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Private equity investments in European and Italian Football: trends and drivers of interest

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Private equity investments in European football: trends and drivers of interest

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Private equity investments in Italian football: trends and drivers of interest

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Introduction

The European football industry has been dominated for a long time by local entrepreneurs, member-owned clubs and politicians looking to use the beautiful game to acquire fame. In recent years, professional investors have become increasingly interested in the industry, with the simpler goal of making money out of it. In particular among them are private equity (PE) firms, historically more involved in the sports industry on the other side of the Atlantic, who started to deploy huge amounts of capital in European football with a frequency of investments never seen before.

This paper intends to provide an overview of this recent phenomenon, delving into the main trends and drivers of interest behind this surge in investments in the industry.

Personal curiosity on this topic derives from the popular belief that top-division football is a loss-making industry, one more suited for club owners interested in the prestige derived from boasting a football team rather than those more focused on making a profit. For every year that passes, this popular belief stands more starkly in contrast with news and evidence from the market, as professional investors enter the football industry more frequently and deploy increasing amounts of capital. Is this just a case of *fear of missing out* for investment firms awash with cheap money, or is there something else? Does the European football industry present some elements interesting to profit-seeking investors? If so, which opportunities could they exploit?

This paper compiles and summarises the main elements of the recent trends in investments directed toward European football. Starting from existing academic literature and books on this topic, it integrates a wide range of reports on the football industry together with qualified newspaper and online articles on some of the most recent news. The information collected is then organised in a framework used to evaluate PE investments, in order to identify the main drivers of interest and possible limitations for PE opportunities in European football.

Chapter 1 covers the PE industry, offering a brief literature review and a summary of its recent trends.

Chapter 2 moves to analysing the European football industry in qualitative terms, highlights its differences compared with the US sports industry and provides an overview of its main regulatory elements in terms of financial sustainability.

Chapter 3 intends to offer a broad summary of the economic and financial fundamentals of European football, explaining how clubs generate revenues, which are the main costs they have to face, and ultimately how profitability and valuations are determined.

Finally, Chapter 4 presents some examples of recent deals in the industry carried out by a whole range of investors and tries to shed some light on the potential drivers of interest behind the increasing involvement of PE firms.

1. Private equity: literature review and state of the industry

Leveraged buyout investment firms are often referred to as private equity (PE) firms. This chapter presents the PE industry and offers an overview of the existing literature on this topic.

1.1 Literature review on private equity

Kaplan and Strömberg (2009) propose an exhaustive description of private equity, detailing its inner workings, the main components of leveraged buyout transactions and their evolution over time. A brief summary is presented here.

PE firms tend to be organised as partnerships or limited liability companies, employing relatively few investment professionals compared to other players in the financial services industry. A PE firm raises money from investors and organises it into one or more private equity funds, closed-end investment vehicles with a fixed life (usually ten years, which can be extended), with the goal of obtaining control stakes in a series of target companies. Investors, also called limited partners (LPs), commit most of the capital, which is then managed by the PE partners, also called general partners (GPs). LPs typically include high-net-worth individuals and institutional investors, such as pension funds, endowments, other investment funds, insurance companies. GPs receive their remuneration in three ways: by collecting management fees, retaining a share of the profit generated by the funds (so-called “carried interest”), charging deal and monitoring fees directly to the firms the funds invest in. Management fees are annual and expressed as a percentage of committed capital, historically around 2% of that sum. Carried interest represents an incentive to align the goals of GPs and LPs (i.e., generating a profit from each transaction) and hovers around 20%. Finally, monitoring fees vary from fund to fund.

A private equity transaction typically involves the acquisition of a company, either public or private, with significant leverage. The ownership stake acquired is usually complete, or at least grants the PE firm majority control over the company. Minority investments are rare. The PE fund deploys a portion of its capital in the form of an

equity investment, while the majority (60-90%) of the buyout is financed with debt. This debt often includes senior (secured) and junior (unsecured, mezzanine) portions, which can be further sold to other investors such as hedge funds. Once the company has been acquired by the PE fund, it can be considered a portfolio company. GPs then proceed to install a new management team and manage the company until the firm decides to exit the investment. In a nutshell, PE firms apply highly leveraged capital structures and active governance to portfolio companies, with the ultimate goal of accelerating the creation of value. Once either the investment life of the fund approaches its end or the GPs deem that it is time for divesting the company, the fund exits the investment in the portfolio company. Exits typically involve the sale of the company to a third party, which may very well be another PE fund, or an IPO, therefore making the company public. After the last portfolio company is divested, the fund is closed and the remaining capital is returned to the LPs, net of management and carried interest fees.

Lerner, Hardyman and Leamon (2011) further highlight the intricacies of the PE fundraising process, noting how first-time funds and funds whose partners have amassed significant wealth are more likely to present larger co-investments from GPs, compared to the customary 1% of total capital in the fund.

Døskeland and Strömberg (2018) provide an updated and detailed description of additional elements of the PE industry, as follows. For once, the authors point out that in European terminology the private equity market encompasses the whole professional market for investments in unlisted companies. Most of the features described in the PE literature can therefore be applied to private investments in the PE market carried out by investment companies, individuals, funds and other investors different from pure PE firms in their internal structure. The PE market, according to the definition above, can be divided into segments:

- *venture capital (VC)*, investments in young, private companies with high growth potential;
- *growth equity*, investments in companies offering growth potential and reporting profits at the same time;
- *buyout (BO)*, investments in mature companies that often require buying out the existing owners; and

- *distress*, investments in mature and unprofitable companies.

A PE fund that invests in all the previous segments can be defined as *balanced*. Funds can be further described by the subsegments they invest in, such as early-stage VC or lower midmarket BO. Furthermore, the authors explain why expected returns for PE investments may be different from public equity investments, most likely higher. Liquidity and systemic risk premia are responsible for this difference. In fact, PE is subject to market illiquidity (as the number of possible acquirers of unlisted equity is smaller than the public market) and funding illiquidity (as capital commitments from LPs have to be honoured when the GPs make a capital call). The authors also assess the historical performance of PE funds, comparing them to alternative strategies such as investments in market indices. Using US data, they show how PE funds have generated an annual internal rate of return (IRR) in excess of 3% over the S&P500 (1980s-2000s, 2014 data). These 3% excess returns are after PE fund fees, so the returns generated before fees are in the order of 6-7%.

Gredil, Griffiths and Stucke (2014) explain how PE performance is benchmarked against investments in public markets, namely with *public market equivalent* methods (PME) and propose the *direct alpha* method.

Harris, Jenkinson and Kaplan (2014) also report on performance, noting how PE outperformance over the S&P500 averages 20% to 27% over the fund's life and more than 3% annually.

Harris, Jenkinson, Kaplan and Stucke (2014) present evidence on the persistence of performance for PE funds, namely whether PE firms are able to consistently generate excess returns over the market. While for pre-2000 data there is strong persistence for both PE and VC funds, post-2000 data shows little to no persistence if not for the lower end of the performance distribution for PE. On the other hand, VC performance post-2000 seems to be as persistent as before.

Robinson and Sensoy (2013) explore the topic of compensation and performance, noting how fees paid to GPs vary with PE market activity. In fact, high-management fee funds raised in fundraising boom times generate a bigger proportion of GP compensation in terms of management fees relative to carried interest. Not surprisingly, GPs who receive high management fees tend to exit their investments (thus lowering the fee basis) more slowly. Yet, there is no evidence that these funds

underperform on a net of fees basis, in stark contrast with findings in the mutual fund industry where net of fees performance is strongly negatively correlated with management fees.

The literature covered so far indicates the ability of PE funds to consistently generate excess returns over the market. But how do they manage to do that? There is extensive academic literature covering the most commonly used practices by GPs actively managing their portfolio companies. Value creation in PE is generated by employing several different strategies. Kaplan and Strömberg (2009) as well as Døskeland and Strömberg (2018) propose three main categories for these kinds of practices, or *engineering*, which are often applied alongside each other:

- *financial engineering*: value creation stems primarily from the additional value provided by the *tax shield effect*, as a consequence of the capital structure commonly adopted by portfolio companies heavily reliant on debt, and from *multiple arbitrage*, which consists in conducting add-on acquisitions at a lower multiple while the portfolio company is valued with the original, higher multiple;
- *governance engineering*: value creation is determined by smaller, more active boards and a reduction in agency costs. Giving equity-linked incentives to company management allows for better aligning the interests of shareholders and management. Not being able to sell equity on the stock market or to exercise stock options before divestment reduces the management's incentive to prioritize short-term performance;
- *operational engineering*: value creation is a result of adopting better practices and improving the operations of portfolio companies. This can be achieved by employing industrialists or experts with prior experience in the industry, often recruited thanks to the network available to PE firms. This effect can be assessed through key performance indicators (KPI) and other operating metrics, which tend to improve under PE ownership. Additionally, industry-specific experience allows PE firms to have an advantage in deal sourcing and execution, as it allows them to execute proprietary deals rather than intermediated deals.

Bernstein and Sheen (2016) further explore the set of operational engineering changes applied by PE, pointing out how portfolio companies report improvements in management and operational practices through training, monitoring and better aligning worker incentives.

Bloom, Sadun and Van Reenen (2009) observe how portfolio companies are significantly better managed than government-owned, family-owned and privately-owned companies. PE-owned companies report better management practices scores and have the fastest improvements in management.

Gompers, Kaplan and Mukharlyamov (2016) conducted a survey of 79 PE firms about their practices and report how very few of them use discounted cash flow (DCF) or net present value techniques when evaluating investment opportunities, preferring metrics such as IRR and money multiples. Furthermore, PE firms tend to place great importance on generating value in the portfolio companies, primarily through sources like higher revenue, improved incentives and management, high-value exit, additional acquisitions and lower costs. Smaller boards with a mix of GPs, insiders and outsiders are preferred.

Axelsson, Strömberg and Weisbach (2009) describe the financial structure of PE funds, proposing a model according to which the PE firm can finance investments ex-ante, by pooling capital before identifying targets, or ex-post. This difference has an impact on agency problems between GPs and LPs, while the ideal financial structure is, not surprisingly, the one that maximises the value of the fund.

Axelsson, Jenkinson, Strömberg and Weisbach (2013) compare capital structures of publicly traded firms with PE portfolio companies. Their findings indicate that the main determinant of leverage in buyouts consists in the availability of abundant and cheap credit, while for public firms the capital structure is primarily determined by differences in firm characteristics. PE portfolio companies become more leveraged as credit gets cheaper. In addition, they report how PE practitioners repeatedly mention how they try to use as much leverage as they can, thus making the capital market the prime constraint faced by PE firms.

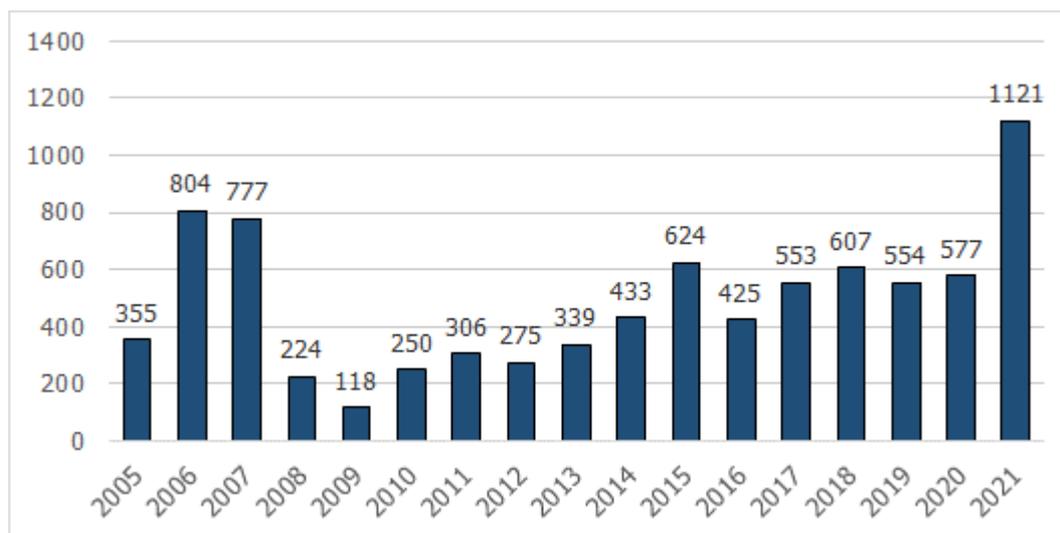
In regard to firms loaded with debt in their capital structure, Andrade and Kaplan (1998) investigate the costs of financial distress for highly leveraged transactions and estimate them to be in the order of 10% to 20% of firm value.

1.2 Recent trends in the private equity industry

In practice, since the 2007-2008 financial crisis the private equity industry has been steadily growing in size, reaching record highs in 2021 (Bain & Company, 2022). Global PE deal value recovered from the low levels recorded in 2009 (\$118bn), reaching \$577bn in 2020 and roughly doubling in 2021, cementing a secular trend of accelerating private market activity. The \$1121bn in PE deal value reported last year indicates that the industry surpassed the 2006 previous record of \$804bn. The biggest increases were realized in North America, especially thanks to a concentration of investments in the technology sector. Global PE exit value surged as well, up to \$957bn in 2021, significantly more compared to \$460bn in 2020 and the previous record of \$521bn in 2014.

PE dealmaking and exits surged in correspondence with a record-setting fundraising activity, as the industry managed to raise capital by \$1228bn in 2021, the fifth consecutive year in which this figure surpassed \$1 trillion. As a consequence, PE-committed, unallocated capital (so-called “dry powder”) also reached record highs, up to \$3.4tn in 2021, compared to \$3.1tn in 2020. The abundance of cheap capital inevitably increased pressure on PE firms to execute more deals, which can explain the surge in dealmaking.

