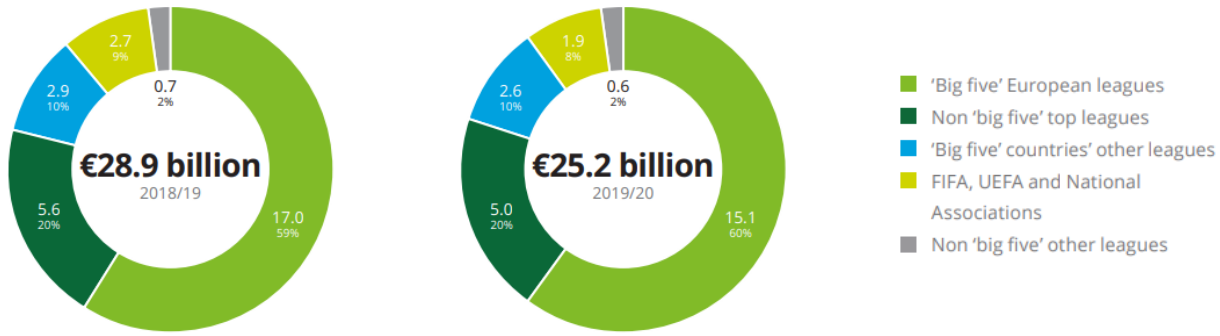
*(Figure 8: The "big five" at a glance, Deloitte, 2021)*

The discrepancies between the five leagues are largely driven by two factors. First, the extent of delay in completing seasons, which caused the seasons to be misaligned with the majority of clubs' financial reporting periods, having a particular impact on the recognition of season-long revenues (particularly broadcasting revenue) and wage costs between financial years. Second, broadcasters demanded rebates for matches that were delayed, cancelled, or played behind closed doors[77].

The revenue recognition question has been further complicated by merit-related payments linked to final league place, with clubs opting for a variety of recognition methods, including recognizing revenue based on the club's actual league position at the end of the financial year, based on the position the club would have achieved historically with its total points at the end of the financial year, or the lowest theoretically possible position given its total points at the end of the financial year[78].

While the pandemic impacted clubs of all sizes, with the biggest impact on those most reliant on matchday income in relative terms, the big five European leagues suffered the brunt of the immediate impact in absolute terms. The combined revenues of the big five leagues decreased by 11% to €15.1 billion in the 2019/20 financial year, although this still represented a record high share of 60% of the European football market. The chart in the following page shows how the overall European market size changed between the seasons before and immediately after the pandemic[79].

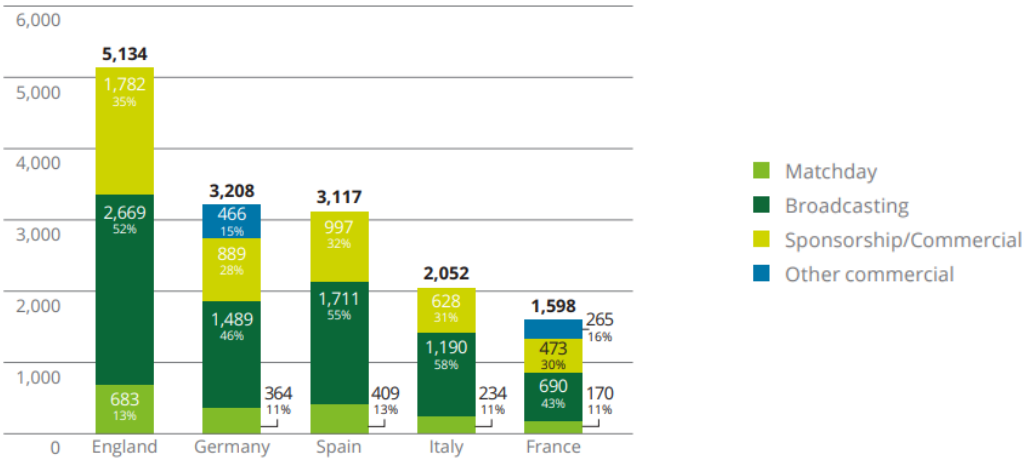
[77] Deloitte, Annual Review of Football Finance 2021.
[78] Deloitte, Annual Review of Football Finance 2021.
[79] Deloitte, Annual Review of Football Finance 2021.




*(Figure 9: European football market size – 2018/19 and 2019/20 - € billion, Deloitte, 2021)*

As already mentioned, the financial impact on each league has differed in the short and medium term, as each league has created its own route through the crisis. In the remaining part of this section, the specific impact of the pandemic with the different financial outcomes for each of the big five European leagues will be analysed, in lights of the disparate responses they adopted in terms of matches resumes, rebates to broadcasters, negotiations with commercial partners, financial measures to help clubs and competition rules changes. Specifically, the analysis will focus on the impact of the pandemic on revenues, wages and operating profits for each of the five leagues[80].

*Figure 10* provides an analysis of each league revenues' size and determinants during the 2019/20 season.

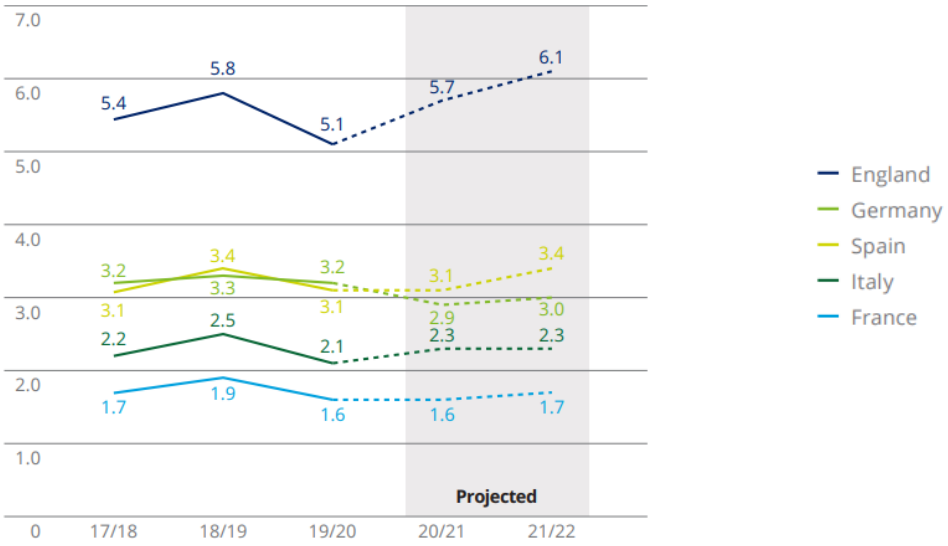



*(Figure 10: Big five European league clubs' revenue – 2019/20 - € million, Deloitte, 2021)*[81]

[80] Deloitte, Annual Review of Football Finance 2021.

[81] Commercial revenue is not disaggregated into "sponsorship" and "other commercial" for clubs in England, Spain and Italy.

*Figure 11*, instead, shows how the revenues of each league moved over the last three years and provides an estimation of their projections for the next two seasons.




*(Figure 11: Big five European league clubs' revenue – 2017/18 to 2019/20 - € billion, Deloitte, 2021)*

The *Bundesliga* was the first major European sports league to resume matches after the pandemic-induced halt in March 2020, and it was also the only big five league to finish its season in the 2019/20 fiscal year. As a result, overall income fell just 4% (€137 million) to €3.2 billion, driven by a 30% (€156 million) drop in matchday revenues following the competition's return in May 2020, when all matches were played behind closed doors. Commercial revenues from advertising and merchandising fell by 6% (€30 million) in 2019/20, while sponsorship revenues grew by 5% (€43 million). With regard to broadcasting revenues, the 18 *Bundesliga* teams reported similar aggregate levels to 2018/19, as the *Bundesliga* was able to avoid paying any large rebates to broadcasting partners in 2019/20. Despite the disruption caused by the pandemic, the *Deutsche Fußball Liga* (DFL) has moved forward with its offer for domestic media rights for the years 2021/22 through 2024/25, which have been bought for a price averaging €1.1 billion per season, a 5% reduction from the previous rights cycle (€1.16 billion per season); an acceptable result given the economic context. However, the value of international broadcasting rights has fallen by c.€50m to €200m in 2020/21, due to the failure

to agree a deal in the MENA region and declines in the value in Latin America and in some Asian markets[82].

Moving to Spain, the 20 *LaLiga* clubs' aggregate revenues decreased 8% (€261 million) to €3.1 billion in 2019/20, after matches were postponed and the season was extended into the 2020/21 financial year, causing the *Bundesliga* to overtake *LaLiga* as Europe's second-highest revenue generating league. *LaLiga* clubs' total matchday income decreased by 19% in 2019/20, from €506 million to €409 million, due to the suspension of football between March 12 and June 11 of 2020. As regards broadcasting income, rebates to broadcasters (equal to c.€100 million) and deferrals of some broadcasting revenues into the 2020/21 financial year caused a decrease in revenues of €133 million (7%) to €1.7 billion. Aggregate commercial revenues, instead, fell marginally (by 3%) to €997 million in 2019/20. Despite an 11% drop in commercial income for *FC Barcelona*, they, together with *Real Madrid*, maintained their commercial domination in *LaLiga*, accounting for 70% of commercial revenues in 2019/20[83].

As Italy became the first focal point for Covid-19 in Europe, suspending play on March 9, 2020, *Serie A* clubs' combined income dropped 18% (€443 million) to €2.1 billion in 2019/20, the largest percentage decrease among the big five European leagues. The return of football to Italy behind closed doors on June 20 resulted in a €50 million (18%) drop in matchday revenues to €234 million but, given the historic lack of investment in Italian stadiums (and thus relatively low matchday revenue), the drop in matchday revenues was almost half of what the Premier League and *LaLiga* reported, and one third of what the *Bundesliga* reported. At the same time, total commercial income for *Serie A* clubs decreased by €120 million (16%) to €628 million in 2019/20, with *FC Internazionale* accounting for nearly half of this amount. As regards broadcasting revenues, rebates to broadcasters for c.€130 million and the delay of payments into the 2020/21 season resulted in a €273 million (19%) drop in total broadcasting revenues to €1.2 billion in 2019/20. However, much of the focus has been on the new domestic and international rights deals from 2021/22. After a protracted tender process, domestic rights agreements with *DAZN* and *Sky Italia* have been secured for a combined average value of c.€928 million per season, which is 5% less than the previous rights cycle, though the league will reportedly save €50-60 million per season in commission payments previously made to the *Infront* agency. The value of *Serie A* international media rights, instead, is going to

[82] Deloitte, Annual Review of Football Finance 2021.
[83] Deloitte, Annual Review of Football Finance 2021.

decrease even more drastically, to a reported €196 million per season from 2021/22 to 2023/24, with the MENA region still unsold[84].

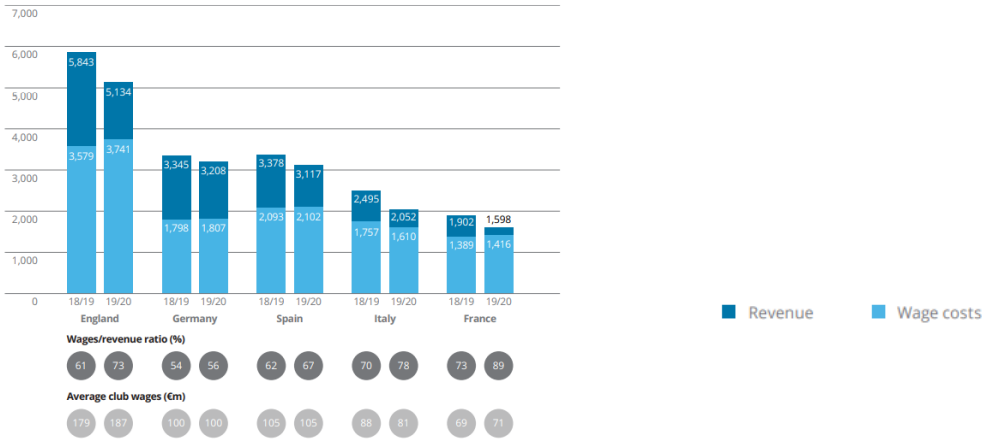
Moving forward with the revenues' analysis to the *Ligue 1*, the only division among the big five to cancel its season in reaction to the pandemic, French clubs' aggregate income decreased by 16% (€304 million) to €1.6 billion in 2019/20, binding the league to the last place of the big five in terms of revenues, more than €450m behind *Serie A*. As a result of the cancellation, matchday revenue fell by 15% (€31 million) to €170 million in 2019/20, although the financial impact of cancelling this income stream is not substantially different from continuing behind closed doors. Rebates to broadcasters reportedly costing c.€123 million (between domestic and international rights holders) contributed to a 23% drop in broadcasting revenues from €901 million to €690 million in 2019/20, with *Ligue 1* remaining the only big five league with clubs earning less than €1 billion from this source. French football was further destabilised by the cancellation of the domestic rights agreement with *Mediapro* in December 2020, due to the agency's inability to pay scheduled rights fee instalments. The *Ligue de Football Professionnel* (LFP) then reached an agreement with *Canal Plus* for the rights previously held by *Mediapro*, resulting in a total value of *Ligue 1* and *Ligue 2* domestic rights for the 2020/21 season of c.€670 million, a 42% decrease from the €1.15 billion per season that domestic rights for the 2020/21 cycle had originally been sold for, and similar to the average annual value of the 2008/09 cycle[85].

Concluding the analysis of the big fives' revenues with the Premier League, the richest football league in the world, the aggregate clubs' income fell by over half a billion pounds (£648 million, equal to a 13% drop) to £4.5 billion in 2019/20, with the average revenue per club falling by £33 million to £225 million. The financial impact of Covid-19 was felt by all clubs, resulting in the first combined revenues' reduction in Premier League history and the lowest aggregate level since 2015/16. Broadcasting revenues have been particularly impacted by the pandemic, with reported rebates of £330m agreed between the Premier League and broadcasters. This, along with some broadcasting money from the 2019/20 season being recognized in the 2020/21 financial statements, due to matches being played after the season's scheduled conclusion, caused a drop of the broadcasting revenue stream by 23% to £2.3 billion, accounting for 52% of total revenue (compared to 59% in the prior year). Lower broadcasting income generation was also a result of Premier League teams' worsening performance in

[84] Deloitte, Annual Review of Football Finance 2021.
[85] Deloitte, Annual Review of Football Finance 2021.

Europe across UEFA competitions (after both UEFA tournament finals featured exclusively Premier League clubs in 2018/19), with a 18% decrease (equal to €90 million) of UEFA allocations to Premier League teams to €395 million. With the confirmation of a new Premier League domestic broadcasting agreement for 2022/23 to 2024/25 on similar terms to the existing arrangement, commercial income has been reinforced as a major priority area for Premier League clubs to achieve revenue growth. Commercial income was the only revenue line to grow in the 2019/20 season, with 13 clubs reporting an increase of £145 million (+10%). Indeed, Covid-19 pandemic had a limited impact on commercial revenues in 2019/20, because deals were already in place for the season. However, there could be more fallout in 2020/21 and beyond, as commercial partners may feel the effects in their own businesses and consequently be cautious with deals' values. As of matchday revenues, instead, they fell by £84 million (12%) to £599 million, accounting for 13% of total income. As expected, the pandemic had a severe influence on matchday income, since stadiums closed to spectators from game-week 30 in March 2020 and remained behind closed doors when matches resumed in the summer of 2020, after many teams' financial year closed[86].

As the impact of Covid-19 on each of the big five leagues' aggregate revenues has been examined, the focus of the comparative analysis will now move to personnel costs and operating profits. With respect to the formers, *Figure 12* is well explicative of the current situation across the top-level European football leagues[87].




*(Figure 12: Big five European league clubs' revenue and wage costs – 2018/19 and 2019/20 - € m, Deloitte, 2021)*

[86] Deloitte, Annual Review of Football Finance 2021.
[87] Deloitte, Annual Review of Football Finance 2021.

The *Bundesliga*'s wages-to-revenue ratio rose to 56%, with total wages increasing only marginally (by 0.5%) to €1.8 billion. While this is the greatest wage-to-revenue ratio in the *Bundesliga* in 20 years, it is still the lowest among the big five European leagues.

The overall wage spending of *LaLiga* clubs also increased marginally (0.4%) to €2.1 billion in 2019/20. The league's economic limits on each club's squad expenses encourage sustainability, and probably contributed to *Atlético de Madrid*'s down €29 million (-12%) and *Barcelona*'s down €55 million (-10%) considerable reductions in salary spending. With these two teams excluded, the overall wage expenditure among the other 15 clubs increased by €91 million (+7%). As a result of this and the decline in revenues, the league's wages-to-revenue ratio increased to 67%, the highest level in 17 years.

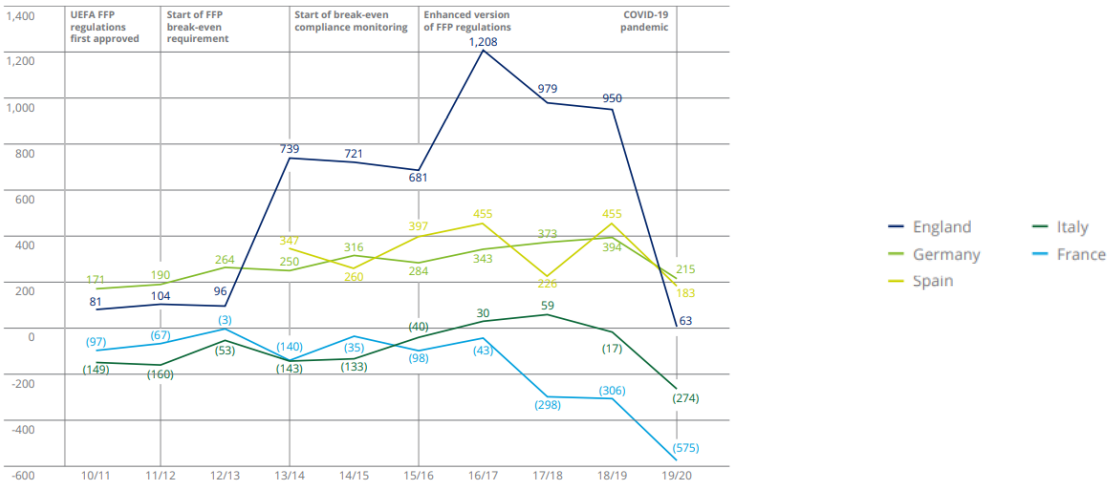
Moving to Italy, *Serie A* was the only one of the big five leagues to cut overall salary spending in 2019/20, with total wages decreasing by €147 million (-8%) to €1.6 billion. However, due to the revenue reduction caused by the pandemic, the wages-to-revenue ratio increased to 78%, the highest in 16 years, with three teams which spent more on wages than they generated in revenues.

In France, even though *Ligue 1* clubs' total wage expenditure increased at the slowest rate in five years (+2%), the massive revenue reduction resulted in the wages-to-revenue ratio rising to 89 % in 2019/20, the second-highest level ever recorded across the big five European leagues. Only two teams had a wage-to-revenue ratio below 70%, and six clubs spent more on wages than they generated in income, which is concerning for the future of French football.

As regards the Premier League, lastly, while Covid-19 had a substantial impact on revenue generation, wage expenses increased only marginally (+4%) to £3.3 billion, the smallest rise since 2004/05. Nonetheless, the extraordinary drop in income worsened the wages-to-revenue ratio, which now stands at its highest level in Premier League history (73%). Specifically, last annual increase in wages-to-revenue ratio (which was equal to 61% in the previous season) has been the highest in the history of the Premier League.

Once examined the impact of the pandemic on the revenues and wage costs of each of the European big five leagues, the comparative analysis will lastly finally on their operating profitability. With respect to this metric, *Figure 13* shows how the aggregate operating profitability across the big five leagues has varied over the last decade, from the introduction of UEFA Financial Fair Play regulations to Covid-19 pandemic[88].

[88] Deloitte, Annual Review of Football Finance 2021.




*(Figure 13: Big five European league clubs' profitability – 2009/10 to 2018/19 - € million, Deloitte, 2021)*[89]

Starting again with the *Bundesliga*, clubs combined operational profits fell by 45% from €394 million to €215 million in 2019/20, the lowest level since 2011/12, due to a 4% reduction in overall income and the inability to rapidly cut expenses. Nonetheless, the *Bundesliga* is the only big five league (together with the Premier League) to have recorded aggregate club operational profitability every year for more than 20 years.

As regards *LaLiga*, clubs' total operating profits declined by 60% in 2019/20, from €455 million to €183 million. Nonetheless, 15 clubs recorded operating profits, illustrating the efficacy of *LaLiga*'s economic restrictions on financial sustainability since their implementation in 2013.

With respect to *Serie A*, the aggregate clubs' operating losses increased considerably in the 2019/20 season, from €17 million to €274 million, their worst performance since 2001/02. It's worth noting that *AC Milan* and *AS Roma*'s combined operating losses amounted for over two-thirds of the total. In coming seasons, the route back to collective profitability appears to be difficult, and a truly collaborative effort across the Italian football ecosystem will be necessary to reverse this tendency.

*Ligue 1* clubs reported their 13th straight year of combined operating losses, which increased to €575 million in 2019/20, an unwelcome all-time high for a big five league. In the 2019/20 season, only one team, *Brest*, made a profit. Ten clubs recorded operating

[89] The operating result excludes player trading and certain exceptional items. Aggregate operating results for Spanish clubs were not available prior to 2013/14.

losses exceeding €20 million, with pre-tax losses further exacerbated by the drop in player transfer revenue, which has traditionally been a significant component of certain French teams' business models.

Finally, Covid-19's financial impact on profitability has also been noticeable in Premier League, virtually wiping out the €950 million in collective operating profits generated by the clubs in the 2018/19 season. The Premier League's combined operating profits fell by €887 million in 2019/20, to €63 million (the lowest combined operating profit since the beginning of the century), with more than half of the league's clubs (specifically 11) reporting an operating loss, up from four in the 2018/19 season.

### *2.2.2 The European "Super League" project*

The football world was shocked last April when a two-day power struggle emerged, in which 12 football teams attempted but failed to create a breakaway European Super League. The clubs that planned to join the competition were: Spain's *Real Madrid*, *Barcelona* and *Atlético Madrid*; England's Manchester United, Manchester City, Liverpool, Arsenal, Chelsea and Tottenham Hotspur; and Italy's *Juventus*, *AC Milan* and *Inter Milan*[90].

The project would have been backed by $6 billion in debt financing from the US bank JPMorgan and aimed at superseding the UEFA Champions League, currently the European's top annual club competition. The Super League was structured to involve 20 clubs with 15 being "permanent members", meaning they could not be relegated and would not need to qualify through strong performances in national league competitions. The founding clubs said they would collectively be given a €3.5bn grant to spend on infrastructure investments, in addition to €100m-€350m each to join the contest[91].

The Covid-19 pandemic has further aggravated the instability of the existing business model, generating serious profitability and liquidity issues as well as highlighting the necessity to respond to the status quo's challenges. The primary reasons for the formation of the privately-owned Super League by 12 of Europe's most prominent clubs may be summarized as follows[92]:

- Increasing polarization of club economic power and crystallization of sporting success.

[90] KPMG Football Benchmark, The European Elite 2021.
[91] Financial Times. Breakaway dozen European football clubs sign up to Super League. 19 April 2021.
[92] KPMG Football Benchmark, The European Elite 2021.

- The expectation of reducing the financial consequences of sporting performance risk and stabilizing cash flows.
- Digitalisation and evolution of the media landscape: in recent years, football has been accessible at a cheap cost anywhere in the world at any time, thanks to the advent and expansion of social media and streaming platforms.
- On one hand, digital transformation changed the way fans (especially of the Generation Z) access football, with expectations of top-end digital entertainment and communication solutions, bringing the fans closer to their club. On the other hand, it turned large football clubs into real global brands, with commercial operations accounting for the majority of their revenues, rather than sporting organizations, removing the clubs from their local markets and into an international space. As a result, the attention has moved to the global fan, who frequently supports many clubs and is considerably more interested in international games involving the continent's top teams. When it comes to the worldwide marketability of European football, the 12 founding members of the European Super League have a combined following of 1.3 billion people on social media, while the remaining 86 teams from Europe's big five football leagues have a combined fan base of less than 500 million.
- Significant economic losses and indebtedness, which have been exacerbated by the pandemic. *Cerved Rating Agency* has recently estimated that 80% of the approximately €2 billion of financial debt in the financial statements of Italian sports clubs would be very close to bankruptcy, on the basis of common economic-financial criteria. A large part of this debt arises from Serie A clubs, for which large capital injections will be required to avoid default. Covid-19 deep and long-lasting effects have intensified the need for fundamental changes in the football ecosystem to preserve the game's long-term financial viability[93].
- Limited control on the governance of international clubs' tournaments and income distribution, with the clubs bearing nearly all of the entrepreneurial risk.
- Finally, the perception that the UEFA Champions League's income was not maximized, due to its format.

[93] Calcio e Finanza. Cerved: l'80% dei debiti in club vicini al fallimento. 10 July 2020.

The announcement, however, triggered a power battle inside the world's most popular sport, with elite clubs facing intense opposition from politicians, fan organizations, and the sport's regulatory bodies, all of which have agreed to oppose the secession. The competition would have been structured similarly to "closed" North American sports leagues, in which franchise owners receive consistent profits and club valuations grow gradually over time. However, the idea went against the European game's pyramid structure, which allows even the smallest teams to win the greatest titles by putting up strong performances on the field[94].

Although the Super League project has failed, Covid-19 pandemic has made it clear that the football industry needs some structural changes.

The first may be a reform of the UEFA Financial Fair Play regulation system, with more consistent and rigorous cost controls in order to improve sustainability, as many clubs' revenues are being absorbed by ever-increasing personnel costs. A more stringent system is needed, with the break-even requirement redesigned, the focus expanded to include all of the clubs' financial commitments, the implementation of cash flow-related indicators, and improved cost control mechanisms. In this sense, the introduction of a "soft" salary cap deserves some serious consideration[95].

Better coordination of domestic and international match calendars should also be implemented, in order to maximise meaningful matches at all levels. A reduction of national competitions to 18 or even 16 teams may free up room on an already congested competition calendar. More matches especially when some of those have little sports relevance, do not necessarily mean more revenue-generating capabilities for domestic leagues. Moreover, more games imply a shorter recovery time between matches, a larger chance of injury for the players, and, as a result, sub-optimal athletic performance[96].

Balancing of sporting merit with financial predictability and stability is another key point that should be tackled. The dichotomy between volatile revenues, which have a certain degree of correlation to on-pitch performance, and costs, which are mostly fixed since players' wages are locked in by multi-year guaranteed contracts, causes major difficulties for club management when it comes to budgeting for future years. In this sense, a model granting an assurance to clubs with outstanding historical performance which underperformed one season

[94] Financial Times. Breakaway dozen European football clubs sign up to Super League. 19 April 2021.
[95] KPMG Football Benchmark, The European Elite 2021.
[96] KPMG Football Benchmark, The European Elite 2021.

might mitigate the financial uncertainty preserving, at the same time, the sporting merit principle[97].

There is also a critical need for a significant shift in football governance and a redistribution of decisional powers. In fact, clubs carry the industry's entrepreneurial risk in terms of operational and capital investment, but at the same time have limited control over the distribution of revenues and the governance of the industry[98].

Finally, because the UEFA Champions League displays the supremacy of the major five leagues year after year, serious attention should be paid to enhancing the competitiveness of less developed football markets. In this sense, forming regional leagues by combining smaller domestic leagues with similar cultures and histories – as well as allowing some of the best clubs from a nearby league to join another national championship – would improve the quality of play and appeal to commercial and broadcasting partners. Similar mergers might be discussed in Scandinavia, the Balkans in Central and Eastern Europe, or between Belgian and Dutch top leagues, to name a few examples[99].

## *2.3 Private Equity appetite for European football*

### *2.3.1 The football industry as an emerging asset class*

Due to the irreversible loss and/or postponement of important revenue streams for sports rights holders, as a result of Covid-19, key stakeholders in the sports sector, including club owners, leagues, and governments, have been under increasing pressure to provide emergency finance and liquidity. One effect of this financial issue has been the greater alignment between the objectives of private equity firms and the needs of professional sport stakeholders. As a result, there has been a considerable increase in private investment in sports. According to a recent market analysis, investor inflows into US and European sports properties reached €7.8 billion between January 2020 and February 2021, representing a 50% increase over 2019[100].

The shift is significant because many commercial sports have been traditionally closed to institutional investors. Those ancient limitations stem from concerns that third-party capital providers may exert excessive influence over a sport. For many years, such restrictions may not

[97] KPMG Football Benchmark, The European Elite 2021.
[98] KPMG Football Benchmark, The European Elite 2021.
[99] KPMG Football Benchmark, The European Elite 2021.
[100] Deloitte, Annual Review of Football Finance 2021.

have mattered since professional sports investments were not as profitable as they are now. High-net-worth individuals were generally drawn to team ownership because of the asset's reputation rather than its profitability[101].

Prior to Covid-19, private equity investment had not been a high priority issue for European football leagues, but recent events have caused a substantial rise in appetite and interest to explore how such a collaboration may be advantageous for both the parties. The pandemic has increased uncertainties about future revenue growth from previously booming sources (broadcasting and commercial in particular), as well as eliminating near-term matchday revenues completely. This has sparked talks between leagues and private equity funds, which may help handle both the short-term financial cashflow issue as well as provide technical expertise and financial/human capital to assist them achieve their strategic goals[102].

On one hand, the potential target realities for the funds are looking for liquidity to support their business. On the other hand, the economic crisis linked to Coronavirus has led to a devaluation in prices which makes investing more attractive for private equity funds, also in the logic of a future resale.

