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Will Private Equity funds break into the European football clubs industry?

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Introduction

In the last decade, examples of private equity investment in the sports environment have been relatively sporadic and isolated. Indeed, aside from the largest and most notable sports properties and brands, the sector has been viewed with caution by investors; likewise, clubs' owners, to keep up the game tradition in the sight of their fans, have been reluctant to open themselves to external financing. Over the last two years, however, there has been a notable shift in activity and appetite on both sides of the field mainly driven by the sectoral diversification, technology, and the pandemic [1]: investment funds and football entities are increasingly looking for innovative ways to partner to accelerate transformative growth while withstanding the shorter-term challenges posed by the pandemic. Among the others, BC Partners [2] reported offer for Inter Milan FC has drawn the author's attention on this topic and persuaded him to deepen this thematic material.

So, the football-private equity challenge, and the hypothesis under investigation of this paper, is the following: are European football clubs, able to navigate their traditions, governance structures and socio-political environment in such a way to get private equity into their ownership? And, if so, can private equity expertise deliver sufficient and stable incremental returns, for all stakeholders, in what private equity funds would repute an acceptable investment lifecycle ending in a safe exit [3]?

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[1] Sport and football organizations changed dramatically during the last 20 years: "sport has traditionally just been spectators going and watching, whereas now the sector has diversified," explains Lydia Zakrzewski (Associate in the PE group at law firm Stephenson Harwood LLP) "The introduction of disruptive technology and the development of innovations like esports and online betting have allowed a variety of sports to become more accessible to a larger audience. In turn, investment into sports has demanded a larger focus on the commercial and audience interaction side of sports, which makes it an even more attractive proposition." The aftermaths of the pandemic crisis have brought instability to markets, sometimes lower deal volumes, new investment structures, and tighter regulations, which have led to shrinking margins for most of the industries, and tremendous ones for the remainder. In this ever-changing environment, M&A represents one way to cope with uncertainty and eventually manage to grow under tougher business conditions. Furthermore, recent trends in the global economy, such as the growth of emerging markets (BRICs) coupled with the globalization of fans (easing the circulation of goods, people, and, most importantly, information) allowed the football industry to stand out in terms of uplift potential to attract M&A activity.

[2] A British international investment firm with over $40 billion of assets under management across private equity, credit and real estate in Europe and North America.

[3] I.e., an exit mechanism that preserves the integrity of the organisation.

List of abbreviations

Abbreviation	Full name
APAC	Asia-Pacific
AR	Advanced reality
AuM	Asset under management
AVG	Average
B / Bln	Billion
B2B	Business-to-business
B2C	Business-to-consumer
CAGR	Compound annual growth rate
CAF	Confédération africaine de football
CAPEX	Capital expenditure
COGS	Cost of goods sold
CSR	Corporate social responsibility
D2C	Direct-to-consumer
DFL	Deutsche Fußball Liga
EBITDA	Earnings before interest, taxes, depreciation, and amortization
EPL	English Premier League
EPS	Earnings per share
EV	Enterprise value
FC	Football club
FA	Football Association
FFP	UEFA Financial Fair Play Regulations
FIFA	Fédération Internationale de Football Association
FY	Fiscal Year
GBP	British pound sterling
GFC	The global financial crisis (2007-08)
GP	General partner
HF	Hedge fund
HR	Human resources
IBD	Investment banking division within the overall investment bank
IPO	Initial public offering
IRR	Internal rate of return
LBO	Leveraged buyout
Libor	London Inter-bank Offered Rate
LP	Limited partner
M&A	Mergers and acquisitions
M or Mln	Million
MLB	Major League Baseball
NAV	Net asset value
NBA	National Basketball Association
NGO	Non-Governmental Organisation
NHL	National Hockey League
NFL	National Football League

NFT	Non-fungible token
NOPAT	Net Operating Profit After Tax
NPV	Net present value
OPEX	Operating expenditure
OTC	Over the counter
OTT	Over-the-top (aka, over the internet)
P&L	Profit & loss
P/B	Price-to-Book Value ratio
P/E	Price-to-earnings ratio
PE	Private equity
PEG	Price-to-earnings growth ratio
R&D	Research & development
RfP	Request for proposal
ROA	Return on assets
ROE	Return on equity
ROI	Return on investment
ROIC	Return on invested capital
RONA	Return on net assets
ROS	Return on sales
SG&A	Sales, general, & administrative expenses
SPAC	Special-purpose acquisition company
SWF	Sovereign wealth fund
TCO	The total cost of ownership
TSR	Total shareholder return
UCL	UEFA Champions League
UEFA	Union des Associations Européennes de Football
UECL	UEFA Europa Conference League
UEL	UEFA Europa League
USD	United States Dollars
VAR	Video assistant referee
VC	Venture capital
VP	Vice president
VR	Virtual reality
WACC	The weighted average cost of capital
WC	World Cup
YoY	Year-over-year

1. Theory of M&A

This chapter is focused on Merger & Acquisition and its objective is to give theoretical background on what M&A transactions are and why they are performed, providing theoretical and empirical background to these external growth strategies. Furthermore, the chapter analyses and specifies rationales guiding M&A transactions, common M&A advantages, risks associated with the pre- and post-merger integration processes, and major trends that will impact the M&A market in the near term.

The end goal of this chapter is not to fully eviscerate the topic but rather provide a common ground and frame to afterwards analyse M&A transactions carried out by PE funds.

1.1 M&A definition

First and foremost is important to define what M&A is: according to Ossadnik (1996) the merger is "the transfer of assets of at least one company to another company" [4] while the acquisition was clarified by Capron (1999) as "the purchase of a smaller entity [5] by a much larger entity." Alternatively, Dallocchio & Salvi (2004) interpreted M&A as "operations where both companies involved undertake a process of external growth that result in changes in the ownership structure" while Ginsburg & Levin (1989) highlighted the regulatory trait of M&A stating how "they are methods by which corporations legally unify ownership of assets formerly subject to separate controls." Besides, Gaughan (2015) distinguish consolidations from mergers as they represent "a business combination where two or more companies join to form an entirely new entity." Broadly speaking, the common denominator across these definitions is the combination of at least two businesses entities into one [6].

[4] Either the buying or a newly created firm.

[5] In the form of purchasing an asset, a division, or the entire company.

[6] Pignataro (2015) similarly define acquisitions as "the purchase of a business entity, entities, an asset, or assets."

Then, it is crucial to investigate the set of possible rationales for a company to undertake M&A activity; namely, we can distinguish:

- Performance improvement – When M&A activity is undertaken to create either operating or financial synergies, whereby the newly created entity after the merger has a larger value than the two companies had separately before the merger. Namely, operating synergies derive from either higher sale [7] or lower costs [8], financial synergies derive from increased post-integration debt capacity, tax benefits, cash slack [9], or overall lower cost of capital;
- Risk reduction or diversification – As it derived from portfolio strategy, a cross-industry business will be more resilient to disruption and market crisis, thus increasing the business sustainability;
- Other reasons – Which include, among the others, the willingness to debilitate or defend from the competition in each sector, multiplying a company's growth options, acquiring valuable resources from another company, or seeking either undervalued or poorly-managed firms.

Further differentiations may arise across five dimensions:

- Buyer's attitude – Friendly vs hostile takeovers;
- Type of acquirer – Industrial vs financial;
- Relationship of companies – Horizontal vs vertical conglomerate [10];
- Way of financing – Stock vs cash or a combination of both;
- Provenience – Domestic vs cross-border M&A.

However, research and academics identified two main issues related to the M&A process.

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[7] Cross-selling, entering, or deepening markets, combining functional strengths to name a few.

[8] Economies of scale, purchasing economies, combining functions to lower overhead costs to name a few.

[9] When a firm with excess cash acquires another firm with great projects but insufficient capital.

[10] Horizontal when they play within the same industry, vertical when they play within the same value chain yet at different stages.

- The agency problem – Because managers as agents might not act in the best interest of shareholders; Brown and Sarma (2007) investigated the role played by personal benefit for the company's management: "managers have incentives to cause their firms to grow beyond the optimal size. Growth increases the managers' power by increasing the resources under their control. It is also associated with increases in managers' compensation because changes in compensation are positively related to the growth in sales" [11]. Furthermore, managers may be incentivized to, rather than maximize value, deploy their currently underused managerial talents, diversify risk, and minimize the costs of financial distress and bankruptcy, or avoid being taken over. To minimize agency problems, empirical evidence foresees both internal controls (i.e., independent boards or managers being shareholders) and external mechanisms (e.g., takeovers);
- The hubris hypothesis – Roll (1986) defined the so-called 'hubris hypothesis' as the scenario where "Managers are too optimistic about synergies and their capabilities which is why they undertake M&A's when they shouldn't"; the underlying reasons might be information asymmetry or even own misplaced confidence about the ability to make good decisions. To minimize hubris behaviour, empirical evidence recommends in-depth due diligence processes beforehand.

An important distinction, which will be further discussed throughout this paper, is related to the owner type; indeed, we observe owners having different rationales to sell:

- Industrial-owned – In this scenario, rationales might be the subsidiary not being anymore within the core business, the need for cash to finance growth initiatives, or the absence of management to effectively run the business;
- Family-owned – Here, retirement, generational issues, or discrepancies among shareholders are most likely to lead to a sale;
- Financial investor-owned – Where the end of the investment period, poor performance, or obtaining the target return can trigger a sale.

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[11] Jensen M. (1986). Agency Costs of Free Cash Flow, Corporate Finance and Takeovers. The American Economic Review.

On the opposite side of the transaction, we observe strategic investors, willing to take significant control of the target, and financial investors who take minority stakes just to benefit from the upside while diversifying the risk. This distinction indeed results in four main acquisition forms:

- Asset acquisition – The purchase of another company through the process of buying its assets and liabilities as opposed to buying its stock [12];
- Acquisition through equity – The purchase of equity interest in a company, thus resulting in different legal and accounting impacts when compared to the previous form of acquisition;
- Leveraged buyout (LBO) – The acquisition of another company using a significant amount of borrowed money to meet the cost of acquisition. The rationale is to boost the IRR by using a significant amount of debt while adding minimal equity injection (S. N. Kaplan & Strömberg, 2009);
- Management buyout (MBO) – The scenario where a company's management team purchases the assets and operations of the business they manage. The rationale for the manager is that there is a greater potential return by being a shareholder than by being an employee [13].

Finally, given the M&A nature, there are buy-side and sell-side players supporting transactions; i.e., companies and advisors that either want to take over another firm or companies and advisors that want to be taken over.

1.2 Rationales for M&A

The common objective of M&A activities is to increase value for shareholders, which is observed in terms of higher share price (Datta et. al, 1992; Rappaport, 1998). Generally, this is realized by aiming at an increase in the EPS by combining businesses (net of M&A expenses) versus their standalone value. In this scenario, the HBR provides a useful

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[12] Investopedia.

[13] Retrievable from: https://libstore.ugent.be/fulltxt/RUG01/002/273/519/RUG01-002273519_2016_0001_AC.pdf

framework to conceptually separate intrinsic value, actual market value, the purchase price that is often at a premium versus the market value, and, finally, the value including synergies justifying acquirer purchasing the target at a premium.

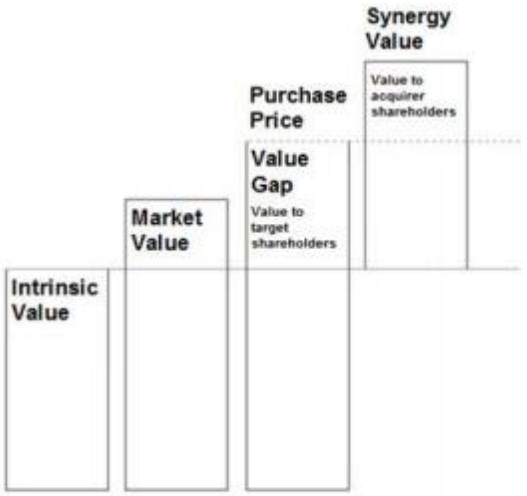

Exhibit 2. Value Creation Diagram.
Source: Harvard Business Review (2001).

To create value, several sub-objectives can be pursued. McKinsey & Company proposes [14] six rationales or so-called archetypes suitable to lead to successful M&A, namely:

- Improve the target company's performance – I.e., buy and radically cut costs to improve operating margins or, seldomly, accelerate revenue growth;
- Consolidate to remove excess capacity from industry – Which is extremely true in industries such as the chemical or the pharmaceutical ones;
- Accelerate market access for the target's (or buyer's) products – Namely, when relatively small companies struggle penetrating wide markets;
- Get skills or technologies faster or at a lower cost than they can be built – Namely, when industries are traditionally run;
- Exploit a business's industry-specific scalability – Which means early identifying untapped uplift potential by scaling up production;

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[14] Retrievable from: https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/the-six-types-of-successful-acquisitions

- Pick winners early and help them develop their businesses – Similarly to the venture capitalists, acquirers can bring their competencies and assets to unlock the untapped upside potential of relatively young companies.

Additional rationales, yet more difficult to implement, might be consolidating highly fragmented markets to achieve scale economies, consolidating to improve competitive behaviour (i.e., reduce price competition), transforming one or both companies, buying below intrinsic value [15].

Broadly speaking, and looking at the rationales from a different point of view, we can further distinguish three types of M&A:

- Horizontal – When the transaction involves two incumbents where one or both aim at gaining competitive advantage from economies of scope or scale [16];
- Vertical – When the transaction involves two players within the same value chain, so either merging or acquiring a target that is upstream or downstream. In this scenario, the usual rationales are lightening the cost structure or improve market access [17] [18];
- Conglomerate – When combining companies are not related, so the main rationale is to diversify investments (Cho Y.S. & La, K.A., 2014).

When deciding M&A opportunity, a successful outcome is often determined by the level of synergies; i.e., the NPV of cash flows resulting from improvements made when the entities are combined. Namely, the HBR [19] groups synergies in five clusters:

- Cost savings – Arguably the most recurrent and easy type of synergies to achieve. Normally, they derive from eliminating jobs, facilities, and related expenses that are no longer needed when functions are consolidated, or they come from

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[15] Marco de Heer and Timothy Koller, "Valuing cyclical companies," McKinsey Quarterly, May 2000.

[16] Retrievable from: https://www.researchgate.net/publication/298791812_Strategic_Management_An_Integrated_Approach

[17] Retrievable from: https://www.researchgate.net/publication/256495098_Strategy_and_Structure

[18] Retrievable from: https://www.jstor.org/stable/2778955

[19] Retrievable from: https://hbr.org/1999/07/are-you-paying-too-much-for-that-acquisition

economies of scale in purchasing. Furthermore, cost savings tend to be proportionally larger whenever companies are similar either in terms of industry, or geography, or both;

- Revenue enhancements – Notoriously harder to estimate as they involve variables beyond management's control: the customer base may react negatively or they may hesitate to purchase excessively from the same supplier [20], or competitors may react lowering prices. Yet, despite being uncertain, these improvements can create tremendous value; namely, when the target brings a superior or complimentary product to the more extensive distribution channel of the acquirer (e.g., Gillette-Duracell) when the acquiring company uses the target's distribution channel to escalate the sales, or when the resulting company achieves a critical mass suitable to opening new growth options (e.g., participating to larger syndicated loans for ABN AMRO after the merger);
- Process improvements – While cost savings involve better operations by minimizing redundancies and maximising purchasing economies, process improvements require transferring best practices and core competencies from one company to other. Most of the time, there is one specific best practice or core competence that either the acquirer or the target can bring to the table to justify the transaction, and often, this involves either better capacity to run operations or to develop and launch products;
- Financial engineering – As M&A can increase the size of the resulting entity to a level where there are tangible economic benefits by pooling excess financial resources, working-capital requirements, netting currency positions, and getting cheaper refinanced or newly-issued debt, thus decreasing the WACC (e.g., Credit Suisse, when merging with Winterthur, realized 10% of the synergies from reducing funding costs through better capital management);
- Tax benefits – HBR distinguishes between "tax structuring," making the deal feasible, and "tax engineering", ensuring an overall resulting tax rate equal to or lower than the blended tax rates of the two companies before the deal. Common tax-related synergies, once minimized one-off tax costs to execute the transaction,

[20] Something which is particularly true in B2B markets.

include the transfer of brands and other intellectual property to low-tax subsidiaries, placing shared services in low taxation locations, pushing down debt into high-tax countries, using the losses of one company to reduce the combined taxable income. If it's true that tax engineering does not strengthen a company's competitive position, these synergies can create real value for shareholders as suggested by several viewpoints [21] [22].

Finally, a further rationale not included in this framework is findable whenever the target company is or is perceived as undervalued [23]; indeed, if an investor believes that the share price of a corporation will increase thanks to a fairer valuation (e.g., when the stock price is running at a 52-week low), he might benefit from a secure return by taking over the target; indeed, in this scenario, the turnaround program announced by a well-respected ownership group can act as an eye-opener for investors.

As we previously mentioned successful M&A rationales, it is worth mentioning the unsuccessful rationale "par excellence" that goes under the category of hubris hypothesis. Roll (1986) explained for the first time the idea [24] of managers distorted by their pride when pursuing M&A: managers overestimating their very same capacity to price companies can eventually lead to takeovers at unrealistic premium prices. Later, Morck, Schleifer, & Vishny (1990) [25] and Hayward & Hambrick (1997) [26] gave further evidence of this phenomenon by empirically demonstrating the nexus between managerial objectives and unsuccessful acquisitions and the correlation between CEOs' egotism and the

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[21] Gilson, Scholes, & Wolfson (1990). Tax Planning, Regulatory Capital Planning, and Financial Reporting Strategy for Commercial Banks.

[22] Retrievable from: https://www2.deloitte.com/content/dam/Deloitte/us/Documents/mergers-acqisitions/us-ma-tax-considerations-during-m-and-a-integration-shaping-the-new-organization.pdf

[23] Retrievable from: https://www.researchgate.net/publication/228225873_Merger_Motives_and_Target_Valuation_A_Survey_of_Evidence_from_CFOs

[24] R. Roll (1986, April). The Hubris Hypothesis of Corporate Takeovers. The Journal of Business, Vol. 59, No. 2, Part 1, (Apr. 1986), pp. 197-216. Retrievable at http://www.jstor.org/stable/2353017

[25] Morck R., Shleifer A., and Vishny. R. (1990). "Do Managerial Objectives Drive Bad Acquisitions?" Journal of Finance 45 (1): 31-48. Retrievable at https://scholar.harvard.edu/shleifer/publications/do-managerial-objectives-drive-bad-acquisitions

[26] Hayward M. L. A., & Hambrick D. C. (1997). Explaining the premiums paid for large acquisitions: Evidence of CEO hubris. Administrative Science Quarterly, 42(1), 103–127. Retrievable at https://doi.org/10.2307/2393810

magnitude of the premiums they paid [27]; namely, Hayward & Hambrick identified the egotism as follows:

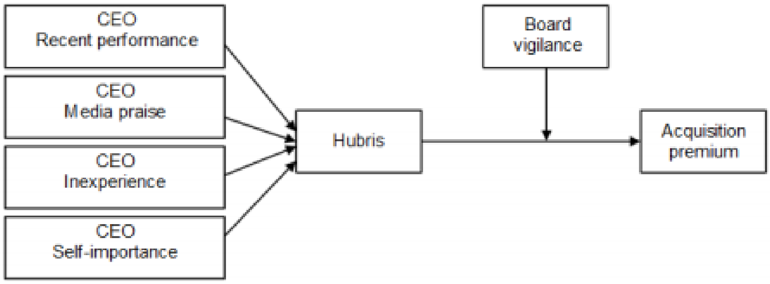

Exhibit 1. CEO Hubris and Acquisition Premiums.
Source: Administrative Sciences Quarterly (1997).

Highly related to the hubris hypothesis and eventually magnifying the problem, is the "winner's curse", which is, as explained by Thaler (1994) [28], the principle that who overprices a company will in due course have higher chances of winning the auction by outbidding rivals that priced fairly the target.

So, what of this chapter is the diversity of reasons underlying M&A and, therefore, how there is room for different kinds of acquirers bringing to the table different competencies, assets, or plans. However, in the last part of this chapter we saw how it is not always gold what it glitters as management behaviour and personal goals can have a detrimental impact on deal-making success; later on, we will observe how the football industry is everything but immune from these distortions as we not only observe business owners aiming at inflating their ego, but also Sovereign Wealth Funds taking entertainment and more specifically the football industry [29] as a way to clean their image or Chinese funds investing or withdrawing investments according to the volatile political sentiment (e.g., in China, at first, the upcoming World Cup 2030 drove investments in European football [30],

[27] Besides, McKinsey & Company showed how, on average, buyers might end up paying sellers all the value generated by a merger, in the form of a premium of from 10 to 35 % of the target company's preannouncement market value.

[28] Retrievable from: https://www.aeaweb.org/articles?id=10.1257/jep.2.1.191

[29] Retrievable from: https://sites.tufts.edu/sovereignet/files/2017/08/SWFs-and-Football.pdf

[30] Retrievable from: https://www.emerald.com/insight/content/doi/10.1108/OXAN-DB218378/full/html

then, the government forced investors to pull out money of Europe [31]); therefore, investing in football requires increased levels of transparency and control to ensure successful M&A.

1.3 Advantages and risks in M&A

The advantages of M&A transactions are considerably straightforward and directly correlated with the rationales. Namely, we can distinguish [32]:

1) Marketing advantages – Buying in a new product range, rapidly developing market presence in untapped markets, joining sales efforts, streamline logistics and promotional activities, eliminating competition or protecting an existing market;
2) Production advantages – Maximizing capacity utilisation, buying in technology, IP, skills, or know-how, increasing production volumes, locking in, or widening the range of suppliers, streamlining facilities location or their capacities, or leveraging purchasing economies;
3) Financial and managerial advantages – Buying or sharing a high-quality management team from or with the target company, obtaining tax advantages, diversifying risk, or better-accessing financing.

However, as straightforward as they might be, these advantages can misdirect buyers and lead them to the risk of underestimating integration issues. Indeed, McKinsey & Company empirical analysis showed how [33] , although 60% of M&A cost synergies were delivered, approximately 25% of all analysed samples ended up overestimating them by at least 25%; this is already quite insightful as costs savings are generally reputed as highly likeable, but the picture gets worse when we move to revenue synergies as roughly 70% of the times companies missed their targets. Therefore, creating value is everything but granted and it is

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[31] Retrievable from: https://www.dw.com/en/chinas-communist-party-forcing-investors-to-pull-money-out-of-european-football/a-57171818

[32] Mergers and Acquisitions: Drivers, Issues and Countermeasures. Retrievable from: https://www.lehmanbrown.com/insights-newsletter/mergers-acquisitions-drivers-issues-countermeasures/

[33] McKinsey & Company (2004, May). Where mergers go wrong. Retrievable from: https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/where-mergers-go-wrong

then crucial to carefully identify and implement remedies to main risks deriving from M&A. The Harvard Business School classified four main risks [34]:

- Lack of due diligence – Which is critical to preparing M&A transactions because of the information asymmetry and contrasting incentives between seller and buyer. The whole due diligence exercise should cover areas such as the financial, commercial (consumer, company, markets), legal, and other business-specific information to ensure an in-depth understanding of the seller’s current and prospective assets and liabilities;
- Overpayment – A common pitfall for managers because of the level of stress and pressures they face from external stakeholders and of the personal interest they might have;
- Synergies miscalculation – We already saw the impact, but it is worth mentioning the causes of synergies miscalculation: they range from pure miscomputation to excessive optimism around implementation time. For instance, consolidating workforces and operational processes take time, and excess costs can be accrued if there are unrealistic expectations around when the integration will be complete, or, again, an upsurge in fixed costs might take place making the new entity less flexible to change in the market’s demand;
- Integration issues – As they can crop up after a merger or acquisition both operationally and culturally. If a detailed integration plan is not in place or does not work seamlessly, the companies involved in the deal may function separately for longer than anticipated, resulting in increased costs over time. Furthermore, cultural frictions may also pose a challenge: according to McKinsey & Company [35], almost 95% of executives say the cultural fit is vital to the success of integration, for instance, while one company may be more entrepreneurial and innovation-focused, the other may be more traditional and results-driven, or, again, an SME’s culture of

[34] G. Matt (2019, July 25). Harvard Business School. What are mergers & acquisitions? 4 key risks. Retrievable from: https://online.hbs.edu/blog/post/mergers-and-acquisitions

[35] Retrievable from: https://www.mckinsey.com/business-functions/organization/our-insights/organizational-culture-in-mergers-addressing-the-unseen-forces

autonomy and flexibility may clash with a large company's procedures and reporting systems.

These risks may result in missing targets or, even worse, destroying pre-existing value (e.g., losing clients, increasing fixed costs, et cetera). Nonetheless, with a knowledge of finance, a keen understanding of the risks involved and a solid advisory team, most companies effectively navigate risks affecting complex transactions creating value.

1.4 Recent trends shaping M&A

As we discussed rationales for M&A, it is worth mentioning what trends are and will be shaping deal-making activity in the medium term; specifically, Boston Consulting Group identified [36] four factors that will influence both sell-side and buy-side markets:

- Divestitures and spin-offs boosting supply – Divestitures are on the rise, with organizations aiming at cashing in on high valuations or sell off assets that are at risk of underperforming;
- Cash, cheap debt, and PE dry powder driving demand – Corporate and PE levels of cash holdings remain high, with PE taking the largest slice of the cake with 1.45 trillion $ of reserves in 2019; indeed, in 2018, overall cash holdings totalled 2.4 trillion $ which is 21% above 2013. At the same time, interest rates remain favourable [37] for deal-making, so this trend is likely to persist shortly;
- Industry convergence and ecosystems' rise encouraging unconventional deals – The absolute number of venture capital (VC) investments by corporate investors and the relative share in all VC investments (by volume) has doubled between 2013 and 2018. Increasingly, organizations are entering into deals specifically to gain access to company-specific capabilities, talent, or technologies, or again to develop new alliances. In a scenario where tech-fuelled business models blur boundaries

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[36] Boston Consulting Group (2019, September). 2019 Mergers & Acquisitions (M&A) Report. Retrievable from: https://www.bcg.com/publications/2019/mergers-and-acquisitions-report-shows-downturns-are-a-better-time-for-deal-hunting

[37] Retrievable from: https://www.spglobal.com/marketintelligence/en/news-insights/research/2021-global-private-equity-outlook

between industries, more and more companies are joining forces and overcoming their sectorial distance and differences [38]; in this context, M&A is at the mountain pass favouring the transition. Besides, increasing systems' complexity requires companies to work with a wider range of partners in a fluid and dynamic manner, thus potentially opening the space to a wider range of deal types, different depths of integration and diverse uplift opportunities for dealmakers [39]. To succeed in non-traditional transactions, dealmakers will adapt their skills in terms of scouting and negotiation, while post-merger collaboration, governance, and integration efforts will get more and more intricate.

- Resilience supporting M&A activity – While the M&A market is still responsive to volatility, dealmakers in recent years have shown a greater focus on macroeconomic fundamentals (such as economic growth, forecasts, and megatrends) than on in-the-moment economic indicators [40] (the Economic Policy Uncertainty Index [41]), latest headlines or market gyrations. BCG's research suggests that, rather than discouraging deals, an economic downturn can create significant value for buyers [42].

[38] For instance, there is now a blurred line between self-driving vehicles' manufacturers and sharing platforms entering the sphere of traditional mobility and automotive players that now react to embrace change and look at external growth to fill competencies or technological gap.

[39] For instance, in January 2018, Amazon, Berkshire Hathaway, and JPMorgan Chase announced that they would form an independent health care company to provide services to their employees in the US.

[40] Retrievable from: https://cdw-prod.adobecqms.net/content/dam/cdw/on-domain-cdw/tech-solutions-library/data-center/mkt41892-whitepaper-m%26a.pdf

[41] Retrievable from: https://www.policyuncertainty.com/index.html

[42] Boston Consulting Group (2019, September). The 2019 M&A Report: Dealmakers Do Well in Downturns. Retrievable from: https://www.bcg.com/publications/2019/mergers-and-acquisitions-report-dealmakers-do-well-in-downturns

2. The sports industry

With the end goal of analysing M&A dynamics within the European football clubs' industry, the first step is to briefly introduce the broader sports industry to fully appreciate the sector's distinctive traits compared to other industries and its outlook in a post-pandemic environment. Therefore, this chapter will voluntarily be 'high level' as its main purpose is to study the context within which football clubs operate in terms of component breakdown, industry participants, market trends, opportunities, and threats.

2.1 Overview of the sports industry

The sports market consists of sales of sports services and related goods by organizations or even solo actors [43]; we can divide spectator from participatory sports. In participatory sports, as the name suggests, participants play the game first-hand while spectator sports are characterized by the presence of spectators (or watchers) at its events [44], therefore, its definition includes teams, clubs, and independent athletes that present sporting events before a paying audience (as a further distinction is between amatorial and professional sports). Overall, the global sports market reached a value of nearly $388.3 billion in 2020, having increased at CAGR of 3.4% from 2015 until 2019 even though was hit by a staggering drop (-15.4%) in 2020 mainly due to lockdown, economic downturn and social distancing norms imposed by various countries [45].

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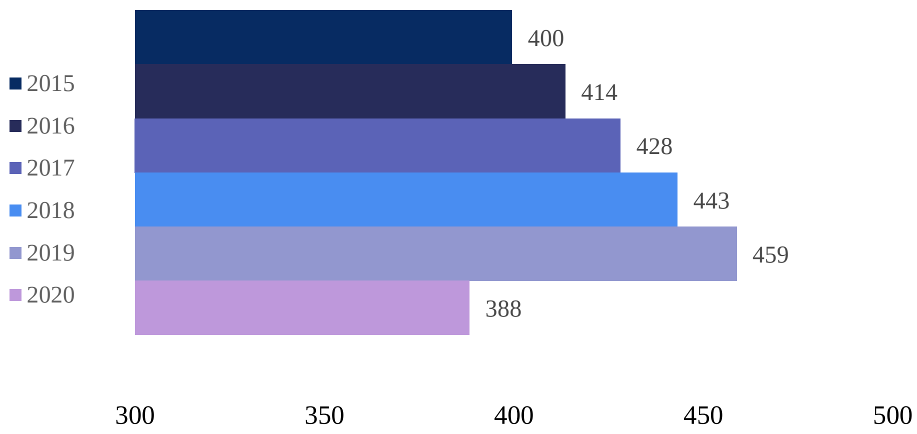
[43] Moreover, the sports industry is extremely diverse, encompassing any activity that derives income from sports, thus comprising anything from TV distribution, fitness, ticketing, betting, and advertising to sponsorship or merchandise.

[44] Retrievable from: https://www.definitions.net/definition/spectator+sport

[45] Global Sports Market - By Type (Participatory Sports, Spectator Sports), By Revenue (Media Rights, Sponsorship, Merchandising and Tickets), And By Region, Opportunities And Strategies – Global Forecast To 2030. The Business Research Company. Retrievable at: https://www.thebusinessresearchcompany.com/report/sports-market

Global sports market in billion $ between 2015-20



Source: own elaboration on The Business Research Company data (May 2021)

The growth resulted from further urbanization, the rise of emerging economies and the emergence of multiple channels to capture viewership, while was negatively impacted not only recently by COVID-19, but also by doping scandals, shortage of sports officials and climate changes.

From a geographical point of view, North America is the largest market for the sports industry, accounting for around 30% of the global market [46]; followed by Western Europe, the Asia-Pacific, and then other regions. Many emerging markets surged in recent years and will do the same beyond: China and India are among the biggest emerging national markets, presenting lots of opportunities for business expansion across the industry. In terms of growth, the Asia-Pacific and the Middle East are expected to be the fastest-growing emerging markets in the next few years while the USA, South America and Europe will continue their steady growth at a rate of between 5-6% in the medium term.

[46] Global Sports Market - By Type (Participatory Sports, Spectator Sports), By Revenue (Media Rights, Sponsorship, Merchandising and Tickets), And By Region, Opportunities And Strategies – Global Forecast To 2030. The Business Research Company. Retrievable at: https://www.thebusinessresearchcompany.com/report/sports-market

For further clarification, PwC professionals identified three groupings with different growth patterns [47]:

- Europe, North America, and the Austral-Asia region – Expected to see slower growth rates going forward than before as a sign of both saturation in the sports industry and with the pandemic negatively impacting the forecasts compounded by growing competition from other entertainment formats;
- Asia and the Middle East – Promising markets over the last decade, their growth rate will stabilize but still expected to remain robust for the next 3-5 years because they will be fuelled by robust governmental support, upcoming mega-events, and overall growing commercial maturity to lower the pandemic negative impact [48];
- Africa and South America – Emerging and ready to catch up markets; however, they will remain small markets in relative terms.

Distinguishing market participants by their typology, in recent years, we observed 3 main actors creating terrific value: mega sports clubs (or franchises), sporting apparel companies and TV distribution companies. A few predominant reasons explain why these actors have surged driving growth across their sectors and the whole industry:

- Increased demand for sports apparel in emerging economies and increasing participation of women in sport have contributed to growth in that area [49];
- The expansion of TV licensing into new digital technologies has added value to companies that are taking advantage of this space. Disruptive streaming media and mobile technology have expanded the global audience and opened new advertising revenue, while traditional TV distribution contracts continue to be lucrative income sources;

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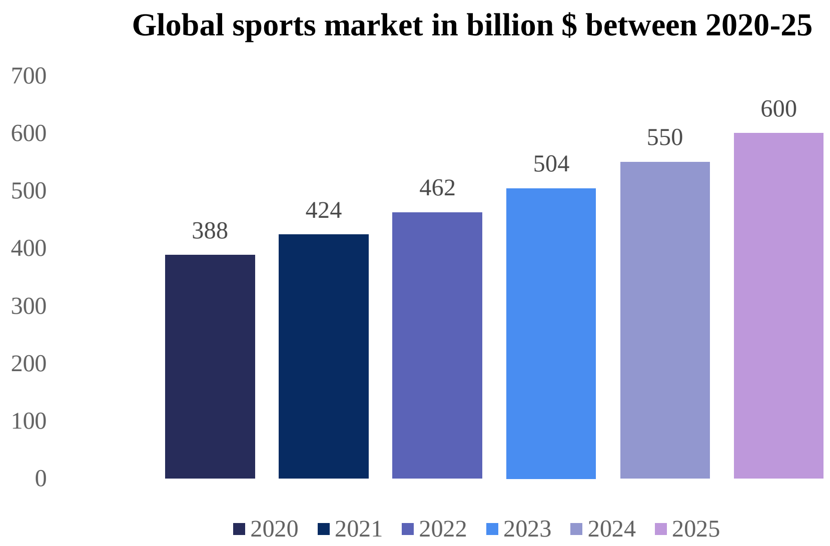
[47] PwC's Sports Survey 2020. Retrievable at: https://www.pwc.ch/en/insights/sport/sports-survey-2020.html

[48] PwC Sports Survey 2020. Retrievable at: https://www.pwc.ch/en/publications/2020/pwcs-sports-survey-2020.pdf

[49] Sports apparel market expected to Reach $248.1 billion by 2026. (n.d.). Retrieved March 07, 2021, from https://www.alliedmarketresearch.com/press-release/sports-apparel-market.html

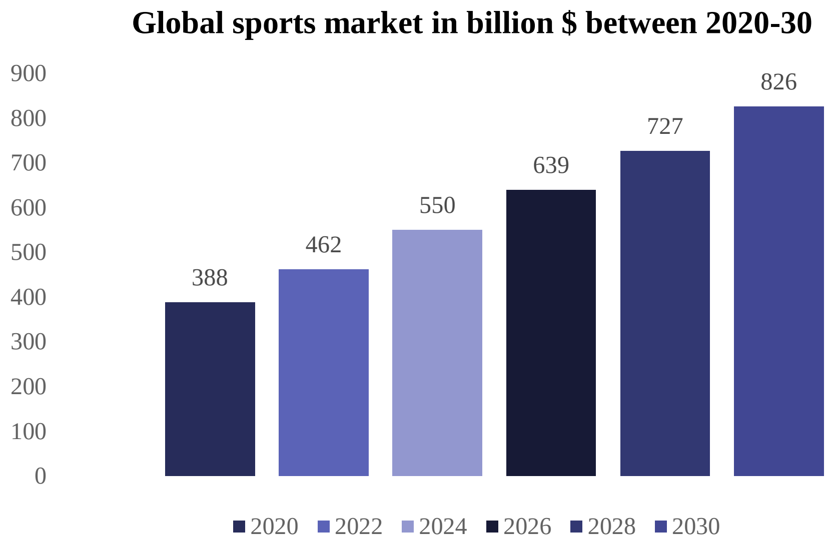
- Sports clubs such as Real Madrid have developed new, successful approaches to branding [50], and have made moves to expand brand awareness into emerging markets, creating new audiences;
- Fitness is booming [51] driven by new generations of health-conscious consumers, as well as emerging markets, leading to the growth of participatory sports.

Going forward, the global market is expected to reach $599.9 billion by 2025, at a CAGR of 9.1%, and $826.0 billion by 2030 at a CAGR of 6.6%.



[50] Real Madrid becomes football's most powerful brand: Press release. (2021, February 15). Retrieved March 07, 2021, from https://brandfinance.com/press-releases/real-madrid-becomes-footballs-most-powerful-brand

[51] Fitness industry Statistics [Growth, trends & research stats 2021]. (2021, January 21). Retrieved March 07, 2021, from https://www.wellnesscreatives.com/fitness-industry-statistics-growth/



Source: own elaboration on The Business Research Company data

The robust growth in the sports industry will be mainly driven by few key trends:

- Development and growth of digital technology – Which, combined with an increase in internet-accessible devices [52], will enhance content consumption; in this context, enabling technologies are cloud and 5g communication standard for streaming services and mobile viewing, and advanced and virtual reality both for streaming and in-person services. Furthermore, as recent evidence suggests [53], growth will be driven by innovative collaborative models and a subsequent shift in traditional rights tendering processes;
- Expansion of digital betting, gambling, and fantasy – Digital will allow the sports betting industry to surge in the upcoming period while we can expect a further acceleration given by the US lifting the federal ban [54] in 2018 [55];

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[52] Retrievable from: https://www.cnbc.com/2019/01/24/smartphones-72percent-of-people-will-use-only-mobile-for-internet-by-2025.html

[53] Retrievable from: https://www.sportbusiness.com/news/dazn-negotiates-reduced-j-league-rights-fee-in-profit-share-agreement/

[54] https://www.nytimes.com/2018/07/02/sports/sports-betting.html

[55] PwC 2020 Sports Survey. Retrievable at; https://www.pwc.ch/en/publications/2020/pwcs-sports-survey-2020.pdf

- Market penetration – As the combination between new technologies, changing preferences and emerging economies will create massive upside potential by developing global brand awareness; e.g., European (football) or soccer is growing in popularity in the American market, the surge in women sports consumption [56], China [57] and India [58] expected to boom, et cetera;
- Esports – As it is growing in popularity [59] and is expected to continue to grow with the development of more sophisticated VR technology and with more and more partnerships with clubs and rights holders [60].

On the flip side of the coin, factors that could hinder the growth of the sports market in the future include the threat from home entertainment and increasing regulations on sports. According to PwC 2020 survey [61], market participants are indeed generally pessimistic when comparing expected future growth with the past one, even though there are some notable exceptions: sports teams/clubs [62], sports technology companies, and academia/public sector, as the following figure suggests:

[56] Retrievable from: https://www.iberdrola.com/social-commitment/women-sport/other-sports/women-sport-today

[57] Retrievable from: https://www.china-briefing.com/news/opportunity-big-growth-chinas-sports-industry/

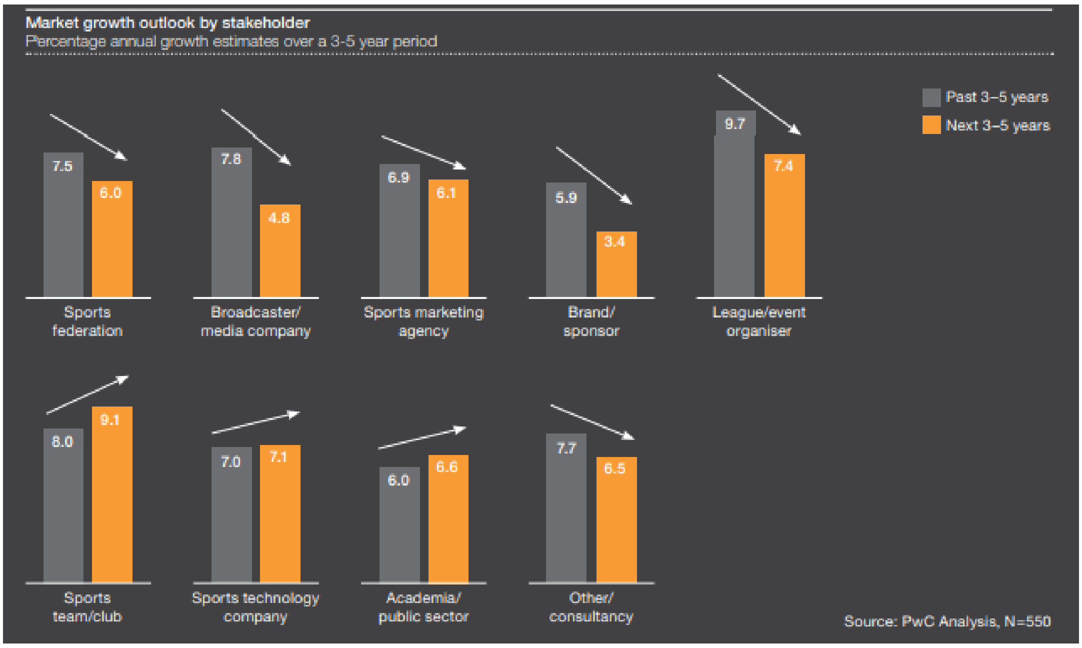
[58] Retrievable from: https://www.chaseyoursport.com/Career-in-Sports/The-rise-of-sports-in-Indian-Ecosystem/381

[59] Reyes, M. (2021, January 5). Esports ecosystem report 2021: The key industry companies and trends growing the esports market which is on track to surpass $1.5B by 2023. Retrieved March 07, 2021, from https://www.businessinsider.com/esports-ecosystem-market-report?r=DE&IR=T

[60] E.g., FIBA (International Basketball Federation) announcing its 1st esports championship with 17 National Teams https://www.fiba.basketball/news/17-national-teams-to-participate-in-inaugural-fiba-esports-open-2020

[61] PwC's Sports Survey 2019. Retrievable at: https://www.pwc.ch/en/insights/sport/sports-survey-2020.html

[62] Do note that this may be due to their self-confidence in controlling key assets (athletes and content).



Source: PwC analysis (2020)

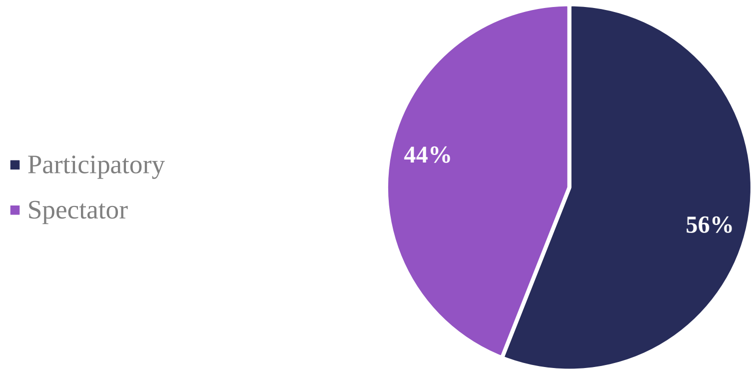
As we previously mentioned and as research companies recommend (e.g., Business Research Company [63]), the industry can be broken down according to the type of engagement:

- Participatory market – Featuring fitness and recreation centres, community sports, sporting facilities, personal training, amatorial sports, et cetera;
- Spectator market – Featuring clubs and sports teams, event revenue, media rights, sponsorship and merchandising, business e-sports, et cetera.

[63] Sports Global Market Report 2020-30: COVID-19 Impact and Recovery. The Business Research Company. Retrievable at: https://www.globenewswire.com/news-release/2020/12/10/2143291/0/en/The-Business-Research-Company-s-Analysis-Of-The-Impact-Of-COVID-19-On-The-Sports-Global-Market-2020-And-Market-Forecast-To-2030.html

The participatory sector has the biggest share of the sports market at approximately 56% in 2018 [64], with fitness and recreation centres dominating owning approximately 40% of the whole market [65].

Worldwide sports industry breakdown per engagement type



Source: own elaboration on The Business Research Company data (May 2020)

The spectator sports sector was and is expected to remain the fastest-growing sector of the two and the one least impacted by the COVID-19 outbreak. Within the segment, revenue generated by media rights had the largest share of this sector in 2018 at 23.7%, of which digital media rights are expected to be the key driver of overall growth, with growth rates of 9.7% expected over the next 3-5 years while much lower growth rates (1.9% [66]) are foreseen for traditional sports media rights [67]. Among spectator market participants, sports teams and club franchises brought and will bring in most of the profits (roughly 72%), with

[64] Last available census.

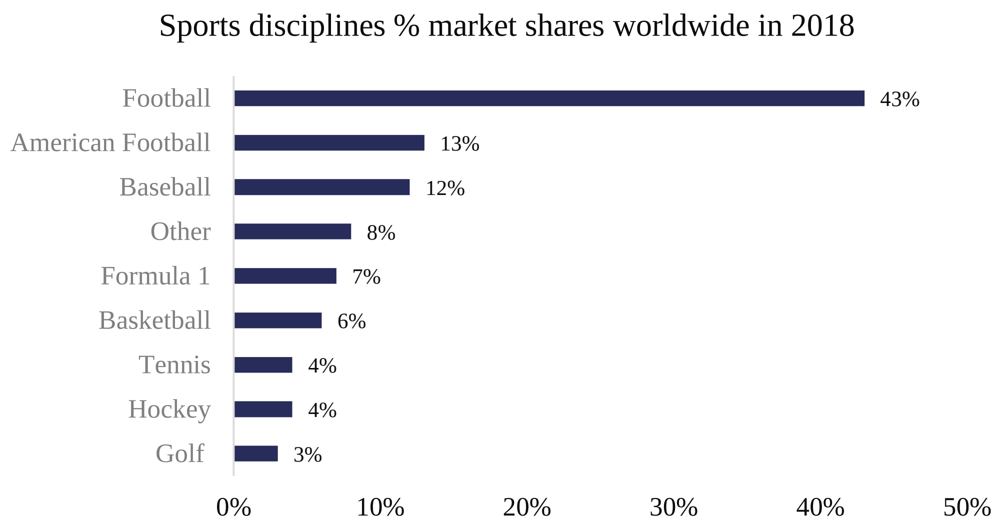
[65] Sports Global Market Report 2020-30: COVID-19 Impact and Recovery. The Business Research Company. Retrievable at: https://www.researchandmarkets.com/reports/5022446/sports-global-market-report-2020-30-covid-19?utm_source=BW&utm_medium=PressRelease&utm_code=ctvc8g&utm_campaign=1244426+-+Sports+-+%24614+Billion+Global+Market+Opportunities+%26+Strategies+to+2022&utm_exec=joca220prd

[66] Do note that this extremely low expected growth rate might be influenced by uncertainty around the business impact of the ongoing change of consumer behaviour driven by COVID-19 outbreak.

[67] PwC's Sports Survey 2019. Retrievable at: https://www.pwc.ch/en/insights/sport/sports-survey-2020.html

money coming in from four main revenue channels: media rights, gate receipts, sponsorship deals, merchandise, and player trading [68].

Within the spectator segment, every sports discipline has its percentage share of the +190 billion $ [69] market: with little or no surprise, football comes in at number one outpacing American football and baseball (see chart below). The growth potential of the top three sports remains robust, as confirmed by the large broadcast audiences recorded as soon as major competitions restarted live after the COVID-19 outbreak [70].



Source: own elaboration on The Business Research Company data (May 2020)

However, contrarily to what someone might justifiably assume, most of the top 10 most valuable sports franchises (according to Forbes valuations) do not belong to the football industry, but from American football and basketball, because of the US' undeniable capacity to monetize high-income spectators and to create winner-takes-all markets.

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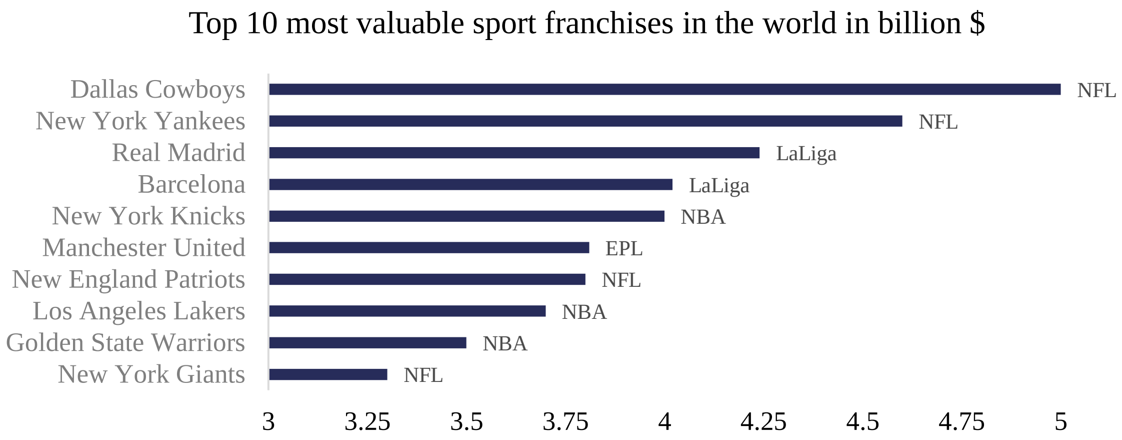
[68] Sports Global Market Report 2020-30: COVID-19 Impact and Recovery. The Business Research Company. Retrievable at: https://www.researchandmarkets.com/reports/5022446/sports-global-market-report-2020-30-covid-19?utm_source=BW&utm_medium=PressRelease&utm_code=ctvc8g&utm_campaign=1244426+-+Sports+-+%24614+Billion+Global+Market+Opportunities+%26+Strategies+to+2022&utm_exec=joca220prd

[69] Expected in 2021.