Figure 1.1 – Global buyout deal value (\$bn)



Source: Dealogic, from Bain & Company (2022). *Global Private Equity Report*

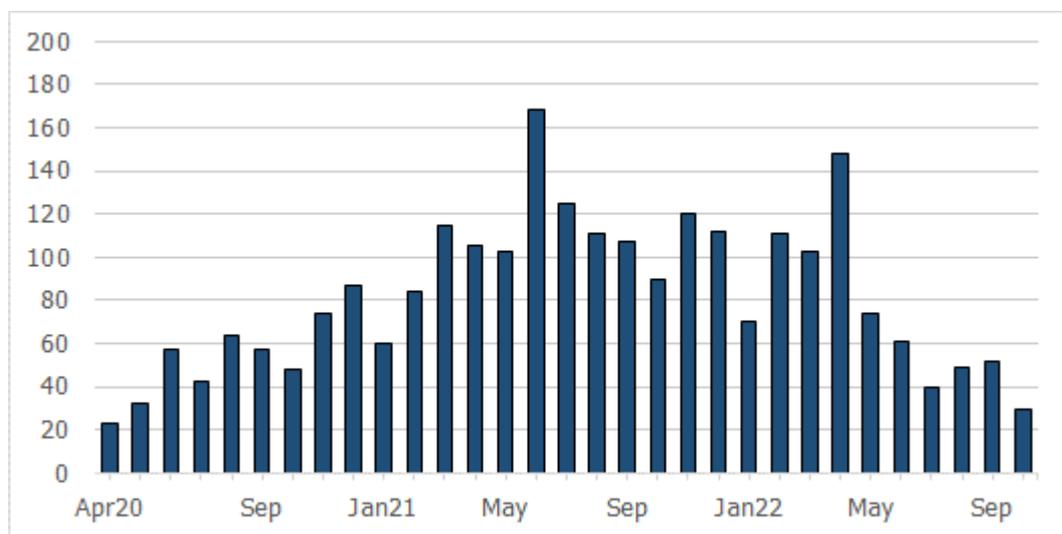
The COVID-19 pandemic had a limited impact on the PE industry until 2021: PE firms suffered from lockdowns and reduced economic activity only for a portion of 2020, early in the year, but dealmaking and fundraising resumed vigorously as reported. Yet, the most significant impact of the pandemic on the PE industry is being felt in terms of inflation and the resulting changes in terms of monetary policy in the US, the Eurozone and more generally all around the world. Bain & Company (2022) report Euromonitor International forecasts for both inflation and central bank policy rates for the US and the Eurozone. These 2021 forecasts significantly underestimated both rates, as figures currently available in 2022 are much higher.

Inflation was forecasted to peak in 2021 at around 4.5% in the US and 3% in the Eurozone, only to decrease constantly until 2025 to long-term levels of 2.0% and 1.8%, respectively. Central bank policy rates were forecasted to gradually increase from near-zero levels in 2021 to long-term levels of 2.5% and 1.75% later in this decade. Unfortunately for the PE industry, so reliant on cheap capital available on the market, inflation soared in 2022 and central banks reacted by raising rates. US CPI inflation reached levels above 9% (unadjusted 12-months, June 2022) according to the US Bureau of Labor Statistics (2023), pushing the FED to raise the federal funds rate up to 4.75% in early February 2023 (Megaw and Steer, 2023). Investors' expectations based on Fed projections currently price US interest rates above 5.0% for 2023, significantly higher than the 2021 forecasts reported above. On this side of the Atlantic the picture is not less bleak. Eurostat estimates for Eurozone inflation in October 2022 accelerated to 10.7%, up from 9.9% one month before (Arnold, 2022). 12-months inflation reported slightly lower levels in November (10.0%), December (9.2%) and January (8.5%), pointing to a slightly less worrying outlook for 2023 (Eurostat, 2023). Nonetheless, starting from negative levels up until mid-2022, the ECB consistently raised rates up to 2.5% in February 2023, and is expected to determine another 50 basis points increase in March 2023, bringing the deposit rate at least up to 3.0% during the year (Strauss and Smith, 2023).

Higher financing costs and a worsening in the economic outlook are two of the biggest challenges for the PE industry going forward, as it faces the potential risk of generating lower returns and having increased difficulty in exiting deals amid a contraction in valuations.

Albeit surprisingly, PE activity doesn't seem destined to dry up completely. Industry practitioners anticipate that dealmaking will still happen (Förster, 2022). Bloomberg data indicates how PE deal value is dwindling in 2022, as the \$30bn deployed in October represents the lowest monthly value since April 2020 at the start of the pandemic. Nevertheless, activity is expected to increase again in early 2023 as the amount of dry powder, still waiting to be deployed by definition, is significant. Lower equity prices also allow PE firms to acquire public companies at lower acquisition multiples. One of the possible evolutions of dealmaking is represented by higher equity stakes in transactions, reducing the number of highly leveraged deals as debt capital becomes more expensive on the market. Smaller transactions or minority deals could also be more common going forward. The main industries that are expected to be targeted by PE funds include infrastructure, health care and energy, due to their ability to pass costs onto customers making them resilient during economic downturns. The sports industry, and in particular the European football industry to be covered in the following chapters, also possesses this kind of resilience as it proved to be able to grow at sustained speed even during difficult times.

Figure 1.2 – Global buyout deal value, monthly data (\$bn)



Source: Bloomberg (Förster, 2022)

2. The football industry: competitiveness and financial sustainability

This chapter intends to offer an overview of the professional football industry, ranging from geographical and historical differences in its structure, the regulatory framework, and the resulting financial considerations for investors. Football is the most followed sport on a global scale, and it ranks highly across multiple regions, attracting over half of sports fans across the world (YouGov, 2022). Knowing its characteristics and intricacies is crucial for any investor interested in entering the competitive arena of the beautiful game.

2.1 Professional football around the world

From its emergence in the mid-19th Century in England, football grew to be the most followed sport in the world thanks to Britons travelling abroad, who evangelised it wherever they settled. Given the speed at which the urban working class of multiple countries picked up the game, by the start of the 20th Century, many football clubs were founded across the world (Wilson, 2018). From there the growth in popularity accelerated tremendously, leading to the first FIFA World Cup in 1930 and the founding of national leagues for clubs to compete in. The emergence of football broadcasters through different media (radio, television, internet) ultimately allowed football to become a global phenomenon: over 3.5bn people, more than half of the world population, followed the coverage of the FIFA World Cup in 2018 (FIFA, 2018), while UEFA Euro 2020 reported over 5.2bn viewers (UEFA, 2021a).

International competitions of national football teams, like the FIFA World Cup, the UEFA European Football Championship, the CONMEBOL Copa América and similar tournaments, are held at multiple-year intervals and usually during Summer. The remaining months of the year are filled with national and international competitions at club level when privately owned teams compete against each other in a wide range of tournaments. The most followed club football competitions are based in Europe, where the so-called "big 5" national competitions (English Premier League (EPL), Spanish La Liga, German Bundesliga, Italian Serie A, French Ligue 1) and the

international UEFA competitions like the UEFA Champions League (UCL) generate the largest viewership figures. While cultural elements are certain to play a role in the importance of European football compared to other regions, its competitive and regulatory structure are crucial elements in this history of success and growth.

The European sports system presents several differences compared to the North American (NA) sports industry, which in turn have a significant impact on the business model of football clubs and the expected profitability for investors. These differences allow us to broadly categorize football clubs and leagues into two groups: “profit maximisers”, typically owned by investors seeking to achieve the highest possible financial return on investment, and “win maximisers”, where the need to win is considered a priority over making a profit (Hoye et al., 2018). The major NA professional sports teams and leagues can be considered among the former, while most of the European teams and leagues can be better described as part of the latter.

This difference can be traced to five factors: open vs closed leagues, competitive balance rules, ownership and governance, owner objectives and team valuations (Genzale, 2017). The first four factors are briefly presented below, while football club valuations are covered in the following chapter.

2.1.1 The North American model

The most widely known characteristic of the North American model of sports competitions is the closed league organization, as competing teams are permanent members of the league and there are no promotion and relegation at the end of each season. It is not exclusive to North America as some European competitions such as the EuroLeague basketball club competition present a certain number of permanent members, making them semi-closed leagues. Nevertheless, the major NA sports leagues such as the National Football League (NFL), the Major League Baseball (MLB), the National Basketball Association (NBA), the National Hockey League (NHL) and the Major League Soccer (MLS) are all closed leagues and participating teams are privately owned franchises. As such, the leagues themselves are owned by the participating clubs who are involved in their management, from sport governance to changes in the number and location of franchises.

Most of the competitive NA sports leagues present some form of competitive balance rules, in particular regarding salary caps (limits on clubs' expenditures on wages) and player drafts favouring the lowest ranked teams in the preceding season, in order to promote competitive balance.

As mentioned above, participating teams in closed leagues are the owners of the leagues and are in charge of their governance. This allows team owners to focus on the business side of the competition with little regard to the competition on the field, as even a low-performing team does not face the risk of relegation. As an obvious consequence, NA sports leagues have been the focus of financial investors for a long time.

2.1.2 The European model

In contrast with the major sports leagues of North America, most European sports have open leagues, which present the mechanism of promotion/relegation at the end of each season thus allowing every team the possibility of competing at the highest level. From a financial investor's point of view, this characteristic offers an interesting opportunity to invest in a team participating in a lower division. By reaching the top divisions through promotions based on sporting success, a club generates more revenues and increases the value of the initial investment. On the contrary, the risk posed by the relegation mechanism presents the possibility of destroying value.

Open leagues tend to have different competitive balance rules compared to the NA model, often not presenting salary caps and managing the transfer of players through a transfer market rather than player drafts. A big hurdle for competitive balance rules in European sports, including football, is given by European laws and regulations in terms of anti-trust rules, which affected the implementation of UEFA Financial Fair Play rules since 2011.

In terms of ownership and governance, European clubs present different structures and limitations depending on national legislation, but for the most part they remain publicly or privately owned institutions in the form of clubs or associations. Ownership of the national leagues varies from country to country, but in the case of clubs being owners of their respective league (such as the EPL) the ownership stake

in the league is connected to a club's participation in it. A relegated team would pass such ownership stake to the team promoted in its place at the end of the season.

The open nature of European leagues presents much higher risks to financial investors, as sporting underperformance could lead a club to consecutive relegations and ultimately financial distress. Nevertheless, the European system also offers great returns on investment to those owners capable of leading a club through consecutive promotions and consolidating it among the upper echelons of the industry. Sporting performance plays a much greater role compared to the NA model, hence why clubs desiring to compete in the European football industry can be broadly considered "win maximisers".

2.2 Financial sustainability in the European football industry

The European football industry had a long history of unprofitability, as club owners acted like "win maximisers" more often than like "profit maximisers", using the definitions presented above. Poor financial performance and high levels of debt (Beech, Horsman and Magraw, 2010; UEFA, 2013) ultimately led UEFA to introduce in 2011 a set of financial sustainability rules, named UEFA Club Licensing and Financial Fair Play Regulations (FFP). Clubs must satisfy FFP requirements in order to compete in UEFA club competitions.

2.2.1 UEFA Financial Fair Play Regulations (2011-2023)

The introduction of FFP in 2011 involved a series of financial requirements for clubs to be allowed to compete in international competitions like the UCL.

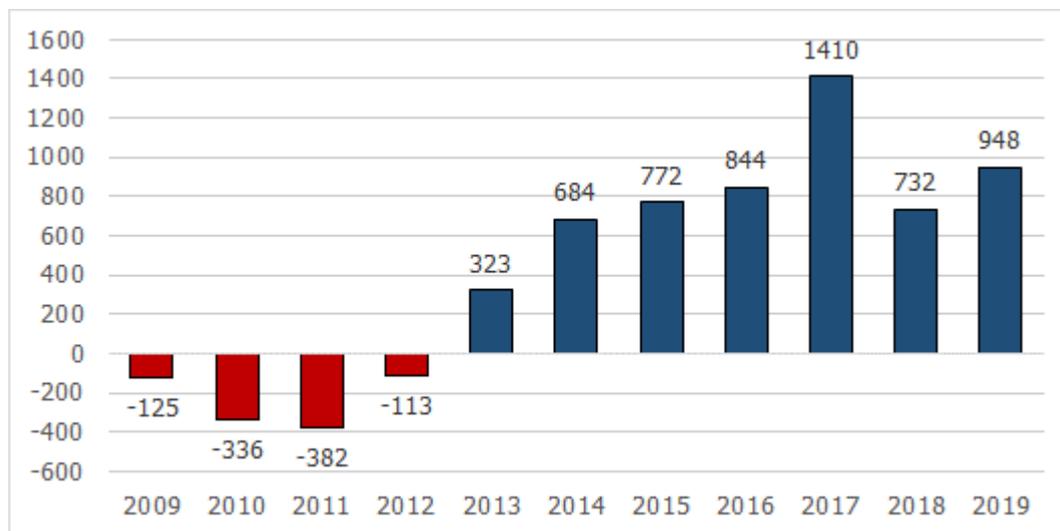
As stated in Article 2 of FFP, UEFA aimed to "protect the integrity and smooth running of the UEFA club competitions", to "achieve financial fair play", to "improve the economic and financial capability of the clubs" and to "introduce more discipline and rationality in club football finances" (UEFA, 2010). The FFP system was based on two principles: satisfaction of a key performance measure (break-even requirement over a rolling three-year period) and punctuality in the settlement of liabilities (absence of overdue payments). A club failing to comply with these rules would be punished with a wide range of sanctions such as monetary fines, reduced number of

players in squad rosters, limitations on the transfer market and even exclusion from lucrative international competitions.

UEFA introduced the FFP aiming to stabilise the European football industry, by making it more similar to the NA sports model and therefore able to attract investors from all around the world. Over the following years, European clubs posted financial results that proved FFP to be partially effective and moderately successful.