"*Football clubs' costs increased relative to their revenues during the pandemic as all of their income streams have been severely affected by the absence of gate receipts for most of the season and by some media and commercial deals having also been disputed by media partners and sponsors. Consequently, many clubs suffered a significant drop in their market value, making them a potential investment target. Besides the opportunity to buy a club at a lower price, investors could be attracted by the chance to acquire players at a discount in the coming transfer windows as some clubs may be forced to sell players in order to shore up finances*", comments Andrea Sartori, KPMG's Global Head of Sports[103].

The PE opportunity also fits into a scenario of strong growth of European football as an asset class in recent years. Between 2009/10 and 2018/19, the aggregate income of Europe's big five leagues roughly doubled, rising from c.€8.4 billion to over €17 billion[104].

The transformation of football clubs from community-based non-profit organizations to profit-making brands with global reach began in the early 1990s, when a surge in pay TV subscriptions inspired clubs and leagues to create new business models, and continued until recently, when digital transformation gave professional football a final boost as it transformed

[101] PitchBook. Hard-hit sports world finds new fans: private equity firms. 20 July 2020.
[102] Deloitte, Annual Review of Football Finance 2021.
[103] KPMG Football Benchmark. Pandemic not discouraging football club investors. 17 November 2020.
[104] Deloitte, Annual Review of Football Finance 2021.

into a true entertainment industry. Investors, either as possible business partners or owners, are becoming more interested in the industry as a result of this general change[105].

If we analyse the most valuable European football clubs (instead of the leagues), results are the same: in the four years immediately preceding the pandemic, the 32 most prominent European football clubs increased their Enterprise Value by an average of 10.9% per year (according to KPMG's Analysis). The growth is still very important when considering their average annual revenues in the period from 2009 to 2019 (+7.2%). In this sense, the industry's expansion has been aided by increasingly complex financial regulations that promote sustainability. Indeed, the top 32 European clubs lost an aggregate of €1.7 billion in 2011 but, following the implementation of the UEFA Club Licensing and FFP Regulations in that year, the same clubs had made an aggregate profit of €579 million by 2017[106].

Doc O'Connor, Managing Partner and Co-Founder of Arctos Sports Partners, a US private equity fund investing in minority stakes of major league sports' franchisees (with specific focus on big five US Sports Leagues and top 50 European football franchises), in an interview for the Financial Times defined the sports industry as an "*emerging asset class with interesting and unique characteristics. Not surprisingly, it has outperformed other asset classes in the last 20 years, equities in particular*".

Of course, the assessment is the same when considering football alone, the most popular sport of the industry with an estimated fan base of 3.5 billion people worldwide (according to FIFA) and an aggregate turnover exceeding €25 billion only considering Europe. According to O'Connor, PE funds consider the sports franchises as a strong, durable, and appreciating asset class with huge growth potential. Indeed, a sports franchise is based on unique characteristics such as: an extremely valuable brand; stable and predictable cash flows, arising from media rights and sponsorship agreements, and other potentially significant variable revenues generated by ticketing, merchandising and premia; low or negative correlation with the other asset classes (which allows investing for risk diversification purposes), and also tax advantages.

US investment companies are perfectly positioned to enter the market since they have the resources to act fast and capitalize on such an opportune moment. American investors have already made significant inroads in European football, with majority stakes in around one-fifth of the 60 teams competing in England, Italy, and France's top divisions. An important factor for American investors is that European football frequently provides better terms than major

[105] KPMG Football Benchmark. Pandemic not discouraging football club investors. 17 November 2020.
[106] KPMG Football Benchmark, The European Elite 2021.

American sports. In March, for example, multiple minor investors paid $70 million for a 10% stake in MLS franchise Los Angeles FC, valuing the team at $700 million. On the other hand, Newcastle United FC, a historic club with a large fanbase and rich Premier League earnings, has been on the market for £300 million, according to media sources. Furthermore, under American franchise-based systems, investors must acquire a stake in the league in order to own a team. Despite the fact that the lack of promotion-relegation and central cost-controlling measures (e.g., roster rules) creates a stable investment environment, purchasers must pay a premium for this benefit.

For these reasons, many US investors believe that owning a European football club is a better fit for their investment plans because they want more ownership control over the owned businesses and higher returns on the investments[107].

### *2.3.2 Opportunities and threats of buying a professional football club*

Although third-party investment in football teams is not a new occurrence, the character of the investors who associate themselves has certainly evolved. In recent years, many traditional football club owners (typically high net worth individuals) have sold their shareholdings to sovereign wealth funds and, more recently, to private equity funds. Football clubs are sometimes referred to as "trophy assets", with investment motivated by non-financial reasons rather than expectations of a long-term financial return. Non-financial motivations frequently mentioned include a person's love of football and the desire to gain personal notoriety, as well as commercial and social relations, through owning a football club. While this viewpoint is still relevant for some club owners, the environment of European football is changing to the point that investors who are more concerned with financial return, particularly long-term growth in a club's equity value, feel more comfortable than ever in considering ownership[108].

The following are some of the structural trends and positive factors that have attracted a new breed of club investor (many of which have been already mentioned in the previous sections)[109]:

- A track record of consistent increase in broadcasting and commercial revenues. These two revenue categories are able to guarantee stable and predictable cash

[107] KPMG Football Benchmark. Pandemic not discouraging football club investors. 17 November 2020.
[108] Deloitte, Annual Review of Football Finance 2021.
[109] Deloitte, Annual Review of Football Finance 2021.

flows which, as highlighted in the first chapter, is a crucial feature for a PE target company.

- The continuous increase before the pandemic of sports clubs and leagues' valuations, both domestically and internationally.
- UEFA and national league/federation organizations introducing financial restrictions to enhance financial sustainability (e.g., FFP Regulation).
- Increased profitability achieved prior to the pandemic as a result of a combination of revenue growth and cost control.
- Sports franchises being among the most stable and uncorrelated asset classes.
- Sports brands, which are the key drivers of business value, having an enduring shelf life that may be passed down through generations. In this sense, investing in sport gives to private equity funds the opportunity to acquire brands with an infinite life. Furthermore, no industry has a closer link between business and consumer than sports[110].

In addition to all these trends there are also the opportunities generated by the pandemic. Short-term financial challenges and liquidity worries, along with the long-term rise and resilience of sports club valuations, might create the ideal storm for an infusion of cash from interested suitors. In the face of declining revenues and continued uncertainty, owners who had a need or desire to liquidate a portion of their investment prior to the pandemic will likely be even more eager to do so, while even owners who don't have an immediate need for capital may be more open to accepting a minority investment from institutional investors to help establish adequate reserves and foster a relationship with a stable source of easily available capital in the future[111].

Although there are many parallels between investing in a professional football team and typical investment models, there are also significant differences. One is linked to the return on the investment. In the football field profits are typically re-invested in the team to increase the club's prospects of winning a championship and to improve the fan experience. As a result, until the club (or their stake in the company) is sold, investors may not see a return on their

[110] BDO, The Sports Consultancy. The Investment Pitch: Private Equity in Sport. 27 October 2020.
[111] Foley & Lardner LLP. Investing in Professional Sports Teams – How Sports Investments Differ from Traditional Models. 1 October 2020.

investment. Long-term capital appreciation, rather than year-to-year profits/distributions, drives football firms[112].

There are then two related risks involved with a club ownership: the promotion/relegation and reputational risks. The promotion and relegation system in European club football offers both opportunities and risk to investors. While this component increases the value of football as an entertainment product (especially for broadcasters and spectators), it does not safeguard an owner's investment. However, it should be said that the risk of relegation is more theoretical than real for the top clubs of certain leagues. As regards reputational risk, instead, there is a significant correlation between a club's on-field performance, the perceived quality of player transfers, the media narrative, fan reaction, and finally the perception of the owners. In this sense, the possibility of having to manage this complicated stakeholder relationship might make an investment into a club less appealing than league prospects, considering that PE firms have a small risk appetite for circumstances outside their control[113].

Despite the improvements made over the last decade, from the analysis it emerges that there are also some challenges that should be considered before making an investment into a professional football club. Indeed, there are still widespread reservations about football clubs' economic structures, which included a high fixed cost base combined with rising transfer and agent fees, putting substantial financial burden on the teams. Minor disruptions, such as the unpredictability of qualifying to specific competitions or player trading income, risk to lead several teams into financial trouble, in an industry where limited liquidity is the norm[114].

### *2.3.3 An overview of Private Equity deals in the European football industry: considerations between league and club investments*

The aim of this section is not to analyse in detail every single PE deal in the European football industry; it is, instead, to provide an overview of the closed and under negotiation investments both in the leagues and in the professional football clubs to date, in order to assess which are the typical ways of entering the sector by PE funds and, more generally, by institutional investors.

Two distinct themes are emerging in football's relationships with private equity funds (and institutional investors): investments in Federations and Leagues, structured as long-term

[112] Foley & Lardner LLP. Investing in Professional Sports Teams – How Sports Investments Differ from Traditional Models. 1 October 2020.
[113] Deloitte, Annual Review of Football Finance 2021.
[114] KPMG Football Benchmark, The European Elite 2021.

commercial partnerships; and investments in individual clubs, with private equity/institutional investors exploring club ownership to enhance or create their portfolio of sports assets[115].

In general, league investment discussions have assumed that a private equity firm would purchase a minority stake in the league's centralised commercial rights, which generally include broadcasting, sponsorship, and other underdeveloped or embryonic digital assets (e.g., e-sports leagues, NFTs[116]). In exchange, the private equity firm would underwrite existing commercial rights values in order to provide financial resources to the leagues to distribute and provide stability to clubs at critical times, as well as human capital and technical capabilities to try to extract more value from these rights in the future[117].

Minority investment in sports businesses is not a new concept, but it is becoming more common and beneficial to both new and existing owners. On one hand, existing owners can access liquidity by selling non-controlling shares in sports teams, allowing them to cash out on a percentage of their investment's unrealized appreciation while maintaining influence over management and day-to-day decisions. On the other hand, minority investors are offered the chance to participate in a high-growth, uncorrelated asset class with almost assured revenue streams over the medium to long term. Also in the US, major sports leagues have responded to market forces by loosening minority ownership restrictions to promote investment in both individual teams and leagues. In this sense, Commissioner Don Garber of Major League Soccer ("**MLS**") said in July 2020 that the league was close to finalizing a proposal to enable for the first-time private equity ownership in teams[118].

Deloitte Sports Business Group's recent research paper "*Long-term partnerships and International Federations – an inevitable match?*" summarized four main categories of commercial partnerships identified in recent deal making between institutional investors and international sports federations: i) Long-term license agreement, in which all commercial rights are granted exclusively to a third party; ii) Joint venture (JV) – a formal joint venture is established with selected rights assigned to a JV; iii) Equity investment, directly made by a third party; iv) Strategic partnership – a long-term business relationship is established with a partner (can also include direct equity investment)[119].

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[115] Deloitte, Annual Review of Football Finance 2021.

[116] A Non-Fungible Token is a unit of data stored on a digital ledger, called a blockchain, that certifies a digital asset to be unique and therefore not interchangeable

[117] Deloitte, Annual Review of Football Finance 2021.

[118] Foley & Lardner LLP. A New Game in Town: The Rise of Private Equity and Institutional Investment in Sports. 11 November 2020.

[119] Deloitte, Annual Review of Football Finance 2021.

While the business of buying sports clubs is long-established, with super-rich people buying teams as trophy assets, institutional investors are increasingly buying interests in the governing bodies that run the competitions. Buying a league instead of an individual club, allows investors to overcome the problem that one bad season, such as failing to reach European competition or getting relegated, can completely devalue a team. Indeed, while billionaires can take on the risk, institutional investors seeking reliable returns, such as PE firms and hedge funds, are more reluctant[120].

However, there are two major barriers to consider when trying to finalise leagues' investments, particularly in the European football ecosystem.

The first is related to the involvement of the minority investor in the league governance decisions. The quality of a league's product is intrinsically linked to sporting factors (e.g., participation of the world's most popular/followed clubs, presence of the world's greatest players, foreign player quotas etc.) and business factors (e.g., matchday experience, perceived quality of broadcasting production etc.). In this sense, investors seeking higher financial returns may wish to be involved in decisions that affect sporting factors, but leagues and clubs may be hesitant to let a non-sporting participation stakeholder in these discussions[121].

The second barrier, instead, is related to the distribution of revenues from commercial rights. Traditionally, league bodies have been tasked with maximizing the value obtained from commercial rights. Then, the majority of the revenue generated has always been distributed to the clubs, with the league retaining a minority amount to cover running costs. The problem of a PE investment is that it would introduce a third stakeholder to share in revenue generated. Therefore, to let the funds entering the leagues, clubs should be persuaded that the same, or perhaps higher, distributions would be made available to them as participant clubs, despite the fact that a third party will take a portion of their share[122].

These two issues are the main reasons why many of the potential deals between European football national leagues and PE firms, which have been extensively talked about in the last year and a half, are still under negotiations to date or have been declined.

In this sense, the most emblematic case is that of *Serie A*. CVC Capital Partners ("**CVC**"), Advent International and *FSI* are the three funds interested in jointly acquiring a minority stake (equal to 10%) in a *Serie A*'s new company which will control its media rights,

[120] Financial Times - Scoreboard. The battle to buy a football league: Private equity contest for Italy's Serie A.
[121] Deloitte, Annual Review of Football Finance 2021.
[122] Deloitte, Annual Review of Football Finance 2021.

for a €1.7 billion consideration (therefore valuing the 100% of the set-up media company equal to €17 billion). The deal would be structured to leave the sporting decisions to the clubs, with PE funds that take the commercial control. However, for all the reasons mentioned above, the deal has not yet been finalized.

Despite the overall poor performance of Italian football in the recent years, *Serie A* bear a lot of potential for investors. The country boasts one of the most illustrious and prominent football histories and cultures: an abundance of national and club trophies, iconic players, top coaches, and well-known clubs – all valuable advantages when branding is a key factor in a possible transaction. Moreover, the market is big, with a population of over 60 million people, most of whom follow football passionately. In this sense, PE funds have set out an ambitious plan aimed at reversing the trend of the previous two decades, when Italy's top competition fell behind the English Premier League, Spain's *LaLiga*, and Germany's *Bundesliga* in terms of revenue and television broadcasting viewership[123].

As regards *Bundesliga*, instead, the reasons that led German clubs to decline a deal similar to the one under negotiations in Italy have been quite different. In this case, the German *DFL* was said to be in talks with PE firms about a minority equity stake in two newly formed subsidiaries, including one that would be granted a license to both the Bundesliga and *2.Bundesliga*'s international media and commercial rights, as well as the rights to operate and distribute the *Bundesliga*'s Over-The-Top ("**OTT**") platform[124]. The offer reportedly drew over 30 possible bidders (including CVC Capital Partners, Bridgepoint, Intermediate Capital Group and KKR), but after careful consideration, the *Bundesliga* and *2.Bundesliga* teams declared in May 2021 that they would not pursue it further for the time being[125]. The failure of the plans came in the wake of the rapid collapse of the European Super League project, which provoked controversy over the role of institutional investors in football and a reaction from fans. Furthermore, the "50+1" ownership rule in German football implies that most clubs are owned by their members, thereby giving fans a major influence in how they are managed. Lastly, Germany's clubs felt they were in a strong enough position to reject the deal since they are less

[123] Financial Times. Private equity groups tackle challenge to relaunch Serie A. 23 July 2020.
[124] OTT describes a transmission form in which content is delivered directly to the end user via the internet—over the top of the traditional media distributors' given infrastructure. Examples of OTT service providers in the football industry are Amazon Prime in the UK or DAZN in Germany and Italy.
[125] Deloitte, Annual Review of Football Finance 2021.

indebted than many of their European counterparts and because the distribution of vaccinations was increasing prospects for more fans returning to the stadiums[126].

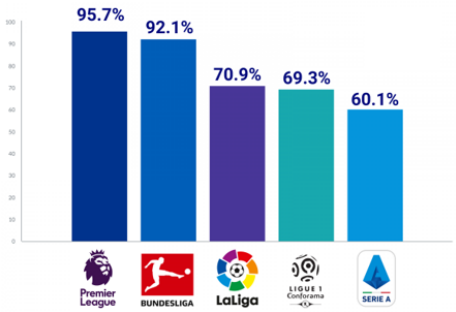
In Spain, on the other hand, the potential entrance of PE funds into the league is in a more advanced state. Specifically, CVC Capital Partners is set to make its first major football investment by paying €2.7 billion for a minority stake (around 10%) in Spain's top league, *LaLiga*. According to *LaLiga*, "*it is an ambitious investment plan that will provide LaLiga and the clubs with resources with the aim of continuing the transformation towards a global digital entertainment company, strengthening the competition and transforming the experience of the fans*". The deal, which values *LaLiga* at €24.2 billion, will mainly be used to boost the league's digital and worldwide expansion initiatives. The goal of the Spanish football league, indeed, is to close the gap with the Premier League's financial model and eventually overtake it[127].

As already mentioned, institutional investments into individual clubs are more established than minorities acquisition of national leagues in the European football industry to date. *Figure 14* provides a list of the European football clubs currently owned by institutional investors, even if there are many new deals which are being negotiated every day[128]. At a glance, it is possible to notice a tendency to minority investments, as for the entrances in the leagues. The goal of the following analysis is not to describe the specific drivers behind every single club's investment. It is, instead, to investigate which are the key drivers and investment criteria for investment funds when considering to acquire a stake in a club among the different European leagues (with focus, specifically, on the "big fives").


*(Figure 14: Examples of institutional investment into European football, Deloitte, 2021)*

[126] Financial Times. Bundesliga clubs vote against private equity investment. 19 May 2021.
[127] Private Equity Insights. Spain's top football league agrees to €2.7 bn private equity investment. 4 August 2021.
[128] It should be added to this list also the acquisition of Genoa CFC by 777 Partners, a Miami-based alternative investment firm, dated 23/09/2021.

With regard to the Italian landscape, investments in *Serie A* football clubs seems to be interesting, as they are less expensive than other major leagues' clubs: indeed, among the top 32 most valuable European clubs, the six Italian teams are worth around half of what the Spanish clubs are worth, and just a third of what the English Premier League clubs are worth. Although *Serie A* clubs perform poorly in commercial operations, they present more opportunities compared to the other major leagues' clubs concerning matchday income. Even though ticket prices and stadium capacity limit this revenue line, Italian stadiums provide a lot of space for growth and revenue generation for potential investors, having relatively cheaper tickets and several old and big stadiums with lower utilization figures (as reported in *Figure 15*)[129]. In this sense the infrastructure's opportunity, through the construction of new stadiums or the upgrading of the current ones, represents probably the key driver of investment in the Italian football ecosystem.




*(Figure 15: Average stadium utilisation rates in the past 5 years before Covid-19, KPMG Football Benchmark)*

The German *Bundesliga*, instead, is an exception in the European investment landscape of private equity funds, since it has not (yet) allowed external stakeholders to possess a majority share of a club's ownership structure. Traditionally, sport clubs in Germany were solely owned by members' associations (also known as "**registered associations**"). Private ownership was not permitted, and they were completely controlled by their members. Running a club as a registered association meant they were non-profit organizations by definition, and so eligible for a lower tax rate. However, as football has become more professional over the years, a new rule was implemented in 1998 that enabled clubs to separate their professional football teams

[129] KPMG Football Benchmark. Foreign investors in European football - can Italy become the next preferred target? 25 February 2020.

and turn them into profit-making public or private limited companies. This regulation, also known as the "50+1 rule", says that registered associations, and by extension its members, must control a majority of the voting rights in a football club - 50% plus one vote. The rule prevents private investors or companies from owning a majority stake in a German football club, thereby prohibiting private investors from gaining control of the club and prioritizing profit over the needs and requirements of members[130].

Moving to the England landscape, the Premier League has a reputation for being one of the most exciting and competitive leagues in the world, and its television rights' deals have grown substantially in the past decade, to dwarf those of its European competitors. At the same time, English clubs are also well positioned as regards matchday and commercial revenues. The prominence of the Premier League, however, is reflected in clubs' valuations, with an average EV which is well above that of Spanish, French or Italian top clubs.

The French *Ligue 1* appears to be increasingly appealing to foreign investors, as it has the least expensive clubs among the top five leagues. Indeed, around the last several years, there have been over 15 foreign majority buy-ins, the most of which were in the region of €10-20 million. Nevertheless, recent transactions like as the purchase of 20% of *Lyon* by Chinese IDG Capital Partners, *Nice* by British energy group INEOS, and *Bordeaux* by General American Capital Partners – all for approximately €100 million – show that top-tier French clubs do provide chances for foreign investors[131].

To conclude the overview of the big five leagues, the Spanish market has been busier than ever recently, with even some second-tier teams changing ownership. Thanks to an internal FFP regulation applied in recent years, Spanish clubs have become more sustainable and profitable, increasing their appeal to institutional investors[132]. One of the rules recently introduced in the Spanish league consists in a "salary cap", or more technically a "cost limit of the sports squad". In essence, it is a spending limit that each club proposes and justifies, within the budget available, leaving *LaLiga* Validation Authority with the task of approving the proposed threshold. The Authority may also ask to adjust the threshold to obtain an amount that guarantees the club's financial stability, if this limit is not considered adequate[133].

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[130] KPMG Football Benchmark. The 50+1 rule in the Bundesliga – Strength or weakness? 31 March 2020.

[131] KPMG Football Benchmark. Foreign investors in European football - can Italy become the next preferred target? 25 February 2020.

[132] KPMG Football Benchmark. Foreign investors in European football - can Italy become the next preferred target? 25 February 2020.

[133] Calcio e Finanza. Come funziona il salary cap che ha fatto saltare il rinnovo Messi-Barça. 5 August 2021.

## 3. A Case Study: the acquisition of AC Milan by Elliott Management Corporation

The third chapter of the dissertation will provide the analysis of a case study to support, with empirical evidence, the arguments presented in the previous chapters. The object of the case study will be the acquisition of *AC Milan* by Elliott hedge fund.

First, the chapter will provide an overview of the deal, with focus on its structure, the different players involved and the drivers of the investment. In particular, the deal will be examined considering its original structuring, the subsequent entry of Elliott and its definitive establishment.

The analysis will then be supported by the valuation of AC Milan at an assumptive exit date of the hedge fund, with the goal of estimating Elliott's potential return on the investment. First, an analysis of the historical performance of the club will be conducted. In this context, an elaboration of the historical key financials of the club will be performed, based on the analysis of *AC Milan*'s Financial Statements between 2011 and 2020.

On the basis of the historical performance analysis, the main strategic perspectives and the key drivers of the investment, a business plan will then be drafted, in order to estimate the potential growth pattern of the club in the medium-long term. In this sense, the estimation of the expected revenues at the exit date will be crucial for the application of the chosen valuation method, which is the revenue multiple method.

The EV/revenue multiple will be estimated both from a panel of comparable transactions (main method) and from a panel of comparable listed companies (control method). Once having estimated both the multiple and the expected revenue, it will possible to forecast the club's EV and equity value at the exit date. The chapter will end with the calculation of the potential IRR on the investment.

### *3.1 Overview of the transaction*

The aim of this section is to provide a detailed overview of the complex and controversial transaction in which the well-known Italian football club, *AC Milan*, was involved between 2016 and 2018. The original parts involved in the deal were, on the buy-side, the Chinese magnate *Yonghong Li*, through the holding company "*Rossoneri Sport Investment Lux*" and, on the sell-side, *Silvio Berlusconi*, through the holding company "*Fininvest*". However,

things turned out differently and *AC Milan* ended up, as we know, in the hands of Elliott hedge fund in July 2018. But let's proceed step by step.

### *3.1.1 The original structure of the deal*

*Associazione Calcistica Milan* is a Milan-based football club founded in 1899. Considered as the third most titled club of football history for international trophies, the club has been owned and controlled by Italian tycoon *Silvio Berlusconi* through his holding company *Fininvest* for more than 30 years. Despite its illustrious history on the pitch, *AC Milan* has never made a profit, except for three years under *Berlusconi*'s tenure[134].

In particular, in the last three years of *Berlusconi*'s presidency on average *Fininvest* has injected into *AC Milan* a sum equal to approximately €90 million per year, for a total of about €650 million in the overall years of the presidency. Having become impossible to maintain these rates of expenditure, the club has been forced to a downsizing, hoping it could start a new winning cycle with a young but still competitive team. The sale of the top players, however, inevitably have led to a gradual deterioration of results which, in turn, has had financial repercussions. *Silvio Berlusconi*, also driven by a complicated financial situation of his holding company, then decided to sell *AC Milan*.

*Fininvest* publicly announced on 13th April 2017 that the agreement signed on 5 August 2016, involving the transfer of *Fininvest*'s entire stake in *AC Milan*, equal to 99.93 %, to the holding *Rossoneri Sport Investment Lux*, represented by *David Han Li* and *Yonghong Li*, has been fully implemented[135]. In addition to these two leading figures, other investors will participate in the consortium, specifically private and publicly owned Chinese companies engaged in the financial and industrial sector. Chinese investors will channel the necessary funds within a vehicle company called *Sino Europe Sports Investment Management Changxing Co. Ltd.* ("**SES**").

*AC Milan* has been valued at an EV of €740 million, with total Net Debt of around €220 million. The 740 million needed for the closing were structured as follows:

- €520 million needed for the purchase of 99.93% of *AC Milan*.
- €100 million for the capital increase of *AC Milan*.

[134] Bocconi Students Investment Club. Milanese football in Chinese hands: a closer look at the acquisition of AC Milan. 23 April 2017.
[135] Bocconi Students Investment Club. Milanese football in Chinese hands: a closer look at the acquisition of AC Milan. 23 April 2017.

- €70 million for the repayment of the shareholder loan granted by *Fininvest* to *AC Milan*.

- €50 million for the loan of *Rossoneri Lux* members to *AC Milan*.

In addition, there is a commitment of the new property in terms of investment, with a recapitalisation of €350 million to strengthen the club both financially and on the pitch.

However, both the modalities and the origin of the money raised some doubts. Primarily, because three deposits have been paid before arriving at the closing with the missing capital, and secondly, because the deposits had disparate origins, coming from different offshore companies.

In August 2016 *Mr. Li*'s investment vehicle (SES) signed a preliminary contract with *Fininvest* and paid €15 million of the first €100 million deposit. In September 2016, the remaining €85 million were paid[136].

*Fininvest* then received the second €100 million tranche of deposits in December 2016. *Huarong International Financial Holdings*, located in Hong Kong, was expected to receive the funds through *Willy Shine*, a British Virgin Islands-based holding company. *Mr. Li*'s net worth in China was used to finance the loan, which consisted of shareholdings in various local construction and packaging firms worth a total of €500 million[137].

Then *Fininvest* expected to receive the third and final €100 million deposit before the closing in March 2017. According to *Sky Sport Italia*, *Rossoneri Sport Investment Lux* paid a total of €50 million, a few days late, in two separate tranches of €20 and €30 million. This money came from *Mr. Li*'s offshore funds, which are held by the vehicle *Rossoneri Advanced Company Limited*, also headquartered in the British Virgin Islands. *Mr. Li* paid *Fininvest* after transferring the funds to Luxembourg via Hong Kong. The Chinese businessman promised to pay the remaining €50 million on the closing day, which had been postponed to April 13 at the time[138].

However, *Mr. Li* faced many difficulties in raising the necessary capital to finalize the closing on April 13. The problem arose when Chinese legislation, after having reached the record sum of $170 billion of foreign direct investments in 2016, was passed for significant

[136] Bocconi Students Investment Club. Milanese football in Chinese hands: a closer look at the acquisition of AC Milan. 23 April 2017.

[137] Bocconi Students Investment Club. Milanese football in Chinese hands: a closer look at the acquisition of AC Milan. 23 April 2017.

[138] Bocconi Students Investment Club. Milanese football in Chinese hands: a closer look at the acquisition of AC Milan. 23 April 2017.

restrictions on the exit of capital from the country toward sectors not considered strategic for the nation (such as the acquisition of football clubs). The fact that such limitations could have further exacerbated over time (with restrictions also on the necessary investments for the maintenance of a football club once purchased), has inevitably changed the scenarios of the operation. This led most of the consortium's investors to withdraw after the first deposits had already been made by *Yonghong Li*, significantly reducing the capital available to *Sino Europe Sports*.

However, the parties were absolutely interested in closing the deal, with *Fininvest* which was in great difficulty at that time due to *Vivendi*'s hostile takeover of *Mediaset*, and *Mr. Li* who, forced to search either for a new partner to share the operation with him, or a financier, in order not to lose the deposits which had already been paid.

The turning point came with the entry of Elliott fund into the operation, which decided to finance *Rossoneri Sports Investment Lux* with the remaining portion capital required at the closing (i.e., €303 million). *Huarong International Financial Holdings* has financed about €140m of the remaining €190m, along with *Mr. Li*'s offshore funds, worth about €50m (the second part of the €100 tranche of *Rossoneri Advanced Company Limited*).

*Figure 16* provides a final and simple schematization of the sources of capital used to complete the transaction.


*(Figure 16: Sources of capital used for the transaction, Corriere della Sera, 2018)*[139]

There are some questions that might come naturally to the reader at this point: Will *Mr. Li* be able, once left "alone", to repay the debt contracted with Elliott fund? Why did the fund lend so much money to a person who turns out to have a wealth of €500 million, and practically all invested in the operation? What guarantees have been given to Elliott?

[139] Corriere della Sera. La cassaforte che ha comprato il Milan era già vuota. 18 February 2018.

### *3.1.2 The entry of Elliott's fund*

Elliott fund has contributed to the initial turning point of this complex and controversial operation, financing to *Mr. Li* with the remaining portion of capital to successfully close the acquisition of 99.93% of AC Milan.

Founded in 1977, Elliott Investment Management L.P. is one of the oldest and longest-running fund managers in the industry. The firm employs a multi-strategy trading approach that includes equity-oriented, private equity and private credit, distressed securities, non-distressed debt, hedge/arbitrage, real estate-related securities, commodities trading, and portfolio volatility protection, among other strategies. Elliott manages about $48 billion in assets as of June 30, 2021. In its Florida headquarters and associated offices around the United States, Europe, and Asia, the firm employs 472 people, including 168 investment professionals[140].