[70] E.g., LaLiga. Source: https://www.forbes.com/sites/michaellore/2020/06/20/laligas-international-audience-up-48-after-restart/?sh=3624db186250



Source: own elaboration on Forbes data (2019)

2.2 Sports industry uniqueness

The uniqueness of sport, as an overall product, presents several challenges and complexities that must be overcome; examples range from the use of performance-enhancing drugs in elite level sport, governance failures and challenges at almost all levels of the industry, specific strategic and marketing principles that must be applied, to the emergence of match-fixing and other forms of unethical behaviour (O'Boyle I. & Bradbury T., 2017).

Moreover, the sport management industry is heavily impacted by several adjacent environments:

- Political environment – Many sports organisations rely directly on government support to fund their activities [71] and to produce high-performance athletes [72] while

[71] For reference, European Commission funding opportunities for funding the field of sport https://ec.europa.eu/sport/funding_en

[72] E.g., Australia case study: https://www.health.gov.au/ministers/senator-the-hon-richard-colbeck/media/government-invests-506-million-to-back-our-athletes

maintaining growing participation levels in their respective sports [73]. In general, it is possible to identify three main categories of sports governing bodies [74]:

  - Grassroots organisations – Cover all sport disciplines practised by non-professionals. These organizations rely on volunteers [75] and focus on incentivizing participation;
  - National governing bodies and national umbrella organisations – These are responsible for the organisation of sport throughout all the layers of a single discipline (from grassroots to the elite) at the national level. They focus on setting and enforcing the regulation;
  - European and international federations – International federations usually set the rules of the game and organise major tournaments. European federations organise continental competitions and are responsible for the organisation of sport within their area.

- Economic and social environment – The sport management industry is also impacted by global economic downturns such as the GFC or the recent Covid-19 outbreak and of course by societal shifts [76].
- Technological environment – From the growth of e-sports [77] to improving the capabilities of sports organisations [78] or enhancing the fan experience through increased viewing options and live streaming [79].
- Legal environment – Whose impact on sports management is still significant nowadays, e.g., the growth of combat sports like the Ultimate Fighting

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[73] E.g., European whitepaper at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52007DC0391

[74] As classified by the European Commission in the report "Principles of good governance in sport" retrievable at: https://ec.europa.eu/assets/eac/sport/library/policy_documents/xg-gg-201307-dlvrbl2-sept2013.pdf

[75] In cooperation with limited paid staff from time to time.

[76] For more information, please see Földesi G. (2014). The Impact of the Global Economic Crisis on Sport. Physical Culture and Sport. Studies and Research.

[77] Chikish Y., Carreras M. & Garci, Jaume. (2019). eSports: A New Era for the Sports Industry and a New Impulse for the Research in Sports (and) Economics?

[78] Retrievable from: https://www.thedrum.com/news/2019/07/05/technology-has-changed-the-sports-business-how-do-you-continue-drive-loyalty-and

[79] Retrievable from: https://www2.deloitte.com/us/en/pages/technology-media-and-telecommunications/articles/enhancing-digital-fan-engagement.html

Championship (UFC) and their regulations [80], corruption and financial irregularities in organisations such as FIFA [81], match-fixing and the use of illicit and performance-enhancing drugs by athletes [82] (O'Boyle I. & Bradbury T., 2017).

However, hereby we will point out two major points of difference that can be seen as the root causes of any further sub-difference: they are the industry irrationalness and its complexity. More specifically, unlike usual businesses, sports business is strongly attached to the tradition and loyalty of its local area and fans while being extremely complex because of the hierarchy and network of commercial partners and interested parties within a specific sector [83]. Indeed, the extreme diversity of players coexisting in the ecosystem is bound together by a network of bilateral or multi-party contractual agreements that give birth to sporting regulation, association membership, event sanctioning, market participation, commercial partnerships, et cetera. Under this framework, sports special features are given by:

- Fans before customers – Sports fans are different to ordinary consumers of goods or services. On one hand, a sport or sports team is usually a component of a much bigger social structure such as a neighbourhood, a city or even an entire country [84]; on the other, fans are important stakeholders and will often be wary of potential 'outsiders' coming into the sport; therefore, their underlying social culture will either resist or accept the change and drive organizations towards alignment [85]. Furthermore, the initial driver for any sports organization's growth is the development of a fan-base (The Future of Sports, 2015 [86]); therefore, if fans'

[80] Retrievable from: https://www.ufc.com/unified-rules-mixed-martial-arts

[81] Retrievable from: https://www.greens-efa.eu/en/article/document/recent-revelations-of-high-level-corruption-cases-in-fifa/?pdf=32

[82] Malcolm D. & Waddington I. (2006). The use of performance-enhancing drugs in European football. International Review of Modern Sociology. Retrievable at: www.jstor.org/stable/41421248

[83] Stokburger-Sauer N., Bauer H. & Exler S. (2008). Brand Image and Fan Loyalty in Professional Team Sport: A Refined Model and Empirical Assessment. Journal of Sport Management.

[84] Sociology of sports. https://www.britannica.com/sports/sports/Sociology-of-sports

[85] Zagnoli P. (2010). The football-fan community as a determinant stakeholder in value co-creation. Retrievable at: https://www.tandfonline.com/doi/abs/10.1080/17430437.2010.520941

[86] https://futureof.org/wp-content/uploads/The-Future-of-Sports-2016-Report.pdf

interests are not considered by organizations, and if they are not managed through a carefully planned communications strategy [87], the result will be a detrimental impact on the long-term value of the sports entity or the sport itself;

- Internal and external politics – The politics within a sport's organisation or governing body, in terms of individual personalities as well as relationships between member bodies, can impact how easy it is to approve key decisions [88] (for instance, national federations and organizations within an international federation will most likely bring partisan and divergent interests or priorities). The social role of sport as a communication vehicle and loudspeaker for important issues such as sustainability, gender, and racial diversity [89], also implies that sports will often be subject to increased government and societal scrutiny and pressure [90]. Furthermore, the massive exposure to the public can result in restrictive regulation [91] around specific topics such as listed events [92], advertising, gambling. Finally, recent years have also shown how rights can be affected through widespread broadcast piracy [93], sometimes even with presumable geopolitical interests [94]; on the flip side of the coin, public policy and regulation can have a positive impact (for instance, greater investment in sports participation or hosting major events [95]);
- Guardianship – Within sports, maintaining the 'rules of the game' and consistency over time are sacred and find undeniable manifestation in the reluctancy to challenge incumbent autonomy and power, however, as highlighted by the

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[87] Hopwood M, Kitchin P.J. & Skinner J. (2012, January). Sport Public Relations and Communication.

[88] E.g., Article 9 of Serie A's Rules of Procedure on representation and deliberation https://www.legaseriea.it/assets/legaseriea/pdf/Statuto_Regolamento_LNPA_vigente.pdf

[89] Retrievable from: https://www.un.org/press/en/2016/ga11867.doc.htm

[90] European case study and environment overview retrievable at: https://rm.coe.int/sport-facing-the-test-of-cultural-diversity-integration-and-intercultu/1680734be5

[91] With a self-evident impact on an organization's growth options.

[92] I.e., sporting matches of enormous popularity which are reserved from exclusive coverage by commercial broadcasters so that people may watch certain special events on television.

[93] Challenges facing sports event organisers in the digital environment (2020, December). EAVA. Retrievable at: https://www.europarl.europa.eu/RegData/etudes/STUD/2020/654205/EPRS_STU(2020)654205_EN.pdf

[94] Murad A. (2021, April 28). Qatar media company beIN's tough stance on illegal broadcasts has geopolitical overtones. Financial Times. Retrievable at: https://www.ft.com/content/6020dbee-3b6e-493a-a29b-8b47e18cafb2

[95] E.g., Qatar case-study: https://themedialine.org/life-lines/lifestyle/qatar-football-intersection-politics-sport/

European Commission, decision-makers should open themselves to seek partnerships, engage in dialogue, and cooperate with external stakeholders [96]. Furthermore, as Nathan Edwards suggested [97], "there are several external stakeholders and idiosyncrasies involved in a sport that doesn't apply to other business; for instance, as an owner of a club, you also have the responsibility to be a custodian of it, which can often directly conflict with a clubs business interests (e.g., raising ticket prices [98], participating to matches in foreign countries like the Middle East [99] or the US [100]);"

- Commercial imperatives – Historically, as Nathan Edwards suggested [101], "the management and structure of sports clubs and leagues were not set up to act like commercial businesses; if we look at previous owners of EPL clubs for instance, often they were fans or natives from the local area and happened to be wealthy enough to purchase their club and run it as a passion project." Many organisations used to only generate revenues for the sake of paying participants funding prize money, maintaining, and renovating assets and facilities, and reinvesting the remainder to enhance and favour mass participation [102]; companies eventually evolved from small, non-commercial member organisations, operated for the benefit of their members, to much mature commercial entities. However, whilst some sports, such as professional football, basketball, and American football have

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[96] Principles of good governance in sport. The European Commission. Retrievable at: https://ec.europa.eu/assets/eac/sport/library/policy_documents/xg-gg-201307-dlvrbl2-sept2013.pdf

[97] Consultant at The Sports Consultancy. Source: private interview in April 2021.

[98] E.g., Liverpool football club fans making their point to owners Fenway Sports Group https://www.bbc.com/sport/football/35546090

[99] E.g., football Supercoppa Italiana in Saudi Arabia https://www.sportspromedia.com/news/supercoppa-italiana-juventus-lazio-saudi-arabia-riyadh

[100] LaLiga playing matches in the US and Canada https://bleacherreport.com/articles/2791236-la-liga-to-play-matches-in-the-united-states-after-15-year-deal-agreed

[101] Consultant at The Sports Consultancy. Source: private interview in April 2021.

[102] Study on the funding of grassroots sports in the EU with a focus on the internal market aspects concerning legislative frameworks and systems of financing (2011, June 27). Retrievable from: https://kics.sport.vlaanderen/Sporteneu/Documents/110601_EU_study_funding_grassroots_sports_finalreport_vol2.pdf

> seen tremendous growth in recent decades [103], many International Federations aren't yet structured to monetize participation and the question is whether they will ever be (given their lower "scale" in terms of fans participation). As the need for cash reserves has become highlighted even more in the current COVID-19 crisis, commercial imperatives will become more of a focus for many organisations [104].

Hence, the sport's uniqueness requires sports organizations to deal with obsessed customers, complex decision-making, a general diffidence to change, and partial or little commercial maturity.

2.3 Sports industry opportunities and threats

"D2C is a unique opportunity for sports to regain the lion's share of the value chain whereas the collapse of the pay-tv model is the biggest threat." Geoffroy Bourbon [105].

Moreover, this statement brilliantly synthesizes the main opportunities and threats of the sports industry that are given on one hand, by the possibility to digitally map and interact with sports fans, on the other, by the disruption that will affect traditional channels and models.

Deeping down into the detail, we can list, from the most important to the least, the top opportunities for revenue enhancement and the main threats in the medium term as indicated by 780 sports leaders and professionals in PwC 2020 Sports survey. Namely the top opportunities are:

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[103] "American sports clubs, franchises, and leagues were the first to really realise and capitalise on the commercial potential sport has to offer (c. 1990s) and therefore had management teams and structures to reflect this." Edwards N.

[104] Kemp J. (2020, May 21). The impact of Covid-19 on sports federations. Sportcal – Sports Market Intelligence. https://www.sportcal.com/Insight/Features/131782

[105] VP Sales & Sponsorships at ATP Tour. Source: PwC Sports Survey 2020.

- Enhanced digital media fan experience – In digital, the most important factor for sports fans remains the quality of the broadcast or stream [106]: moving forward, opportunities will arise by enhancing the social experience (through AR/VR/Social media), allowing fans to select key elements of their stream (camera angle, announcer/speaker, live statistics [107]), providing high-quality viewing access [108], allowing highly customizable subscription plans, exploring new partnership forms with gambling and fantasy sports companies [109], advertisers, e-commerce platforms [110];
- Creation and monetisation of digital assets – From the demand side, the sports fans of tomorrow are less social, more technology-driven, and display an all-time low attention span [111]; therefore, they are by nature more open to purchasing digital assets (89% believe digital assets will be somewhat important between 2020-23 [112]). On the supply side, "sports clubs and rights holders," as Jeremy Pressman suggested [113], "can overcome the scarcity of assets proposing customers non-fungible tokens; so that, for instance, someone buys a Man United jersey when he comes to the stadium by scanning his NFT and he doesn't even have to be wearing it." For instance, the NBA and the National Basketball Players Association launched a new digital gaming platform that allows fans to trade basketball collectables using blockchain technology; the platform, NBA Top Shot will feature

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[106] The future of sports broadcasting - Enhancing digital fan engagement. Deloitte (2019). Retrievable at: https://www2.deloitte.com/us/en/pages/technology-media-and-telecommunications/articles/enhancing-digital-fan-engagement.html

[107] NBA to unveil unique in-venue and broadcast enhancements for 2019-20 season restart https://www.nba.com/news/in-venue-and-broadcast-enhancements-2019-20-official-release

[108] Wherever they are based and on their most convenient device.

[109] Formula 1 planning leveraging its digital sponsorship set-up to partner with seven betting companies https://www.sportbusiness.com/2020/03/formula-1-could-have-up-to-seven-different-regional-betting-sponsors-says-isg/

[110] New Frontiers for Distribution of Sports Content. HIS Markit 2017. Retrievable from: https://corp.kaltura.com/wp-content/uploads/2018/05/IHSM-white-paper-New-Frontiers-for-Distribution-of-Sports-Content1.pdf

[111] The Future of the Sports Fan. Retrievable at: https://www.fotball.no/globalassets/dommer/the-future-sports-fan_spilleregler_english.pdf

[112] Deloitte 2020 Global Blockchain Survey. Full report at: https://www2.deloitte.com/content/dam/Deloitte/ie/Documents/FinancialServices/Digital%20Assets%20Webinar_January%2019%202021_Final.pdf

[113] Partner at ADvantage Sports Tech Fund. Source: private interview in May 2021.

a social experience built around digital collectables, and a complementary head-to-head game, to encourage fan engagement [114];

- Innovation in media rights packaging and distribution – We are in the face of a massive re-bundling evolution in the media industry to offer customers increased choice and flexibility; innovation will digitalize anything that can be digitalized and will combine the content in creative ways. Therefore, we should expect a wave of M&A in the content industry as established media, distributors, communications companies and digital advertising, retail and video tech platforms work to scale services and subscribers while enhancing pricing power to ensure revenue sustainability [115];
- Innovation in sponsorship rights packaging – Again, digitalization will open massive opportunities for sponsorship packages' enhancement by offering B2B clients increased flexibility and better customer targeting. Speaking during the SportsPro Insider Series of virtual events [116], Gareth Balch [117] looked ahead to a dramatic shift in how sponsorship packages are diffused [118] "digital is the greatest mis-sold, unsold, undersold, undervalued asset in the sponsorship mix," he said. "Sports properties have been aggregating and growing audiences digitally and building bigger data sets, but not necessarily knowing how to monetise them;"
- The monetisation of gaming and esports – Spending on esports is projected to surge at a CAGR of 18.3% between 2018-23 to reach almost US$1.8bn; however, esports is still a relatively young industry where no dominant design is in place, therefore incumbents and start-ups are still looking at different commercial avenues to secure revenues, from sponsorship to ticket sales, from merchandising, to even prize money [119];

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[114] Retrievable from: https://www.coininsider.com/nba-dapper-labs-top-shot/

[115] Crakes P. (2020, December 1). The new bundle package and the familiar future of media distribution. Retrievable at: https://www.sportspromedia.com/analysis/disney-comcast-nbc-discovery-viacom-att-warner-streaming-tv-cord-cutting

[116] Retrievable from: https://www.sportspromedia.com/news/digital-sports-sponsorship-undervalued-revenues-two-circles-coronavirus

[117] Chief Executive at Two Circles, a sports marketing agency.

[118] Academic research agrees to a different mix between physical and digital activation (Connolly, E., 2020).

[119] Monetising esports via multiple revenue streams (2020, January 14). PwC. Retrievable at: https://www.pwc.com/gx/en/industries/technology/publications/monetising-esports.html

- Improved on-site fan experience – This includes redesigning stadiums or experiences considering digital implications, thus adopting an omnichannel approach. For instance, the NBA recently introduced a virtual cheering experience: all fans can digitally cheer for their team through the NBA channels throughout the game, and the virtual cheering will be reflected on the video boards in-venue with graphics and animations that capture the level of worldwide fan engagement[120].

The common denominator across these opportunities is, often, digital technology and, as Guido Betti [121] outlined, "COVID-19 has been a digital accelerator and an enabler for change. Vision and strategy suddenly became must-haves to secure sports' future legacy. At the Fédération Internationale de Volleyball, the threat has been turned into an indisputable opportunity."

Moving on to the main threats, industry leaders believe the following:

- Impact of health and safety crises – Someone might think of the recent pandemic as a one-off example, however, there are plenty of cases (from HIV and SARS to Avian Flu and Ebola) where viruses and contagious diseases impact the sports industry (even though at a much smaller scale [122]). Therefore, it comes with no surprise that industry leaders are quite scared of a recurrence in the medium term, especially given all COVID-19 variants;
- Reduced financial resources to invest or innovate – Facing today's dramatic liquidity challenges and tomorrow's uncertainties, sports industry players must prioritize key initiatives to unlock untapped value while looking elsewhere from traditional channels to secure alternative sources of financing;
- The dominance of major tech firms as a gateway to content – Indeed, given Google's monopoly in online searches, Amazon's in online purchases, Facebook's

[120] Retrievable from: https://www.nba.com/news/in-venue-and-broadcast-enhancements-2019-20-official-release

[121] TV & Marketing Director at FIVB. Source: PwC Sports Survey 2020.

[122] Loughborough University: https://www.lboro.ac.uk/news-events/news/2020/march/coronavirus-not-the-first-health-crisis-in-sport/

in social media, Apple's in iPhone software [123], it is evident how sports content production, distribution, and marketing must comply with Big Tech's rules of the game. Furthermore, the Internet tendency to make market concentration easier [124] will result in much more competition at both national and international level to get global customers' attention [125] favouring few winner-takes-it-all markets over many local entertainment centres;

- Growing complexity to reach and service fans – As Jeremy Pressman and Zach Yoshor pointed out [126], today's "digitally engaged world means not only a CRM tool that sends out an email to try to get somebody to come to a game" but also a further layer of complexity to identify and have access to the fans (e.g., organizations with over 500 million fans, might only have emails of 1 million [127]) and to structure different value propositions for different segments, thus targeting the audience with ad-hoc content;
- Piracy and illegal streaming – Indeed, as Angel Dzhambazki [128] highlighted "the piracy of live sports events is a major challenge for sport event organisers. The problem with existing measures is that enforcement comes too late." However, technological improvements open room for improvement in the way content licensing and streaming is controlled and rules enforced;
- Sports content saturation and scheduling conflict – Indeed, the combination of increased fan access to different events and the incentive for sports organizations to increase the number of events [129] results in a dramatic increase in content supply.

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[123] How Big Tech companies gain and maintain dominance. Reuters. Retrievable at: https://www.reuters.com/article/us-usa-tech-antitrust-congress-factbox-idUSKBN26R3RD

[124] The Web Might Be a Monopolist's Best Friend. Bloomberg. Retrievable at: https://www.bloomberg.com/opinion/articles/2019-11-25/internet-makes-it-easier-for-companies-to-become-monopolies

[125] For more information on the topic: A Theory of Falling Growth and Rising Rents (Aghion P., Bergeaud A., Boppart T., Klenow P. & Li H.). Retrievable at: https://www.frbsf.org/economic-research/files/wp2019-11.pdf

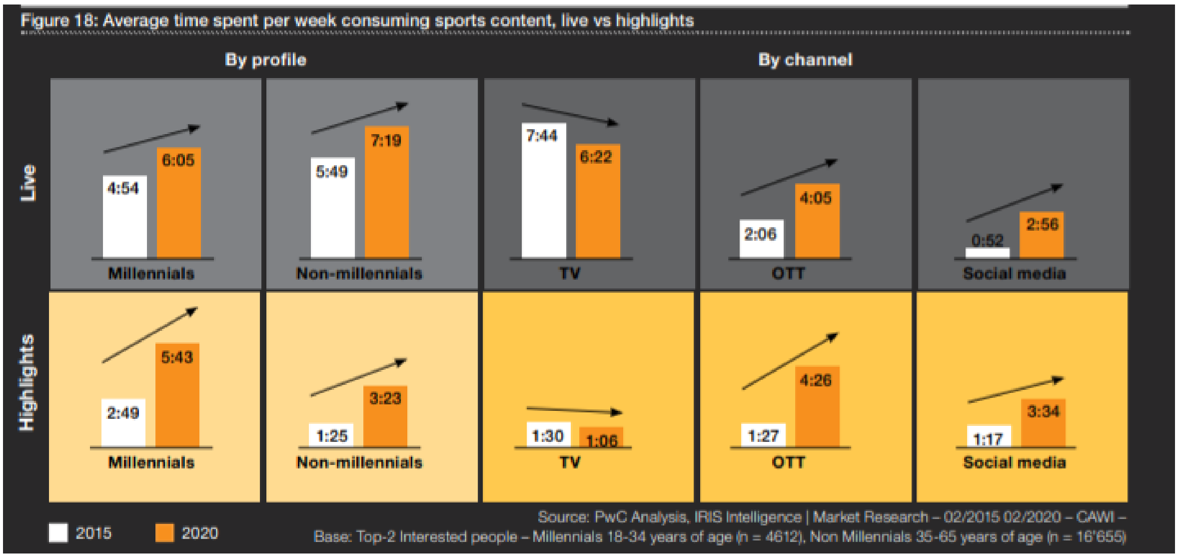
[126] Partner and Analyst at ADvantage Sports Tech Fund. Source: private interviews in May 2021.

[127] See interviews above.

[128] Bulgarian politician and currently a member of the European Parliament. Full article at: https://www.europarl.europa.eu/news/en/headlines/society/20210408STO01625/stop-illegal-live-sports-streaming-urge-meps

[129] Because revenue is function of the number of events played.

Therefore, it doesn't surprise how different, less time-consuming formats such as the highlights emerge as fans try to cope with so many sports events; the next infographic shows how the growth rates between 2015-20 have been much higher for highlights-alike-content versus live events, and this is particularly true for Millennials:



Source: PwC analysis, IRIS Intelligence data (2020)

2.4 Conclusion

"Only when the tide goes out, you discover who has been swimming naked." W. Buffet

The sports sector is not used to external crises (e.g., sporting stocks normally display low correlation with market trends [130]); indeed, sports major blowbacks are generally either sports-specific or team-specific (e.g., corruption, doping, et cetera). Therefore, the whole industry is characterized by underdeveloped defence mechanisms to cope with market shocks, and, because of that, the pandemic has vigorously shaken the sense of security and untouchability in which the sector has wrapped itself in recent years [131]. Some sports

[130] Tegtmeier L. & Prigge S. (2019). Market valuation and risk profile of listed European football clubs. Sport, Business and Management: An international Journal. 9. 146-163.

[131] PwC's Sports Survey 2020. Retrievable at: https://www.pwc.ch/en/publications/2020/PwCs-Sports-Survey-2020.pdf

industry players only survived thanks to unconventional measures such as the announcement of the public bailout (e.g., in the UK [132]) or undergoing massive cutbacks (e.g., Cricket Australia furloughing 80% of its staff [133]). The root cause was that, even without cancellation or postponement of events, restarting suffered from severe revenue shortfalls, particularly for small organizations or marginal sports generally relying on in-venue revenue streams.

Moreover, this pandemic will imply:

- Faster digital transformation [134] because of the increased efforts and funding aimed at coping with the pandemic;
- Increased need for diversification, accelerating an already visible trend in popular sports [135];
- Enhanced collaboration mechanisms between local or sporting industry participants as online winner-takes-all markets emerge [136];
- The urgency to revise current industry pyramidal models and governance/regulatory practices to adjust to ongoing demand-side changes [137];
- Increased need for alternative external financing to overcome pandemic-related challenges and to fund digital transformation efforts.

Sports industry leaders expect the full recovery to happen between 2022-2023 [138], but market participants should see this time-lapse as a one-off opportunity to revolutionize

[132] England's sports set for £300m government bailout. Financial Times. Retrievable at: https://www.ft.com/content/9fee4844-c9a9-4c4c-a805-3b4d86de6fe2

[133] Retrievable from: https://www.dw.com/en/coronavirus-sports-cancellations/a-52569936

[134] Sports organisations are multiplying digital experiments during this turmoil (first virtual stands, hybrid competitions, virtual player drafting, digital press conferences and summer tours, et cetera) while shaping the future (e.g., focusing on stadium and venues where health and safety technology will redefine the CX).

[135] Thomas C. (2015, February 15). Football Club Revenue: Diversification & Asset Monetization Efficiency. Chapter 6, pp 24-34.

[136] Barwise P. (2018, July 10). Nine reasons why tech markets are winner-take-all. LBS. https://www.london.edu/think/nine-reasons-why-tech-markets-are-winner-take-all

[137] In this scenario, we observed tentative such as the European Super League.

[138] PwC's Sports Survey 2020. Retrievable at: https://www.pwc.ch/en/insights/sport/sports-survey-2020.html

business models and value propositions: prioritizing innovation today is the key to unlocking postcrisis growth [139].

[139] Innovation in a crisis: Why it is more critical than ever (2020, June 17). McKinsey & Company. Retrievable at: https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/innovation-in-a-crisis-why-it-is-more-critical-than-ever

3. The football clubs’ industry

The first part of the chapter will pinpoint the main elements of the football industry, in terms of overall fundamentals and current outlook keeping an eye on expected threats and opportunities.

Afterwards, the chapter will shift the focus to investing in football clubs, limiting the analysis to elite European leagues [140], giving an overview of the main actors participating in European M&A (distinguished by size, geography, or objectives) and highlighting key features of investing in football, thus concluding with industry-specific features and value drivers.

3.1 Football clubs’ industry fundamentals

“I believe if you own an NFL team, you own the biggest sport in America,” Horowitz said [141]. “If you own an EPL team, you own the biggest sport in the world. It's the global game now.”

Indeed, football is the one sport that has been a polarizing global appeal, thus overcoming national, cultural, and socio-economic boundaries. Impressively, it keeps growing with an ever-expanding audience throughout the world in both industrialized and developing countries, establishing itself as the most popular sport in the globe accounting for 43% of the spectator sports market [142].

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[140] EPL, LaLiga, Serie A, Bundesliga, Ligue 1.

[141] Horowitz is a partner at Inner Circle Sports, a New York City-based “boutique investment bank” focused on the global sports industry.

[142] Sports Global Market Report 2020-30: COVID-19 Impact and Recovery. The Business Research Company. Retrievable at: https://www.researchandmarkets.com/reports/5022446/sports-global-market-report-2020-30-covid-19?utm_source=BW&utm_medium=PressRelease&utm_code=ctvc8g&utm_campaign=1244426+-+Sports+-+%24614+Billion+Global+Market+Opportunities+%26+Strategies+to+2022&utm_exec=joca220prd

First and foremost, the product offered by the football industry is the match between two clubs. To deliver this product, several actors come into play, which, adopting a bottom-up approach, can be classified as follows:

- Athletes – At the bottom of the pyramid, they shape the product with their performance, and they represent the assets that clubs manage [143]; therefore, they can attract fans and drive on-field performance;
- Clubs – They compete against each other in tournaments and pursue the objective of “win maximization” [144] as it represents the most important lever for value creation [145] and because it takes stakeholders’ [146] pressure off;
- Governing bodies – Including both domestic leagues and international federations, these organizations contribute to define and enforce the rules of the game and to market the product.

Interestingly, there is a pervasive horizontal competition at every level of the pyramid coupled with the need to cooperate to deliver the best possible product as they all compete in the much broader entertainment industry; as NBA Commissioner Adam Silver put it: “we recognize that we’re competing against every other possible form of entertainment, nice weather or anything else we could be doing instead of watching our games.” Furthermore, given the social and collective relevance of soccer clubs, their activity is characterized by peculiar relationships of bargaining power and integration along the supply chain of the sporting spectacle, as well as by the presence of social partners that involve, to varying degrees, market participants (Tiscini R. & Strologo A., 2016).

[143] As they can be traded and are subject to appreciation and depreciation according to contractual duration.
[144] As defined by Garcia-del-Barro & Szymanski (2006).
[145] Where “value” might assume many guises depending on the owner.
[146] Namely, fans, sponsors, and media.

Therefore, in short, a football club, despite its idiosyncrasies [147], operates similarly to any other business by offering its main product (i.e., entertainment) to fans while interacting with its stakeholders at different levels and with different behaviour [148].

3.1.1 Industry attractiveness – Cycles of growth to eschew low profitability

Within this section, we will analyse the overall industry attractiveness adopting Porter's five forces framework and two key elements peculiar to the football club industry: the virtuous circle triggered by better on-field performance and the deep relationship between football clubs and society.

Football clubs' profitability is generally low; for instance, Serie A clubs generated net collective profits between 2016 and 2018, yet after 17 years of losses [149] before going back to losses the following year [150]. More broadly, 'big five' European clubs made EUR 17b in revenue between 2018 and 2019 against EUR 1.4b of combined operating profits [151] [152]: the EPL had the highest operating profitability ratio with 15.9%, then Spain and Germany with 13.2% and 11.8%, while Italy and France walked in negative areas with -1.5% and -16% [153].

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[147] E.g., the objective of "win maximization".

[148] In between the two extremes given by competition and cooperation, according to the situation.

[149] Retrievable from: https://www.thelocal.it/20180326/italy-serie-a-profit/

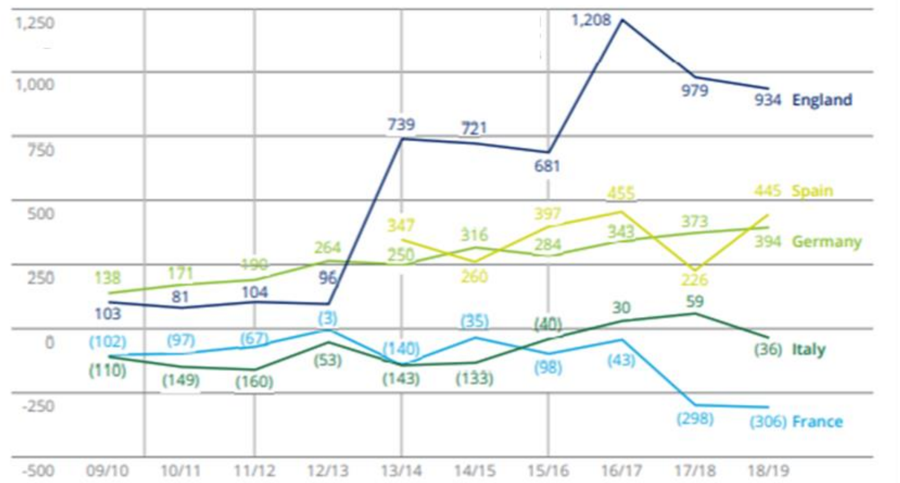
[150] Retrievable from: https://www.forbes.com/sites/giacomogalardini/2020/06/20/serie-a-registers-record-25-bn-revenue-but-flags-covid-19-impact/?sh=4fe4d1e1789f

[151] 8.4 % European profitability ratio.

[152] Of course, the poor profitability is referred to a pre-pandemic environment, then, the aftermath of COVID-19 resulted in even poorer operating profits as we will see in chapter 3.1.3 Covid-19 impact: the EPL case study.

[153] Annual Review of Football Finance 2020. Deloitte Sports Business Group. Downloadable at: https://www2.deloitte.com/uk/en/pages/sports-business-group/articles/annual-review-of-football-finance.html#

'Big five' European league clubs' operating profitability from 2009/10 to 2018/19 (in mln of €)



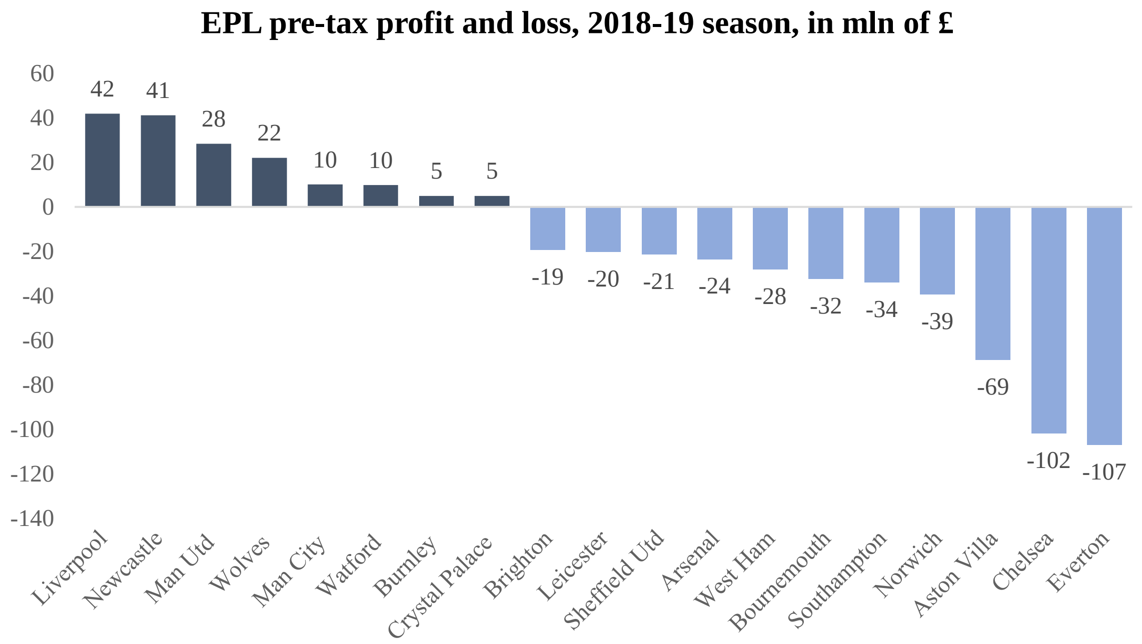
Source: Deloitte Annual Review of Football Finance (2020) [154]

Furthermore, no club is immune from low profitability because this issue is not limited to specific leagues; e.g., the EPL, the most profitable league on average, still had "lots of the clubs in a terrible state," (Purcell J. [155]) in 2018/19 especially when considering D&A and interests, as the following infographic will show [156]:

[154] See above.

[155] Co-founder of financial analysis firm Vysyble.

[156] Of course, the poor profitability is referred to a pre-pandemic environment, then, the aftermath of COVID-19 resulted in even poorer operating profits as we will see in chapter 3.1.3 Covid-19 impact: the EPL case study.



Source: own elaboration on Athletic UK data (April 2020) [157]

However, this does not imply that the sector is not characterized by profit orientation, but rather that soccer clubs should not be appreciated from a stand-alone perspective, but, referring to the concept of a super-enterprise economy whose cost-effectiveness it's measured by an analysis of the external or emotional effects that flow to shareholders, from the sum of private economic benefits and socio-emotional value (Tiscini R. & Strologo A., 2016).

To understand the reasons underneath low operating margins, Porter's five forces framework comes in handy to breakdown industry components:

- Internal rivalry – Competition in the football sports industry is something unique: while the teams compete between themselves to improve on and off the field, they must cooperate to provide a better product [158], like what we outlined in chapter 2.2.

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[157] Retrievable from: https://theathletic.co.uk/1729003/2020/04/08/premier-league-finances-accounts-newcastle-palace/

[158] Ross S. (1999). Anti-competitive aspects of sports. Retrievable at: https://pennstatelaw.psu.edu/_file/Sports%20Law%20Policy%20and%20Research%20Institute/Australia99.pdf

Indeed, the league's competitiveness, intensity, quality, and balance drive the amount of capital collected through domestic and international media rights, which is then distributed among league participants that generally rely on this revenue stream for 50-70% of their turnover [159]. As academic research outlined (Tiscini R. & Strologo A., 2016), it is therefore key to minimize asymmetries between league participants to improve the overall product, which, unluckily for football clubs, requires maximizing internal competitiveness and sporting performance volatility. If, on one hand, the C4 concentration ratio is quite high [160], with an average revenue concentration of 0.65 [161] and an average wage concentration of 0.64 [162], on the other, professional clubs compete among themselves daily not only for points in the league but also for scarce resources such as lucrative sponsors, top-notch human capital (athletes, coaches) and fans' attention span [163]; therefore, we can conclude the overall level of internal rivalry is moderately high;

- Bargaining power of suppliers – Which drives the industry attractiveness to the bottom as the main supplier, the athletes, are extremely powerful. Athletes provide their skills and because their talent is a scarce resource suitable to produce a huge impact on competitive dynamics, the bargaining power is generally high [164]; furthermore, switching costs to different clubs are relatively low even though agents' compensation adds an extra layer of overhead expenses (yet destined to be reduced in the medium term thanks to regulation [165]), partially decreasing athletes' negotiation power. Therefore, it comes with no surprise, that average wages/revenue ratios are significantly high across 'big five' league football clubs,

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[159] Annual Review of Football Finance 2020. Deloitte Sports Business Group. Downloadable at: https://www2.deloitte.com/uk/en/pages/sports-business-group/articles/annual-review-of-football-finance.html#

[160] Andrews M. & Harrington P. (2016). Off Pitch: Football's financial integrity weaknesses, and how to strengthen them. Harvard University publications.

[161] Where 1 is the highest concentration ratio, corresponding to a monopoly scenario.

[162] Meaning that the wealthiest four clubs in the average league account for 64% of the wages.

[163] Bryson A., Frick B. & Simmons R. (2009). The Returns to Scarce Talent: Footedness and Player Remuneration in European Soccer. Centre for Economic Performance, LSE, CEP Discussion Papers.

[164] On the other hand, football clubs invest in brand equity and internal talent development systems to minimize their dependence on athletes.

[165] FIFA to introduce new agent regulations and limit commission. BBC. Retrievable from: https://www.bbc.com/sport/football/54834219

ranging from Germany’s 54% in 2019 to France’s 73% [166]. To summarize, the bargaining power of football clubs is extremely high;

- The threat of substitute products – It represents a major pain point for football clubs as they compete for customers’ attention span in the entertainment industry and for sponsors’ and advertisers’ propensity to buy, they compete against different formats (e.g., e-sports, fantasy football, highlights), different sports, and even different entertainments (e.g., zoo vs stadium, MasterChef vs live match). Customers expect the highest standards to stay true to an entertainment form while switching costs are as little as pushing the remote controller’s button. Nonetheless, live football matches are a tremendous product and customers pass over some downsides (e.g., Italian stadia fans tolerating poor facilities) because of their passion, however, patience does have a limit, and that is why we can state that the threat of substitute products is moderately high;
- Bargaining power of buyers – A single fan per se generally has a low bargaining power as the overall number of fans is huge (e.g., FC Barcelona has 273 mln of fans [167]); however, it is crucial to distinguish between regional and international fans: while the latter have generally little to none power, the former do have as they are typically organized in fan clubs that establish one-to-one communication channels with clubs to pursue their interests (lower ticket prices, better facilities, and so forth). Therefore, the bargaining power of local buyers is moderately high while international buyers can put negligible pressure on football clubs. Besides, the intermediary buyer is given by media rights owners that are pivotal to deliver the product to remotely located fans; here, the aforementioned high reliance of football clubs on media rights revenue and the fact that clubs are, often, replaceable with little or no impact on the overall quality of the product offered by the league,

[166] Annual Review of Football Finance 2020. Deloitte Sports Business Group. Downloadable at: https://www2.deloitte.com/uk/en/pages/sports-business-group/articles/annual-review-of-football-finance.html#

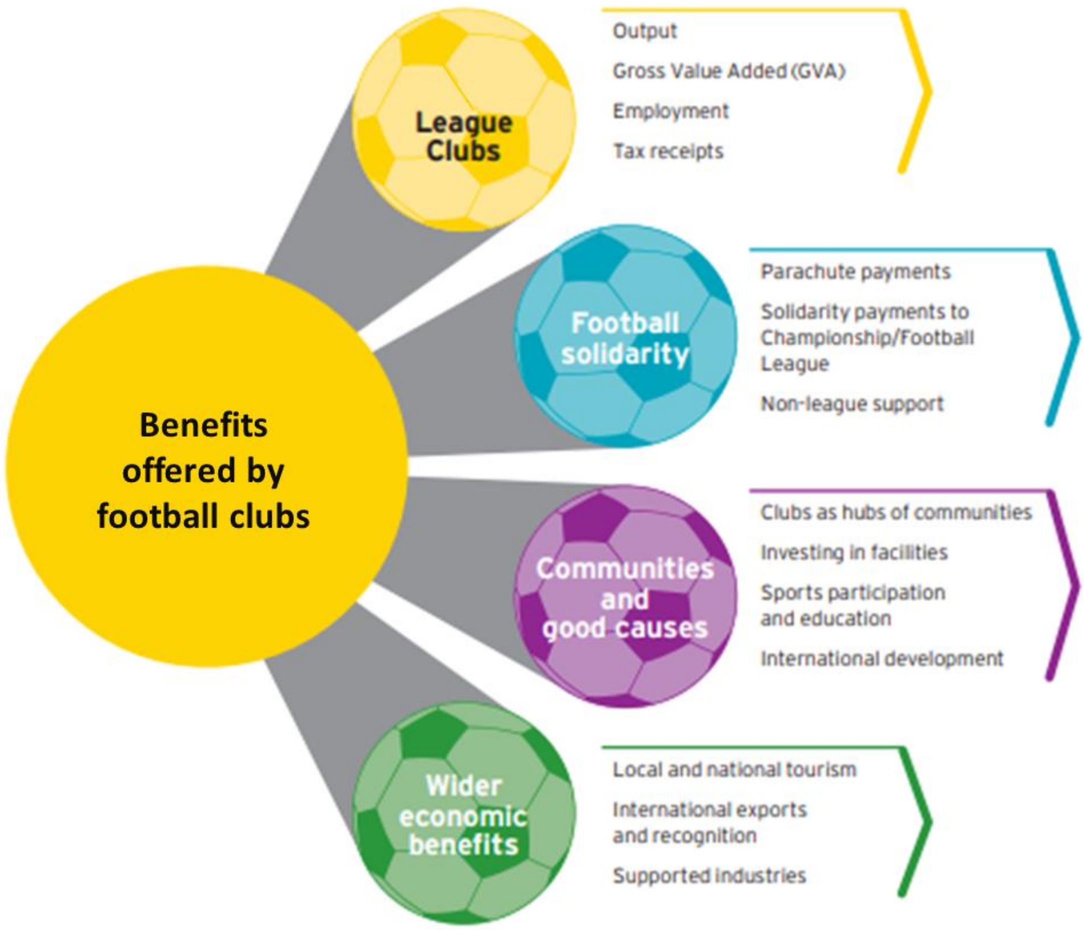
[167] Retrievable from: https://www.ispo.com/en/markets/top-10-europes-most-popular-football-clubs-instagram-facebook-twitter-and-tiktok#:~:text=2)%20Real%20Madrid&text=Real%20Madrid%20is%20the%20second,TikTok%20as%20good%20as%20Barca.

put football clubs in a vulnerable position. Therefore, the overall bargaining power of buyers is extremely high;

- The threat of new entrants – Which is generally low because there is a limited number of local communities that are sizeable enough to build a team from scratch (or nations able to produce competitive leagues). Broadly speaking, we can consider changes in ownership as new entrants, and, if that's the case, the threat of new entrants is indeed considerably higher as recent examples showed: PSG and Manchester City became world-class clubs, rapidly dethroning France and English incumbents. Anyhow, apart from these exceptions, the overall threat of new entrants is moderately low as clubs have wide notoriety and presence in the mass media, which would be impossible to replicate for other companies, if not at the cost of disproportionate promotional investments (Tiscini R. & Strologo A., 2016).

Hence, the low level of profitability founds explanation in the high bargaining power upstream and downstream the football clubs' value chain and in the pressure posed by substitute products; to sum up, three stakeholders – fans, rights holders, and athletes – ultimately undermine football clubs' profits, with differences, in terms of stakeholder impact, according to the football club's heritage, popularity, country, and team quality.

Besides, football clubs hold a prominent social role increasingly aiming at enabling social advancement, education, and minority empowerment, while contributing to GDP, tax receipts, tourism, international development, and so forth. In this context, a useful framework, applicable to any country, is offered by EY that mapped the range of economic benefits offered by EPL clubs to the UK:



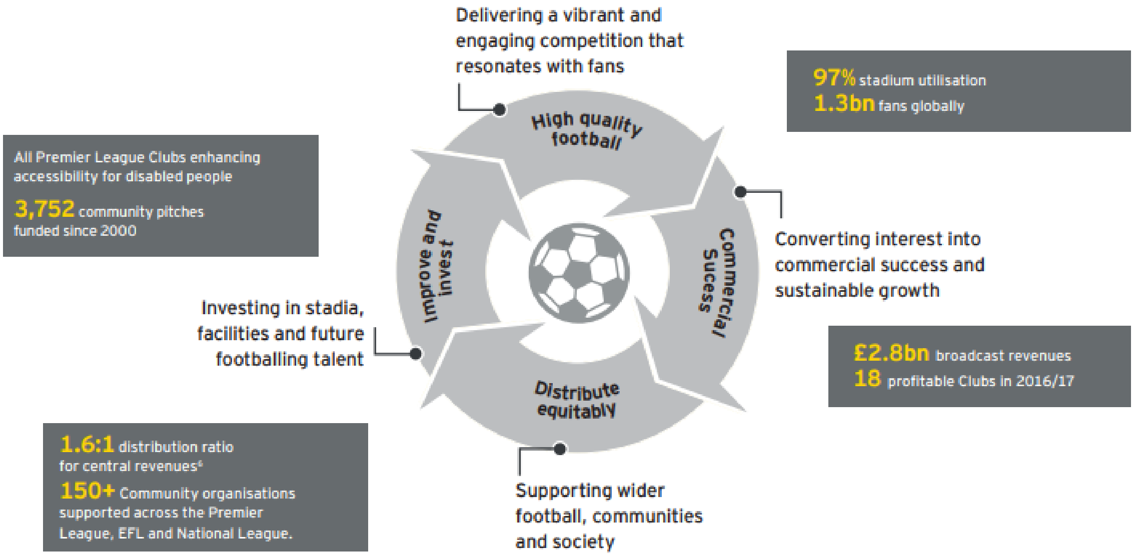
Source: EY EPL Economic and social impact (January 2019) [168]

However, even though this deep connection with society and the three stakeholders contributes to further shrinking operating margins, some companies still manage to thrive in this environment; the key to success is, often, to create a “cycle of growth” [169]. The cycle of growth is, indeed, a virtuous circle that embroils several moments: at first, improving teams and investing in stadia, facilities and talent, results in commercial success and eventually sustainable growth; then, to make the system work, it is critical to distribute equitably and use influence for wider football development and CSR, thus generating

[168] EPL Economic and social impact. EY (2019). Retrievable at: https://assets.ey.com/content/dam/ey-sites/ey-com/pt_br/topics/ey-economic-advisory-/ey-premier-league-economic-and-social-impact-january-2019.pdf

[169] As defined by Mark Gregory (EY UK Chief Economist).

resources to improve and invest in stadia, facilities, and talent. A visual representation of the phenomenon is offered by EY, taking the EPL as an example:



Source: EY EPL Economic and social impact (January 2019) [170]

The cycle of growth may arise either at the league level (e.g., EPL) or at the club level (e.g., Atalanta B.C., Mainz 05). In the first scenario, the increase in distributable money from media rights triggers the start of the cycle and its self-reinforcement over time. The second scenario, generally derives from an outstanding improvement in on-field performance driving increased media rights, better sponsorship agreements, higher stadia revenues; in this context, it is key to get past the first obstacle (e.g., a promotion to a higher-tier league, earn a UCL seat, et cetera) through several methods: internal talent development ecosystems (e.g., Atalanta B.C.), superior coach selection skills (e.g., 1. FSV Mainz 05), external investment in team improvement (e.g., Manchester City F.C.), quality talent acquisition and management (e.g., Palermo F.C., until 2015).

[170] EPL Economic and social impact. EY (2019). Retrievable at: https://assets.ey.com/content/dam/ey-sites/ey-com/pt_br/topics/ey-economic-advisory-/ey-premier-league-economic-and-social-impact-january-2019.pdf

Bottom line is that fairy tales in football do exist and may result in tremendous value creation; however, the reality is harsh for most clubs with countless examples of value destruction.

3.1.2 Revenue breakdown – Four monetization streams

At first, it is important to note that, as Nathan Edwards suggested [171], "American sports clubs, franchises, and leagues were the first [172] to realise and capitalise on the commercial potential sports have to offer: through global media and sponsorship deals, fan experience innovations and stadium activations, American sports paved the way for a change in perception of sports ownership to something that can be very lucrative." Therefore, European football clubs owe American management teams much of the credit for current football clubs monetization models and managerial specialization schemes [173].

Indeed, current European football clubs' models to generate liquidity revolve around four main areas:

- Broadcasting (or media) rights;
- Matchday;
- Sponsorship, advertising, and merchandising;
- Capital gains on transfer sales [174].

Media rights represented the biggest piece of the pie across all top 5 European leagues before the pandemic [175]; as the next chart shows:

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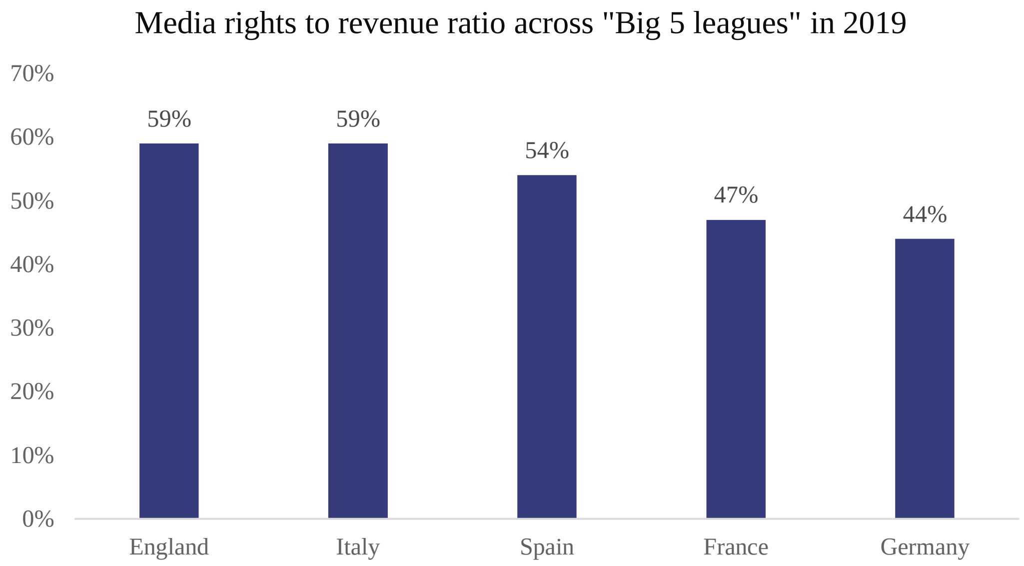
[171] Consultant at The Sports Consultancy. Source: private interview in April 2021.