Football clubs therefore faced new regulations which implied greater scrutiny on clubs' finances and increased the amount of financial information to be published. As a consequence, clubs reported more persistent and predictable earnings. This effect proved to be more significant for smaller leagues, compared to clubs from the "big 5" leagues (Dimitropoulos and Koronios, 2018). Operating profits at an aggregate level (first division European clubs) improved significantly since the introduction of FFP, as the aggregate operating losses of €249m in 2009 reached €382m in 2011 and then turned into operating profits of €339m in 2013, reached an all-time high of €1410m in 2017 and settled at €948m in 2019, the last fiscal year prior to the global pandemic.

Figure 2.1 – Aggregate operating profits/losses, top-division clubs (2009-2019, €m)

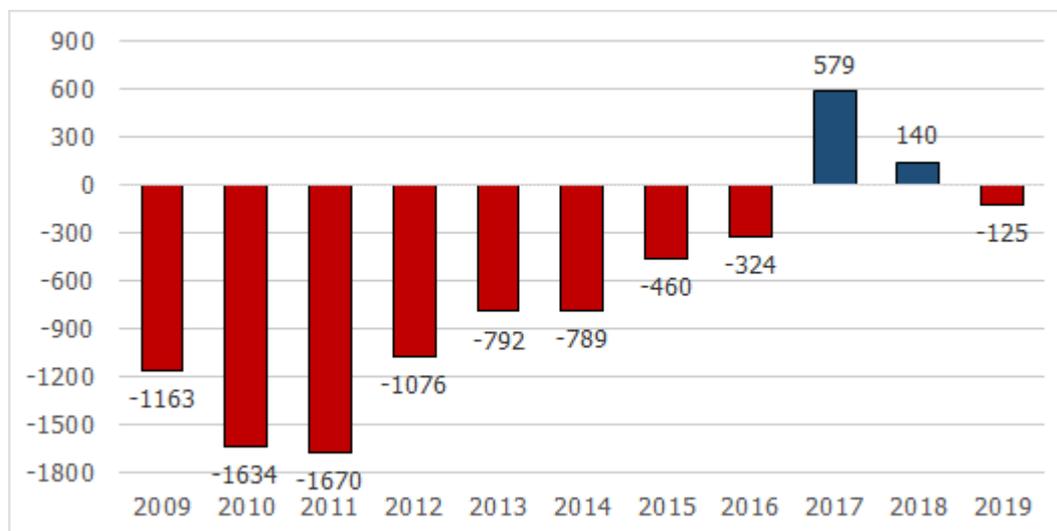


Source: UEFA (2020, 2021b). *UEFA Club Licensing Benchmarking Report*

Bottom-line results, or net profit/losses, improved as well since the introduction of FFP. From a record amount of aggregate net losses of €1670m in 2011, first-division European clubs reported an aggregate net profit for the first time in 2017, only for

this result to decrease in 2018 and turn into aggregate net losses again in 2019 due to escalating expenditures on the transfer market (UEFA, 2020; UEFA, 2021b).

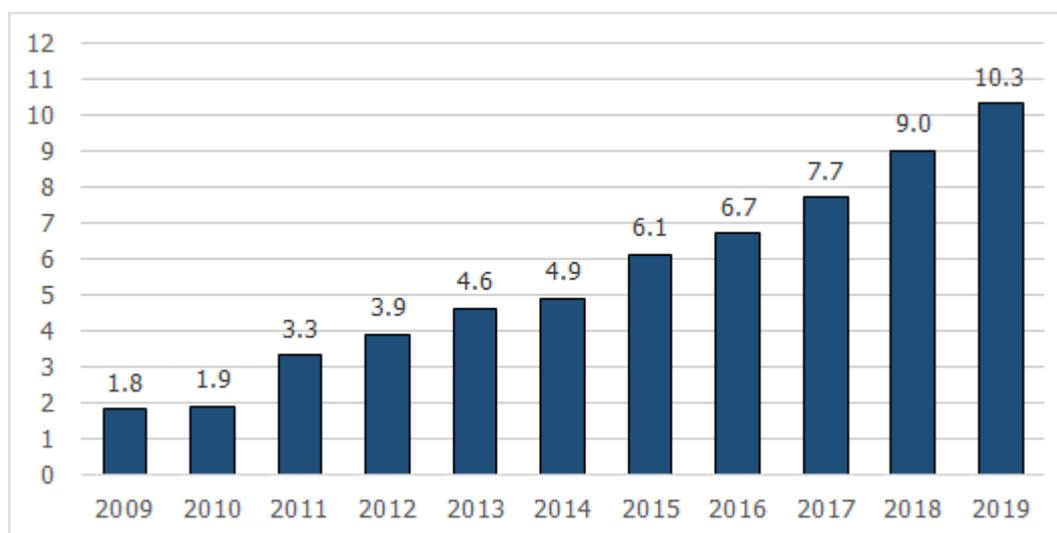
Figure 2.2 – Aggregate net profits/losses, top-division clubs (2009-2019, €m)



Source: UEFA (2020, 2021b). *UEFA Club Licensing Benchmarking Report*

FFP ultimately improved the financial position of football clubs: aggregate net debt, which includes net borrowings and net player transfer balance, decreased from 65% of aggregate revenue in 2009 to 40% in 2018. As a consequence, aggregate net equity quintupled over the same period, from €1.8bn in 2009 to €9.0bn in 2018 and reached €10.3bn in 2019.

Figure 2.3 – Aggregate net equity, top-division clubs (2009-2019, €bn)



Source: UEFA (2020, 2021b). *UEFA Club Licensing Benchmarking Report*

Considering the pre-pandemic financial data of the European football industry, FFP could definitely be considered a success at least in reaching its objective of strengthening the economic and financial capabilities of the clubs. As for its more noble goals of achieving financial fair play, protecting the integrity of UEFA club competitions and introducing more discipline in club football finances, FFP benefits are debated. As shown by a series of high-profile cases like Manchester City (Conn, 2020a) and Paris Saint-Germain (PSG) (Panja, 2019), some European clubs managed to bypass some FFP limitations by reporting sponsorship deals not exactly corresponding to arms-length transactions and UEFA often failed to determine their overvaluation.

Another one of the most controversial consequences of FFP has been the crystallisation of the top echelon of clubs in European football, consolidating the status quo and preventing the rise of newcomers. Since the introduction of FFP, Bayern Munich won 10 consecutive Bundesliga titles (from 2012/13 to 2021/22), PSG won 8 Ligue 1 titles, Juventus won 9 consecutive Serie A titles (from 2011/12 to 2019/20), Spain's La Liga has been contested by the usual suspects (FC Barcelona with 5 titles, Real Madrid with 4 and Atletico Madrid with 2) and Chelsea FC has been the only team to win its first UCL title (in 2011/12). The application of the break-even rule, which forced clubs to balance football-related costs with football-related revenues, has been considered the crucial point of the distorting effect of FFP, as it mimics the salary cap typical of the NA sports model without improving competitive balance. The resulting effect was that of shifting rents from football players to club owners without improving the quality of the end product for the consumers, in terms of better on-field competition (Peeters and Szymanski, 2014).

In summary, FFP is considered to have been successful in addressing some problems while creating a whole set of different ones at the same time, especially in terms of competitive balance (Giudice, 2020).

2.2.2 COVID-19 and Financial Fair Play

European football clubs felt significant financial pain due to the global pandemic due to various periods of lockdowns, limitations of stadium capacity and a contraction of the transfer market. The 2019/20 season was interrupted in March 2020 and its evolution varied from country to country. 16 of the UEFA national leagues restarted

with the same format, 12 restarted with a different format and 16 were abandoned, only to restart at the beginning of the 2020/21 season (including Ligue 1). Overall, the pandemic caused a 14% reduction in top-division matches played in the affected season and a 10.4% decrease in revenue for top-division football clubs between FY 2019 and FY 2020 (from €23.0bn to €20.4bn). Since the pandemic affected the latter months of the season, gate receipts were only partially affected but still decreased by 23% on average. Broadcasting revenues decreased by 14% and commercial sponsorship revenues decreased by 8%. As the 2020/21 season started behind closed doors for the vast majority of leagues, club revenues were significantly more affected by the pandemic in FY 2021. Gate receipts declined by 88%, contributing on average to 2% of the football club average revenue mix compared to 16% of the pre-pandemic FY 2019. Fortunately for most clubs, other sources of revenue such as main sponsorship deals proved to be resistant to pandemic shocks and increased in value on average by 6.1% from FY 2019 to FY 2020 and by 9% from FY 2020 to FY 2021.

All things considered, UEFA estimates a total projected impact on clubs revenues since the start of the pandemic in the region of -€7.0bn, a reduction of 10-15% compared to non-pandemic forecasts, which ranges from -19% to -29% for the “big 5” leagues if the period considered starts in March 2020 (UEFA, 2021b).

Given the amount of financial pain suffered by European clubs, a suspension of the FFP regime looked like a natural consequence of these events. In fact, UEFA decided to merge FY 2020 and FY 2021 into an average of the two for the purposes of calculating the break-even rule of FFP (expanded from a three-year to a four-year rolling period) and allowed club owners to inject capital into struggling clubs, basically postponing the application of FFP rules until the clubs were able to recover from the pandemic (Conn, 2020b). The application of FFP rules and sanctions resumed in 2022, when clubs such as Inter Milan, AS Roma, Juventus, AC Milan, PSG, Olympique Marseille, Monaco and Besiktas were fined for variable amounts due to failures to comply with FFP over a period that included pre-pandemic years. Some of these clubs signed three- or four-year settlement agreements, requiring them to reach intermediate annual targets and satisfy the football earning rule otherwise risking harsher penalties like limitations on the transfer market and exclusion from UEFA

competitions (AFP, 2022). The application of FFP is expected to last up until the end of the 2022/23 season.

2.2.3 UEFA Financial Sustainability Regulations (2023-)

UEFA announced in 2022 that its Financial Fair Play Regulations would be replaced by a set of new rules, referred to as UEFA Club Licensing and Financial Sustainability Regulations (FSR), to be gradually implemented over three years starting from the 2023/24 season (Solkehol, 2022). UEFA states that while FFP has been successful in wiping out overdue payables from the football industry and in turning around clubs' finances, the impact of COVID-19 required new rules to deal with the post-pandemic football landscape (UEFA, 2022a).

FSR is based on three pillars: *solvency* (no overdue payables), *stability* (football earnings rule), and *cost control* (squad cost rule) (UEFA, 2022b). These three pillars are similar to the two requirements under FFP, but they present some significant differences.

The solvency rule prohibiting clubs to have overdue payables is carried over and a new yearly deadline is introduced, bringing the number up to three.

The football earnings rule is closely related to the break-even rule under FFP and is calculated in a similar way. Clubs are required to report an aggregate football earnings surplus or a deficit within an acceptable deviation, which doubled up to €60m over three years (up from €30m under FFP). This deviation could be increased by €10m for each reporting period in which the club has not been subjected to disciplinary measures or settlement agreements and complies with certain financial conditions. Football earnings are calculated by subtracting relevant expenses from relevant income and then by aggregating them over three years. This figure can be adjusted in case the club makes relevant investments, such as in tangible assets (infrastructure), youth, community and women's football development, non-football operations and leasehold improvements (Cisneros and Kasoulis, 2022). UEFA now allows clubs to cover differences within the acceptable deviation with equity or cash contributions. In this regard, FSR rules are less stringent than FFP and allow clubs with solid ownership to have more leeway.

The cost control rule introduces for the first time a form of relative salary cap in European football, targeting squad costs. Clubs are now required to spend less than 70% of club revenues (calculated as adjusted operating revenue + net profit/loss from transfers) on squad costs (player and coach wages + transfers amortisation + agent and intermediary fees). The gradual implementation of FSR sets this percentage at 90% in 2023/24 and at 80% in 2024/25.

Additionally, another requirement imposed on clubs is to record transactions at fair value, irrespective of which party they take place with, but it is not clear how UEFA intends to monitor this rule.

The UEFA Club Financial Control Body (CFCB) is still responsible for monitoring FSR application and sanctioning clubs. FSR carries over most of the measures already detailed by FFP. Failure to comply with the solvency rule for more than 90 days is now considered to be an aggravated breach of FSR and could be punished even with exclusion from UEFA competitions. Failure to comply with the football earnings rule is punished with the same measures used under FFP to sanction break-even rule breaches. Ultimately, failure to comply with the cost control rule is primarily dealt with financial disciplinary measures (fines, up to 100% of the squad cost ratio excess) and additional disciplinary measures (limitation on registering new transfers, disqualification or exclusion from competitions) in case of significant breaches.

FFP proved to be successful in strengthening the financial position of European football clubs, therefore the refinement of these rules offered by FSR should further consolidate the stability of the industry.