Analysing in more detail Elliott fund's loan, it took the form of a bridge financing (whose definition and functioning are explained in chapter 1.3.4 of the dissertation). Specifically, the American hedge fund financing to *Rossoneri Sport Investment Lux* took place in two tranches: €180m, financed the final payment to *Fininvest* on the closing day; the second part, worth around €123 million, has been instead issued by *AC Milan* directly. In particular, €73 million of the second part will be used to repay bank loans, while the remaining €50 million will be used to strengthen the club[141].

In order to lend the money to *Mr. Li*, another Luxembourg-based ad hoc vehicle, called *Project Redblack*, was created. For the creation of this company the fund has also relied on the London-based private equity fund "*Blue Skye*" of the Neapolitan entrepreneurs *Gianluca D'Avanzo* and *Salvatore Cerchione*. The set-up company, *Project Redblack*, was specifically owned by *Blue Skye* and two Delaware companies owned by Elliott. *Project Redblack* was a key loan vehicle for the successful closing the operation, being the vehicle that transferred €303 million to *Rossoneri Sport Investment Lux*, which acquired 99.93% of *AC Milan* shares.

Because of the high risk related to the financing, the applied interest rates have been very high: specifically, equal to 11.5% on the first €180 million issued by *Rossoneri Sport Investment Lux*, and 7.7 % on the remaining €123 million. Overall, Elliott fund would have received around €30.2 million in yearly interest, with about €20.7 million coming from *Mr. Li*'s

[140] Elliott Investment Management L.P. official website.

[141] Bocconi Students Investment Club. Milanese football in Chinese hands: a closer look at the acquisition of AC Milan. 23 April 2017.

Luxembourgian vehicle and the remainder, about €9.5 million, coming from *AC Milan*'s loan[142].

The maturity of the loans was unclear. The original indiscretion was said to be an 18-month maturity. However, according to Italian writer *Pasquale Campopiano*, the term should be actually five years, at least for the €123 million granted by *AC Milan*. Regardless of the maturity, the fund has placed some conditions on both financial and sporting management that must be respected. In this sense, Elliott will closely monitor *AC Milan*'s financial accounts every two months, being able to obtain information regarding discrepancies between budgeted and actual accounts through managerial reports and meetings with management. Moreover, an ad hoc committee has also been formed by the hedge fund to oversee the financial performance and the management of the club, with *Mr. Salvatore Cerchione* participating in *AC Milan*'s BOD with the function of observer in the interests of Elliott, and *Mr. Paolo Scaroni*, former CEO of *ENI* and Deputy Chairman of Rothschild. In particular, the conditions were meant to monitor that the overall squad value did not fall below an established minimum level. In fact, with the same rationale of a standard LBO transaction in which the acquirer may sell the target's assets in case the FCFs generated by the target are not sufficient to repay the debt incurred, in the football field the acquirer could have sold the players in order to obtain the resources in case it would have been unable to repay the loan.

The reason of these stringent controls is that, in case of default on the reimbursement of these loans, Elliott would have called the pledge of all the shares of *Rossoneri Sport Investment Lux*, taking control of *AC Milan*. Therefore, realizing that the chances that the Chinese entrepreneur would not be able to repay the debt were high, the fund wanted to protect its investment, having a healthy and attractive company both for a possible sale and for direct management in the event that it would have to call in the pledge.

Article 6.4 of the Statute of *Rossoneri Sport Investment Lux* states the clause that allows Elliott to become the owner of the company:

"*In accordance with article 9 of the Luxembourg law dated 5 August 2005 in financial collateral arrangements, the voting rights attaching to the shares may be exercised by any person in favour of whom such shares have been pledged (the Pledgee) subject to and in accordance with the relevant pledge agreement. The Pledgee may, in accordance with the relevant pledge agreement, also exercise all rights of the relevant shareholder in relation to*

[142] Bocconi Students Investment Club. Milanese football in Chinese hands: a closer look at the acquisition of AC Milan. 23 April 2017.

*the convening of a meeting of shareholders or the adoption of shareholder resolutions, including, for the avoidance of doubt, the right to request the board of managers to convene a meeting of shareholders and to request items to be added to the agenda, and to propose and adopt resolutions in written form. Any such agreement between a shareholder, the Pledgee and the Company governing the above rights shall be given effect to by the Company. Once the Pledgee has elected to exercise the above rights, only the Pledgee shall be entitled to exercise or direct the exercise of the voting rights or any other rights attached to pledged shares in any way it deems fit, including the voting rights in respect of the appointment and/or removal of all the managers of the Company. For reference to a "Pledgee" in these Articles shall be deemed to include Project Redblack Sarl and any of its assignees, successors and transferees*".

The mentioned Article 9 of the Luxembourg Law of the 05/08/2005 (updated on 20/05/2011) is reported below:

"*The assignment of the rights attached to the pledged financial instruments is governed by the parties' agreement. In absence of contrary agreement, these rights remain with the collateral provider, except if a right of use has been granted to the pledgee in which case these rights accrue in his favour*".

The Elliott Fund, with the pledge provided for in Article 6.4 of the Statute of *Rossoneri Sport Investment Lux*, to which Luxembourg legislation is applied, is protected against the possible "escape with the money" of the debtor foreclosing the underlying with a collateral on the accounts and shares of the club.

In addition, there is another clause which shows Elliott's interest in the acquisition of *AC Milan*, provided in Article 9.8 of the Statute, according to which *Mr. Li* may not decide to sell the underlying to a subject not liked by Elliott. This way, unwelcomed investors cannot enter into partnership with *Yonghong Li* and acquire the ownership of the club, in case the Chinese entrepreneur would be unable to repay the debt.

Moreover, according to Article 6.4, the pledgee, which is *Project Redblack*, and indirectly Elliott, could have exercised the voting rights in the shareholders' meeting in place of the debtor (*Mr. Li*) in case of default, with the possibility to eventually vote a proposal to purchase *AC Milan*, without having to go to court. This represents an absolute legitimate legal virtuosity since, as provided for by Luxembourg law, the country in which the vehicle in question is located, the creditor can replace the voting rights of the debtor at the general meeting, and therefore affect the decisions of the BOD of the parent company, making himself free to choose the best offer for the satisfaction of his credit. In this way, the prohibition of a commission agreement (in Italy it is called "*Patto Commissorio*", art. 2078 c.c.) would be

respected, since the creditor would not have the direct availability of the pledge (which is under Italian regulation) but, thanks to a collateral agreement, only of the vehicle owner of the pledge (to which Luxembourg legislation is applied). The collateral agreement would have been highly at risk in Italy, since the debtor is expropriated from his shareholders' meeting rights, while in Luxembourg it is governed by a specific law (the mentioned Article 9 of the 05/08/2005 Law).

Thereby, it is clear that Elliott's entry in the operation has happened because the hedge fund has smelled the possibility of a great deal. Indeed, any of the two possible outcomes related to the loan would have represented a profit for the fund:

- If *Yonghong Li* would not have been able to repay its debt, the fund would have had significant gains resulting from the credit risk assumed with the loan of €303 million. The gains, indeed, would have been equal to approximately €30 million (being the interest rates on the €180 million loaned to *Rossoneri Sports Investment Lux* for the closing and on the €123 loaned to *AC Milan* respectively equal to 11.5% and 7,7%).
- Otherwise, the fund could have gone ahead with the enforcement of the pledge and become the owner of *AC Milan*, with the possibility to decide whether to actively manage it and decide what to do next or sell it immediately trying to find an agreement exceeding the €303 million loaned.

There is a further peculiarity affecting the dynamics. *Yonghong Li*, as mentioned several times, was supported by Elliott in the acquisition through the bridge loan of €303 million. At a later stage, in the period between May and June 2018, the Chinese entrepreneur had to put €32 million into the accounts of the company, which were necessary for a capital increase, but he did not have this money at his disposal. In his place it was the Elliott fund that carried out to this charge which, unlike the loan already granted, had a different maturity: July 6, 2018. In the situation that *Yonghong Li* would not have paid the sum by that date, Elliott could have called in the pledge. And this is exactly what happened, with the *Project Redblack* becoming the owner of *AC Milan* on July 10, 2018.

On July 10, 2018, the New York based hedge fund released an official statement outlining that they have taken control and included some of their plans for the club: "*Ownership and control of the holding company that owns AC Milan has today been transferred to funds advised by Elliott Advisors (UK) Limited ("Elliott"). This transfer has occurred as a result of steps taken to enforce Elliott's security interests after the*

*previous owner of AC Milan defaulted on its debt obligations to Elliott. Having assumed control, Elliott's vision for AC Milan is straightforward: to create financial stability and establish sound management; to achieve long-term success for AC Milan by focusing on the fundamentals and ensuring that the club is well-capitalized; and to run a sustainable operating model that respects UEFA Financial Fair Play regulations. Elliott fully appreciates the challenge and responsibility that ownership of this great institution entails. Elliott is pleased not only to support the club during this difficult time, but also by the challenge of achieving ambitious objectives in the future via the on-field success of coach Gattuso and his players. As first measures, Elliott intends to inject €50 million of equity capital to stabilize the club's finances, and plans to inject further capital over time to continue to fund AC Milan's transformation. Financial support, stability, and proper oversight are necessary prerequisites for on-field success and a world-class fan experience. Elliott looks forward to the challenge of realising the club's potential and returning the club to the pantheon of top European football clubs where it rightly belongs. Elliott also strongly believes in the value-creation opportunity at AC Milan*".

### *3.1.3 Elliott's establishment in the club*

The entry of *AC Milan* by Elliott fund took place in June 2018, when UEFA's Financial Fair Play policy represented a key concern regarding potential future revenue for the club; Elliott decided it was time to actively manage the company, so that the investment would have not lose value.

At that time there was the risk of a significant reduction in the company's value, because it had just been sanctioned by UEFA for not meeting the parameters imposed by the Financial Fair Play in seasons 14/15, 15/16 and 16/17, with the new property that had failed to find an agreement with UEFA. In fact, since the first day of settlement of the Chinese property, the appointed managing director of *AC Milan*, *Marco Fassone*, tried to find an agreement with UEFA based on the reduction the expected losses with a substantial increase in revenues, through excellent sports results that would have increased broadcasting revenues and sponsorships. The plan included a significant expansion of the *AC Milan* brand in China and more generally in the Asian continent, which according to the new property would have led to hundreds of millions from sponsorships and an increase in brand value.

However, UEFA has always been sceptical about the business plan presented by *AC Milan*, believing that the revenues that would have come from China were significantly overrated (in hindsight UEFA was right).

There are three stages of judgment by UEFA: i) Voluntary Agreement, ii) Settlement Agreement and iii) Adjudicatory Chamber.

According to the first procedure, UEFA can allow a club with a new property to deviate from the aforementioned FFP parameters. The required condition is the presence of a credible 3 to 5 years business plan that indicates how the club will be able to increase revenue and reduce losses.

After having been rejected by the Voluntary Agreement, *AC Milan* was called to look for a second level agreement, with UEFA imposing certain constraints to the club like: to have capital gains each year, to recover losses and to achieve a balanced budget within a few years, in addition to a monetary fine and a sporting penalty, such as the reduction of the list of eligible players for European competitions. However, the club was in a really adverse economic situation, aggravated by the fact that during the period in which UEFA carried out its evaluations (between the end of 2017 and the beginning of 2018), sporting results were disappointing despite the huge investments, and there was no good news from China, not from the government for the release of funds, nor for the estimated revenues from the entry of *AC Milan* in the market (from the expected €250 million they have reached an actual revenue of about €20 million).

So, they passed to the third level of judgment, the one due to UEFA Adjudicatory Chamber. Being perceived as an unreliable company and the risk of greater penalties such as fines worth millions and, above all, the exclusion European competitions, would have been a huge damage for a club like *AC Milan*, which has made history of European success. However, on July 2, the decision of the Adjudicatory Chamber was negative, with the club excluded from European competitions for a year.

It was at this moment that Elliott fund came in. The club decided to appeal to the Court of Arbitration of the Sport ("**CAS**") of Lausanne, with the hearing for the appeal set for July 19. This explained the different maturity of the new €32 million loan: Elliott, aware that the risk of a negative judgment by UEFA on the management of the club was high, fixed an intermediate date between the judgment of the Adjudicatory Chamber and the possible appeal to the CAS as the maturity of the loan (i.e., July 6), in order to be able to take charge of the situation if necessary.

As also stated in the official press release when the fund took control of the club, on July 19 Elliott confirmed the commitment to a medium-long term project, based on "*the creation of financial stability and the establishment of sound management, in addition to the running of a sustainable operating model that respects UEFA Financial Fair Play regulations*". As confirmation of this, Elliott planned to immediately inject €50 million of equity capital to stabilize the club's finances and planned to inject further capital over time to continue to fund the club's transformation. The ultimate goal is to return the club to the pantheon of top European football clubs, but in a forward-looking and sustainable way.

On 20 July 2018, CAS announced that it had accepted AC Milan's appeal and send the club back to UEFA, to try to arrive at a Settlement Agreement proportional to the real financial situation of the club.

As soon as the appeal to CAS was won, Elliott decided to completely change the main figures of the old management:

- *Yonghong Li* was replaced with *Paolo Scaroni*, who was appointed as Chairman of the BOD. Former CEO of *ENEL* (2002-2005) and *ENI* (2005-2014), as well as Vice President of Rothschild since 2014 and non-executive Vice President of London Stock Exchange Group, *Paolo Scaroni* is also in the BODs of *Assicurazioni Generali* and *Veolia Environment*.
- The former CEO *Marco Fassone* was replaced at first by *Paolo Scaroni* himself, as executive Chairman, then, from 5 December 2018, the new CEO became *Ivan Gazidis*, the former CEO of Arsenal. The South African manager contributed to an exponential economic growth of the club over his nine years at Arsenal, with a substantial increase in revenue from €263 million before his entry to more than €487 million. From 2001 to 2008 he was also Deputy Commissioner of the MLS, tasked with overseeing the marketing and business development of the league.
- *Massimiliano Mirabelli*, former sports director, was replaced by two figures, a technical and a sports director, respectively *Leonardo* and *Paolo Maldini*, two great former AC Milan players.

Towards the end 2020 there was a rumour according to which *Project Redblack* (and indirectly *AC Milan*) was not really controlled by Elliott hedge fund, but the real owner was the London-based private equity fund *Blue Skye* of the Neapolitan entrepreneurs *Gianluca D'Avanzo* and *Salvatore Cerchione*. The Elliott fund entered the capital of *Project Redblack*

taking over all Class A shares through two Delaware-based vehicle companies, called *King George* and *Genio*, while *Blue Skye* took over all Class B and Class C shares.

Looking at *Table 1*, the distribution of share capital on April 10, 2017, was as follows:

| **Shareholder** | **N° of shares** | **Shares' class** | **%** |
|---|---|---|---|
| King George (Elliott) | 4.079 | A | 33,99% |
| Genio (Elliott) | 1.920 | A | 16,00% |
| **Total Elliott** | **5.999** | **A** | **49,99%** |
| Blue Skye | 512 | B | 4,27% |
| Blue Skye | 5.489 | C | 45,74% |
| **Total Blue Skye** | **6.001** | | **50,01%** |
| **TOTAL** | **12.000** | | **100,00%** |

*(Table 1: Project Redblack share capital on April 10, 2017)*[143]

*Project Redblack*'s shareholding has then partially changed in June 2020 following a remodelling of the weights between the two vehicles used by the fund Elliott.

| **Shareholder** | **N° of shares** | **Shares' class** | **%** |
|---|---|---|---|
| King George (Elliott) | 4.199 | A | 34,99% |
| Genio (Elliott) | 1.800 | A | 15,00% |
| **Total Elliott** | **5.999** | **A** | **49,99%** |
| Blue Skye | 512 | B | 4,27% |
| Blue Skye | 5.489 | C | 45,74% |
| **Total Blue Skye** | **6.001** | | **50,01%** |
| **TOTAL** | **12.000** | | **100,00%** |

*(Table 2: Project Redblack share capital, June 2020)*[144]

At first glance, it would therefore seem that *Blue Skye*, thanks to 50.01% of the capital, holds the majority of economic and voting rights in *Project Redblack*, making the company

[143] Based on Project Redblack Financial Statements of 2017.
[144] Based on Project Redblack Financial Statements of 2020.

effectively led by *Salvatore Cerchione* and *Gianluca D'Avanzo* the main shareholder of *AC Milan*. However, after a more in-depth analysis of the governance of *Project Redblack*, the company's financial statements and the documents deposited in Luxembourg, it becomes clear that the weight of the Elliott Fund, both in terms of economic rights and in terms of voting rights, is far superior to that of *Blue Skye*[145].

In fact, the tables above display the distribution of the capital of *Project Redblack* at nominal level, without taking into account the different governance rights associated with the different categories of securities and without considering the rights (and charges) associated with the different categories of shares. The first aspect to consider concerns the capital injections by Elliott and *Blue Skye* to *Project Redblack*. By analysing the composition of the equity of the Luxembourg company, the share premium reserve amounted to €33.88 million in 2019. Who between Elliott and *Blue Skye*, and in what proportions, injected the €33.88 million into the accounts of *Project Redblack* from 2017 to 2019?[146]

The Statute of the Luxembourg company states that there are only two separate accounts for receiving share premium payments: an account for Class A securities (those held by Elliott's vehicles), and an account for Class B securities (those held by *Blue Skye*). Class C shares, on the other hand, are held by *Cerchione* and *D'Avanzo* but on which Elliott, under a "securities agreement" signed on 10 April 2017, held a call option (exercisable at €1) to buy them out and then turn them into Class A shares. They do not have a deposit account for receiving share premium payments. Thus, by eliminating from the calculation Class C shares, it could be concluded that the €33,8 million was disbursed by Elliott and *Blue Skye* in proportion to their shareholdings measured exclusively on Class A and Class B securities. In this sense, the proportions of the payments are shown in *Table 3*[147]:

| **Share premium payments** | **Amount** | **%** |
|---|---|---|
| Elliott | €32.417.978,77 | 95,73% |
| Blue Skye | €1.467.276,04 | 4,27% |
| **Total payments** | **€33.885.254,81** | **100%** |

*(Table 3: Project Redblack share premium reserve, 31 December 2019)*

[145] Calcio e Finanza. Ecco perché è il fondo Elliott a controllare il Milan. 16 November 2020.
[146] Calcio e Finanza. Ecco perché è il fondo Elliott a controllare il Milan. 16 November 2020.
[147] Calcio e Finanza. Ecco perché è il fondo Elliott a controllare il Milan. 16 November 2020.

As regards *Project Redblack*'s governance, the statute provides that the company is managed by a board of three directors: two nominated by Class A shareholders (including the Chairman of the Board of Directors), one appointed by Class B shareholders. Class C shares do not allow the appointment of directors. The decisions of the Board of Directors of *Project Redblack* are validly taken with the favourable vote of the majority of the directors present or represented. Moreover, two directors appointed by Class A shareholders must vote in favour. Having two out of three directors on the board, Elliott fund can then decide independently on the ordinary management of the Luxembourg company, its subsidiaries in Luxembourg and *AC Milan*[148].

In any case, on 30 November 2020 Elliott fund completed the reorganization in *Project Redblack*, following the exercise (at a cost of one euro) of the call option on Class C shares and the transfer of this Class of shares from *Blue Skye* to *King George LLC* (one of the two Delaware-based vehicles controlled by Elliott)[149]. The fund has also adapted the statute of *Project Redblack*, with the new distribution of the capital which is as follows:

| **Shareholder** | **N° of shares** | **Shares' class** | **%** |
|---|---|---|---|
| King George (Elliott) | 8.041 | A | 67,00% |
| Genio (Elliott) | 3.447 | A | 28,73% |
| **Total Elliott** | **11.488** | **A** | **95,73%** |
| Blue Skye | 512 | B | 4,27% |
| **TOTAL** | **12.000** | | **100,00%** |

*(Table 4: Project Redblack share capital, November 2020)*[150]

[148] Calcio e Finanza. Ecco perché è il fondo Elliott a controllare il Milan. 16 November 2020.
[149] Calcio e Finanza. Milan, Elliott completa il riassetto in Project RedBlack. 19 February 2021.
[150] Calcio e Finanza. Milan, Elliott completa il riassetto in Project RedBlack. 19 February 2021.

## *3.2 The valuation of AC Milan*

### *3.2.1 Historical performance analysis*

**A.C. MILAN S.P.A.**

**KEY FINANCIALS** Revenues CAGR 2011-19 >> -1,2%

| Key Financials (€m) | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Revenues** | **266,2** | **329,3** | **278,7** | **233,6** | **213,4** | **236,1** | **102,9** | **255,7** | **241,1** | **192,3** |
| *% growth* | | *23,7%* | *-15,4%* | *-16,2%* | *-8,6%* | *10,6%* | *-56,4%* | *148,6%* | *-5,7%* | *-20,2%* |
| **EBITDA** | **(20,3)** | **58,7** | **52,5** | **(6,2)** | **(35,3)** | **(9,4)** | **(3,8)** | **(11,2)** | **(42,1)** | **(82,2)** |
| *% NS* | *-7,6%* | *17,8%* | *18,8%* | *-2,7%* | *-16,5%* | *-4,0%* | *-3,7%* | *-4,4%* | *-17,4%* | *-42,7%* |
| **EBITA** | **(21,3)** | **57,7** | **51,6** | **(7,1)** | **(36,3)** | **(10,5)** | **(4,3)** | **(12,2)** | **(43,1)** | **(83,2)** |
| *% NS* | *-8,0%* | *17,5%* | *18,5%* | *-3,0%* | *-17,0%* | *-4,4%* | *-4,2%* | *-4,8%* | *-17,9%* | *-43,3%* |
| **EBIT** | **(74,3)** | **4,0** | **0,8** | **(59,1)** | **(83,0)** | **(58,2)** | **(26,9)** | **(98,7)** | **(132,3)** | **(186,6)** |
| *% NS* | *-27,9%* | *1,2%* | *0,3%* | *-25,3%* | *-38,9%* | *-24,6%* | *-26,1%* | *-38,6%* | *-54,9%* | *-97,0%* |
| **Profit (Loss)** | **(67,3)** | **(6,9)** | **(15,7)** | **(91,3)** | **(89,1)** | **(74,9)** | **(32,6)** | **(126,0)** | **(146,0)** | **(194,6)** |
| *% NS* | *-25,3%* | *-2,1%* | *-5,6%* | *-39,1%* | *-41,7%* | *-31,7%* | *-31,7%* | *-49,3%* | *-60,5%* | *-101,2%* |
| **NFP** | **290,8** | **238,3** | **247,3** | **246,8** | **188,5** | **178,4** | **129,6** | **127,0** | **83,0** | **103,9** |
| *NFP/EBITDA* | *-14,3x* | *4,1x* | *4,7x* | *-39,8x* | *-5,3x* | *-18,9x* | *-34,2x* | *-11,4x* | *-2,0x* | *-1,3x* |
| **TWC** | 20,3 | 29,8 | 19,8 | 8,6 | 9,0 | 14,3 | 3,4 | -13,2 | 4,6 | 7,0 |
| *TWC %NS* | *7,6%* | *9,1%* | *7,1%* | *3,7%* | *4,2%* | *6,1%* | *3,3%* | *-5,2%* | *1,9%* | *3,6%* |
| **NWC** | -18,0 | -4,6 | -16,0 | -2,5 | -57,2 | -40,0 | -157,8 | -160,4 | -97,7 | -72,1 |
| *NWC %NS* | *-6,8%* | *-1,4%* | *-5,7%* | *-1,1%* | *-26,8%* | *-16,9%* | *-153,4%* | *-62,7%* | *-40,5%* | *-37,5%* |
| Net Invested Capital | 213,7 | 192,4 | 189,4 | 152,6 | 155,1 | 128,0 | 110,0 | 101,0 | 166,3 | 138,0 |
| *CIN %NS* | *80,3%* | *58,4%* | *68,0%* | *65,3%* | *72,7%* | *54,2%* | *107,0%* | *39,5%* | *69,0%* | *71,8%* |
| **Capex** | | **(20,6)** | **(62,2)** | **(8,4)** | **(113,9)** | **(7,2)** | **(116,7)** | **(97,1)** | **(94,2)** | **(51,9)** |
| **Free Cash Flow** | | **19,3** | **0,9** | **(29,2)** | **(83,4)** | **(42,9)** | **(11,2)** | **(94,6)** | **(200,2)** | **(160,0)** |
| *Cash conversion rate* | | *32,9%* | *1,7%* | *-470,2%* | *-236,4%* | *-454,9%* | *-296,5%* | *-847,5%* | *-476,1%* | *-194,7%* |
| **Equity** | **(77,1)** | **(54,9)** | **(66,9)** | **(94,2)** | **(33,4)** | **(50,4)** | **30,0** | **(36,0)** | **83,3** | **34,1** |
| **DSO** | 55 | 62 | 69 | 69 | 108 | 102 | 208 | 66 | 87 | 99 |
| **DPO** | 113 | 136 | 197 | 220 | 361 | 334 | 781 | 346 | 295 | 258 |
| **DIO (COGS)** | 0 | 0 | 0 | 23 | 30 | 27 | 47 | 10 | 16 | 25 |

**FREE CASH FLOW**

| (€m) | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|---|---|---|---|
| EBITDA | **(20,3)** | **58,7** | **52,5** | **(6,2)** | **(35,3)** | **(9,4)** | **(3,8)** | **(11,2)** | **(42,1)** | **(82,2)** |
| Taxes | 13,3 | (5,9) | (2,9) | (6,7) | 5,1 | (4,9) | (2,4) | (4,8) | (3,4) | (2,2) |
| **Operating Cash Flow** | **(6,9)** | **52,8** | **49,6** | **(12,9)** | **(30,1)** | **(14,3)** | **(6,1)** | **(16,0)** | **(45,5)** | **(84,4)** |
| Delta Receivables | | (15,9) | 3,3 | 8,6 | (19,3) | (2,9) | 7,3 | 12,6 | (11,4) | 5,4 |
| Delta Payables | | 6,3 | 6,8 | 2,8 | 18,9 | (2,4) | 3,5 | 3,9 | (6,3) | (7,8) |
| Delta Inventories | | 0,0 | 0,0 | (0,3) | (0,1) | 0,1 | 0,1 | 0,1 | (0,1) | (0,1) |
| **Delta TWC** | | **(9,6)** | **10,1** | **11,1** | **(0,4)** | **(5,3)** | **10,9** | **16,6** | **(17,8)** | **(2,4)** |
| Tangible Capex | | (1,1) | 3,8 | (0,5) | (0,5) | (0,9) | (0,0) | (1,0) | (0,7) | (0,9) |
| Intangible Capex | | (27,9) | (65,4) | (13,1) | (112,8) | 0,8 | (116,1) | (87,1) | (101,7) | (51,1) |
| Financial Capex | | 8,3 | (0,6) | 5,2 | (0,5) | (7,1) | (0,5) | (9,0) | 8,3 | 0,1 |
| **Capex** | | **(20,6)** | **(62,2)** | **(8,4)** | **(113,9)** | **(7,2)** | **(116,7)** | **(97,1)** | **(94,2)** | **(51,9)** |
| Delta Intra-Group Receivables and Payables | | (1,6) | (7,8) | 19,5 | (10,2) | 5,0 | 14,1 | 0,7 | 0,1 | 0,8 |
| Delta Other Receivables and Payables | | (2,2) | 9,1 | (44,1) | 65,2 | (16,9) | 92,8 | (14,7) | (45,0) | (24,0) |
| Delta provisions for risks and charges | | 0,6 | 2,2 | 5,7 | 5,9 | (4,3) | (6,2) | 15,8 | 2,1 | 1,9 |
| Gains/Losses on Foreign Exchange | | (0,0) | (0,0) | (0,0) | 0,0 | 0,0 | 0,0 | (0,0) | 0,0 | 0,0 |
| **Free Cash Flow** | | **19,3** | **0,9** | **(29,2)** | **(83,4)** | **(42,9)** | **(11,2)** | **(94,6)** | **(200,2)** | **(160,0)** |
| *Cash conversion rate* | | *32,9%* | *1,7%* | *-470,2%* | *-236,4%* | *-454,9%* | *-296,5%* | *-847,5%* | *-476,1%* | *-194,7%* |
| Financial expenses | | (12,5) | (12,7) | (4,2) | (8,2) | (4,8) | (3,4) | (22,3) | (11,1) | (6,3) |
| Extraordinary expenses | | 7,6 | (0,9) | (21,0) | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| Changes in Shareholders' Loan | | 9,1 | 0,0 | (9,1) | 0,0 | 0,0 | (49,5) | 59,5 | (10,0) | 0,0 |
| Changes in Shareholders' Equity | | 29,0 | 3,8 | 64,0 | 149,9 | 57,8 | 113,0 | 60,0 | 265,3 | 145,5 |
| Delta Financial Debts | | (49,9) | 8,5 | (2,7) | (56,3) | (9,3) | (39,5) | 11,5 | (58,7) | 19,6 |
| **Net Cash Flow** | | **2,6** | **(0,5)** | **(2,2)** | **2,0** | **0,8** | **9,4** | **14,1** | **(14,7)** | **(1,2)** |

*(Table 5: AC Milan key financials, 2011-2020, own elaboration, Aida)*

*Table 5* provides an overview of *AC Milan*'s key financials between 30/06/2011 and 30/06/2020, based on the club's financial statements. At a glance, it is possible to see that *AC Milan*'s economic and financial situation is rather compromised, even without considering 2020, which has been heavily impacted by the Covid-19 pandemic. Because of the negative performance due to extraordinary reasons, 2020's year will not be considered as for the reference period of the following historical performance analysis.