[172] c. 1990s.

[173] E.g., Man, United new sporting, and technical directors look solely at the sporting side, while you have a separate team focused just on commercialising the club's assets. Source: Nathan Edwards.

[174] Do note, that this is not a source of revenue; however, within this categorization we are dividing elements by their capacity to generate profits.

[175] See chapter 3.1.3 Covid-19 impact: the EPL case study.



Source: Own elaboration on Deloitte data (2020) [176]

Therefore, given the relative importance of this stream, a considerable part of this chapter will focus on media rights and their trends; then, we will move on to analysing matchday, commercial revenue, and transfer sales.

First, as Paolo Macchi [177] pointed out, media rights can be monetized in two ways: on an individual basis, where each club sell its rights to media players through several private transactions [178], or on a collective basis, through a centralized system that package and market league rights. The latter proved [179] to be a more successful way to maximize total revenue; therefore, all big five European leagues eventually implemented the system and many non-big five leagues are adopting the same approach [180]. Having said that, despite the adoption of centralized systems, there are nonetheless huge differences in terms of total

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[176] Annual Review of Football Finance 2020. Deloitte Sports Business Group. Downloadable at: https://www2.deloitte.com/uk/en/pages/sports-business-group/articles/annual-review-of-football-finance.html#

[177] International sports and media attorney and professor. Source: private interview in April 2021.

[178] E.g., before 2008, the Italian law provided that each single club of Serie A would sell the rights directly to customers via separate transactions.

[179] As soon as the EPL adopted it in 1992.

[180] Portugal rights as of 2027-28 will be sold centrally. Source: https://www.football24.news/soccer/92565/portugal-approves-to-centralize-the-sale-of-soccer-television-rights.html

revenue generated by media rights between elite clubs (top 4/6 clubs within a league) and the remaining group of football clubs: as an Italian investment banker pointed out [181], elite clubs outside the EPL generally tend to diversify their revenue to minimize their reliance on media rights, however, rights revenue distribution is not completely equal across league participants and, on top of it, elite clubs earn UEFA media rights by participating to CL and EL competitions [182]; therefore, even if the size of the revenue stream differs extremely between elite and non-elite clubs, media rights to turnover ratios might be similar regardless. A second important feature, partially connected to the weight of UEFA rights, is that top leagues are getting more predictable because of the growing gap in income between the leading clubs and the rest of the league; however, "an 'unbalanced' [183] league will not maximize the number of its spectators/viewers," as stated by José Luís Arnaut [184]. The EPL has been excluded from this categorization between highly powerful elite clubs and poorly equipped followers because the EPL created a highly balanced tournament capable of attracting particularly lucrative deals with €3.3 billion distributed to clubs per year between the 2016-17 and 2018-19 seasons (Le, A. & Lynn, A., 2020), thus allowing even mid to lower-tier clubs to secure more than €100 million in recurring yearly revenue from broadcasting [185].

Then, there is an ulterior factor common to all 'big five' leagues that differentiate them from American franchises: the relegation risk; for instance, the English Championship playoff game, a cup final of sorts where the winner gets promoted, is regarded as the most lucrative bet in football, worth £120m in media rights alone (Yueh, L., 2014); however, relegation is also a major pitfall for teams getting relegated that, even despite parachute payments, undergo a financial shock landing in a league where media rights income gets

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[181] Associate at bulge bracket investment bank. Source: private interview in May 2021.

[182] The UCL has the capacity to divide the leagues into two groups: who's in and who's not. Even more after the recent UEFA rights renegotiation that has exacerbated the gap between rich and poor clubs.

[183] Where competitive balance is primarily driven by an equal distribution of player quality and thus on the financial power of participating clubs to acquire access quality players.

[184] Managing Partner at CMS Rui Pena & Arnaut.

[185] As outlined by Adam Sommerfield, managing partner Certus Capital Partners

reduced to a quarter [186], losing their best players [187], suffering a drop in morale and rarely bouncing back immediately. As brilliantly synthetized by Bradley Katcher [188], “[in the US] you are always a member of that league and you're always guaranteed a certain amount of the national media contract” while in Europe you can get relegated “and if you don't have deep pockets, you're in trouble because you can go down in a death spiral until you disappear.”

Anyhow, besides being extremely important in the current scenario [189], broadcasting is the area that has been growing the most in recent years as the average broadcasting revenue among the top 32 European clubs increased by 65% over the past four years, compared with 39 % and 22 % for the average commercial and matchday revenues respectively, according to KPMG [190]. Reasons for this growth have been lucrative domestic and European deals [191], the aforementioned trend toward elite clubs’ domestic dominance, but most importantly, increased monetization opportunity expanding both geographically and by channel. Namely, the shift toward OTT consumption is worth to be mentioned as the main driver of previous and most importantly future media rights growth; indeed, most individuals aged between 18-34 years were already being using OTT content in 2019 by as the next infographic suggests:

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[186] Retrievable from: https://www.skysports.com/football/news/11095/12305545/premier-league-broadcast-deal-efl-welcomes-100m-cash-boost-but-warns-of-gap-between-premier-league-and-championship

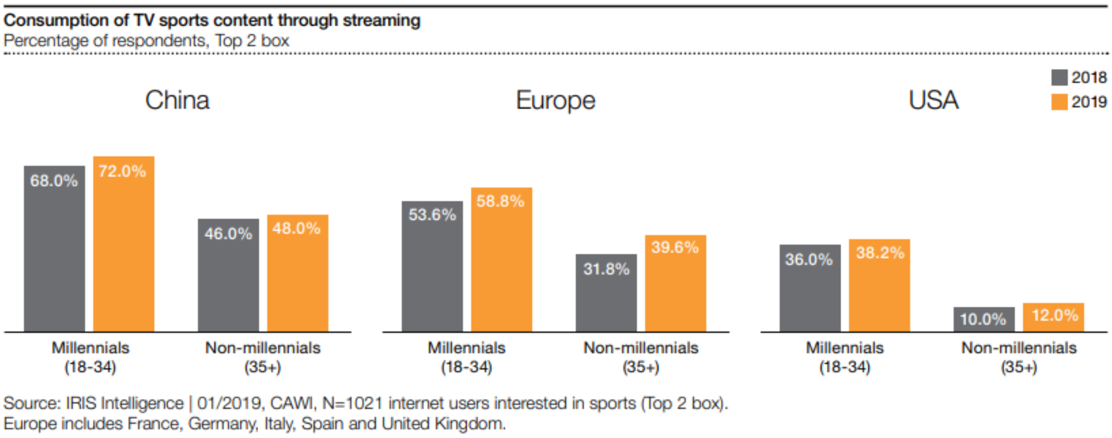
[187] Because of payroll’s unsustainability.

[188] Managing Partner at Galatioto Sports Partners. Source: private interview in May 2021.

[189] As we saw from media rights to revenue ratios across big five leagues.

[190] KPMG Football Clubs’ Valuation: The European Elite 2020. Retrievable at: https://footballbenchmark.com/documents/files/KPMG%20The%20European%20Elite%202020_Online%20version_.pdf

[191] UEFA as of the 2018-19 increased rights distribution to €2.55 billion.



Source: PwC analysis, IRIS Intelligence data (2020)

Drivers explaining the surge in OTT consumption have been, on one hand, the growing number of traditional TV providers making their content available on digital platforms (i.e., incumbents adapting their offering), on the other, the surge in pure OTT players specialized in content's digital distribution [192] (i.e., new entrants with disruptive business models). Europe has experienced a significant turmoil of local markets, with OTT providers enjoying an increase in popularity and consistently adding to their respective sports rights' portfolios. However, at this stage, there is still missing a dominant design to balance free and paid online business models and to ensure to effectively funnelling fans' attention from free content to platforms that allow for direct (or indirect via advertising) monetization. Many have already started experimenting with new media offers; in this context, Bain & Company [193] identified three playing fields:

- Game packaging – Since most fans watch only a few games, rights distributors should develop different packages that appeal to different fan segments [194];
- Price differentiation – Related to the previous point, distributors will have to find the right premium to charge for games outside the standard bundle consisting of the

[192] For instance, companies like Netflix, Amazon, or DAZN that entered the industry.

[193] What If Sports Fans Cut the Cord (2020, October 13). Bain & Company. Retrievable at: https://www.bain.com/insights/what-if-sports-fans-cut-the-cord/

[194] They will have to determine what types of streaming game packages minimize risk of luring superfans away from the bundle.

entire season; often they will need to structure smaller packages offering just a couple of highly entertaining games (i.e., finals and the likes);

- Value-added services – All non-game content should shift to digital platforms to increase customer understanding by analysing data on how viewers consume different content.

Moving to the second revenue stream, we previously defined it as "matchday" because it includes a vast array of sub-streams, of which the most important are ticket sales, F&B, and hospitality [195]. Across the big five leagues, matchday accounts for 11 to 16% of total revenue with EPL, Bundesliga, and LaLiga extracting the highest value from this segment [196]; the main drivers explaining their success are the capacity to either maximise stadium's utilisation (EPL at 97%), its capacity (Bundesliga's 42.738 AVG attendance), or ticket prices [197] (LaLiga [198] and EPL). However, even the highest-performing European league is still miles away from US franchises where only gate revenue [199] can generate up to 36.6% of the NHL's entire revenue for a season (30% in MLB, 22% in NBA, and 15% in the NFL [200]); specifically, this huge gap founds explanation in three main factors:

- Higher spending capacity or willingness to pay – It is no doubt that in Europe, and particularly in countries like Italy, as Sal Galatioto [201] effectively summarized, "fans are simply not used to pay real money [for football entertainment]". The underlying rationale resides in the deeper social importance that European fans attribute to football, which results in increased attention to fans' viewpoints;

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[195] Ancillary revenue streams; e.g., museum, cinema, parking.

[196] Collectively, they all earned more than 500 mln € in 2019, vs Italy's 284 mln € and France's 201 mln €.

[197] Annual Review of Football Finance 2020. Deloitte Sports Business Group. Downloadable at: https://www2.deloitte.com/uk/en/pages/sports-business-group/articles/annual-review-of-football-finance.html#

[198] They collectively earn as much as Germany despite lower AVG attendance (26.585 vs 42.738) and utilisation (75% vs 88%). Attenuating the effect is the provision that Bundesliga has 18 franchises vs LaLiga's 20.

[199] Sales of tickets, without considering F&B and hospitality.

[200] Retrievable from: https://novacapsfans.com/2020/05/13/how-much-money-does-an-nhl-home-game-generate/

[201] President and Founder of Galatioto Sports Partners. Prior to forming GSP in 2005, he was Managing Director and head of Lehman Brothers' Sports Advisory & Finance Group, which was founded upon his joining that firm in 2001. Source: private interview in May 2021.

therefore, owners should keep low ticket prices to foster mass participation as the fans have been appointed (e.g., in Germany) or self-appointed themselves (e.g., in Italy) as club's shareholders. Unfortunately, individual European football clubs can do little or nothing to alter this cultural and macroeconomic factor [202];

- Different customer experience – Bradley Katcher's overview [203] of the different user journeys in the two geographies can be summarized as follows: while the American goes to the stadium to spend the afternoon chatting with friends, eating junk food, listening to a concert, et cetera, the European fan goes to the game, period. Contrarily to the previous factor, individual European football clubs can, to a certain extent, challenge the status quo by encouraging new fans habits;
- Enhanced monetization – That might be pursued by differentiating ticket prices [204], cross-selling other events, offering personal seat license [205], providing preferred parking or concierge services, or, as Bradley Katcher [206] highlighted, leveraging "corporate ownership and luxury suites [207]" as European clubs are not tapping [208] the high-end market. European football clubs should prioritize their efforts as it is the most actionable and impactful way to enhance matchday revenue.

Nonetheless, European football clubs face some challenges preventing them from fully maximizing matchday revenue:

[202] In the short term at least.

[203] Managing Partner at Galatioto Sports Partners. Source: private interview in May 2021.

[204] Something widely used in some European leagues as well.

[205] A personal seat license, or PSL, is a paid license that entitles the holder to the right to buy season tickets for a certain seat in a stadium. This holder can sell the seat license to someone else if they no longer wish to purchase season tickets. In essence, they represent are great opportunity to curb stadia financing costs.

[206] Managing Partner at Galatioto Sports Partners. Source: private interview in May 2021.

[207] Luxury suites at professional sports facilities typically cost more than $100,000-$300,000 per year to rent and boast amenities and services unavailable to the typical fan. Source: https://ccbjournal.com/articles/stadia-maniathe-business-civic-and-legal-issues-new-stadium-construction-part-ii

[208] In Europe, corporate ownership and luxury boxes are more the exception (e.g., the recently built Wembley stadium) than the norm.

- Hardcore fans are still a powerful and fairly sized customer segment in some European leagues (e.g., Italy [209], France [210]), thus exposing current and prospecting football club owners to the risk of riots and fans backlashes in the case of poor sporting performance or unsatisfactory managerial choices (e.g., increasing ticket prices, distributing profits, et cetera);
- Nowadays, local administrations still own some stadiums and related infrastructure, even though research from KPMG confirms that privately-owned stadia generate much larger amounts of money than publicly owned infrastructures [211]. However, it is important to mention how this issue is not evenly distributed across all 'big five leagues': most of EPL and Bundesliga stadiums are privately owned while this is not yet the case in Spain and the situation it's even worse in Italy and France [212] where, depending on the season, the number of publicly-owned stadiums might exceed 75% of total stadiums;
- European leagues, even the most virtuous, are not only about the big and rich metropolis as there are plenty of clubs coming from small cities or disadvantaged areas; therefore, one might find challenging to develop a sustainable and sizeable matchday revenue stream when lacking demand potential (both in terms of size and spending capacity);
- Finally, it might be time-consuming or even impossible to identify a suitable area to build the stadium [213] as several feasibility analyses and long-lasting negotiations sometimes are needed before laying the first stone. For instance, an Italian business consultant [214] reported how his company normally develops a prioritization of potential locations based on the level of consumer interest, the feasibility of execution, and drivers of value to the organization, but, afterwards, the whole

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[209] Retrievable from: https://www.sportingferret.com/2020/07/06/mobs-violence-discrimination-the-italian-ultra-problem/

[210] Retrievable from: https://www.theneweuropean.co.uk/brexit-news/emma-luck-extreme-fance-french-football-team-paris-st-germain-71702

[211] Furthermore, they outlined the correlation between age (i.e., how modern facilities are), attendance and capacity of the stadium when it comes to generating revenue.

[212] The 'big five' stadia landscape. KPMG https://www.footballbenchmark.com/library/stadia_landscape_2016_2017

[213] In the event of stadium's renewal or shift to privately-owned models.

[214] Anonymous interview in April 2021.

process can take years to perform in-depth feasibility studies and get administrative and transportation authorizations. As Salvatore Galatioto [215] pointed out talking about AS Roma vicissitudes "It took the Romans less time to build the Colosseum than it's taking to get the new stadium approved".

The third main cash flow generation stream is given by commercial revenue, which includes:

- Sponsorship and advertising – I.e., using highly visible football assets to advertise third-party companies; examples include official sportswear partnerships between clubs and sportswear manufacturers (e.g., Manchester United £75m agreement with Adidas until 2025 [216]), shirt sponsorship deals (e.g., Manchester City £75m deal with Etihad Airways [217]), stadium branding (e.g., Manchester City £18.23 million annual Etihad Stadium's sponsorship value), board advertising [218], et cetera. Moreover, the reason why sponsorship and advertising are such an important stream is that how outlined by Dave Dase [219], "[a sports game] is in many cases must-see content and so there's scarcity value in a world where audiences are getting more and more fragmented in the attention span; to draw aggregate bring an audience to one place, is an enormous opportunity for advertisers to get to a target market;"
- Merchandising – I.e., using branding or imagery of the football club in connection with the sale of another (often unrelated) product or service so that customers perceive licensed merchandise as part of being a good fan (Schaff, 1995); examples

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[215] President and Founder of Galatioto Sports Partners. Prior to forming GSP in 2005, he was Managing Director and head of Lehman Brothers' Sports Advisory & Finance Group, which was founded upon his joining that firm in 2001. Source: private interview in May 2021.

[216] Retrievable from: https://www.dailymail.co.uk/sport/football/article-8521189/Manchester-United-face-losing-25m-75m-year-adidas-sponsorship-deal.html

[217] Retrievable from: https://www.theguardian.com/football/2011/jul/08/manchester-city-deal-etihad-airways

[218] Giant scoreboards with video spots, programmable LED boards that encircle the stadium and changing signage behind the net.

[219] Head of Goldman Sachs' Investment Banking Division's Southeast Region.

of merchandising include [220] sportswear and accessories, memorabilia [221], or, most recently, digital assets such as NFTs [222] that allow clubs, as pointed out by Gene Swinton [223], to issue digital collectable, ticket sales and commemorative memorabilia; however, at least in the medium term, selling football shirts will remain the biggest [224] form of merchandising, which, in some countries (e.g., UK), as outlined by Giulio Alessandroni [225], represents a cultural habit driving recurring year-over-year revenue for football clubs.

Moreover, the size and relative importance over the total of this revenue stream is directly related to sporting performance, brand equity, or any combination of both; however, sporting success is, often as suggested by Rodolfo Manica [226], the prerequisite to increase commercial revenue [227]. A couple of case studies showcase the phenomenon at hand: if we take Atalanta BC, we will see that, despite little to no heritage or brand equity, they managed to increase commercial revenue by 88% between 2016 and 2019 [228] thanks to the significant improvement in sporting performance that transformed them from a low/middle-tier club to a UCL contender; nonetheless, other clubs display opposite behaviour: we previously mentioned the capacity of a club such as Manchester United to be an outstanding cash-machine thanks to their global brand image [229] despite their last EPL won is dated 2012. Contrarily, low and middle-tier football clubs struggle at enhancing commercial revenue through worldwide merchandising or striking sponsorship

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[220] (Non-exhaustive list).

[221] Artefacts and items that serve to increase the bond with the club (keychain, notebook, DVD, CD, watch, toys, et cetera).

[222] As Jeremy Pressman pointed out, "we can imagine a world where thousands of different utility propositions built into owning both physical and digital goods." E.g., Manchester City's digital fan tokens https://www.dailymail.co.uk/sport/football/article-9380089/Man-City-dip-cryptocurrency-prepare-launch-digital-fan-tokens.html

[223] Founder of Sports D³ and digital assets on blockchain specialist. Source: private interview in May 2021.

[224] E.g., in 2014, Cristiano Ronaldo's t-shirt sold over 2 million replica shirts (roughly 100-150 mln €) in the first six months of him being at Real Madrid. Source: https://mediaandtechnologyinsport.weebly.com/increase-merchandising.html

[225] Manager at EY-Parthenon (Sport & CPR). Source: private interview in May 2021.

[226] Analyst at Tifosy Capital & Advisory. Source: private interview in May 2021.

[227] Unless the owner injects additional financing to increase brand value.

[228] Retrievable from: https://footballbenchmark.com/library/atalanta_s_rise_to_football_s_elite

[229] 3rd strongest global football brand according to Brand Finance https://brandirectory.com/rankings/football/

agreements and only the strong local demand in some countries (e.g., England or Germany) sustains commercial performance; for instance, Giulio Alessandroni [230] outlined how a club such as Parma FC, a low-tier Italian club with a strong heritage, despite having something like 400 sponsors, still deems transfer sales as the main driver to boost financial performance because even a highly-technological action such as the channel-specific dynamic advertising project they were launching, eventually results in something in-between half and one million € in multi-year contracts, while getting the scouting call on a young talent can seamlessly result in a 10 million € capital gain over six months.

As happened to media rights, digital is revolutionizing the way football clubs are merchandised and sponsored; speaking during the SportsPro Insider Series of virtual events [231], Two Circles chief executive Gareth Balch looked ahead to the dramatic shift in how sponsorship packages are diffused [232] "digital is the greatest mis-sold, unsold, undersold, undervalued asset in the sponsorship mix," he said. "Sports properties have been aggregating and growing audiences digitally and building bigger data sets, but not necessarily knowing how to monetise them." Along these lines, Jeremy Pressman [233] brought to the attention of the author how elite European football clubs despite having half a billion worldwide fans "have no access to these people given that they rarely have more than a million emails in their CRMs." Therefore, there is still plenty of room for improvement while embracing the following key trends affecting the sports advertising, sponsorship, and merchandising industry:

- New customers and media consumption habits are changing as we spend more time at home and on mobile. As of Q2 2020, streaming now comprises one-quarter of all TV minutes viewed in the U.S. among streaming-capable households [234] and their growth is opening the space to ancillary contents such as behind-the-scenes

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[230] Manager at EY-Parthenon (Sport & CPR). Source: private interview in May 2021.

[231] Retrievable from: https://www.sportspromedia.com/news/digital-sports-sponsorship-undervalued-revenues-two-circles-coronavirus

[232] Academic research agrees to a different mix between physical and digital activation (Connolly, E., 2020).

[233] Partner at ADvantage Sports Tech Fund. Source: private interview in May 2021.

[234] Nielsen Total Audience Report.

documentaries and original films [235]. Tv-series are getting key as more than 50% of the viewers claim to have a positive feeling toward the team after watching its web series [236] [237]. Besides, similar implications apply to social media as well: for instance, when looking at the EPL, the average share of social value versus TV is 24% (increasing from below 5% in 2015 [238]); therefore, increased engagement and content production open the space to an increased number of assets that can be sponsored online by football clubs;

- As outlined by Tonte Davies [239] “purpose-driven sponsorship will emerge as a result of the unceasing shift in consumer behaviour” driven by the athletes-as-a-loudspeaker trend that will therefore impact the way brands advertise themselves. As research pointed out, athletes such as Naomi Osaka, LeBron James, Lewis Hamilton, and Marcus Rashford, have proved proficient at using online platforms to make their feelings public, shine a light on injustices, galvanize large audiences and influence decision-making [240]. In this scenario, athletes’ advocacy posts generate roughly 63% more engagement [241] for brands than any other owned social media content, and this is partially explaining why 95% of athletes with more than 5 million followers on Instagram advocated for causes on social media in 2020 to reinforce their brand. Therefore, football clubs must consider how purpose-driven advertising is critical to their current and prospect sponsors and develop consequent online presence;

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[235] This type of non-live content, for example, Netflix’s F1 series Drive to Survive and Amazon’s various All or Nothing documentaries now forms an increasingly important element of a rights holder’s fan acquisition strategy.

[236] Nielsen Fan Insights.

[237] For instance, Andrea Radrizzani pointed out how actively sought to produce the documentary “Take us home: Leeds United”.

[238] Nielsen Sports Social Valuation.

[239] Research analyst in Sports and Entertainment. Source: private interview in April 2021.

[240] The changing value of sponsorship: 2021 sports marketing trends. Nielsen Sports. Retrievable at: https://nielsensports.com/the-changing-value-of-sponsorship/

[241] Nielsen Sports Digital Analysis.

- New sponsorship entrants as global economies are recovering at different paces [242]. We can expect China to take an increasingly prominent role in the sponsorship landscape (between 2015 and 2019, sponsorship spend of China-based brands rose at a CAGR of ~8.9% [243]); for instance, in 2019 ten EPL clubs had Chinese sponsors bringing in over £100m in commercial revenue [244], a number which is destined to increase in the near-future, regulation permitting [245];
- The rollout of COVID-19 vaccines will see the return, albeit gradually, to live events [246]. Here, innovative touch points to connect with fans remotely will continue to grow, leading to a wider range of fan experiences and engagements that will need to be measured within and against traditional experiences to size the impact on sponsorship value [247]. Live and virtual will merge [248], opening new opportunities for fan connections [249], personalized experiences [250], reimagined sponsorship assets (e.g., Parma's project to offer channel-specific advertising [251]) and even new sponsorship revenue models [252]. According to a survey run by Nielsen, over half of the fans said themselves more likely to consider brands that

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[242] The changing value of sponsorship: 2021 sports marketing trends. Nielsen Sports. Retrievable at: https://nielsensports.com/the-changing-value-of-sponsorship/

[243] Word cup Sponsorglobe insights. Nielsen Sports. Retrievable at: https://nielsensports.com/world-cup-sponsorglobe-insights/

[244] Retrievable from: https://brandfinance.com/press-releases/500m-brand-value-at-risk-as-premier-league-cancels-chinese-broadcasting-rights

[245] On a similar note; China's Communist Party forcing investors to pull money out of European football. Retrievable at: https://www.dw.com/en/chinas-communist-party-forcing-investors-to-pull-money-out-of-european-football/a-57171818

[246] Retrievable from: https://www.bbc.com/sport/56683611

[247] The changing value of sponsorship: 2021 sports marketing trends. Nielsen Sports. Retrievable at: https://nielsensports.com/the-changing-value-of-sponsorship/

[248] With further investment in new broadcast technologies anticipated to be up 67% (IABM, International Trade Association for Broadcast & Media Technology). Of course, with virtual events continually being developed and refined, there will be an increase of fan touchpoints and thus an increase in the complexity of the fan journey.

[249] Cycling's Milano-Sanremo Virtual Experience and the Spartan Race obstacle course series are just a couple of examples of successful virtual events that are now leveraging various digital platforms.

[250] For more information, please refer to Deloitte's "Redesigning stadiums for a better fan experience" report at: https://www2.deloitte.com/us/en/insights/industry/telecommunications/in-stadium-fan-experience.html

[251] Basically, leveraging six different broadcasting channels the club has at the Ennio Tardini Stadium, it would be possible to customize on-site advertising according to the channel (e.g., the Australian spectator will see Australian ads). Source: Giulio Alessandroni private interview in May 2021.

[252] As COVID-19 has accelerated the adoption of technologies aimed at creating unique experiences for fans.

are actively enhancing the way live sport is viewed while 19% plan to return to live events when vaccines are available [253], thus signalling that the demand fearlessly would return to live events (on a similar note something, Costantino Palma [254] observed how “people can’t wait to return to football stadiums”).

Finally, the last revenue stream is given by capital gains from talent management, which, financially, corresponds to the sum of sales inflows, fewer player signing outflows, fewer variable bonus components and brokerage fees. Few clubs can boast positive net financial positions from transfer sales; if we look at the big five leagues throughout the last three years, the picture is frightening for most clubs while some (usually low to middle-tier teams) leveraged talent trading as an additional cash generation stream.

If we look at the EPL, all 20 clubs have negative net transfer sales [255] with the negative gap’s size-changing as a function of the final ranking (the better the team performed on the pitch, the wider the negative gap from transfer sales); nonetheless, some clubs perform better than their peers [256] (e.g., Liverpool FC, Leicester City) while others much worse (Sheffield United, Fulham FC, Brighton & Hove Albion):

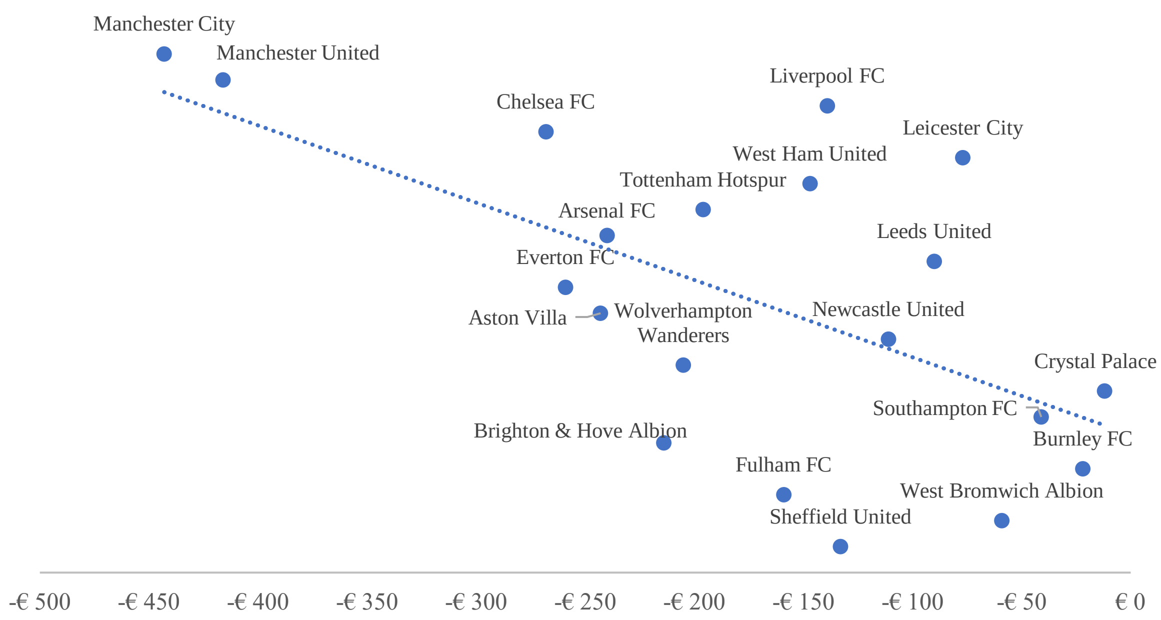
[253] Nielsen Fan Insights.

[254] DCM analyst at Bloomberg UK. Source: private interview in March 2021.

[255] On a side note: net transfer sales are given by the plain difference between player trading related inflows and outflows, without considering the temporal value of money.

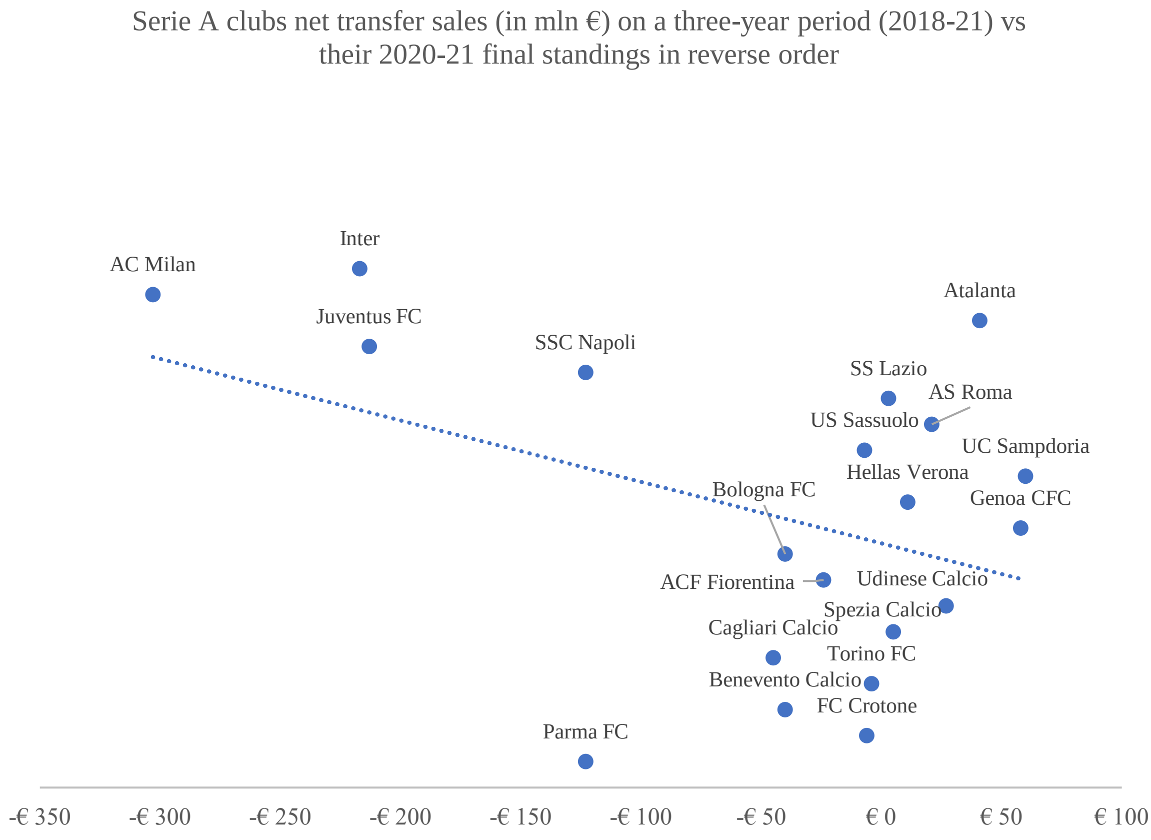
[256] Similarly ranked in terms of sporting performance.

EPL clubs net transfer sales (in mln €) on a three-year period (2018-21)
vs their 2020-21 final standings in reverse order



Source: own elaboration on Transfermarkt data (June 2021)

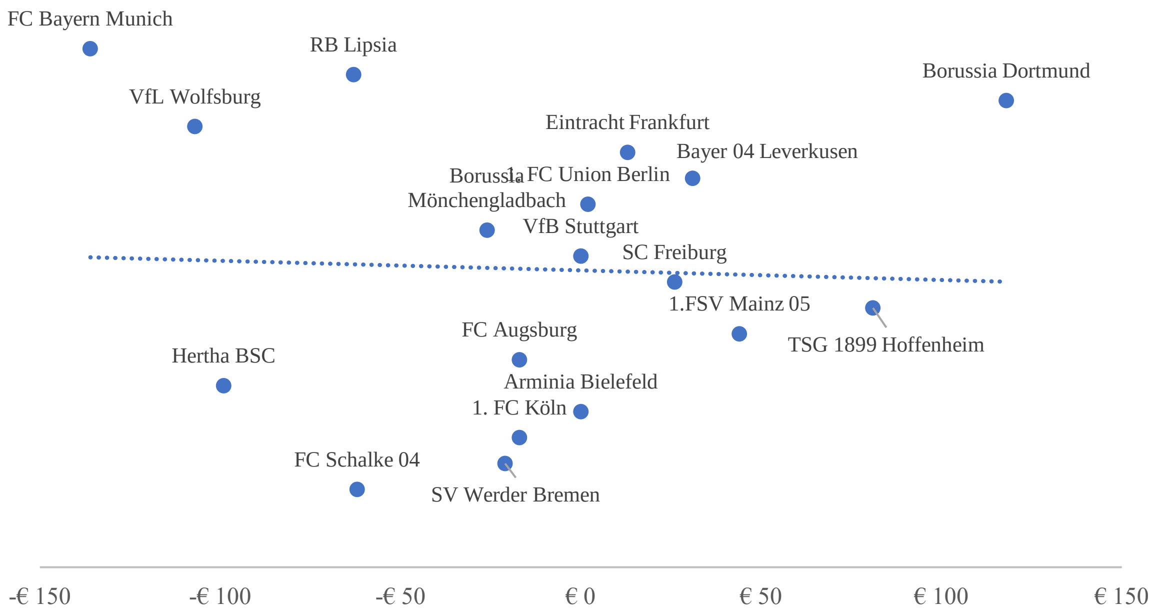
In Serie A, most of the clubs reported a net deficit from transfer sales with the negative gap's size-changing as a function of the final ranking (the better the team performed on the pitch, the wider the negative gap from transfer sales); nonetheless, some clubs managed to perform significantly better than their peers (e.g., UC Sampdoria, Genoa CFC, Atalanta BC) while others much worse (e.g., Parma FC, Inter, AC Milan):



Source: own elaboration on Transfermarkt data (June 2021)

Bundesliga is the most undecipherable league as it presents virtuous and vicious examples regardless of sporting performance; therefore, it's the only league where we can observe highly successful clubs both on and off-field (e.g., Borussia Dortmund, Bayer 04 Leverkusen, Eintracht Frankfurt), but also clubs spending a lot without seeing positive on-field results (e.g., FC Schalke 04, Hertha BSC, SV Werder Bremen):

Bundesliga clubs net transfer sales (in mln €) on a three-year period
(2018-21) vs their 2020-21 final standings in reverse order

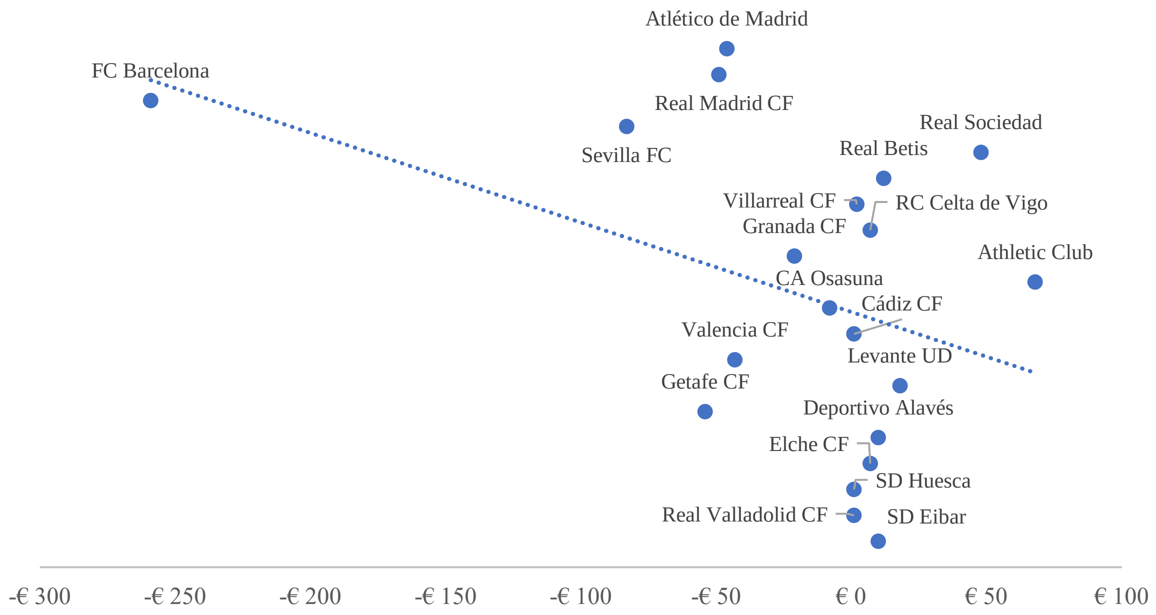


Source: own elaboration on Transfermarkt data (June 2021)

Most LaLiga clubs manage to strike a perfect balance between transfer inflows and outflows; FC Barcelona seems the only fish out of water [257]. Indeed, there is plenty of virtuous examples: from elite clubs such as Atlético de Madrid and Real Madrid FC able to minimize their net loss to under 50 mln € to growth stories such as Real Sociedad, or even cash flow machines such as Athletic Club able to generate 68 mln €:

[257] Together with Getafe FC to a smaller extent.

LaLiga clubs net transfer sales (in mln €) on a three-year period (2018-21) vs their 2020-21 final standings in reverse order



Source: own elaboration on Transfermarkt data (June 2021)

Finally, in Ligue 1, top clubs (PSG excluded) such as the current champion LOSC Lille [258], Olympique Lyon, and AS Monaco create tremendous value through transfer market and, more specifically, from talent development and monetization [259]; however, the incredible value creation is not coupled with equally outstanding profitability [260] , therefore, we can conclude that for these clubs positive transfer market performance and talent development are an intrinsic part of their business model and prerequisite to achieve financial equilibrium. Apart from top clubs, low to middle-tier clubs generally show positive transfer market performance, while negative examples are given by Olympique

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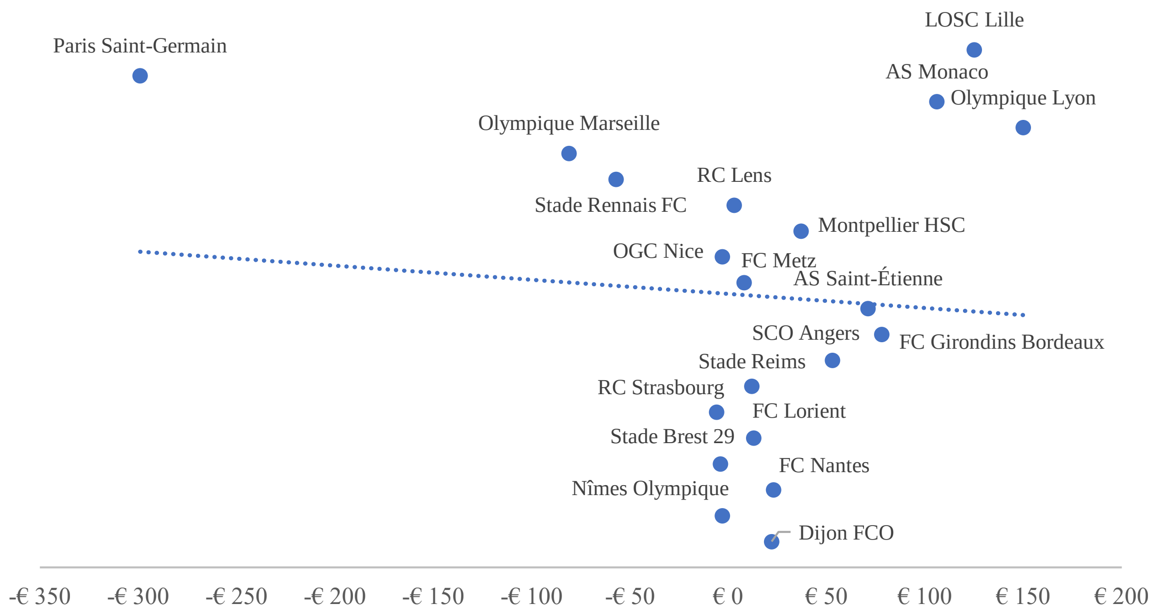
[258] Retrievable from: https://www.france24.com/en/live-news/20210523-lille-win-french-ligue-1-title-for-fourth-time

[259] Lille's player-trading business model attracts hedge fund Elliott. Retrievable at: https://www.ft.com/content/0032f8a2-2b20-11ea-a126-99756bd8f45e

[260] Lyon recent financial performance at https://investisseur.olympiquelyonnais.com/en/company/key-figures.html But we can make similar considerations for Monaco and Lille as well, source: https://psgtalk.com/2020/05/overall-ligue-1-is-unprofitable-a-detailed-explainer-of-french-football-finances/

Marseille, Stade Rennais FC, and, most distinctly, PSG that showcases abnormally negative net transfer sales.

Ligue 1 clubs net transfer sales (in mln €) on a three-year period (2018-21) vs their 2020-21 final standings in reverse order



Source: own elaboration on Transfermarkt data (June 2021)

Overall, transfer sales are, often, a net expense for most European clubs [261], and even in presence of relatively positive net positions (compared to peer clubs), one can argue about the long-term sustainability of this revenue/cash stream. While there is relatively little to say in terms of talent generation [262] and purchase price negotiation, as their level is directly related to youth academies and managers professionalism, it is instead worth mentioning the most important recent trend for talent scouting: analytics, i.e., utilize technology for

[261] Nevertheless, in Serie A and Ligue 1, many clubs still base their financial sustainability on this cash flow stream.

[262] A combination of robust scouting networks to unearth hidden talents and burgeoning youth academies might provide a steady pipeline of in-house talent that can be sold at high transfer fees or used to drive sporting performance (e.g., Borussia, Monaco, Atalanta).

player monitoring and analytics on their performance to take uplift and sizable return by investing on players, trading academy players and cheaply identifying new talent. For instance, as Adam Sommerfield outlined [263], ALK Capital acquisition of Burnley FC rested, among the others, on the opportunity to further enhance talent management through technological advancements (even if the club had a relatively good net transfer sales position); indeed, when it comes to the adoption of data and analytics innovation, European Clubs are still miles away from American franchises [264], therefore they can massively benefit from tech solutions to build a competitive advantage.

3.1.3 Covid-19 impact: the EPL case study

If on one hand, COVID-19 emphasised the idea that football is one of the most important forms of entertainment, on the other, football clubs have been hardly hurt and barely kept financial stability throughout 2019-20 and 2020-21 seasons. As we discussed in the previous chapter, football clubs generate revenue from four main revenue sources, which have all been highly impacted at some point during the last year; namely:

- Matchday revenues have been hit the hardest by the pandemic. For instance, in the EPL, matchday revenues accounted on average for 13% of total income in 2018/19 [265], totalling €776 million. However, because of the pandemic outbreak, all matches were suspended on 13 March 2020, and even if they restarted on 17 June 2020 [266], they did it behind closed doors. This scenario triggered a reduction of about 20–25% in matchday revenues for 2019/20 (Maguire K., 2021) as clubs were unable to monetize highly profitable vacant individual seats and, adding insult to injury, had to partially reimburse season-ticket holders [267]. The magnitude of this loss has been even larger for 2020/21

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[263] Managing Partner at Certus Capital Partners. Source: private interview in May 2021.

[264] As outlined by Salvatore Galatioto in a private interview in May 2021.

[265] Annual Review of Football Finance 2020. Deloitte Sports Business Group. Downloadable at: https://www2.deloitte.com/uk/en/pages/sports-business-group/articles/annual-review-of-football-finance.html#

[266] Retrievable from: https://www.cnbc.com/2020/05/28/english-premier-league-to-restart-on-june-17-bbc-reports.html

[267] Retrievable from: https://www.bbc.com/sport/football/54019867

given that all matches have been played behind closed doors apart some with a limited number of home fans toward the end of the season [268]; therefore, even without actual numbers, as balance sheets haven't yet been released by all clubs [269], at today's date, we can expect more than €600 million at risk [270];

- Media rights generated over €3.3 billion in the 2019-20 season (down 9% from over €3.8 billion in 2018-19 [271]) and they were spread relatively democratically between participants clubs [272]. International media rights stayed relatively strong limiting the loss to approximately €50 million [273] [274] while senior domestic broadcasters such as Sky Sports and BT Sports were forced to grant subscription holidays during the lockdown, thus resulting in heated discussions about a €400 million rebate [275] as matches did not take place on contractually agreed dates (Maguire K., 2021);
- Commercial revenue [276], being strongly tied to the economics of sponsor organizations and consumer spending capacity, took a strong hit; however, given the very nature of commercial deals (done on a one-to-one basis often at unrevealed terms; Maguire K., 2021), it is not possible to comprehensively map the impact on this revenue stream; nonetheless, it is possible to observe isolated cases such as West Ham's sleeve sponsor Basset & Gold going into administration [277], or Southampton's front shirt sponsor, the Chinese LD Sports,

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[268] Retrievable from: https://www.premierleague.com/news/2129514

[269] At the time the paper is written.

[270] Retrievable from: https://www.ft.com/content/29ce53cb-ce91-4173-adbb-6c815339e35d

[271] Retrievable from: https://www.sportspromedia.com/news/premier-league-accounts-2019-20-revenue-finances-covid-19

[272] However, UCL and UEL rights are awarded only to top 7 EPL clubs.

[273] UK £1.4 billion (€1.6 billion) in 2019-20 vs UK £1.4b (€1.6 billion) in 2018-19.

[274] E.g., the three-year broadcast deal with Chinese PPTV (worth more than €0.5b) was cancelled after the company failed to make do payments and therefore replaced with a 1-year agreement with Tencent at unrevealed value (yet likely to be lower). 1st source: https://www.wsj.com/articles/english-premier-league-cancels-chinese-broadcast-deal-11599142055

2nd source: https://www.premierleague.com/news/1833033

[275] Spread on a three-year timeline.

[276] Sponsorship, advertising, and merchandising.

[277] Retrievable from: https://www.thesun.co.uk/sport/football/11305346/west-ham-shirt-sponsor-basset-gold-administration/

pulling the plug on the three-year deal [278]. Moreover, Antonin Baladi [279] reported a real economic crisis across sports teams because "[Whit Covid-19] the sponsors are going to be looking at where they will spend money. While sports are still probably one of the best areas, most advertisers are retrenching on spending money on sports ads;"

- Transfer sales significantly declined in winter after a glorious summer: throughout January 2021 transfer window, there were only 24 transfers compared to the average of 46 across the previous three years' January windows [280]; besides, EPL clubs spent a total of roughly €80 million during January 2021 [281] dramatically down on 2019-20's + €250 million expenditure (-69.5%), marking it as lowest spending window since 2012 (Maguire K., 2021). Dan Jones [282], commented: "EPL clubs were understandably cautious in the January transfer window given the ongoing financial impact of the Covid-19 pandemic. Despite this, EPL clubs' very busy summer window, at a time when the rest of European football was more restrained [283], saw total net expenditure for the 2020/21 season reach a new record level of £950m [roughly €1100m]. It remains to be seen if the relatively low activity in January will continue throughout 2021. We certainly do not expect to see another new record this summer."

Therefore, all clubs experienced tremendous hits on matchday revenue and observed minor cuts to media rights; some clubs suffering significant blows to commercial revenue, and

[278] Retrievable from: https://www.dailymail.co.uk/sport/football/article-8631227/15m-China-shirt-crisis-hits-Southampton-main-sponsor-LD-Sports-set-pull-plug-deal.html

[279] Partner at investment bank PJT Partners.

[280] Retrievable from: https://fcbusiness.co.uk/news/covid-19-brexit-dampens-january-transfer-spending-spree/

[281] Retrievable from: https://www.france24.com/en/live-news/20210202-premier-league-spending-slumps-in-january-transfer-window-as-virus-bites

[282] Partner at Deloitte's Sports Business Group.

[283] For 2020 summer transfer window, EPL clubs have spent nearly €1.4b. Transfer sales significantly falling in other 'Big Five' leagues, reflected the greater dependence of those countries to matchday and commercial revenue (Maguire K., 2021). As David Dellea (Head of Sports Business Advisory at PwC) outlined in a private interview; clubs did struggle financially, the fact of being without spectator hit many clubs hard. Namely, those markets where the relative size of media is less than others: take Switzerland where not having spectator is what? Maybe 30-35 %, then the impact it's tremendous."

reduced transfer market activity, given the aforementioned [284] omnipresent net transfer sales deficit across EPL clubs, might be interpreted as a symptom of reduced financial capacity.

Moving to the expenses, EPL football clubs' wages to revenue ratios was 61% in 2018-19 [285], and payroll is notoriously a fixed cost in the short term. Therefore, in the face of plummeting revenue, football clubs had two options: covering losses using liquidity or financing and extraordinary actions to cut payroll. Indeed, extraordinary actions occurred: Arsenal players and coaches took a 12.5% yearly cut on wages [286], Manchester United forewent 30% of their wages for one month [287], voluntary pay cuts from clubs' executives [288], clubs signing up to the UK government's furloughing scheme for their non-playing staff (e.g., Liverpool [289], Tottenham [290], Norwich City [291], Newcastle United [292]), clubs deferring wages (e.g., Watford) [293], and so forth. Furthermore, we observed government intervention, providing legislative support to furlough and tax delay schemes (Maguire K., 2021).