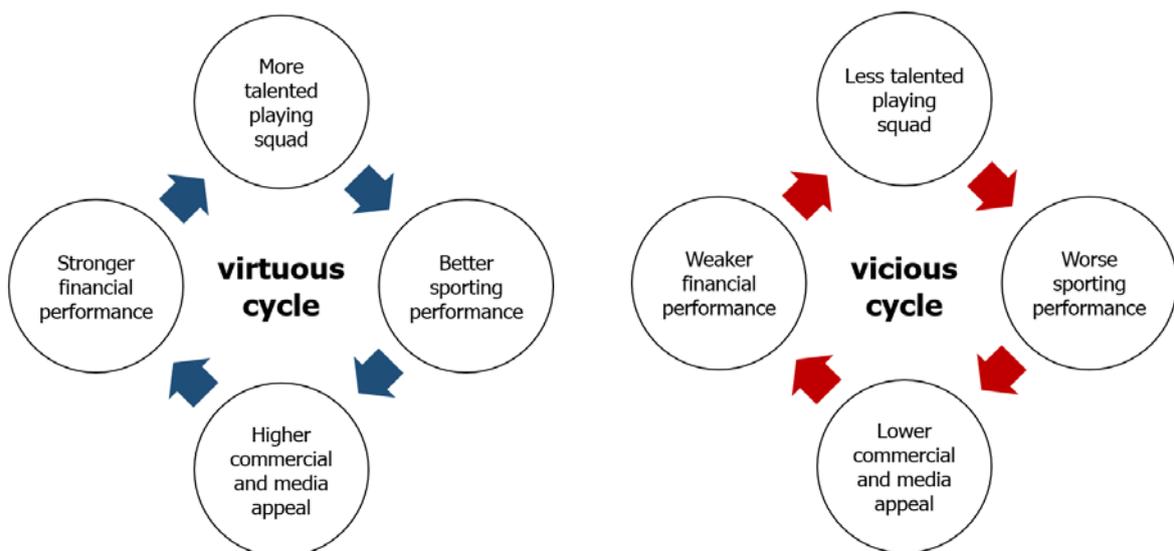
As for the consequences of FSR regarding competitive balance, it is unclear how the European football industry will evolve. FSR appears to be an update of FFP, on one hand restricting some requirements like the solvency rule but also allowing owners to directly finance their clubs more freely. This form of salary cap imposed on squad costs as a percentage of club revenues can be considered a relative cap rather than an absolute, fixed amount cap identical for every club. The major clubs reporting hundreds of EUR million in revenues will have a greater capacity on their balance sheet to spend on transfers, wages and fees compared to smaller clubs. Yet, the new football earnings rule allows owners to recapitalise a loss-making club with cash or equity injections more effectively than under FFP rules. Financial disciplinary measures such

as fines would allow rich owners to accelerate the growth process of a club trying to climb the football ladder and compete at the top, at least until those breaches are considered to be significant and punished with the exclusion from lucrative UEFA competitions. Whether the combination of the FSR pillars and the corresponding disciplinary measures will further crystallise the competition at the top of European football or not remains to be seen. One thing is certain: until European football ceases to be organized around open leagues with significant incentives to pursue success on the pitch, the competitive balance rules introduced by the FSR regulations are not sufficient to push clubs towards acting as “profit maximisers”.

2.3 The virtuous and vicious cycles of European football

The previous paragraphs proposed the definition of “win maximisers” for the European sports model, applicable to the football industry. The Association of European Professional Football Leagues (European Leagues, 2020) summarises this characteristic of the competitive environment of football clubs with the concepts of virtuous cycle and vicious cycle, depicted in Figure 2.4 below.

Figure 2.4 – The virtuous and vicious cycles of European Football



Source: European Leagues (2020). *The Financial Landscape of European Football*

Strong financial performance allows the club to invest more in player talent, often having a positive impact on sporting performance. Given the competitive, open structure of European football leagues, as the club wins more on the pitch it will generate more revenue (higher commercial appeal, UEFA prize money, ...) and ultimately further improve financial performance. On the other hand, weak financial performance could prevent the club from competing in the hunt for player talent, worsening the sporting performance, lowering the commercial appeal of the club, earning less revenue, and ultimately impacting financial performance once again.

The virtuous and vicious cycles of football can be explained more thoroughly with the concept of business model of football clubs (Giudice, 2020). The business model of a company relies on two components: a *value proposition* and a *profit formula*. The value proposition encompasses all the elements of the product offered by the company to its customers, which in the case of football clubs can be summed up as entertainment. Fans are offered the possibility of watching matches, either directly at the stadium or through different media, of feeling part of a group of like-minded people, of dreaming about and ultimately celebrating sporting success. The profit formula defines how the company manages to extract value from the product it sells, in this case how the club can monetise the support from fans. When the value proposition of a club deteriorates, fans become less engaged and less willing to spend money to support the club and its activities. Football clubs may pursue different strategies based on the expectations of the owners and the characteristics of the clubs themselves since they have different value propositions. Top clubs compete to win trophies and attract the very best players in the world. Big clubs also compete to win, but most importantly to qualify for UEFA competitions in order to keep up with competitors. Mid-table teams try to improve their results, while bottom-table sides play with the ultimate goal of remaining in the league and avoiding relegation. Sporting success is therefore defined differently by different clubs and the expectations of the fans.

Virtuous and vicious cycles may therefore present different elements based on the value proposition since different clubs have different business models (Gigante and Sottoriva, 2021). While the virtuous cycle of top clubs appears to be similar to the

one presented in Figure 2.4, the stronger financial performance allows for investment in player talent, especially by awarding it with higher wages. On the other hand, mid- and bottom-table teams that do not play under the imperative of competing to win trophies can focus on investing in younger, cheaper players that do not require high wages. In this case, sporting success also consists in making a profit from player trading, by developing talent and selling it to the top clubs that can afford it.

Financial performance is therefore both an input and an output of these cycles, as it promotes or hampers the growth of the football club. The next chapter will present the fundamentals of football clubs and their trend over time, focusing on the effects of the COVID-19 pandemic on the industry.

3. The economic and financial fundamentals of football clubs

The previous chapter offered an overview of the regulatory framework of European football, focusing on the competitive environment an investor should expect after acquiring a stake in a club. But should a profit-seeking investor do so? In order to discuss the rationale for investing in the European football industry it is necessary to understand the economic and financial characteristics of clubs: sources of revenue, main costs and ultimately how (and if) profit is generated.

This chapter presents the main elements of the financial statements of football clubs and their trends in recent years, especially in light of the pandemic effects already mentioned previously. The final part of the chapter tries to connect all these elements together and briefly describes how football clubs are valued.

The broad analysis offered below is based on aggregate financial data published by UEFA and other companies. Considering the broad differences between clubs, divisions and countries, delving into a single football club (or a selected group) would be outside the scope of this paper.

3.1 Football clubs' revenues

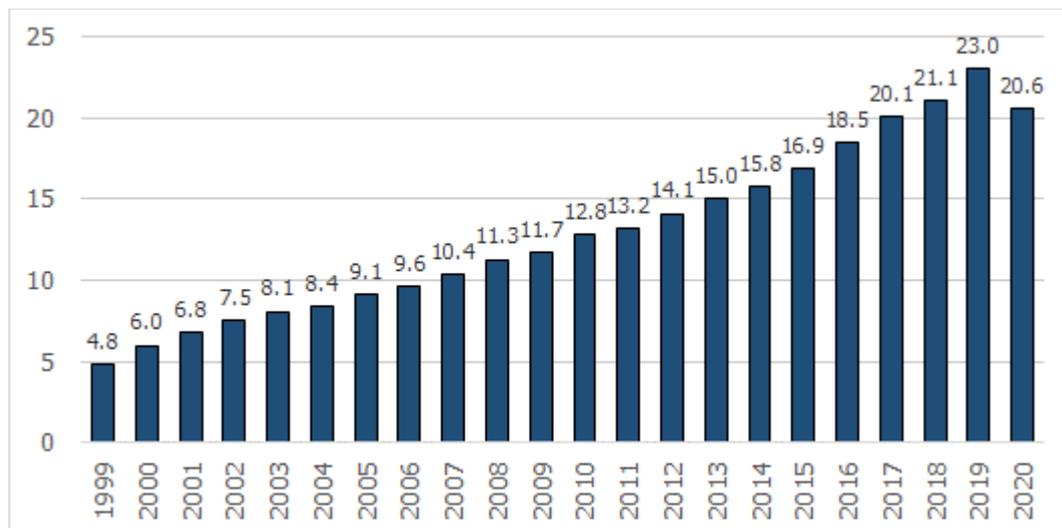
Football clubs generate value primarily in three distinct ways: through operating revenues (such as from broadcasting rights, sponsorships, merchandising and ticketing), through player trading on the transfer market and by developing homegrown talent thanks to the youth sector. An additional fourth way to generate value consists of profiling fans and selling data to advertisers in different industries, which is a recent evolution for the football industry (Giudice, 2020).

Capital gains generated by transfer market activity (including players developed through the youth sector) differ greatly from season to season and from club to club, making it impossible to rely uniquely on transfers to finance a club. However, clubs often resort to these extraordinary cash flows from transfers to cover losses in dire times or to finance further acquisitions on the market. On the other hand, operating revenues represent the largest and most consistent source of value creation for clubs.

For this reason, aggregate revenue figures exclude player transfer fees in order to facilitate comparisons and a meaningful aggregation of financial data.

According to data published by UEFA, top-division club revenues rose constantly before the pandemic, reporting a compound average annual revenue growth rate of 8.2% over the previous 20 years for a revenue increase of 4.8x (UEFA, 2021b). In 2019 annual revenue grew by a record €1.9bn. But as already mentioned in the previous chapter, COVID-19 hit the football industry quite severely and caused a revenue decrease of €2.3bn in 2020 compared to the previous year, a 10.4% decrease. Compared to non-pandemic UEFA estimates for 2020 and 2021, the revenue loss for both seasons reaches €7.0bn (UEFA, 2021b; UEFA, 2022c).

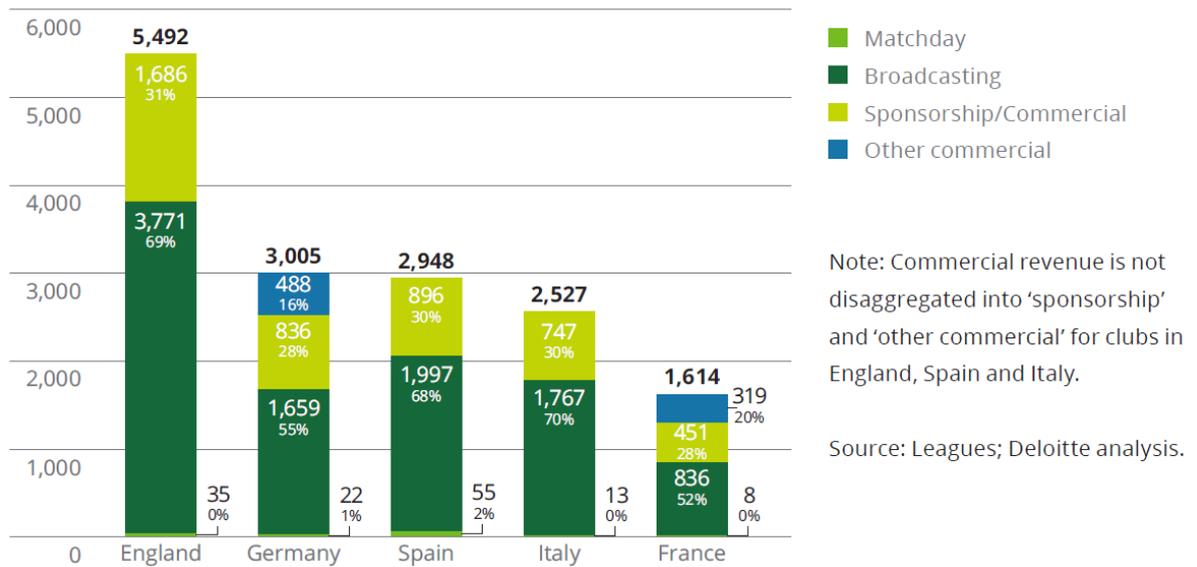
Figure 3.1 – Aggregate revenue, top-division clubs (1999-2020, €bn)



Source: UEFA (2021b, 2022c). *UEFA Club Licensing Benchmarking Report*

Operating revenues of football clubs can be divided into three major categories: broadcasting revenues, commercial revenues and matchday revenues. This revenue mix varies across different countries, divisions and clubs, but its analysis is relevant for almost every football club operating in the industry.

Figure 3.2 – Aggregate revenue, “big 5” league clubs (2020/21, €m)

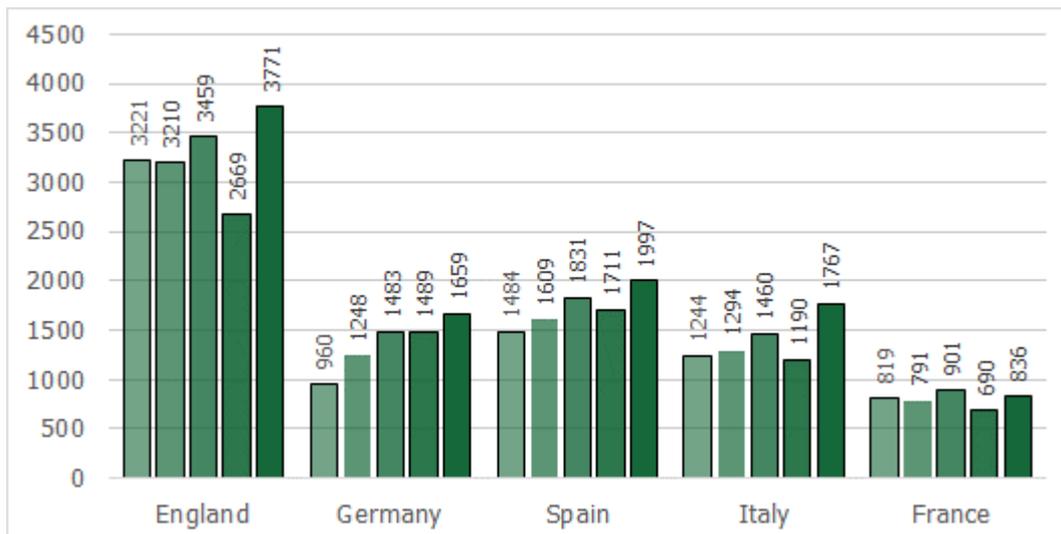


Source: Deloitte (2022a). *Annual Review of Football Finance*

3.1.1 Broadcasting revenues

Football clubs receive a major part of their revenues from broadcasters, who pay huge sums to secure the rights to show games through different media (primarily pay TV and OTT services). The percentage of the revenue mix obtained from broadcasting presents stark differences between the “big 5” leagues and smaller ones. Before the pandemic, the average percentage of broadcasting revenues over total club revenues varied from 54% in the English Premier League to single-digit percentages in Austria (9%), Switzerland (9%) and Russia (4%) (UEFA, 2020). As a consequence of stadium closures during the pandemic and the fall in matchday revenues, EPL clubs saw this percentage rise to 69% in 2020/21, but thanks to re-openings it is projected to settle around 56% in 2021/22 and 58% in 2022/23 (Deloitte, 2022a). It should not surprise that bigger leagues draw more interest than smaller ones, therefore allowing them to collect much higher sums from broadcasters. In fact, the English Premier League dwarfs all the other European leagues, “big 5” included, in terms of total revenues thanks particularly to highly lucrative broadcasting agreements. EPL broadcasting revenues grew at a staggering CAGR of 20% from 1992 to 2021. Notably, in 2022/23 revenues from international broadcasting rights of the EPL are set to surpass domestic ones for the first time, showing how the international appeal of the league is constantly growing.