First, there has been a negative revenues' CAGR between 2011 and 2019 (-1.2%), with a further decrease of around 20% in 2020 alone, due to the impact of the pandemic. The decrease in revenues between 2011 and 2019 (thereby not considering Covid-19's impact) is unacceptable for a prestigious club like *AC Milan*, considering that the *Serie A* clubs' aggregate revenues increased significantly in the same period, from approximately €1.5 billion in 2011 to €2.5 billion in 2019.

*Table 6* provides a comparison between *AC Milan*'s revenues in 2011 and in 2019.

**REVENUES**

| € | 30/06/2011 | 30/06/2019 |
|---|---|---|
| **Matchday** | **27.533.000** | **34.112.000** |
| *%NS* | *10,3%* | *14,1%* |
| **Commercial** | **81.435.000** | **56.847.000** |
| *%NS* | *30,6%* | *23,6%* |
| **Broadcasting** | **115.010.000** | **105.048.000** |
| *%NS* | *43,2%* | *43,6%* |
| **Player Trading** | **24.639.000** | **25.536.000** |
| *%NS* | *9,3%* | *10,6%* |
| **Other Income** | **17.546.000** | **19.575.000** |
| *%NS* | *6,6%* | *8,1%* |
| **TOTAL** | **266.163.000** | **241.118.000** |

*(Table 6: Comparison of AC Milan's revenues between 2011 and 2019, own elaboration, Aida)*

On one hand, three out of the five revenues' lines have grown during the period referenced, with the largest increase related to matchday revenues (passed from an incidence on total turnover of 10.3% to one of 14.1%), on the other, this growth has been more than compensated for by the 30% decrease of commercial revenues (with a decreasing incidence on the total turnover from 30,6% to 23,6%). This decrease is mainly linked to the reduction of revenues from merchandising and other commercial activities, while the value of sponsorships and other partnerships has remained at the same level as in 2011. However, the decrease in revenues from merchandising and other commercial activities was predictable, being that this kind of revenue line is more closely related to the sporting performance, which in the last decade

has undoubtedly been poor. Fans are more inclined to buy the team's branded material in case of excellent results, even more if such results are accompanied by the purchase of top players. Broadcasting revenues' incidence, instead, has remained flat.

Going on with the analysis of the historical performance, the reduction in turnover has been more than proportionally reflected in the EBITDA, which became twice as negative between 2011 and 2019, with a further a decrease of around 100% in 2020. The reduction was due to the simultaneous decrease in revenues and increase in operating costs, with a further negative EBITDA margin, passing from -7.6% to -17.4%.

*Table 7* provides a segmentation of the operating costs, in order to make a comparison between the 2011 and 2019's levels and the evolution of their cost structures.

**OPERATING COSTS**

| € | 30/06/2011 | 30/06/2019 |
|---|---|---|
| **Raw materials** | **(5.331.000)** | **(5.145.000)** |
| *%NS* | *-2,0%* | *-2,1%* |
| **Service costs** | **(45.646.000)** | **(50.923.000)** |
| *%NS* | *-17,1%* | *-21,1%* |
| **Hire, rental and leasing** | **(10.690.000)** | **(9.160.000)** |
| *%NS* | *-4,0%* | *-3,8%* |
| **Personnel costs** | **(206.485.000)** | **(184.822.000)** |
| *%NS* | *-77,6%* | *-76,7%* |
| **Other operating costs** | **(12.322.000)** | **(9.669.000)** |
| *%NS* | *-4,6%* | *-4,0%* |
| **Provisions for risks** | **0** | **(6.885.000)** |
| *%NS* | *0,0%* | *-2,9%* |
| **Write-off of trade receivables** | **(5.020.000)** | **(850.000)** |
| *%NS* | *-1,9%* | *-0,4%* |
| **Write-off of intangible assets** | **(351.000)** | **(1.934.000)** |
| *%NS* | *-0,1%* | *-0,8%* |
| **Player Trading** | **(585.000)** | **(13.786.000)** |
| *%NS* | *-0,2%* | *-5,7%* |
| **TOTAL** | **(286.430.000)** | **(283.174.000)** |

*(Table 7: Comparison of AC Milan's operating costs between 2011 and 2019, own elaboration, Aida)*

As shown in the table, the source of cost with the highest increasing incidence is the one related to player trading, which includes the losses on disposal of players' registration rights. This source of cost is strictly related to the sporting performance, meaning that *AC Milan* had to increase the amount of sales of players at prices lower than their book values between 2011 and 2019. In this sense, the increase of the incidence of the costs related to players' trading was accompanied by the one of the costs related to the write-offs of intangible assets. With regard to write-offs, if the recoverable amount of a fixed asset (i.e., the greater between its value in

use and its fair value) is less than its carrying amount, the fixed asset should recognised at that lower value. The difference is recognised in the income statement as write-off. Personnel expenses still represented the largest source of cost for the club in 2019, with an incidence remaining almost flat during the reference period. The same cannot be said for service costs, the second item as for impact on the cost structure, whose incidence has increased by four percentage points, from 17.1% to 21.1%. The hire, rental and leasing costs, instead, are fixed charges for the concession in use of *San Siro* stadium.

As already mentioned in the second chapter of the dissertation, a football club's asset base is mainly represented by intangible assets, whose key balance sheet's item is that related to the football players' registration rights. This explains the difference between the *AC Milan*'s EBITDA and EBIT throughout the reference period, which is mainly given by amortization instead of depreciation. Specifically, the amount of amortization has gone from approximately €53 million in 2011 to around €89 million in 2019, in line with the increase in the market values of football players over the last decade. Regarding the amount of depreciation in a football club, it may increase significantly in case of stadium ownership, although is not currently the case of *AC Milan*.

As regards to financial expenses, they have been particularly high in the 2018 and 2019 fiscal years, due to the 7.7% interest rate on the issuance of two non-convertible bonds fully underwritten by *Project Redblack*. They were also high in the 2012-2013 period, due to the high exposure to banks and the large amount of debts to factoring companies for advances on future receivables in reference to commercial contracts. Given all these considerations, the net result of the period has always been a loss during the reference period, ranging from €6.9 million in 2012 to €194.6 million in 2020, a negative record for the club.

Going on with the analysis of *AC Milan*'s key financials over the last decade, it is possible to see an overall improvement at least for the key balance sheet items.

The Net Financial Position ("**NFP**") has gradually decreased from €290.8 million in 2011 to €103.9 million in 2020. The club has virtually eliminated its exposure to banks (equal to €6 million in 2020). Specifically, the NFP of 2020 was composed of approximately €115 million of debts to factoring companies for advances on future receivables in reference to commercial contracts, and approximately €11 million of cash and cash equivalents.

As far as the Total Working Capital ("**TWC**") is concerned, trade payables and receivables are linked to the characteristic activity of purchase and supply of goods and services by the club. TWC's incidence on revenues has gradually decreased over the reference period, from 7.6% in 2011 to 3.6% in 2020. This decrease is given by the growth of the incidence of

trade payables (from 7.4% in 2011 to 23.6% in 2020), reflected in the increase of the Days Payables Outstanding ("**DPO**") from 113 days to 258 days. However, the increase in the incidence of trade payables has been partially compensated by the simultaneous increase in the incidence of trade receivables, from 15% in 2011 to approximately 27% in 2020, also reflected in the increase of the Days Sales Outstanding ("**DSO**") from 55 days to 99 days. The incidence of the inventory in a football club is almost equal to zero.

Other receivables and payables represent receivables and payables against national and foreign football clubs related to the sale and purchase of football players, and against the National Professional League for the transfers' market of the current season and/or past seasons. Their balance has been always negative between 2011 and 2020, in line with each season's net transfer. However, it is not possible to see a clear trend in the Net Working Capital ("**NWC**"); it is, in fact, an extremely volatile ratio in a football club, as it is related to the investments and divestments in football players, which vary significantly from season to season.

The last two components of the Net Invested Capital ("**NIC**") are the employee severance indemnity and the provisions for risk and charges. While the former is a fixed item linked to the personnel costs, the latter is an extremely volatile item whose movements may depend on many factors. Provisions for risks and charges include the future charges relating to the technical personnel exempted but still employed by the club, as well as the allocation of severance indemnities relating to players transferred in the summer session following the closing of the financial statements. Although it is an extremely volatile item, it has been possible to see a general increase in the provisions for risks and charges during the 2011-2020 period.

It was not possible to find a clear trend concerning Capex, which mostly depend on each season's investments/divestments for the purchase/sale of the football players. As already mentioned, when speaking in relation to depreciation, the level of tangible Capex tends to be low for a football club, unless it decides to make a large structural investment, such as the construction of a new stadium or sports center.

As opposed to the NFP, equity capital has increased between 2011 and 2020, moving from a negative value of approximately €77 million to a positive €34.1 value. In this sense, the significantly negative Free Cash Flows, which absorbed cash in each year starting from 2014, have been compensated by conspicuous capital increases (particularly since Elliott's entry in 2018).

To conclude the historical performance's analysis, the three tables on the following pages exhibit AC Milan's Financial Statements from 2011 to 2020, as a summary of what has been discussed in this section.

**BALANCE SHEET**

| € | 30/06/2011 | 30/06/2012 | 30/06/2013 | 30/06/2014 | 30/06/2015 | 30/06/2016 | 30/06/2017 | 30/06/2018 | 30/06/2019 | 30/06/2020 |
|---|---|---|---|---|---|---|---|---|---|---|
| Tangible Assets | 20.613.000 | 20.720.000 | 16.069.000 | 15.746.000 | 15.276.000 | 15.140.000 | 14.659.000 | 14.541.000 | 14.229.000 | 14.149.000 |
| Intangible Assets | 196.973.000 | 171.184.000 | 185.786.000 | 146.873.000 | 212.993.000 | 164.535.000 | 258.111.000 | 258.804.000 | 271.381.000 | 219.027.000 |
| *Players' registration rights* | *160.269.000* | *135.803.000* | *148.335.000* | *111.866.000* | *161.799.000* | *131.401.000* | *226.859.000* | *229.651.000* | *248.849.000* | *201.641.000* |
| *Other Intangible Assets* | *36.704.000* | *35.381.000* | *37.451.000* | *35.007.000* | *51.194.000* | *33.134.000* | *31.252.000* | *29.153.000* | *22.532.000* | *17.386.000* |
| Financial Assets | 16.455.000 | 8.019.000 | 8.622.000 | 3.231.000 | 754.000 | 756.000 | 1.257.000 | 10.053.000 | 2.558.000 | 3.031.000 |
| **Totale non-current Assets** | **234.041.000** | **199.923.000** | **210.477.000** | **165.850.000** | **229.023.000** | **180.431.000** | **274.027.000** | **283.398.000** | **288.168.000** | **236.207.000** |
| Trade Receivables | 39.925.000 | 55.802.000 | 52.482.000 | 43.911.000 | 63.176.000 | 66.060.000 | 58.737.000 | 46.170.000 | 57.525.000 | 52.085.000 |
| Trade Payables | (19.667.000) | (25.965.000) | (32.729.000) | (35.572.000) | (54.505.000) | (52.059.000) | (55.544.000) | (59.481.000) | (53.162.000) | (45.380.000) |
| Inventories | 0 | 0 | 0 | 296.000 | 350.000 | 293.000 | 243.000 | 119.000 | 218.000 | 294.000 |
| **TWC** | **20.258.000** | **29.837.000** | **19.753.000** | **8.635.000** | **9.021.000** | **14.294.000** | **3.436.000** | **-13.192.000** | **4.581.000** | **6.999.000** |
| ***%NS*** | ***7,6%*** | ***9,1%*** | ***7,1%*** | ***3,7%*** | ***4,2%*** | ***6,1%*** | ***3,3%*** | ***-5,2%*** | ***1,9%*** | ***3,6%*** |
| Intra-Group Receivables and Payables | 18.233.000 | 19.828.000 | 27.629.000 | 8.147.000 | 18.304.000 | 13.328.000 | (793.000) | (1.451.000) | (1.576.000) | (2.394.000) |
| Other Receivables/Payables | (56.527.000) | (54.303.000) | (63.366.000) | (19.283.000) | (84.499.000) | (67.632.000) | (160.422.000) | (145.758.000) | (100.713.000) | (76.728.000) |
| **NWC** | **-18.036.000** | **-4.638.000** | **-15.984.000** | **-2.501.000** | **-57.174.000** | **-40.010.000** | **-157.779.000** | **-160.401.000** | **-97.708.000** | **-72.123.000** |
| ***%NS*** | ***-6,8%*** | ***-1,4%*** | ***-5,7%*** | ***-1,1%*** | ***-26,8%*** | ***-16,9%*** | ***-153,4%*** | ***-62,7%*** | ***-40,5%*** | ***-37,5%*** |
| Employee Severance Indemnity | (2.319.000) | (2.395.000) | (2.459.000) | (2.301.000) | (2.218.000) | (1.889.000) | (1.862.000) | (1.745.000) | (1.614.000) | (1.584.000) |
| Provisions for risks and charges | 0 | (479.000) | (2.593.000) | (8.463.000) | (14.490.000) | (10.564.000) | (4.359.000) | (20.297.000) | (22.544.000) | (24.484.000) |
| **Net Invested Capital** | **213.686.000** | **192.411.000** | **189.441.000** | **152.585.000** | **155.141.000** | **127.968.000** | **110.027.000** | **100.955.000** | **166.302.000** | **138.016.000** |
| Short-term debts | 291.948.000 | 202.603.000 | 237.188.000 | 247.802.000 | 147.536.000 | 138.264.000 | 30.584.000 | 140.271.000 | 95.543.000 | 96.517.000 |
| Long-term debts | 0 | 39.406.000 | 13.316.000 | 0 | 44.000.000 | 44.000.000 | 112.215.000 | 14.000.000 | 0 | 18.659.000 |
| Cash and cash equivalents | (1.171.000) | (3.725.000) | (3.217.000) | (1.011.000) | (3.026.000) | (3.869.000) | (13.223.000) | (27.273.000) | (12.527.000) | (11.284.000) |
| **NFP** | **290.777.000** | **238.284.000** | **247.287.000** | **246.791.000** | **188.510.000** | **178.395.000** | **129.576.000** | **126.998.000** | **83.016.000** | **103.892.000** |
| ***NFP/EBITDA*** | ***-14,3x*** | ***4,1x*** | ***4,7x*** | ***-39,8x*** | ***-5,3x*** | ***-18,9x*** | ***-34,2x*** | ***-11,4x*** | ***-2,0x*** | ***-1,3x*** |
| **Shareholders' Loan** | **0** | **9.075.000** | **9.075.000** | **0** | **0** | **0** | **-49.518.000** | **10.000.000** | **0** | **0** |
| Share capital | 24.960.000 | 24.960.000 | 24.960.000 | 24.960.000 | 24.960.000 | 24.960.000 | 74.880.000 | 113.443.000 | 113.443.000 | 113.443.000 |
| Reserves | -34.717.000 | -73.051.000 | -76.158.000 | -27.881.000 | 30.750.000 | -516.000 | -12.287.000 | -23.467.000 | 115.828.000 | 115.297.000 |
| Profit/Loss for the period | -67.334.000 | -6.857.000 | -15.723.000 | -91.285.000 | -89.079.000 | -74.871.000 | -32.624.000 | -126.019.000 | -145.985.000 | -194.616.000 |
| **Group's Shareholders' Equity** | **-77.091.000** | **-54.948.000** | **-66.921.000** | **-94.206.000** | **-33.369.000** | **-50.427.000** | **29.969.000** | **-36.043.000** | **83.286.000** | **34.124.000** |
| Share capital and reserves attributable to non controlling interests | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Profit/Loss attributable to non controlling interests | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Minorities** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **Total Shareholders' Equity** | **-77.091.000** | **-54.948.000** | **-66.921.000** | **-94.206.000** | **-33.369.000** | **-50.427.000** | **29.969.000** | **-36.043.000** | **83.286.000** | **34.124.000** |
| **TOTALE SOURCES** | **213.686.000** | **192.411.000** | **189.441.000** | **152.585.000** | **155.141.000** | **127.968.000** | **110.027.000** | **100.955.000** | **166.302.000** | **138.016.000** |

*(Table 8: AC Milan's Balance Sheet, 2011-2019, own elaboration, Aida)*

**PROFIT & LOSS**

| € | 30/06/2011 | 30/06/2012 | 30/06/2013 | 30/06/2014 | 30/06/2015 | 30/06/2016 | 30/06/2017 | 30/06/2018 | 30/06/2019 | 30/06/2020 |
|---|---|---|---|---|---|---|---|---|---|---|
| **REVENUES** | | | | | | | | | | |
| Matchday | 27.533.000 | 33.751.000 | 28.698.000 | 25.629.000 | 16.681.000 | 25.472.000 | 8.323.000 | 35.338.000 | 34.112.000 | 23.629.000 |
| *%NS* | *10,3%* | *10,2%* | *10,3%* | *11,0%* | *7,8%* | *10,8%* | *8,1%* | *13,8%* | *14,1%* | *12,3%* |
| Commercial | 81.435.000 | 79.786.000 | 78.270.000 | 78.653.000 | 82.750.000 | 77.712.000 | 34.934.000 | 62.471.000 | 56.847.000 | 52.245.000 |
| *%NS* | *30,6%* | *24,2%* | *28,1%* | *33,7%* | *38,8%* | *32,9%* | *34,0%* | *24,4%* | *23,6%* | *27,2%* |
| Broadcasting | 115.010.000 | 139.818.000 | 119.547.000 | 89.828.000 | 84.020.000 | 87.912.000 | 44.377.000 | 100.578.000 | 105.048.000 | 63.385.000 |
| *%NS* | *43,2%* | *42,5%* | *42,9%* | *38,5%* | *39,4%* | *37,2%* | *43,1%* | *39,3%* | *43,6%* | *33,0%* |
| Player Trading | 24.639.000 | 53.888.000 | 24.774.000 | 11.577.000 | 4.297.000 | 15.916.000 | 1.731.000 | 42.062.000 | 25.536.000 | 28.135.000 |
| *%NS* | *9,3%* | *16,4%* | *8,9%* | *5,0%* | *2,0%* | *6,7%* | *1,7%* | *16,4%* | *10,6%* | *14,6%* |
| Other Income | 17.546.000 | 22.064.000 | 27.424.000 | 27.887.000 | 25.678.000 | 29.116.000 | 13.501.000 | 15.284.000 | 19.575.000 | 24.921.000 |
| *%NS* | *6,6%* | *6,7%* | *9,8%* | *11,9%* | *12,0%* | *12,3%* | *13,1%* | *6,0%* | *8,1%* | *13,0%* |
| **TOTAL REVENUES** | **266.163.000** | **329.307.000** | **278.713.000** | **233.574.000** | **213.426.000** | **236.128.000** | **102.866.000** | **255.733.000** | **241.118.000** | **192.317.000** |
| Raw materials | (5.331.000) | (5.105.000) | (4.301.000) | (5.002.000) | (4.376.000) | (3.940.000) | (1.844.000) | (4.030.000) | (5.145.000) | (4.307.000) |
| *%NS* | *-2,0%* | *-1,6%* | *-1,5%* | *-2,1%* | *-2,1%* | *-1,7%* | *-1,8%* | *-1,6%* | *-2,1%* | *-2,2%* |
| Service costs | (45.646.000) | (50.895.000) | (46.891.000) | (43.048.000) | (40.297.000) | (43.370.000) | (19.902.000) | (47.813.000) | (50.923.000) | (51.957.000) |
| *%NS* | *-17,1%* | *-15,5%* | *-16,8%* | *-18,4%* | *-18,9%* | *-18,4%* | *-19,3%* | *-18,7%* | *-21,1%* | *-27,0%* |
| Hire, rental and leasing | (10.690.000) | (10.233.000) | (10.178.000) | (12.401.000) | (10.771.000) | (9.513.000) | (4.729.000) | (10.095.000) | (9.160.000) | (10.035.000) |
| *%NS* | *-4,0%* | *-3,1%* | *-3,7%* | *-5,3%* | *-5,0%* | *-4,0%* | *-4,6%* | *-3,9%* | *-3,8%* | *-5,2%* |
| Personnel costs | (206.485.000) | (183.806.000) | (151.275.000) | (154.655.000) | (163.868.000) | (157.802.000) | (67.238.000) | (150.397.000) | (184.822.000) | (160.878.000) |
| *%NS* | *-77,6%* | *-55,8%* | *-54,3%* | *-66,2%* | *-76,8%* | *-66,8%* | *-65,4%* | *-58,8%* | *-76,7%* | *-83,7%* |
| Other operating costs | (12.322.000) | (13.661.000) | (9.450.000) | (10.905.000) | (10.419.000) | (9.531.000) | (4.213.000) | (10.837.000) | (9.669.000) | (8.038.000) |
| *%NS* | *-4,6%* | *-4,1%* | *-3,4%* | *-4,7%* | *-4,9%* | *-4,0%* | *-4,1%* | *-4,2%* | *-4,0%* | *-4,2%* |
| Provisions for risks and charges | 0 | (300.000) | (2.350.000) | (7.500.000) | (11.069.000) | (8.658.000) | (2.486.000) | (17.965.000) | (6.885.000) | (9.858.000) |
| *%NS* | *0,0%* | *-0,1%* | *-0,8%* | *-3,2%* | *-5,2%* | *-3,7%* | *-2,4%* | *-7,0%* | *-2,9%* | *-5,1%* |
| Impairment of current assets | (5.020.000) | (2.129.000) | (107.000) | (716.000) | (259.000) | (409.000) | (677.000) | (1.211.000) | (850.000) | (1.418.000) |
| *%NS* | *-1,9%* | *-0,6%* | *0,0%* | *-0,3%* | *-0,1%* | *-0,2%* | *-0,7%* | *-0,5%* | *-0,4%* | *-0,7%* |
| Impairment of non-current assets | (351.000) | (115.000) | (86.000) | (346.000) | (3.258.000) | (9.870.000) | (2.821.000) | (21.822.000) | (1.934.000) | (19.851.000) |
| *%NS* | *-0,1%* | *0,0%* | *0,0%* | *-0,1%* | *-1,5%* | *-4,2%* | *-2,7%* | *-8,5%* | *-0,8%* | *-10,3%* |
| Player Trading | (585.000) | (4.413.000) | (1.545.000) | (5.207.000) | (4.394.000) | (2.476.000) | (2.748.000) | (2.729.000) | (13.786.000) | (8.160.000) |
| *%NS* | *-0,2%* | *-1,3%* | *-0,6%* | *-2,2%* | *-2,1%* | *-1,0%* | *-2,7%* | *-1,1%* | *-5,7%* | *-4,2%* |
| **EBITDA** | **-20.267.000** | **58.650.000** | **52.530.000** | **-6.206.000** | **-35.285.000** | **-9.441.000** | **-3.792.000** | **-11.166.000** | **-42.056.000** | **-82.185.000** |
| ***EBITDA margin*** | ***-7,6%*** | ***17,8%*** | ***18,8%*** | ***-2,7%*** | ***-16,5%*** | ***-4,0%*** | ***-3,7%*** | ***-4,4%*** | ***-17,4%*** | ***-42,7%*** |
| Depreciation | (1.008.000) | (954.000) | (884.000) | (855.000) | (992.000) | (1.032.000) | (529.000) | (1.070.000) | (1.051.000) | (996.000) |
| **EBITA** | **-21.275.000** | **57.696.000** | **51.646.000** | **-7.061.000** | **-36.277.000** | **-10.473.000** | **-4.321.000** | **-12.236.000** | **-43.107.000** | **-83.181.000** |
| ***EBITA margin*** | ***-8,0%*** | ***17,5%*** | ***18,5%*** | ***-3,0%*** | ***-17,0%*** | ***-4,4%*** | ***-4,2%*** | ***-4,8%*** | ***-17,9%*** | ***-43,3%*** |
| Amortization | (52.975.000) | (53.676.000) | (50.818.000) | (52.014.000) | (46.713.000) | (47.680.000) | (22.530.000) | (86.419.000) | (89.150.000) | (103.418.000) |
| **EBIT** | **-74.250.000** | **4.020.000** | **828.000** | **-59.075.000** | **-82.990.000** | **-58.153.000** | **-26.851.000** | **-98.655.000** | **-132.257.000** | **-186.599.000** |
| ***EBIT margin*** | ***-27,9%*** | ***1,2%*** | ***0,3%*** | ***-25,3%*** | ***-38,9%*** | ***-24,6%*** | ***-26,1%*** | ***-38,6%*** | ***-54,9%*** | ***-97,0%*** |
| Net financial expenses | (4.940.000) | (12.490.000) | (12.746.000) | (4.222.000) | (8.206.000) | (4.754.000) | (3.438.000) | (22.313.000) | (11.101.000) | (6.342.000) |
| Gains/Losses on Foreign Exchange | (2.000) | (16.000) | (31.000) | (38.000) | 3.000 | 26.000 | 22.000 | (30.000) | 19.000 | 5.000 |
| Financial Assets' adjustments | (101.000) | (105.000) | 13.000 | (187.000) | (3.025.000) | (7.111.000) | 0 | (218.000) | 801.000 | 539.000 |
| Extraordinary expenses | (1.373.000) | 7.634.000 | (892.000) | (21.027.000) | 0 | 0 | 0 | 0 | 0 | 0 |
| Taxes | 13.332.000 | (5.900.000) | (2.895.000) | (6.736.000) | 5.139.000 | (4.879.000) | (2.357.000) | (4.803.000) | (3.447.000) | (2.219.000) |
| **Profit (Loss) for the period** | **-67.334.000** | **-6.857.000** | **-15.723.000** | **-91.285.000** | **-89.079.000** | **-74.871.000** | **-32.624.000** | **-126.019.000** | **-145.985.000** | **-194.616.000** |
| ***%NS*** | ***-25,3%*** | ***-2,1%*** | ***-5,6%*** | ***-39,1%*** | ***-41,7%*** | ***-31,7%*** | ***-31,7%*** | ***-49,3%*** | ***-60,5%*** | ***-101,2%*** |

*(Table 9: AC Milan's Profit & Loss, 2011-2019, own elaboration, Aida)*

**CASH FLOW STATEMENT**

| € | 30/06/2011 | 30/06/2012 | 30/06/2013 | 30/06/2014 | 30/06/2015 | 30/06/2016 | 30/06/2017 | 30/06/2018 | 30/06/2019 | 30/06/2020 |
|---|---|---|---|---|---|---|---|---|---|---|
| EBIT | -74.250.000 | 4.020.000 | 828.000 | -59.075.000 | -82.990.000 | -58.153.000 | -26.851.000 | -98.655.000 | -132.257.000 | -186.599.000 |
| D&A | 53.983.000 | 54.630.000 | 51.702.000 | 52.869.000 | 47.705.000 | 48.712.000 | 23.059.000 | 87.489.000 | 90.201.000 | 104.414.000 |
| Taxes | 13.332.000 | (5.900.000) | (2.895.000) | (6.736.000) | 5.139.000 | (4.879.000) | (2.357.000) | (4.803.000) | (3.447.000) | (2.219.000) |
| **Operating Cash Flow** | **-6.935.000** | **52.750.000** | **49.635.000** | **-12.942.000** | **-30.146.000** | **-14.320.000** | **-6.149.000** | **-15.969.000** | **-45.503.000** | **-84.404.000** |
| *Tangible Capex* | | *(1.061.000)* | *3.767.000* | *(532.000)* | *(522.000)* | *(896.000)* | *(48.000)* | *(952.000)* | *(739.000)* | *(916.000)* |
| *% Sales* | | *-0,3%* | *1,4%* | *-0,2%* | *-0,2%* | *-0,4%* | *0,0%* | *-0,4%* | *-0,3%* | *-0,5%* |
| *Intangible Capex* | | *(27.887.000)* | *(65.420.000)* | *(13.101.000)* | *(112.833.000)* | *778.000* | *(116.106.000)* | *(87.112.000)* | *(101.727.000)* | *(51.064.000)* |
| *% Sales* | | *-8,5%* | *-23,5%* | *-5,6%* | *-52,9%* | *0,3%* | *-112,9%* | *-34,1%* | *-42,2%* | *-26,6%* |
| *Financial Capex* | | *8.331.000* | *(590.000)* | *5.204.000* | *(548.000)* | *(7.113.000)* | *(501.000)* | *(9.014.000)* | *8.296.000* | *66.000* |
| *% Sales* | | *2,5%* | *-0,2%* | *2,2%* | *-0,3%* | *-3,0%* | *-0,5%* | *-3,5%* | *3,4%* | *0,0%* |
| Capex | | (20.617.000) | (62.243.000) | (8.429.000) | (113.903.000) | (7.231.000) | (116.655.000) | (97.078.000) | (94.170.000) | (51.914.000) |
| *% Sales* | | *-6,3%* | *-22,3%* | *-3,6%* | *-53,4%* | *-3,1%* | *-113,4%* | *-38,0%* | *-39,1%* | *-27,0%* |
| *Delta Receivables* | | *(15.877.000)* | *3.320.000* | *8.571.000* | *(19.265.000)* | *(2.884.000)* | *7.323.000* | *12.567.000* | *(11.355.000)* | *5.440.000* |
| *Delta Payables* | | *6.298.000* | *6.764.000* | *2.843.000* | *18.933.000* | *(2.446.000)* | *3.485.000* | *3.937.000* | *(6.319.000)* | *(7.782.000)* |
| *Delta Customers' payments on account* | | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* |
| *Delta Inventories* | | *0* | *0* | *(296.000)* | *(54.000)* | *57.000* | *50.000* | *124.000* | *(99.000)* | *(76.000)* |
| Delta TWC | | (9.579.000) | 10.084.000 | 11.118.000 | (386.000) | (5.273.000) | 10.858.000 | 16.628.000 | (17.773.000) | (2.418.000) |
| Delta Intra-Group Receivables and Payables | | (1.595.000) | (7.801.000) | 19.482.000 | (10.157.000) | 4.976.000 | 14.121.000 | 658.000 | 125.000 | 818.000 |
| Delta Other Receivables and Payables | | (2.224.000) | 9.063.000 | (44.083.000) | 65.216.000 | (16.867.000) | 92.790.000 | (14.664.000) | (45.045.000) | (23.985.000) |
| Delta Provisions | | 555.000 | 2.178.000 | 5.712.000 | 5.944.000 | (4.255.000) | (6.232.000) | 15.821.000 | 2.116.000 | 1.910.000 |
| Gains/Losses on Foreign Exchange | | (16.000) | (31.000) | (38.000) | 3.000 | 26.000 | 22.000 | (30.000) | 19.000 | 5.000 |
| **Free Cash Flow** | | **19.274.000** | **885.000** | **(29.180.000)** | **(83.429.000)** | **(42.944.000)** | **(11.245.000)** | **(94.634.000)** | **(200.231.000)** | **(159.988.000)** |
| Net financial expenses | | (12.490.000) | (12.746.000) | (4.222.000) | (8.206.000) | (4.754.000) | (3.438.000) | (22.313.000) | (11.101.000) | (6.342.000) |
| Extraordinary expenses | | 7.634.000 | (892.000) | (21.027.000) | 0 | 0 | 0 | 0 | 0 | 0 |
| Changes in Shareholders' Loan | | 9.075.000 | 0 | (9.075.000) | 0 | 0 | (49.518.000) | 59.518.000 | (10.000.000) | 0 |
| Changes in Shareholders' Equity | | 29.000.000 | 3.750.000 | 64.000.000 | 149.916.000 | 57.813.000 | 113.020.000 | 60.007.000 | 265.314.000 | 145.454.000 |
| Delta Financial Debts | | (49.939.000) | 8.495.000 | (2.702.000) | (56.266.000) | (9.272.000) | (39.465.000) | 11.472.000 | (58.728.000) | 19.633.000 |
| **Net Cash Flow** | | **2.554.000** | **(508.000)** | **(2.206.000)** | **2.015.000** | **843.000** | **9.354.000** | **14.050.000** | **(14.746.000)** | **(1.243.000)** |

*(Table 10: AC Milan's Cash Flow Statement, 2011-2019, own elaboration, Aida)*

### *3.2.2 Business Plan: value drivers of the investment and future perspectives*

Each item of *AC Milan*'s Financial Statements has been deeply analysed in the last section, in order to investigate the historical performance of the club. The aim of this section, instead, is to examine how *AC Milan*'s key financials could evolve in the future, analysing which growth opportunities are potentially achievable and where Elliott fund's work can make the difference in increasing the value of the club, in order to assess the prospective return of the hedge fund at an estimated exit date. Specifically, it will be estimated a holding period of 9 years (until the 2026-2027 season), in line with the Elliott's medium-long term project which has always been discussed.