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[284] Chapter: 3.1.2 Revenue breakdown – Four monetization streams.

[285] Annual Review of Football Finance 2020. Deloitte Sports Business Group. Downloadable at: https://www2.deloitte.com/uk/en/pages/sports-business-group/articles/annual-review-of-football-finance.html#

[286] Retrievable from: https://www.bbc.com/sport/football/52361126

[287] Retrievable from: https://www.dailymail.co.uk/sport/sportsnews/article-8184201/Manchester-United-stars-donate-NHS-coronavirus-fight-taking-30-wage-cut.html

[288] Retrievable from: https://www.goal.com/en/news/which-premier-league-footballers-have-taken-pay-cuts-in/truhwf12kvqt1316tog7xbyab

[289] Retrievable from: https://www.independent.ie/sport/soccer/premier-league/liverpool-place-200-non-playing-staff-members-on-furlough-due-to-covid-19-crisis-39102825.html

[290] Retrievable from: https://www.bbc.com/sport/football/52271235

[291] Retrievable from: https://www.independent.co.uk/sport/football/premier-league/norwich-city-staff-furlough-premier-league-coronavirus-crisis-a9439961.html

[292] Retrievable from: https://www.forbes.com/sites/harrydecosemo/2020/04/13/newcastle-uniteds-decision-to-use-the-uk-governments-employer-payment-scheme-is-looking-untenable/

[293] Retrievable from: https://www.dailymail.co.uk/sport/sportsnews/article-8234411/Watford-close-Premier-League-club-defer-players-wages.html

Andrea Agnelli [294] put it crisply [295]: "[Clubs were] faced with a real existential threat… the biggest challenge our game and industry ever faced." Nevertheless, the English, but also the other 'big five' European leagues, have done well to survive the loss of revenue and disruption of the sport [296]. Like other players of the entertainment industry, football is desperate for successful vaccination programmes to fasten the gradual return to stadium normality; however, Covid-19 brought out structural and systematic risks that still need to be fully addressed (Maguire K., 2021). Therefore, football clubs should rather take the return of the fans consciously, understanding that this should be "a free-for-all all" call but rather an additional timeframe to carry forward the transformational process.

3.2 Ongoing trends hitting football clubs

3.2.1 Data & analytics – Monetize customer attention

The global sports analytics market is expected to witness a CAGR of 21.3% for the forecast period between 2021 and 2028 [297]. Many industries nowadays are introducing analytical approaches to decision-making; however, no other industry can be taken as a reference given the uniqueness of the sport; indeed, the sports sector has the following attributes:

- Customers are as analytical as the companies themselves, resulting in endlessly debating metrics, statistical analyses, and implications for key decisions (e.g., fantasy leagues) [298];

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[294] The scion of the family that controls Fiat and the chairman of Juventus and the European Club Association.

[295] Retrievable from: https://foreignpolicy.com/2021/04/02/english-soccer-football-financial-crisis-leagues-project-big-picture/

[296] Of course, the picture changes dramatically if we have a look at second, third, and so forth divisions across these five nations.

[297] Sports Analytics Market Size, Share & Trends Analysis Report by Component (Software, Service), By Analysis Type (On-field, Off-field), By Sports (Football, Cricket, Basketball, Baseball), And Segment Forecasts, 2021 – 2028. Grandviewresearch.com

[298] Davenport T. (2014, April 1). Analytics in sports: the new science of winning. Retrievable at: http://staging.iianalytics.com/research/analytics-in-sports-the-new-science-of-winning

- There are several use cases, from the game and player analysis [299] to talent scouting [300], from customer relationship [301] to injury prevention [302], and interested users: from sports teams to direct use by fans and fantasy league players, from information providers to betting companies, et cetera;
- Increased talent dynamism with players, coaches, and managers changing teams at a faster pace [303] might facilitate viral sharing of analytical processes and culture.

Focusing on football clubs, we can distinguish three architectural components to enable an effective analytics-centred approach:

- Predictive Analysis – I.e., applying statistical tools to data to gain insight on what is most likely to happen in the future. These analyses might allow projecting athletes' careers, identifying the opponents' strengths and weaknesses, assessing whether a free agent would fill a need on a team at an appropriate cost, and so forth [304]. The outcome of these analyses must feed into an intelligent information system that provides decision-makers with dashboards featuring meaningful insights;
- Information Systems – The next puzzle piece, refer to the tools that allow data visualization and interactive analysis of integrated information in a meaningful way [305], thus allowing decision-makers to rapidly evaluate the context. Therefore, these systems not only provide a data-driven platform and integrate data from diverse sources but also dramatically impact and enhance the way decisions are taken;
- Decision-makers – In football clubs are general managers, coaches, scouts, trainers, and other personnel executives. Decision-makers in different functional areas have

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[299] E.g., https://gameanalytics.com/

[300] AI as Talent Scout. HBS. Retrievable at: https://digital.hbs.edu/platform-peopleanalytics/submission/ai-as-talent-scout/

[301] Retrievable from: https://www.gartner.com/en/information-technology/glossary/crm-analytics

[302] For more information: https://www.forbes.com/sites/simonogus/2018/12/30/this-sports-tech-startup-is-helping-the-steelers-use-data-and-analytics-to-prevent-injuries/

[303] As sports fans complain decreased loyalty to clubs.

[304] These analyses can range from simple comparisons to extremely complicated and cutting-edge statistical models.

[305] E.g., a cutting-edge football information system that combines unstructured comments from scouting reports, summary statistics from league data sources and results from predictive models.

different information needs and, therefore, should utilize different data and models to take different decisions.

More in detail, there are on-field and off-field analytics: on-field analytics deal with improving the on-field performance of teams and players [306] while off-field analytics with the business side of sports [307], essentially utilizing data to take better decisions that would lead to higher growth and increased profitability. Moving to the most impactful use cases, we can identify four main areas of interest for football analytics:

- Social media analysis – Social media's impact on sports, and how users consume sports, has grown exponentially. Firstly, in terms of access to information; for instance, fans no longer need to wait for the newspaper for the latest updates on signings. Secondly, from an engagement point of view, information comes along with worldwide reaction and opinions (e.g., deep-diving into statistics): it was found that 26% of fans in the USA used social media platforms for their favourite sports, which is a considerable rise from 15% from 2012 [308]; taking the Super Bowl, for instance, it was observed that in 2021 from the start of the game until 30 minutes after it ended, there were 43.4 million tweets about the game, 65 million people communicated about the game on Facebook with 265 million posts (WelcomeSoftware analysis, 2021);
- Business analysis – The main applications of analytics from a business point of view in football are analytics for ticket pricing, fan analytics for fan engagement, and sentiment analysis. Ticket pricing is one area where sports teams' management can improve their revenues by applying analytics: one of the most common (and widely used by European football clubs) use cases in analytical ticket pricing is the

[306] Therefore, they focus on aspects such as game tactics and player fitness.

[307] E.g., initiatives to increase ticket and merchandise sales, improve fan engagement, enhance player trading and talent scouting, and so forth.

[308] Vale L. & Fernandes T. (2018). Social media and sports: driving fan engagement with football clubs on Facebook. Journal of Strategic Marketing. 26. 37-55.

so-called “variable pricing” (see below) which is the practice of charging different prices for the same game depending upon the seat location [309].

The second and most important use case in ticket pricing analytics is “dynamic pricing”, i.e., varying prices as the tournament proceeds according to factors such as team performance, rankings, day of the week, stage of the tournament, et cetera. For instance, the San Francisco Giants, an MLB team implemented a variable ticket pricing methodology for pricing their tickets [310]; NFL teams are using dynamic pricing methodology to price 10% of their overall tickets [311].

The second application for fan analytics includes engagement and sentiment analysis to enhance the team capacity to build valuable relationships with its fan base; today’s teams can use fan insights to deliver personalized and immersive experiences via fans’ mobile devices both online and in the stadium to bring them closer to action; see below for a demonstration:

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[309] While fixed prices require prices to be decided before the start of the season and to remain static throughout the tournament.

[310] Rascher D. & McEvoy C. & Nagel M. & Brown M. (2007). Variable Ticket Pricing in Major League Baseball. Journal of Sport Management.

[311] Retrievable from: https://markets.businessinsider.com/amp/news/implementation-of-mobile-ticketing-in-the-144-billion-spectator-sports-market-1029094982

Source: EY visual

For instance, the NBA and the National Basketball Players Association (NBPA) launched a new digital gaming platform that allows fans to trade basketball collectables using blockchain technology [312].

Finally, sentiment analysis uses several tools [313] to identify, extract, quantify, and study affective states and emotions associated with a football club. After conducting the sentiment analysis, football clubs should perform cluster analysis to ideally segment their fans into different archetypes, thus better analysing targeted value propositions to offer to each archetype;

- Competitor analysis – Nowadays, with the evolution of analytics, tactics paper sheets have been replaced by tablets and real-time analytics crunching the numbers and delivering prompt guidance. For instance, current Manchester City manager Pep Guardiola not only embraced analytics as a tool during his time at Bayern Munich [314] but also as a hyper-inquisitive competitive approach "I look at the footage of our opponents and then try to work out how to demolish them" [315];
- Player fitness and team performance analysis – Wearable or attached-to-clothes devices have flooded the market, giving rise to fitness awareness, and helping in monitoring and tracking data of players. Furthermore, analytics are helping professional sports teams preventing sports injuries by analysing the data collected

[312] Retrievable from: https://smartseries.sportspromedia.com/news/nba-dapper-labs-blockchain-cryptocurrency-basketball-fans-game

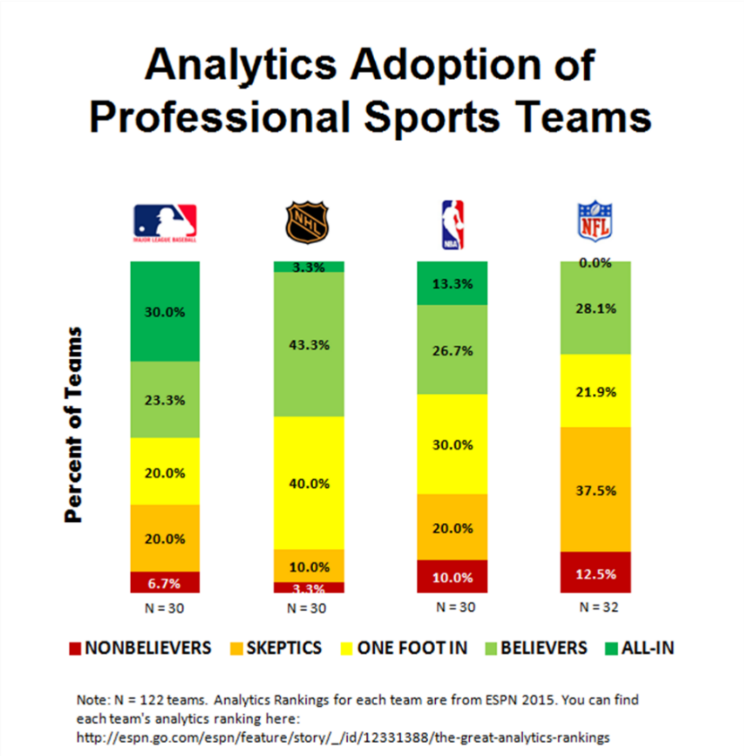
[313] E.g., natural language processing, text analysis, computational linguistics, and biometrics.

[314] Retrievable from: https://fivethirtyeight.com/features/bayern-munichs-head-of-analytics-tells-us-how-pep-guardiola-has-embraced-stats/

[315] Quoted by the Guardian. https://www.theguardian.com/football/2014/oct/15/pep-guardiola-bayern-munich-pep-confidential-book-marti-perarnau

from wearable devices. For instance, the NBA signed a multi-year exclusive agreement with Orreco [316], a sports data biomarker and athlete performance monitoring company, to provide bio-analytical services.

European football clubs, particularly non-elite ones, as Wired highlighted [317], are still at the preliminary stages of innovation adoption (e.g., in 2020, AS Roma partnered with Acronis' AI technology to optimize game and business operations [318]) and this is particularly true when compared to the level of preparedness that we observe in the US; as the following analytics rankings from ESPN shows, most US franchises already had at least one foot in analytics back in 2015:



In conclusion, analytics to foster data-driven decision making has become something of a must-have in today's sports environment. Therefore, in Europe, the use of football

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316 Retrievable from: https://www.forbes.com/sites/simonogus/2019/07/20/orreco-signs-multiyear-partnership-with-the-national-basketball-players-association/?sh=7d0ae2335ecb

317 Retrievable from: https://www.wired.com/story/european-football-clubs-are-turning-to-ai-for-an-assist/

318 Retrievable from: https://www.asroma.com/en/news/2020/5/acronis-becomes-club-s-official-artificial-intelligence-partner

analytics will increasingly become prevalent leveraging new innovative methods to capturing data.

3.2.2 VR, AR and 5G – Reinvent in-venue experience

During the last 20 years, to maximize brand equity and assets, leaders in the sports business have been creating year-round “entertainment districts” in and around their facilities [319]; for instance, Manchester City, in partnership with Oak View Group [320], is planning to build a new 20,000 seat arena on part of the Etihad Stadium site, which will be supported by new infrastructures such as bars and restaurants [321]. However, today, it’s time to move on and reinvent the in-venue fans experience to make it memorable: put it simply, when you make the experience memorable, people go back to the stadium; for instance, the MLS had a business plan that at first failed: ¨with youth soccer being the number 1 sports in the US, the MLS thought that these kids will bring their families to watch the professional soccer league, and that did not work.¨ said Marshall Glickman [322]; faced with this situation, the MLS shifted its culture creating an amazing experience on the pitch to attract other types of fans segments, not anymore the hardcore ones [323], and this eventually paid off with MLS restoring soccer’s popularity in the US.

To reinvent the in-venue experience, clubs are partnering with telco and technology companies to roll out integrated digital offerings to extend the fan experience and create new monetization opportunities. For instance, the Deutsche Fußball Liga (DFL) and Vodafone launched the 5G infrastructure in the Volkswagen Arena football stadium that

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[319] Greenberg M. & Shaw L. (2017, July 1). The ICE district. Retrievable at: https://www.greenberglawoffice.com/the-ice-district/

[320] Which Silver Lake is an investor in (on top of being indirectly owning a stake in Manchester City having a 10% share in City Football Group).

[321] Retrievable from: https://www.sportspromedia.com/news/oak-view-manchester-city-etihad-stadium-music-venue-co-op-naming-rights

[322] CEO of G2 Strategic and former president of the NBA franchise the Portland Trail Blazers.

[323] A trade-off that will sound familiar to Italian readers, in a country where the relationship with the ultras (i.e., the most vocal, influential, and often intimidating groups of fans) has been highly controversial with little or no effort by clubs or institutions to discourage unhealthy behaviours (Mitten, A., 2020; Thompson, O., 2020).

allows spectators to get match statistics in real-time on their devices [324]. In another instance, Major League Baseball and NTT [325], announced a technology partnership to create a new experience for baseball fans with NTT's Ultra Reality Viewing (URV) [326]; specifically, URV is NTT's real-time, super high-definition, surround video synthesis technology that combines multiple 4K camera images into a super-wide image such as 12K in real-time and transmits them synchronously to remote locations, so that, by wearing this, fans can view sports content as if they were watching it live in the stadium or on the field. Finally, DFL is also working to improve its VAR technology to enhance transparency and speed: changes include getting text explanations on screens in the stadium and faster information for broadcasters hat tell exactly what is being reviewed by VAR [327]; furthermore, Bundesliga will include a new camera in the company's Video Assistant Centre that can monitor the screen that the video assistant is looking at so that if the referee on the field goes to the side-line to review a play, fans will be able to view exactly the image that that referee is viewing in real-time [328].

These were just randomly ordered examples, the concept to assimilate is that stadiums will be transformed to reach out to younger generations possibly disrupting the whole idea of going to the stadium to simply watch the game; as Bradley Katcher suggested [329], matchday will become something different, bundling several technology-powered experiences into a single location: the place to meet the friends, to take a nice dinner, to hold a business presentation, and so forth.

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[324] Retrievable from: https://www.dfl.de/en/news/kick-off-for-5g-latest-mobile-communications-technology-activated-in-the-first-bundesliga-stadium/

[325] A global technology and business solutions company.

[326] Retrievable from: https://www.mlb.com/press-release/press-release-mlb-ntt-unveil-tech-partnership

[327] Retrievable from: https://www.bavarianfootballworks.com/2019/8/6/20756268/bundesliga-referee-var-germany-new-technology-enhancements-improvements-decisions-bayern-munich

[328] Retrievable from: https://www.bavarianfootballworks.com/2019/8/6/20756268/bundesliga-referee-var-germany-new-technology-enhancements-improvements-decisions-bayern-munich

[329] Managing Partner at Galatioto Sports Partners. Source: private interview in May 2021.

3.2.3 Next generation of fans – Globalization, e-sports, and social justice

Firstly, football clubs' fans are getting global as big five European leagues have grown their international appeal and have indicated their expectations for continued expansion going forward. The globalization of football [330] has, on one hand, brought football clubs additional revenue, mainly coming from commercial activities such as the sale of broadcasting rights, sponsorships, and licensed merchandise; on the other hand, football clubs have no other choice than commercialize [331] to remain financially competitive and sustainable considering increased costs [332] and global competition for customer attention span (Boccia A., 2018). Globalization is reflected in ownership structures, with increasing requests and interest from investors located in the US or Asia and with 67 top-division clubs controlled by a foreign owner in 2019 [333] as the following graph from UEFA suggests [334]:

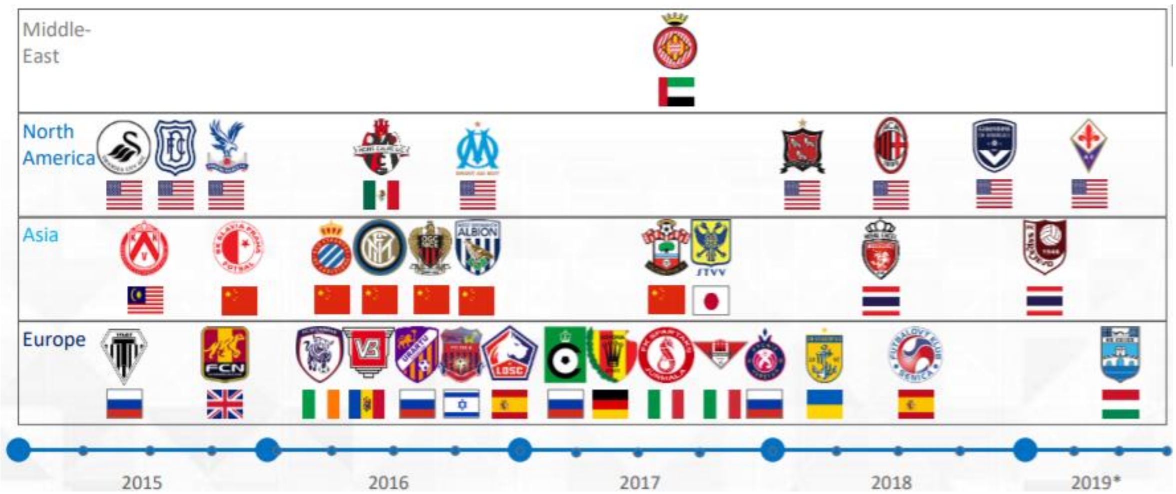
[330] Retrievable from: https://www2.deloitte.com/content/dam/Deloitte/uk/Documents/sports-business-group/deloitte-uk-sport-football-money-league-2017.pdf

[331] Before the 1990s, the primary aim of professional football clubs was entertainment through on-field success while remaining financially solvent, rather than maximizing profit; however, the assumed role of global media conglomerates, the worldwide broadcasting of sports events, and the rapid acceptance and development of football sponsorship became important new revenue sources for clubs (Boccia A., 2018).

[332] Related to expenses to improve on-field performance, brand equity, and diversify revenue streams, thus resulting in outflows to improve technologies, personnel, venues, marketing.

[333] Retrievable from: https://www.uefa.com/MultimediaFiles/Download/OfficialDocument/uefaorg/Clublicensing/02/64/06/95/2640695_DOWNLOAD.pdf

[334] Retrievable from: https://www.uefa.com/MultimediaFiles/Download/OfficialDocument/uefaorg/Clublicensing/02/64/06/95/2640695_DOWNLOAD.pdf



Source: UEFA – The European footballing landscape (2019)

Secondly, the next generation of fans will keep an eye on both on-field performance and off-field clubs and players' behaviour. This is something of major importance for global fans that, ignoring the country and location of origin of the football club, might follow one side over another according to cultural alignment. This phenomenon is getting a point of major attention for clubs as football players become sounding boards of corporate values thanks to their exposure to fans; speaking of what, Dave Dase [335] stated "[About issues related to social justice] I think there's been a huge shift over the course last 10 years or so in terms of player involvement taking a stand on social justice issues. If you went back a decade there weren't a lot of athletes willing to take a public stand. Whereas today you look many athletes across the many different sports have been very aggressive in terms of taking policy stances. And I think it's a combination of an evolution of many factors, not the least of which may be quite frankly social media and the ability for these players to become branded individually to control the narrative."

Finally, the third mass shift in fans habits is the surge of e-sports and innovative participatory events; indeed, new games are continuously disrupting the esports market, and for some, the fan following is immediate, for instance, just nine months after Fortnite

[335] Head of Goldman Sachs' Investment Banking Division's Southeast Region.

launched in September 2017, 125 million people had played [336]. Total esports viewership is expected to grow at a 9% CAGR between 2019 and 2023, up from 454 million in 2019 to 646 million in 2023 [337], basically doubling 2017 viewers in six years (335 mln), mainly thanks to the social component of live streaming and gaming [338]; besides, COVID-19 seems to have had a lasting positive impact on the popularity of gaming as a media product [339]. For football clubs, this represents a massive opportunity to build global awareness and enhance sponsorship and advertising revenue (accounting for 58% of total esports revenue [340] [341]) through their privately owned esports channels or cooperating with shareholders (for instance, DFL Deutsche Fußball Liga and EA SPORTS launched the VBL Club Championship [342])

A final interesting remark is observing how digital technology had a role in all three mentioned swifts by powering the fans globalization and e-sports surge while facilitating the shift of players from mere athletes to best representatives and spokesman for football clubs and their values.

3.3 Forward-looking: opportunities and threats to football clubs

While we refer to chapter “2.3 Sports industry opportunities and threats” for a comprehensive high-level analysis, this section will highlight European football-specific opportunities and threats.

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[336] Esports and the next frontier of brand sponsorships (2020, July 31). McKinsey & Company. Retrievable at: https://www.mckinsey.com/business-functions/marketing-and-sales/our-insights/e-sports-and-the-next-frontier-of-brand-sponsorships

[337] Insider Intelligence (2021, January 5). Retrievable at: https://www.businessinsider.com/esports-ecosystem-market-report?r=US&IR=T

[338] Video gaming-specific streaming platforms like Twitch and YouTube Gaming give fans a direct connection to the players and teams.

[339] PwC Sports Survey 2020. Retrievable at: https://www.pwc.ch/en/publications/2020/pwcs-sports-survey-2020.pdf

[340] Esports and the next frontier of brand sponsorships (2020, July 31). McKinsey & Company. Retrievable at: https://www.mckinsey.com/business-functions/marketing-and-sales/our-insights/e-sports-and-the-next-frontier-of-brand-sponsorships

[341] Similarly, Goldman Sachs estimates 60% of total revenue coming from advertising and sponsorship. Source: https://www.goldmansachs.com/insights/pages/infographics/e-sports/

[342] I.e., a virtual Bundesliga with 22 clubs from the Bundesliga and Bundesliga 2 competing in e-Football.

Starting from the bright side, European football clubs have before themselves massive value creation opportunities; specifically, we can classify opportunities into two main categories: those arising from media rights dynamics and those arising from the untapped women football business [343].

The opportunities related to upcoming dynamics affecting the media rights revenue stream include:

- To the advantage of all clubs, recent technological advancements, and intra-league cooperation [344], pushing toward a more effective legal control of online streaming [345] [346], thus increasing distributable rights income. From a technological point of view, two main solutions are emerging: firstly, fully automated detection systems combined with data mining can gather as much information as possible about the illegal ecosystem; secondly enhanced automated tracking and enforcement mechanisms [347] can reduce the complexity of corrective measures [348]. For instance, Pro League and LaLiga renewed the agreement signed in March 2018, through which LaLiga will support mitigating audio-visual piracy by applying its tools for the detection, analysis, and removal of illegal content [349]; or, another instance, Lega Serie A have decided to combat together the piracy speeding up of IPTV blocking times by ISPs and Hosting and working together with rights holders from different geographies to combat beoutQ's piracy [350] [351];

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[343] Do note, other opportunities include increasing synergies with gaming and e-sports companies, digital assets monetization, regulatory improvements, and so forth.

[344] Retrievable from: https://www.sportspromedia.com/interviews/nagra-avia-broadcast-piracy-sports-interview

[345] To avoid audio-visual piracy.

[346] Audio-visual piracy is a criminal act and is an increasing sore in recent years all over the world. Piracy impact varies from country to country; for instance, in Italy, considering that the main form of piracy is digital, which takes place in various ways on the web, and by calculating only the usual internet users, the incidence of piracy among adults exceeds 60%. Source: https://www.legaseriea.it/en/stopiracy

[347] Sometimes combined with the integration of legal partners and their procedures.

[348] Retrievable from: https://www.sportspromedia.com/interviews/broadcast-piracy-dfl-nagra-athletia-smartprotection

[349] Retrievable from: https://media.sportbusiness.com/news/laliga-pro-league-renew-anti-piracy-partnership/

[350] A pirate pay-television broadcaster.

[351] Retrievable from: https://www.legaseriea.it/en/stopiracy

- To the advantage of all clubs, technology can significantly improve the product (especially as the football industry has lengthily been reluctant to update its format). In recent years a lot has been done and there are several options to further improve thanks to innovations in the fields of IoT, big data and analytics, and machine learning. For instance, goal-line technology [352], VAR [353], wireless communication systems for referees [354], electronic performance and tracking systems [355], are all reflective of the technological development that happened throughout the last decade [356];
- To the advantage of low and middle-tier clubs, in all countries except the EPL [357], there is still a huge potential by making rights distribution more equal among league participants: LaLiga still presents the widest gap [358], Ligue 1 follows closely [359], Bundesliga recently decided to follow the EPL example sharing 50% of the income evenly yet still shows significant inequality [360], Serie A (somewhat surprisingly given that in 2008 still used to market rights on an individual basis as Paolo Macchi outlined [361]) follows on the heels of the EPL, from a certain distance [362]. The reason why we will most likely observe further equality is that it's becoming clear as water that perhaps the main driver to increased competitive balance and maintaining the attractiveness of the overall league product is ensuring

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[352] Retrievable from: https://www.ft.com/content/8ea8c294-c6a4-11e1-963a-00144feabdc0

[353] Retrievable from: https://football-technology.fifa.com/en/innovations/

[354] Retrievable from: http://www.vokkero.com/

[355] Retrievable from: https://www.catapultsports.com/sports/football

[356] PwC's Sports Survey 2019. Retrievable at: https://www.pwc.ch/en/insights/sport/sports-survey-2019.html

[357] As the highest paid team (Manchester City) only gets 50% more than the lowest (West Bromwich Albion). Source: https://www.sbibarcelona.com/newsdetails/index/403

[358] With Barcelona rights being 3.5 times Granada's ones. Source: https://www.laliga.com/en-GB/transparency/economic-management/tv-rights

[359] 3.3 multiple between the first and the last club in the last season. Source: https://www.statista.com/statistics/975712/soccer-season-tv-rights-value-ligue-1-france/

[360] Bayern Munich earned 2.4 times what Arminia Bielefeld did. Source: https://www.sportingfree.com/football/german-bundesliga-tv-money-distribution/

[361] International sports and media attorney and professor. Source: private interview in April 2021.

[362] Juventus earned 2.2 times what Crotone did, while, as we said before, the multiple among 1st and last EPL club is 1.5. Source: https://www.calcioefinanza.it/2021/05/25/ricavi-diritti-tv-serie-a-2020-2021/

that outcomes and results are as uncertain as possible, and financial capacity is a key driver to club competitiveness [363];

- To the advantage of elite clubs [364], there are still talks on the Super League hypothesis; of course, it will take some time before the failed attempt in April 2021 [365], but the underlying rationale is still present: clubs do not approve of how UEFA runs the Champions League and do not believe it delivers enough high-quality games in a digital media age [366]. It may take some time, but, first, the US paved the way, and they foresee closed leagues organized by franchises [367], second, the media and entertainment sectors are running through a massive consolidation [368], and sports content won't be an exception.

As we previously outlined, the second huge opportunity is given by women football: bearing in mind that they drive up to 70-80% of the consumer market [369] through a combination of their buying power and influence, there is still huge untapped potential in the female audiences of women's sports. While certain sporting disciplines have done better than others in terms of commercialising the female editions of their sports, women's football, and women in football, seem to have the wind in their sails [370]; for instance, the growth in popularity of the women's game was highlighted by 2019's FIFA Women's

[363] More on this topic can be found on the following paper: The uncertainty-of-outcome hypothesis and competitive balance in sports. Martin Langen. Retrievable at: https://d-nb.info/1138284831/34

[364] And to the disadvantage of all the others; therefore, this point can be seen both as an opportunity and as a threat, depending on the point of view.

[365] Why the European Super League failed: https://www.economist.com/united-states/2021/04/24/why-the-european-super-league-failed

[366] Retrievable from: https://www.bbc.com/sport/football/56824628

[367] Szymanski S. & Valletti T. (2003). Open and Closed Leagues. Business School, Imperial College. Retrievable at: https://www.researchgate.net/publication/232710160_Open_and_Closed_Leagues/citation/download

[368] A second wave of media M&A is coming: https://www.ft.com/content/9629af48-b8b3-11e9-8a88-aa6628ac896c

[369] Retrievable from: https://www.forbes.com/sites/bridgetbrennan/2015/01/21/top-10-things-everyone-should-know-about-women-consumers/

[370] The case for commercial investment in women's sport. Retrievable at: https://www.womeninsport.org/wp-content/uploads/2015/04/Prime-Time.pdf

World Cup in France [371], where the global audience was estimated to have exceeded one billion for the first time [372] [373] [374] (1.12 billion people [375]). The main factors driving this segment's growth are, according to PwC professionals [376], the following ones:

- Strong demand for the plain product – As 2019 proved to be a record-breaking year for women's sport. Apart from the record-breaking World Cup, between March and April, several women's football attendance records were broken, including the world record when 60,739 fans attended an Atlético Madrid vs FC Barcelona match at the Wanda Metropolitan in Madrid [377]. The reason for this is a cultural shift given that, beyond football, women's sports at large are on the rise: football is not a one-off example, but rather part of a transformation of women relationship with sports. For instance, less known formats such as the Rugby's Women's Six Nations tournament are starting to appear on the radar of big brands [378] that will start activating around women's sporting assets [379];
- Strong commercial development – Directly related to the previous point [380], sponsorship deals for female athletes, teams, and properties are increasing in value

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[371] Retrievable from: https://www.forbes.com/sites/alanaglass/2019/10/21/fifa-womens-world-cup-breaks-viewership-records/#:~:text=FIFA%20announced%20on%20Friday%20that,of%20263.62%20million%20unique%20viewers.

[372] The Investment pitch: Private equity in sport (2020, October 27). BDO & The Sports Consultancy. Retrievable at: https://www.bdo.co.uk/en-gb/insights/industries/leisure-and-hospitality/the-investment-pitch-private-equity-in-sport

[373] Likewise, in 2019 the FA and Barclays announced a record-breaking partnership for the Women's Super League, which is now the subject of investment approaches from private equity funds.

[374] Besides, several new viewership records were marked in many teams' home countries.

[375] Retrievable from: https://www.fifa.com/womensworldcup/news/fifa-women-s-world-cup-2019tm-watched-by-more-than-1-billion

[376] PwC's Sports Survey 2019. Retrievable at: https://www.pwc.ch/en/insights/sport/sports-survey-2019.html

[377] Retrievable from: https://edition.cnn.com/2019/03/17/sport/atletico-madrid-barcelona-womens-football-record-crowd-spt-intl/index.html

[378] PwC's Sports Survey 2019. Retrievable at: https://www.pwc.ch/en/insights/sport/sports-survey-2019.html

[379] E.g., during the FIFA Women's World Cup in France, Nike released a commercial minutes after USWNT's victory in the final. Source: https://thespun.com/more/soccer/nike-released-an-epic-commercial-following-usas-world-cup-win

[380] Female football improved as an entertainment product, therefore its commercial appeal increased.

[381]; for instance, Barclays announced they will become the title sponsor of the Women's Super League in England, with the reported deal understood to be worth over GBP 10 million [382]. This ultimately boils down to the fact that increased popularity inevitably bolsters commercial appeal;

- Broaden the men market – As women's sport is also a great medium through which to reach men. According to the European Broadcast Union, for example, 68% of the users that tuned into their online platform football.eurovisionsport.tv to watch matches were men [383], so that advertisers can effectively engage with both genders through the very same channels.

On the flipside of the coin, European football presents factors that could hinder and threaten football clubs' growth; we can cluster threats into two categories: threats related to the football market getting unattractive and threats related to the very nature of European football [384].

Indeed, the overall European football market might get unattractive because of the following:

- Market saturation – Interestingly, sports industry leaders interviewed by PwC stated how demand from emerging markets has relatively little to contribute to broader industry growth; therefore, no quick fix is expected by merely doing more of the same in new markets; therefore, clubs should rather identify new avenues to create value for existing markets [385];
- Increasing buyer power – Focusing on media rights owners [386], the first area of concern is the growing dominance of major tech companies turning into a gateway

[381] E.g., Visa's ground-breaking seven-year deal: https://www.uefa.com/insideuefa/about-uefa/administration/marketing/news/024c-0f8e66433e4d-a7ccaabbf74c-1000--visa-signs-ground-breaking-seven-year-women-s-football-deal-wit/

[382] Retrievable from: https://www.bbc.com/sport/football/47605807#:~:text=Barclays%20is%20to%20become%20the,will%20start%20from%20next%20season.

[383] PwC's Sports Survey 2019. Retrievable at: https://www.pwc.ch/en/insights/sport/sports-survey-2019.html

[384] I.e., the relegation hypothesis.

[385] PwC's Sports Survey 2019. Retrievable at: https://www.pwc.ch/en/insights/sport/sports-survey-2019.html

[386] Rather than fans (final consumer).

to content distribution [387]; as the consumption behaviour of the younger generation shifts to digital, rights distribution dynamics change: sports leader fear that massive media conglomerates that can control both the creation and distribution of content may well be stealing the party while leagues and incumbents rights owners struggle at adopting DTC approaches because of the different core capabilities required to compete. The second area of concern is related to the risk of rights owners not honouring their commitments: during the pandemic, with Mediapro cancelling its €814 million per season deal with the Ligue 1 after skipping a €172m payment in October 2020 [388], the EPL terminating its media-rights contract with Chinese PPTV [389], with Bundesliga forced to accept a €200m less for TV rights to its football matches than its previous €4.6bn deal [390], and so forth, clubs discovered that the revenue stream they mostly rely on (from 44 up to 59% revenue share across 'big five' leagues [391]), is all but risk-free and legally-bound;

- Regulatory changes – Research demonstrated both theoretically and empirically that financial regulation is crucial to explain performance in European football competitions; clubs allowed to run deficits (so-called benefactor owners [392]) hire more playing talents and obtain better sportive results [393]. In 2009, the UEFA Financial Fair Play Regulations were established to prevent professional football clubs from spending more than they earn in the pursuit of success (and, in doing so, getting into financial problems which might threaten their long-term survival [394]). However, recent rumours pointed out how FFP Regulations could be ripped up

[387] PwC's Sports Survey respondents recognized this point, with 55.2% identifying the dominance of major tech firms as a gateway to content a major threat to industry revenues.

[388] Retrievable from: https://www.ft.com/content/8a2f2696-fd2d-4e02-a838-2f537b1aea28

[389] Retrievable from: https://www.ft.com/content/ee6507f1-ed7f-40ab-9cbf-08c0212a797b

[390] Retrievable from: https://www.ft.com/content/40fbecae-c097-4a57-b98b-995373355a962

[391] Annual Review of Football Finance 2020. Deloitte Sports Business Group. Downloadable at: https://www2.deloitte.com/uk/en/pages/sports-business-group/articles/annual-review-of-football-finance.html#

[392] Madden P. (2015). Welfare Economics of "Financial Fair Play" in a Sports League with Benefactor Owners. Journal of Sports Economics.

[393] Drut B. & Raballand G. Why does financial regulation matter for European professional football clubs? International Journal of Sport Management and Marketing (IJSMM), Vol. 11, No. 1/2, 2012.

[394] Retrievable from: https://www.uefa.com/insideuefa/protecting-the-game/financial-fair-play/

following the pandemic [395] after Manchester City overturned the two-year ban imposed by the European legislator [396], thus revolutionizing for the second time the regulatory environment [397]. On the flipside of the coin, current regulation exposes football clubs to financial measures taken by governing sports bodies; in the very same example, Manchester City faced a €10 million fine and was hit with a two-year ban from European club competitions as it was accused of masking equity funds as sponsorship revenue [398] (Woodman A., 2020); stripping away the specific example, the threat of fines or market impediments is tangible and covers a vast array of potential infringements (e.g., from trading players underage players [399] to sponsorships at non-market conditions [400], et cetera), against which no club can forearm itself. Regardless of how one might look at it [401], financial regulation does influence expectations and decisions: current regulation hides tremendous pitfalls but at the same time recent rumours discussing a "free-for-all" on deficit spending could hugely undermine the competitiveness of football clubs owned by return-oriented investors [402];

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[395] Retrievable from: https://www.theguardian.com/football/2021/mar/25/football-financial-fair-play-rules-to-be-ripped-up-after-covid-crisis

[396] Retrievable from: https://www.bbc.com/sport/football/53387306

[397] Besides, FPP Regulations fall short of a significant improvement in overall financial sustainability. Source: Caglio A. (2016). Does Fair Play Matter? UEFA Regulation and Financial Sustainability in the European Football Industry (with A. D'Andrea, D. Masciandaro, G.I. P. Ottaviano), BAFFI CAREFIN Centre Research Paper No. 2016-38.

[398] This would make it in breach of financial FFP barring clubs from spending more than they earn, and thereby getting into financial problems.

[399] Retrievable from: https://www.goal.com/en-gb/news/chelsea-transfer-ban-why-fifa-sanctioned-blues-what-appeal/tt4ejezxvltd1k8r5symf4rkn

[400] Retrievable from: https://www.bbc.com/sport/football/27243933

[401] As a conscientious owner or a big spender.

[402] As "there are clubs who could not care less what their real incomes are when they want to sign a player because they receive incomes from a state. It forces other clubs into an economic situation which is really living on the edge. It skews the balance of the entire European football structure." (Javier Tebas, head of the Spanish league, May 2019).

- Market manipulation – Football history has repeatedly been marked by incidents of corruption [403], match-fixing [404], betting [405], drugs [406], tax fraud [407], and so forth [408]. Without boiling into many examples, the key takeaway is that, if, on one hand, market manipulation is detrimental to a club's reputation and legal consequences, on the other, the very same existence of market manipulation results in league-specific issues as other clubs are penalised from a competitive point of view. Besides, most of the European clubs and governing bodies publish no financial data, leaving a vast dark space with no transparency [409]. Hopefully, clubs and governing bodies actively target this risk and most of the historical scandals seem behind us (e.g., the DFL extended its engagement with Sportradar Integrity Services to protect against match-fixing and betting-related corruption [410]) but market manipulation is unlikely to cease its existence, thus representing an evergreen threat for football clubs;

The second subset of threats derives from two interconnected root causes: relying on club-specific performance and the relegation hypothesis. Indeed, the biggest difference between European leagues and American franchises is the relegation hypothesis, which yields a terrific threat to football clubs' owners because sporting performance is driven by many external factors that are out of club owners' control, leaving little or no room for countermeasures. As Antonin Baladi [411] said, "when you own the championship, the

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[403] Recent example, FIFA: https://www.nbcnews.com/fifa-corruption-scandal

[404] Recent example, Parma: https://www.theguardian.com/football/2018/jul/23/parma-emanuele-calaio-match-fixing-docked-points

[405] Recent example, Manchester City's Sturridge: https://www.theguardian.com/football/2019/jul/18/daniel-sturridge-ban-breaching-fa-betting-rules-appeal

[406] Here for a comprehensive list: https://en.wikipedia.org/wiki/Doping_in_association_football

[407] Recent example, Rangers FC tax avoidance: https://www.ft.com/content/dae5b3e8-08cf-11e7-ac5a-903b21361b43

[408] Money laundering, human trafficking, exploitation of workers, fraud, to name a few.

[409] Andrews M. & Harrington P. (2016). Off Pitch: Football's financial integrity weaknesses, and how to strengthen them. Harvard University publications.

[410] Retrievable from: https://www.dfl.de/en/news/dfl-and-sportradar-integrity-services-announce-extended-partnership/

[411] Partner in the Strategic Advisory Group at PJT Partners. Source: interview to PEI in November 2020 (full article here: https://www.privateequityinternational.com/the-new-playbook-how-private-equity-fell-in-love-with-sport/).

outcome from a sports perspective doesn't matter," vice versa, when you own a football club, the outcome is possibly the only thing that matter; therefore, European football is a high-stakes game where commonly financial distress causes include relegation and bad player investment decisions [412] [413]. For instance, in the UK second-tier league, the Championship, the average wages-to-turnover ratio for the 2019-20 season was 107%; in this scenario, if, on one hand, promotion can be particularly lucrative accessing nearly EUR 100m in media rights [414] (even though, as Andrea Radrizzani [415] outlined, "betting on promotion is highly risky business"), on the other, the opposite way around might become a financial disaster, no matter parachute payments [416] for teams getting relegated.

Overall, the glass is half-full as untapped opportunities can eventually outweigh in size the threats; however, it is important to highlight that there are some factors, such as the Super League, that would leave no room for adjustments by low and middle-tier football clubs impacted by the governance alteration [417]. Therefore, the forward-looking outlook for European football clubs is overall positive but strongly depends on the point of view.

3.4 Football clubs' ownership archetypes

"Every football club owner has a different mindset of what's important to them," Steve Horowitz said [418]. "It might be the league, the history of the club, the strength of the academy, or it might be the journey." There is, for instance, "the thoughtful owner, who

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[412] Alaminos D. & Fernández M.A. (2019, December 26). Why do football clubs fail financially? A financial distress prediction model for European professional football industry. Retrievable at: https://doi.org/10.1371/journal.pone.0225989

[413] Even though, we could draw similar conclusions considering UCL rights absence.

[414] Retrievable from: https://www.sbibarcelona.com/newsdetails/index/403#:~:text=The%20value%20of%20EPL%20TV,value%20of%204%2C55%20billion.

[415] Businessman (Leeds United FC, Eleven Sports, Aser Group). Source: private interview in May 2021.

[416] Retrievable from: https://www.theguardian.com/football/2020/may/05/efl-chief-parachute-payments-evil-eradicated-football

[417] Vice versa, it would be a godsend for clubs such as AC Milan, having nothing but heritage and brand.

[418] Partner at Inner Circle Sports (a New York City-based "boutique investment bank" focused on the global sports industry). Source: interview to Forbes in September 2019 (full article here: https://www.forbes.com/sites/robertkidd/2019/09/11/so-you-want-to-buy-a-soccer-club-heres-what-you-need-to-know/?sh=34c6b210394d)

wants to understand before he gets in. You get an owner like Michael Eisner, who knows it's hard. But he's trying to build a club for 50 years, not 15 minutes." Moreover, as Horowitz put it, "if you look at the EPL, it's filled with people with different motivations for being there. Outside the EPL, some people want to build a club up because they have the dream and it's a pretty cool thing to move up the football pyramid."

Before moving to the typical archetypes of club owners, it is worth clarifying that European football is not necessarily about European ownership, instead, foreign investors are well-established and generally belong to three main countries or macro-regions: the US, Middle East, and China [419].

The first US investor, was Malcolm Glazer [420] in 2003 [421], taking a 3% stake in Manchester United, the EPL's most successful team and one of the most storied sports franchises in the world (Nocera, J., 2008); by the end of that 2004, he had upped his stake to nearly 30%, and, by July 2005, he held the majority (66% [422], valued $1.5 billion) of the franchise by largely recurring to debt issuance to finance the takeover: the cost of buying the club was loaded onto the club itself, with the revenues it generates used to pay down the debt and interest that the Glazers undertook to buy the club (Yueh, L., 2014). There was no first-mover advantage, instead, the takeover was received with significant hostility by the fans [423] and the press [424] (Nocera, J., 2008); furthermore, stakeholders did not appreciate Glazer's largely resorting to debt to finance the acquisition as it implicitly signalled that fans would have been paying back both the stock and the interests (£62 million a year) while seeing reduced investment in company assets (players, facilities, or stadiums).

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[419] A careful reader could point out that the list does not include Russian oligarchs (e.g., Roman Abramovich); however, the three most represented geographic areas were selected.

[420] Billionaire from Palm Beach in Florida, who got into sports in 1995 he bought the NFL's Tampa Bay Buccaneers.

[421] Retrievable from: https://www.theguardian.com/football/2021/may/02/timeline-glazers-and-their-turbulent-reign-at-manchester-united

[422] £790 million total cost, of which £525 was debt. Source: https://indianexpress.com/article/explained/manchester-united-glazer-family-old-trafford-fans-7330904/

[423] During games in the team's fabled stadium, Old Trafford, fans chanted, "Die, Glazer, die." E.g., video 1, video 2, video 3.

[424] What especially bothered the Manchester United fans, and the English soccer press was the fear that Glazer would "Americanize" the business of running the team. Source: https://www.nytimes.com/2008/09/14/sports/playmagazine/0914play-BUSINESS.html

Nonetheless, Glazer quickly cut a $99 million (£56.5 million [425]) four-year deal with AIG to sponsor the team's shirts, significantly increasing the money they get from "signage" and increased Old Trafford's capacity [426]. Later, eventually, as Robert Tilliss [427] outlined, "they won", thus reducing the number of anti-Glazer representatives while reducing the debt level as the total revenue significantly increased over time (Nocera, J., 2008). Next came Tom Hicks [428] and George Gillett [429] who joined forces to buy another top EPL team, Liverpool FC, overcoming Dubai International Capital's [430] competition in 2007 (Nocera, J., 2008), valuing the club at £218.9m and confirming debts of £44.8m [431]. Although they paid less than half what Glazer did for Manchester United, Hicks and Gillett also financed their purchase largely with debt and, shortly thereafter, signed on for a new stadium to replace Liverpool's ancient 45,000-seat arena (Nocera, J., 2008). Again, between 2006 and 2007, Randy Lerner, the owner of the NFL's Cleveland Browns, took over Aston Villa [432] while Stanley Kroenke [433] in those years started the climb over Arsenal FC with a 12 % stake in the club [434] (Nocera, J., 2008). Afterwards, many more American investors kept seamlessly investing in football, sometimes even outside the EPL (e.g., in Italy, AS Roma's Pallotta and Friedkin [435], Spezia Calcio's Platek [436], ACF Fiorentina's Commisso

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425 Retrievable from: https://www.forbes.com/2006/04/06/glazer-billionaires-aig-cx_cn_0406autofacescan13.html

426 Downes S. (2006, 6 April). "United score record sponsor deal". Times Online. London: Times Newspapers.

427 Founder of Inner Circle Sports.

428 PE investor who owned the Texas Rangers baseball team and the NHL's Dallas Stars.

429 Businessman, among the others was the owner of Montreal Canadiens.

430 Sovereign wealth fund owned by Dubai's ruler.

431 Source: https://www.goal.com/en-gb/news/2896/premier-league/2010/10/14/1881043/the-definitive-timeline-how-hicks-and-gillett-took-liverpool

432 Source: https://www.wsj.com/articles/the-nfl-owner-who-got-chewed-up-by-english-soccer-1543587247

433 Real estate mogul and the owner of the NBA's Denver Nuggets and the NHL's Colorado Avalanche.

434 When he first bought the shares, in April 2007, the Arsenal chairman, Peter Hill-Wood, said, "We don't need his money, and we don't want his sort."

435 Retrievable from: https://www.ft.com/content/6b11df5e-54bd-468f-bf31-2d595ac5cac0

436 Retrievable from: https://www.acspezia.com/it/news/hereweare-la-presentazione-ufficiale-di-mr-robert-platek.22575.html

[437], Bologna's Saputo [438], Parma FC's Krause [439] to name recent examples), and this trend will most likely continue in the future [440].

Moving on to Middle-East investors, the first, and arguably the most iconic, has been Sheikh Mansour bin Zayed Al Nahyan's purchase of a struggling Manchester City in 2018 [441], through the corporate vehicle called City Football Group (taking stakes in several football clubs worldwide [442]), rapidly followed by Sheikh Abdullah Al Thani (Malaga FC), Qatar Sports Investment in 2011 (PSG), Farhad Moshiri in 2016 (Everton), Assem Allam (Hull City), Nassef Sawiris and Wes Edens again (Aston Villa), and Prince Abdullah (Sheffield United) in 2018 [443].