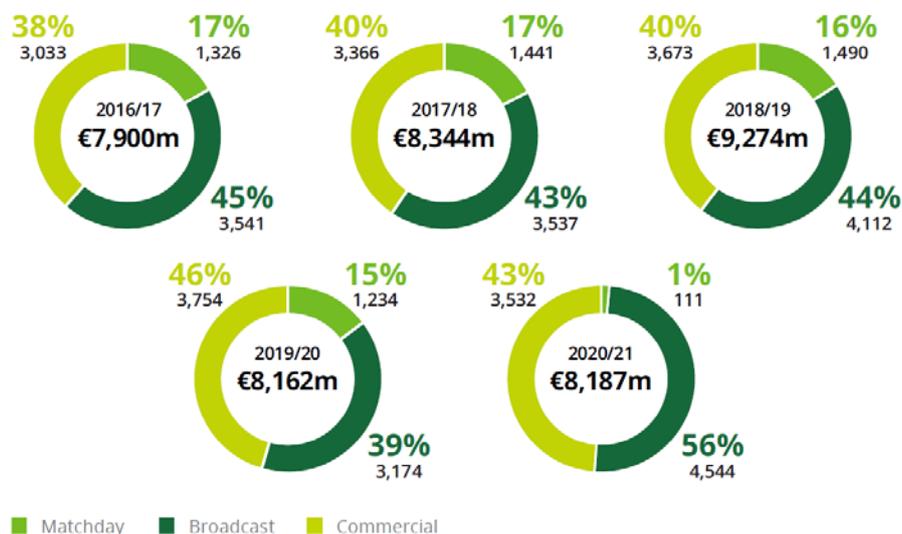
Figure 3.3 – Broadcasting revenues, “big 5” league clubs (2016/17 to 2020/21, €m)



Source: Deloitte (2018, 2019, 2020, 2021, 2022a). *Annual Review of Football Finance*

The analysis performed in the Football Money League report of 2022 (Deloitte, 2022b) considers the top 20 European clubs by revenues and aggregates their financial data. The biggest football clubs consistently report broadcasting revenues representing the largest part of the revenue mix, with the exception of the 2019/20 season when the postponement of games into the next fiscal year due to the pandemic. This resulted in deferrals in the distribution of broadcasting revenues into the 2020/21 season, which explains this variation.

Figure 3.4 – Aggregate revenue, top 20 clubs by revenue (2016/17 to 2020/21, €m)



Source: Deloitte (2022b). *Deloitte Football Money League*

A handful of these top 20 clubs are an exception, as their brands allow them to earn even more in terms of commercial revenues compared to broadcasting revenues. It is the case of Real Madrid, Bayern Munich and Paris Saint-Germain, while for FC Zenit it is due to a comparatively lower interest in the Russian league from broadcasters, therefore generating lower revenues.

In addition to money received directly from TV and OTT media rights, broadcasting revenues typically include an important source of revenue for European clubs: revenue from UEFA. Competing in UEFA club competitions (Champions League, Europa League, Conference League) allows clubs to collect prize money and a share of UEFA broadcast rights money based on sporting success. Top clubs from the “big 5” leagues fiercely compete in their national leagues to win a spot in these lucrative UEFA club competitions. Clubs from smaller leagues also benefit from UEFA solidarity payments, even in the absence of any national team in UEFA club competitions.

This source of revenue is crucial for the top clubs accustomed to routinely qualifying for international competitions, as revenue from UEFA represents a significant portion of their total revenue (UEFA, 2022c).

Out of the different components of club revenue, broadcasting revenues are estimated to be the least affected by the pandemic according to UEFA. The impact of postponed/cancelled 2019/2020 season games and the renegotiation of TV deals is projected to be around -€0.9bn, with a further -€300m spread over FY 2022 to 2024 (UEFA, 2022c).

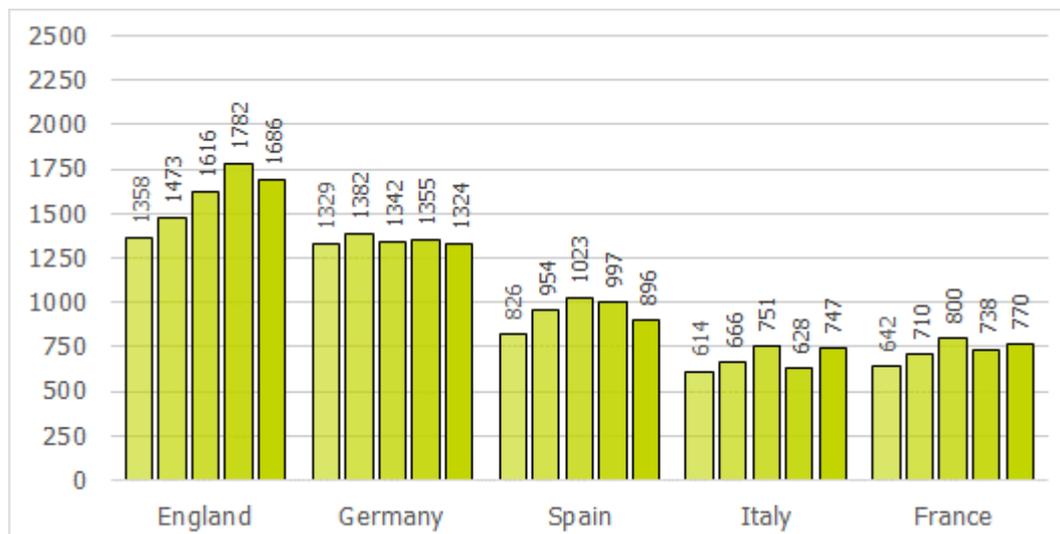
3.1.2 Commercial revenues

Commercial revenues include a wide range of sources of income typical of a football club, such as sponsorships, merchandising and other commercial operations like licensing. Sponsorships include main shirt sponsors, revenue from kit manufacturers and secondary sponsors (sleeve, back, in-stadium ads, social media and others). Naming rights for the stadium the club plays in represent an important source of revenue for those clubs who own such an asset and do not play in a publicly owned one. Commercial revenues in European football are strictly linked with sporting success, as sponsors desire to be associated with victories just as fans become more

engaged and willing to spend more on merchandise. A strong social media presence and constant fan engagement are very important elements for a successful commercial strategy in the football industry (Giudice, 2020).

Due to the pandemic, European top-division football reported a slight decrease in total combined commercial revenues, down 3% in 2020 compared to 2019 (from €6.9bn to €6.7bn), and UEFA forecasts a further decrease of 2% in 2021 (to €6.5bn). The UEFA pre-pandemic estimate for commercial revenues in 2020 and 2021 combined stood at €14.9bn (assuming 3% yearly growth rates) and this forecast would bring that amount to €13.2bn, representing €1.7bn of lost revenue (UEFA, 2022c).

Figure 3.5 – Commercial revenues, “big 5” league clubs (2016/17 to 2020/21, €m)



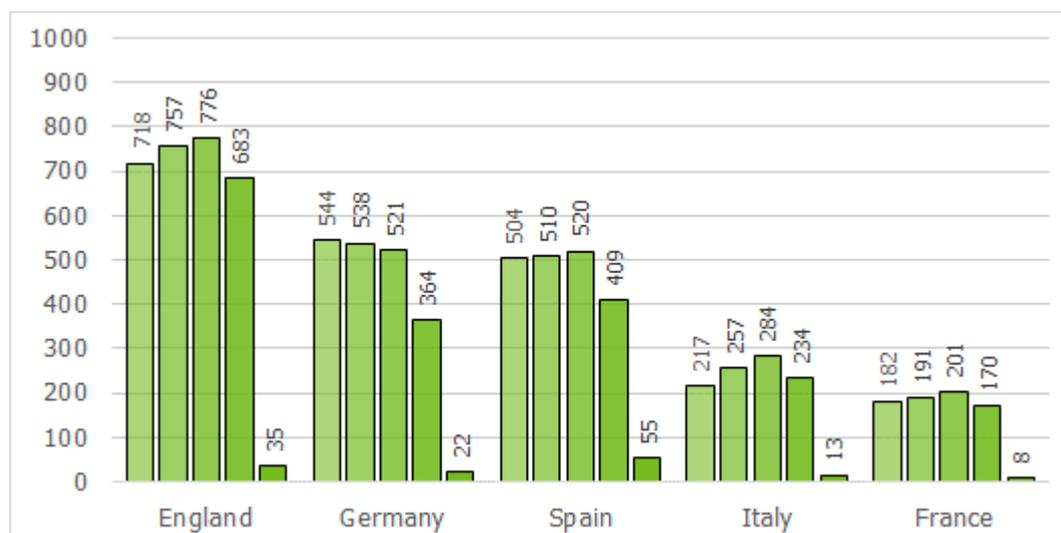
Source: Deloitte (2018, 2019, 2020, 2021, 2022a). *Annual Review of Football Finance*

3.1.3 Matchday revenues

Matchday revenues are the last component of the average football club revenue mix and have historically represented a very important portion of it, especially before the 21st Century. In recent years broadcasting and commercial revenues surged thanks to the rise of pay-tv and increased media coverage of football, ultimately surpassing ticketing revenues. Nonetheless, for many small clubs in lower divisions gate receipts are still of vital importance to finance sporting activities. Matchday revenues include sales of tickets, corporate hospitality packages and food and beverages inside stadiums.

While the pandemic's effect on broadcasting and commercial revenues has certainly been felt by European football clubs, it is matchday revenues that have been affected the most. The previous chapter already mentioned how matchday revenues have been all but decimated due to stadiums being closed or operating at reduced capacity during the pandemic. While lockdowns affected only the latter part of the 2019/20 season, having a limited impact on 2020 figures (-23% compared to 2019), the 2020/21 season was played with stadium restrictions for almost its entirety, all across Europe. Matchday revenue for top-division European clubs decreased by 93% in the "big 5" leagues and by 70% in the remaining 20 UEFA national competitions, averaging a decrease of 88% compared to pre-pandemic FY 2019. The corresponding percentage of matchday revenues in the mix went down to 2%, compared to the pre-pandemic average of 16%. In absolute terms, the pandemic impact on European football is estimated to be in the region of -€4.4bn, greater than the losses felt by the other two major revenue components combined (UEFA, 2022c).

Figure 3.6 – Matchday revenues, "big 5" league clubs (2016/17 to 2020/21, €m)



Source: Deloitte (2018, 2019, 2020, 2021, 2022a). *Annual Review of Football Finance*

3.2 Football clubs' costs

The most relevant costs faced by football clubs can be grouped into three categories: wages (players, technical area and administrative staff), net transfer market costs, and operating costs.

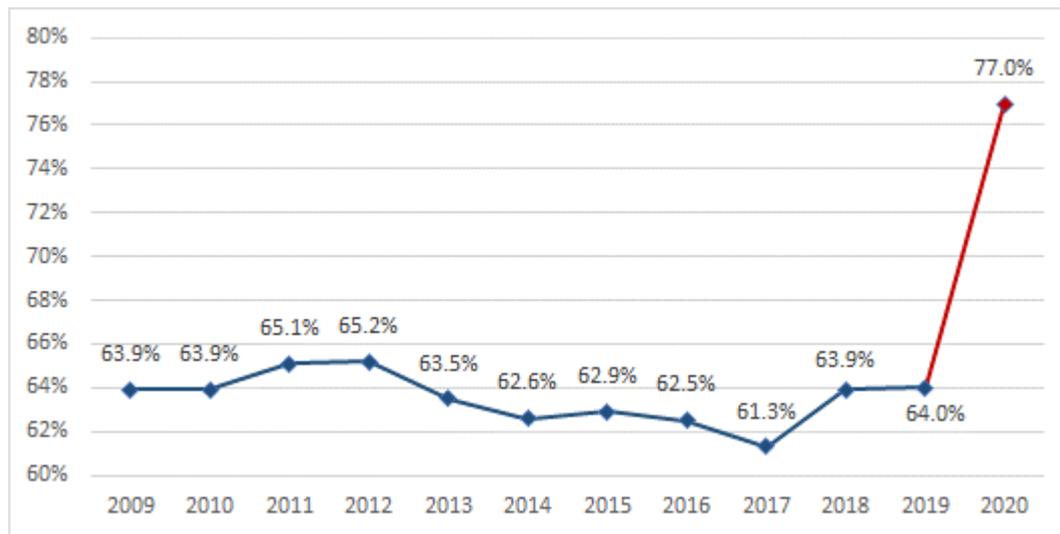
Just as club revenue increased constantly over the last two decades, costs evolved in a similar way. In 2021 wages and net transfers alone amounted to 91% of total revenue (56% player wages, 17% other wages, 18% net transfer costs), with operating costs and net non-operating costs summing up to a further 31%. Wages and net transfers summed up to 78% of revenue in 2020 and to 66% in 2019, before the pandemic. (UEFA, 2022c). It should be already clear how in these post-pandemic times football clubs tend to spend more than they earn, even more so than in previous years. Delving into the three major categories of costs is necessary to analyse this trend over time.