Before starting with the prospective analysis of each revenue line, it is important to stress that the following estimates are subject to a high rate of uncertainty, as the organic growth of a football club is extremely tied to the sporting performance, which is extremely volatile.

In this sense, Elliott fund's strategic focus will mainly be on three variables:

- Popularity: there is a clear correlation between a club's presence on social media, success on the field, brand value and the value of the club. Taking advantage of the opportunities provided by social media is essential, in order to remain competitive and improve the profitability. For this purpose, in the last twelve months the club has accelerated down the path of digital transformation and modernization. In this sense, it has recently undertaken a new project: "*The Studios: Milan Media House*". It consists of the creation of a specific media house which will significantly increase the capacity of the club to produce multimedia content, both for the most traditional and for the most innovative platforms. An ambitious project that aims to exploit the great potential of the *AC Milan* brand around the world, allowing to increasingly involve the over 500 million fans in the world and create new opportunities of value for the commercial partners of the club[151].
- Property stadium: a property stadium would represent an important source of matchday revenue, generating at the same time many commercial opportunities. The ownership of the stadium can also lead to better operations management, increasing the profitability. *AC Milan* currently plays its home games at *San Siro*, having to pay an annual rent of around €10 million for the use of the stadium. In addition, the earnings on ticketing are not kept entirely by the club, but a percentage is intended

[151] Calcio e Finanza. Il Milan si fa la sua media company: nasce "The Studios". 6 February 2021.

for the municipality of Milan, the owner of the stadium. Due to this the club, together with *FC Internazionale*, the other club of Milan, has already presented the project for the construction of a new stadium: it will be a very modern structure, in line with the highest international standards, with over 60,000 seats configurable according to the needs of the matches. The new stadium will be designed within a modern Sports & Entertainment district, active not only during match days but for 365 days a year, together with a redevelopment project of the entire area. Thanks to the materials used and water and energy saving technologies, the stadium will be "zero impact" and LEED certified, with underground structure and casing which will also reduce noise emissions. It will require a total investment of €1.2 billion, equitably financed by the two teams of Milan[152].

- Sporting potential: the first team value represents the key asset of a football club. Success on the pitch generates gains in terms of revenues from matches, sponsorships, broadcasting rights and merchandising. In this sense, the goal of the club is to achieve sporting results without having to resort to excessive player trading, but trying to make a few targeted investments, with the aim of increasing "in-house" the value of the players purchased. Given this purpose and the fact that the investment horizon is medium to long-term, the club will mainly invest in young players with significant growth margins, also having a minor impact on personnel costs. However, the club will also include the purchase of a few targeted top players which, on the short-term, may guarantee better sporting results and can accelerate the growth of younger players. Moreover, as already stated, worldwide-established players are an important resource that helps to improve the club's reputation and overall appeal, attracting a greater number of fans, increasing revenues from ticket sales, sponsorships and merchandising, thus generating a positive impact on the value of the football club. In this sense, the acquisition of a world-famous player like *Zlatan Ibrahimovic* is perfectly in line with the stated strategy, which, analysing the first three years of Elliott management, is generating important results, with *AC Milan* going from the 6th place of the 2017-2018 season to fighting for the "*Scudetto*".

[152] https://www.nuovostadiomilano.com/it.

The business plan ("**BP**") presented in this section was drawn up on the basis of these strategic considerations and the club's recent sporting performance. All the assumptions about the prospective evolution of the main income statement and balance sheet items are based on an overall scenario considered in line with Elliott fund's expectations. Specifically, the hypothesized scenario foresees the maintaining of the current sporting performance in the next three years (2nd place in *Serie A* and qualification to the UEFA Champions League, with hypothesized qualification for the round of 16), with an improvement of the sporting results starting from the 2024-2025 sporting season, where the club should start playing in the new stadium (1st place in *Serie A* and qualification for the quarter finals of UEFA Champions League). For the 2021 fiscal year ("**FY**") different considerations have been made, considering that, at the date of writing, there are many rumours available about the financial statements that will be approved and published in October.

The BP will further confirm the correlation between sporting performance and positive impact on the club's revenue streams, particularly visible starting from the 2024-2025 season, when the club is supposed to start playing its home matches in the new property stadium.

*Table 11* exhibits the evolution of revenues in the 2021-2027 period, based on the BP assumptions.

**REVENUES**

| € | 2020 A | 2021 F | 2022 F | 2023 F | 2024 F | 2025 F | 2026 F | 2027 F |
|---|---|---|---|---|---|---|---|---|
| **Matchday** | **23.629.000** | **0** | **28.368.948** | **46.770.360** | **46.770.360** | **87.701.422** | **87.701.422** | **87.701.422** |
| Serie A | n.a. | 0 | 19.204.764 | 30.727.622 | 30.727.622 | 57.399.000 | 57.399.000 | 57.399.000 |
| European Competitions | n.a. | 0 | 4.548.497 | 10.916.392 | 10.916.392 | 23.373.000 | 23.373.000 | 23.373.000 |
| Coppa Italia | n.a. | 0 | 1.470.465 | 1.981.123 | 1.981.123 | 3.784.200 | 3.784.200 | 3.784.200 |
| Other Competitions | n.a. | 0 | 3.145.222 | 3.145.222 | 3.145.222 | 3.145.222 | 3.145.222 | 3.145.222 |
| **Commercial** | **52.245.000** | **61.850.095** | **73.221.059** | **86.682.542** | **102.618.881** | **134.935.143** | **174.531.072** | **223.046.507** |
| **Broadcasting** | **63.385.000** | **110.044.000** | **128.089.987** | **128.089.987** | **128.089.987** | **185.522.446** | **185.522.446** | **185.522.446** |
| Serie A | 63.385.000 | 93.044.000 | 79.139.987 | 79.139.987 | 79.139.987 | 133.072.446 | 133.072.446 | 133.072.446 |
| International | 0 | 17.000.000 | 48.950.000 | 48.950.000 | 48.950.000 | 52.450.000 | 52.450.000 | 52.450.000 |
| **Player Trading** | **28.135.000** | **28.416.350** | **28.672.097** | **28.987.490** | **29.335.340** | **29.716.700** | **30.103.017** | **30.494.356** |
| Gains on disposal of player registration rights | 20.019.000 | 20.219.190 | 20.401.163 | 20.625.575 | 20.873.082 | 21.144.432 | 21.419.310 | 21.697.761 |
| Other revenues from players' trading | 8.116.000 | 8.197.160 | 8.270.934 | 8.361.915 | 8.462.258 | 8.572.267 | 8.683.707 | 8.796.595 |
| **Other Income** | **24.921.000** | **25.170.210** | **25.396.742** | **25.676.106** | **25.984.219** | **26.322.014** | **26.664.200** | **27.010.835** |
| **TOTAL REVENUES** | **192.317.000** | **225.480.655** | **283.748.832** | **316.206.485** | **332.798.787** | **464.197.725** | **504.522.157** | **553.775.566** |
| *YoY growth* | | *17,2%* | *25,8%* | *11,4%* | *5,2%* | *39,5%* | *8,7%* | *9,8%* |

*(Table 11: Projected revenues, 2021-2027, own elaboration)*

These assumptions relating to revenues are probably the most important for the analysis because, as it will be deeply examined later, the estimation of *AC Milan*'s EV will be based on the application of the EV/Revenue's multiple on the prospected revenues at the exit date.

Starting with the matchday revenues, they have been divided into four main lines: i) revenues from *Serie A*, the most consistent part; ii) revenues from European competitions; iii)

revenues from the national league cup; iv) revenues from other competitions (specifically national and international friendly matches played during summer preparation).

Each matchday revenue line has been estimated based on three key inputs: the average attendance at the stadium, the average price of the tickets and the number of matches played in the stadium. As already mentioned, it has been hypothesized that the club will start playing its home match in the new stadium from the sporting season 2024-2025. For the sporting season 2021-2022, it has been hypothesized an average attendance of 50% of the total *San Siro* capacity (75.923) for all the competitions, in line with what has been decided for the first weeks of the season. The average ticket prices for *Serie A* and *Coppa Italia*'s (the National League Cup) matches have been calculated considering the average attendance per match of the 2018/2019 sporting season (the one before the outbreak of the pandemic)[153] and the revenues generated by the respective competitions on the Income Statement[154].

The differences between UEFA Champions League and *Serie A*'s ticket prices highlighted in the current sporting season have been maintained throughout the BP reference period (with the formers set about 50% higher than those of *Serie A*'s matches). The same reasoning has been applied to *Coppa Italia*'s ticket prices, approximately 30% lower *than Serie A* matches. Regarding the revenues from other competitions, they have been considered equal to the average revenue of the 2011-2020 period. Given all these assumptions, it was possible to estimate at first the revenues for the 2022 FY.

These assumptions have then been adapted to the overall scenario previously reported. Specifically, it has been hypothesized an average attendance at the stadium equal to 80% for the 2022/23 and 2023/24 sporting seasons. Then, starting from the 2024-25 season (the one hypothesized for the inauguration of the new stadium), the prices have been calibrated on the improved quality of the experience in the innovative new stadium (in particular, the doubling of the average price for each competition was assumed). The average attendance at the stadium has also been calibrated (equal to 95% during *Serie A*'s matches, 98% in the UEFA Champions League and 85% in the National League Cup), considering a total capacity of 60.000 people.

Given all the above assumptions, matchday revenues are supposed to quadruple between 2022 (a year, however, with the maximum capacity reduced by 50%) and 2027, with a significant growth related to the inauguration of the new stadium). Looking at their expected trend, the +87,5% increase in matchday revenues between 2024 and 2025 is likely, considering

[153] Source: Transfermarkt.

[154] Source: AC Milan's Financial Statements, 2019.

the +175,5% increase of *Juventus FC* matchday revenues between 2011 and 2012, following the inauguration of the new stadium[155]. The reason for the flat growth of matchday revenues in the 2023-2024 and 2025-2027 periods, is that the prices have been calibrated on the sporting performance, which in turn has been normalized on a three-year period basis (to reflect the TV rights cycle length). The same reasoning will be applied, therefore, to the broadcasting revenues.

As regards the forecast of commercial revenues, the growth of *Juventus FC* in the four years preceding the outbreak of the pandemic has been taken as a benchmark for the 2021-2024 period. However, since it is very difficult to replicate the commercial results obtained by *Juventus FC* in recent years, the growth of *AC Milan*'s commercial revenues has been estimated equal to the 80% of it (i.e., 18.4%). Then, starting from the 2024-2025 season, the estimated commercial revenues' CAGR has been calibrated considering the increase generated by the commercial activities of the new stadium, which in the case of *Juventus FC*, has been equal to 65.8% after the first three years of settlement in their new stadium, the "*Juventus Stadium*". As a result, the integration of these two growth rates (weighted on the basis of the incidence of the additional commercial revenues generated by the new stadium in the first three years on the total *Juventus FC*'s commercial revenues) determined an overall CAGR for the 2025-2027 period equal to 22.5%.

As far as commercial revenues are concerned, an increasingly important source of income for football clubs is the transfer of naming rights, although it is still an extremely undervalued market. The acquisition of naming rights means a financial transaction for advertising purposes, with which a company acquires the right to name the object of the contract as it wishes, such as an event, a stadium or a sports arena, thus becoming its main sponsor. *Juventus FC* currently collects € 10.3 million a year from *Allianz* and, according to a study by Duff & Phelps, *AC Milan* and *FC Internazionale* could collect around € 9.2 million each if the new stadium is built[156].

According to *Andrea Sartori*, KPMG's Global Head of Sports, the commercial growth is probably the most important for a football club since stadium revenues are limited by the stadium capacity and TV rights agreements are often binding for several years. In this sense, appropriate strategies marked by a solid commercial expansion, supported by adequate sports

[155] However, Juventus FC matchday revenues started from a much lower initial level compared to AC Milan ones.
[156] Duff & Phelps Report. Are Football Stadium Naming Rights Undervalued? A European Analysis. 18 November 2019.

performance, can allow a strong development of new markets around the world even in the short term[157].

The third and generally biggest source of revenue for a football club is the one relating to the broadcasting rights. With regard to *AC Milan*'s broadcasting revenues, they have been divided into two main lines: revenues from *Serie A* and revenues from UEFA competitions (UEFA Champions League and UEFA Europa League). Both the television rights from *Serie A* and from UEFA competitions are assigned on a three-year basis. Analysing the historical trends, their value has always increased in recent years, in line with the constant increase of the audience, so that national leagues and UEFA earn more and allocate more to clubs. However, this trend has been extraordinary interrupted for the 2021-2024 broadcasting rights cycle of *Serie A*, whose value has decreased from around €1.1 billion per year to €840 million, due to the impact of the Covid-19 pandemic. The value of UEFA Champions League broadcasting rights, instead, has remained almost flat (from €1.95 billion to €2 billion).

Going more specifically with the analysis of the distribution criteria of both the competitions, the composition of the broadcasting revenues of *AC Milan* from the participation to the 2021-2022 UEFA Champions League is the following:

- A bonus for participation equally distributed among the 32 teams (equal to € 15.25 million).
- A bonus related to the historical ranking of the club in the competition (€16.6 million).
- The third component is the market pool. This share (which for the 2021-2022 season will be equal to €300.3 million) is divided proportionally on the basis of the value of the television rights of the competition of each national league. After this first segmentation, the share of the market pool belonging to each national league is further subdivided into two parts: a first half is distributed on the basis of the performance in the previous championship, (in the case of Italy, shares are equal to 40% in case of first place, 30% in case of second place, 20% in case of third place and 10% in case of fourth place); the second half, instead, is distributed according to the number of games played by each club during the competition. In this sense an Italian club, as for the 2021-2022 distribution, may receive between a minimum

[157] KPMG Football Benchmark. I ricavi commerciali guidano la crescita dei principali club europei. 16 January 2019.

bonus of €3.4 million, in case of elimination at the group stage, and a maximum bonus of €58.9 million in case of final victory.

As we can see, the distribution criteria of the money related to UEFA Champions League's broadcasting rights are quite articulated. Specifically, it is not possible to make accurate estimates on the broadcasting revenues from UEFA Champions League matches in the coming seasons, since the Italian market pool share depends also on the value of the UEFA Champions League broadcasting rights in the other European leagues. Moreover, starting from the 2024/25 sporting season, a new format in terms of structuring of the competition will probably be undertaken, with consequent changes to the criteria for the distribution of the broadcasting revenues.

Given these considerations, the prospective revenues from UEFA Champions League in the BP have been assumed consistent with the current format, proportionally adjusted to the sports performance scenario hypothesized (elimination at group stage in the 2021/22 season, qualification to the round of 16 in the 2022/23 and 2023/24 seasons, and qualification to the quarter-finals starting from the 2024/25 season).

As already anticipated in chapter 2.2.1 of the dissertation, the distribution of *Serie A* broadcasting rights is governed by legislative decree no. 9 of 9 January 2008, so-called "*Legge Melandri*".

Based on the latest amendment to the law, the distribution of TV rights in Italy is currently as follows:

- a 50% share in equal parts between all the clubs participating in the *Serie A* league.
- a 30% share on the basis of the sports results achieved. Specifically, 15% is distributed based on the final *Serie A* ranking and the total points collected each sporting season; 10% of the share is based on the last five years performance; finally, 5% depends on the historical performance.
- a 20% share on the basis of the fan base. With reference to the fan base, the division will be made on the basis of the attendance at the stadium (12%) and the certified television audience (8%).

In order to forecast *AC Milan*'s prospective broadcasting revenues the first thing to do is to estimate a possible future value of these rights. We already know their value for the 2021/24 cycle; in regards the 2024/27 cycle, a value equal to €1.3 billion has been hypothesized,

which represents an increase over the pre-pandemic level in line with the growth of broadcasting rights' value over the last 20 years.

Once the prospective sporting performance has been hypothesized, the estimation of the 30% share is straightforward. Specifically, it has been hypothesized that *AC Milan* is going to rank second until the sporting season 2023/2024 (in line with the placement of the last sporting season). Then, starting from the sporting season 2024/25, it has been predicted that they will place in first position.

Finally, a good proxy for the estimation of the residual 20% share is the Italian fan base of each club. In this sense, according to a demoscopic survey carried out by *StageUp* and *Ipsos*, the two analysis companies that each year analyse the following of football in Italy, *AC Milan* represented the favourite team of 16.5% of the Italian football fans in 2020 (+11% vs 2019, thanks to a great sporting performance which guaranteed the return to the UEFA Champions League after many years)[158]. In this sense, it has been estimated a constant increase of the fan base in the next years, thanks to the successful sporting performance and the great effort that the management has planned in order to increase the social media followers.

The fourth important revenue line is the one generated with player trading. Its basic functioning has already been explained in *chapter 2.1.1*. We can distinguish between two types of revenues from player trading: gains on disposal of player registration rights and other revenues from player trading (this item refers to revenues from loan transfers of players registration rights). As regards the forecasting of the revenues generated with player trading, it has been hypothesized a growth to the Italian expected inflation rates until 2027[159]. The key assumption behind this hypothesis is that the level of the Intangible Capex (namely the Net Transfer Balance between acquisitions and divestments in football players) would remain almost fixed in the forecasted period. To this extent, the average Net Transfer of the last four years (equal to - €75 million) has been considered as the yearly amount of Intangible Capex during the reference period. This level of investments into football players has been considered adequate for a club such as *AC Milan*, who aspires to return to the elite of the major European football clubs in the medium-long term.

It has been hypothesized a growth aligned to the Italian expected inflation rates until 2027 also for the other income.

[158] Calcio e Finanza. La classifica dei tifosi in Italia: Juve al top, cresce il Milan. 17 August 2021.
[159] Source: EIU, Economist Intelligence, Global Forecasting Service, May 2021.

Once the overall framework of the assumptions has been analysed, it is possible to draw some conclusions about the expected revenue's trend. *AC Milan*'s total revenues between 2020 and 2027 have been estimated to move from €192.3 million to €553.8 million (a 2.88x increase). In order to assess if this growth is feasible, we have compared this increase to one of *AC Milan*'s key benchmarks in terms of targeted growth for the next few years, *Juventus FC*. Considering the same seven-year time range, *Juventus FC* went from €172.1 million of revenues in 2011 (this year is significant, as this is the last season played before the inauguration of the new stadium) to €504.7 in 2018, a 2.93x increase. Hence, benchmarking the analysis with *Juventus FC* increases the reliability of the revenue assumptions made.

Once having deeply examined all the assumptions relating to the revenue lines, the analysis is going to shift its focus to the main costs' structures. The assumptions relating to the operating costs are quite straightforward, since a large part of them are fixed. *Table 12* exhibits the evolution of the operating costs in the 2021-2027 period, based on the BP assumptions.

**OPERATING COSTS**

| € | 2020 A | 2021 F | 2022 F | 2023 F | 2024 F | 2025 F | 2026 F | 2027 F |
|---|---|---|---|---|---|---|---|---|
| **Raw materials** | **(4.307.000)** | **(4.350.070)** | **(4.389.221)** | **(4.437.502)** | **(4.490.752)** | **(4.549.132)** | **(4.608.271)** | **(4.668.178)** |
| **Service costs** | **(51.957.000)** | **(52.476.570)** | **(52.948.859)** | **(53.531.297)** | **(54.173.672)** | **(66.236.484)** | **(67.097.558)** | **(67.969.826)** |
| Maintainance of the stadium | (4.373.000) | (4.416.730) | (4.456.481) | (4.505.502) | (4.559.568) | (4.618.842) | (4.678.887) | (4.739.713) |
| Others | (47.584.000) | (48.059.840) | (48.492.379) | (49.025.795) | (49.614.104) | (61.617.641) | (62.418.671) | (63.230.113) |
| **Hire, rental and leasing** | **(10.035.000)** | **(10.185.600)** | **(10.185.600)** | **(10.185.600)** | **(10.185.600)** | **(2.185.600)** | **(2.185.600)** | **(2.185.600)** |
| Charges for the concession in use of San Siro | (7.971.000) | (8.000.000) | (8.000.000) | (8.000.000) | (8.000.000) | 0 | 0 | 0 |
| Others | (2.064.000) | (2.185.600) | (2.185.600) | (2.185.600) | (2.185.600) | (2.185.600) | (2.185.600) | (2.185.600) |
| **Personnel costs** | **(160.878.000)** | **(110.000.000)** | **(141.874.416)** | **(158.103.242)** | **(166.399.393)** | **(232.098.863)** | **(252.261.078)** | **(276.887.783)** |
| **Other operating costs** | **(8.038.000)** | **(8.118.380)** | **(8.191.445)** | **(8.281.551)** | **(8.380.930)** | **(8.489.882)** | **(8.600.250)** | **(8.712.054)** |
| **Player Trading** | **(8.160.000)** | **(8.241.600)** | **(8.315.774)** | **(8.407.248)** | **(8.508.135)** | **(8.618.741)** | **(8.730.784)** | **(8.844.284)** |
| Losses on disposal of player registration rights | (4.717.000) | (2.433.594) | (2.433.594) | (2.433.594) | (2.433.594) | (2.433.594) | (2.433.594) | (2.433.594) |
| Other costs from players trading | (3.443.000) | (6.017.245) | (6.017.245) | (6.017.245) | (6.017.245) | (6.017.245) | (6.017.245) | (6.017.245) |
| **TOTAL OPERATING COSTS** | **(243.375.000)** | **(193.372.220)** | **(225.905.316)** | **(242.946.440)** | **(252.138.482)** | **(322.178.701)** | **(343.483.542)** | **(369.267.725)** |

*(Table 12: Projected operating costs, 2021-2027, own elaboration)*

Specifically, raw materials costs, service costs, other operating costs and costs generated by player trading have been hypothesized to grow to the Italian expected inflation rates until 2027. In fact, all these types of costs are tendentially recurrent in terms of volumes for a football team. Raw materials costs refer to the costs of the purchase of sports clothing for training and official uniforms provided by the technical sponsor. Part of the service costs refer to costs incurred towards *M-I Stadio S.r.l.*, the company that deals with the management of *San Siro Stadium*, and are related to the provision of technical, maintenance, commercial and administrative services. This amount has been hypothesized as remaining flat with new stadium, considering that the club will probably entrust the management of these services again

to a third company. However, an increase of around 20% for the remaining part of the costs for services has been hypothesized (aligned with *Juventus FC* service costs' increase after the moving into the new stadium). The specific service costs impacted by the passage to a property stadium are the ones relating to the production of audio-visual material for the matches, the managing of ticketing, security and hospitality and the payment of utilities; maintenance and cleanliness, instead, have been proposed to be continuously performed by a third company. For the costs related to player trading, the same considerations made for revenues from player trading are applicable.

Hire, rental and leasing costs mainly refer to the charges for the use of *San Siro Stadium*, equal to around €8 million per year. Therefore, the construction of the new stadium would generate an important cost synergy in terms of hire, rental and leasing costs. The other part refers mainly to the rental costs related to the headquarters ("*Casa Milan*").

Finally, personnel costs have been estimated equal to 50% of the revenues during the entire reference period. This assumption is coherent with the already mentioned Markham's paper of 2012, according to which it is important for a prudent management of costs, ensuring that the expenses incurred to pay the salaries to the players be equal to or less than 50%. The level of personnel costs has been deliberately set equal to €110 million for 2021, according to the rumours available at the date of writing on the Financial Statements for 2021[160].

Going on with the analysis, *Table 13* exhibits the evolution of the forecasted remaining part of the Income Statement, from the EBITDA until the final profit or loss for the period.

| € | 2020 A | 2021 F | 2022 F | 2023 F | 2024 F | 2025 F | 2026 F | 2027 F |
|---|---|---|---|---|---|---|---|---|
| **EBITDA** | **(51.058.000)** | **32.108.435** | **57.843.516** | **73.260.044** | **80.660.304** | **142.019.024** | **161.038.615** | **184.507.840** |
| ***EBITDA margin*** | ***-26,5%*** | ***14,2%*** | ***20,4%*** | ***23,2%*** | ***24,2%*** | ***30,6%*** | ***31,9%*** | ***33,3%*** |
| D&A | (135.541.000) | (78.203.107) | (104.609.500) | (121.489.795) | (139.066.401) | (122.658.036) | (113.623.958) | (115.856.749) |
| *of tangible assets* | (996.000) | (1.027.415) | (1.027.415) | (1.027.415) | (1.027.415) | (19.027.415) | (19.027.415) | (19.027.415) |
| *of players' registration rights* | (94.601.000) | (69.318.375) | (88.226.500) | (107.134.625) | (126.042.750) | (75.632.500) | (75.632.500) | (75.632.500) |
| *of other intangible assets* | (8.817.000) | (1.738.600) | (1.738.600) | (1.738.600) | (1.738.600) | (1.738.600) | (1.738.600) | (1.738.600) |
| *Provisions for risks and charges* | (9.858.000) | (410.014) | (6.433.052) | (3.583.462) | (1.831.860) | (14.506.996) | (4.451.987) | (5.437.784) |
| *Write-off of trade receivables* | (1.418.000) | (1.166.554) | (1.468.013) | (1.635.937) | (1.721.779) | (2.401.589) | (2.610.213) | (2.865.032) |
| *Write-off of intangible assets* | (19.851.000) | (4.542.148) | (5.715.920) | (6.369.756) | (6.703.996) | (9.350.935) | (10.163.242) | (11.155.417) |
| **EBIT** | **(186.599.000)** | **(46.094.673)** | **(46.765.983)** | **(48.229.750)** | **(58.406.096)** | **19.360.988** | **47.414.657** | **68.651.092** |
| ***EBIT margin*** | ***-97,0%*** | ***-20,4%*** | ***-16,5%*** | ***-15,3%*** | ***-17,5%*** | ***4,2%*** | ***9,4%*** | ***12,4%*** |
| Net financial expenses | (6.342.000) | (2.258.984) | (32.732.444) | (32.605.319) | (32.296.349) | (33.113.515) | (32.992.974) | (32.935.334) |
| Net financial expenses Rolling debt | | (136.115) | 0 | 0 | 0 | 0 | 0 | 0 |
| Gains/Losses on Foreign Exchange | 5.000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Financial Assets' adjustments | 539.000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Extraordinary expenses | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **EBT** | **(192.397.000)** | **(48.489.772)** | **(79.498.428)** | **(80.835.070)** | **(90.702.446)** | **(13.752.527)** | **14.421.683** | **35.715.758** |
| ***EBT margin*** | ***-100,0%*** | ***-21,5%*** | ***-28,0%*** | ***-25,6%*** | ***-27,3%*** | ***-3,0%*** | ***2,9%*** | ***6,4%*** |
| Taxes | (2.219.000) | 0 | 0 | 0 | 0 | 0 | 4.023.650 | 9.964.696 |
| **Profit (Loss) for the period** | **(194.616.000)** | **(48.489.772)** | **(79.498.428)** | **(80.835.070)** | **(90.702.446)** | **(13.752.527)** | **18.445.333** | **45.680.454** |
| ***%NS*** | ***-101,2%*** | ***-21,5%*** | ***-28,0%*** | ***-25,6%*** | ***-27,3%*** | ***-3,0%*** | ***3,7%*** | ***8,2%*** |

*(Table 13: Projected Income Statement, 2021-2027, own elaboration)*

[160] Calcio e Finanza. Milan, rosso a bilancio dimezzato nel 2020/21. 12 August 2021.

Given the above considerations concerning both revenues and costs, the EBITDA margin has been estimated to constantly improve over the forecasted period, moving from 14.2% in 2021 to 33.3% in 2027.