Finally, there was an upsurge in the number of Chinese investments primarily driven by the accelerated domestic interest in the game after the global financial crisis, which was then sealed by China President Xi Jinping's statement in 2013 to turn the country into a leading FIFA nation [444] and approval of the Liu Peng's bill [445]; however, we recently witnessed a sharp slowdown after Chinese government's policy change. Indeed, in mid-2017 there were upwards of 20 Chinese-owned clubs in Europe with the period 2014-16 reporting best-in-class investment figures driven by Chinese investors. More into detail, an overview of the transactions that occurred between 2014 and 2016:

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[437] Retrievable from: https://www.nytimes.com/2019/06/06/sports/rocco-commisso-fiorentina-cosmos.html

[438] Retrievable from: https://www.tribalfootball.com/articles/montreal-impact-owner-saputo-part-bologna-takeover-4043642

[439] Retrievable from: https://www.ft.com/content/1e3d6c75-902d-4c89-b9b4-f0d2f25debf2

[440] Retrievable from: https://www.bloomberg.com/news/articles/2020-09-23/rich-americans-plow-their-fortunes-into-european-soccer-bargains

[441] Retrievable from: https://www.bbc.com/sport/football/45372362

[442] Retrievable from: https://www.cityfootballgroup.com/our-clubs/

[443] Retrievable from: http://www.sportindustryseries.com/sports-industry-insider/middle-east-ownerhsip-in-european-football/

[444] Retrievable from: https://www.policyforum.net/china-positioning-lead-line/

[445] In 2013, President Xi Jinping approved Minister of Sports Liu Peng's bill, which, on one hand, focuses on the future of national football, including a 10-year plan to churn out 15.000 young players every year through the introduction of one-hour-per-week football practice at school, and the building of 50.000 pitches in the whole country, on the other, introduces lower tax pressure on Chinese football clubs and provided big companies with a strategic advisory for investing in foreign and national teams.

Year	Club	Country	Investor	EV/ Revenue
2014	FC ADO Den Haag	The Netherlands	United Vansen International Sports Company	0.70x
	FC Hebei China Fortune	China	China Fortune Land Development	4.09x
	Club Atlético Madrid	Spain	Dalian Wanda Group	2.55x
	FC Sochaux Montbeliard	France	Ledus Group	0.33x
2015	RCD Espanyol de Barcelona	Spain	Rastar Group	0.73x
	City Football Group	UK	CITIC Capital CMC Holdings	5.38x
	SK Slavia Praha	Czech Republic	China Energy Company	n.a.
	FC Jiangsu Suning	China	Suning Holdings	2.14x
	Granada Club de Futbol	Spain	Wuhan Double	2.35x
	FC Internazionale Milano	Italy	Suning Holdings	2.35x
	FC Aston Villa	UK	Recon Group	0.68x
2016	OGC Nice	France	Mr. Chien Lee, Mr. Alex Zheng	0.72x
	FC West Bromwich Albion	UK	Yunyi Guokai Sports Development	2.04x
	FC Wolverhampton	UK	Fosun International	1.95x
	AC Milan	Italy	Sino-Europe Sports Investment Management Changxing	4.07x

Source: own elaboration on Mergermarkt data (June 2021) [446]

However, after Southampton's takeover in 2017 [447], Chinese investors turned the power off and started divesting [448]; as a matter of fact, "there are now fewer than 10 Chinese-owned

[446] In short, transactions of Chinese football clubs showed an average EV/Revenue multiple of 2.15x (median of 2.09x, lowered by lower tier clubs), with CITIC Capital CMC Holdings and Sino-Europe Sports Investment Management Changxing acquisitions being the most expensive, at a multiple of 5.38x and 4.07x respectively.

[447] Retrievable from: https://www.bbc.com/sport/football/40928467

[448] It is out of the paper scope to expand on this political shift; however, a reasonable point of view is given by the following section of an article taken by Sportico: "[…] by mid-2017, the Chinese government decided the country's domestic football program wasn't reaping enough benefits from all of the investment capital

clubs, and it's a dwindling number," said Simon Chadwick [449] as Inter Milan, Southampton and West Bromwich Albion owners have reportedly all been looking to divest equity interest or sell the entirety of their ownership stakes in recent months [450]. Therefore, given the rapidity of the phenomenon, one might assume that the temporary trend of Chinese investments towards football had goals different than profit maximization [451] (e.g., being chosen to host the 2030 Football WC [452]).

"Only a few years ago Manchester City were playing in English 2nd tier. Before the club was purchased, it was a middling football club in the EPL, so there was an immediate need to pump huge amounts of investment to take the club to where the owners wanted," said Khoury [453]. In modern football management, it takes money to make money, and it's the American billionaires, Chinese investors, SWFs who have it.

3.4.1 Hedge funds – Milan derby

With recent three-year funding of 275 million euros from Oaktree (OAK_pa.N. N) [454], Inter FC is now the second club in Milan in which hedge funds have an interest. Apart from the 'Milan derby', many hedge funds recently approached the football industry either as minority or majority investors or short sellers (e.g., BlackRock Investment Management

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deployed within the sport and moved to turn the spigot off. They had woken up "to the fact [that the country] was almost like a carcass being consumed by the world of football's vultures." There was this considerable outflow of money, Chadwick said, noting the immense stress the Chinese financial system was under at the time (GDP growth in 2016 was the slowest in 25 years). Taking the position that Chinese investments in international football had become irrational, the Xi administration shifted emphasis from elite football to supporting domestic and grassroots efforts. "There was also a shift in government policy towards promoting inbound investments and incentivizing domestic corporations to invest at home," he added. […]" Retrievable at: https://www.sportico.com/leagues/soccer/2021/chinese-investors-exit-european-football-1234623139/

[449] Professor and Director of Eurasian Sport, Emlyon Business School. Source: https://sports.yahoo.com/chinese-investors-flee-european-football-105538940.html

[450] Chinese Investors Flee European Football After Home Government Policy Change (2021, February 22). Yahoo. https://sports.yahoo.com/chinese-investors-flee-european-football-105538940.html

[451] E.g., purchasing European football players or clubs to absorb know-how of the industry, sending players and coaches abroad, or attracting foreign talents.

[452] Retrievable from: https://scroll.in/field/960115/china-signals-ambition-to-host-2030-world-cup-with-multibillion-dollar-splurge-on-football-stadiums

[453] Dispute resolution lawyer and Middle East expert at international law firm Fieldfisher. Source: https://english.alarabiya.net/sports/2019/07/12/Why-the-Gulf-invests-in-football

[454] Retrievable from: https://www.reuters.com/lifestyle/sports/soccer-italys-inter-milan-secures-financing-deal-with-oaktree-funds-sources-2021-05-20/

building up a short position in Borussia Dortmund GmbH [455] [456]). Steve Horowitz reported how [457] "[he] gets calls daily from both PE firms and hedge funds looking to see what they are working on;" he noted, though, that investors managing third-party money aren't necessarily planning to take on the role of a lead investor in a transaction involving a major league sports team; instead, he believes that "you'll see hedge funds looking to get into other areas of the capital structure, whether it's in the mezzanine or preferred stock." For instance, when the Glazer family acquired UK soccer giant Manchester United in 2005, hedge funds such as Citadel, Perry Capital, and Oz Management [458] could be found in the regulatory filing listed among the investors in the company's preferred securities (MacFadyen, K., 2018).

However, as we mentioned, hedge funds do not always limit themselves to mezzanine debt subscription; as a reference of the hedge funds' interest in taking majority stakes in football clubs, we can name a specific case study: Elliott Investment Management L.P. acquiring AC Milan SpA from Li Yonghong, after the Chinese private investor failed to honour its debt on 10/07/2018 [459]; indeed, Mr Yonghong defaulted on a EUR 303m loan provided by Elliott [460] due to which Elliott has taken over the company and agreed to inject EUR 50m

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[455] Borussia Dortmund-Aktie: Short-Attacke von Leerverkäufer BlackRock Investment Management: https://www.finanznachrichten.de/nachrichten-2015-03/33129836-borussia-dortmund-aktie-short-attacke-von-leerverkaeufer-blackrock-investment-management-358.htm

[456] For more information: https://www.ortex.com/symbol/XTRA/BVB/short_interest

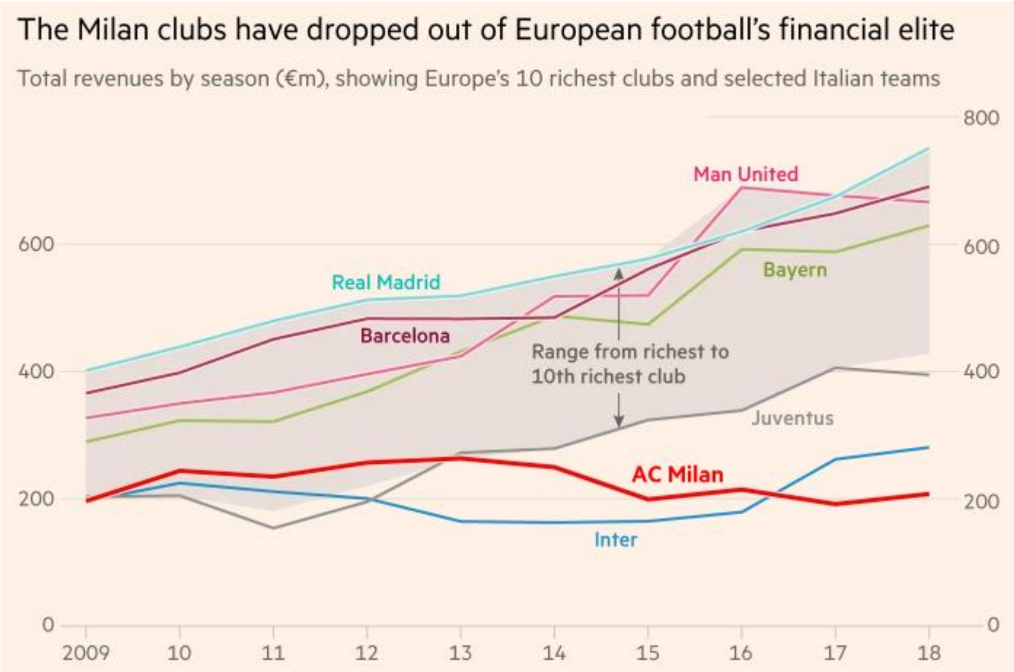
[457] Partner at sports-focused investment bank Inner Circle Sports LLC.

[458] Retrievable from: https://www.manchestereveningnews.co.uk/news/greater-manchester-news/glazer-the-cash-behind-the-crisis-1069420

[459] Source: Mergermarket, specialist in M&A intelligence provider.

[460] To give some context, in August 2016, Sino-Europe Sports Investment Management Changxing Co.Ltd., in the person of Li Yonghong, an unknown Chinese businessman (Massoudi, A., 2019), acquired a 99.93% stake in AC Milan from Fininvest SpA in a transaction valued at EUR 739.60m. The takeover was funded by high-interest loans worth more than €300m from Elliott; according to people familiar with the talks, Mr Li presented a radical plan for the club based on exploiting its large Chinese fan base, yet Elliott's executives were dubious of the strategy. Indeed, Elliott calculated that either the loan, which carried annual interest of more than 11 %, would be repaid or default would give it control of the club: in July 2018, Mr Li did the latter, losing around €500m in equity overnight, Elliott and AC Milan executives say they have had no further contact with the Chinese businessman (Massoudi, A., 2019). Unsuccessfully, Mr. Yonghong had been looking for a suitable buyer since June 2018: Mr. John Fisher and Mr. Stephen Ross, the US-based businessmen, were planning to take a minority stake in the club for USD 150m; later in June 2018, Mr. Thomas Ricketts was also interested in buying the club while even Mr. Rocco Commisso, the US-based investor (that later on bought out ACF Fiorentina) was to acquire a 70% stake in the club, at an estimated value of EUR 500-600m with Mr. Yonghong was to retain the remaining 30%. However, in the end, no agreement was reached, and AC Milan Spa was taken over by Elliott Investment Management.

into the club to bring financial stability and sound management to AC Milan [461]. At that time, AC Milan had EUR 275m revenue, net debt of EUR 263.9m and net loss equal to EUR 158m [462], suffering a decade of sporting failures and revenue stagnation, as the following graph produced by the Financial Times shows:



Source: FT elaboration on Deloitte data (2019)

Overall, it was a move that even Elliott executives repute the most high-profile venture since fighting the government of Argentina over its sovereign debts [463]; in fact, stakes were at the highest for Elliott as a failure at AC Milan would have been a reputational blow, particularly in Italy, where the hedge fund was active in battles over the future of Telecom Italia [464] and CNH Industrial [465] [466] (Massoudi, A., 2019).

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[461] Retrievable from: https://www.ft.com/content/e5d25386-84a9-11e8-96dd-fa565ec55929

[462] AC Milan SpA annual report 2018. Registro Imprese, company registration number 01073200154.

[463] Retrievable from: https://www.ft.com/content/cc87fbe0-e5e9-11e9-b112-9624ec9edc59

[464] Retrievable from: https://www.reuters.com/article/us-telecom-italia-elliott-idUSKBN22C3GI

[465] Retrievable from: https://www.ilsole24ore.com/art/elliott-entra-cnh-il-3percento-mirino-spin-off-iveco-ACY6Okk

[466] Tractor and truck maker interestingly controlled by Exor, managed by the Agnelli family, which also owns rival club Juventus.

Afterwards, instead of "flipping" the club through a fire sale, Elliott elected to treat AC Milan as a distressed asset needing a turnaround (Massoudi, A., 2019); therefore, it injected equity capital of €50m [467] whilst planning to grow revenue by focusing on fundamentals and ensuring that it was well-capitalized [468]. Eventually, the firm developed a sustainable operating model as per the UEFA FFP regulations and reorganized its management team that now features experienced executives such as Ivan Gazidis (Marcotti, G., 2020), even though some argue that Elliott is exacerbating the tension between winning now and building for the future: they elevated familiar figures like Mr Maldini and Mr Boban [469], while also hired people underneath who advocate a modern "Moneyball" approach [470] of using analytics to scout top-notch undervalued talent [471] (Massoudi, A., 2019).

Recently, AC Milan qualified to the 2021-22 UCL securing a EUR 43m check [472] and their return in the European elite. As Giorgio Furlani [473] said: "You'll see the fruits of our work at the end. Whenever the end will be."

3.4.2 Boutique investment banks – SPAC RedBall Acquisition

Within the football industry, investment banking is an ultra-competitive niche dominated by boutique firms almost exclusively focussed on this industry, specializing in finance and

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[467] Attentive readers will notice how, even though Elliott injected €50m in emergency financing, it effectively acquired AC Milan for around €400m, which is slightly over half of what the club had been valued in the previous transaction 2 years before (EUR 739.60m) and lot less than what other reported interested parties were willing to spend to buy out AC Milan SpA.

[468] Source: Mergermarket, specialist in M&A intelligence provider.

[469] Two AC Milan legends. Indeed, a club insider was reported to say to the Financial Times that "They've handed Maldini and Boban a loaded gun. If they try to fire [Maldini], he's going to say, 'these owners don't understand Milan'. "If they turn it round in a couple of years, no one will care. But in terms of bad press, there's a huge liability here…The risk/reward of owning a club like AC Milan for a company like Elliott seems bizarre." Full article here: https://www.ft.com/content/cc87fbe0-e5e9-11e9-b112-9624ec9edc59

[470] New hires were, apart from Gazidis, Hendrik Almstadt, former Arsenal executive, and Geoffrey Moncada, former head scout at AS Monaco (Massoudi, A., 2019).

[471] Basically, replicating best practices of US franchises.

[472] Retrievable from: https://www.calcioefinanza.it/2021/05/24/quanto-vale-qualificazione-champions-2021-2022/

[473] Portfolio manager at Elliott. Source: https://www.ft.com/content/cc87fbe0-e5e9-11e9-b112-9624ec9edc59

advisory services [474] to investors (Vita, S., 2020). Contrarily, in the past (but we can expect something similar once the pandemic is over [475]), bulge bracket investment banks carved out a lucrative niche [476] financing the construction and renovation of sports stadia both in the US and, recently, in Europe [477] (signing a major deal with EPL football club Tottenham Hotspur; Davies, A. & Slater, S., 2017); Goldman Sachs and Bank of America Merrill Lynch dominate the sector [478], using stock and bond issues, the sale of naming rights, and securitisations of the future ticket [479] and TV revenues to fund infrastructure improvements (Davies, A. & Slater, S., 2017). Besides, consolidated and bulge-bracket investment banks [480] are supporting the SPACs' surge by backing up niche sports investment banks [481]; e.g.,

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[474] Services include debt and equity capital financing, buy-side and sell-side advice, and debt refinancing.

[475] As big-name teams including Feyenoord, Italy's AS Roma and Fiorentina, Chelsea and Everton in England and Spanish team Barcelona all have plans for new or improved stadia seating (Davies, A. & Slater, S., 2017).

[476] Banks do not disclose how much they make from sports financing but "the margins are very, very attractive" said Chris Wheeler. "Yes, it's profitable. It's not a big people business, you don't need 500 traders to do it... You need a small team. And there are only so many stadiums being built, so you don't need vast resources."

[477] As Bank of America Merrill Lynch managing director Elliott McCabe said in an interview: "We have an interest in Europe. There are many well-run clubs with strong ownership groups."

[478] Goldman and Bank of America Merrill Lynch were among banks that lent Tottenham Hotspur 400 million pounds ($512.32 million) to help finance the new 61,500-seat stadium in London (Davies, A. & Slater, S., 2017). The five-year loan is secured on the new stadium and related commercial and matchday revenues (Reilly, A., 2017).

[479] In 2006, Arsenal FC entirely financed the Emirates Stadium by borrowing against future ticket sales (Davies, A. & Slater, S., 2017) issuing £210 million worth of 13.5-year bonds with a spread of 52 basis points over government bonds and £50 million of 7.1-year bonds with a spread of 22 basis points over LIBOR, resulting in effective interest rates of 5.14% and 5.97% respectively (Arsenal 2006/07 Annual Report).

[480] As an IBD associate from a bulge bracket IB suggested in a private interview, large investment banks generally avoid dealing with football clubs because of money-laundering risks. Contrarily, Rothschild, Lazard, and the likes (pure advisory players) are much more open to football advisory given the reduced exposure they might have.

[481] A SPAC is a listed pool of liquidity that aims to acquire a non-listed company within two years of its listing (D'Alvia, D., 2019), resulting in a financing tool with a PE-like character. To start, the first step is the SPAC's IPO, with the sponsor generally receiving 20% of the SPAC's common stock, followed by an investment screening before announcing a potential target; afterwards, shareholders decide if approving the de-SPAC or searching a new target; if no suitable target is found by the 2-year-horizon, there's the automatic dissolution of the SPAC. The main benefits, explaining investors' interest in SPAC are the following:

- Before investing, 99% of gross proceeds held in trust, are invested in short-term conservative securities;
- Liquid, listed security with bond-like floor and material upside potential through warrants;

Goldman Sachs is acting as sole book-running manager [482] for the offering of RedBall Acquisition Corp. of 50,000,000 units for $10.00 per unit in July 2020 (Young, J., 2020); Redball SPAC intends to focus on businesses in the sports, media, and data analytics sectors, with a focus on professional sports franchises [483]. Bulge bracket investment banks expressed interest in muscling in [484] [485] the niche dominated by boutique banks, but boutique investment banks won't be pushed out without a fight (Vita S.);

Having discussed the prominent role of niche players, it is worth mentioning the three most important boutique banks active in the football industry:

- Galatioto Sports Partners (GSP) – Led by Sal Galatioto [486], was launched in 2005; GSP was soon established as a leading player, arranging sales of teams ranging from the Golden State Warriors to the Dallas Stars [487]. To date, Galatioto Sports Partners have represented the ownership and management of major league teams such as the New York Yankees, New York Mets, New York Jets, New York Giants, Chicago Cubs, Golden State Warriors, and a score of others [488]. Apart from

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- SPAC shareholders having the final say on investment approval;
- Sponsors investing capital at risk (3% of gross proceeds from IPO, source: Deutsche Bank) and being remunerated only if the acquisition is completed;
- Access to top-tier management and private equity opportunities.

[482] Retrievable from: https://www.globenewswire.com/news-release/2020/08/17/2079518/0/en/RedBall-Acquisition-Corp-Completes-575-Million-Initial-Public-Offering.html

[483] 10-Q Form, SEC.

[484] However, most bulge bracket investment banks stay away from sports because the relative size of the market wouldn't justify having a dedicated practice. Similarly, we do observe big 4 consulting firms, with a wide range of offered services, setting up sports practices (e.g., KPMG Football benchmark, PwC Sports Business Advisory team, and so forth) while we do not see, for instance, strategy consulting firms showcasing their sports expertise.

[485] Nonetheless, there is still no official ranking of deals completed by sports industry bankers.

[486] A banker with more than 20 years of experience involving more than 100 transactions. His Wall Street experience includes leading sports advisory business at Lehman Brothers and SG Cowen Securities. Sal Galatioto is perhaps the most well-known player in the sports finance and advisory business. "A lot of the big deals the Yankees have done, whether it be YES [Network], whether it be Legends, whether it be financings, we consult Sal Galatioto on all of them," said Randy Levine.

[487] Sports Business Journal, March 12-18, 2018.

[488] For instance, if we take 2019, the company advised transactions involving the San Francisco Giants, Yankee Global Enterprises, Florida Panthers, Los Angeles Dodgers, and St. Louis Blues.

advisory [489], a key highlight of Galatioto Sports Partners has been putting together a $500 million investment vehicle [490], the GSP Baseball Fund, to buy minority stakes in Major League Baseball clubs;

- Inner Circle Sports – Specializes in corporate financing (including buy-side and sell-side advisory), acquisitions, facility financing, and consulting. Rob Tilliss, who has more than 20 years of experience and previously worked at JP Morgan and Fortress Investment Group, founded the boutique investment bank in 2002. Prominent deals include the 2013 buyout of Inter Milan supporting Indonesian businessman Erick Thohir acquire a 70% stake for $340 million [491], the 2015 sale of the Atlanta Hawks to a group led by billionaire Antony Ressler for a reported $850 million [492] [493], the 2017 advisory to former Disney chief executive Michael Eisner in his $7.5 million purchase of Portsmouth FC [494]. Moreover, it has also represented clients in transactions involving the Kansas City Royals, Atlanta Falcons, New York Mets, Memphis Grizzlies, Barnsley F.C., Arizona Coyotes, Crystal Palace FC, the New York Islanders, and many other teams;
- Game Plan – Led by lawyer Robert Caporale and Randel Vataha, a former player for the New England Patriots and Green Bay Packers, the firm handles team sales and acquisitions, financing and debt refinancing, equity capital raising, stadium and arena financing, along with credit card processing. It has represented clients in transactions involving the Cleveland Indians [495], Sacramento Kings, Golden State Warriors, Los Angeles Dodgers, Boston Celtics, and St. Louis Blues.

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[489] It has three divisions that focus on advisory services, which include buy-side and sell-side mergers and acquisitions (M&A), and debt and equity capital financing.

[490] With 100 investors maximum and a minimum investment of $1 million.

[491] Retrievable from: https://www.forbes.com/sites/afontevecchia/2013/10/15/inter-milan-sells-70-stake-to-indonesias-erick-thohir-at-480m-valuation/?sh=511ad00b6ad1

[492] Inner Circle Sports and Goldman Sachs (GS) represented the seller in the transaction.

[493] Retrievable from: https://www.espn.com/nba/story/_/id/12744168/atlanta-hawks-antony-ressler-led-group-agree-sale-850-million

[494] Retrievable from: https://www.theguardian.com/football/2017/aug/03/portsmouth-sold-former-disney-boss-michael-eisner

[495] Helping businessman John Sherman acquire a minority stake.

Moreover, expertise comes in smaller packages: boutique investment banks typically have fewer than a dozen employees, but that doesn't imply anything about their knowledge of the sports industry, the network of relationships, or expertise in getting deals done (Vita, S., 2020). Often, they can apply the in-depth analysis required with a personal touch that football investors may not get from a larger investment bank that does not have any specialized practice.

3.4.3 Tycoons and family investment – Abramovich and Krause family

As a trophy asset, it doesn't surprise the football's capacity to attract big spenders [496]. In Italy, for instance, there had been a decennial competition between deep-pocket owners [497] (of Juventus FC, AC Milan, FC Inter, Parma Calcio, SS Lazio, et cetera) destroying tremendous value to prevail competition [498]. To name a recent example, Roman Abramovich, born in Russia, is a billionaire who came to the public eye whilst owning London-based football club Chelsea: with $18 billion in the bank [499], during his 14 years at Chelsea football club, the oligarch has spent about £1 billion on players [500]; however, in Abramovich's case, big spending did not result in silly spending as the club has recently sold some players for good money and won prestigious trophies such as the UCL [501].

Similarly, there are family investment vehicles; for instance, the US billionaire Krause family, who already owned the lower-tier US football club the Des Moines Menace,

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[496] This is rather a sport-specific feature as we outlined in the 2nd chapter. For instance, despite coming from a different sub-industry, basketball team owners have typically been wealthy individuals and families: Steve Ballmer, former Microsoft chief executive, who acquired the Los Angeles Clippers for $2bn in 2014, or Qualtrics co-founder Ryan Smith who acquired the Utah Jazz last year in a deal worth $1.66bn (Wiggins, K., 2021).

[497] Retrievable from: https://www.tefen.com/insights/industries/General_Manufacturing/profitability_improvement_in_professional_football

[498] Retrievable from: https://bleacherreport.com/articles/442218-the-price-of-inters-success

[499] Retrievable from: https://www.celebritynetworth.com/richest-businessmen/richest-billionaires/roman-abramovich-net-worth/

[500] The list of players whose transfer prices exceed £25 million includes Fernando Torres, Andriy Shevchenko, Eden Hazard, Oscar, Willian, Diego Costa, Cesc Fabregas, N'Golo Kante, and Alvaro Morata.

[501] Retrievable from: https://edition.cnn.com/2021/05/29/football/chelsea-manchester-city-champions-league-spt-intl/index.html

acquired a majority stake [502] in the Italian football club Parma (Fontanella-Khan, J. 2020). Kum & Go President Tanner Krause declined to share how much the company paid for the acquisition, but a Financial Times story earlier this week reported that the deal valued the club at over EUR 100m (Jett, T. & Akin, K. 2020). "My family is tremendously passionate about the game of soccer," Tanner Krause told the Des Moines Register, donning a blue and yellow Parma jersey. "I view this as a nice addition to the Krause Group family and something that gets us very excited for both what we can do for soccer in Italy and Iowa." "The soccer culture in Italy is fantastic, and as a family, we've been fans of Italian soccer for a long time," Tanner said. "To us, this made a lot of sense and covered a lot of our passions all in one deal."

Moreover, tycoons and family investment funds represent a noteworthy portion of football club owners and their behaviour, which is not purely profit-driven as they consider clubs trophy assets, is an important factor to consider when analysing the industry’s competitive dynamics.

3.4.4 Sovereign wealth funds – Paris derby

As we previously mentioned, most of the money flowing into football recently has come from the Middle East in the form of both multi-millionaire club ownership or sponsorships [503] and minor transactions (e.g., Paris FC takeover [504]). The list of teams that have received investment or been bought by Middle Eastern investors is long and includes storied names

[502] The Krause family controlling up to 60 % of the group after eclipsing a bid by a Qatari investor while existing investors, including Italian billionaire Guido Barilla of the eponymous pasta brand, would retain a stake for at least five years.

[503] E.g., according to Deloitte, six of the 20 largest football clubs in the world by revenue were sponsored once by Middle East airlines during the last five years: Barcelona, Real Madrid, Paris St Germain, Arsenal, AC Milan, and Manchester City.

[504] Bahrain’s sovereign wealth fund has acquired a 20% stake in second-tier French soccer outfit Paris FC. According to L’Équipe, the investment is worth €5 million (US$5.85 million), valuing the Ligue 2 club at €25 million (US$29.27 million). Bahrain already had a presence in sport by having become the majority shareholder in McLaren Group, the parent company of the eponymous Formula One team, through its Mumtalakat Holding Company.

such as Manchester City [505], Paris Saint-Germain [506], Aston Villa [507], Sheffield United [508], and Hull City [509]. Among the others, the Qatar Investment Authority [510] bought the French Ligue 1 side PSG [511] and has gone about transforming them in the same way Sheikh Mansour has Manchester City with City Football Group (Yueh, L., 2014). Indeed, City Football Group, the most prominent worldwide holding company administering football clubs [512], sees among its shareholders [513] not only the American PE firm Silver Lake (10%) and Chinese firms China Media Capital Consortium (13%), but, most importantly, with 77% of the stakes, the Abu Dhabi United Group, a United Arab Emirates-based investment company owned by Sheikh Mansour bin Zayed Al Nahyan, member of the Abu Dhabi Royal Family and Minister of Presidential Affairs for the UAE [514]. Sheikh Mansour from Abu Dhabi and Nasser Al-Khelaifi from Qatar (PSG ultimate owner) both invested tremendous amounts of money throughout the years with more than EUR 1bn injected in Manchester City [515] and PSG [516] since 2008 and 2011 respectively.

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[505] Purchased in 2008 by City Football Group.

[506] Purchased in 2011 by Qatar Sports Investments.

[507] 27.5% stake purchased in 2018 by Nassef Sawiris and Wes Edens, giving the pair majority control.

[508] 50% stake purchased in 2013 by Saudi Arabia's Prince Abdullah Bin Mosaad Bin Abdulaziz Al Saud.

[509] Purchased in 2010 by Egyptian-British businessman Assem Allam.

[510] Qatar sovereign wealth fund.

[511] Retrievable from: https://www.bbc.com/sport/football/14393012

[512] Notably, City Football Group invented a new concept whereby they own a controlling interest in clubs across multiple leagues. Ferran Soriano, City Football Group’s CEO, interviewed by BDO UK, said that he realised, when he was Chief Executive of Barcelona, that despite the global presence of these mega football brands, the businesses themselves were small in comparison as a significant proportion of the club’s fanbase were not able to directly interact with the club regularly; he believed that a franchise model, that exported the core club brand and put it into different clubs around the world would give overseas fans direct access to the club. This vision has been realised at City Football Group, who have invested in clubs in China, the UK, Japan, Australia, America, Spain, Uruguay, and India that has expanded the reach and capability of the club and meant they have been able to capitalise on the power of the brand and their fan loyalty to increase revenue potential exponentially.

[513] Retrievable from: https://www.cityfootballgroup.com/our-business/ownership/#:~:text=CFG%20is%20owned%20by%20Abu,Mansour%20bin%20Zayed%20Al%20Nahyan.

[514] Retrievable from: https://www.cityfootballgroup.com/our-business/ownership/

[515] Retrievable from: https://www.theguardian.com/football/2018/sep/13/manchester-city-accounts-sheikh-mansour#:~:text=Sheikh%20Mansour%20bin%20Zayed%20al%2DNahyan%20of%20the%20Abu%20Dhabi,club's%20latest%20accounts%20have%20stated.

[516] Retrievable from: https://www.cnbc.com/2018/09/18/paris-saint-germains-qatari-owners-on-players-and-champions-league.html

An explanation for this mindless waste of financial resources, can be found in secondary reasons these investors might have such as the improved reputation and the wide exposure football club ownership may offer; as Aymen Khoury [517] clearly outlined, "by investing in European football, you are already tapping into the foremost market in sports," said Khoury. "When you drill that down in terms of what football clubs offer through their brand, it effectively connects you to people across the globe [518]." "The investments have outweighed their return, but that comparison doesn't take into account everything that is generated indirectly." Indeed, buying a football club can offer celebrity, notoriety, and access to important people (Yueh, L., 2014), something which applies to all ownership styles, but specifically to sovereign wealth funds as they might need to clear their façade of global polluters or inadequate human rights supporters, or shape reputations as some of them are relatively up-and-coming on the world stage [519]. When Bahrain's sovereign wealth fund has acquired a stake in Paris FC (ultimately presenting a Bahrain vs Qatar derby in Paris [520]) team officials left little doubt about Bahrain's goal: owners hope the football club will act as a billboard for the Gulf state and attract tourists [521] to a nation that is still reeling from the reputational damage it sustained when the country's monarchy put down pro-democracy uprisings during the height of the Arab Spring [522]. "My first thought was this is another attempt by Bahrain to whitewash its horrific rights record and another way of buying influence in Europe," said Sayed Ahmed Alwadaei, the director of

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[517] Dispute resolution lawyer and Middle East expert at international law firm Fieldfisher. Source: https://english.alarabiya.net/sports/2019/07/12/Why-the-Gulf-invests-in-football

[518] Football gives a significant advantage over other brand-focused investments because football club owners are well known. As such they present an excellent opportunity to promote a name, country, or brand, says Khoury.

[519] "These clubs are doing very well on the pitch and the investment is serving its purpose off the pitch as well. For example, Etihad [who sponsor Manchester City] is now a household name in the UK, and I would argue across Europe too, when maybe it wasn't a few years ago. This can be directly attributed to football investments," Khoury added.

[520] Indeed, «Bahrain is Qatar's antithesis» as highlighted by Christian Chesnot, journalist at France Inter and specialized in Middle East. Source (FR): https://www.leparisien.fr/sports/ile-de-france/ligue-2-que-bahrein-vient-il-faire-au-paris-fc-28-07-2020-8360178.php

[521] Indeed, Bahrain will directly sponsor the national tourism office. Source (FR): https://www.sportbuzzbusiness.fr/bahrain-entre-au-capital-du-paris-fc-a-hauteur-de-20.html

[522] Bahrain authorities were accused of torturing hundreds of people taken into custody during the crackdown. The country's action even became an issue for FIFA, world soccer's governing body, when a powerful official from Bahrain ran for the organization's presidency in 2016 (Bassam, T., 2020).

advocacy for the Bahrain Institute for Rights and Democracy [523]. Furthermore, NGOs such as Amnesty International have long argued that this and many other [524] actions, were designed to change public opinion of Bahrain [525]. After all, Dubai, Abu Dhabi, Qatar, and Bahrain are rich Gulf states with global ambitions (Yueh, L., 2014), and their global ambition is to be positively recognized.

Moreover, there is some opaqueness around Middle East investors rationales as they do not disclose underneath reasons behind their investments' therefore an external observer might only guess the underlying motives [526].

3.4.5 Private equity funds – Silver Lake

Did PE funds already approach football clubs in the past? It all comes down to how broadly someone intends 'PE funds': narrowing down the scope to the definition of PE funds as VC firms investing in mature companies [527], then few PE examples apply to the football club industry. Sometimes, it was not PE funds that mobilize their financial resources, but their partners [528]: some of the most notable names in PE, such as Steve Pagliuca and Tom Hicks [529], have made personal investments in sports franchises, but they haven't pursued similar bets on behalf of the firms listed on their business cards (MacFadyen, K., 2018), and the primary reason might be a matter of risk, as PE cannot

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[523] Source: https://www.nytimes.com/2020/07/29/sports/soccer/paris-fc-bahrain.html

[524] E.g., the cycling team Bahrain McLaren or organizing a Grand Prix for the Formula 1. Source (FR): https://www.sportbuzzbusiness.fr/bahrain-entre-au-capital-du-paris-fc-a-hauteur-de-20.html

[525] E.g., some articles: https://www.amnesty.org.uk/press-releases/bahrain-grand-prix-should-not-sportswash-countrys-human-rights-record ; https://www.amnesty.org/en/latest/campaigns/2019/03/bahrain-what-lies-behind-the-scenes-of-the-formula-one-grand-prix/ ; https://www.amnesty.org/en/countries/middle-east-and-north-africa/bahrain/

[526] Besides, we can observe how stakeholders relate with Middle East investors, e.g., Saudi Arabia's Private Investment Fund approach to Newcastle fell through as they failed to get league's approval due to outcries over Saudi Arabia's human rights record, after the ruling from the World Trade Organization, which issued a damning indictment of the kingdom's role in bootlegging operation BeoutQ's pirate television broadcasts (Dixon E., 2020).

[527] Thus, highlighting the value creation nature of the investment.

[528] Retrievable from: https://www.themiddlemarket.com/news/staying-outside-the-lines-MM183573

[529] Retrievable from: https://en.wikipedia.org/wiki/List_of_professional_sports_team_owners

afford to lose the limited partners' money in bets that might offer terrible risk-adjusted returns [530].

One significant and quite bizarre example is offered by Silver Lake's investment in the City Football Group; a stake of slightly more than 10% for $500 million in November 2019, placing a $4.8 billion valuation on the soccer group [531]. Indeed, it was the first time that a pure global PE fund, in its narrowest sense [532] (e.g., Elliott Management and Lindsell Train wouldn't quality as they fall under the hedge fund umbrella having much more flexibility in terms of target IRR and investment period), invested in football clubs. The strategic rationale for the deal, according to the City Football Group Chairman, Khaldoon Al Mubarak, is to combine their intellectual capital in football and technology to generate long-term growth through acquisitions and to deploy technology in their operations to position the Group as a leader in the football world [533] and to inject capital that will be used to fuel CFG international expansion through the acquisition of new clubs or stadium development [534]. However, some argued that behind Silver Lake's investment (investments should be more correct, as they recently took an $800m stake in Abu Dhabi AI group G42 [535]) there could be a secondary reason given by the in-depth business relationship between Mubadala's head Khaldoon Al Mubarak and Silver Lake's Co-CEO Egon Durban (e.g., Mubadala Investment Company PJSC [536], an Emirati state-owned wealth fund [537], backed the recently-launched by Silver Lake long-term hedge fund [538] with

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[530] Tegtmeier L. & Prigge S. (2019). Market valuation and risk profile of listed European football clubs. Sport, Business and Management: An international Journal.

[531] The crown jewel of City Football is Manchester City FC, which Forbes valued at $2.69 billion in May. For the fiscal year ending June 2019, Manchester City reported revenue (before player transfers) of $595 million and operating profit of $124 million.

[532] While several others, such as CVC Capital Partners, KKR, Bain Capital, are active at a league-level of investing.

[533] Retrievable from: http://bullandbearmcgill.com/private-equity-has-grown-to-control-football/

[534] Retrievable from: https://www.focusfinance.org/post/private-equities-increasing-interest-in-sport

[535] Retrievable from: https://www.ft.com/content/f18461ce-2e10-4a0e-9850-d26e9eea64fe

[536] Retrievable from: https://www.businesswire.com/news/home/20200930005365/en/Silver-Lake-and-Mubadala-Partner-to-Establish-Unique-Long-term-Investment-Strategy

[537] With about $230bn in assets, Mubadala is one of the Gulf's most significant SWFs.

[538] Retrievable from: https://techcrunch.com/2020/09/30/silverlake-adds-a-2-billion-long-only-hedge-fund-backed-by-abu-dhabi-to-its-tech-finance-toolkit/

Financial Times reporting a $2bn investment in new the fund [539]). Below the skin, there could be something more than an attracting IRR from the investment.

3.5 Principles to football clubs investing

3.5.1 Industry-specific challenges

Typically, profits are directly invested back into the team to improve the chances of winning a championship and to enhance the fan experience. For this reason, investors may not realize a return on their investments until the football club (or their interest in it) is sold; indeed, these businesses are rather driven by long-term capital appreciation rather than year-to-year profits or dividend distributions (Kohout J. et al., 2020). As supporting evidence, in 2019, across 'big five' European leagues only some clubs had positive operating profitability ratios: the average operating profitability ratio in the EPL was 15.9%, then Spain and Germany with 13.2% and 11.8%, while Italy and France walked in negative areas with -1.5% and -16% [540]. On top of it, football clubs are ideal vehicles to display wealth and enhance the owner's prestige and status [541], therefore profits might even be discarded by some clubs within the league that will engage other clubs in non-economically sounded bidding wars for talent.

Then, the unique nature of sports and, more specifically, football, presents several challenges that may not be immediately apparent, but which can significantly impact the viability of an investment [542]. These challenges include:

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[539] Retrievable from: https://www.ft.com/content/0428814e-757a-40aa-af95-fb778a3eaffb

[540] Annual Review of Football Finance 2020. Deloitte Sports Business Group. Downloadable at: https://www2.deloitte.com/uk/en/pages/sports-business-group/articles/annual-review-of-football-finance.html#

[541] Specifically, according to Damodaran (2015), trophy assets present these elements:

- They are unique or rare and non-replicable (either because of natural scarcity, history, competitive dynamics, regulatory restrictions, et cetera);
- They present strong name, heritage, or brand recognition;
- They are cash-flow generating businesses or investments.

[542] For this reason, football-specific due diligence must be carried out alongside the typical corporate and legal due diligence which would be a part of any investment transaction.

- Corporate governance – Whose structures within sports organizations will often look very different to typical commercial entities in other industries. The governance of the league by member organisations can cause perceived inefficiencies that may hinder the realisation of commercial opportunities; for instance, Kosmos' 25-year, 3 bln $ investment into the International Tennis Federation's Davis Cup, required a charm offensive over several months to secure the required two-thirds majority approval of the International Tennis Federation's 140 member federations. Beyond approval of the deal itself, the ability to modernise governance structures to allow for greater commercial freedom and media rights maximization may well be an important consideration for a football club investor, as negatively showed by Serie A club's opposition CVC's 10% minority investment in Serie A's new media unit [543];
- Profit distribution – There is an intrinsic conflict between a football club's duties to redistribute revenues amongst its members and providing a return to external investors. Indeed, only a commercial strategy that balances these conflicting interests combined with solid sporting performance can allow investments to thrive (before sale);
- Stakeholders' interests – Commercial opportunities such as the ability to create and exploit new event assets (e.g., the European Super League or summer tournaments in exotic countries) may well be subject to sanction or approval from a related governing body or commercial partner; it is, therefore, important to be mindful of several restrictions such as calendar limitations or conflicting commercial arrangements that may impact any plans an investor may have. Furthermore, as we previously outlined, fans must be considered when revising commercial models (e.g., ticketing, media rights, moving from free-to-air to pay-tv, event format changes) [544];
- A limited number of strategic levers – The value of a football club mostly derives from its ability to exploit the commercial rights relating to the properties it controls; however, especially when thinking about low to medium-tier franchises, football

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[543] Retrievable from: https://www.ft.com/content/1c8fc484-fcf5-46c4-b705-1282a0742437

[544] Retrievable from: https://www.stirrassociates.com/news/clubs/buying-a-football-club-points-of-attention/

clubs have little or no room for manoeuvre when it comes to rights exploitation and is instead exposed to threats such as breakaway competitions or member defection that can drastically affect the value of a sports property overnight (e.g., the impact on a low-middle tier clubs, when elite clubs move to a supranational league);

- Player and agents' power – Players and their agents are important and powerful assets: the players' capacity to engage directly with fans through social media and other channels, and the value of this to rights holders and their commercial partners, has grown exponentially over the last decade. Therefore, if on one hand, they allow maximising the club's reach and its brand awareness, on the other, the price to pay is reduced flexibility;
- Spending controls – Sports are increasingly seeking ways to increase competition and making participation more financially sustainable. This can restrict opportunities to accelerate growth through external financial investment (e.g., FFP rules, salary caps and luxury taxes rumours);
- Ownership regulations – There might be league-specific rules and regulations which may impact the capacity to invest. For example, the 'owners and directors test' [545] applies certain restrictions on who can invest in the ownership of English football clubs [546], the '50+1' rule in Bundesliga limits the % stake an external investor might hold [547];
- Integrity concerns – Can fans trust that what they see in the sporting arena is genuine? The sport of cycling still faces challenges in attracting sponsorship following the fallout of several high-profile doping incidents in recent years and the same is true for football, especially in countries like Italy after the Calciopoli scandal [548].

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[545] Aka "fit and proper person test."

[546] Retrievable from: https://www.theguardian.com/football/2009/oct/07/fit-and-proper-person-test

[547] Retrievable from: https://www.deutschlandfunk.de/50-1-regel-die-letztbestimmung-der-mitglieder-ist-ein-hohes.892.de.html?dram:article_id=498413

[548] Retrievable from: https://www.bbc.com/sport/football/49910626

3.5.2 Value drivers in European M&A

A recent paper [549] showed how acquisitions of European football clubs are primarily influenced by the brand value of the club itself, which drives the sum that investors pay [550]. As for the two sub-groups in which the sample under analysis was split, on-field performance in UEFA competitions was found to be significant for the low-valued clubs [551], while brand value was demonstrated to be the only driver of the deal price for high valued clubs [552]. Besides, in a similar analysis of American major league clubs, Gladden & Milne (1999) demonstrated that brand equity impacts positively and significantly on the revenues generated.

Furthermore, partially recalling the previously outlined “cycles of growth” (3.1.1 Industry attractiveness – Cycles of growth to eschew low profitability), Szymanski & Kuypers (1999) found that team wage costs and net annual transfer spending positively impacted sporting success [553], with findings that were later reaffirmed in subsequent research on European and American football clubs (Garcia-del-Barrio & Szymanski, 2006); on this line, Dimitropoulos and Limperopoulos (2014) focused their analysis on 20 clubs from the first three divisions of the Greek Football League and confirmed the association between team investments and on-field performance, with the former driving the latter. Another segment of research analysed drivers of team investments: by observing corporate governance structures and their impact on team investments, Franck (2010) stated that

[549] Toti D. (2017). What drives the value of investments in European football clubs? An empirical analysis of M&A in the industry.

[550] Besides, the ability of the club to generate revenue significantly impacts on the deal price, while no other financial metrics (such as ROI) or on-field performance were found to be relevant in the determination of the enterprise value paid for the company.

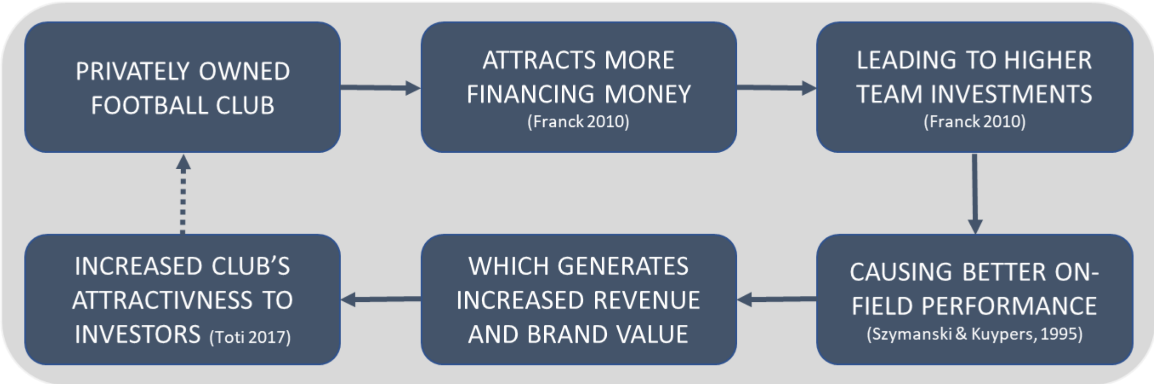
[551] Similarly, Szymanski & Smith (1997) studied the relationship between on-field performance – sporting success – and revenue. Using samples from English professional football clubs between 1974 and 1989, they pointed out that revenue depend on league performance. Furthermore, when Szymanski & Kuypers (1999) extended this research, their regression analysis presented an R-squared of 89%, showing that sporting success, measured as league position, drives revenues.

[552] This difference is explained by low valued clubs’ stronger needs to be successful on the field to be desirable on the market.

[553] Horowitz (a partner at Inner Circle Sports, a New York City-based “boutique investment bank” focused on the global sports industry) said “we say to people – the more money you have coming from revenue, the more you can spend on players. The more you can spend on players, the more you win. The more you win, the more money you make in prize money from a higher league finish or qualifying for European competition – it’s a virtuous circle.”

privately-owned football clubs are more effective in attracting funds and financing clubs. Following these findings, with their sample constituted by EPL clubs, Rohde & Breuer (2016) confirmed that private majority investors, generally foreigners to the club's country of origin, drive team investments. Finally, research extended the range of drivers influencing team investments as per the following (Rohde & Breuer, 2016):

- International on-field performance was found to be markedly and even more positively affecting revenues than success in national cup tournaments;
- If majority investors impact positively on team investments in the long-term, takeovers are equally relevant in the short term.



Source: own elaboration of the self-reinforcing loop that might justify investing in a football club as it magnifies exit opportunities

In conclusion, as the infographic suggests, to trigger the positive loop, clubs must increase team investments, thus increasing the chances of being successful on a national and international level to enhance their brand value. Besides, going one step above the value chain, higher investments in the team are mainly driven by the presence of a foreign majority investor (in the long run) or by the circumstance of a takeover (in the short run). Finally, not only should decisions concerning the purchase of players and coaches determined by talent itself, but also by their contributions to the club's brand equity, as well-known players or coaches could trigger an increase in brand value even though sporting performance have not changed yet (e.g., Mourinho at AS Roma [554], Ronaldo at Juventus FC [555], and so forth).

3.6 Conclusion

Putting ourselves in the shoes of a sports franchise investor, so what of this chapter is that, against a backdrop of increasing disruption, some areas of the football industry are becoming more and more attractive for their increasing capacity to attract and condense the world's attention, thus leaving room to monetize the loyalty and passion of valuable and monitorable target demographic customer segments spread all over the world. Furthermore, when settling in specific markets, investors should also aim at like-minded rights holders that adhere to the ambition of accelerating growth, strengthening relationships with stakeholders [556], and opening themselves to growth options coming from different sectors such as e-sports and the betting industries.

Therefore, investors shall target few football clubs, not only open to a change in ownership, but also characterized by both strong fundamentals, such as recurring and consistent revenue streams, and scalable offerings to diversify the dependence on sporting performance by building global brands.

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[554] Team's shares rallied 26% on news of 58-year-old manager's arrival. Source: https://www.bloomberg.com/news/articles/2021-05-04/roma-shares-surge-as-mourinho-joins-club-in-surprise-appointment

[555] Shares in Juventus FC doubled two months since it bought Cristiano Ronaldo. Source: https://www.businessinsider.com/juventus-fc-stock-has-doubled-in-the-cristiano-ronaldo-era-and-its-probably-only-the-beginning-2018-9

[556] Retrievable from: https://www.bdo.co.uk/en-gb/insights/industries/leisure-and-hospitality/download-the-investment-pitch-private-equity-in-sport-report

4. Private equity funds and football clubs

As outlined by 'Il Sole 24 Ore' based on the Enca report, PE funds invested over EUR 13 billion in sports assets, including several sports and different asset classes (clubs, media rights, stadiums, et cetera). The common rationale across different transactions, as an Enca analyst outlined, is that PE funds can bring efficiency to organizations and increase cash flow stability from sponsor, rights issue, and merchandising; besides, the ongoing pandemic imposed a re-pricing that made some assets, even more, attracting (Aifi, 2020).

Historically, US PE funds took the scene executing 10 of the major 20 PE deals in the sports industry, as the following table outlines.