3.2.1 Wages

Total wages include all the employee costs for a football club: wages, salaries, bonuses, social security and pension contributions, and severance payments. As mentioned, these costs can be divided between the different categories of employees: football players, technical staff (coaches, physios, medics) and administrative staff. Total wages loosely followed the constant increase in revenues in the years preceding the pandemic, albeit at a slightly slower pace also thanks to the implementation of Financial Fair Play rules. In 2018 total wages of top-division European football clubs reported an annual growth rate of 9.4%, more than double the growth rate of aggregate revenue of 4.9%, while in 2019 the difference between the two was lower (+10.0% in wages vs +9.1% in revenue) (UEFA, 2020). In 2020, the first one partially affected by the pandemic, total wages decreased by 1%, compared to a much larger decrease in revenue of 10.4% (UEFA, 2021b).

Expressed in relative terms compared to revenue, total wages followed a period of decrease since the introduction of FFP and then exploded upwards, also due to COVID-19. Wages went from absorbing 65.1% of revenue in 2011 to as low as 61.3% in 2017, up to 64% in 2019 and are projected to reach a record level of 77% in 2021. UEFA collapsed FY 2020 and FY 2021 for the purpose of analysing wages, because of the aforementioned rescheduling or cancellation of competitive seasons (UEFA, 2022c).

Figure 3.7 – Total wages/revenue ratio, top-division clubs (2009-2020, %)



Source: UEFA (2020, 2021b, 2022c). *UEFA Club Licensing Benchmarking Report*

The “big 5” leagues present some differences in terms of wages/revenue ratio. While Bundesliga (65%), EPL (71%), and La Liga (74%) report 2021 values broadly in line with the upcoming Financial Sustainability Regulations squad costs target of 70% (which also includes net transfer costs), Serie A (84%) and Ligue 1 (98%) indicate that their clubs have some homework to do and are likely to drastically reduce the wages/revenue ratio over the coming years.

Player wages absorb the largest portion of costs for a football club, as player talent is a scarce, non-fungible resource that allows footballers to be in a strong negotiating position (McNamara, Peck and Sasson, 2013). These costs gradually increased over time compared to total revenue, even when total wages decreased slightly year after year up until 2018. In 2021, player wages represent 56% of the total revenue of top-division clubs, the second consecutive year reporting a figure over 50%. Technical and administrative staff wages are also increasing after the pandemic, albeit by only 2% compared to pre-pandemic times, representing 16.4% of total revenue in 2021, up from 14.1% in 2019 (UEFA, 2022c).

3.2.2 Net transfer market costs

On top of wages to be paid to athletes, top-division football clubs spend huge amounts of money on the transfer market to secure new players from other clubs. When a player is transferred in exchange for a sum of money, this sum doesn't impact

in full the club's income statement for the year but only a portion of it. Players' sporting rights are treated as intangible assets to be amortised over their useful life, which in this case is the contract length (Giudice, 2020). As a natural consequence of that, when a player still under contract is sold to another club, the difference between the selling price and the residual amount on the balance sheet determines a capital gain or loss to be recorded in the income statement. Accounting for transfer activity may seem counterintuitive: when transfer spending increases, the net costs of transfer activity tend to decrease (and vice versa). That is exactly due to the difference in timing of the effect of buying (selling) a player: incomes increase alongside transfer activity, while costs are spread over a period of time usually between 3 and 5 years (UEFA, 2020).

European clubs reported a net income on transfer activity for the first time in 2017, as a consequence of higher prices on the transfer market. The same happened in 2018 when clubs reported a net income of 2.1% of total revenue. In 2019, the last year before the pandemic impact, this margin switched into the negative and clubs reported net transfer costs amounting to 2.0% of total revenue. Net transfer costs ballooned up to 18% of total revenue in 2021 (UEFA, 2022c).

Overall transfer activity was heavily impacted by the pandemic. Summer transfer spending in 2020 amounted to €4.0bn, down to €3.8bn in 2021. Compared to €6.5bn in 2019, it dropped by 39% and 41%, respectively. This sharp reduction in transfer activity can be ascribed to a 12% reduction in the number of transfers between 2019 and 2021 alongside a reduction in the average transfer fee, both for "big 5" leagues (-32%), their second divisions (-43%) and for the leagues ranked 6th-20th (-29%). The English Premier League represents a unicum in this regard, as its transfer activity in 2021 summed up to 88% of 2019 levels, while the other "big 5" leagues ranged from 27% in the case of La Liga to 68% for the Bundesliga. While transfer activity for the EPL is recovering at speed, it is necessary to point out that both the EPL and the other "big 5" leagues are presenting very high amortisation and impairment costs, ranging from 29% to 43% of revenue in 2021. Coupled with the wages/revenue ratio covered above, it is evident that clubs will be forced to cut spending on squad costs to satisfy the upcoming FSR requirements, both in terms of wages and transfer fees.

As mentioned, player trading is a strategy often used by clubs to cover losses or to capitalise on market conditions and obtain new funds. The increased market activity in the years preceding the pandemic caused European football clubs as a whole to load up with amortisation costs over the years most strongly affected by COVID-19. Considering the massive contraction in the transfer market just described and the reduction in revenues, clubs have faced more difficulties in commanding premium prices for their players as potential buyers were just as likely to be in difficult financial conditions. An obvious consequence of this reduction of market activity is that free transfers and player loans increased, going from representing only 35% in 2019 to 51% of total transfers in 2021 (UEFA, 2022c).

3.2.3 Operating costs

Football clubs face a wide range of expenses that can be grouped under the label of operating costs. Within this category we can list asset depreciation, cost of goods sold and a set of expenses: matchday (stadium operating costs), sponsor and advertising, property and facilities, commercial activity, other operating, non-football, and exceptional expenses.

Since the introduction of FFP, operating costs decreased relative to total revenue. Starting from 39% of revenue in 2010, this percentage decreased to 33% in pre-pandemic 2018 and diminished further to 29% in 2021. Relative operating costs vary significantly from country to country, generally increasing as the total revenue of the league decreases (UEFA, 2020; UEFA, 2022c).

3.3 Football clubs' profitability

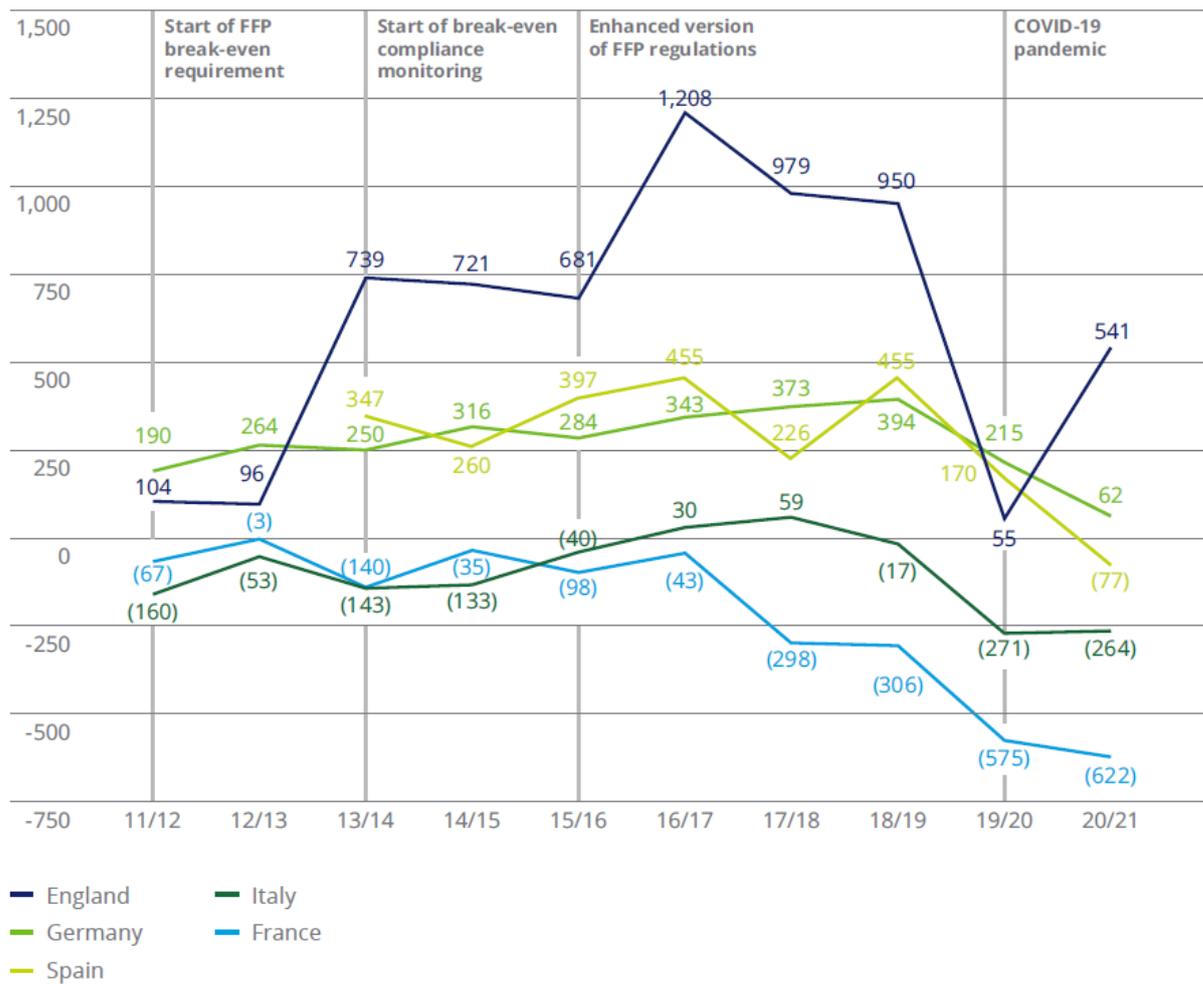
The picture described so far, between the introduction of Financial Fair Play in 2011 and the impact of the COVID-19 pandemic starting in 2020, and the resulting effect on European clubs' profitability should not surprise anyone. As mentioned, top-division European clubs went from reporting operating losses of -€382m in 2012, to operating profit at a record high of €1,4bn in 2017 and ultimately to €906m in 2019. The pandemic impact pushed clubs into the red in 2020, reporting operating losses of -€1.0bn due to a profit hit projected to be in the order of €2.0bn. In other terms, the 2019 profit margin of 4% evolved into a loss margin of 5% one year later. UEFA

projections for 2021 are in line with the losses of 2020, as a number of clubs have not submitted 2021 data yet (UEFA, 2022c).

Despite the marked reduction in transfer activity, the delayed effect of amortisation on clubs' finances caused the aforementioned steep increase in net transfer costs. UEFA estimates for 2021 are between €2.5bn and €3.0bn, at least five times higher than pre-pandemic net transfer costs of €532m in 2019. This legacy of record transfer spending is not the only factor weighing heavily on the profitability of European clubs, as the inability to reduce player wages in any meaningful way prevented clubs to react quickly and decisively to stop the bleeding. The competitive nature of European leagues, which see clubs acting as "win maximisers", incentives them to persevere in this relentless hunt for player talent in order to keep up with competitors. As a result, player wages remained relatively stable during the pandemic, growing on average by 2% compared to 2019. It is unlikely that clubs will manage to reduce this amount over the coming years, despite the upcoming FSR squad cost rule and its monitoring. The marked decrease in transfer activity is likely to continue as clubs try to save on transfer fees while being able to attract top talent with high wages.

While profitability for the whole industry has been severely affected, the "big 5" leagues present markedly different evolutions over time (Deloitte, 2022a). While the implementation of FFP pushed all of them on an improving path, two leagues reported a decrease in profitability even before the pandemic hit, leaving them badly equipped to deal with it. Ligue 1 quintupled operating losses from 2017 to 2018 (from -€43m to -€298m), due to a very high wages/revenue ratio and scarce opportunities for corresponding revenue growth, and a similar amount in 2019 (-€306m). Serie A achieved positive operating profits for the first time in 2017 (€30m), almost doubled them in 2018 (€59m) but returned to reporting losses again in 2019 (-€17m). The pandemic's impact has been felt heavily by all of them. Serie A losses reached -€271m in 2020 and -€264m in 2021, while Ligue 1 plunged to -€575m and -€622m in these years. La Liga reported operating losses of -€77m for the first time in 2021, dropping from a record high of €455m of profits before the pandemic. Bundesliga and the EPL are the only two leagues to remain profitable. The former dropped from €394m in operating profits in 2019 to €62m in 2021, while the latter plunged from €950m in 2019 to €55m in 2020, only to rebound to €541m in 2021.