In regard to the Depreciation and Amortization ("**D&A**") of the assets, the projected amounts vary together with the expected Capex. Specifically, the depreciation of tangible assets is constant until 2024, and refers mainly to the depreciation of "*Milanello*" Sports Center, at rate equal to 7.3%, coherently with last three years. Then, starting from 2022, the club with start the investments for the new stadium (€600 million equally divided into three tranches of €200 million of Tangible Capex). However, depreciation will start only in 2025, when the club will actually start using the asset. Considering that lands and building depreciate at a 3% rate, depreciation of Tangible assets will be equal to around €19 million (€18 million of stadium's depreciation plus approximately €1 million of pre-existing depreciation).

For the amortization of players' registration rights, the concept is the same of the depreciation of tangible assets: until 2024 it is equal to the amortization of the existing players and the amortization of the new players, equal to the Intangible Capex. Those amortizations have been estimated considering a 4-year average contract length for the existent and new football players, consistently with the policy of buying mainly young players able to ensure a longer usage time compared to older players. Starting from 2025, the players' registration rights of the existing players will be completely amortized, hence the value of the amortization will be equal to that of the net investments in football players. In addition to the player registration rights' amortization, during the entire reference period (2021-2027) the club will also amortize over a 10-year period the value of the other Intangible assets, namely concessions, licences, trademarks and similar rights.

The value of provisions for risks and charge has been estimated equal to a fixed portion of the revenues, equal to the average of the 2019 and 2020 years. The value of write-offs has also been estimated as a fixed portion of the revenues, equal to the average portion during the 2011-2019 historical period. With reference to the players' registration rights, the devaluation of the residual load value is carried out in the presence of indicators of value losses (i.e., major accidents or significant losses resulting from disposals made after the balance sheet has been closed, as well as contractual market conditions that effectively prevent the disposals of players no longer compatible with the technical project). The EBIT Margin is also expected to constantly grow, becoming positive starting from the 2024/25 sporting season.

Moving on to the analysis of the expected financial expenses, they are related to debts to factoring companies for advances on future receivables in reference to commercial contracts

and, starting from 2022, to the long-term debt relating to the financing of the new stadium. Because of the specific nature of the first typology of debt (which is mainly short-term and partially long-term), it has been set as a fixed percentage of trade receivables, based on the average of the last two years. Then, a 2.75% interest rate for factoring has been applied to this kind of debt, in line with the historical interest rate applied. As regards the financial expenses related to the stadium long-term financing, instead, according to the economic and financial analysis document that the *AC Milan* and *FC Internazionale* presented to the municipality of Milan, the total investment planned for the construction of the new stadium and the multifunctional district will be realized with a financing of the duration 30 years and an annual interest rate of 5%[161]. Once the terms of the loan were known, a specific amortisation plan in constant instalments on a half-yearly basis was drawn up. The respective interests for the plan reference years (around €30 million) have then been taken from the amortisation plan and included in the financial expenses. The last component of the financial expenses is that related to the rolling debt, which generated in case the cash at the end of the period is negative. In this sense, we have financial expenses relating to rolling debt just in 2021, calculated using a 4% interest on bank overdraft.

The last component before arriving to the net profit or loss of the period is the taxation. Specifically, a tax rate equal to 27.9% (the sum of *IRES*, equal to 24%, and *IRAP*, equal to 3.9%) has been applied. However, the tax rate is applied only when the EBT is positive, as it is the case only in 2026 and 2027. These are also the unique two years of the BP with a net profit instead of a net loss. However, these results are consistent with the intrinsic business model of a football club, which assumes the constant reinvestment of the earnings generated to support the sporting performance of the team, thus creating value.

Moving on to the examination of the Balance Sheet assumptions, we have already reported those relating to the prospective trend of tangible and intangible assets. Financial assets, on the other hand, have been hypothesized to remain flat in the next years.

As regards TWC assumptions, the average DSO, DPO and DIO of the last three years have been calculated first; then, trade receivables have been forecasted based on the average DSO, trade payables based on the average DPO and Inventories based on the average DIO.

Infra-Group receivables and payables mainly refer to payables towards *M-I Stadio S.r.l,* the before mentioned company which deals with the management of *San Siro Stadium*. Thus,

[161] Calcio e Finanza. Nuovo stadio di Milan e Inter, il dettaglio dei costi. 19 September 2019.

Infra-Group payables have been forecasted on the basis the average ratio between them and the service costs related to the management of the stadium of the last three years.

As already mentioned, other receivables and payables represent mainly receivables and payables against national and foreign football clubs related to the sale and purchase of football players. In this sense, their balance has been estimated to be always negative in the forecasting period, in line with the hypothesized net transfer balance for each of the next seasons. Specifically, they have been hypothesized equal to 95% of the yearly net transfer balance, considering that the average 109.2% value of the last three years would not be sustainable in the medium-long term.

The last two components of the Net Invested Capital are the employee severance indemnity and the provisions for risk and charges, with the former which has been hypothesized flat for BP period, and the latter which has been estimated equal to a fixed portion of the revenues, equal to the average of the 2019 and 2020 years.

Concluding the BP analysis with the sources of capital, apart from the already analysed debts for factoring and long-term debt for the construction of the stadium, the remaining part of the Net Invested Capital will be financed with cash and cash equivalents. As a result, the NFP/EBITDA ratio will significantly increase between 2022 and 2024, because of the significant Tangible Capex financed with a Long-term financial debt, to then return to the 2021 ratio in 2026, equal to 3.2x. As regards equity, instead, it has been set a minimum net equity buffer, equal to €30 million (in line with the €34 million of net equity in 2020). Consequently, some necessary capital increases have been hypothesized in the first years of the plan (specifically equal to €44.4 million in 2021, €79.5 million in 2022, €80.8 million in 2023, €90.7 million in 2024 and €13.8 in 2025).

To conclude the Business Plan analysis, the four tables on the following pages exhibit *AC Milan*'s forecasted Financial Statements from 2020 (the last year with the historical data) to 2027, as a summary of what has been discussed in this section.

**BALANCE SHEET**

| € | 2020 A | 2021 F | 2022 F | 2023 F | 2024 F | 2025 F | 2026 F | 2027 F |
|---|---|---|---|---|---|---|---|---|
| Tangible Assets | 14.149.000 | 13.121.585 | 212.094.170 | 411.066.754 | 610.039.339 | 591.011.924 | 571.984.509 | 552.957.094 |
| Intangible Assets | 219.027.000 | 219.060.377 | 199.011.857 | 159.401.376 | 100.548.530 | 89.458.994 | 77.557.152 | 64.663.135 |
| *Player Registration rights* | *201.641.000* | 203.412.977 | 185.103.057 | 147.231.176 | 90.116.930 | 80.765.994 | 70.602.752 | 59.447.335 |
| *Other Intangible Assets* | *17.386.000* | 15.647.400 | 13.908.800 | 12.170.200 | 10.431.600 | 8.693.000 | 6.954.400 | 5.215.800 |
| Financial Assets | 3.031.000 | 3.031.000 | 3.031.000 | 3.031.000 | 3.031.000 | 3.031.000 | 3.031.000 | 3.031.000 |
| **Totale non-current Assets** | **236.207.000** | **235.212.961** | **414.137.027** | **573.499.130** | **713.618.869** | **683.501.918** | **652.572.661** | **620.651.229** |
| Trade Receivables | 52.085.000 | 51.856.408 | 65.257.018 | 72.721.682 | 76.537.607 | 106.756.949 | 116.030.827 | 127.358.206 |
| Trade Payables | (45.380.000) | (53.328.580) | (53.808.537) | (54.400.431) | (55.053.236) | (65.095.826) | (65.942.072) | (66.799.319) |
| Inventories | 294.000 | 204.920 | 206.764 | 209.039 | 211.547 | 214.297 | 217.083 | 219.905 |
| **TWC** | **6.999.000** | **-1.267.252** | **11.655.246** | **18.530.290** | **21.695.918** | **41.875.420** | **50.305.839** | **60.778.793** |
| ***%NS*** | ***3,6%*** | ***-0,6%*** | ***4,1%*** | ***5,9%*** | ***6,5%*** | ***9,0%*** | ***10,0%*** | ***11,0%*** |
| Intra-Group Receivables and Payables | (2.394.000) | (1.814.650) | (1.830.982) | (1.851.123) | (1.873.336) | (1.897.690) | (1.922.360) | (1.947.350) |
| Other Receivables/Payables | (76.728.000) | (71.850.875) | (71.850.875) | (71.850.875) | (71.850.875) | (71.850.875) | (71.850.875) | (71.850.875) |
| **NWC** | **-72.123.000** | **-74.932.777** | **-62.026.611** | **-55.171.708** | **-52.028.293** | **-31.873.144** | **-23.467.396** | **-13.019.432** |
| ***%NS*** | ***-37,5%*** | ***-33,2%*** | ***-21,9%*** | ***-17,4%*** | ***-15,6%*** | ***-6,9%*** | ***-4,7%*** | ***-2,4%*** |
| Employee Severance Indemnity | (1.584.000) | (1.584.000) | (1.584.000) | (1.584.000) | (1.584.000) | (1.584.000) | (1.584.000) | (1.584.000) |
| Provisions for risks and charges | (24.484.000) | (24.894.014) | (31.327.067) | (34.910.528) | (36.742.388) | (51.249.385) | (55.701.372) | (61.139.156) |
| **Net Invested Capital** | **138.016.000** | **133.802.170** | **319.199.348** | **481.832.894** | **623.264.187** | **598.795.389** | **571.819.893** | **544.908.640** |
| Short-term debts | 96.517.000 | 91.110.733 | 114.655.353 | 127.770.627 | 134.475.135 | 187.569.950 | 203.863.980 | 223.765.972 |
| Long-term debts | 18.659.000 | 9.288.554 | 11.688.881 | 13.025.956 | 13.709.467 | 19.122.376 | 20.783.519 | 22.812.487 |
| Long-term debts Stadium | 0 | 0 | 591.065.624 | 581.678.945 | 571.817.066 | 561.455.929 | 550.570.259 | 539.133.502 |
| Cash and cash equivalents | (11.284.000) | 3.402.882 | (428.210.510) | (270.642.635) | (126.737.481) | (199.352.865) | (251.843.198) | (334.929.108) |
| **NFP** | **103.892.000** | **103.802.170** | **289.199.348** | **451.832.894** | **593.264.187** | **568.795.389** | **523.374.560** | **450.782.853** |
| ***NFP/EBITDA*** | ***-2,0x*** | ***3,2x*** | ***5,0x*** | ***6,2x*** | ***7,4x*** | ***4,0x*** | ***3,2x*** | ***2,4x*** |
| **Shareholders' Loan** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| Share capital | 113.443.000 | 113.443.000 | 157.808.772 | 237.307.200 | 318.142.269 | 408.844.715 | 422.597.242 | 422.597.242 |
| Reserves | 115.297.000 | -79.319.000 | -127.808.772 | -207.307.200 | -288.142.269 | -378.844.715 | -392.597.242 | -374.151.909 |
| Profit/Loss for the period | -194.616.000 | -48.489.772 | -79.498.428 | -80.835.070 | -90.702.446 | -13.752.527 | 18.445.333 | 45.680.454 |
| Equity Capital Increase | | 44.365.772 | 79.498.428 | 80.835.070 | 90.702.446 | 13.752.527 | 0 | 0 |
| **Group's Shareholders' Equity** | **34.124.000** | **30.000.000** | **30.000.000** | **30.000.000** | **30.000.000** | **30.000.000** | **48.445.333** | **94.125.787** |
| Share capital and reserves attributable to non controlling interests | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Profit/Loss attributable to non controlling interests | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Minorities** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **Total Shareholders' Equity** | **34.124.000** | **30.000.000** | **30.000.000** | **30.000.000** | **30.000.000** | **30.000.000** | **48.445.333** | **94.125.787** |
| **TOTALE SOURCES** | **138.016.000** | **133.802.170** | **319.199.348** | **481.832.894** | **623.264.187** | **598.795.389** | **571.819.893** | **544.908.640** |

*(Table 14: AC Milan's Forecasted Balance Sheet, 2020-2027, own elaboration)*

**PROFIT AND LOSS**

| € | 2020 A | 2021 F | 2022 F | 2023 F | 2024 F | 2025 F | 2026 F | 2027 F |
|---|---|---|---|---|---|---|---|---|
| **Matchday** | **23.629.000** | **0** | **28.368.948** | **46.770.360** | **46.770.360** | **87.701.422** | **87.701.422** | **87.701.422** |
| Serie A | n.a. | 0 | 19.204.764 | 30.727.622 | 30.727.622 | 57.399.000 | 57.399.000 | 57.399.000 |
| European Competitions | n.a. | 0 | 4.548.497 | 10.916.392 | 10.916.392 | 23.373.000 | 23.373.000 | 23.373.000 |
| Coppa Italia | n.a. | 0 | 1.470.465 | 1.981.123 | 1.981.123 | 3.784.200 | 3.784.200 | 3.784.200 |
| Other Competitions | n.a. | 0 | 3.145.222 | 3.145.222 | 3.145.222 | 3.145.222 | 3.145.222 | 3.145.222 |
| **Commercial** | **52.245.000** | **61.850.095** | **73.221.059** | **86.682.542** | **102.618.881** | **134.935.143** | **174.531.072** | **223.046.507** |
| **Broadcasting** | **63.385.000** | **110.044.000** | **128.089.987** | **128.089.987** | **128.089.987** | **185.522.446** | **185.522.446** | **185.522.446** |
| Serie A | 63.385.000 | 93.044.000 | 79.139.987 | 79.139.987 | 79.139.987 | 133.072.446 | 133.072.446 | 133.072.446 |
| International | 0 | 17.000.000 | 48.950.000 | 48.950.000 | 48.950.000 | 52.450.000 | 52.450.000 | 52.450.000 |
| **Player Trading** | **28.135.000** | **28.416.350** | **28.672.097** | **28.987.490** | **29.335.340** | **29.716.700** | **30.103.017** | **30.494.356** |
| Gains on disposal of players' registration rights | 20.019.000 | 20.219.190 | 20.401.163 | 20.625.575 | 20.873.082 | 21.144.432 | 21.419.310 | 21.697.761 |
| Other revenues from player trading | 8.116.000 | 8.197.160 | 8.270.934 | 8.361.915 | 8.462.258 | 8.572.267 | 8.683.707 | 8.796.595 |
| **Other Income** | **24.921.000** | **25.170.210** | **25.396.742** | **25.676.106** | **25.984.219** | **26.322.014** | **26.664.200** | **27.010.835** |
| **TOTAL REVENUES** | **192.317.000** | **225.480.655** | **283.748.832** | **316.206.485** | **332.798.787** | **464.197.725** | **504.522.157** | **553.775.566** |
| *YoY growth* | | *17,2%* | *25,8%* | *11,4%* | *5,2%* | *39,5%* | *8,7%* | *9,8%* |
| Raw materials | (4.307.000) | (4.350.070) | (4.389.221) | (4.437.502) | (4.490.752) | (4.549.132) | (4.608.271) | (4.668.178) |
| *%NS* | *-2,2%* | *-1,9%* | *-1,5%* | *-1,4%* | *-1,3%* | *-1,0%* | *-0,9%* | *-0,8%* |
| Service costs | (51.957.000) | (52.476.570) | (52.948.859) | (53.531.297) | (54.173.672) | (66.236.484) | (67.097.558) | -67969826,22 |
| *Maintainance of the stadium* | (4.373.000) | (4.416.730) | (4.456.481) | (4.505.502) | (4.559.568) | (4.618.842) | (4.678.887) | (4.739.713) |
| *Others* | (47.584.000) | (48.059.840) | (48.492.379) | (49.025.795) | (49.614.104) | (61.617.641) | (62.418.671) | (63.230.113) |
| *%NS* | *-27,0%* | *-23,3%* | *-18,7%* | *-16,9%* | *-16,3%* | *-14,3%* | *-13,3%* | *-12,3%* |
| Hire, rental and leasing | (10.035.000) | (10.185.600) | (10.185.600) | (10.185.600) | (10.185.600) | (2.185.600) | (2.185.600) | -2185600 |
| *Charges for the concession in use of San Siro* | (7.971.000) | (8.000.000) | (8.000.000) | (8.000.000) | (8.000.000) | 0 | 0 | 0 |
| *Others* | (2.064.000) | (2.185.600) | (2.185.600) | (2.185.600) | (2.185.600) | (2.185.600) | (2.185.600) | (2.185.600) |
| *%NS* | *-5,2%* | *-4,5%* | *-3,6%* | *-3,2%* | *-3,1%* | *-0,5%* | *-0,4%* | *-0,4%* |
| Personnel costs | (160.878.000) | (110.000.000) | (141.874.416) | (158.103.242) | (166.399.393) | (232.098.863) | (252.261.078) | -276887782,9 |
| *%NS* | *-83,7%* | *-48,8%* | *-50,0%* | *-50,0%* | *-50,0%* | *-50,0%* | *-50,0%* | *-50,0%* |
| Other operating costs | (8.038.000) | (8.118.380) | (8.191.445) | (8.281.551) | (8.380.930) | (8.489.882) | (8.600.250) | -8712053,747 |
| *%NS* | *-4,2%* | *-3,6%* | *-2,9%* | *-2,6%* | *-2,5%* | *-1,8%* | *-1,7%* | *-1,6%* |
| Player Trading | (8.160.000) | (8.241.600) | (8.315.774) | (8.407.248) | (8.508.135) | (8.618.741) | (8.730.784) | -8844284,471 |
| *Losses on disposal of players' registration rights* | (4.717.000) | (2.433.594) | (2.433.594) | (2.433.594) | (2.433.594) | (2.433.594) | (2.433.594) | (2.433.594) |
| *Other costs from players trading* | (3.443.000) | (6.017.245) | (6.017.245) | (6.017.245) | (6.017.245) | (6.017.245) | (6.017.245) | (6.017.245) |
| *%NS* | *-4,2%* | *-3,7%* | *-2,9%* | *-2,7%* | *-2,6%* | *-1,9%* | *-1,7%* | *-1,6%* |
| **TOTAL OPERATING COSTS** | **(243.375.000)** | **(193.372.220)** | **(225.905.316)** | **(242.946.440)** | **(252.138.482)** | **(322.178.701)** | **(343.483.542)** | **(369.267.725)** |
| *%NS* | *-126,5%* | *-85,8%* | *-79,6%* | *-76,8%* | *-75,8%* | *-69,4%* | *-68,1%* | *-66,7%* |
| **EBITDA** | **(51.058.000)** | **32.108.435** | **57.843.516** | **73.260.044** | **80.660.304** | **142.019.024** | **161.038.615** | **184.507.840** |
| ***EBITDA margin*** | ***-26,5%*** | ***14,2%*** | ***20,4%*** | ***23,2%*** | ***24,2%*** | ***30,6%*** | ***31,9%*** | ***33,3%*** |
| D&A | (135.541.000) | (78.203.107) | (104.609.500) | (121.489.795) | (139.066.401) | (122.658.036) | (113.623.958) | (115.856.749) |
| *of tangible assets* | (996.000) | (1.027.415) | (1.027.415) | (1.027.415) | (1.027.415) | (19.027.415) | (19.027.415) | (19.027.415) |
| *of players' registration rights* | (94.601.000) | (69.318.375) | (88.226.500) | (107.134.625) | (126.042.750) | (75.632.500) | (75.632.500) | (75.632.500) |
| *of other intangible assets* | (8.817.000) | (1.738.600) | (1.738.600) | (1.738.600) | (1.738.600) | (1.738.600) | (1.738.600) | (1.738.600) |
| *Provisions for risks and charges* | (9.858.000) | (410.014) | (6.433.052) | (3.583.462) | (1.831.860) | (14.506.996) | (4.451.987) | (5.437.784) |
| *Write-off of trade receivables* | (1.418.000) | (1.166.554) | (1.468.013) | (1.635.937) | (1.721.779) | (2.401.589) | (2.610.213) | (2.865.032) |
| *Write-off of intangible assets* | (19.851.000) | (4.542.148) | (5.715.920) | (6.369.756) | (6.703.996) | (9.350.935) | (10.163.242) | (11.155.417) |
| **EBIT** | **(186.599.000)** | **(46.094.673)** | **(46.765.983)** | **(48.229.750)** | **(58.406.096)** | **19.360.988** | **47.414.657** | **68.651.092** |
| ***EBIT margin*** | ***-97,0%*** | ***-20,4%*** | ***-16,5%*** | ***-15,3%*** | ***-17,5%*** | ***4,2%*** | ***9,4%*** | ***12,4%*** |
| Net financial expenses | (6.342.000) | (2.258.984) | (32.732.444) | (32.605.319) | (32.296.349) | (33.113.515) | (32.992.974) | (32.935.334) |
| Net financial expenses Rolling debt | | (136.115) | 0 | 0 | 0 | 0 | 0 | 0 |
| Gains/Losses on Foreign Exchange | 5.000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Financial Assets' adjustments | 539.000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Extraordinary expenses | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **EBT** | **(192.397.000)** | **(48.489.772)** | **(79.498.428)** | **(80.835.070)** | **(90.702.446)** | **(13.752.527)** | **14.421.683** | **35.715.758** |
| ***EBT margin*** | ***-100,0%*** | ***-21,5%*** | ***-28,0%*** | ***-25,6%*** | ***-27,3%*** | ***-3,0%*** | ***2,9%*** | ***6,4%*** |
| Taxes | (2.219.000) | 0 | 0 | 0 | 0 | 0 | 4.023.650 | 9.964.696 |
| **Profit (Loss) for the period** | **(194.616.000)** | **(48.489.772)** | **(79.498.428)** | **(80.835.070)** | **(90.702.446)** | **(13.752.527)** | **18.445.333** | **45.680.454** |
| ***%NS*** | ***-101,2%*** | ***-21,5%*** | ***-28,0%*** | ***-25,6%*** | ***-27,3%*** | ***-3,0%*** | ***3,7%*** | ***8,2%*** |

*(Table 15: AC Milan's Forecasted Profit & Loss, 2020-2027, own elaboration)*

**CASH FLOW STATEMENT**

| € | 2020 A | 2021 F | 2022 F | 2023 F | 2024 F | 2025 F | 2026 F | 2027 F |
|---|---|---|---|---|---|---|---|---|
| EBIT | | (46.094.673) | (46.765.983) | (48.229.750) | (58.406.096) | 19.360.988 | 47.414.657 | 68.651.092 |
| D&A | | 78.203.107 | 104.609.500 | 121.489.795 | 139.066.401 | 122.658.036 | 113.623.958 | 115.856.749 |
| Taxes | | 0 | 0 | 0 | 0 | 0 | 4.023.650 | 9.964.696 |
| **Operating Cash Flow** | | **32.108.435** | **57.843.516** | **73.260.044** | **80.660.304** | **142.019.024** | **165.062.265** | **194.472.537** |
| *Tangible Capex* | | *(0)* | *(200.000.000)* | *(200.000.000)* | *(200.000.000)* | *(0)* | *(0)* | *(0)* |
| *% Sales* | | *0,0%* | *-70,5%* | *-63,2%* | *-60,1%* | *0,0%* | *0,0%* | *0,0%* |
| *Intangible Capex* | | *(75.632.500)* | *(75.632.500)* | *(75.632.500)* | *(75.632.500)* | *(75.632.500)* | *(75.632.500)* | *(75.632.500)* |
| *% Sales* | | *-33,5%* | *-26,7%* | *-23,9%* | *-22,7%* | *-16,3%* | *-15,0%* | *-13,7%* |
| *Financial Capex* | | *0* | *0* | *0* | *0* | *0* | *0* | *0* |
| *% Sales* | | *0,0%* | *0,0%* | *0,0%* | *0,0%* | *0,0%* | *0,0%* | *0,0%* |
| Capex | | (75.632.500) | (275.632.500) | (275.632.500) | (275.632.500) | (75.632.500) | (75.632.500) | (75.632.500) |
| *% Sales* | | *-33,5%* | *-97,1%* | *-87,2%* | *-82,8%* | *-16,3%* | *-15,0%* | *-13,7%* |
| *Delta Receivables* | | *(937.963)* | *(14.868.623)* | *(9.100.601)* | *(5.537.704)* | *(32.620.931)* | *(11.884.092)* | *(14.192.412)* |
| *Delta Payables* | | *7.948.580* | *479.957* | *591.894* | *652.805* | *10.042.590* | *846.246* | *857.247* |
| *Delta Inventories* | | *89.080* | *(1.844)* | *(2.274)* | *(2.508)* | *(2.750)* | *(2.786)* | *(2.822)* |
| Delta TWC | | 7.099.697 | (14.390.510) | (8.510.981) | (4.887.407) | (22.581.092) | (11.040.632) | (13.337.987) |
| Delta Intra-Group Receivables and Payables | | (579.350) | 16.332 | 20.141 | 22.213 | 24.353 | 24.670 | 24.991 |
| Delta Other Receivables and Payables | | (4.877.125) | 0 | 0 | 0 | 0 | 0 | 0 |
| Delta Provisions | | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Gains/Losses on Foreign Exchange | | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Free Cash Flow** | | **(41.880.843)** | **(232.163.162)** | **(210.863.296)** | **(199.837.389)** | **43.829.786** | **78.413.803** | **105.527.041** |
| Net financial expenses | | (2.395.099) | (32.732.444) | (32.605.319) | (32.296.349) | (33.113.515) | (32.992.974) | (32.935.334) |
| Extraordinary expenses | | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Changes in Shareholders' Loan | | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Changes in Shareholders' Equity | | 44.365.772 | 79.498.428 | 80.835.070 | 90.702.446 | 13.752.527 | 0 | (0) |
| Delta Financial Debts | | (14.776.712) | 617.010.570 | 5.065.671 | (2.473.861) | 48.146.586 | 7.069.504 | 10.494.203 |
| **Net Cash Flow** | | **(14.686.882)** | **431.613.392** | **(157.567.875)** | **(143.905.154)** | **72.615.384** | **52.490.332** | **83.085.910** |

*(Table 16: AC Milan's Forecasted Cash Flow Statement, 2020-2027, own elaboration)*

## A.C. MILAN S.P.A.

**KEY FINANCIALS** Revenues CAGR 2020-27 >> 16,3%

| Key Financials (€m) | 2020 A | 2021 F | 2022 F | 2023 F | 2024 F | 2025 F | 2026 F | 2027 F |
|---|---|---|---|---|---|---|---|---|
| **Revenues** | **192,3** | **225,5** | **283,7** | **316,2** | **332,8** | **464,2** | **504,5** | **553,8** |
| *% growth* | | *17,2%* | *25,8%* | *11,4%* | *5,2%* | *39,5%* | *8,7%* | *9,8%* |
| **EBITDA** | **(51,1)** | **32,1** | **57,8** | **73,3** | **80,7** | **142,0** | **161,0** | **184,5** |
| *% NS* | *-26,5%* | *14,2%* | *20,4%* | *23,2%* | *24,2%* | *30,6%* | *31,9%* | *33,3%* |
| **EBIT** | **(186,6)** | **(46,1)** | **(46,8)** | **(48,2)** | **(58,4)** | **19,4** | **47,4** | **68,7** |
| *% NS* | *-97,0%* | *-20,4%* | *-16,5%* | *-15,3%* | *-17,5%* | *4,2%* | *9,4%* | *12,4%* |
| **Profit (Loss)** | **(194,6)** | **(48,5)** | **(79,5)** | **(80,8)** | **(90,7)** | **(13,8)** | **18,4** | **45,7** |
| *% NS* | *-101,2%* | *-21,5%* | *-28,0%* | *-25,6%* | *-27,3%* | *-3,0%* | *3,7%* | *8,2%* |
| **NFP** | **103,9** | **103,8** | **289,2** | **451,8** | **593,3** | **568,8** | **523,4** | **450,8** |
| *NFP/EBITDA* | *-2,0x* | *3,2x* | *5,0x* | *6,2x* | *7,4x* | *4,0x* | *3,2x* | *2,4x* |
| **TWC** | 7,0 | -1,3 | 11,7 | 18,5 | 21,7 | 41,9 | 50,3 | 60,8 |
| *TWC %NS* | *3,6%* | *-0,6%* | *4,1%* | *5,9%* | *6,5%* | *9,0%* | *10,0%* | *11,0%* |
| **NWC** | -72,1 | -74,9 | -62,0 | -55,2 | -52,0 | -31,9 | -23,5 | -13,0 |
| *NWC %NS* | *-37,5%* | *-33,2%* | *-21,9%* | *-17,4%* | *-15,6%* | *-6,9%* | *-4,7%* | *-2,4%* |
| Net Invested Capital | 138,0 | 133,8 | 319,2 | 481,8 | 623,3 | 598,8 | 571,8 | 544,9 |
| *CIN %NS* | *71,8%* | *59,3%* | *112,5%* | *152,4%* | *187,3%* | *129,0%* | *113,3%* | *98,4%* |
| **Capex** | | **(75,6)** | **(275,6)** | **(275,6)** | **(275,6)** | **(75,6)** | **(75,6)** | **(75,6)** |
| **Free Cash Flow** | | **(41,9)** | **(232,2)** | **(210,9)** | **(199,8)** | **43,8** | **78,4** | **105,5** |
| *Cash conversion rate* | | *-130,4%* | *-401,4%* | *287,8%* | *247,8%* | *-30,9%* | *-48,7%* | *-57,2%* |
| **Equity** | **34,1** | **30,0** | **30,0** | **30,0** | **30,0** | **30,0** | **48,4** | **94,1** |
| **DSO** | 99 | 84 | 84 | 84 | 84 | 84 | 84 | 84 |
| **DPO** | 258 | 300 | 300 | 300 | 300 | 300 | 300 | 300 |
| **DIO (COGS)** | 25 | 17 | 17 | 17 | 17 | 17 | 17 | 17 |

**FREE CASH FLOW**

| (€m) | 2020 A | 2021 F | 2022 F | 2023 F | 2024 F | 2025 F | 2026 F | 2027 F |
|---|---|---|---|---|---|---|---|---|
| EBITDA | **(51,1)** | **32,1** | **57,8** | **73,3** | **80,7** | **142,0** | **161,0** | **184,5** |
| Taxes | (2,2) | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 4,0 | 10,0 |
| **Operating Cash Flow** | **(53,3)** | **32,1** | **57,8** | **73,3** | **80,7** | **142,0** | **165,1** | **194,5** |
| Delta Receivables | | (0,9) | (14,9) | (9,1) | (5,5) | (32,6) | (11,9) | (14,2) |
| Delta Payables | | 7,9 | 0,5 | 0,6 | 0,7 | 10,0 | 0,8 | 0,9 |
| Delta Inventories | | 0,1 | (0,0) | (0,0) | (0,0) | (0,0) | (0,0) | (0,0) |
| **Delta TWC** | | **7,1** | **(14,4)** | **(8,5)** | **(4,9)** | **(22,6)** | **(11,0)** | **(13,3)** |
| Tangible Capex | | (0,0) | (200,0) | (200,0) | (200,0) | (0,0) | (0,0) | (0,0) |
| Intangible Capex | | (75,6) | (75,6) | (75,6) | (75,6) | (75,6) | (75,6) | (75,6) |
| Financial Capex | | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| **Capex** | | **(75,6)** | **(275,6)** | **(275,6)** | **(275,6)** | **(75,6)** | **(75,6)** | **(75,6)** |
| Delta Intra-Group Receivables and Payables | | (0,6) | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| Delta Other Receivables and Payables | | (4,9) | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| Delta provisions for risks and charges | | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| Gains/Losses on Foreign Exchange | | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| **Free Cash Flow** | | **(41,9)** | **(232,2)** | **(210,9)** | **(199,8)** | **43,8** | **78,4** | **105,5** |
| *Cash conversion rate* | | *-130,4%* | *-401,4%* | *287,8%* | *247,8%* | *-30,9%* | *-48,7%* | *-57,2%* |
| Financial expenses | | (2,4) | (32,7) | (32,6) | (32,3) | (33,1) | (33,0) | (32,9) |
| Extraordinary expenses | | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| Changes in Shareholders' Loan | | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| Changes in Shareholders' Equity | | 44,4 | 79,5 | 80,8 | 90,7 | 13,8 | 0,0 | (0,0) |
| Delta Financial Debts | | (14,8) | 617,0 | 5,1 | (2,5) | 48,1 | 7,1 | 10,5 |
| **Net Cash Flow** | | **(14,7)** | **431,6** | **(157,6)** | **(143,9)** | **72,6** | **52,5** | **83,1** |

*(Table 17: AC Milan key financials, 2020-2027, own elaboration)*

### *3.2.3 Estimated value at exit and return calculation*

The valuation of a football club can be carried out either on the basis of asset-based methods or on market methods.