Annexe 1 – US-based PE funds completing 10 out of 20 main transactions

Investor	**Target organization**	**% Stake**	**Size (mln $)**
KKR, Silver Lake, MSD Capital	UFC	100%	4.300
Dyal Capital Partners	NBA	*minority*	2.000
Bridgepoint	Dorna Sports	100%	640
GTCR	Vivid seats	*majority*	580
Blackstone	Yes Network	13%	560
Red Bird Capital	Yes Network	13%	560
Silver Lake	City Football Group	10%	500
Qatar Sports Investments	PSG	100%	470
Elliott Management Corp.	AC Milan	99,93%	430
China Media Capital	City Football Group	13%	400
ADUG	City Football Group	77%	380
CVC Capital Partners	Six Nations Championship	14,50%	380
CVC Capital Partners	Premiership Rugby	27%	250
LionRock	FC Internazionale	31,05%	170
CVC Capital Partners	Pro 14	28%	150
Red Bird Capital	OneTeam	40%	130

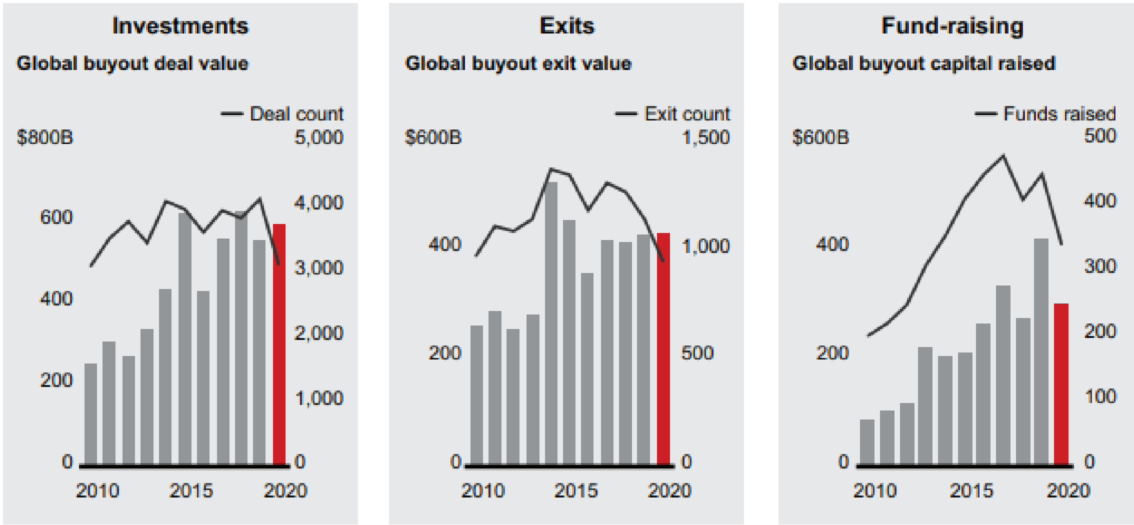
H.I.G. Capital	Sportfive	75%	120
Bridgepoint	Women’s Super League	n.d.	n.d.
KKR	Rugby Australia	n.d.	n.d.
Silver Lake	Madison Square Garden	10%	n.d.

Anyhow, the chapter will preliminarily give an overview of PE funds’ activity and then narrow down football clubs’ eligibility as attracting investment opportunities discussing both the pros and cons associated with football club investing.

4.1 What are Private Equity funds?

PE is a common term for investments and acquisitions made in private companies through privately negotiated transactions. PE managers seek to acquire quality assets at attractive valuations and use operational expertise and leverage to enhance value and improve portfolio company performance; then, once implemented these value-enhancing opportunities, they divest selling at a multiple of invested equity. Furthermore, the next three infographics, developed by Bain & Company as part of the Global Private Equity Report 2021, will provide a comprehensive view of the PE industry:

Figure 1: Despite massive disruption from Covid-19 and other crises, the buyout market held its own in 2020



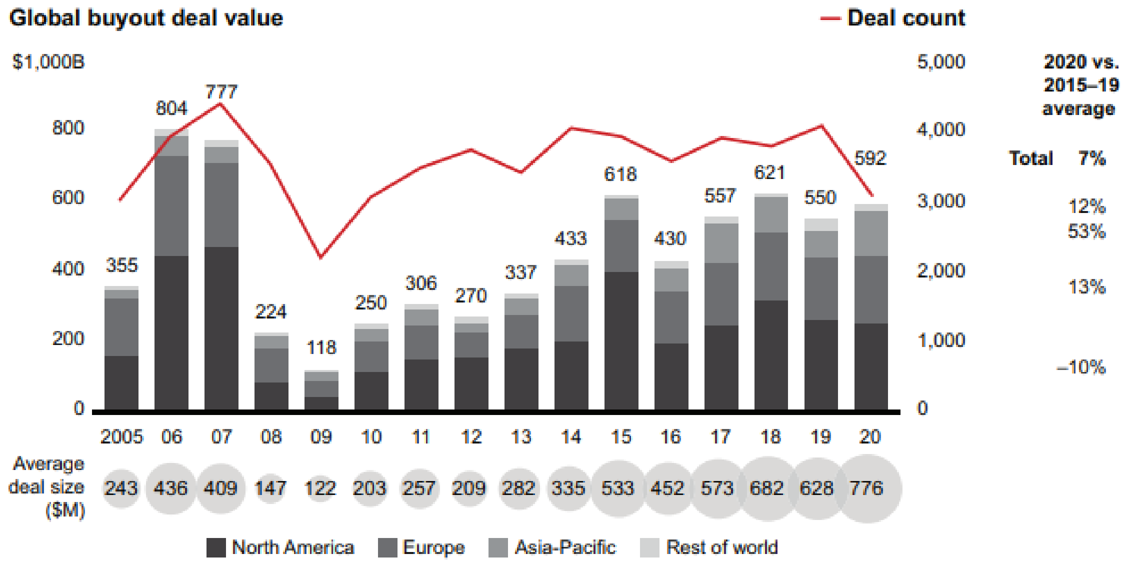
Notes: Investments—includes add-ons; excludes loan-to-own transactions and acquisitions of bankrupt assets; based on announcement date; includes announced deals that are completed or pending, with data subject to change; Exits—bankruptcies excluded; IPO value represents offer amount and not market value of company; Fund-raising—includes closed funds only and represents the year in which funds held their final close; buyout includes buyout, balanced, coinvestment and coinvestment multimanager funds
Sources: Dealogic; Preqin; Bain analysis

Source: Bain & Company Global Private Equity report (2021)

This first view reports investment, exit, and fund-raising dynamics during the last 10 years highlighting the positive trend on all the three, highly correlated, indicators [557].

[557] Indeed, investments potentially result in exits, thus further stimulating investors' appetite and fund-raising.

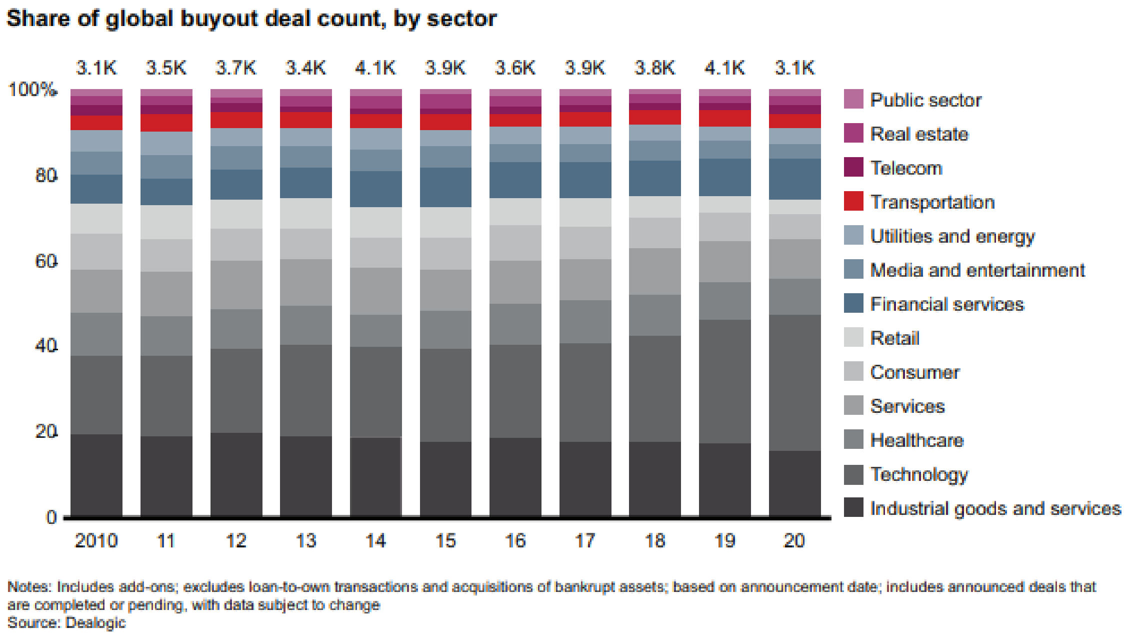
Figure 6: While the Covid crisis depressed buyout deal count in 2020, a jump in average deal size boosted global investment value



Notes: Includes add-ons; excludes loan-to-own transactions and acquisitions of bankrupt assets; based on announcement date; includes announced deals that are completed or pending, with data subject to change; geography based on target's location; average deal size calculated using deals with disclosed value only
Source: Dealogic

Source: Bain & Company Global Private Equity report (2021)

The second view emphasises the GFC's impact and the subsequent recovery in the average deal price; however, the PE industry never reached pre-GFC buyout deal value, thus highlighting how, from a certain point of view, PE broadened its investment horizons to smaller deals. Between 2019 and 2020, the total deal value rose by 8% because of the strong slip in volume outweighed by the increase in average deal size to $776 million (+24% YoY), further supporting a constant growth in the average deal size started in 2009.



Source: Bain & Company Global Private Equity report (2021)

The third view allows us to put in perspective the relative size of the media and entertainment industry (less than 5% over the total), to which football clubs belong.

More into detail of PE funds, we can distinguish 5 archetypes [558]:

- Venture capital – Equity capital provided to early-stage, high-potential, high-risk, growth start-up companies;
- Growth Capital – Minority investment in relatively mature companies that are looking for capital to expand or restructure operations, enter new markets, or finance a significant acquisition;
- Buy-Out – Control investments in established, cash-flow positive companies, typically using LBOs so that the target company's cash flows will repay acquisition debt;
- Mezzanine – A layer of financing in between growth capital and buyout, consisting of debt typically subordinated to the senior debt but still senior to common equity;

[558] 'Structured Finance' course taught by Riccardo Bruno at LUISS University.

- Special Situations – A wide array of investments that include distressed debt, infrastructure, energy and utilities, and turnarounds.

An important feature, common to most of these types, is the governance structure of these funds that foresees, on one hand, General Partners (GPs), i.e. PE fund managers setting up the limited partnership vehicle to invest in private companies and managing the fund itself in its day by day, on the other hand, Limited Partners (LPs), i.e. a set of pension funds, insurance companies, sovereign funds, hedge funds, funds of funds and family offices committing capital to the PE fund without actively intervening in the fund's management (S. N. Kaplan & Strömberg, 2009). Typical fund terms LPs and GPs agree on are:

- Covenants – Setting limits on the % of the partnership's capital that may be invested in a single firm; in some instances, they may preclude investments in publicly traded, foreign securities, derivatives, or specific industries [559];
- Co-Investments – LPs may be allowed to invest in portfolio companies alongside the PE fund (co-investments) on the same terms as the fund but typically paying no management fee or carried interest;
- Remuneration – GPs' remuneration is normally given by a combination of management fees and carried interest (net of exit, tax, and expenses percentages of profits) while LPs are awarded a minimum annual return before calculating GPs carried interest. Overall, this remuneration structure is instrumental to align LPs' and GPs' interests;
- Fund life – Generally it extends up to 13 years (conventionally, 10 statutory + 3 optional): during the first 5 years GPs undertake investments, during the remaining ones the focus is on value creation and capital distribution (S. N. Kaplan & Strömberg, 2009).

Narrowing down the focus on the analysis to growth, buy-out and special situations PE funds, we can highlight how value creation rests on three pillars:

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[559] They set up the boundaries within GPs can invest.

- EBITDA Improvement – either enhancing the top line or optimizing COGS, EBITDA is key because of its capacity to insulate its change from different accounting standards, capital structures, tax regimes, non-recurring inflows/outflows. Namely, EBITDA enhancement can be driven by a managerial or governance strengthening and transformation [560], operational improvements restructuring or digitalizing the company's footprint, renegotiating contracts, disposing of non-core units, or strategically transforming the company's positioning (pivot or add-ons to 'buy and build' platforms) or 4Ps (place, product, price, promotion) to accelerate growth;
- Deleveraging – Net financial position reduction occurred during the holding period thanks to the acquired company's cash flow generation. Strong cash flow generation is typically intrinsic to the businesses that PE companies target, however, it can be further enhanced by improving working capital, reducing CAPEX, optimization tax schemes, et cetera;
- Multiple Arbitrage and market timing – Changing the EBITDA multiple between entry and exit that is used to calculate the enterprise value because of ever-changing economic/capital markets environments, company re-position, negotiation skills of the seller, et cetera. Besides, market timing theory (Baker, 2002) refers to mispricing between equity and debt markets [561], thus creating value by leveraging the opportunities offered by misprices of different asset classes.

Finally, the PE investment process ends up with the disposal of the stake at hand; in this scenario, there are four main exit options:

- Sale to a strategic buyer, which is generally the preferred option as strategic buyers place additional value to synergies that can be achieved through M&A;
- Sale to a financial sponsor (e.g., to another PE fund, if some value creation is still left to extract);

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[560] Boards under PE ownership showed evidence of increased efficiency, smaller numerousness and a higher degree of control and turnover over underperforming management (S. N. Kaplan & Strömberg, 2009). PE funds change management team on 58% of the occasion if the lifespan includes before and after initial investment (Gompers et al., 2016)

[561] Do note, we are assuming the transaction was characterized by debt raising at some point.

- IPO, if the asset presents enough size or appetite;
- Dual track, i.e., the mix of an IPO at first and trade sale with the open market to minimize downside risk.

The research found out that PE exits occur 50% of the time by selling to strategic buyers, 30% through secondary or tertiary buyouts, and less than 20% through an IPO (Gompers et al., 2016).

To conclude the chapter with an eye towards the current environment, recent industry trends include:

- Sectorial growth – As the whole PE industry is growing with firms having record levels of capital (US$4t in AUM in the last decade [562]). On the flip side of the coin, buyout dry powder continues its upward run, hitting US$0.765t in June 2020 [563];
- Alternative investments – Given that deploying capital is the biggest challenge (with valuations remaining well above the peak of the last cycle), PE funds are looking to both large deals where they can leverage their scale to reduce or eliminate competition, and smaller growth capital deals where they can help companies to get to the next level;
- Reliance on operational value creation – Indeed, operational value creation is driving PE funds business models, occurring in 84% of PE transactions (Ljungqvist, A., Bircan C. & Biesinger M., 2020). Consequently, operating partners are playing an increasingly important role in driving returns for the PE industry;
- Impact investing – Over the last 2-3 years, impact investing has gone from a small subsector within private capital to something much more mainstream; indeed, large funds, including TPG, Bain Capital, and KKR have raised dedicated pools of capital for impact investments [564].

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[562] When other asset classes are included, firms have nearly US$7.8t in assets (McKinsey Global Private Markets Review 2020).

[563] EY PE Pulse, August 2020.

[564] Private Equity Investors Embrace Impact Investing (2019). Bain & Company.

4.2 How would Private Equity funds create value?

PE funds are extremely different in size, capacity, industry expertise, geographical coverage, et cetera; however, we can distinguish several dimensions within which PE funds could create value, namely:

- Industry expertise – PE firms that focus solely on the sports and entertainment sector, such as Bruin Sports Capital or Sports Investment Partners, can leverage their industry contacts and experience within the sector;
- Adjacent industry expertise – These PE firms would bring their technical expertise: Silver Lake Partners [565] , for instance, is famous for its investments in Skype, Dell, and Alibaba, but the firm claimed its expertise in technology could easily extend to football [566];
- M&A expertise – PE firms can also contribute their expertise in identifying and pursuing M&A opportunities, as a key part of the expansion strategy for some firms like the City Football Group, in which Silver Lake invested;
- International capacity – These, generally large, PE players could leverage their international relationships to help expand a sports league or club to new markets: CVC, for instance, has expanded the reach of Formula 1 races beyond Europe, increasing non-European rounds by 50% throughout the holding period;
- Financial capacity – Unlocking untapped growth opportunities that might be precluded from a lack of financial resources;
- Managerial capacity – Established PE firms can put in place better governance systems than those existing in the place.

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[565] In the EPL, Silver Lake Partners, a global leader in technology investing, purchased a 10% minority stake in the City Football Group which they aim to hold for 10 years. City Football Group is a holding company with a portfolio of football clubs in major cities around the world, from Melbourne to Manchester City, with the crown jewel of the group being Manchester City Football Club. The 10% investment by Silver Lake led to a post-money valuation of just under $5bn, making City Football Group one of the largest football entities in the UK. The strategic rationale for the deal, according to the City Football Group Chairman, Khaldoon Al Mubarak, is to combine their intellectual capital in football and technology to generate long-term growth through acquisitions and deploy technology in their operations to position CFG as a leader in the football world.

[566] Indeed, as consumption of sports content increasingly moves away from traditional platforms to on-demand video and live streaming, developing the right digital channels for distributing content is crucial to the success of the investment.

Therefore, PE players can act as catalysts for change across one or a combination of these dimensions, thus bringing relevant capacity and/or expertise to football clubs' organizations.

4.3 Deal-making features when investing in European football clubs

Most investments, which involve acquiring a stake greater than 50% [567], are often structured as LBOs; e.g., the first PE firm to acquire a majority stake in a basketball club was Platinum Equity in 2011 paying $325m for a 51% stake in Palace Sports & Entertainment Partners (which owns, among the others, the Detroit Pistons). Buyouts can be financed using any combination of loans, bonds, mezzanine debt, equity, and available cash reserves of the target company (e.g., Burnley takeover [568]); for instance, the capital used to finance the F1 acquisition came from one of CVC's funds and a $1bn loan provided by RBS [569]. Some of the most active buyout PE firms in sports are CVC, Silver Lake, KKR, Bain Capital and sports-centred PE funds such as Bruin Capital [570]; then, hedge funds such as Lindsell Train and Elliot Management are also significant sports investors [571] while investment banks might participate providing financing or acting as strategic M&A advisors. Finally, legal firms assist in drafting the terms of the agreement and consultancy firms can get involved throughout the life of the investment, to improve operational processes. Football club investments commonly share the following interconnected features:

- Multiple as a valuation method – The sector profitability is generally negative (sometimes even at EBITDA level) while P/B ratios are higher than one (Tiscini R.

567 In contrast to minority investments, the majority ones give the acquirer more steering power and opportunities to add operational value. CVC's acquisition of Formula One for $2bn in 2006 is a striking example: CVC's focus on cash generation, which involved moving F1 from free-to-air channels to pay television and increasing the number of races, wouldn't have been possible with a minority, non-decisive holding.

568 Retrievable from: https://www.theguardian.com/football/2021/feb/02/burnley-us-takeover-has-left-club-90m-worse-off-and-loaded-with-debt

569 Retrievable from: https://bsic.it/will-pe-strategies-score-a-dive-into-sport-and-entertainment-investing/

570 Retrievable from: https://www.focusfinance.org/post/private-equities-increasing-interest-in-sport

571 Retrievable from: https://www.marketwatch.com/story/ac-milan-soccer-team-taken-over-by-hedge-fund-elliott-management-2018-07-10

& Strologo A., 2016), thus signalling how the market applies an extra quid to valuations that do not find explanation through traditional valuation methods [572] (e.g., income analysis, DCF analysis [573]). Therefore, valuation using comparable football clubs allows us to overcome the issues (given its independence from cash flows and suitability to highly volatile industries [574]; Damodaran, 2012);

- Stock exchange prices of traded assets are not reliable – As an investment banking associate [575] observed analysing European football clubs, 'if tomorrow someone purchases 100 Juventus FC SpA shares, the price will skyrocket' as the free-float capital of traded football clubs amounts to minimal % of the overall capital, thus resulting in highly-volatile stocks even in face of minor investments or divestments;
- EV/Revenue as the most accurate valuation multiple – From the results of regression analysis, the EV/Revenue multiple appears to be the one that best combines the capacity to be modelled with the ability to represent the behaviour of market participants [576] (Tiscini R. & Strologo A., 2016). This is further outlined by an investment banking associate from a bulge bracket investment bank [577] who,

[572] This means that operators are systematically willing to invest in the sector even with unfair or negative profitability, resulting in the paradox that the football industry opportunity cost of capital would be void, or negative when evaluated with common financial valuation methods and from a stand-alone perspective. Besides, the apparent unattractiveness of the ownership of clubs leads to the conclusion that the rationale behind these investments is to be found in some additional benefits than merely the profits generated by the stand-alone company: many studies demonstrate the existence and the economic value of private benefits of control (Tiscini R. & Strologo A., 2016); in general terms, their existence is demonstrated by the existence of the "control premium", i.e. the phenomenon under which the shares that guarantee the control of a company are worth more than the minority shares. In football, again, there are clear private benefits of control, that are both of an extra-economic or socio-emotional type (reputation in the community, attachment to the team, etc.), both of an economic external type (business opportunities indirectly related to the ownership of the football club, exploitation of the communicational resonance, etc.).

[573] DCF's use was proven inadequate by research from Thornton and Matyszczyk in 2010 as cash flows are usually negative and/or highly volatile.

[574] To be precise, academic research provided specific frameworks for football clubs, such as Markham's algorithm based on an empirical multivariate analysis that, on top of to the classic economic fundamentals, adds cost management to the analysis in the form of the wage ratio (payroll/total revenue) stressing the importance to keep the ratio below 50% in addition to maximizing revenue and net assets.

[575] Anonymous interview in May 2021.

[576] Tiscini R. & Strologo A., in 2016, on 22 clubs between 2011 and 2015, showed how there is no significant direct correlation of EV with EBIT and Net Income, while there is a strong direct correlation between revenues and EV. However, they also pointed out how EV/Revenue cannot fully explain the goodness of an investment as there is no consideration of the assets controlled by the various companies, their financial position, and their profitability.

[577] Anonymous interview in May 2021.

quoting his research, reported the recurring pattern among transactions being a 2x EV/Revenue multiple; contrarily, EBITDA multiples are unreliable because they suffer from excessive heterogeneity because of the sectoral volatility. Finally, BDO UK and The Sport Consultancy professionals [578] share similar perspectives observing how within football, the value of a club often sits between one- and two-times revenue;

- EV/Revenue largely differs between elite and low to middle tier clubs – There is a gulf between investing in highly diversified assets [579] such as elite clubs (able to maximize commercial revenue) and the other clubs that marginally rely on their commercial appealing. BDO UK and The Sport Consultancy professionals [580] further outlined that the value of a club often sits between one and two times revenue but it increases for higher revenue clubs (Figure 1 – EPL clubs' min, max and average revenue multiples (versus enterprise value), from 2010 to 2019 who have over £250m annual revenue (e.g., Bix Six EPL clubs recently showed multiples well above four times their revenue).

Figure 1 – EPL clubs' min, max and average revenue multiples (versus enterprise value), from 2010 to 2019

[578] Retrievable from: http://www.thesportsconsultancy.com/news/the-investment-pitch-private-equity-in-sport/

[579] Even though, a prudent investor should discount the risk of not qualifying to European competitions.

[580] Retrievable from: http://www.thesportsconsultancy.com/news/the-investment-pitch-private-equity-in-sport/

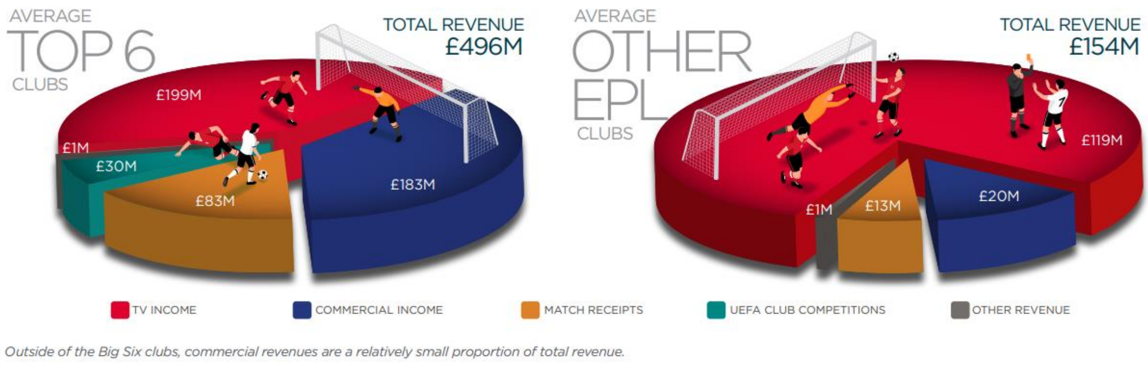
Source: BDO and TSC investment pitch: PE in sport (October 2020)

Indeed, the Big Six clubs have successfully managed to leverage their brands, creating additional revenue streams, and monetising worldwide fan engagement;

- Revenue diversification only applies to elite clubs – As we just outlined, the capacity to diversify revenue streams is the major point of difference between elite clubs and other clubs. This is further showcased by observing how different revenue streams contribute to the overall revenue amount [581]: splitting revenue into TV income (media rights), matchday and commercial and advertising revenue, taking for instance the EPL, Big Six elite clubs have been able to generate close to 40% (£183m) on average of their revenue from commercial revenue while the other clubs only generated 13% (£20m) of income on average from it (Figure 2 – Average split of EPL club revenue.

Figure 2 – Average split of EPL club revenue

[581] Assuming a pre or post pandemic environment.



Source: BDO and TSC investment pitch: PE in sport (October 2020)

Moreover, the football industry is highly volatile and empirical evidence suggests the EV/Revenue multiple as the most appropriate pricing method; the main difference between multiple values is related to the capacity of a club to diversify its revenue streams from media rights and matchday to commercial revenue.

4.4 Why should Private Equity funds invest in European football clubs?

PE equity story when investing is all about getting stunning risk-adjusted IRR; therefore, when listing reasons to invest in football clubs, one should bear in mind both the opportunities to reduce variability and to increase the overall amount of revenue. Historically, growth within the industry resulted from rapid urbanization, growth in emerging economies and the emergence of multiple channels to capture viewership; to date, new monetization opportunities are emerging, partially disrupting traditional models. A comprehensive framework would map the 'pros' of investing in football clubs according to three different levers:

- Strategic levers – I.e., untapped opportunities to improve the product, the geographical coverage, or the business model;
- Operating levers – I.e., room for improvement from an operational point of view, thus streamlining how football clubs are run (in terms of governance, processes, et cetera);
- Valuation levers – I.e., margin's uplift potential that can be extracted by manipulating the stand-alone value of the football club or its combination with other holdings.

Concerning the set of strategic levers, they can be divided into opportunities belonging to:

- Core business activities – Securing revenue coming from broadcasting revenue, matchday sales, sponsorships, and merchandising. As of now, football clubs are already a relatively stable business to invest in [582] [583] as the demand to watch football is "recession-proven" [584], thus resulting in an irreplaceable product [585]: "sports assets have shown a low correlation relative to the broader market, with teams selling for record values through the 2008 financial crisis and Covid-19," said Michael Kenworthy [586] [587]; for instance, during the GFC of 2007-08, most asset class and industries reported significant losses, while sports franchises continued their upward trend [588] thanks to skyrocketing media contracts, a proliferation of media outlets, and worldwide billionaires looking for a combination of prestige and diversification [589]. Besides, international football rights are highly

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[582] As commented by Ahmet Schaefer, CEO of a multi-football-entity platform, during one of our Meetups this Spring the increase of broadcast rights over the last decade has helped attract investors. The revenue from these rights creates effective downside protection for any investment. Beyond media rights, other revenue streams like hospitality, gate receipts and sponsorship can be quite predictable (Dholakia, G. & Farman, M., 2020), which is attractive to private equity investors. Whilst there is a degree of uncertainty around when fans can return to stadiums and at which capacity (when the author writes, Serie A and EPL are planning re-opening at reduced capacity), this is only in the short term, and investors tend to take a longer-term view in sports.

[583] As the BDO UK report suggests, for example, looking at Manchester United, Liverpool, Everton, Tottenham Hotspur, Chelsea and Arsenal, these clubs have never been relegated from the EPL which provides high predictability of revenue.

[584] Nikos Stathopoulos [584], brilliantly underlines how, at least for buyout groups, "the focus here is around content... it's unique and you need to have it real-time, and that is what makes it valuable."

[585] Football content provides irreplaceable value to the consumer, thus moving beyond the traditional costumer-product relationship (Bradbury & O'Boyle, 2017).

[586] Head of sports investment banking at Goldman Sachs.

[587] In some cases, he also said, valuations had outperformed other traditional investment benchmarks, such as the S&P 500. "If you're thinking about what's the best way to construct a portfolio and you want to diversify, there could be, potentially, merit having sports assets in that portfolio." "The universe of people [to buy in] is only so big," said Mr Kenworthy. "There need to be other mechanisms to help make them affordable and make it a bit easier for them to buy these assets."

[588] Since 2000, no asset class has performed better than owning an NFL franchise, its owners have enjoyed a CAGR of 10% over the past two decades (Tiryakian E. & Pritchett J., 2020); of the four major sports in the US, only the NHL has not achieved annualized double-digit growth, but they still outperformed the stock market with a still-impressive 7.8% CAGR (Tiryakian E. & Pritchett J., 2020).

[589] E.g., during the GFC and the following recession, EPL football clubs showed that not only could they hold onto revenue, but they could grow as BDO investment pitch suggests, during this period, total EPL revenue grew substantially, almost doubling from 2006/07 to 2012/13 from 1.4m of £ to 2.5m.

diversified: as Chris Mort [590] said in an interview, the most attractive assets are those with wide international appeal, "if a sport has got a very domestic interest, then it's of less interest to the broadcasters, but also it's of less interest to financial investors." However, it is not all gold what is shines as the key feature that distinguishes European leagues from the US franchises [591] is the system of promotion [592] and relegation [593], where a league's worst-performing teams drop to the lower tier while the best-performing ones in the lower tier move up to take their place; besides, the promotion/relegation system is coupled with the UCL/UEL mechanisms where top-performing clubs are awarded additional rights income and exposure (Szymanski S., 2021). Bearing these pain points in mind, some areas could further improve, thus enhancing core business revenue stability and upside potential, namely:

- Top-notch teams' league – There is indeed a huge pressure toward consolidation especially after the EU-level Super League's failed attempt, or, previously, the proposal of English football that goes under the name of 'Project Big Picture', i.e., bargaining financial support to lower leagues with the disposal of significant EPL-level decision-making as nine "long-term shareholders," would acquire "special voting rights," giving them broad powers to control the sale of broadcast rights and ultimately the structure of

[590] Head of sports at law firm Freshfields Bruckhaus Deringer LLP.

[591] Another difference, which instead works in favour of European leagues from a PE point of view, is the relatively easiness with which investments can be made. For instance, the EPL still has no policy to bar the imposition of loans on clubs to pay for takeovers (Source: the Guardian 'Burnley's US takeover has left club £90m worse off and loaded with debt'); the only controls involve an "owners-and-directors test" that bans people with unspent criminal convictions from owning clubs, and requires the league approval when evaluating the business plan credibility; even though, there is nonetheless some level of reluctance as Ashley Brown, head of Z\ at the FSA, said: "Historically, the FSA and our affiliated supporters' groups have always opposed the concept of new owners 'mortgaging' a club during its takeover," but is still far away from US regulatory mechanisms and burdens to PE investment.

[592] Even though the mechanism creates additional investment opportunities as promotion to a higher division becomes the ultimate prize (a risky one, as Andrea Radrizzani suggested); e.g., in the EPL's case, the prize is worth around £200 million in prize money and commercial deals for the club in question (Le, A. & Lynn, A., 2020). "You could probably buy a club in the Championship for £20 million to £30 million and, if you know how to run a club, hire the right coaching staff and sign the right players, earn promotion to the EPL," Maguire (Teacher in Accountancy at the University of Liverpool) said. "You could then sell it for around £150 million."

[593] Even though top European leagues (EPL, Serie A, Bundesliga) foresee financial protection to participating clubs in the form of "parachute" payment rules to support clubs relegated to lower-tier leagues (Boccia A., 2018).

competition (Szymanski S., 2021) potentially opening the space to using the increased power to bring an end to one of the most sacred aspects of soccer: promotion and relegation [594], following what already happened in the US [595]. A top-notch league would provide participating teams with a dramatic increase in global visibility and reach while abandoning the previously mentioned system of relegation and promotion, thus enhancing revenue stability;

- Data and analytics – Football clubs might use analytics to boost their revenues or to forecast their cashflows. Analytics involves generating insights from historical data to predict potential trends and analyse the effects of certain decisions or events; for instance, leading sports clubs are using analytics to determine the pricing of tickets through variable pricing and dynamic pricing: in the variable pricing approach, team franchises use analytics and charge different prices for the same seat depending on the game while, in a dynamic pricing approach, team franchisers consider factors such as team performance, day of the week, stage of the tournament (group match, semi-final or final) to determine the price of the ticket [596]. Furthermore, by gathering and analysing data, one can get to know the customer better and deliver personalized content to the fans (Molango, M., 2020), thus enhancing both the in-venue and the remote customer experience. Finally, data and analytics allow football clubs to deliver best-in-class advertising packages to businesses: as pointed out by William Paul

[594] The Liverpool and Manchester United owners expected their project to be greeted with gratitude and relief, supported by battalions of consultants, the forces of private capital such as hedge funds, venture capital, and PE have seen financial failure as an opportunity to seize control, to rationalize, restructure, and revive the industry in a more profitable form; and to resell the businesses for a healthy profit (Szymanski S., 2021).

[595] The American closed-league model dates to baseball's National League, founded in 1876 and still going strong as one-half of Major League Baseball (MLB). In this model, teams are franchises, they are granted exclusive territorial rights, and entry into the league is controlled by money: if you want to join, you must pay a fee to the incumbents, which is their incentive to admit you (Szymanski S., 2021).

[596] For instance, San Francisco Giants, Major League Baseball team implemented a variable ticket pricing methodology for pricing their tickets. The St. Louis Rams, NFL team are using dynamic pricing methodology to price 10% of their overall tickets (The Business Research Company report, 2020).

[597], there is no other industry like sports "that delivers a guaranteed audience of a guaranteed demographic at a fixed time and place; if you are a football fan, you have to watch the UCL match, live, at 8 pm on a Tuesday; a recorded replay later just won't have the same appeal. This has tremendous value for broadcasters and sponsors alike, no other program in the entertainment world works that way." Sports' live nature makes it especially appealing to broadcasters who know exactly the demographic of an audience at a specific point in time [598]; therefore, here is the area where data and analytics will become key as they allow to deliver ad-hoc value propositions to different broadcasters and advertisers;

- Technology opportunity to monetize brand loyalty – Brands are key drivers of business value: strong brands have powerful emotional connections with their customers as they adopt brands that are an extension of their personality, style, and identity [599]. A strong brand, properly managed, can generate significant and consistent revenue over time and in no industry is the relationship between business and consumer stronger than in football: football possesses some of the most powerful brands on the globe, that have an authenticity and heritage that few other industries can match; on top of it, for football fans, their following is a lifetime engagement like no other [600]. Investing in football allows acquiring brands with infinite life, brands that have a global presence and unbreakable ties to their fan base who religiously follow and engage with them. The value that an investor might

[597] Partner at Bridgepoint's sports investment practice and board member at Dorna.

[598] Advertisers know, for example, that viewers of NBA games tend to be younger and more tech-savvy than those watching NHL matches and can market accordingly. "That's why the value of these rights grows over the very long term," said Paul. "Like all of these things you've got an industry that's grown up around it."

[599] These deep relationships go beyond the consumption of any single product or service and endure over time.

[600] I.e., there is no substitute product. From the lowest lows to the highest highs, the loyalty that clubs command over their supporters is unrivalled in every regard. Besides, football is a price-inelastic product as well; consuming sport is not a luxury but a necessity for many viewers.

extract from the fan club is immense [601]: more recently, thanks to digital technology, worldwide fans are now suitable to purchase online value propositions that did not exist before [602]: in a scenario of digital entertainment marketplaces crowded with thousands of players offering thousands of different experiences, football possesses the capacity to draw attention leveraging the emotional connection between fans and clubs that many other services and brands across the world could only dream of replicating;

- The proliferation of large-scale events – Given the recent trend of increasing the number of national and international events or competitions (e.g., UEFA Nations League from 2018, UEFA Europa Conference League from 2021, etc.), important consequences will be, on one hand, the obvious stimulus to the demand, on the other, and perhaps most importantly, increased public sector investments. In the first half of this decade alone, the largest five events in the world by numbers of the visitor (World Expo 2020, Winter Olympics 2022, and Summer Olympics 2021 and 2024, UEFA European Championships 2021 and 2024, and the FIFA World Cup 2022) will, according to BDO UK estimates [603], generate over $244bn in public sector investment on capital and operational expenditure. If we take a look at the UEFA European Championship of 2021 for instance, the most intuitive use of these funds may be renovating existing stadiums, thus allowing clubs to improve their gate receipts revenue, besides, these investments will later on impact stadia facilities, league popularity, and merchandise sales, also because most public administrations will foresee

[601] But also limitedly tapped: speaking during the SportsPro Insider Series, Two Circles chief executive Gareth Balch looked ahead to a dramatic shift in how sponsorship packages are created, with a different mix between physical and digital activation (Connolly, E., 2020). “Digital is the greatest mis-sold, unsold, undersold, undervalued asset in the sponsorship mix,” he said. “Sports properties have been aggregating and growing audiences digitally and building bigger data sets, but not necessarily knowing how to monetise them.”

[602] As Jeremy Pressman pointed out “[one] can imagine a world where thousands of different utility propositions are built into owning goods both physically and digitally.”

[603] Report: Private equity in sport (2020, October 27). BDO and The Sports Consultancy. Retrievable at: https://www.bdo.co.uk/en-gb/insights/industries/leisure-and-hospitality/the-investment-pitch-private-equity-in-sport

private-public-partnerships to reduce their exposure, thus leaving the room for adjacent investments to be agreed (e.g., real-estate or entertainment facilities nearby the stadium);

- FFP regulation creating a level playing field – FFP was launched in 2011 with a simple mandate: control that clubs qualifying to UEFA competitions could pay, to be proved by showing they did not have overdue payables [604] (Boccia A., 2018). As of 2013, FFP started assessing clubs against break-even requirements, asking them to balance spending with revenues, thus discouraging spending gaps and excessive debt positions [605] to incentivize greater rationality and discipline in club finances. Besides, in June 2015, UEFA updated its regulations to encourage more sustainable investment while maintaining control of overspending [606]. The yet-to-be-solved issue of FFP is the lack of a tangible specification of the income breakdown into different % revenue streams to prevent clubs from circumventing applicable rules (e.g., Manchester City [607] and PSG [608] leveraged sponsorship deals to balance expenditures, then got hit by administrative fines that were soft pills to swallow), even though we recently observed UEFA starting to forward more impactful fines, such as the sporting ones to AC Milan for instance [609]. Anyhow, this trend toward transparency and fair playing field outside off the pitch [610], could make football clubs more appealing to PE investors as a level playing field would limit traditional anti-economical forces that

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[604] To other clubs, their players, and social or tax entities throughout the season, i.e., they are paying their bills.

[605] In assessing this, the independent Club Financial Control Body (CFCB) analyses each season and three years' worth of club financial figures, for all clubs in UEFA competitions.

[606] Retrievable from: https://www.dailysabah.com/football/2016/03/02/uefa-gives-galatasaray-1-year-ban-from-european-cups-for-breaking-financial-fair-play-rules

[607] Retrievable from: https://www.bbc.com/sport/football/27445475

[608] Retrievable from: https://editorial.uefa.com/resources/0258-0e2dedb6bf65-df535c83724f-1000/paris_saint-germain_-_settlement_agreement_-_may_2014.pdf

[609] Retrievable from: https://www.bbc.com/sport/football/48801681.amp

[610] For instance, in one recent case, Silver Lake-backed Manchester City faced a €10 million fine and was hit with a two-year ban from European club competitions after it was accused of masking equity funds as sponsorship revenue (Woodman A., 2020). Do note that the decision was eventually overturned by the Court of Arbitration for Sport, however the first decision signals a different willpower from institutions and conveys the right message to other market participants.

characterize the football industry (as it would prevent billionaires and SWFs from overspending to enhance personal awareness, country reputation, and so forth [611]);

- M&A in a multi-club approach – Thus emphasizing the synergies deriving from the ownership of several clubs at once. Synergies might range from sporting risk reduction [612] to economies of scale [613], from cost savings to learning economies; for instance, at the time of the acquisition of FC Parma, Tanner Krause said the acquisition of Parma will have a "super positive impact" on soccer in Iowa and in Des Moines [614], where the company was headquartered (Jett, T. & Akin, K. 2020). Also, he highlighted how "we will understand the game of soccer and the operations of a franchise much better than if we didn't have this opportunity," and how, planning to renovate the Parma stadium, would enhance the group's initiative to build a new stadium in Des Moines. Finally, Tanner Krause highlighted the high profile of the Parma team as a driver to generate football demand and interest in Iowa [615].

- Non-core business activities – Which refer to revenue diversification opportunities as teams become more sophisticated from a consumer-facing and activation standpoint [616], thus opening the space to ancillary revenue streams to minimize the reliance on traditional matchday, media rights, advertising, and transfer sales

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[611] I.e., it prevents SWFs, billionaires, and other deep pockets investors from throwing insane amounts of money into football clubs with their investments being mainly driven by ulterior motives.

[612] Minimizing the exposure to sporting performance.

[613] Andrew Davis, a managing director at Boston Ventures, described that “what distinguishes NASCAR is that a racing team has characteristics akin to more traditional industries such as advertising that the firm has targeted in the past. Davis believes economies of scale exist that benefit racing programs carrying more than one team. It’s not unlike a rollup strategy in the auto-parts space that might yield synergies by sharing technologies or best practices. It was the consolidation among other rival teams that necessitated Petty’s search for outside capital in the first place (MacFadyen, K., 2018). Moving from NASCAR to football, it is undeniable that football clubs’ talent development and merchandising divisions may benefit from multi-club ownership in terms of purchasing economies, network rationalization or access to technologies characterized by significant fixed costs (e.g., mobile video equipment, pyrotechnics).

[614] He hoped owning a team in Italy will better equip the company to lead the Des Moines Menace into a higher-tier professional league.

[615] In his own words, "the ownership of soccer teams in Italy is a more visible position, so it will be easier for fans of soccer across the globe to discover Iowa's professional soccer team,".

[616] Quoting Robert Malandro, Managing Partner at Whitecap Sports Group. Source: private interview in April 2021.

revenue streams. Indeed, some areas could further enhance football clubs' revenue, namely:

- E-sports opportunity – Over the last two years, e-sports has seen a dramatic increase in income, projected at over $1bn [617], mainstream media coverage, as well as improved governance and regulation, followed by a spike in investment from PE [618]. Football clubs started and will increasingly look at e-sports as an opportunity to reach new markets, younger fan demographics, and additional sponsorship opportunities;
- Investing in the football ecosystem – For firms with relevant expertise, the sector has plenty of investment opportunities (Le, A. & Lynn, A. 2020). "The sports ecosystem is in many ways a fragmented one – lots of stakeholders, lots of different building blocks. With this situation comes, in some contexts, discussion of consolidation or change away from the existing status quos," said Patrick Mitchell [619]. In this scenario, PE firms with a strong footprint in media, entertainment, gambling, and/or sports tech industries, could help football clubs diversify their revenue streams leveraging other companies to fill eventual gaps in expertise. As supporting evidence of this phenomenon, in the US, the richest sports portfolios are underpinned by their teams but enhanced by their media, gambling, esports, auto racing, hospitality and ancillary businesses (Ozanian, M., 2021); for instance, Kraft's investments in non-NFL assets (among the others, betting and gaming companies [620]) and enduring profits from American football franchises have delivered strong financial performance (more than 15%

[617] At the end of 2019.

[618] Report: Private equity in sport (2020, October 27). BDO and The Sports Consultancy. Retrievable at: https://www.bdo.co.uk/en-gb/insights/industries/leisure-and-hospitality/the-investment-pitch-private-equity-in-sport

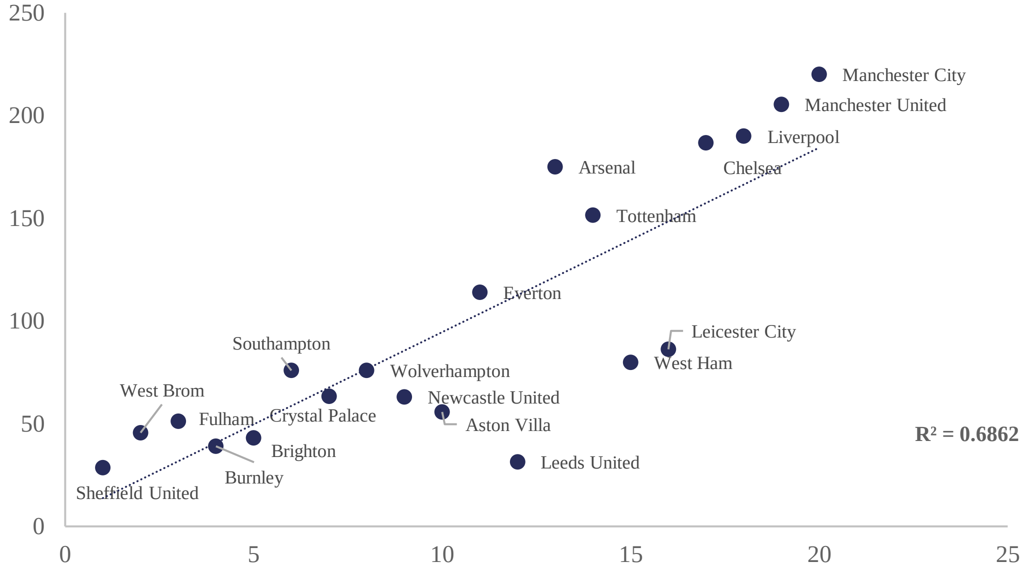
[619] Partner in the global entertainment, sports, and media team at law firm Latham & Watkins.

[620] Sports betting company DraftKings and gaming platform Skillz, that have a combined value of more than $400 million. Other investments include New England Revolution (MLS), Kraft Analytics Group (sports data analytics), Boston Uprising (esports franchise), and a small stake in the UFC.

increase in EV according to Forbes [621]) despite the COVID-19 outbreak (Ozanian, M., 2021).

- Cutting costs would normally be the third strategic lever for an investor and the preferred option of some traditional buyout groups, however, it is rarely actionable [622] as the majority of costs is given by payroll which is key to talent attraction [623] (in its turnkey to successful sporting performance). For instance, comparing the final EPL ranking vis-à-vis the clubs' spending in wages, we can observe a strong correlation between sporting success and payroll expenses:

Wage bill 20-21 in m£ versus the 2020-21 ranking in reverse order



Source: own elaboration on Totalsportal data [624] (June 2021)

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[621] The jump is the largest among sports owners and lands the group at No. 7 on the 2020 list of the World's Most Valuable Sports Empires, up from eighth last year (Ozanian, M., 2021).

[622] Research gives evidence that a strategy of minimizing costs, aimed at increasing the income, does not appear an appropriate policy to increase the company's value in the football sector (Scelles N., Helleu B., C. Durand, Bonnal L., 2014).

[623] Markham's study shows that revenues between 1996/97 and 2010/11 increased by 267%, whereas the players' salaries, which are the main source of the clubs' costs, in the same period increased by 450%. Full study at: https://www.researchgate.net/publication/256054550_What_is_the_Optimal_Method_to_Value_a_Football_Club

[624] https://www.totalsportal.com/money/premier-league-wage-bill/

Therefore, we do not see how an investor could get satisfying risk-adjusted returns by reducing wage costs because the risk of deteriorating sporting performance, and therefore decreasing all revenue streams, would be too high [625].

Then, when it comes to operational levers for value creation, we can identify the most impactful one in the:

- Governance optimization – The record of poor governance in football has attracted attention over many years, from parliamentary committees, individual members of Parliament, supporters' organisations and think tanks (Maguire K., 2021); hence, the industry is characterized by an under professionalisation problem (Bradbury & O'Boyle, 2017). David Dellea [626] agrees that not every club is at the level of Juventus and Real Madrid and the likes when it comes to governance processes and managerial capacity, and that's why there is still an untapped opportunity to improve clubs' capacity to drive revenues by operating efficiently; football governance should aim at entrepreneurially-minded owners (as opposed to heart-minded), transparent managerial models [627], appropriate legal structures [628] and employing the right people with the right skill set capabilities to do the job [629]. In this context, PE can act as a catalyst for management professionalisation, organizational transformation and subsequent accelerated growth.

Finally, valuation levers might include:

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[625] We do observe clubs such as Atalanta BC, with staff costs to turnover ratio of 49%, capable of minimizing wage costs, but they are rather the exception than the rule. Source: https://footballbenchmark.com/library/atalanta_s_rise_to_football_s_elite

[626] Director of the Sports Business Advisory at PWC Switzerland. Source: private interview in April 2021.

[627] Given that football clubs build deep relationships with corporate sponsors, media partners, consumers, and investors, it is advisable to implement transparent corporate governance frameworks that foresee a set of rules and controls in which shareholders, directors and officers have aligned incentives and all relevant stakeholders are properly protected (Boccia A., 2018).

[628] The corporate governance model should be complemented an appropriate corporate legal structure to streamline how much the football club pays in taxes and enhance the capacity to raise capital on capital markets (Boccia A., 2018).

[629] E.g., many football clubs throughout Europe, even those with a significant fan base and substantial visibility at national and international levels, do not appear to have a focused strategic business plan (Boccia A., 2018).

- Industry repositioning – I.e., following the example of what happened in other sectors (e.g., Ferrari, in its IPO, was marketed as a luxury brand, rather than an automotive player, to attract higher valuations [630]), football clubs' owners might persuade investors of their belonging to other sectors where valuation multiples are higher. For instance, a football club with a strong heritage and well-established brand could position itself as a luxury brand (industry where multiples are on average higher) stressing in its equity story the international footprint, the loyal fanbase and the capacity to monetize global audiences through global merchandising and advertising;
- Momentary uninflated valuations – as Sommerfield [631] told Private Equity News in 2020, there is a "huge amount of appetite" from both new funds and existing clients [632]: indeed, "[PE funds] understand now is a good time to buy because they will get a reasonable price, valuations are not massively inflated;"
- Loading debt to finance club acquisition – In recent years, we observed big five leagues' clubs reducing their reliance on external financing as the combined net debt of Europe's top-division football clubs dropped notably since 2011 (from 65% to 35% of revenues [633]), thus showing a steep increase in net assets as other liabilities did not show significant changes throughout the period. In this context, PE investors could follow Glazer's example with Manchester United FC [634] [635] or ALK Capital's LBO with Burnley FC [636], loading a significant amount of debt to

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[630] Retrievable from: https://www.businessinsider.com/ferrari-ipo-2015-10?r=US&IR=T

[631] Managing Partner at Certus Capital Partners.