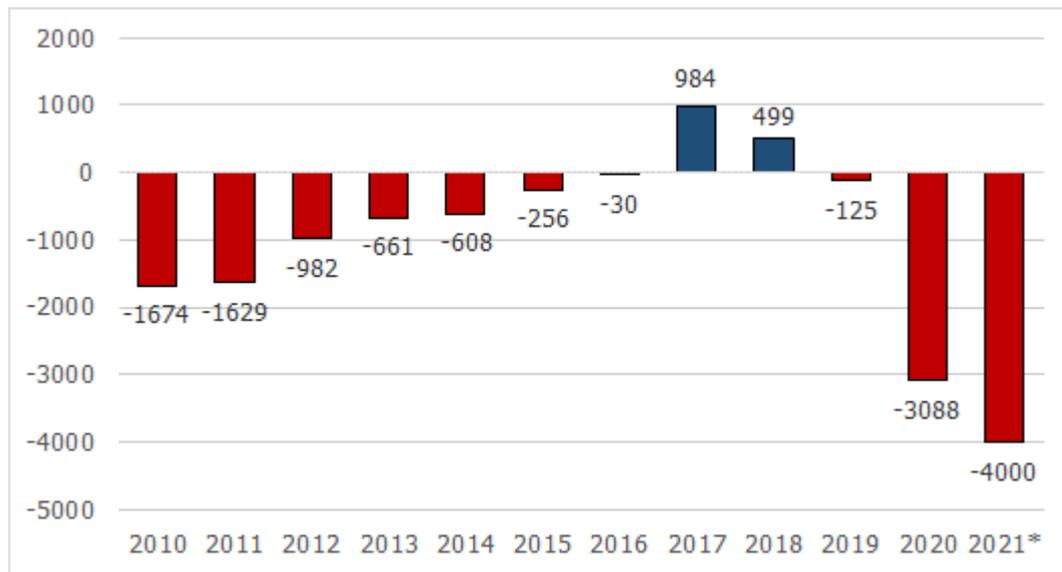
Figure 3.9 – Net profits/losses before taxes, top-division clubs (2010-2021, €m)



Source: Deloitte (2022a). *Annual Review of Football Finance*

Analysing operating profitability is crucial to understand the business model of football clubs, but bottom-line results (net profit/losses) are even more relevant for financial investors interested in entering the industry. UEFA aggregate data indicates that the introduction of FFP in 2011 was once again instrumental in pushing clubs on a path toward profitability. Net profit/losses before tax for top-division football clubs gradually went from -€1.3bn in 2011 to €984m in 2017, only to halve in 2018 (€499m) and turn into the red again in 2019 (-€125m), even before the pandemic. Once again, COVID-19 has not been kind to the football industry, forcing clubs to report losses of -€3.1bn in 2020 and to projected record losses in the order of -€4.0bn in 2021. Among the most affected leagues, Italian and French clubs have reported major losses, with average net loss margins around or over 50% (UEFA, 2022c).

Figure 3.10 – Net profits/losses before taxes, top-division clubs (2010-2021, €m)



Source: UEFA (2022c). *UEFA Club Licensing Benchmarking Report*

Losses obviously eat into net equity, causing severe financial damage to the industry and forcing owners to inject capital to keep the clubs running. The aggregate net equity of top-division early-reporting clubs dropped from €7.0bn in 2019 to €5.3bn in 2021, with 61% of this group reporting lower net equity as a result.

3.4 Football clubs' valuations

The valuation of a football club, just like any other company, is a fundamental requirement for any transaction and to determine the return on the initial investment. By calculating the enterprise value (EV) of a club, a prospective investor can formulate an offer and ultimately purchase an ownership stake. Football clubs are companies that operate in a peculiar industry, therefore not all the commonly used valuation methods are applicable (Markham, 2013).

Market capitalisation is commonly used to determine the value of a company whose shares are liquid and frequently traded on a stock exchange. Unfortunately, the number of listed clubs is very small (4 out of 98 in the "big 5" leagues: Juventus, Lazio, Manchester United, Borussia Dortmund), making it impossible to use for the vast majority of football clubs.

The *discounted cash flow* method (DCF) relies on calculating the present value of expected future cash flows, required to be positive and predictable going forward. The

unpredictable nature of the football industry, where financial performance is closely linked with sporting performance on the pitch, and the tendency to report losses make this approach unsuitable for football clubs.

Bankruptcy valuation is another method, yet the administration and liquidation processes of football clubs cannot be easily simulated by ascertaining the selling price of core assets (stadium, training ground or players). A *broker's valuation* of a football club is just as likely to be unreliable for the same reasons, as the only difference would regard the stable environment during which the sale would take place.

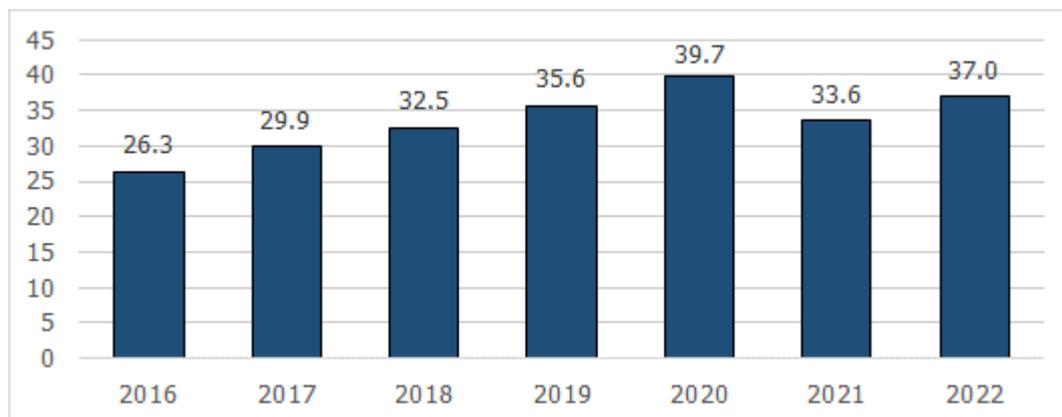
As a consequence, *relative valuation* is the most widely used method to value football clubs. The simplest way to value a football club using multiples is represented by the *revenue multiple* approach. Revenue figures are easy to access and compare, can be calculated even for clubs reporting losses and are not as volatile as earnings. Due to the peculiar nature of the football industry, clubs have large unvalued intangible assets therefore net equity is not suited for an accurate valuation. In addition to these intangible assets, such as the club's brand, the number of supporters and the membership of a national league and international competitions, some clubs have access to facilities such as stadiums and training grounds that are fully depreciated and not correctly represented by the values reported on their financial statements. For these reasons, revenue multiples are the most commonly used metrics to perform a relative valuation of football clubs. The revenue multiple approach presents some shortcomings when applied to the football industry. Intuitively, clubs with very high revenue would report proportionally very high EVs, despite generating losses. This method also completely ignores the equity component on the balance sheet, which could routinely be negative year after year. Nevertheless, the revenue multiple approach is often applied to football clubs by implementing some adjustments. The most notable example is offered by Football Benchmark, part of KPMG until earlier this year.

Football Benchmark (2022) sets three parameters to determine which of the European football clubs to include in its top 32 group of clubs in its valuation report. A club must be among the top 50 European teams by operating revenues and among the top 50 teams by UEFA 5-year coefficient, measuring sporting success in international competitions like the UCL. If only one of the two criteria is met, a club

could still be considered if it is among the top 30 European teams by the number of social media followers. These criteria allow us to identify rich clubs successful on the pitch, possessing a brand with high international visibility. Once the 32 clubs have been identified, Football Benchmark determines the multiplier to use and then adjusts it through a proprietary formula. This formula takes into consideration five weighted parameters for each of the football clubs considered: profitability, popularity, sporting potential, broadcasting rights and stadium ownership. Only then the relevant revenue multipliers are used together with revenue to determine the clubs' valuations.

The EVs of the top 32 European clubs increased constantly until the 2020/21 season (11% CAGR 2016-2020) when they decreased by 15% on average due to the global pandemic. The return of fans in stadiums and the consequent increase in matchday revenues for clubs have allowed EVs to rise by 10% in 2022 (Football Benchmark, 2022).

Figure 3.10 – Aggregate enterprise value (EV), top 32 clubs (2016-2022, €bn)



Source: Football Benchmark (2022). *The European Elite 2022: Football Clubs' Valuation*

An evolution of the revenue multiple method used for football clubs is the *multivariate method* (Markham, 2013). This approach takes into account not only club revenue but also net assets (in order to consider both short- and long-term debt obligations), net profits (to have a measure of profitability), stadium utilisation (as a percentage of total capacity) and wages/revenue ratio (to account for the major costs faced by the club: wages). All these elements are combined as follows:

$$EV = (Revenue + Net Assets) * \frac{Net\ profit + Revenue}{Revenue} * \frac{StadiumCapacity\%}{Wages/Revenue\%}$$

4. Private equity's growing interest in European football

Chapters 2 and 3 offered an overview of the football industry, the business model of football clubs and their financial data over time. It should be already clear that an industry on a path of constant growth towards better financial sustainability, the impact of COVID-19 notwithstanding, is one that private equity tends to be interested in. This chapter intends to cover the recent trends of PE investments in European football and tries to shed some light on the underlying drivers of interest.

In order to differentiate PE deals from transactions carried out by other categories of investors, such as other investment funds, industrial groups, family offices and private individuals, it would be necessary to know the details regarding each transaction and the corresponding bidders. Unfortunately, more often than not these details are not made public. Nevertheless, the rationale behind investing in European football remains broadly the same irrespectively of whether the investment is carried out by a PE firm or by a different kind of investor. For these reasons, this chapter will consider all kinds of recent transactions regarding the European football industry, according to the interpretation of "private equity" as used in European terminology (Døskeland and Strömberg, 2018).

4.1 Investments in European football: historical trends

Financial investors have long been cautious before entering the European football industry, given its history of unprofitability already described. Since the introduction of FFP, football clubs have been placed on a path toward sustainability and PE investments in both clubs and leagues have become more common and frequent. In general, PE investments in sports (teams, leagues, broadcasting rights) were more common in the US, as the North American model of sports competitions allows to generate predictable revenues and profitable investments more easily than the European model, as discussed before. The financialization of the sports industry inevitably started to spread to European football as well, as it is attracting more attention from professional investors, both in terms of investments in football leagues

and investments in football clubs. The phenomenon of league investments will be briefly covered in the next section of this chapter.

Historically owned by local entrepreneurs, club members or politicians looking to become household names, European football clubs have been increasingly targeted by professional investors from all around the world. Over the past 5 years 106 transactions by a wide range of investors, from investment companies to private individuals, have been announced and executed. As shown by Table 4.1, out of the 68 transactions which disclosed the corresponding stake, at least 53 of them related to a majority stake in the club. Minority investments in football clubs are therefore less common than majority ones. The number of investments in European football has been steadily increasing over the past few years, as only the pandemic in 2020 slowed it down. During the year 2018, 12 transactions have been announced. This number increased to 19 in 2019, declined to 15 in 2020, increased again to 22 in 2021 and reached a record number of 36 transactions in 2022. It should be noted that some of these transactions are related to other ones executed in previous years. One example is the delisting of AS Roma in late 2022 that awarded the Friedkin Group with the remaining 13% of the club until then listed on the stock market, following the acquisition of 87% of the company in 2020. UEFA also provides some data on club ownership and investments. In 2021, UEFA reports a total of 30 club takeovers, 10 of which involved new owners of foreign origin, up from 25 in 2020. In addition, checks and tests for new owners are becoming increasingly common, with 16 UEFA countries having extensive rules in place to ensure the eligibility of new club owners (UEFA, 2022c).

The increase in transactions recorded in recent years, especially after 2020, points to a consequence of the COVID-19 impact on the industry. As the aforementioned reduction in revenues and profitability ravaged European clubs, valuations decreased and offered interesting investment opportunities to those investors willing to bet on the growth and potential profitability of the industry. Compared to previous times of scepticism about professional investors, clubs were more than willing to accept alternative sources of funding in order to remain solvent in face of financial struggle.

Table 4.1 – Acquisitions and minority transactions by investment companies and private investors in European football clubs (2018-2023)

Announced	Target Company	Stake	Bidder
13/01/2023	FC Lorient	100%	Cannae Holdings, Inc.
12/01/2023	Koninklijke Voetbalclub Mechelen	22%	Undisclosed bidder
13/12/2022	Bournemouth Football Club Ltd	100%	Bill Foley (Private Investor)
13/12/2022	AFC Bournemouth Ltd	100%	Cannae Holdings, Inc.; William P Foley II
30/11/2022	Cesena FC	40%	JRL Investment Partners LLC
28/11/2022	Akademisk Boldklub	95%	Five Castles Football Group LLC
23/11/2022	Hertha BSC GmbH & Co. KGaA	65%	777 Partners LLC
16/11/2022	Coventry City Football Club	85%	Doug King (Private Investor)
09/11/2022	Newcastle United Ltd	-	Public Investment Fund; PCP Capital Partners, LLC et al.
28/10/2022	Brøndbyernes IF Fodbold A/S	100%	Global Football Holdings, L.P
12/10/2022	CD Tenerife	100%	Only One Way
22/08/2022	Spartak Football Club	100%	Lukoil OAO
19/08/2022	Goztepe Spor Kulubu Dernegi	70%	Sport Republic Ltd.
03/08/2022	Oldham Athletic (2004) AFC Ltd	97%	Groco 510 Ltd
01/08/2022	FC Barcelona (Barca Studios)	25%	Socios; Mediarex Enterprises Ltd
28/07/2022	Club Deportivo Castellon SAD	100%	Haralabos Voulgaris (Private Investor)
12/07/2022	Real Oviedo SAD	51%	Grupo Pachuca
04/07/2022	Palermo Football Club Spa	80%	City Football Group Limited
28/06/2022	Paris Football Club SA	10%	David Gandler (Private Investor) et al.
28/06/2022	Real Sporting de Gijon SAD	-	Grupo Orlegi
24/06/2022	The Derby County FC Ltd	100%	Clowes Developments (UK) Ltd
23/06/2022	Club Deportivo Leganes SAD	99%	Blue Crow Sports Group
21/06/2022	Racing White Daring Molenbeek	80%	John Textor (Private Investor)
21/06/2022	OL Groupe	100%	Eagle Football Holdings LLC
31/05/2022	AC Milan SpA	100%	RedBird Capital Partners Management, LLC
24/05/2022	Tottenham Hotspur Ltd	-	ENIC Ltd
11/05/2022	A.S. Roma SpA	13%	The Friedkin Group
07/05/2022	Chelsea Football Club	100%	Clearlake Capital Group, L.P.; Todd Boehly (Private Investor) et al.
08/04/2022	Real Zaragoza SAD	51%	A consortium of investors incl. Mr Jorge and Mr Jose Mas Santos
07/04/2022	Vitesse	100%	Platek family; Valeri Ojf
06/04/2022	Red Star Football Club	100%	777 Partners LLC
24/03/2022	NAC Breda B.V.	100%	City Football Group Limited
11/03/2022	Stichting Betaald Voetbal Vitesse	100%	Vitesse-Arnhem' foundation
11/03/2022	Standard de Liege S.A.	-	777 Partners LLC
04/03/2022	Sporting CLUBE DE PORTUGAL-FUTEBOL SAD	-	Sporting Clube de Portugal
19/02/2022	Atalanta Bergamasca Calcio SpA	55%	Stephen Pagliuca (Private Investor)
04/01/2022	Southampton Football Club Ltd	80%	Sport Republic Ltd.
02/01/2022	Hull City Tigers Ltd	100%	Ali Acun Ilicali (Private Investor)

Table 4.1 – Acquisitions and minority transactions by investment companies and private investors in European football clubs (2018-2023), cont.