As regards the asset-based methods, the most commonly used approaches are the "Sum of Parts method" ("**SOP**") and the "Mixed method". In the Sum of Parts methodology, a company/group is considered as a set of different businesses whose final value is the result of the sum of the values of each single set of operating activities[162]. The SOP approach is particularly suitable for the valuation of a football club, which can be evaluated as the sum of the values of the following assets:

- Brand, which represents the value of the trademark. In line with Brand Finance best practice, the "Relief from Royalties method" is the most suitable approach for assessing the brand of a football club. Specifically, it entails estimating the likely future revenues that are attributable to a brand by calculating a royalty rate that would be charged for its use, to arrive at a "brand value", which is defined as a net economic gain that a licensor would obtain by licensing the brand in the open market.
- Team, which represents the value of the players' squad.
- Other assets (e.g., stadium/sports center).

As already mentioned, the Mixed method is the other asset-based methodology which can be applied in order to perform a valuation of a football club. Specifically, the Mixed method combines aspects of the equity and income methods, while attempting to mediate between the advantages and disadvantages thereof. On one hand, it considers the size, structure, and profitability of the company's assets, on the other, it takes historical or future trends into account[163]. According to this method, the value of a football club is equal to the sum of the following: i) Net invested capital of company expressed in current values. In this context, it is particularly important to re-export to market values the value of the players' registration rights and the brand, in addition to that of other identifiable assets not reflected in the accounting situation (e.g., library); ii) Goodwill, considered as the present value of the "income surplus" that the net invested capital of the company is able to generate compared to the expected income

[162] Vulpiani, M. 2014. Special Cases of Business Valuation. McGraw-Hill, p.313.
[163] Vulpiani, M. 2014. Special Cases of Business Valuation. McGraw-Hill, p.262-263.

of equity capital investors in the reference sector; iii) Value of other owned assets (e.g., stadium/sports center).

Both the SOP and the Mixed methods, however, are hardly applicable to our analysis, since it is extremely complex to estimate the prospective value of the assets, without having a detailed strategic plan provided by the management.

A large portion of academic research and professional practice thinks that the DCF method (which discounts, at a certain rate, the expected cash flows) is usually the most rational and accurate method for the valuation of a business. Despite the fact that this approach is extensively and effectively used to evaluate firms in a variety of sectors, it does not provide satisfactory results when used to value football clubs (Thornton and Matyszczyk, 2010). The use of the DCF for the evaluation of football clubs creates two issues. First, it is important to note that football clubs are, in most cases, loss-making businesses which generate negative cash flow that, when discounted at any discount rate, would result in a void value for the company, or anyway a value significantly lower than the market value. Even if these flows are positive, their unpredictability and extreme volatility, inherent in the nature of the sector, would make it impossible to perform reliable ex ante forecasts (Markham, 2013)[164].

Given these considerations, the "Revenue Multiple approach" has been chosen to perform the valuation of *AC Milan* at the hypothesized Elliott's exit from the investment in 2027, according to KPMG Football Benchmark's best practice. It is a method for determining the value of a company relative to the revenues that it generates. This methodology is particularly suitable for establishing an indicative value of football clubs for three main reasons[165]: i) Revenue figures are straightforward to access and compare, as they are less distorted by accounting adjustments; ii) Unlike earnings, which can be negative for many clubs, revenue multiples can be used to evaluate even the most distressed clubs; iii) Revenues are not as volatile as earnings.

Revenues are then multiplied by a factor based on observations of similar company acquisitions ("**transactions comps**") and similar publicly traded clubs ("**trading comps**"). As far as our analysis is concerned, the revenue multiple estimated from comparable transactions has been used as reference methodology, with the multiple calculated from comparable publicly traded clubs, used just as a control method[166]. The reason for this choice is that transaction

[164] Tiscini, R., Dello Strologo, A. (2016). What drive the value of football clubs: an approach based on private and socio-emotional benefits, Corporate Ownership & Control, Volume 14.
[165] KPMG Football Benchmark, The European Elite 2021.
[166] KPMG Football Benchmark, The European Elite 2021.

multiples assist in the understanding of the multiples and premiums specifically paid in the industry, and hence is more realistic.

The first step in performing a transaction comps valuation is the identification of a universe of comparable acquisitions. To this extent, Mergermarket database has been consulted. Specifically, only transactions involving European football clubs within a period of 15 years have been considered, with a focus mainly on the acquisitions that took place in recent years. The comparable transactions have then been further segmented, based on the type of bidder (financial, industrial or private) and, more importantly, on the size of the target company. In this sense, transactions involving the acquisition of clubs with an EV greater than €350 million have been considered Tier 1 comparable transactions; conversely, acquisitions of clubs with EVs below this threshold have been considered Tier 2 transaction comps.

Given these premises, *Table 18* in the next page provides an overview of the main transactions in the football industry at European level in recent years.

**COMPARABLE TRANSACTIONS ANALYSIS**

*Value in EUR m*

| Curr | Compl. Date | Target | Country | Tier | Acquiror | Bidder Type | (% acquired) | Enterprise Value | Sales | EV/ Sales |
|---|---|---|---|---|---|---|---|---|---|---|
| Eur | 25/06/2021 | **Club Atletico de Madrid S.A.D.** | Spain | 1 | Ares Management LLC | Financial | 34% | 535,3 | 331,8 | **1,6x** |
| Eur | 11/02/2021 | **Spezia Calcio Srl** | Italy | 2 | Platek family | Private | 100% | 25,0 | 22,9 | **1,1x** |
| Eur | 31/12/2020 | **Burnley Football & Athletic Company Limited** | England | 2 | Velocity Sports Partners | Financial | 84% | 189,2 | 153,4 | **1,2x** |
| Eur | 17/08/2020 | **A.S. Roma SpA** | Italy | 1 | The Friedkin Group | Industrial | 87% | 486,3 | 141,2 | **3,4x** |
| Eur | 06/12/2019 | **City Football Group Limited** | England | 1 | Silver Lake Partners | Financial | 10% | 4360,9 | 706,1 | **6,2x** |
| Eur | 06/06/2019 | **ACF Fiorentina SpA** | Italy | 2 | Rocco B. Commisso | Private | 100% | 170,0 | 96,8 | **1,8x** |
| Eur | 25/01/2019 | **FC Internazionale Milano SpA** | Italy | 1 | LionRock Capital Limited | Financial | 31% | 483,1 | 123,0 | **3,9x** |
| Eur | 30/09/2018 | **Real Valladolid C.F.** | Spain | 2 | Ronaldo Nazario | Private | 51% | 61,0 | 10,2 | **6,0x** |
| Eur | 28/08/2018 | **Arsenal Holdings Plc** | England | 1 | Kroenke Sports & Entertainment, LLC | Industrial | 33% | 1993,3 | 459,9 | **4,3x** |
| Eur | 20/07/2018 | **Aston Villa Football Club Limited** | England | 2 | Wesley Edens; Nassef Sawiris | Private | 55% | 123,1 | 73,7 | **1,7x** |
| Eur | 28/03/2018 | **Royal Sporting Club Anderlecht** | Belgium | 2 | Joris Ide; Alychlo N.V. | Private | 70% | 140,5 | 43,8 | **3,2x** |
| Eur | 14/08/2017 | **Girona FC** | Spain | 2 | City Football Group Limited; Girona Football | Industrial | 89% | 13,4 | 8,5 | **1,6x** |
| Eur | 14/08/2017 | **Southampton Football Club Limited** | England | 2 | Gao family | Private | 80% | 220,1 | 207,5 | **1,1x** |
| Eur | 18/05/2017 | **Nottingham Forest Football Club Limited** | England | 2 | Evangelos M. Marinakis; Sokratis Kominakis | Private | 100% | 58,3 | 23,9 | **2,4x** |
| Eur | 15/09/2016 | **West Bromwich Albion Holdings Limited** | England | 2 | Yunyi Guokai (Shanghai) Sports Development | Financial | 100% | 176,9 | 117,7 | **1,5x** |
| Eur | 21/07/2016 | **Wolverhampton Wanderers Football Club** | England | 2 | Fosun International Limited | Financial | 100% | 53,7 | 35,8 | **1,5x** |
| Eur | 21/07/2016 | **Swansea City Association Football Club Limited** | England | 2 | Jason Levien; Steve Kaplan | Private | 60% | 236,3 | 134,0 | **1,8x** |
| Eur | 06/06/2016 | **FC Internazionale Milano SpA** | Italy | 1 | Suning.com Co., Ltd. | Industrial | 69% | 452,9 | 146,8 | **3,1x** |
| Eur | 08/03/2016 | **Everton Football Club Company Limited** | England | 2 | Farhad Moshiri | Private | 50% | 260,8 | 174,8 | **1,5x** |
| Eur | 02/03/2015 | **Sheffield Wednesday Football Club Limited** | England | 2 | Dejphon Chansiri | Private | 100% | 40,1 | 17,1 | **2,4x** |
| Eur | 17/05/2014 | **Valencia C.F., S.A.D.** | Spain | 1 | Peter Lim Eng Hock | Private | 70% | 362,0 | 113,3 | **3,2x** |
| Eur | 11/02/2014 | **FC Bayern Muenchen AG** | Germany | 1 | Allianz SE | Financial | 8% | 1320,5 | 385,0 | **3,4x** |
| Eur | 15/10/2013 | **FC Internazionale Milano SpA** | Italy | 1 | International Sports Capital | Industrial | 70% | 444,1 | 201,2 | **2,2x** |
| Eur | 12/07/2013 | **Fulham Football Club** | England | 2 | Shahid Khan | Private | 100% | 173,5 | 85,1 | **2,0x** |
| Eur | 29/05/2012 | **The Reading Football Club Limited** | England | 2 | Thames Sports Investment | Industrial | 51% | 73,8 | 19,0 | **3,9x** |
| Eur | 22/07/2005 | **Manchester United Plc** | England | 1 | Red Football Ltd | Financial | 72% | 1114,0 | 256,3 | **4,3x** |

*(Table 18: Comparable transactions' panel, own elaboration, Mergermarket)*

When considering the entire reference panel, we range from a minimum 1.1x revenue multiple paid by the Gao family for the acquisition of 80% of Southampton in 2017, to a maximum 6.2x revenue multiple paid by the private equity firm Silver Lake Partners for the acquisition of a 10% stake in City Football Group Limited, the UK-based owner and operator of football clubs such as Manchester City FC and *Girona FC*, in addition to other non-European football clubs. The average and median multiples of the panel are equal to 2.7x and 2.3x respectively.

When focusing on the typology of buyer, instead, we can see that private investors tend to pay less than the financial (PE firms, Hedge Funds etc.) and industrial (mainly family offices) investors. In fact, they invest at an average EV/Revenue multiple of 2.3x, against the average 3.0x and 3.1x multiples of financial and industrial investors respectively. However, as evincible from the table, they tend to invest predominantly in smaller clubs, thereby the private benefit of control is lower than the one obtainable by investing in larger clubs, in terms of community reputation and exploitation of the communicational resonance. For the same reason, the average multiple paid for the acquisition of a Tier 1 club is significantly greater than the one paid for the acquisition of a Tier 2 club in the panel (specifically 3.6x vs 2.2x). In accordance with this segmentation, *AC Milan* should be considered a Tier 1 club, with an EV equal to €427 million in 2020 (based on KPMG Football Benchmark annual valuation report)[167].

The segmentation between acquisitions of Tier 1 or Tier 2 football clubs has been considered the key driver in the choice of the EV/Revenue multiple to be applied to the expected revenues at the hypothesized exit date, in order to perform the prospective valuation of *AC Milan*. Due to this, the multiple that will be used for the valuation is equal to 3.6x.

As already mentioned, it has also been calculated as control method a multiple based on comparable listed clubs. Specifically, all the European listed football clubs for which it has been possible to find the EV in 2020 (again, based on KPMG Football Benchmark annual valuation report) have been included into the panel. Then, as for comparable transactions, the panel has been segmented into Tier 1 and Tier 2 comparable companies. In this case the driver of the choice between Tier 1 and Tier 2 was not the fact of having an EV greater or lower than a certain threshold, but it was preferred to consider the overall history of the club both at the national and international levels, together with the prospective management of the business. For the latter reason, clubs such as *AFC Ajax* and *Olimpique Lyonnais* have been considered Tier 2, despite having EVs currently similar to that of *AC Milan*. Indeed, those clubs have a

[167] KPMG Football Benchmark, *The* European Elite 2021.

business model based on the generation of capital gains from the disposal of the best players, which is diametrically opposite to the business model that Elliott fund wants to implement at the club, based on value creation generated by the organic growth of revenues in the medium-long term, together with a cost rationalisation process and the exploitation of costs' synergies.

*Table 19* exhibits the panel of *AC Milan*'s comparable listed companies.

**COMPARABLE COMPANIES ANALYSIS**

*Value in EUR m*

| Club | Country | Tier | Enterprise Value | Sales | EV/ Sales |
|---|---|---|---|---|---|
| **Juventus FC** | Italy | 1 | 1480,0 | 573,4 | **2,6x** |
| **AS Roma** | Italy | 1 | 405,0 | 174,0 | **2,3x** |
| **SS Lazio** | Italy | 1 | 298,0 | 106,3 | **2,8x** |
| **Manchester United FC** | England | 1 | 2661,0 | 580,4 | **4,6x** |
| **Arsenal FC** | England | 1 | 1445,0 | 388,0 | **3,7x** |
| **Borussia Dortmund** | Germany | 1 | 1120,0 | 365,7 | **3,1x** |
| **Galatasaray SK** | Turkey | 2 | 345,0 | 162,0 | **2,1x** |
| **Fenerbahce SK** | Turkey | 2 | 184,0 | 71,8 | **2,6x** |
| **SL Benfica** | Portugal | 2 | 349,0 | 140,0 | **2,5x** |
| **FC Porto** | Portugal | 2 | 252,0 | 86,8 | **2,9x** |
| **AFC Ajax** | Netherlands | 2 | 418,0 | 162,3 | **2,6x** |
| **Olimpique Lyonnais** | France | 2 | 489,0 | 180,7 | **2,7x** |

*(Table 19: Comparable Companies' panel, own elaboration, KPMG and clubs' Financial Statements)*

Given the same assumption of considering just Tier 1 football clubs, the average revenue multiple is equal to 2.9x. This is a fair value considering that transaction multiples are generally greater than trading multiples, as they take into account several factors such as the premium a company generally has to pay to acquire a controlling stake.

Once estimated *AC Milan*'s prospective revenues at the hypothesized exit date (**€553.775.566**) and the relative revenue multiple to be applied (**3.6x**), we arrive at an EV equal to **€1.980.305.654**. Then, subtracting the prospective NFP (**€450.782.853**) from the EV, we obtain the equity value at exit (**€1.529.522.800**), which is the value we need to estimate the IRR on the investment.

*Table 20* exhibits the investment timeline, providing an overview of the equity value at entry, all the equity capital increases during the investment period and the equity value at exit. As regards equity capital increases, all the injections until 2021 (considering the first €129.9 million for this year) have actually been made by Elliott fund[168], while the ones until 2025 arising from our analysis are just hypothetical.

**INVESTMENT TIMELINE**

| € | 2018 A | 2019 A | 2020 A | 2021 F | 2022 F | 2023 F | 2024 F | 2025 F | 2026 F | 2027 F |
|---|---|---|---|---|---|---|---|---|---|---|
| **Equity Value at entry** | (300.000.000) | | | | | | | | | |
| **Equity capital increases** | 128.000.000 | (20.000.000) | (20.250.000) | (129.900.000) | | | | | | |
| | (21.000.000) | (10.000.000) | | (44.365.772) | (79.498.428) | (80.835.070) | (90.702.446) | (13.752.527) | | |
| | (30.500.000) | (20.000.000) | | | | | | | | |
| | (119.461.056) | (21.100.000) | | | | | | | | |
| | (10.240.000) | (6.200.000) | | | | | | | | |
| | | (20.000.000) | | | | | | | | |
| | | (10.000.000) | | | | | | | | |
| | | (20.000.000) | | | | | | | | |
| | | (10.000.000) | | | | | | | | |
| | | (20.000.000) | | | | | | | | |
| | | (45.000.000) | | | | | | | | |
| **Equity Value at exit** | | | | | | | | | | 1.529.522.800 |
| **TOTAL** | (353.201.056) | (202.300.000) | (20.250.000) | (174.265.772) | (79.498.428) | (80.835.070) | (90.702.446) | (13.752.527) | 0 | 1.529.522.800 |
| **IRR** | **6,0%** | | | | | | | | | |

*(Table 20: Elliott Management Corporation IRR on AC Milan Investment, own elaboration)*

Hence, according to the baseline scenario hypothesized, Elliott fund is going to make an IRR of 6.0% from the investment in *AC Milan*. For an interpretation and a critical comment on this result, please refer to the section on conclusions.

[168] Source: Calcio e Finanza's elaboration on Project Redblack Financial Statements.

## Conclusions

In light of the recent trend which sees PE firms investing in the European football industry, the dissertation has started with some fundamental questions: is the acquisition of a football club a profitable investment for a PE firm? Which are the key opportunities of the investment, and which instead the key risks and mitigations? And finally, what are the opportunities in terms of asset enhancement and IRR maximization?

With that in mind, the activity of PE funds, from a theoretical standpoint, has been analysed, in order to provide a solid structure to evaluate the convenience or not of the investment. Consequently, an analysis of the context and the industry of reference was provided, in order to gain a clear understanding of the scenario in which the object of the research exists. From that analysis it emerged that the European football industry has been heavily impacted by the Covid-19 pandemic. Specifically, the combined market size of the "Big Five" Leagues decreased by 11%, from €17.0 billion in the 2018/19 season to €15.1 billion in the 2019/20 season, with an irreversible loss due the elimination of the near-term matchday revenues and significant rebates and postponements in terms of broadcasting revenues. Moreover, extending the analysis to the 32 most valuable European football clubs, they too registered an aggregate 15% drop in 2020, a decrease equal to €6.1 billion.

In light of that, two main effects of the Covid-19 pandemic on the European football industry have been observed.

First, a greater alignment between the objectives of private equity firms and the needs of football clubs was observed. Indeed, football clubs have been under increasing pressure for liquidity and have suffered a significant drop in their market values, increasing their attractiveness as potential target investments. Additionally, football clubs are considered by PE firms as an emerging asset class with interesting and unique characteristics, having an extremely valuable brand, stable and predictable cash flows (a large part is generated by fixed broadcasting rights and pre-existing sponsorship agreements) and low or negative correlation with the other asset classes. Finally, the PE opportunity also fits into a scenario of strong growth of European football as an asset class in recent years, with the aggregate EV of the 32 most prominent European football clubs having increased by an average of 10.9% per year in the four years immediately preceding the pandemic.

The second pandemic effect has been a new emphasis on the underlying issues already present in the European football existing business model, characterized by significant economic losses and indebtedness, increasing the need for structural and regulatory changes in the sector.

This is the context in which the "Super League" found its space, a project aimed at increasing the polarization of club economic power and the crystallization of sporting success, reducing the financial consequences of sporting performance risks and stabilizing cash flows.

In light of the considerations that emerged from the analysis of the context and industry of reference, the final chapter of the dissertation provided the analysis of a case study, in order to draw empirically based conclusions on the convenience of investing in a football club. The object of the case study was the acquisition of AC Milan by Elliott hedge fund. The analysis was built on a set of carefully defined assumptions (more thoroughly explored in the third chapter) and led to the following result: with the exit date from the investment hypothesized for 2027, the Elliot fund could gain an IRR of 6%. A 6% IRR may appear not to be in line with the average IRR realized by Elliot fund, which in 2020 was equal to 12.7%. It may also appear too low if compared to the target return of PE funds in general (in the 20% range).

However, it is crucial to keep in mind the medium-long term time horizon of the investment (with a hypothesized holding period of 9 years against the typical 5 years of private equity firms), since the time factor, as seen in the first chapter, strongly affects IRR calculations. At the same time, it should be also kept in mind that the 6% return is extremely volatile, as it is strongly correlated with sporting performances.

In conclusion, the acquisition of a football club does not seem to be completely aligned with the PE firms' standards and objectives, where the financial return is key to the investment. Indeed, the indirect benefits related to image, reputation and prestige that come with the ownership of a football club are not in line with the ambitions of investment funds. However, this does not imply that investment funds should be discouraged to enter the football sector, but rather merely that the acquisition of a football club is an extremely volatile investment, as it is strongly affected by sporting performance which may dramatically change from season to season, and often depends on factors outside the investors' sphere of control (think about the possibility of a prolonged injury of the most important player in the team).

The same cannot be said about the increasingly common procedure of PE funds investing in minority stakes of football leagues. Buying a stake in a league is not dependent on the individual on-field performance of a team or its ability to get sponsorship deals. It's also not on the hook for player salaries, which account for a significant portion of a club's revenue. In this sense, it represents a type of investment that is less volatile and that is able to leverage the exponential growth of the audience of the football movement, which took place in the recent year and that can be expected to persist in the medium-long term.

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**Summary**

The main goal of this dissertation is to investigate the recent trend of private equity firms' investments in the European football industry, assessing the related opportunities and threats. The research aims at answering the following questions: is investing in a football club profitable for private equity funds? Which are the key drivers of the investments? Which are their key risks and mitigations? What are the opportunities in terms of asset enhancement and Internal Rate of Return maximization?

With that in mind, the focus was at first on the most relevant aspects of private equity, to comprehend the outline of the analysis and introduce the topic from a theoretical point of view. Private equity consists of equity capital that is not listed on a public exchange. The rationale behind PE is very straightforward. Funds' managers attempt to acquire high-quality assets at attractive valuations, then apply operational experience and leverage to increase their portfolio company value and performance. One of the key drivers of value creation of PE firms is the increase of the target company's EBITDA, which is essentially achievable in three ways: through revenues increase, with cost reduction or through strategic M&A transactions (strategic follow-on acquisitions, introduction of new product lines, capacity expansion, launches in new markets etc.). These value-enhancing possibilities are implemented with the goal of unlocking their potential and repositioning portfolio firms for sale at a multiple of the invested equity.

As regards the typical structure of a PE fund, a limited partnership is set up to organize the PE fund's activity, with institutional investors as Limited Partners and investment managers as General Partners. Whenever GPs identify investment opportunities, the fund makes a capital call, and investors must transfer a portion of their capital commitment to the fund for the investment in the target company by the date required. The fund invests equity in various companies, with the aim of selling its interests in the portfolio companies after a certain period of time (usually 5 years) and receive exit proceeds. Those proceeds are then distributed by the fund to the LPs. Part of the proceeds, however, are retained by the GPs as carried interest (c.20% of capital gains) at the time the investment is sold. Moreover, GPs usually invest their capital alongside LPs and are remunerated with management fees. (c.1-3% of the capital per annum).

When classifying PE investments based on the stage of life of the target companies, buyouts represent the largest and most important class of private equity activities and refer to the purchase of a majority stake in established, cash-flow positive companies. They typically use leverage and the target company cash flows are used to repay the debt portion used for the

acquisition. Due to their ability to support large amounts of debt (c.60-70% of debt financing), companies with stable and predictable cash flow, as well as substantial assets, are often appealing LBO candidates. When analysing the leverage component of an LBO, it's critical to establish whether changing a company's debt-to-equity ratio can affect the company's value. In fact, the use of debt has both benefits and costs relative to the use of equity. On one hand, interests paid on debt financing are tax deductible; on the other, the use of debt increases the cost of distress and limits the future borrowing capacity. The debt used in an LBO is raised by the issue of various types of loans, securities, and other instruments that are classified according to their security status and seniority in the capital structure. In general, the higher a debt instrument ranks in the capital structure hierarchy, the lower its risk and, as a result, the cheaper the cost of capital of the borrower. The cost of capital, on the other hand, is inversely proportional to the degree of flexibility provided by the debt instrument in question.

The investment firm which funds the remaining portion of the purchase price with the equity contribution takes the name of financial sponsor and refers to traditional PE firms, hedge funds, Venture Capital funds, and SPACS. The sponsor's ultimate goal is to make a reasonable return on its equity investment upon exit (ca. 20% IRR in a five-year investment horizon), typically through the sale to a strategic buyer (or "trade sale"), the sale to another financial sponsor, or the listing on the stock exchange of the target. The trade sale is the best exit route for PE funds, since strategic buyers tend to pay a greater price as they may have a strategic interest in the purchase in terms of competitive position and market share increase over competitors. The IPO, on the other hand, is the most complex exit route, because of the regulatory restrictions and the significant fixed costs connected with the listing on a public market. However, an IPO could be a very attractive exit route if the target company has a solid equity story and an equity stock price that is expected to increase.

As regards the key measures of performance, finally, the Internal Rate of Return measures the annualized internal rate of return of the LPs based on contributions and distributions, net of the fees and carried interest paid to the GPs. The main advantage of the IRR is that it considers the time value of money, unlike money multiples. In this sense, the Cash-on Cash return multiple is a very straightforward measure of performance which shows the ratio of the money returned to the money invested.

After having introduced the topic of private equity from a theoretical point of view, a comprehensive analysis of the European football industry was the focus of the following part of the analysis.

A professional football club generates income from mainly three sources: matchday, broadcasting rights and commercial activities. The first revenue line is related to a club's ability to generate income from ticket sales, hospitality sales, and other related sales. Stadium size, utilisation, and average attendance are other parameters that have an impact on matchday revenue. Broadcasting revenues depend on the broadcasting rights linked with the participation in national leagues and international competitions and are positively influenced by performances on the pitch. Broadcasting rights are directly negotiated between national and international leagues and media distributors; therefore, clubs have no direct influence on the outcome of contract negotiations. The third source of revenues is made up of kit, shirt, sponsorship partnerships, merchandising, and any other relevant commercial operations. Sponsorship values and merchandising are inextricably linked to a club's performance, history, brand, and global fan base. With respect to the typical cost structures of a professional football company, the one with the greatest impact typically relates to personnel costs. According to Markham (2012), it is important for a prudent management of costs to ensure that the expenses incurred to pay the salaries to the players be equal to or less than 50%. However, football companies struggle to meet the 50% threshold. Although there seems to be a contradiction between personnel cost and generation of value, with renowned players' high salaries causing a reduction in operating income, the conflict is only apparent. In fact, a squad of talented players is a resource that helps to improve not only sporting performance but also the club's reputation and overall appeal, attracting a greater number of fans, increasing revenues from ticket sales, TV rights, sponsorships and merchandising, thus generating a positive impact on the value of the football club. The second big cost structure for a professional football club is related to amortization and depreciation. A football club usually amortizes the capitalized expenses connected with the acquisition of players and key football management staff registration on a straight-line basis over the duration of their employment contracts. Then, there are some exceptional items in the Income Statement of a professional football club. The most important in this sense is the profit or loss on disposal of players' registration rights, also known as "player trading". The rationale of player trading is to sell a player at a price higher than its book value, thus generating a capital gain, which would have a positive impact on the profit and loss account. Due to the constant increase in the purchase price of players over time, the use of player trading has become so common in football that it can be considered a fourth source of revenue in addition to the already mentioned lines. Once analysed the functioning of a typical football club business model, the effects of the Covid-19 pandemic on the European football industry were investigated, with specific focus on the big five European leagues.