[632] Some investors are even eyeing distressed opportunities, though Sommerfield said these will not be found among the top leagues in Europe. He also said he is seeing a lot of interest from US firms looking to take preferred equity positions in European teams.

[633] Retrievable from: https://ggiforum.com/consulting/financial-developments/1237-football-finance-exploring-the-capital-markets.html

[634] Retrievable from: https://www.investopedia.com/ask/answers/052715/why-manchester-united-manu-carrying-so-much-debt.asp

[635] The cost of buying the club was loaded onto the club itself, with the revenues it generates used to pay down the debt and interest that the Glazers undertook to buy the club (Yueh, L., 2014).

[636] In December 2020, ALK Capital LLC, an American PE fund, had acquired a majority stake in the English club Burnley via a leveraged buyout (£60 million loan, source: Fortune). Also, the Guardian reported details about the PE takeover, a heavily indebted, £170 million ($231 million) transaction that was effectively a

finance the club's takeover while benefiting from a low-interest-rate environment [637] (or even drawing money from the club's cash reserves, as in the case of Burnley's takeover). However, it is important to note that stakeholders (rights owners and fans among the others) might not appreciate high levels of indebtedness (as it implicitly signals that someone else is going to pay back acquisition debt), thus bringing heavy counter pressure to the PE fund by either preventing the takeover or publicly opposing its tenure. Besides, it is also important to observe how the aforementioned steady decrease in debt levels might find the explanation in the fact that the availability of bank debt will be restricted by operating cash flows and the cash flow available for debt service at the club [638]; clubs (with notable exceptions [639]) therefore commonly look to receivables financing and advanced funding against broadcasting distributions which, outside of Covid-19 conditions, is seen as relatively secure cash flows by lenders [640];

- Capital markets to exit – More and more European football clubs opened themselves to the public: European soccer giants Manchester United FC and Juventus FC are already publicly traded entities (Marino G., 2020) while, for instance, Fenway Sports Group (owner of Liverpool FC and Boston Red Sox) was in talks to publicly list his sports holdings in a merger with a blank-cheque company, valuing the company at $8bn [641] with RedBall reported planning to

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leveraged buyout of the soccer club. Fortune also pointed out how ALK was said to have financed the deal with the £60 million loan (backed by club revenues) from billionaire Michael Dell's private investment firm and how ALK funded the remainder of its payment with up to $54 million from the club's cash reserves; hence the PE firm itself put down only a sliver of the money upfront. The deal is understood to had valued Burnley at more than £200m (Bloomberg reported last month that the total first payment to Garlick, Banaszkiewicz and their fellow sellers was £102m).

[637] Retrievable from: https://www.bloomberg.com/news/articles/2021-01-05/ultra-low-interest-rates-here-to-stay-2021-central-bank-guide

[638] Which is often negative for football clubs.

[639] For the best-run organisations, relatively cheap debt financing is available for big capital projects. For instance, in September 2019, Tottenham Hotspur converted £525m into bonds, issued to US private investors, with staggered maturity of between 15-30 years and Tottenham Chairman's Daniel Levy saying the bond issue was "significantly oversubscribed."

[640] Therefore, the debt of football businesses takes many forms, including commitments, contingencies, receivables factoring, presold revenue streams, up-front cash for sponsorship, off-balance-sheet financing, and shareholder loans.

[641] A listing of Fenway Sports Group LLC, the holding company for the reigning EPL football champions and the 2018 World Series baseball champions, would be one of the most high-profile sports offerings on the stock market in recent years.

acquire a 25 % stake (Aliaj, O., 2020). The deal was eventually dropped in January 2021 [642]; however, it shows an appetite from capital markets and structured funds to take stakes in football ventures; besides, the market listing alternative is critical to mitigating the liquidity risk of investing in football that several times mentioned as a crimp to investing. In this context, institutional investors surge could lead to public listings of sports entities, as private investors seek a way out in public markets;

- Portfolio value maximization – I.e., when the overall value of a football club with other entities exceeds the value of the separated entities plus the cost to finance the football club (if at a deficit). Put differently, there can be private benefits for the other entities deriving from the control of the football club; e.g., it could allow other entities to save marketing and sales expenses (Tiscini R. & Strologo A., 2016) [643]. In this scenario, diversifying the business portfolio, growing the brand, gaining global exposure are among the expected benefits that might drive an entity toward a football club that presents target customer segments among its fan base.

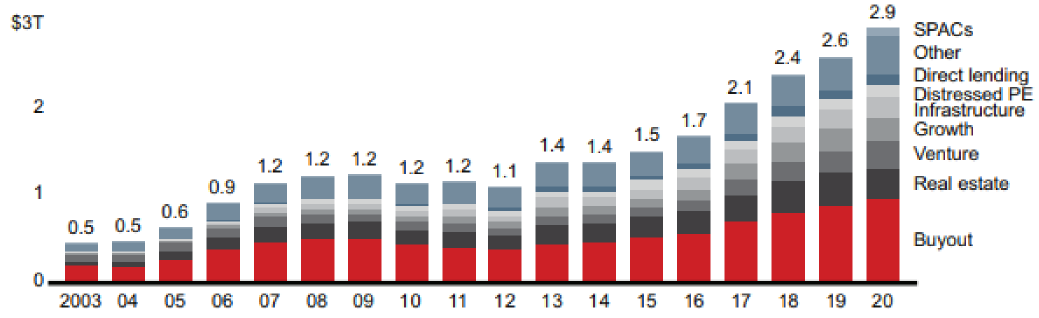
On top of what has already been said, it is important to mention PE's need to find alternative investments to work out the so-called dry powder (i.e., an excess of collected capital vis-à-vis investment opportunities) because many buyout groups are under pressure to get money out of the door as the next infographic shows:

[642] Retrievable from: https://www.reuters.com/article/us-fenway-sports-m-a-spac-idUSKBN29U2H4

[643] Interestingly, other authors reported for instance 'networking benefits' as well from owning a football club as it could be a great deal of fun and offer a highly visible role within the local community; ownership will most likely be able to attend games with relative ease, thus being able to take not only friends and family but business partners, employees and prospective clients to games.

Figure 11: Global dry powder has been stacking up for almost a decade and set another record in 2020

Global private uncalled capital, by fund type



	2003	04	05	06	07	08	09	10	11	12	13	14	15	16	17	18	19	20
Buyouts ($B)	199	188	275	398	479	515	512	453	417	386	460	476	527	568	724	829	891	970
Buyouts and buyout SPACs ($B)	199	188	276	400	485	517	512	453	417	386	461	477	529	570	729	834	898	1,012

Notes: Other includes fund-of-funds, secondaries, natural resources and mezzanine; buyout includes buyout, balanced, coinvestment and coinvestment multimanager funds; SPACs fund-raising used as best proxy for SPACs dry powder; buyout SPACs estimated as approximately 50% of total SPACs directed to buyout deals; discrepancies in bar heights displaying the same value are due to rounding
Sources: Preqin; Thomson Reuters; SPACInsider; Bain analysis

Source: Bain & Company Global Private Equity report (2021)

Years of low interest rates have led investors from sovereign wealth groups to rich families and pensions to allocate ever-larger sums to PE funds [644]. In the last decade alone annual fundraising by PE firms increased from around $60 billion in 2010 to upwards of $300 billion by 2019 [645] (Marino G., 2020) [646]; on top of it, the outbreak of the pandemic last year caused some to slow down M&A activity in several industries; therefore, shortly, “[PE funds] will be forced to put money to work” (Smyth, J., 2021). Even while growing significantly in size, PE funds have significantly reduced the proportion of capital they are deploying according to Institutional Investor, PE funds called 16.3% of committed capital in 2006 and 19.1% in 2007, compared to a mere 4.1% % in 2018 and 3.3% in 2019 (Marino G., 2020). Therefore, we observe record amounts of money available for

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[644] The causes of this trend are varied and complex, and they are not investigated in this paper, but a confluence of factors, including historically low interest rates, the underperformance of hedge funds, and general outperformance by PE vis a vis public markets have contributed to this phenomenon.

[645] Over a slightly longer time horizon, the private equity industry has grown from approximately $1 trillion in assets in 2004, to an astounding $4.5 trillion (Marino G., 2020).

[646] I.e., record amounts of fresh capital that needed to be deployed in innovative ways on new opportunities (Scott, G. & Hanton P., 2021).

investment but not yet deployed, referred to in industry parlance as “dry powder” that could now be alternatively invested in unconventional asset classes such as football clubs.

Finally, partially related to the previous point, is the fact that PE funds are changing in the way they operate, and these upcoming changes will further align PE and football clubs’ objectives. Namely, we can mention:

- Increased funds’ life – The emergence of new PE funds dedicated to holding assets for longer, using less debt and with lower targeted rates of return [647], may indeed help alleviate existing fans and other stakeholders' fears and pre-conceptions around PE investment (Scott, G. & Hanton P., 2021). Funds such as BlackRock's Long Term Private Capital, Blackstone's Core Equity Partners, Carlyle's Global Partners and CVC's Strategic Opportunities have longer holding periods, as opposed to the more traditional PE funds (with 10-year fund cycles). Longer investment periods will not only reduce pressure on PE fund managers, as detrimental short-term sporting performance could corrode exit opportunities but also alleviate football stakeholders' fears (i.e., from media, fans, press, etc.) around potential 'short-termism' (Scott, G. & Hanton P., 2021). In this context, professionals and industry experts expect a partial transition from the traditional leveraged buyout model tied to a sale or IPO within 3-5 years to longer-term commercial strategies for growing the profitability of sports investments (Taylor M., 2020);
- Increased investment criteria’s flexibility – Traditional PE funds have historically sought to acquire majority positions or even entire businesses. Today, we do observe wider mandates for long-term PE funds that might permit holding minority non-controlling stakes in businesses [648] or to agree on flexible arrangements with

[647] Long-term strategies, indeed, use longer-dated funds or other ways of raising capital to keep a constant capital level to invest in assets for much longer periods with lower annualised targeted returns than the traditional PE lifespan.

[648] Or even holding alternative asset classes. For instance, by issuing preferred shares the PE fund would have higher claims on the football club’s assets and earnings than those held by common shareholders; preferred shares generally have a dividend that must be paid out before dividends to common shareholders, and the shares usually do not carry voting rights. On the football club’s hand, by issuing preferred shares majority shareholders the club could accomplish fundraising without diluting ownership (Boccia A., 2018).

stakeholders (Scott, G. & Hanton P., 2021); this implies that the investment criteria will no longer be a limiting factor in partnering with governing bodies or football clubs that are not prepared to give up total control or ownership [649];

- The shift from cost-cutting to growth investing – PE funds have historically leaned heavily on a combination of cost-cutting and multiple expansion to underwrite future value projections but today's conditions challenge either approach: in some countries multiples will reduce as a consequence of slowing economic growth while, at the same time, most obvious cost-cutting opportunities are typically baked into inflated asset prices or have already been captured by a previous PE fund (Kovac, M., Burns, D., & McLinn, J., 2018). Growth investing is certainly harder to achieve, but it has the most powerful impact on exit multiples as it lifts both revenue and profits [650], and this is something particularly true in an industry such as football, where untapped revenue increase opportunities are the norm rather than the exception;
- Limited partners' changing appetite – Investors such as pension funds, insurers and institutional investors are increasingly seeking investments that return an income throughout the entire investment lifecycle to receive a continuous yield (Scott, G. & Hanton P., 2021) [651]. Some long-term PE funds are catering for this increased focus on yield by structuring their funds so that a yield can be paid out to investors where they have acquired businesses with consistent cash flows (Scott, G. & Hanton P., 2021). This contrasts with the usual construct, where limited partners typically only receive cash payments on a liquidity event, such as a sale, initial public offering, or dividend recapitalisation. The contractual nature of football broadcasting and other commercial rights might make these attractive targets for long-term PE funds that

[649] For instance, in 2018, the International Tennis Federation (allowed Kosmos fund to invest $3 billion for 25 years into the Davis Cup (Scott, G. & Hanton P., 2021). This investment was agreed subject to the condition that any decisions were made by a committee comprising a Kosmos representative, two representatives of the International Tennis Federation and a former player. The decision is reflective of the governing body's goal of protecting the integrity of the sport, whilst realising the commercial benefits of bringing a professional investor on board.

[650] Bain & Company research demonstrates that median return on investment is 20% to 30% higher when companies use a commercial acceleration program vis a vis simply improving cost management (Kovac, M., Burns, D., & McLinn, J., 2018);

[651] This is partly driven by the lack of returns achievable in the current low-interest-rate environments and the consequent scarcity of attractive returns in the corporate bond market.

have, as we have seen above, the longevity in their investment mandate to be able to hold these rights, and that are seeking to quench the demand from investors for yield.

This increased flexibility in governance arrangements, holding periods, and the wider investment mandates across the capital structure, will eventually result in a higher number of possible transactions for long-term PE funds.

So, what makes a case interesting? As David Dellea [652] pointed out, it is a combination between a club being on an actionable growth path (i.e., uplift potential) coupled with additional 'icings on the cake' such as approvals to renovate the stadium, untapped demographics potential to leverage local demand, or the chance to buy at a discounted price. As Michael Rees [653] pointed out talking about basketball franchises, "[sporting clubs] are not vanity investments, they are very valuable media assets. You have very long-dated, sticky assets, unique assets. It's not like there's going to be another LA Lakers."

4.5 Why should Private Equity funds not invest in European football clubs?

For a multibillion-dollar global industry, PE investments into the football industry number just a handful: according to data provider Refinitiv, PE firms have backed just 40 deals involving sports clubs or sports management companies over the past decade with 2019 being the biggest year with $546 million invested, of which the bulk was Silver Lake's $500 million investment for a 10% stake in City Football Group (Le, A. & Lynn, A. 2020). Therefore, it is not everything gold that it shines as there are many reasons for PE funds not to invest in European football clubs; within this section, we will list the most important reasons that clarify why PE funds might be reluctant to taking stakes in football clubs.

[652] Director of the Sports Business Advisory at PWC Switzerland. Source: private interview in April 2021.

[653] Head of Neuberger Berman's Dyal Capital Partners unit, which was selected by the NBA in April to launch a fund backed by institutional capital to take minority positions in NBA teams.

Specifically, we could categorize three circumstances that explain PE not investing in European football clubs: lack of fit with the club's stakeholders, intrinsic risks deteriorating the IRR, and supply and demand dynamics.

The lack of fit with the club's stakeholders derives from:

- Cultural resistance by fans – Club investments carry a unique form of reputational risk as football fans hold emotional equity in their teams, and in competitions such as the big five European leagues, among the most-watched worldwide, where vehement public backlashes due to owners' mismanagement are on the agenda. For instance, Mike Ashley, owner of the EPL side Newcastle United since acquiring a 41.6% holding in the club in 2007 [654], faced several protests against what fans perceive to be underspending, poor decision-making, and a lack of ambition; when being subject to possible takeovers (e.g., by Saudi Arabia's PIF [655]) many fans happily welcomed the potential change of ownership given the increase in spending capacity granted by the SWF (Le, A. & Lynn, A., 2020). Indeed, as pointed out by Kieran Maguire [656], "football fans don't want financial prudence; Roman Abramovich [a Russian oligarch, owner of Chelsea FC] is loved because he signs cheques; Mike Ashley is hated because he doesn't spend, but his club is financially stable." Manchester United takeover by the Glazer's family offers another hint as to why structured fund managers eschew holding prominent roles in football clubs: the sticky politics that crop for owners of football clubs (MacFadyen, K., 2018); in the filing detailing Glazers offer, the investor had to paint a picture depicting himself as someone that puts fans and community ahead of profits; in his offer, he cited the owner of the NFL's Tampa Bay Buccaneers franchise as evidence that he reinvests profits back into players [657], the stadium and the local community

[654] Retrievable from: https://www.theguardian.com/business/2007/may/23/football

[655] Retrievable from: https://www.bloomberg.com/news/articles/2020-07-30/saudi-arabia-s-pif-abandons-bid-for-newcastle-united-soccer-team

[656] Mr. Kieran Maguire B.A.(Econ), FCA, FHEA. Senior Teacher in Accountancy at the University of Liverpool. Interview released to PEI.

[657] At that time Manchester United fans were hoping for owners not to let soccer star Cristiano Ronaldo walk to Real Madrid; therefore, Glazers' previous track record was highly important. Eventually, the soccer star was sold and comes with no surprise that Glazers was one of the most hated club owners the EPL ever saw.

(MacFadyen, K., 2018). In this scenario, the risk is that if a football club ends up being overtaken by commercial concerns, it could lose touch with the interests of the very same fans that attracted the PE fund in the first place (Smyth, J., 2021); for instance, even though CVC made healthy profits by selling Formula One in 2016 for $8bn, followers and industry executives complained the buyout firm's 10-year tenure that led to competitive domination by rich teams, predictable racing results and poor sporting spectacle [658] (Smyth, J., 2021). As David Dellea [659] brilliantly summarized "there are still a lot of emotions that go into football, which make it very difficult to manage and drive decision-making;"

- Governing bodies' resistance – As Brett Gosper [660] pointed out at the time CVC was taking a share in the Six Nations "someone as big an investor in the sport as a PE firm like CVC will create influence, that is something that in some areas could concern us" [661]. Similarly, recent news of the EPL publicly arbitrating the possible deal between Saudi Arabia's PIF and Newcastle [662], showcase how leagues and governing bodies are far from being passive actors when it comes to M&A [663]. Specifically, 36 European leagues impose restrictions on club ownership in

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[658] During the 10-year tenure, Formula One's commercial concerns were key: the series' abrupt switch from sponsor-friendly free-to-air to pay-tv, for instance, clearly signalled a strategy that put revenue before reach, while the size of the cheque was almost always the determining factor when it came to awarding race hosting contracts, particularly to state-backed venues in markets governed by regimes with dubious ethics standards (Long M., 2020). The result was that Bernie Ecclestone, the former F1 boss who ran the sport for CVC, said in 2017 that he was "embarrassed" at "selling a shitty product".

[659] Director of the Sports Business Advisory at PWC Switzerland. Source: private interview in April 2021.

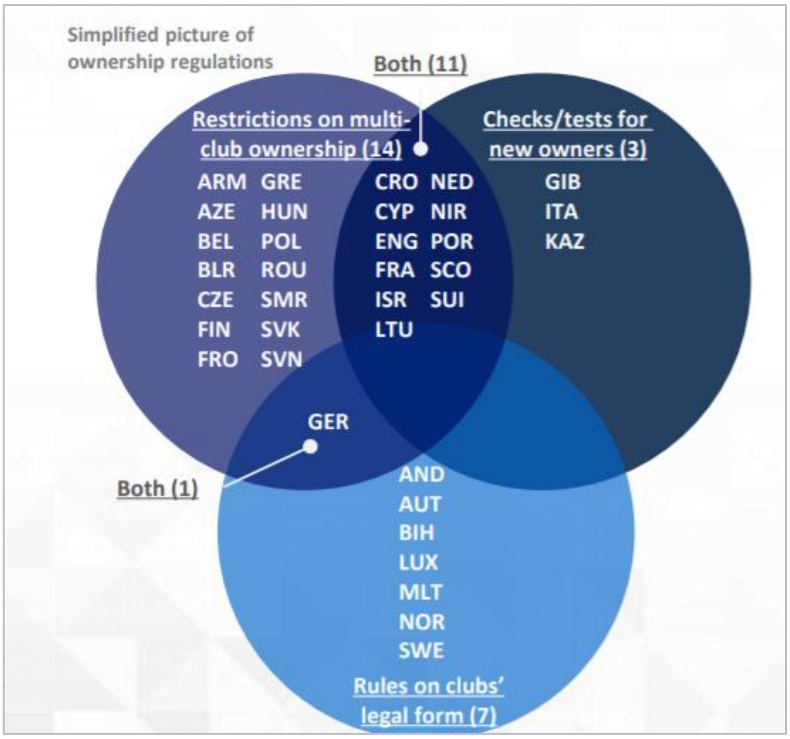
[660] Former CEO of World Rugby.

[661] Besides, there is a cultural resistance to LBOs as an investing option. Indeed, prospective PE investors may be willing to utilize LBOs, where a club's acquisition is financed using debt collateralized by its assets. However, LBOs are typically disfavoured by leagues (Marino G., 2020), who worry that servicing the revolving debt involved might serve as a destabilizing market force, representing capital that could be better allocated to direct investment into team performance.

[662] Retrievable from: https://theathletic.com/news/newcastle-takeover-premier-league-arbitration/hBoDXKblbNVn

[663] After a buyer is selected, there might be, depending on country to country, a one or two-month league approval process (Kohout J. et al., 2020).

2019/20 [664], while 14 of them also impose checks and tests on new club owners [665] as the following infographic outlines:



Source: UEFA Club Licensing Benchmarking Report (2019)

Most countries fully prohibit ownership of multiple clubs (as of May 2021, Italy as well will prohibit multi-club ownership [666]), but some (e.g., Finland and Portugal) apply softer restrictions whereby stakes in a second club cannot exceed 10%. Furthermore, eight countries have domestic regulations dictating clubs' legal form and or its structure; the German '50+1' rule [667] is probably the best-known regulation of this kind, but seven other countries also have rules on clubs' legal

[664] Retrievable from: https://www.uefa.com/MultimediaFiles/Download/OfficialDocument/uefaorg/Clublicensing/02/64/06/95/2640695_DOWNLOAD.pdf

[665] Most of these countries apply some kind of 'fit and proper person test' and/or require proof of funds.

[666] Retrievable from: https://thelaziali.com/2021/05/07/figc-amend-regulation-to-prohibit-multi-club-ownership-lazios-lotito-unaffected/

[667] The clause states that to obtain a license to compete in the Bundesliga a club must hold most of its own voting rights, thus protecting clubs from the influence of external investors (Boccia A., 2018). However, it must be questioned the potential longevity of this rule with scepticism arising in recent years (e.g., Hannover 96 president told "I'm against the rule and I would recommend dissolving the rule entirely. However, this is going to be difficult and therefore I would suggest modifying this rule").

form, which limit private ownership. Besides, on top of ownership restrictions, even if a group of funds or consortium manages to purchase a team, according to most applicable league rules, one individual in the consortium must be selected as the "controlling" owner for purposes of all team and league-related matters [668] (Kohout J. et al., 2020). Moreover, an anonymous expert told PEI (Le, A. & Lynn, A., 2020) that "leagues have a natural pushback to traditional elements of PE. The leagues and their partners don't want partners who want or expect significant control or influence, partners who use leverage or partners that have a forced exit horizon. What leagues want is long-term, passive, financial partners, the opposite of the strategy executed by most PE firms." Therefore, government institutions or league governing bodies may pose serious barriers to takeovers [669] from both local and foreign PE funds, either by a complex iter of approval or by placing an investing cap [670] [671];

- On-premises governance models – Most European football clubs have traditional ownership and corporate governance schemes (family businesses-alike), which are very often perceived as a deterrent to minority investing by institutional or private investors as they do not offer any kind of safeguard for their investments (Boccia A., 2018). Overall, European football clubs are characterized by a low level of far-sightedness which might stop PE from passive investing.

Secondly, the second set of issues is given by many risks, intrinsic to football club investing, that might deteriorate the overall return PE investors could get from investing. The main risk, from which all others derive, is, contrarily to football league investing, the exposure to the vicissitudes of a specific club (Aifi, 2020); namely, it carries:

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[668] E.g., voting on team-related matters, attending league meetings, voting on collective bargaining agreements, league rules, and the admission of other new owners.

[669] Or to exit opportunities.

[670] For instance, the Chinese government has placed a cap of RMB 650 million (US$92 million) on the total amount of outside capital that can be injected into local clubs to prevent financial reliance on parent companies (Upton P., 2019).

[671] Furthermore, club owners can be held to stringent standards and subjected to fines or other penalties from the league if they are convicted of certain crimes or otherwise act in a manner that violates the rules of the league; teams themselves also face various rules and restrictions such as limits on the amount of indebtedness (Kohout J. et al., 2020).

- Exposure to sporting performance – Relegation to lower divisions or failing to qualify for UEFA media rights because of poor sporting performance can lead to dire financial straits. Even if the club owner invests appropriately and set up the right managerial structure, sporting performance remains a question; the reason is that the entire football system is unpredictable as it is based on talents and players that are not easy to discover and manage, and where the competitive logics and rationales are less predictive than in other industries (Ruta, D., 2021). Therefore, football clubs' owners are left full of expenses and uncertainties: as Steve Horowitz [672] outlined, football is a risky investment and "even if you massively invest, there's no guarantee you're going to have sporting success";
- Commercial growth driving higher beta – As an investment banking associate interviewed by the author noted, the higher the commercial revenues, the higher the club's beta as it reduces the weight of relatively secure, long-term media rights contracts and increases revenue the weight of merchandising, matchday, and advertising that are far more volatile in the short term being subject to unpredictable contracts redefinitions, cancellations, or discounts;
- Exposure to misconduct scandals – Football has a track record of doping, match-fixing, money-laundering, corruption, and many other scandals that could hinder football club's growth leaving the owner with little or nothing to do (i.e., club executives might be exposed to threats outside their control, such as doping or match-fixing). Overall, it's worth linking the reputation of sports stars, teams, and leagues to price valuations, which result to be highly sensitive to single scandal events hits;
- Incapacity to grow – In the previous section we outlined many ways a PE fund might create value, however, not all of them might be actionable, because investors might face:
    - Publicly owned stadiums – Reducing the owner's capacity to enhance matchday revenue and limiting the decision-making authority (e.g., on price

[672] Partner at Inner Circle Sports (a New York City-based "boutique investment bank" focused on the global sports industry). Source: private interview in June 2021.

differentiation, marketing levers, technical equipment, external facilities, infrastructural improvements, et cetera);

  - Incapacity to impact media rights – As single entities, football clubs cannot sway much because league-level agreements most of the time reflect the overall product offered by the sum of participating clubs and the quality of matches they deliver. Nonetheless, the incapacity to make an impact on media rights reduces as the club grows in importance within a league;
  - Commercial revenue stagnation – This revenue stream rests the highest upside potential; therefore, clubs are strongly repositioning their brands to enhance advertising, sponsorship, and merchandising income. However, low or middle-tier clubs (except those playing the EPL or, to a smaller extent, LaLiga) rarely present massive opportunities to increase commercial revenue unless investing insane amounts of capital to promote their club to new audiences; as Giulio Alessandroni [673] outlined, "[for a club like Parma FC] a 10-million capital gain selling Cornelius [Parma's player] is worth 15 years of careful merchandising." Therefore, we can conclude that only where there is a need and appetite for commercialisation, there is an argument for PE investment.

- Winner-takes-it-all markets – I.e., the idea that football fans would rather have all the very best athletes concentrated in a single league than spread across several competing leagues. Besides, football leagues produce live entertainment, i.e., a very high fixed cost, low marginal cost product, similar to what is produced by actors, singers, and software writers, which may emphasize the tendency toward one brand of the particular sport (e.g., in the US, there is one major professional baseball league, MLB, not more than one; in Europe, a lot has been unsuccessfully done to launch a Super League); once a league is created and a season of competitive play is in progress, the cost of selling an extra seat or of having one more fan tune in is quite inexpensive [674]. Further, it can be argued that winner-takes-it-all leagues

[673] Manager at EY-Parthenon (Sport & CPR). Source: private interview in May 2021.

[674] Moreover, consumption by one television-viewing fan does not inhibit another fan from consuming the product on TV.

exhibit positive consumption network externalities: as the size of the fan base increases, there are more opportunities for football-based conversations, and increased attendance typically adds to the excitement of a given game. However, the high switching costs for local fans to change their allegiance to a competing football league complements the desire for concentrated talent. On the flip side of the coin, this also means that incumbent competing leagues are relatively safe from new entrants (i.e., new leagues entering the competition) as the common experience that bonds fans of the same team may mean that, for another league to start up and be successful, it would have to compensate fans (presumably through higher enjoyment) for the cost of learning new teams and players. Anyhow, this trend toward consolidation would either make a PE investor achieving stunning IRR or losing tons of money from backing the right or the wrong horse; projects such as the Super League, regardless of the outcome, contributes to generating an unattractive high-risk environment where uncontrollable regulatory alterations could result in large-scale unchangeable effects;

- Reputational risk – PE has fallen under intense public scrutiny in recent years, and football is one of the world's highest-profile sectors. Therefore, PE firms must approach club investments with due caution and ambition or be prepared to face the wrath of potentially millions of fans and all the negative publicity that's likely to bring (Le, A. & Lynn, A., 2020).

Finally, it is important to highlight how industry-specific supply and demand dynamics could disincentivize or even prevent PE from investing:

- Illiquid market – as the football M&A deal-making activity is still underdeveloped; Jos van Gisbergen [675] highlighted the similarity with art investing reporting as "we see [football club investing] more as investing in art, which over time might go up, but are extremely illiquid." Alternative exit options such as the IPO are possible,

[675] Senior portfolio manager at Achmea. Source: interview to Private Equity International. Retrievable at: https://www.privateequityinternational.com/the-new-playbook-how-private-equity-fell-in-love-with-sport/

even though difficult and subject to risks as the recent Club Brugge example showed (they delayed their planned IPO citing current market conditions [676]);

- Deal supply shortage – Scarce deal-flow is implicit as top teams are, by nature, limited to few teams per each league (Le, A. & Lynn, A. 2020); indeed, “there’s a lot of money chasing deals, but there aren’t that many deals,” confirmed Antonin Baladi [677]. Furthermore, several factors must be aligned to make a deal, and if the number of opportunities is limited, the probability of reaching an agreement are therefore extremely low in a given year; for instance, Donald Watkins [678], has made multiple attempts [679] to buy an MLS baseball team (MacFadyen, K., 2018), however, despite the interest, he did not reach any agreement and afterwards outlined how “you have to have the right team, in the right market, under the right terms and conditions; if you don’t have all three of those factors in perfect alignment at the same time, you will be upside down in the investment.” Therefore, the European football industry presents very few investment opportunities, and this further explains why investment banks, investment management companies and PE funds do not set up football, or even sports, specific practices: the limited deal-flow would not justify the capacity. Besides, inflated prices might be the natural consequence of high demand and low supply market, thus resulting in the risk of buying an expensive asset that will not eventually grow much also because valuations might get eventually normalized (if D/S dynamics change); indeed, Dave Dase, talking about US franchises, observed that “[over the last 15-20 years] it's been a pretty dramatic increase in valuation for sports teams. If you went back to 2010, so just ten years ago, the average sports team in the NBA is up over six times; the current valuations got two-point 1 billion dollars. So, you could have bought the Warriors in 2010 for 450 million dollars again today with over four billion dollars. So, this rise in evaluations is incredible. And I think [this type of

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[676] Retrievable from: https://www.reuters.com/article/soccer-belgium-club-brugge-ipo-idUSL8N2LN5JM

[677] Partner in PJT Partners’ strategic advisory group. Source: interview to Private Equity International. Retrievable at: https://www.privateequityinternational.com/the-new-playbook-how-private-equity-fell-in-love-with-sport/

[678] Donald V. Watkins (born September 8, 1948) is an American trial attorney, journalist, and international entrepreneur.

[679] E.g., bids for the Minnesota Twins and Anaheim Angels.

acceleration] it's very hard to sustain at that level. "Finally, the last consequence refers to the actual sales process [680] which is often structured as an auction where prospective buyers will compete with other groups and, due to the scarcity of value of there being so few professional football clubs, could lead to inflated valuations (Kohout J. et al., 2020);

- Need for external expertise – Put simply, most PE funds do not have the relevant expertise to manage football clubs; therefore, they would need to rely on external industry experts not only during the due diligence phase but also throughout the investment life cycle; for instance, an investment baking associate [681] reported that Krause, at the time of the investment in Parma FC, relied on several professionals with more than 10 years of industry experience to carry out due diligence and to set up the business plan. As Antonin Baladi [682] outlined, **"**not all PE firms can understand sports and the various risks, such as relegation in Europe or player welfare or injuries" (Le, A. & Lynn, A. 2020);
- Small ticket size – As David Dellea [683] suggested, PE funds may waive some opportunities as often the tickets are a bit too small, namely when we consider low to middle tier clubs.

Overall, one could legitimately assume that football club investing is difficult, given the challenging relationships with stakeholders, risky, because business performance relies on sporting success, which is more lottery than science, and rare because the number of clubs, being both sizeable enough [684] and fairly priced, is relatively small (if not inexistent).

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[680] Typically, there is an initial vetting process by the current owner of prospective purchasers, and winnowing of the number of prospective purchasers, based on their initial indications of interest and financial wherewithal. Following that initial narrowing of the field, anywhere from two to five prospective purchasing groups may then submit a more definitive bid during a typical auction process (Kohout J. et al., 2020).

[681] Anonymous interview in May 2021.

[682] Partner in PJT Partners' strategic advisory group. Source: interview to Private Equity International. Retrievable at: https://www.privateequityinternational.com/the-new-playbook-how-private-equity-fell-in-love-with-sport/

[683] Director of the Sports Business Advisory at PWC Switzerland. Source: private interview in April 2021.

[684] Even though small and mid-cap PE funds could jump in.

Besides, the most important questions remain unanswered: can football club investing generate satisfactory returns above PE IRR thresholds?

4.6 Conclusion

Overall, PE investing in European football clubs looks unlikely to become a recurring phenomenon because few investment opportunities arise every year and not all of them carry together significant upside potential. However, there are (few) circumstances where the growth potential of a specific club is still highly untapped [685]; in that case, a PE investor could eventually be able to achieve satisfying IRR by actioning strategic, operating and valuation levers we observed in the section '4.4 Why should Private Equity funds invest in European football clubs?'; nonetheless not all PE funds would be interested as a 30% IRR for instance is unlikely to be realized even considering a best-case scenario: an IB associate interviewed by the author [686], highlighted that some football clubs could be of interest to lower-bound PE funds targeting 15-20% IRRs. Eventually, the transaction could nonetheless fail to happen as a further condition is a club being on sale at a fair price which might not necessarily be the case as the demand for these scarce trophy assets is high while supply is extremely low (for instance, Inter FC owners demanding 33% more than what BC Partners was willing to offer [687]).

[685] Growth that will mainly take place over the commercial revenue stream, as deal-making features suggest.

[686] Anonymous interview in May 2021.

[687] Retrievable from: https://www.reuters.com/world/china/soccer-inter-milan-seeks-new-bidders-after-bc-partners-exclusive-talks-sources-2021-02-02/

5. Future of PE in football clubs

The chapter will focus on the future, analysing both football clubs and PE-specific trends.

Throughout the first section, we will go through phenomena that emerged because of the pandemic such as the industry digitalization, the increased openness to external capital from clubs, and the strong demand for football content. Then, we will shift to PE trends that might likely drive increased interest toward football clubs such as minority investing because of PE seeking alternative investment opportunities, the SPACs' surge, and recent investments in sports from institutional and well-known funds.

5.1 Post-pandemic trends of the football club industry

5.1.1 Industry digitalization

While operating revenues have been severely hit, namely when it comes to gate receipts and stadia streams, operating costs (i.e., players' salaries accounting > 50%) maintained constant revenue because of the wage rigidity in the short term [688], leading to an overall negative impact on both gross and net profitability, which in turn has translated into liquidity issues for most clubs across Europe [689]. Also, because of liquidity issues and pre-pandemic inflated valuations, the aggregated value of the 500 most valuable football players has decreased by 9.6% [690] between February 2020 and January 2021 [691], thus reducing the theoretical asset side's fair value of most football clubs. Finally, we observed

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688 Retrievable from: https://www.iame.uni-bonn.de/people/lorenz-goette/paper/Wage%20Rigidity.pdf

689 KPMG Football Clubs' Valuation: The European Elite 2020, May 2020.

690 The KPMG Player Valuation Tool.

691 Clubs mostly impacted, have been those who strongly relied on player transfers and capital gains on players to sustain their income; namely, KPMG Football Benchmark, identified the eight clubs mostly subject to this risk: AS Monaco FC, Olympique Lyonnais, SL Benfica, Athletic Club Bilbao, AFC Ajax, Sporting Club de Portugal, UC Sampdoria, Atalanta BC. Also, other important factors affecting the club's positioning vs the players market collapse, in addition to the reliance on capital gains by transfer sales, are the average remaining contract duration and the squad's average age, where the higher the average it is, the worse, as professional football players relatively young have been more resilient to the changes because of the increased time they can be exploited.

a reduction in the overall player trading activity [692] while moving from the traditional 'seller's market' to a "buyer's market" [693] in which a minority of clubs could exploit the difficult financial position of their counterparts [694] [695]. Nonetheless, it is crucial to note that, even before the pandemic, there was a consensus that inflated players' salaries, coupled with growing transfer and agent fees, were placing significant strain on clubs' finances; therefore, the crisis simply magnified a pre-existing imbalance of the status quo.

Therefore, in an industry already characterised by limited liquidity and low revenue diversification [696], COVID-19 related disruptions [697] had driven some clubs into real financial distress as clubs have been financially tested with games cancelled or played behind closed doors [698] exacerbated by the renegotiation, suspension or cancellation of payments from media and commercial agreements [699] (for EPL instances, please refer to 3.1.3 Covid-19 impact: the EPL case study, for the other big give leagues to the following footnote [700]).

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[692] CIES estimates that the value of summer transfer window transactions in the Big 5 leagues dropped by 43% from 2019 (EUR 5.8 billion) to 2020 (EUR 3.3 billion). Source: http://www.football-observatory.com/IMG/pdf/mr47en.pdf

[693] Since clubs have less purchasing power, and thus may be forced to sell their best players for a discount to shore up their finances due to the challenges.

[694] CIES also estimated the percentage of players signed without transfer fees increased from 26.2% to 32.3%, while the percentage of loans also increased from 23.1% to 30.0% from 2019 to 2020. Source: http://www.football-observatory.com/IMG/pdf/mr47en.pdf

[695] Getting players at a lower price than would have been possible up until the last transfer window.

[696] ¨When you have a business model where 80% of your revenue comes from TV rights and in moments like COVID-19, where all the leagues were paused for two months, then that's when the challenge comes. Having only a few sources of income is a mistake, it does not help;" said Maheta Molango (Chief Executive of the Professional Footballers' Association). Similarly, Oliver Finlay, chief executive at Beautiful Game Group said that "there was a great deal of waste in sport, pre-COVID-19," as, before the crisis, many organisations were too dependent on matchday revenue or on a narrow number of revenue streams, which increases risk.

[697] From the fallout of the pandemic, football clubs have been suddenly facing complex challenges from the following perspectives: legal (e.g., players' contracts), logistical (travel restrictions), regulatory (UEFA FFP), regarding the match calendar.

[698] Even though the effects of the virus were mitigated to an extent by cooperation from various stakeholders to facilitate the completion of most domestic leagues and UEFA club competitions in the 2019/20 season.

[699] Further down the football pyramid, clubs in smaller leagues and lower divisions were hit the hardest, since these clubs typically depend more on income streams from the matchday

[700] Spanish broadcaster Mediapro failed to make its second scheduled rights payment to France's Ligue 1 just months into their new agreement; Mediapro has attracted 600,000 subscribers, according to the company,

In this scenario, to compensate for the prolonged period of activities with diminished income, clubs have tried to look for alternative measures to monetize live games, accelerating football's digitalization. Consequently, while devastating in the short term, COVID-19 has spurred the re-evaluation of best practices and may have inspired the evolution and digital transformation of the industry [701]. Similarly, in-venue activation opportunities are in decline due to strict health regulations, therefore, clubs who possess knowledge of their fans' behaviour and can provide actionable insights through digital channels will be in a healthier position in the less familiar, but tougher sponsorship market.

5.1.2 Industry openness to external financing

The recent year has also seen a growing interest from PE houses, family offices and, more in general, institutional investors that have been considering committing or injecting capital into an industry that is still seen as offering favourable long-term outlooks. "Everyone is looking to address the near-term problems of the pandemic, and one way to do that is to allow infusion of institutional capital," reported a third-party money manager, who works with both leagues and owners (Massoudi, A., 2020), "there's a lot of blood on the floor here, these franchises are bleeding," the money manager added. Besides, "COVID-19 has left leagues across the world, and their stakeholders, with significant revenue shortfalls and working capital needs, and third-party capital can fill this gap," said Andrew Umbers [702]. Therefore, financial headwinds and liquidity concerns in the short term, combined with the growth and resilience of sports team valuations in the long term (Marino G., 2020), might create the perfect storm for an influx of capital from willing

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when around 5 million are needed to sustain the new service, according to Francois Godard of Enders Analysis. Germany's Bundesliga warned about a 20% reduction in its overseas rights revenues after BeIN decided not to renew a contract in the Middle East (Hellier D., 2020). In Italy, PE firms have vied to provide the financially stricken Serie A with funding: CVC Capital Partners and Advent International were in exclusive talks with Serie A after offering 1.6 billion euros ($1.9 billion) in exchange for a 10% stake in part of a new media company that will manage the league's future media rights. Finally, LaLiga saved the situation simply agreeing rebates of around €100m after Covid-19 hit season (SportBusiness, 2020, November 10).

[701] E.g., governing bodies and associations have been discussing reforms in the transfer system and cost control measures to restrict the industry's high-cost base for some time; football clubs attempted to set up the hyper exclusive Super League competition.

[702] Partner at UK sports-focused consultancy Oakwell, which advised Luxembourg-based CVC on its bid to buy a 14.5% stake in the Six Nations Rugby tournament.

suitors. League bodies and, potentially, football club owners who have a need or desire to liquidate a portion of their investment [703] will likely be even more eager to do so in the face of decreasing revenues and prolonged uncertainty, while shareholders that don't have an immediate need for capital may be more open to accepting minority investments from institutional investors to help establish adequate reserves and foster a relationship with a reliable source of readily-available capital in the future.

5.1.3 Demand to hold on

For firms like CVC or Dyal Capital Partners, investing in live sports leagues amid a pandemic represented a deep-seated conviction that not only will the sports industry survive the crisis, but that the need for live entertainment [704] was stronger than it has ever been (Le, A. & Lynn, A., 2020). "Sports is quickly getting back up to speed again," said Bridgepoint's Paul, "broadcasters are desperately wanting product back out on their networks again and sponsors want to get back out in front of their audiences and demographic again; in a sense, sport is a great platform to kick start a lot of that activity." Does the coronavirus crisis pose a fundamental shift to revenue streams from live sports? The GPs and intermediaries, that Private Equity International in November 2020 spoke to, all appeared convinced that while the pandemic posed one of the biggest threats the industry has ever experienced, the need for live sports will continue, and that PE would have had a role in providing patient and responsible capital to an industry needing it more than ever.

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[703] Companies are divesting for three main reasons:

1. To fund new technology investments;
2. The need to reshape portfolios re-focusing on core businesses;
3. Tougher capital allocation decisions in a disrupted business environment.

EY's Global Corporate Divestment study 2020, reports how 78% of global companies say they plan to divest within the next two years, 72% say they have held onto assets too long when they should have divested them and 65% will reshape their portfolios to prepare for a post-crisis world. Clubs' owners and PE funds will most likely ask themselves: How do we optimally invest in assets for the future? How do we achieve long-term success? How do we maximize the cash flow from the businesses of today? How can we optimize the tax position? The answers to these questions, are and will generate market opportunities, contributing to generating the equilibrium point between market demand and supply.

[704] While viewers are stuck at home due to government restrictions.

5.2 Post-pandemic trends of the private equity industry

Despite the challenges posed by COVID-19 [705], the PE industry remains well-positioned for growth. The industry's assets under management (AuM) are at record levels with PE firms having more than US$765b in capital available to invest [706]. After a strong start in 2020, PE deal activity dropped precipitously in 4QFY20 as pandemic-related issues took hold [707]. But even as total deal count remained subdued throughout the year in most sectors, deal and exit value snapped back vigorously in 3QFY20; in terms of aggregated transaction value, the year's second half ended up being as strong as any two-quarter run in recent memory [708]. Shortly, PE firms will be actively looking for deployment opportunities in several key areas:

- Carve-outs – As corporates and others look to rationalize their portfolios in the wake of the downturn, carve out opportunities will emerge for PE firms. Funds with deep sector expertise or experience with complex deals will be poised to capitalize;
- Growth capital – Growth capital and other minority-stake investment is one of the fastest-growing areas for PE, and the downturn will accelerate these trends, as growth-oriented businesses look to PE for secure financing;
- Distressed – According to Moody's, the number of defaults has more than tripled. With the impacts from the pandemic forecasted to outlive the pandemic itself, PE firms will be well-positioned to provide capital to stabilize troubled assets;
- Add-ons – Add-ons allow firms to give portfolio companies a path to scale at a time when organic growth is hard to come by. And with large platform investments challenged by financing, smaller add-ons have allowed PE firms to stay busy and deploy capital in a volatile environment;

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[705] On top of the pressure to deploy capital amid geopolitical uncertainty, increased competition, higher valuations, and rising stakeholder expectations.

[706] EY PE Pulse (August 2020).

[707] The inability to travel for diligence, a lack of available financing, and challenges with effectively valuing assets amid the uncertainty all prevented traditional PE deals from occurring.

[708] Global Private Equity report 2021. Bain & Company.

- The sector plays – Firms are already pivoting to deploy capital in industries and sub-sectors that are poised to see long term benefits from changes in consumer behaviour post-pandemic; among them, online education, last-mile logistics, and e-commerce.

Shifting the focus to the football clubs' industry, the coronavirus crisis presents both a serious threat and a potential buying opportunity (Le, A. & Lynn, A. 2020); live sporting events have been some of the most disrupted due to COVID-19, and yet PE has been betting on league holders [709]. However, when it comes to specific football clubs, "PE firms may be more hesitant to transact because there is no visibility on how COVID-19 will play out; [Indeed] PE investors like visibility on cash flow, and it's very hard to give visibility on that." according to David Brooks [710]. Indeed, "COVID has, for the time being, changed everything," said Nick Clarry [711], "as sports ecosystems are under enormous pressure, there's a real prospect that many teams could go bankrupt, and the sports landscape could be changed forever. It's desperately serious."

5.2.1 Minority investing

Minority investments, those representing less than 50% ownership, do not confer full control over the target company; as such, they are considered riskier because the acquirer cannot steer the company's strategy. To mitigate that risk, some PE firms use special provisions or employ a preferred share structure [712] to offer the PE firm downside protection at the expense of ordinary shareholders; e.g., the PE firm may require getting back its original investment in full upon exit and receiving a percentage of the remaining proceeds, alongside the dividends it has collected over the life of the investment, or the PE firm may further protect itself by limiting future capital raises or redemption. Minority

[709] A combination of rising valuations of sports leagues, a need for liquidity on behalf of original owners and stakeholders, and a highly fragmented industry that could benefit from greater operational improvement and efficiencies has turned to invest in sports into an attractive bet (Le, A. & Lynn, A. 2020).

[710] Partner at Freshfields Bruckhaus Deringer.

[711] Managing partner at CVC Capital Partners who leads the firm's sports, media, and entertainment business.

[712] The most common preferred structure would require dividends paid out before common stock dividends are issued and/or, in the case of bankruptcy, preferred shareholders will have pre-emptive rights over the assets.

stakes in preferred structures are particularly suitable when investing in riskier assets such as the ones one might find in the sports and entertainment industry; for instance, Silver Lake Partners, reached out to distressed radio broadcaster iHeartMedia in 2018 to invest $500m in convertible preferred shares, betting on the risky but high-growth profile of the firm.

We recently observed a surge in minority investments mainly driven by the lack of liquidity caused by the pandemic; e.g., CVC Capital Partners is in talks to buy a minority stake in the San Antonio Spurs at a roughly $1.3bn valuation [713] with the talks coming as the NBA, which oversees professional basketball in North America, is opening up to institutional investment (Wiggins, K., 2021); the rationale, for a fund such as CVC, is not only to invest in an industry characterized by relatively consistent returns and the capacity to diversify by tapping into global diverse fanbases but also, as an inexpensive way [714] to take a seat on the team's board, though its influence would extend only to commercial decisions on matters such as branding and seat pricing (Wiggins, K., 2021). Therefore, minority investments don't necessarily imply not influencing the day-by-day management as someone might legitimately assume, but are instead an additional option to indeed make an impact (not unlimited though), without getting excessive exposure and with assets that wouldn't be alternatively purchasable (i.e., some football club owners might not be willing to give up either the prestige or the status that the club ensures); as David Dellea [715] pointed out, even if they get minority, PE funds want to control through management, "they step in to make an impact, they take a 20% but say 'okay, now I vote two members of the board or I co-write major signings', they are not into the football industry to be another spectator, taking a 10% stake and stay waiting for something to change, because nothing is going to change."

As the football industry develops towards becoming an established market for PE businesses, it shall be particularly attractive to investors with a track record of joint

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[713] Retrievable from: https://www.ft.com/content/b70afbd7-d207-46dc-9055-708312de1d9a

[714] Minority deals allow buyout groups to take a position at a lower cost and with less debt and increase the investment later (Bucak, S. & Saigol, L., 2020).

[715] Director of the Sports Business Advisory at PWC Switzerland. Source: private interview in April 2021.

ventures and minority-share investments (Taylor M., 2020). These vehicles may be preferred to comply with jurisdictional restrictions on foreign ownership, but also for investors looking to pool resources or share the risks of entering a new and developing market (Taylor M., 2020).

5.2.2 SPAC surge

Another recent trend, which is impacting the sports industry among the others, are special purpose acquisition companies, commonly denoted as SPACs; these companies are generally used to raise money, which is stored in escrow for two years, while company managers seek to acquire distressed or companies for sale. This phenomenon is booming in the US sports industry after previous past attempts while did not happen in Europe yet (even though US SPACs might invest in the European sports industry); for instance, we can mention two SPACs explicitly set up to target sports clubs or franchises:

1. RedBall Acquisition Corporation, an affiliate of RedBird Capital Partners [716], filed for a proposed IPO of USD 575m [717] to effect a merger, share exchange, asset acquisition, share purchase, reorganization, or similar business combination with one or more businesses. While Redball may pursue an acquisition opportunity in any industry or sector, it intends to focus on businesses in the sports, media, and data analytics sectors, with a focus on professional sports franchises, which complement the management team's expertise and will benefit from its strategic and hands-on operational leadership. "The RedBall SPAC acquisition is the next step in an ongoing transition in the sports ecosystem," said one executive now raising funds to invest in clubs as reported in the article of Massoudi Ariya in 2020. Fenway Sports Group, L.P. Group, the owner of EPL's Liverpool FC, was

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[716] Retrievable from: https://www.redbirdcap.com/news/redball-acquisition-corp-completes-575-million-initial-public-offering/ RedBird is a big player in the PE sector, with companies like the New York Yankees' YES Network in its portfolio. The firm is run by former Goldman Sachs executive Gerry Cardinale, who also had a hand in forming Legends Hospitality with the Yankees and Dallas Cowboys. On July 20, RedBird also announced it purchased 85% of the French soccer team, Toulouse Football Club from owner Olivier Sadran who will retain a 15% stake in the club and remain on the member board of directors.

[717] Retrievable from: https://www.redballac.com/ The Company has applied to list its units on the New York Stock Exchange under the symbol "RBAC.U." RedBall is a new blank check company incorporated as a Cayman Islands exempted company.

eventually the target company selling a minority stake of more than 10% of the group to RedBall for around $750 million [718];

2. Sports Properties Acquisition Corp was a blank check company formed to acquire, through a merger, capital stock exchange, asset or stock acquisition, exchangeable share transaction or other similar business combination, one or more domestic or international operating businesses, focusing its efforts on companies that create, produce, deliver, distribute, market content, products, and services related to the sports, leisure, or entertainment industry. On January 24, 2008, it collected USD 215m in gross proceeds; the rationale for this SPAC was the belief that the demand for sports, leisure, and entertainment-related content, services, and products presents attractive opportunities for growth and value creation; a demand supported by highly visible revenue streams resulting from, among other things, advanced ticketing, media, sponsor, advertising and concession activities, many of which constitute contractually obligated income, as evidenced by multi-year, fixed or escalating licensing agreements, some of which can be structured for twenty or more years, besides, the branded aspects of the sports, leisure and entertainment industries can attract a loyal customer base and bring with them less volatility and more sustainable, long-term growth attributes. They placed a bid for the Panthers however their USD 240m offer was eventually refused and the SPAC managers did not manage to find alternative investments by agreed-upon investment horizon (2 years); therefore, on the 26th of January 2010, they filed for liquidation [719].

In March 2021, IPOs of US SPACs surpassed the $83.4 billion the sector raised in all of 2020, according to SPAC Research [720]. Therefore, we might expect SPACs such as RedBird or others yet to be formed placing bids in the European football clubs' industry; however, given Sports Properties Acquisition Corp example, it is important to highlight how the short time frame within which SPAC's investments must be made doesn't fit with

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[718] Retrievable from: https://www.wsj.com/articles/redbird-set-to-score-with-fenway-sports-deal-11616017274 and https://www.sportico.com/business/finance/2021/redbird-to-buy-fenway-sports-group-stake-1234623645/

[719] Retrievable from: https://www.sec.gov/Archives/edgar/data/1412203/000119312510014367/dex21.htm

[720] Retrievable from: https://www.spacresearch.com/

the low level of deal supply and subsequent rare deal-making activity that characterize the European football industry.

5.2.3 Investing in sports

Recent deal-making activity, often involving CVC Capital Partners across a wide array of sports and geographies [721] and with their Formula One's acquisition in 2006 and subsequent sale to Liberty Global Media in 2016 being one of PE's most lucrative and transformative success stories, could eventually drive the innovation adoption curve, thus attracting interest from others to join in sports investing. For instance, with CVC Capital Partners, other sophisticated financial investors have raised their heads above the parapet to deploy capital into the sporting value chain; for instance, at the time of the proposal to take a 10% stake in Serie A's newco, FSI and Advent joined the forces with CVC to reach the EUR 1.7b bid (it was for both funds a first time with a sports league).

Besides, CVC is the most prominent but not the unique PE sponsor active in the sports industry: major investors, reported considering opportunities involving sporting targets, have included Bain Capital, The Blackstone Group, Bridgepoint Capital, Cinven, Elliott Management, Apollo Global Management, Advent International, ranging from investments in teams (e.g. AC Milan), leagues (e.g. Six Nations Rugby, Women's Football, MotoGP), sports tech (e.g. Peloton, Fitbit), sports betting (e.g. Sky Bet), talent management (e.g. Endeavor, Octagon) and the high growth esports ecosystem (Scott, G. & Hanton P., 2021).

Therefore, we are witnessing more and more M&A activity in the sports industry and European football clubs might shortly become one of the various evolutions of this trend.

[721] At the time the author is writing, CVC is in talks to take a 10% stake in LaLiga for EUR 2.7b. Source: https://www.nytimes.com/2021/08/03/sports/la-liga-cvc-capital-barcelona-real-madrid.html

Conclusion

There seems to be a consensus from industry opinion leaders that, because of the pandemic outbreak, PE capital will vehemently enter the sports industry:

- "The COVID-19 crisis will further the sports investment opportunity for PE firms." Chris Mort [722] stated;
- Gerry Cardinale [723] said there is still a reluctance to make a "COVID-19 trade" in sports but he believes "you're going to see pockets of financial distress." However, he added: "These are still great assets and intellectual property, the business model is still intact. There is a period where everything will be massively dislocated and that will provide opportunities for capital to come in;"
- "I don't see any reason why it [investing in football clubs] wouldn't, and shouldn't, become more mainstream. I think we will find that more PE outlets have more specialist people looking at this sector," David Brooks [724] said;
- Antonin Baladi [725] reported "there are a lot of examples of people having made money in sports. PE is going to say that the reason they are looking at all this is that people love sports. There is a question mark on how long this crisis will go for, but things will go back to some form of normality;"
- Andrea Radrizzani [726] noted an "increasing interest from PE houses in the sports and entertainment industry, which is probably driven by the rapid growth of football clubs' revenue and valuation;"
- Robert Malandro [727], when asked whether he saw more appetite for sports clubs from PE funds because of the pandemic, positively answered and added that "it's driven by several factors: first, teams are becoming more sophisticated from a

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[722] Head of sports at law firm Freshfields Bruckhaus Deringer LLP.

[723] Managing director at RedBird. Source: https://www.marketwatch.com/story/sports-are-back-on-the-pitch-so-is-private-equity-and-the-competition-is-heating-up-2020-06-30

[724] Partner at Freshfields Bruckhaus Deringer.

[725] Partner in the Strategic Advisory Group at PJT Partners, based in London.

[726] Businessman (Leeds United FC, Eleven Sports, Aser Group). Source: private interview in May 2021.

[727] Managing Partner at Whitecap Sports Group.

consumer-facing/activation standpoint; second, they are developing many more ancillary revenue streams; third, leagues have lessened restrictions on PE money, allowing more participation in many instances. All of these factors potentially line up well with PE funds that focus on consumer verticals;"

- Marco Daviddi [728] underlined how "PE funds love investing in underperforming assets to accompany them on a growth path; for instance, in Italian football, several indicators are showing the significant upside potential yet to be tapped;"
- "I think that post-COVID-19 crisis there is going to be an acceleration on private investment coming into football clubs," said Marshall Glickman [729], because the right PE partners bring financial discipline, expertise, and professionalization on the business side;
- "Just as the game itself has changed, so it is inevitable that the funding of the game will change also," said Justin Murray [730]. "This is a natural progression, not a sell-out."

Besides, quoting Warren Buffet, "most people get interested in stocks when everyone else is, so the time to get interested is when no one else is." The concept of "availability bias" suggests that we, as humans, tend to assign a greater probability that an event will occur when we can recall it more easily. In the world of football, the scandals and spotty track record of management eclipse the stories of financial success; therefore, for many investors, it is difficult to leave behind these prejudices, and very few institutional investors are interested in analysing the change underway in the sector (Álvarez L.G. & Morosi M., 2019). Put simply, European football is an excellent product: its importance to costumers is extremely high (e.g., fans were desperate for games cancellation or remote attendance throughout the pandemic), and its economic cost given the upside potential is relatively low as the average value of a major American sports franchise, according to Forbes, is around $3 billion while the average value of a European football club is closer to

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[728] Managing Partner for EY Strategy and Transactions in the Mediterranean Region. Source: private interview in June 2021.

[729] CEO of G2 Strategic and former president of the NBA franchise the Portland Trail Blazers. Source: https://www.n3xtsports.com/new-opportunities-for-football-postcovid19/

[730] Chairman of Murray & Co, an investment bank based in New Zealand. Source: https://www.ft.com/content/24e9fc43-4187-4884-8efe-7a6efb496f24

$300 million [731] (Álvarez L.G. & Morosi M., 2019). Furthermore, evidence from clubs such as Tottenham FC, Atalanta BC, Olympique Lyonnais, Atlético Madrid, Borussia Dortmund [732], proves that responsible financial management is perfectly compatible with good results on the football pitch demanded by die-hard fans (Álvarez L.G. & Morosi M., 2019). Therefore, football clubs might be an excellent investment opportunity for PE funds.

However, after careful consideration we do not expect PE funds to get a prominent role in the football clubs' industry across big five European leagues; instead, they could assume a marginal role, minority investing in diversified assets [733] (e.g., RedBall investment in Fenway Group, owner of Liverpool FC) or investing whenever the subscription price leaves them with sufficient room for growth.

To back up this statement, there are three main rationales.

Firstly, the potential market, in terms of deal-making activity, is relatively small. To start, we should exclude the vast majority of low and middle-tier clubs from the list of potential targets as they do not present enough uplift potential: their valuations are highly correlated with media rights (i.e., their most significant revenue stream), but, unfortunately, low and middle-tier football clubs have little or none impact over league rights marketing; therefore, from a PE investor point of view, not much can be done apart from spending an insane amount of money to improve sporting performance because all additional revenue streams are outside control: sponsorship and advertising, even if well-managed, are a

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[731] A 1/10 whereas the difference in the value of the media rights is roughly 1/3 and this gap has narrowed considerably in recent years, a trend we expect to continue (Álvarez L.G. & Morosi M., 2019). Of course, US franchises can benefit from significant matchday revenue in normal times but at the same time wise human capital management in European football clubs can result in an additional revenue stream that US franchises cannot rely on (as the player transfer is prohibited).

[732] Naming one example per each elite European league.

[733] Increasingly, stakeholders are finding that minority investment by PE firms might be the ideal solution for continuing franchise valuation growth without the risk of an LBO or similar financing scheme (Marino G., 2020). In exchange, minority investors are allowed to invest in a high-growth, yet uncorrelated asset class, with steady revenue streams all-but-guaranteed over the mid-to-long term. Those cash flows are typically underpinned by lucrative broadcast rights agreements, which guarantee hundreds of millions of dollars in secured revenue over contract lengths that roughly correspond to typical investment fund holding periods.

consequence of sporting success rather than its prerequisite [734], while matchday overall revenue is strongly correlated with sporting performance (and also with the economics of the city hosting the football club, in terms of demographics and spending capacity). Furthermore, we recently witnessed exploits from low or middle-tier clubs (e.g., Leicester FC, Lille OSC, Atalanta BC) that eventually resulted in significant increases in clubs' valuation, however, the flipside of the coin is that low and middle-tier clubs are constantly exposed to the relegation risk [735] and to governance alterations (e.g., see Super League), which pose a massive risk to PE investment. Finally, as David Dellea [736] observed, PE funds may waive investment opportunities with low or medium tier clubs as investment ticket sizes are generally too small. Consequently, once we exclude low and middle-tier from the list of potential targets, PE investors are left with a limited number of elite clubs (on average, four per each big five European leagues could fall under this categorization), which, even in a best-case scenario where all 20 clubs are owned by PE investors, assuming an average tenure of 5 years, leaves with four deals a year worth anywhere between EUR 200m and EUR 3b [737]. Realistically speaking, after observing past years' experience, out of 20 clubs [738], a normal case scenario would assume only one majority investment across big five European leagues a year: in that deal, not only PE but dozens of investors would compete, thus creating a risk of bidding wars, something which might explain why not many PE funds entered and will enter the industry. To conclude, demand and supply dynamics are the first elements possibly preventing PE investment because of the low number of potential deals and the intrinsic upward pressure on prices driven by the strong demand; therefore, the bottom line is that the strong demand from ultra-high-net-

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[734] After several interviews (see chapter Contributors at the end of the paper), it is common knowledge across industry experts that ancillary revenue streams are after sporting results unless, again, the owners have incredible spending capacity and strong risk tolerance.

[735] A scenario which is detrimental for any investment, no matter parachute payments when teams get relegated.

[736] Director of the Sports Business Advisory at PWC Switzerland. Source: private interview in April 2021.

[737] Football Clubs' Valuation: The European Elite 2021. KPMG. Source: https://footballbenchmark.com/library/football_clubs_valuation_the_european_elite_2021

[738] To be precise, one could argue that not all 20 elite European clubs might attract investors; for instance, AS Roma changed 3 owners in the last decade, but none of them was reported taking in a satisfactory return.

worth individuals, sovereign wealth funds and PE funds is not balanced by the fixed number of elite football clubs available for sale.

Secondly, there is strong cultural resistance to PE investment, from:

- Fans – Club investments carry a unique form of reputational risk as football fans hold emotional equity in their teams, especially in competitions such as the big five European leagues (among the most-watched worldwide) where vehement public backlashes due to owners' mismanagement are on the agenda. For instance, Mike Ashley, owner of the EPL side Newcastle United, since acquiring a 41.6% holding in the club in 2007 [739], faced several protests against what fans perceive to be underspending, poor decision-making, and a lack of ambition; when being subject to possible takeovers (e.g., by Saudi Arabia's PIF [740]), many fans happily welcomed the potential change of ownership given the increase in spending capacity granted by the SWF (Le, A. & Lynn, A., 2020). Indeed, as pointed out by Kieran Maguire [741], "football fans don't want financial prudence; Roman Abramovich [a Russian oligarch, owner of Chelsea FC] is loved because he signs cheques; Mike Ashley is hated because he doesn't spend, but his club is financially stable;"
- Governing bodies – As an anonymous expert told PEI (Le, A. & Lynn, A., 2020) "leagues have a natural pushback to traditional elements of PE" [742]. The leagues and their partners don't want partners who want or expect significant control or influence, partners who use leverage or partners that have a forced exit horizon. What leagues want is long-term, passive, financial partners" (i.e., the opposite of

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[739] Retrievable from: https://www.theguardian.com/business/2007/may/23/football

[740] Retrievable from: https://www.bloomberg.com/news/articles/2020-07-30/saudi-arabia-s-pif-abandons-bid-for-newcastle-united-soccer-team

[741] Mr Kieran Maguire B.A.(Econ), FCA, FHEA. Senior Teacher in Accountancy at the University of Liverpool. Interview released to PEI.

[742] "Not having PE ownership in the past was to, in essence, know who your owners are so that you could understand how long they are in their vision for participating in our league," Don Garber, MLS commissioner, told CNBC in July 2020. So, PE would bring more certainty however the traditional PE model doesn't qualify them as a long-term partner but rather as a medium-term tenant: The need to be a long-term partner in the live sports sector means the traditional PE model in which exits are expected after three to five years of ownership, can unsettle team owners and leagues.

the strategy executed by most PE firms). Therefore, government institutions or league governing bodies might pose serious barriers to takeovers [743], either by instituting a complex iter of approval (e.g., checks and tests to new owners and their financial capacity) or by placing an investing cap (e.g., Bundesliga's 50+1 rule) [744];

Thirdly and finally, even though we repeatedly mentioned the significant uplift potential by seamlessly managing a football club, some PE funds expect 25-30% IRR from their investments while, as it stands, more than 50% of European football clubs are unprofitable both in pandemic and normal times. The risk-adjusted return on capital from owning a football club is, as outlined by Steve Horowitz [745], simply "unsatisfactory". Unless salary caps shall be introduced or the Super League launched [746], risk-adjusted returns of football clubs cannot attract return-exigent investors such as PE funds: as an investment banking associate noted, in a base case scenario, the risk-adjusted return of football clubs is between 15 and 20%, which is the lower bound of PE funds [747].

So how could we justify the reported interest of BC Partners for a club such as Inter Milan? "Crisis creates opportunities," said Kieran Maguire [748]. The pandemic presented itself both as a serious threat for clubs and franchises and a potential buying opportunity; as a matter of fact, not only BC Partners but a handful of firms have been launched in the

[743] Or to exit opportunities.

[744] Furthermore, club owners can be held to stringent standards and subjected to fines or other penalties from the league if they are convicted of certain crimes or otherwise act in a manner that violates the rules of the league; teams themselves also face various rules and restrictions such as limits on the amount of indebtedness (Kohout J. et al., 2020).

[745] Partner at Inner Circle Sports.

[746] Even if the Super League project broke down, the episodes of those days, as well as the things that have been said and, above all, the things that we will never know, represent the beginning of a new phase for European football (Ruta, D., 2021). There is no doubt that there is a certain degree of discontent that has been badly expressed, in the manner and timing, which cannot be rectified through simple press releases. What has happened should be considered as a starting point, and not an attempt that went wrong and was immediately dismissed. What is needed is a great responsibility on everyone's part, as well as openness and dialogue, to reach a real treaty that could lead to a historic truce.

[747] Hedge funds remain more indicated than pure buyout or growth PE funds, because they can better mix their expected risk-adjusted returns while PE target IRRs might be difficult to obtain.

[748] Mr. Kieran Maguire B.A.(Econ), FCA, FHEA. Senior Teacher in Accountancy at the University of Liverpool. Interview released to PEI.

last 18 months to take stakes in sports teams and leagues; among the others, Arctos Sports Partners [749], Dyal Capital Partners [750], Ares Management [751]. Driving this phenomenon is the possibility to find fairly priced investment opportunities: as Adam Sommerfield observed [752], there is a "huge amount of appetite" from both new funds and existing shops, "they understand now is a good time to buy because they will get a reasonable price as valuations are not massively inflated." Nonetheless, sale prices might not be enough low to justify majority investments given PE IRR requirements: for instance, in the BC Partners example, Inter FC owners demanded 33% more than what the PE fund was willing to offer [753].

Summing up, PE will have a role in the ownership of elite European football clubs but will be limited to minority stakes and unrepeatable bargains [754].

[749] Already has minority stakes in 12 US MLB and NBA franchises. Source: https://www.institutionalinvestor.com/article/b1tckcs3y46zw4/Private-Equity-Has-Definitively-Entered-the-World-of-Professional-Sports-Here-s-What-Comes-Next

[750] Launched a fund aimed at NBA teams in April 2021 (e.g., in July 2021, acquired a 5% stake in the NBA's Sacramento Kings, according to the Wall Street Journal).

[751] Backing a group to take a stake in an EPL football club (Le A., 2020).

[752] Source: Interview released to Private Equity News.

[753] Retrievable from: https://www.reuters.com/world/china/soccer-inter-milan-seeks-new-bidders-after-bc-partners-exclusive-talks-sources-2021-02-02/

[754] From a valuation perspective.

Annexes

Annexe 1 – US-based PE funds completing 11 out of 21 main transactions

Investor	Target organization	% stake	Investment size (mln $)
KKR, Silver Lake, MSD Capital	UFC	100%	4.300
Dyal Capital Partners	NBA	*minority*	2.000
CVC, Advent, FSI	Serie A MediaCo	10%	1.600
Bridgepoint	Dorna	100%	640
GTC	Vivid seats	*majority*	580
Blackstone	Yes Network	13%	560
Red Bird Capital	Yes Network	13%	560
Silver Lake	City Football Group	10%	500
Qatar Sports Investments	PSG	100%	470
Elliott Management Corp.	AC Milan	99,93%	430
China Media Capital	City Football Group	13%	400
ADUG	City Football Group	77%	380
CVC	Six Nations	14,50%	380
CVC	Premiership Rugby	27%	250
LionRock	FC Internazionale	31,05%	170
CVC	Pro 14	28%	150
Red Bird Capital	OneTeam	40%	130
HIG Capital	Sportfive	75%	120
Bridgepoint	Women's Super League	n.d.	n.d.
KKR	Rugby Australia	n.d.	n.d.
Silver Lake	Madison Square Garden	10%	n.d.

Annexe 2 – Sports clubs industry delimitation in Europe and the U.S.

NACE Rev.2 9312 (European Commission, 2008): "This class includes the activities of sports clubs, which, whether professional, semi-professional or amateur clubs, allow their members to engage in sporting activities."

NAICS Code 7112 (NAICS Association, 2017): “This U.S. industry comprises professional, or semi-professional sports teams or clubs primarily engaged in participating in live sporting events, such as baseball, basketball, football, hockey, soccer, and jai alai games, before a paying audience. These establishments may or may not operate their arena, stadium, or other facilities for presenting these events.”

Methodological Note

The paper comprises both quantitative and qualitative analyses.

Quantitative analyses covered:

- Correlation analysis to gather insights over the relationships between analysed variables (e.g., sporting performance vs transfer sales balance, sporting performance vs wage bill, et cetera);
- Market sizing retrieving and analysing third-party data (e.g., to analyse the sports industry);
- Financial information of specific clubs (e.g., AC Milan SpA, Inter Milan FC) or to identify clubs presenting specific conditions[755].

Qualitative analyses included several interviews conducted with high-calibre industry experts (more detail in the chapter "Contributors"). The author opted for this type of qualitative analysis because they are far more personal than research or questionnaire, thus allowing to gather in-depth insights; besides, unlike with surveys, the author had the opportunity to probe or ask follow-up questions; finally, because interviews are generally easier for respondents to freely answer questions. Given the pandemic outbreak, most interviews have been conducted online and they generally lasted between 20 and 45 minutes. The author opted for a combination of the informal/conversational interview and the interview guide approach, meaning that before each interview a guiding list of questions was prepared and shared with the contributor; however, this was not meant to ensure that the same general areas of information were collected from each interviewee (as the interview guide approach would suggest), but rather to meet the diversity of expertise and experience brought by each respondent.

[755] E.g., to identify divestment opportunities, the author focused on relevant key indicators such as recent large acquisition, carve-out, liquidity events (e.g., distress), public statements about divestments/focusing on core assets.

Contributors

As part of the thesis draft, the author reached out to several professionals to hear their perspectives over specific topics; specifically, interview respondents can be classified into two categories: professionals interviewed because of their industry experience and professionals interviewed because of their transaction experience. The following respondents belong to the first group (industry experience):

Name	Job title
Andrea Radrizzani	Businessman (Leeds United FC, Eleven Sports, Aser Group)
Anonymous	IBD associate at bulge bracket investment bank
Anonymous	IBD associate at leading European investment bank
Anonymous	Italian business consultant at leading consulting firm
Bradley Katcher	Managing partner at Galatioto Sports Partners
Carlo Rombolà	Attorney, Professor, and Sports Judge
Ciarán Fitzgerald-Morgan	Legal Counsel on Media Rights at TEAM Marketing AG
Costantino Palma	DCM analyst at Bloomberg
David Dellea	Head of Sports Business Advisory at PwC
Fausto Zanetton	Chairman of the Board and CEO at Tifosy Capital
Gene Swinton	Founder of Sports D^3; digital assets on blockchain specialist
Jeremy Pressman	Partner at ADvantage Sports Tech Fund
Mounir Zok	CEO at N3XT Sports
Nathan Edwards	Consultant at the Sports Consultancy
Paolo Macchi	International attorney and professor (focus on sports and media)
Raghav Nagpal	Marketing and Sales Head at Sports Ex Consultancy
Robert Malandro	Managing Partner at Whitecap Sports Group
Rodolfo Manica	Analyst at Tifosy Capital & Advisory
Salvatore Galatioto	President and Founder of Galatioto Sports Partners
Steve Horowitz	Partner at Inner Circle Sports
Tonte Davies	Research analyst in Sports and Entertainment
Zach Yoshor	Analyst at ADvantage Sports Tech Fund

The following respondents belong to the second group (transaction experience):

Name	Job title	Transaction
Adam Sommerfield	Managing Partner at Certus Capital Partners	Burnley FC
Anonymous	Analyst football financial advisory company	Non-disclosable
Anonymous	Analyst sports financial advisory company	Non-disclosable
Anonymous	Associate at leading bulge bracket investment bank	Non-disclosable
Giulio Alessandroni	Manager at EY-Parthenon (Sport & CPR)	Parma FC

Marco Daviddi	Managing Partner for EY Strategy and Transactions in the Mediterranean Region	Serie A

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Summary

In the last decade, examples of private equity investment in the sports environment have been relatively sporadic and isolated. Indeed, aside from the largest and most notable sports properties and brands, the sector has been viewed with caution by investors; likewise, clubs' owners, to keep up the game tradition in the sight of their fans, have been reluctant to open themselves to external financing. Over the last two years, however, there has been a notable shift in activity and appetite on both sides of the field mainly driven by the sectoral diversification, technology, and the pandemic [756]: investment funds and football entities are increasingly looking for innovative ways to partner to accelerate transformative growth while withstanding the shorter-term challenges posed by the pandemic. Among the others, BC Partners [757] reported offering EUR 800m for Inter Milan FC has drawn the author's attention on this topic and persuaded him to deepen this thematic material.

So, the football-private equity challenge, and the hypothesis under investigation of this paper, is the following: are European football clubs, able to navigate their traditions, governance structures and socio-political environment in such a way to get private equity into their ownership? And, if so, can private equity expertise deliver sufficient and stable

[756] Sport and football organizations changed dramatically during the last 20 years: "sport has traditionally just been spectators going and watching, whereas now the sector has diversified," explains Lydia Zakrzewski (Associate in the PE group at law firm Stephenson Harwood LLP) "The introduction of disruptive technology and the development of innovations like esports and online betting have allowed a variety of sports to become more accessible to a larger audience. In turn, investment into sports has demanded a larger focus on the commercial and audience interaction side of sports, which makes it an even more attractive proposition." The aftermaths of the pandemic crisis have brought instability to markets, sometimes lower deal volumes, new investment structures, and tighter regulations, which have led to shrinking margins for most of the industries, and tremendous ones for the remainder. In this ever-changing environment, M&A represents one way to cope with uncertainty and eventually manage to grow under tougher business conditions. Furthermore, recent trends in the global economy, such as the growth of emerging markets (BRICs) coupled with the globalization of fans (easing the circulation of goods, people, and, most importantly, information) allowed the football industry to stand out in terms of uplift potential to attract M&A activity.

[757] A British international investment firm with over $40 billion of assets under management across private equity, credit and real estate in Europe and North America.

incremental returns, for all stakeholders, in what private equity funds would repute an acceptable investment lifecycle ending in a safe exit [758]?

“I believe if you own an NFL team, you own the biggest sport in America,” Steve Horowitz said [759]. “If you own an EPL team, you own the biggest sport in the world. It's the global game now.” Indeed, football is the one sport that has been a polarizing global appeal, thus overcoming national, cultural, and socio-economic boundaries. Impressively, it keeps growing with an ever-expanding audience throughout the world in both industrialized and developing countries, establishing itself as the most popular sport in the globe accounting for 43% of the spectator [760] sports market [761].

Nonetheless, football clubs’ profitability is generally low; for instance, Serie A clubs generated net collective profits between 2016 and 2018, yet after 17 years of losses [762] and went back to losses the following year [763]. More broadly, ‘big five’ European clubs made EUR 17b in revenue between 2018 and 2019 against EUR 1.4b of combined operating profits [764] [765]: the EPL had the highest operating profitability ratio with 15.9%, then Spain and Germany with 13.2% and 11.8%, while Italy and France walked in negative areas with

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[758] I.e., an exit mechanism that preserves the integrity of the organisation.

[759] Horowitz is a partner at Inner Circle Sports, a New York City-based “boutique investment bank” focused on the global sports industry.

[760] In participatory sports, as the name suggests, participants play the game first-hand while spectator sports are characterized by the presence of spectators (or watchers) at its events , therefore, its definition includes teams, clubs, and independent athletes that present sporting events before a paying audience.

The spectator sports segment is worth 44% of the USD 388b sports market, in 2020.

[761] Sports Global Market Report 2020-30: COVID-19 Impact and Recovery. The Business Research Company. Retrievable at: https://www.researchandmarkets.com/reports/5022446/sports-global-market-report-2020-30-covid-19?utm_source=BW&utm_medium=PressRelease&utm_code=ctvc8g&utm_campaign=1244426+-+Sports+-+%24614+Billion+Global+Market+Opportunities+%26+Strategies+to+2022&utm_exec=joca220prd

[762] Retrievable from: https://www.thelocal.it/20180326/italy-serie-a-profit/

[763] Retrievable from: https://www.forbes.com/sites/giacomogalardini/2020/06/20/serie-a-registers-record-25-bn-revenue-but-flags-covid-19-impact/?sh=4fe4d1e1789f

[764] 8.4 % European profitability ratio.

[765] Of course, the poor profitability is referred to a pre-pandemic environment, then, the aftermath of COVID-19 resulted in even poorer operating profits as we will see in chapter 3.1.3 Covid-19 impact: the EPL case study.

-1.5% and -16% [766]. From a Porter five forces analysis, the low level of profitability founds explanation in the high bargaining power upstream and downstream the football clubs' value chain and in the pressure posed by substitute products; to sum up, three stakeholders – fans, rights holders, and athletes – ultimately undermine football clubs' profits (with wage to revenue ratios usually higher than 50%), with differences, in terms of stakeholder impact, according to the football club's heritage, popularity, country, and team quality. However, even though the deep connection with society and the three stakeholders contribute to further shrinking operating margins, some companies still manage to thrive in this environment; the key to success is, often, to create a "cycle of growth" [767]. The cycle of growth is, indeed, a virtuous circle that embroils several moments: at first, improving teams and investing in stadia, facilities and talent, results in commercial success and eventually sustainable growth; then, to make the system work, it is critical to distribute equitably and use influence for wider football development and CSR, thus generating resources to improve and invest in stadia, facilities, and talent. The cycle of growth may arise either at the league level (e.g., EPL) or at the club level (e.g., Atalanta B.C., Mainz 05). In the first scenario, the increase in distributable money from media rights triggers the start of the cycle and its self-reinforcement over time. The second scenario, generally derives from an outstanding improvement in on-field performance driving increased media rights, better sponsorship agreements, higher stadia revenues; in this context, it is key to get past the first "sporting performance" obstacle (e.g., a promotion to a higher-tier league, earn a UCL seat, et cetera) through one or a combination of the following methods: internal talent development ecosystems (e.g., Atalanta B.C.), superior coach selection skills (e.g., 1. FSV Mainz 05), external capital injection for team improvement (e.g., Manchester City FC), quality talent acquisition and management (e.g., Palermo F.C., until 2015). Bottom line is that fairy tales in football do exist and may result in tremendous value creation; however, the reality is harsh for most clubs with countless examples of value destruction.

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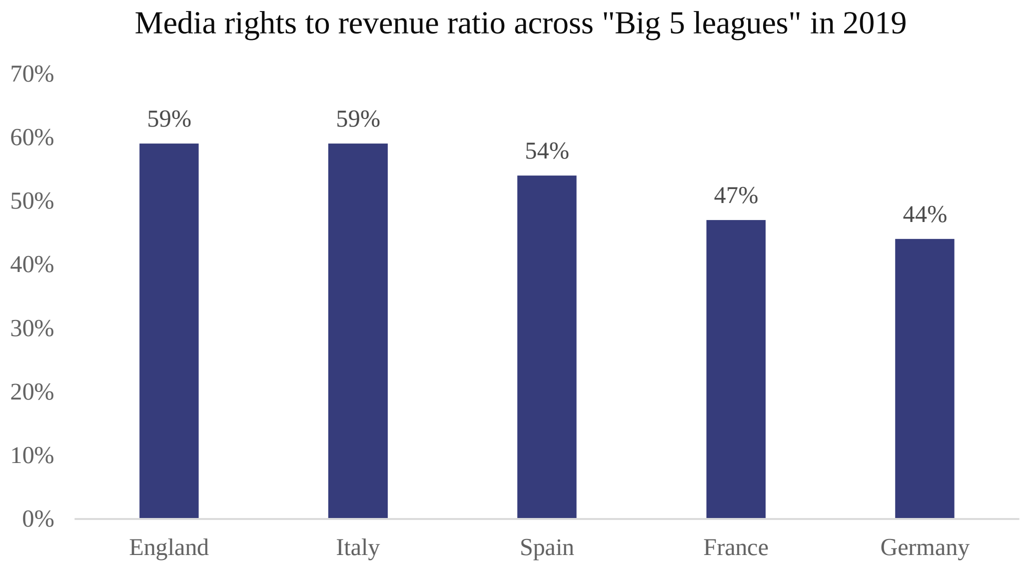
[766] Annual Review of Football Finance 2020. Deloitte Sports Business Group. Downloadable at: https://www2.deloitte.com/uk/en/pages/sports-business-group/articles/annual-review-of-football-finance.html#

[767] As defined by Mark Gregory (EY UK Chief Economist).

As partially mentioned, European football clubs generate revenue in four main ways:

- Broadcasting (or media) rights;
- Matchday;
- Sponsorship, advertising, and merchandising;
- Capital gains on transfer sales [768].

Media rights represented the biggest piece of the pie across all top 5 European leagues before the pandemic [769]; as the next chart shows:



Source: Own elaboration on Deloitte data (2020) [770]

Besides, broadcasting is the area that has been growing the most in recent years as the average broadcasting revenue among the top 32 European clubs increased by 65% over the past four years, compared with 39 % and 22 % for the average commercial and matchday

[768] Do note, that this is not a source of revenue; however, within this categorization we are dividing elements by their capacity to generate profits.

[769] See chapter 3.1.3 Covid-19 impact: the EPL case study.

[770] Annual Review of Football Finance 2020. Deloitte Sports Business Group. Downloadable at: https://www2.deloitte.com/uk/en/pages/sports-business-group/articles/annual-review-of-football-finance.html#

revenues respectively, according to KPMG [771]. Reasons for this growth have been lucrative domestic and European deals [772], the trend toward elite clubs' domestic dominance, and, most importantly, increased monetization opportunity by expanding both geographically and by channel (namely, the shift toward OTT consumption).

Secondly, matchday includes a vast array of sub-streams, of which the most important are ticket sales, F&B, and hospitality [773]. Across the big five leagues, matchday accounts for 11 to 16% of total revenue with EPL, Bundesliga, and LaLiga extracting the highest value from this segment [774]. The main drivers explaining their success are the capacity to either maximise stadium's % utilisation (EPL at 97%), the average stadium's capacity (Bundesliga's 42.738 AVG attendance), or average ticket prices [775] (LaLiga [776] and EPL). However, even the highest-performing European league is still miles away from US franchises where only gate revenue [777] can generate up to 36.6% of the NHL's entire revenue for a season (30% in MLB, 22% in NBA, and 15% in the NFL [778]); specifically, this huge gap founds explanation in three main factors: higher spending capacity or willingness to pay, better customer experience, and enhanced monetization (e.g., through dynamic pricing, cross-selling, bundling, extra services). Besides, European football clubs face some challenges preventing them from fully maximizing matchday revenue: hardcore fans are still a powerful and fairly sized customer segment in some European leagues (e.g.,

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[771] KPMG Football Clubs' Valuation: The European Elite 2020. Retrievable at: https://footballbenchmark.com/documents/files/KPMG%20The%20European%20Elite%202020_Online%20version_.pdf

[772] UEFA as of the 2018-19 increased rights distribution to €2.55 billion.

[773] Ancillary revenue streams; e.g., museum, cinema, parking.

[774] Collectively, they all earned more than 500 mln € in 2019, vs Italy's 284 mln € and France's 201 mln €.

[775] Annual Review of Football Finance 2020. Deloitte Sports Business Group. Downloadable at: https://www2.deloitte.com/uk/en/pages/sports-business-group/articles/annual-review-of-football-finance.html#

[776] They collectively earn as much as Germany despite lower AVG attendance (26.585 vs 42.738) and utilisation (75% vs 88%). Attenuating the effect is the provision that Bundesliga has 18 franchises vs LaLiga's 20.

[777] Sales of tickets, without considering F&B and hospitality.

[778] Retrievable from: https://novacapsfans.com/2020/05/13/how-much-money-does-an-nhl-home-game-generate/

Italy [779], France [780]), local administrations still own some stadiums and related infrastructure (e.g., in Spain, Italy or France), plenty of clubs coming from small cities or disadvantaged areas, empirical evidence suggesting that it might be time-consuming or even impossible to identify a suitable area to build the stadium (e.g., AS Roma vicissitudes).

Thirdly, commercial revenues include:

- Sponsorship and advertising – I.e., using highly visible football assets to advertise third-party companies; selected examples include official sportswear partnerships between clubs and sportswear manufacturers (e.g., Manchester United £75m agreement with Adidas until 2025 [781]), shirt sponsorship deals (e.g., Manchester City £75m deal with Etihad Airways [782]), stadium branding (e.g., Manchester City £18m annual Etihad Stadium's sponsorship value), board advertising [783];
- Merchandising – I.e., using branding or imagery of the football club in connection with the sale of another (often unrelated) product or service so that customers perceive licensed merchandise as part of being a good fan (Schaff, 1995); examples of merchandising include [784] sportswear and accessories, memorabilia [785], or, most recently, digital assets such as NFTs [786] that allow clubs, as pointed out by Gene Swinton [787], to issue digital collectable, ticket sales and commemorative

[779] Retrievable from: https://www.sportingferret.com/2020/07/06/mobs-violence-discrimination-the-italian-ultra-problem/

[780] Retrievable from: https://www.theneweuropean.co.uk/brexit-news/emma-luck-extreme-fance-french-football-team-paris-st-germain-71702

[781] Retrievable from: https://www.dailymail.co.uk/sport/football/article-8521189/Manchester-United-face-losing-25m-75m-year-adidas-sponsorship-deal.html

[782] Retrievable from: https://www.theguardian.com/football/2011/jul/08/manchester-city-deal-etihad-airways

[783] Giant scoreboards with video spots, programmable LED boards that encircle the stadium and changing signage behind the net.

[784] (Non-exhaustive list).

[785] Artefacts and items that serve to increase the bond with the club (keychain, notebook, DVD, CD, watch, toys, et cetera).

[786] As Jeremy Pressman pointed out, "we can imagine a world where thousands of different utility propositions built into owning both physical and digital goods." E.g., Manchester City's digital fan tokens https://www.dailymail.co.uk/sport/football/article-9380089/Man-City-dip-cryptocurrency-prepare-launch-digital-fan-tokens.html

[787] Founder of Sports D³ and digital assets on blockchain specialist. Source: private interview in May 2021.

memorabilia; however, at least in the medium term, selling football shirts will remain the biggest [788] form of merchandising, which, in some countries (e.g., UK), as outlined by Giulio Alessandroni [789], represents a cultural habit driving recurring year-over-year revenue for football clubs.

Moreover, the size and relative importance over the total of this revenue stream is directly related to sporting performance, brand equity, and any combination of both; nonetheless, sporting success often is, as suggested by Rodolfo Manica [790], the prerequisite to increase commercial revenue [791] (e.g., Atalanta BC managed to increase commercial revenue by 88% between 2016 and 2019 [792] thanks to the significant improvement in sporting performance).

Finally, moving to capital gains from talent management [793], we can state that very few clubs can boast positive net financial positions from transfer sales, therefore it represents a minor and negligible revenue stream; if we look at the big five leagues throughout the last three years, the picture is frightening for most clubs (e.g., all 20 EPL clubs had negative transfer balance), even though some clubs (usually low to middle-tier teams or elite French teams) strongly relied on talent trading as an additional cash generation stream.

Moving to PE funds, as outlined by 'Il Sole 24 Ore' based on the Enca report, they invested over EUR 13 billion in sports assets, including several sports and different asset classes (clubs, media rights, stadiums, et cetera). The common rationale across different transactions, as an Enca analyst outlined, is that PE funds can bring efficiency to organizations and increase cash flow stability from sponsor, rights issue, and merchandising; besides, the ongoing pandemic imposed a re-pricing that made some

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[788] E.g., in 2014, Cristiano Ronaldo's t-shirt sold over 2 million replica shirts (roughly 100-150 mln €) in the first six months of him being at Real Madrid. Source: https://mediaandtechnologyinsport.weebly.com/increase-merchandising.html

[789] Manager at EY-Parthenon (Sport & CPR). Source: private interview in May 2021.

[790] Analyst at Tifosy Capital & Advisory. Source: private interview in May 2021.

[791] Unless the owner injects additional financing to increase brand value.

[792] Retrievable from: https://footballbenchmark.com/library/atalanta_s_rise_to_football_s_elite

[793] Which, financially, corresponds to the sum of sales inflows, fewer player signing outflows, fewer variable bonus components and brokerage fees.

assets, even more, attracting (Aifi, 2020). PE equity story when investing is all about getting stunning risk-adjusted IRR; therefore, when listing reasons to invest in football clubs, one should bear in mind both the opportunities to reduce cash-flow risks and to increase the overall amount of generated cash. Historically, growth within the industry resulted from rapid urbanization, growth in emerging economies and the emergence of multiple channels to capture viewership; to date, new monetization opportunities are emerging, partially disrupting traditional models. The proposed comprehensive framework [794] mapped the 'pros' of investing in football clubs according to three different levers:

- Strategic levers – I.e., untapped opportunities to improve the product, the geographical coverage, or the business model (strategic options such as the Super League, data and analytics, technology opportunity, the proliferation of large-scale events, FFP regulation creating a level playing field, the e-sports opportunity, investing in the football ecosystem, cutting costs);
- Operating levers – I.e., room for improvement from an operational point of view, thus streamlining how football clubs are run (e.g., governance optimization)
- Valuation levers – I.e., margin's uplift potential that can be extracted by manipulating the stand-alone value of the football club or its combination with other holdings (e.g., positioning the club in a different industry where multiples are higher, harnessing the alternation of uninflated or inflated valuations, loading debt to finance club acquisition, capital markets as an exit opportunity).

Besides, from a PE perspective, it is important to mention PE's need to find alternative investments to work out the so-called dry powder (i.e., an excess of collected capital vis-à-vis investment opportunities) because many buyout groups are under pressure to get money out of the door. Also, PE funds are changing in the way they operate in terms of increased funds' life, increased investment criteria's flexibility, shifting from cost-cutting to growth investing, limited partners' seeking returns over the entire life of the investment.

[794] Chapter 4.4 Why should Private Equity funds invest in European football clubs?

On the other hand, there are several good reasons why PE shouldn't target football clubs [795] and they can be grouped according to three categories: lack of fit with the club's stakeholders (e.g., cultural resistance by fans and governing bodies, on-premise governance models), intrinsic risks deteriorating the IRR (exposure to sporting performance and relegation risk, commercial growth driving higher beta, barriers to commercial and stadia revenue growth, exposure to misconduct scandals, winner-takes-it-all markets), and supply and demand dynamics (illiquid market, deal supply shortage, need for external expertise when investing, low investment tickets).

Moreover, one could legitimately assume that football club investing is difficult, given the challenging relationships with stakeholders, risky, because business performance relies on sporting success, which is more lottery than science, and rare because the number of clubs, being both sizeable enough [796] and fairly priced, is relatively small (if not inexistent). Besides, the most important questions remain unanswered: can football club investing generate satisfactory returns above PE IRR thresholds?

Forward-looking, we can expect major ongoing trends to impact how both football clubs and PE funds are run. Football clubs are, firstly, increasingly looking at digitalization to enhance their P&L: to compensate for the prolonged period of activities with diminished income, clubs have tried to look for alternative measures to monetize live games. Consequently, while devastating in the short term, COVID-19 has spurred the re-evaluation of best practices and may have inspired the evolution and digital transformation of the industry [797]. Similarly, in-venue activation opportunities are in decline due to strict health regulations, therefore, clubs who possess knowledge of their fans' behaviour and can provide actionable insights through digital channels will be in a healthier position in the less familiar, but tougher sponsorship market. Secondly, financial headwinds and liquidity concerns in the short term, combined with the growth and resilience of sports team valuations in the long term (Marino G., 2020), might create the perfect storm for an

[795] Chapter 4.5 Why should Private Equity funds not invest in European football clubs?

[796] Even though small and mid-cap PE funds could jump in.

[797] E.g., governing bodies and associations have been discussing reforms in the transfer system and cost control measures to restrict the industry's high-cost base for some time; football clubs attempted to set up the hyper exclusive Super League competition.

influx of capital from willing suitors; league bodies and, potentially, football club owners who have a need or desire to liquidate a portion of their investment will likely be even more eager to do so in the face of decreasing revenues and prolonged uncertainty, while shareholders that don't have an immediate need for capital may be more open to accepting minority investments from institutional investors to help establish adequate reserves and foster a relationship with a reliable source of readily-available capital in the future. Thirdly, the demand for the football product held on throughout the pandemic: GPs and intermediaries, that Private Equity International in November 2020 spoke to, all appeared convinced that, while the pandemic posed one of the biggest threats the industry has ever experienced, the need for live sports will continue, and that PE would have had a role in providing patient and responsible capital to an industry needing it more than ever.

On the other hand, despite the challenges posed by COVID-19 (pressure to deploy capital amid geopolitical uncertainty, increased competition, higher valuations, and rising stakeholder expectations), the PE industry remains well-positioned for growth. Major trends behind the surface are:

- Minority investments – Mainly driven by the lack of liquidity caused by the pandemic (e.g., CVC Capital Partners is in talks to buy a minority stake in the San Antonio Spurs at a $1.3bn valuation). Nonetheless, as David Dellea [798] pointed out, PE won't settle for traditional non-controlling positions: even if they get minority, PE funds want to control through management, "they step in to make an impact, they take a 20% but say 'okay, now I vote two members of the board or I co-write major signings', they are not into the football industry to be another spectator, taking a 10% stake and stay waiting for something to change, because nothing is going to change;"
- SPAC surge – The phenomenon is booming in the US industry with specific SPACs dedicated to the sports industry (e.g., RedBall Acquisition Corporation), but did not happen in Europe yet, even though US SPACs might invest in the European sports industry (e.g., RedBall pursuing Fenway Sports Group, the parent company of Liverpool FC). However, given the aforementioned low deal supply that

[798] Director of the Sports Business Advisory at PWC Switzerland. Source: private interview in April 2021.

characterizes the football industry, the 2-year SPACs' timeframe to execute investments could pose a major barrier to investing in European football clubs;

- Sports investments – Recent deal-making activity, often involving CVC Capital Partners across a wide array of sports and geographies [799], could eventually drive the innovation adoption curve, thus attracting interest from others to join in sports investing. Therefore, together with CVC Capital Partners, other sophisticated financial investors have raised their heads to deploy capital into the sporting value chain; for instance, at the time of the proposal to take a 10% stake in Serie A's newco, FSI and Advent, both new to the sports industry, joined the forces with CVC to reach the EUR 1.7b bid.

To conclude, there seems to be a consensus from industry opinion leaders that, because of the pandemic outbreak, PE capital will vehemently enter the sports industry (according to C. Mort, G. Cardinale, D. Brooks, A. Baladi, A. Radrizzani, R. Malandro, M. Daviddi, M. Glickman, J. Murray) and it is worth highlighting the availability bias (by which, we, as humans, tend to assign a greater probability that an event will occur when we can recall it more easily [800]); however, after careful consideration, we do not expect PE funds to get a prominent role in the football clubs' industry across big five European leagues; instead, they could assume a marginal role, minority investing in diversified assets (e.g., RedBall investment in Fenway Group, owner of Liverpool FC) or investing whenever the subscription price leaves them with sufficient room for growth. Three main rationales that justify this conclusion are:

- The potential market, in terms of deal-making activity, is relatively small: a subset of roughly 20 clubs across big five European leagues (once we exclude non-growth and non-cash-generating assets such as low and middle-tier football clubs);
- Strong resistance from fans to profit-oriented investors and from leagues to traditional elements of PE (e.g., LBOs, short exit horizon, active ownership style);

[799] At the time the author is writing, CVC is in talks to take a 10% stake in LaLiga for EUR 2.7b. Source: https://www.nytimes.com/2021/08/03/sports/la-liga-cvc-capital-barcelona-real-madrid.html

[800] In the world of football, the scandals and spotty track record of management eclipse the stories of financial success.

- Unappealing IRRs: unless salary caps shall be introduced or the Super League launched, risk-adjusted returns of football clubs cannot attract return-exigent investors such as the large and structured PE funds: as an investment banking associate noted, in an optimistic scenario, the risk-adjusted return of football clubs is around 15%, which is the lower bound of PE funds [801].

So how could we justify the reported interest of BC Partners for a club such as Inter Milan? "Crisis creates opportunities," said Kieran Maguire [802]. The pandemic presented itself both as a serious threat for clubs and franchises and a potential buying opportunity; as a matter of fact, not only BC Partners but a handful of firms have been launched in the last 18 months to take stakes in sports teams and leagues; among the others, Arctos Sports Partners [803], Dyal Capital Partners [804], Ares Management [805]. Driving this phenomenon is the possibility to find fairly priced investment opportunities: as Adam Sommerfield observed [806], there is a "huge amount of appetite" from both new funds and existing shops, "they understand now is a good time to buy because they will get a reasonable price as valuations are not massively inflated." Nonetheless, sale prices might not be low enough to justify majority investments given PE's IRR requirements: for instance, in the BC Partners example, Inter Milan owners demanded 33% more than what the PE fund was willing to offer [807].

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[801] This also would explain why hedge funds such as Elliot Management Corp. remain more indicated than pure buyout or growth PE funds, as they can better mix their expected risk-adjusted returns within their portfolios.

[802] Mr. Kieran Maguire B.A.(Econ), FCA, FHEA. Senior Teacher in Accountancy at the University of Liverpool. Interview released to PEI.

[803] Already has minority stakes in 12 US MLB and NBA franchises. Source: https://www.institutionalinvestor.com/article/b1tckcs3y46zw4/Private-Equity-Has-Definitively-Entered-the-World-of-Professional-Sports-Here-s-What-Comes-Next

[804] Launched a fund aimed at NBA teams in April 2021 (e.g., in July 2021, acquired a 5% stake in the NBA's Sacramento Kings, according to the Wall Street Journal).

[805] Backing a group to take a stake in an EPL football club (Le A., 2020).

[806] Source: Interview released to Private Equity News.

[807] Retrievable from: https://www.reuters.com/world/china/soccer-inter-milan-seeks-new-bidders-after-bc-partners-exclusive-talks-sources-2021-02-02/

Summing up, PE will have a marginal role in the ownership of elite European football clubs but will be limited to minority stakes and unrepeatable bargains [808].

[808] From a valuation perspective.