The industry has been heavily impacted by the pandemic, with the combined market size of the big five leagues decreasing by 11% between season 2018/19 and season 2019/20, specifically from €17.0 billion to €15.1 billion. The industry suffered an irreversible loss due the elimination of the near-term matchday revenues, in addition to significant rebates and postponements in terms of broadcasting revenues. Extending the analysis to the 32 most valuable European football clubs, they too registered an aggregate 15% drop in 2020, a decrease equal to €6.1 billion. Player values have not been immune either, with the aggregate market value of the 500 most valuable football players which has decreased by 10% between February 2020 and April 2021.

The *Bundesliga* was the first major European sports league to resume matches after the pandemic-induced halt in March 2020, and it was also the only big five league to finish its season in the 2019/20 fiscal year. As a result, overall income fell just 4% to €3.2 billion. Moving to Spain, the 20 *LaLiga* clubs' aggregate revenues decreased 8% to €3.1 billion in 2019/20, causing the *Bundesliga* to overtake *LaLiga* as Europe's second-highest revenue generating league. As Italy became the first focal point for Covid-19 in Europe, suspending play on March 9, 2020, *Serie A* clubs' combined income dropped 18% to €2.1 billion in 2019/20, the largest percentage decrease among the big five European leagues. *Ligue 1* was the only division among the big five to cancel its season in reaction to the pandemic, with French clubs' aggregate income decreasing by 16% to €1.6 billion in 2019/20, binding the league to the last place of the big five in terms of revenues, more than €450m behind *Serie A*. Concluding the analysis of the big five leagues' revenues with the Premier League, the aggregate clubs' income fell by 13% to £4.5 billion in 2019/20. The financial impact of Covid-19 was felt by all clubs, resulting in the first combined revenues' reduction in Premier League history and the lowest aggregate level since 2015/16.

The aim of the comparative analysis was to have a better idea of the impact of Covid-19 on the European football industry, assessing which revenue lines and which national leagues have been more resilient to the downturn, in view of the potential investment by a private equity fund in the short-medium term. The focus of the analysis then shifted to the less obvious long-term repercussions of Covid-19 on the European football ecosystem.

First, a greater alignment between the objectives of PE firms and the needs of football clubs was observed. Indeed, football clubs have been under increasing pressure for liquidity and have suffered a significant drop in their market values, increasing their attractiveness as potential target investments. The pandemic has increased uncertainty about future revenue growth from previously booming sources (broadcasting and commercial in particular), as well as eliminating

near-term matchday revenues completely. This has sparked talks between leagues and private equity funds, which may help handle both the short-term financial cashflow issue as well as provide technical expertise and financial/human capital to assist them achieve their strategic goals. Additionally, football clubs are considered by PE firms as an emerging asset class with interesting and unique characteristics, having an extremely valuable brand, stable and predictable cash flows (a large part is generated by fixed broadcasting rights and pre-existing sponsorship agreements) and low or negative correlation with the other asset classes. The PE opportunity also fits into a scenario of strong growth of European football as an asset class in recent years, with the aggregate EV of the 32 most prominent European football clubs having increased by an average of 10.9% per year in the four years immediately preceding the pandemic. The growth is substantial when considering revenues too, with the aggregate income of Europe's big five leagues which roughly doubled between 2009/10 and 2018/19, rising from c.€8.4 billion to over €17 billion. US investment companies are perfectly positioned to enter the market since they have the resources to act fast and capitalize on such an opportune moment. American investors have already made significant inroads in European football, with majority stakes in around one-fifth of the 60 clubs competing in England, Italy, and France's top divisions. An important factor for American investors is that European football frequently provides better terms than major American sports. In fact, under American franchise-based systems, investors must acquire a stake in the league to own a team. Even though the lack of promotion-relegation and central cost-controlling measures creates a stable investment environment, purchasers must pay a premium for this benefit. For these reasons, many US investors believe that owning a European football club is a better fit for their investment plans because they want more ownership control over the owned businesses and higher returns on the investments. The analysis of the ongoing private equity investment trend ended with an overview of the main PE deals in the European football industry, with a primary focus on the considerations behind the entrance in both the individual clubs (with PE investors exploring club ownership to enhance or create their portfolio of sports assets) and the leagues (structured as long-term commercial partnerships). In general, league investment discussions have assumed that a PE firm would purchase a minority stake in the league's centralized commercial rights, which generally include broadcasting, sponsorship, and other underdeveloped or embryonic digital assets (e.g., e-sports leagues, NFTs). In exchange, the PE firm would underwrite existing commercial rights values in order to provide financial resources to the leagues to distribute and provide stability to clubs at critical times, as well as human capital and technical capabilities to try to extract more value from these rights in the future. The first investment of a PE fund into

a football league was specifically made by CVC Capital Partners, which recently paid €2.7 billion for a minority stake (around 10%) in Spain's top league, *LaLiga*.

The second significant long-lasting effect of the pandemic has been the growing emphasis on the underlying issues already present in the European football existing business model, characterized by significant economic losses and indebtedness, increasing the need for structural and regulatory changes in the sector. This is the context in which the "Super League" project found its space, when 12 football teams attempted but failed to create a breakaway competition aimed at superseding the UEFA Champions League, currently the European's top annual club competition. The project would have been backed by $6 billion in debt financing from the US bank JPMorgan and aimed at increasing the polarization of club economic power and the crystallization of sporting success, reducing the financial consequences of sporting performance risks and stabilizing cash flows. Although the Super League project has failed, Covid-19 pandemic has made it clear that the football industry needs some structural changes. Reforms are required in today's increasingly interconnected football environment, which must take a holistic approach including all stakeholders. Among the reforms which may be considered are a review of governance and redistribution of power, league size reduction and match calendar rationalization, balancing sporting merit with financial predictability, the creation of regional leagues by merging smaller domestic leagues, and the redesign of FFP regulations, with a focus on more stringent cost control mechanisms.

Once having the theoretical background to deal with the topic and having analysed the context and industry of reference, the dissertation then provided the analysis of a case study, in order to draw empirically based conclusions on the convenience of investing in a football club. The object of the case study was the acquisition of *AC Milan* by Elliott hedge fund. A brief overview of the deal was firstly provided, with focus on its structure, the different players involved, and the drivers of the investment.

The target company of the deal is *AC Milan*, a Milan-based football club founded in 1899. The original parts involved in the deal were, on the buy-side, the Chinese magnate *Yonghong Li*, through the holding company "*Rossoneri Sport Investment Lux*" and, on the sell-side, *Silvio Berlusconi*, through the holding company "*Fininvest*". In addition to *Mr. Li*, other Chinese investors should have participated in the consortium, channelling the necessary funds within a vehicle company called *Sino Europe Sports Investment* (*SES*). Specifically, *AC Milan* was valued at an EV of €740 million, with total Net Debt of around €220 million. However, *Mr. Li* faced many difficulties in raising the necessary capital to finalize the closing on April 13.

Problems arose when Chinese legislation, after having reached the record sum of $170 billion of foreign direct investments in 2016, was passed for significant restrictions on the exit of capital from the country toward sectors not considered strategic for the nation. This led most of the consortium's investors to withdraw after the first deposits had already been made by *Mr. Li*, significantly reducing the capital available to *SES*. However, the parties were absolutely interested in closing the deal, with *Mr. Li* who forced to search either for a new partner to share the operation with him, or a financier, in order not to lose the deposits which had already been paid. The turning point came with the entry of Elliott fund into the operation, which decided to finance *Rossoneri Sports Investment Lux* with the remaining portion capital required at the closing (i.e., €303 million). In order to lend the money to *Mr. Li*, another Luxembourg-based ad hoc vehicle, called *Project Redblack*, was created. Because of the high risk related to the financing, the applied interest rates have been very high, with Elliott fund which would have received around €30.2 million in yearly interest. Moreover, the fund has placed some conditions on both financial and sporting management that must be respected. In this sense, Elliott will have to closely monitor *AC Milan*'s financial accounts every two months, being able to obtain information regarding discrepancies between budgeted and actual accounts through managerial reports and meetings with management. An ad hoc committee has also been formed by the hedge fund to oversee the financial performance and the management of the club. The reason of these stringent controls is that, in case of default on the reimbursement of these loans, Elliott would have called the pledge of all the shares of *Rossoneri Sport Investment Lux*, taking control of *AC Milan*. Therefore, realizing that the chances that the Chinese entrepreneur would not be able to repay the debt were high, the fund wanted to protect its investment, having a healthy and attractive company both for the future direct management if it would have to call in the pledge. As known, *Mr. Li* failed to repay the debt contracted in the end, allowing Elliott to call in the pledge and become the owner of *AC Milan*. Having assumed control, Elliott's vision for *AC Milan* is straightforward (as evincible from the official statement on July 10, 2018, the acquisition date): "*to create financial stability and establish sound management; to achieve long-term success for AC Milan by focusing on the fundamentals and ensuring that the club is well-capitalized; and to run a sustainable operating model that respects UEFA FFP regulations. Financial support, stability, and proper oversight are necessary prerequisites for on-field success and a world-class fan experience. Elliott looks forward to the challenge of realising the club's potential and returning the club to the pantheon of top European football clubs where it rightly belongs. Elliott also strongly believes in the value-creation opportunity at AC Milan*".

| Key Financials (€m) | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Revenues** | **266,2** | **329,3** | **278,7** | **233,6** | **213,4** | **236,1** | **102,9** | **255,7** | **241,1** | **192,3** |
| *% growth* | | *23,7%* | *-15,4%* | *-16,2%* | *-8,6%* | *10,6%* | *-56,4%* | *148,6%* | *-5,7%* | *-20,2%* |
| **EBITDA** | **(20,3)** | **58,7** | **52,5** | **(6,2)** | **(35,3)** | **(9,4)** | **(3,8)** | **(11,2)** | **(42,1)** | **(82,2)** |
| *% NS* | *-7,6%* | *17,8%* | *18,8%* | *-2,7%* | *-16,5%* | *-4,0%* | *-3,7%* | *-4,4%* | *-17,4%* | *-42,7%* |
| **EBITA** | **(21,3)** | **57,7** | **51,6** | **(7,1)** | **(36,3)** | **(10,5)** | **(4,3)** | **(12,2)** | **(43,1)** | **(83,2)** |
| *% NS* | *-8,0%* | *17,5%* | *18,5%* | *-3,0%* | *-17,0%* | *-4,4%* | *-4,2%* | *-4,8%* | *-17,9%* | *-43,3%* |
| **EBIT** | **(74,3)** | **4,0** | **0,8** | **(59,1)** | **(83,0)** | **(58,2)** | **(26,9)** | **(98,7)** | **(132,3)** | **(186,6)** |
| *% NS* | *-27,9%* | *1,2%* | *0,3%* | *-25,3%* | *-38,9%* | *-24,6%* | *-26,1%* | *-38,6%* | *-54,9%* | *-97,0%* |
| **Profit (Loss)** | **(67,3)** | **(6,9)** | **(15,7)** | **(91,3)** | **(89,1)** | **(74,9)** | **(32,6)** | **(126,0)** | **(146,0)** | **(194,6)** |
| *% NS* | *-25,3%* | *-2,1%* | *-5,6%* | *-39,1%* | *-41,7%* | *-31,7%* | *-31,7%* | *-49,3%* | *-60,5%* | *-101,2%* |
| **NFP** | **290,8** | **238,3** | **247,3** | **246,8** | **188,5** | **178,4** | **129,6** | **127,0** | **83,0** | **103,9** |
| *NFP/EBITDA* | *-14,3x* | *4,1x* | *4,7x* | *-39,8x* | *-5,3x* | *-18,9x* | *-34,2x* | *-11,4x* | *-2,0x* | *-1,3x* |
| **TWC** | 20,3 | 29,8 | 19,8 | 8,6 | 9,0 | 14,3 | 3,4 | -13,2 | 4,6 | 7,0 |
| *TWC %NS* | *7,6%* | *9,1%* | *7,1%* | *3,7%* | *4,2%* | *6,1%* | *3,3%* | *-5,2%* | *1,9%* | *3,6%* |
| **NWC** | -18,0 | -4,6 | -16,0 | -2,5 | -57,2 | -40,0 | -157,8 | -160,4 | -97,7 | -72,1 |
| *NWC %NS* | *-6,8%* | *-1,4%* | *-5,7%* | *-1,1%* | *-26,8%* | *-16,9%* | *-153,4%* | *-62,7%* | *-40,5%* | *-37,5%* |
| Net Invested Capital | 213,7 | 192,4 | 189,4 | 152,6 | 155,1 | 128,0 | 110,0 | 101,0 | 166,3 | 138,0 |
| *CIN %NS* | *80,3%* | *58,4%* | *68,0%* | *65,3%* | *72,7%* | *54,2%* | *107,0%* | *39,5%* | *69,0%* | *71,8%* |
| **Capex** | | **(20,6)** | **(62,2)** | **(8,4)** | **(113,9)** | **(7,2)** | **(116,7)** | **(97,1)** | **(94,2)** | **(51,9)** |
| **Free Cash Flow** | | **19,3** | **0,9** | **(29,2)** | **(83,4)** | **(42,9)** | **(11,2)** | **(94,6)** | **(200,2)** | **(160,0)** |
| *Cash conversion rate* | | *32,9%* | *1,7%* | *-470,2%* | *-236,4%* | *-454,9%* | *-296,5%* | *-847,5%* | *-476,1%* | *-194,7%* |
| **Equity** | **(77,1)** | **(54,9)** | **(66,9)** | **(94,2)** | **(33,4)** | **(50,4)** | **30,0** | **(36,0)** | **83,3** | **34,1** |

As regards the club's historical performance analysis, the table above provides an overview of the evolution of *AC Milan*'s key financials over the last ten years. There has been a negative revenues' CAGR between 2011 and 2019 (-1.2%), with a further decrease of around 20% in 2020 alone, due to the impact of the pandemic. This trend was in contrast to the rest of *Serie A* clubs, considering that the League's aggregate income increased significantly in the same period, from approximately €1.5 billion in 2011 to €2.5 billion in 2019. The decrease in revenue was mainly driven by the decreasing incidence of commercial revenues on the total turnover from 30,6% to 23,6%, mainly linked to the reduction of revenues from merchandising and other commercial activities (this decrease was predictable, being the revenue line more closely related to the sporting performance, which in the last decade has undoubtedly been poor). The reduction in turnover has been more than proportionally reflected in the EBITDA, which became twice as negative between 2011 and 2019, with a further a decrease of around 100% in 2020. The source of cost with the highest increasing incidence was the one related to player trading, which includes the losses on disposal of players' registration rights.

Based on the historical trend of the key financials, the main strategic perspectives and the key drivers of the investment, a business plan has then been drafted, in order to estimate the potential growth pattern of the club in the medium-long term.

As regards the main strategic perspectives, three main variables have been identified on which the most of Elliott fund's focus is going to be: i) Popularity: there is a clear correlation between a club's presence on social media, success on the field, brand value and the value of the club. For this purpose, in the last twelve months the club has accelerated down the path of digital transformation and modernization. In this sense, it has recently undertaken a new project: "*The*

*Studios: Milan Media House*". It consists of the creation of a specific media house which will significantly increase the capacity of the club to produce multimedia content, both for the most traditional and for the most innovative platforms, with the aim to exploit the great potential of the *AC Milan* brand around the world; ii) Property stadium: it would represent an important source of matchday revenue, generating at the same time many commercial opportunities. In this sense, the club has already presented the project for the construction of a new stadium: a very modern structure with over 60,000 seats, designed within a modern Sports & Entertainment district active not only during match days but for 365 days a year, together with a redevelopment project of the entire area. It will require a total investment of €1.2 billion, equitably financed by the two teams of Milan, and should be inaugurated in the 2024/25 season, as recently released in an interview by Chairman *Paolo Scaroni*; iii) Sporting potential: the first team value represents a key asset for a football club, as success on the pitch generates gains in terms of revenues from matches, sponsorships, broadcasting rights and merchandising. In this sense, the goal of the club is to achieve sporting results without having to resort to excessive player trading, but trying to make a few targeted investments, with the aim of increasing "in-house" the value of the players purchased. Given this purpose and the fact that the investment horizon is medium to long-term, the club will mainly invest in young players with significant growth margins, also having a minor impact on personnel costs (which has already been reduced by approximately 70% from 2019 and 2021). However, the club will also include the purchase of a few targeted top players which, on the short-term, may guarantee better sporting results and can accelerate the growth of younger players. Analysing the first three years of Elliott's management, this strategy is generating important results, with *AC Milan* which passed from the 6th place of the 2017-2018 season to fighting for the "*Scudetto*".

Considering these strategic considerations and the analysis of the historical performance, it has been hypothesized a base-line scenario reflecting a possible pattern in terms of sporting results for the next seasons, until the hypothetical exit at the end of the 2026/27 season. Specifically, the hypothesized scenario foresees the maintaining of the current sporting performance in the next three years (2nd place in *Serie A* and qualification to the UEFA Champions League, with hypothesized qualification for the round of 16), with an improvement of the sporting results starting from the 2024-2025 sporting season, where the club should start playing in the new stadium (1st place in *Serie A* and qualification for the quarter finals of UEFA Champions League). For the 2020/21 season different considerations have been made, considering that, at the date of writing, there are many rumours available about the financial statements that will be approved and published in October. The following table provides an overview of the main

assumptions about the prospective evolution of the key income statement and balance sheet items.

**BP ASSUMPTIONS**

| Item | Assumptions |
|---|---|
| **Matchday Revenue** | i)From Serie A, Champions League, Coppa Italia and other competitions (friendly matches); ii) Based on total stadium capacity, average attendance, average ticket prices and # of matches; iii) Champions League average ticket price: +50% vs Serie A, Coppa Italia Average ticket price: -30% vs Serie A; iv) Fixed amount of revenue from other competitions; v) Increasing # of Champions League matches between 2021 and 2027; vi) Increasing ticket prices and attendance between 2021 and 2027, due to better sports results; vii) New stadium from 2024/2025 (lower total capacity, buth higher attendance and prices); viii) Limited attendance to max 50% in 2020/2021 |
| **Broadcasting Revenue** | i) Serie A broadcasting rights: assigned on a 3-year basis; 2021/24 value already known; increase in 2024/27; distribution based on Legge Melandri: 50% equally allocated, 30% based on sports results (15% final ranking and total points; 10% last 5 years performance; 5% long-term historical performance), 20% fan base (12% stadium attendance; 8% certified television audience); increase of the fan base between 2021 and 2027<br>ii) Champions League broadcasting rights: assigned on a 3-year basis; flat total value of the broadcssting rights; distribution based on: equally splitted bonus for participation, historical ranking, italian market pool share (50% based on final ranking in the previous championship; 50% base on the # of matches played during the competition); increasing # of Champions League matches between 2021 and 2027; €17 million from Europa League in 2021 |
| **Commercial Revenue** | Juventus FC commercial growth of last 4 years taken as benchmark; from 2024/2025 also effect of new stadium commercial activities (also here Juventus FC growth after the inauguration of the Juventus Stadium taken as benchmark); potential additional revenue stream from naming rights of the new stadium for the 2025/27 period |
| **Other revenue** | i) Player trading: gain on disposals of players' registration rights and revenues from loan transfers of players registration rights; amount growing to the Italian expected inflation rates until 2027;<br>ii) Other income: growth to the inflation rates |
| **Operating costs** | i) Raw materials, Service costs, Player trading's related costs, Other Operating costs: growth to the inflation rates<br>ii) Personnel costs: 50% of revenue; €110 million in 2021.<br>iii) Hire, rental and leasing: €8 million per year for the use of San Siro Stadium; €2.2 milion per year for the use of "Casa Milan"; no charges for the use of the stadium from 2024/25 |
| **D&A** | i) Depreciation: 7.3% per year for "Milanello" Sports Center; 3%per year for the new stadium (from 2024/25)<br>ii) Amortization: 4-year average contract lenght for existent and newly acquired players' registration rights; 10-year period for Other Intangible Assets (concessions, licenses, trademarks and similar rights)<br>iii) Provisions for risks and charges: fixed % of Revenue (based on historical value)<br>iv) Write-offs: fixed % of Revenue (based on historical value) |
| **Capex** | i) Tangible Capex: €600 million splitted in three years between 2022 and 2024 (for the new stadium)<br>ii) Intangible Capex: €75 million per year (based on the historical Net transfer balance per year)<br>iii) Financial Capex: no Financial Investments in the 2021-2027 period |
| **Working Capital** | i)TWC: based on the Average DSO, DPO ans DIO of the last three years<br>ii) NWC: Infra-Group Payables toward M-I Stadio S.r.l. based on the average incidence on the service costs' related to the management of the stadium; other payables equal to 95% of the yearly Net Transfer Balance |
| **Employee Severance Indemnity** | Fixed amount |
| **NFP** | i) Long-term debt (financing of the stadium investment): 30 years, 5% annual interest rate, half-yearly installments, French Amortization Plan<br>ii) Debts to factoring companies for advances on future receivables in reference to commercial contracts: % of TWC based on historical average; 2.75% interest rate |
| **Equity** | Minimum Net Equity Level: €30 million |

The table below, instead, provides an overview of the evolution of *AC Milan*'s key financials over the forecasted BP period.

| Key Financials (€m) | 2020 A | 2021 F | 2022 F | 2023 F | 2024 F | 2025 F | 2026 F | 2027 F |
|---|---|---|---|---|---|---|---|---|
| **Revenues** | **192,3** | **225,5** | **283,7** | **316,2** | **332,8** | **464,2** | **504,5** | **553,8** |
| *% growth* | | *17,2%* | *25,8%* | *11,4%* | *5,2%* | *39,5%* | *8,7%* | *9,8%* |
| **EBITDA** | **(51,1)** | **32,1** | **57,8** | **73,3** | **80,7** | **142,0** | **161,0** | **184,5** |
| *% NS* | *-26,5%* | *14,2%* | *20,4%* | *23,2%* | *24,2%* | *30,6%* | *31,9%* | *33,3%* |
| **EBIT** | **(186,6)** | **(46,1)** | **(46,8)** | **(48,2)** | **(58,4)** | **19,4** | **47,4** | **68,7** |
| *% NS* | *-97,0%* | *-20,4%* | *-16,5%* | *-15,3%* | *-17,5%* | *4,2%* | *9,4%* | *12,4%* |
| **Profit (Loss)** | **(194,6)** | **(48,5)** | **(79,5)** | **(80,8)** | **(90,7)** | **(13,8)** | **18,4** | **45,7** |
| *% NS* | *-101,2%* | *-21,5%* | *-28,0%* | *-25,6%* | *-27,3%* | *-3,0%* | *3,7%* | *8,2%* |
| **NFP** | **103,9** | **103,8** | **289,2** | **451,8** | **593,3** | **568,8** | **523,4** | **450,8** |
| *NFP/EBITDA* | *-2,0x* | *3,2x* | *5,0x* | *6,2x* | *7,4x* | *4,0x* | *3,2x* | *2,4x* |
| **TWC** | 7,0 | -1,3 | 11,7 | 18,5 | 21,7 | 41,9 | 50,3 | 60,8 |
| *TWC %NS* | *3,6%* | *-0,6%* | *4,1%* | *5,9%* | *6,5%* | *9,0%* | *10,0%* | *11,0%* |
| **NWC** | -72,1 | -74,9 | -62,0 | -55,2 | -52,0 | -31,9 | -23,5 | -13,0 |
| *NWC %NS* | *-37,5%* | *-33,2%* | *-21,9%* | *-17,4%* | *-15,6%* | *-6,9%* | *-4,7%* | *-2,4%* |
| Net Invested Capital | 138,0 | 133,8 | 319,2 | 481,8 | 623,3 | 598,8 | 571,8 | 544,9 |
| *CIN %NS* | *71,8%* | *59,3%* | *112,5%* | *152,4%* | *187,3%* | *129,0%* | *113,3%* | *98,4%* |
| **Capex** | | **(75,6)** | **(275,6)** | **(275,6)** | **(275,6)** | **(75,6)** | **(75,6)** | **(75,6)** |
| **Free Cash Flow** | | **(41,9)** | **(232,2)** | **(210,9)** | **(199,8)** | **43,8** | **78,4** | **105,5** |
| *Cash conversion rate* | | *-130,4%* | *-401,4%* | *287,8%* | *247,8%* | *-30,9%* | *-48,7%* | *-57,2%* |
| **Equity** | **34,1** | **30,0** | **30,0** | **30,0** | **30,0** | **30,0** | **48,4** | **94,1** |

*AC Milan*'s total revenues between 2020 and 2027 have been estimated to move from €192.3 million to €553.8 million (a 2.88x increase). In order to assess if this growth is feasible, the increase has been compared to one of *AC Milan*'s key benchmarks in terms of targeted growth for the next few years, *Juventus FC*. Considering the same seven-year time range, *Juventus FC* went from €172.1 million of revenues in 2011 (this year is significant, as this is the last season played before the inauguration of the new stadium) to €504.7 in 2018, a 2.93x increase. Hence, the benchmarking analysis increases the reliability of the revenue assumptions made.

Once forecasted the revenues' amount at the exit date, the "Revenue Multiple approach" has been chosen to perform the valuation of *AC Milan* at the hypothesized Elliott's exit from the investment in 2027. This methodology is particularly suitable for establishing an indicative value of football clubs for three main reasons: i) Revenue figures are straightforward to access and compare, as they are less distorted by accounting adjustments; ii) Unlike earnings, which can be negative for many clubs, revenue multiples can be used to evaluate even the most distressed clubs; iii) Revenues are not as volatile as earnings. Revenues are then multiplied by a factor based on observations of similar company acquisitions and similar publicly traded clubs. As far as the analysis is concerned, the revenue multiple estimated from comparable transactions has been used as reference methodology, with the multiple calculated from comparable publicly traded clubs, used just as a control method. The reason for this choice is that transaction multiples generally include the premiums specifically paid in the industry, and hence are more realistic. To this extent, a panel of comparable transactions has been created, after Mergermarket database consultations. Transactions have been further segmented into Tier 1 and Tier 2, whether the EV value of the acquired company was superior or not to €350 million. Based on this analysis, the final multiple chosen was equal to 3.6x. As mentioned, it was also estimated a multiple based on trading comps as control method, which was equal to 2.9x (a fair value considering the mentioned controlling premium). Once estimated *AC Milan*'s prospective revenues at the hypothesized exit date (€553.775.566) and the relative revenue multiple to be applied (3.6x), we arrive at an EV at exit equal to €1.980.305.654. Then, subtracting the prospective NFP (€450.782.853) from the EV, we obtain the equity value at exit (€1.529.522.800), which is the value we need to estimate the IRR on the investment.

The following Table exhibits the investment timeline, providing an overview of the equity value at entry, all the equity capital increases during the investment period and the equity value at exit. As regards equity capital increases, all the injections until 2021 (considering the first €129.9 million for this year) have actually been made by Elliott fund, while the ones until 2025 arising from our analysis are just hypothetical.

INVESTMENT TIMELINE

| € | 2018 A | 2019 A | 2020 A | 2021 F | 2022 F | 2023 F | 2024 F | 2025 F | 2026 F | 2027 F |
|---|---|---|---|---|---|---|---|---|---|---|
| Equity Value at entry | (300.000.000) | | | | | | | | | |
| Equity capital increases | 128.000.000 | (20.000.000) | (20.250.000) | (129.900.000) | | | | | | |
| | (21.000.000) | (10.000.000) | | (44.365.772) | (79.498.428) | (80.835.070) | (90.702.446) | (13.752.527) | | |
| | (30.500.000) | (20.000.000) | | | | | | | | |
| | (119.461.056) | (21.100.000) | | | | | | | | |
| | (10.240.000) | (6.200.000) | | | | | | | | |
| | | (20.000.000) | | | | | | | | |
| | | (10.000.000) | | | | | | | | |
| | | (20.000.000) | | | | | | | | |
| | | (10.000.000) | | | | | | | | |
| | | (20.000.000) | | | | | | | | |
| | | (45.000.000) | | | | | | | | |
| Equity Value at exit | | | | | | | | | | 1.529.522.800 |
| TOTAL | (353.201.056) | (202.300.000) | (20.250.000) | (174.265.772) | (79.498.428) | (80.835.070) | (90.702.446) | (13.752.527) | 0 | 1.529.522.800 |
| IRR | 6,0% | | | | | | | | | |

Hence, according to the baseline scenario hypothesized, Elliott fund is going to make an IRR of 6.0% from the investment in *AC Milan*. A 6% IRR may appear not to be in line with the average IRR realized by Elliot fund, which in 2020 was equal to 12.7%. It may also appear to low if compared to the target return of PE funds in general (in the 20% range).
However, it is crucial to keep in mind the medium-long term time horizon of the investment, (9 years against the typical 5 years of private equity firms), since the time factor, as seen in the first chapter, strongly affects IRR calculations. At the same time, it should be also kept in mind that the 6% return is extremely volatile, as shown in the sensitivity analysis in the third chapter, as it is strongly correlated with sporting performances.

In conclusion, the acquisition of a football club does not seem to be completely aligned with the PE firms' standards and objectives, where the financial return is key to the investment. Indeed, the indirect benefits related to image, reputation and prestige that come with the ownership of a football club are not in line with the ambitions of PE funds and investing funds in general. However, this does not imply that investment funds should be discouraged to enter the football sector, but rather merely that the acquisition of a football club is an extremely volatile investment as it is strongly affected by sporting performance which may dramatically change from season to season, and often depends on factors outside the investors' sphere of control (think about the possibility of a prolonged injury of the most important player in the team). The same cannot be said about the increasingly common procedure of PE funds investing in minority stakes of football leagues. Buying a stake in a league is not dependent on the individual on-field performance of a team or its ability to get sponsorship deals. It's also not on the hook for player salaries, which account for a significant portion of a club's revenue. In this sense, it represents a type of investment that is less volatile and that is able to leverage the exponential growth of the audience of the football movement, which took place in the recent year and that can be expected to persist in the medium-long term.