Announced	Target Company	Stake	Bidder
20/12/2021	Cesena FC	60%	JRL Investment Partners LLC
10/11/2021	WH Holding Ltd	27%	1890s Holdings AS
25/10/2021	Royal Sporting Club Anderlecht	-	Existing Shareholders; Wouter Vandenhoute (Private Investor) et al.
21/10/2021	Asociacion Deportiva Merida SAD	100%	Mark Heffernan (Private Investors)
20/10/2021	Clube Desportivo De Tondela	100%	Clube de Regatas do Flamengo
19/10/2021	Wolverhampton Wanderers Football Club	-	PEAK6 Investments, LLC
07/10/2021	Newcastle United Ltd	-	Public Investment Fund; PCP Capital Partners, LLC et al.
23/09/2021	Genoa CFC Spa	-	777 Partners LLC
19/08/2021	Spal Srl	-	Joseph Tacopina, M. Patrick Carroll (Private Investors)
11/08/2021	Crystal Palace Football Club	-	John Textor (Private Investor)
09/07/2021	Amora F.C.	80%	Odemira Capital
25/06/2021	Club Atletico de Madrid S.A.D.	-	Ares Management LLC
22/06/2021	SASP FC Girondins de Bordeaux	-	Gerard Lopez (Private Investor)
21/05/2021	FC Internazionale Milano SpA	31%	Oaktree Capital Management LP
11/05/2021	FC Basel Holding AG	92%	David Degen (Private Investor)
09/04/2021	Eintracht Frankfurt Fussball AG	5%	Herzschlag Eintracht GmbH
07/04/2021	Ipswich Town Football Club Company Ltd	88%	Gamechanger 20 Limited
07/04/2021	The Derby County Football Club Ltd	-	Erik Alonso, Tajinderpal Sumal (Private Investors)
30/03/2021	Wigan Athletic A.F.C. Ltd	-	Abdulrahman Al-Jasmi (Private Investor)
24/02/2021	Esbjerg FBE A/S	-	Esbjerg Investments Limited
11/02/2021	Spezia Calcio Srl	-	Platek family
20/01/2021	Associazione Calcio Pisa 1909	75%	Alexander Knaster (Private Investor)
31/12/2020	AS Nancy Lorraine	99%	Chien Lee; Pacific Media Group; Partners Path Capital et al.
31/12/2020	Burnley Football & Athletic Company Ltd	84%	Velocity Sports Partners
06/11/2020	The Derby County Football Club Ltd	-	Sheik Khaled Bin Zayed Al Nehayan (Private Investor)
25/09/2020	Charlton Athletic Football Company Ltd	-	Thomas Sandgaard (Private Investor)
18/09/2020	Parma Football Club SpA	90%	Krause Group Ltd.
07/09/2020	Stade Malherbe Caen	-	Oaktree Capital Management LP; P-A. Capton (Private Investor)
28/08/2020	Girona FC	35%	MC Girona LLC
18/08/2020	Vendsyssel FF ApS	90%	Core Sports Capital AG
06/08/2020	A.S. Roma SpA	87%	The Friedkin Group
01/07/2020	Hertha BSC GmbH & Co. KGaA	17%	Tennor Holding B.V.
21/05/2020	SASP Toulouse Football Club	85%	RedBird Capital Partners Management, LLC
15/04/2020	Newcastle United Ltd	-	Public Investment Fund; PCP Capital Partners, LLC et al.
09/04/2020	Grasshopper Club Zurich (GCZ)	90%	Jenny Wang (Private Investor)
14/02/2020	Wigan Athletic A.F.C. Ltd	86%	Choi Chiu Fai Stanley; Au-Yeung Wai (Private Investors)
13/02/2020	Real Club Deportivo de La Coruna SAD	80%	Abanca Corporacion Bancaria, S.A.

Table 4.1 – Acquisitions and minority transactions by investment companies and private investors in European football clubs (2018-2023), cont.

Announced	Target Company	Stake	Bidder
29/11/2019	Charlton Athletic Football Company Ltd	-	East Street Investments Ltd
27/11/2019	City Football Group Ltd	-	Silver Lake Partners
08/11/2019	Hertha BSC GmbH & Co. KGaA	12%	Tennor Holding B.V.
28/08/2019	Bolton Wanderers Football & Athletic Co Ltd	-	Football Ventures (Whites) Limited
26/08/2019	SASP OGC NICE	-	INEOS AG
02/08/2019	Union Deportiva Almeria, S.A.D.	96%	Turki Al-Sheikh (Private Investor)
26/07/2019	Notts County Football Club Ltd	-	Alexander Reedtz, Christopher Reedtz (Private Investors)
24/07/2019	Estoril - Praia SAD	-	MSP Sports Capital ; Estoril Holdings LP
02/07/2019	The Hibernian Football Club Ltd	-	Ronald Gordon (Private Investor)
27/06/2019	Hertha BSC GmbH & Co. KGaA	38%	Tennor Holding B.V.
16/06/2019	Koninklijke SC Lokeren Oost-Vlaanderen NV	-	Undisclosed bidder
13/06/2019	Blackpool FC Ltd	96%	Simon Sadler (Private Investor)
11/06/2019	Agrupacion Deportiva Alcorcon S.A.D.	-	David Blitzler, Ivan Bravo (Private Investors)
06/06/2019	ACF Fiorentina SpA	-	Rocco B. Commisso (Private Investor)
03/05/2019	The Huddersfield Town AFC Ltd	75%	Phil Hodgkinson (Private Investor)
04/04/2019	Como1907 srl	0%	Sent Entertainment Limited
18/02/2019	KV Oostende NV	82%	Frank Dierckens (Private Investor)
25/01/2019	FC Internazionale Milano SpA	31%	LionRock Capital Limited
10/01/2019	JSC Spartak-Moscow	69%	Sport-Holding LLC; Capital Assets JSC
01/12/2018	Palermo Football Club Spa	-	Sport Capital Group Plc
06/11/2018	SASP FC Girondins de Bordeaux	-	King Street Capital Management, L.P. et al.
28/09/2018	Club Deportivo Numancia de Soria, S.A.D.	-	M. I. Garzon, F. Velazquez (Private Investors)
01/09/2018	Real Valladolid C.F.	51%	Ronaldo Nazario (Private Investor)
07/08/2018	Arsenal Holdings Plc	33%	Kroenke Sports & Entertainment, LLC
31/07/2018	FC Bari 1908	-	Aurelio De Laurentiis (Private Investor)
20/07/2018	Aston Villa Football Club Ltd	55%	Wesley Edens, Nassef Sawiris (Private Investors)
10/07/2018	AC Milan SpA	-	Elliott Management Corporation
22/06/2018	SK Horni Mecholupy z.s.	-	SK Slavia Praha - fotbal a.s.
21/05/2018	Wigan Athletic AFC Ltd	86%	International Entertainment Corporation
29/04/2018	Sunderland AFC Ltd	-	A consortium led by Stewart Donald
08/02/2018	KV Oostende NV	91%	Peter Callant (Private Investor)

Source: Mergermarket data.

4.2 Investments in leagues

Acquiring a stake in a football league is one of the two major alternatives available to PE investors interested in European football. In this case, the rationale of the investment would consist in profiting from broadcasting revenue, as leagues control broadcasting rights.

The vast majority of European leagues sell their broadcasting rights collectively, with few exceptions (Cyprus, Greece, Portugal, Serbia and Ukraine) whereas top-division media rights are sold either by individual clubs or by the league with some individual exceptions. Broadcast deals tend to be stipulated for periods of three or four years.

The distribution of broadcasting revenues between clubs varies from country to country, with just over half of revenue being distributed evenly and just over a third being distributed on sporting merit, on average. The remaining part is distributed according to different factors, often proportional to other metrics such as the population of the city the club is located in, the number of fans according to surveys or the number of spectators for each game. The distribution of broadcasting revenues at the European level is more even than in the past, with the average high-to-median ratio falling from 2.7x in 2011 to 2.1x in 2020 (UEFA, 2022c). In practice, investments in leagues consist in acquiring a stake in a commercial company appositely created, distinct from the governing body of the league, which remains in charge of its governance.

One of the major benefits of investing in a football league is offered by the well-known concept of diversification. Investing in a league would resemble an investment in a production company from the entertainment industry, with a medium- to long-term investment horizon and fewer risks of weak performance from a single club. In fact, while a club could potentially suffer from poor sporting performance and enter the aforementioned vicious cycle of football, the downside presented by an investment in a league is much smaller. The risk would be spread over all the participating clubs, effectively encompassing the whole national football industry. Broadcasting rights would decrease in value in case the whole league underperforms compared to other leagues and does so consistently over time so that the league loses its commercial appeal both in the domestic and international markets. Investing in one of the “big 5”

leagues would therefore carry very low risk: football is a cultural phenomenon of enormous importance in England, Germany, Spain, Italy and France. The possibility that football fans lose interest in these leagues seems unthinkable, considering the trends of growth these leagues have reported in recent years. Yet, the risk of a decrease in value even for the top leagues is not zero, as legal consequences of sporting and financial scandals (such as the Juventus case in Italy and the Manchester City case in England, to stay on top of the news) could alienate fans or even result in the exclusion of widely followed top clubs from the competitions (Calcio e Finanza, 2023; Sky Sports, 2023a). As a result, broadcasters would be less willing to pay an ever-increasing sum to be able to broadcast football matches.

In any case, the rationale behind investments in football leagues is relatively simple: it is a bet on the ever-increasing value of broadcasting rights, acquired at a discount relative to their estimated long-term value. An investor that manages to close such a deal secures a set of relatively predictable future cash flows, in intervals of broadcasting agreements of roughly 3-5 years, in exchange for a sum paid in advance to the clubs taking part in the league. From the clubs' perspective, especially in light of the COVID-19 impact on their financials, it is often a Faustian bargain, a necessary one to guarantee the continuity of the sporting activity but done in exchange for possibly giving up a larger share of future profits.

The CVC-La Liga deal is the most relevant example of this phenomenon, especially in light of the legal battle that ensued. In 2021 the PE firm agreed to pay €2.0bn to 37 of the 42 clubs in the first and second Spanish divisions in exchange for 8.7% of the profits from a new commercial entity, for the next 50 years. Not all of the clubs agreed to this deal: Real Madrid and Barcelona refused to cede their broadcasting rights, preferring to sell them individually and decided to start a legal battle (Aginì and Ahmed, 2021). The Spanish case is not the only one of PE funds being interested in acquiring a portion of the media rights for a "big 5" league. In 2021 CVC unsuccessfully tried to convince Serie A club presidents to cede 10% of Serie A rights in exchange for €1.7bn, while four other groups (Apax Partners, Three Hills Capital Partners, Carlyle Group and Searchlight Capital) reportedly approached the Italian top division clubs once again in 2022 (Reuters, 2022a).

4.3 Investments in clubs

As opposed to an investment in a football league, investing in a club requires a much more hands-on approach from the PE firm which takes control of it. Acquiring a controlling stake in a club requires an initial investment, just like in the case of investing in a league, but it is also likely to warrant subsequent regular cash injections, given the loss-making nature of many football clubs. Investing in a club involves a much higher degree of uncertainty and downside risk compared to investing in a league.

Acquiring a football club is not an easy task, considering the limited number of top-division clubs up for sale at any given time. Additionally, different countries present different regulations and bureaucratic hurdles. A prime example of this is the German Bundesliga, which represents an exception compared to the other “big 5” leagues. In Germany, top clubs are forced to adhere to the so-called “50+1 rule”, requiring that club members hold a majority of voting rights. This rule effectively prevents any particular investor from directly controlling the club (Bundesliga, 2018). Even for the Germans, rules often admit some exceptions: a handful of clubs with longstanding owners have been granted an exception, while RB Leipzig has been notably condemned by other fans for their interpretation of the rule (which allowed Red Bull GmbH to effectively control the club). Another example of limitations to prospective investors could be found in individual cases of Spanish clubs with “socios”, such as Real Madrid, Barcelona, Atletico Bilbao and Osasuna, which to this day remain non-profit member-owned organizations (Khan, 2010).

Assuming it is possible to acquire the desired club, why should profit-seeking investors do so and how could they evaluate the investment opportunity? The following section presents the main elements that a PE firm should consider in order to answer these questions.

4.4 Drivers of interest in European football

4.4.1 How to evaluate a private equity investment

Evaluating investment opportunities is of crucial importance in private equity, even more so than simply performing quantitative analysis and running spreadsheets. Strömberg (2018) proposes a framework for evaluating investment opportunities,

under the catchy name of *ME-ME-MEE(-US) framework*, which serves as a guideline for understanding the basic elements of a transaction. Just like every weird-sounding term, it is an acronym that summarises the main elements to be considered: *Macro, Micro, Management, Entry, Engineering, Exit, Edge, Uncertainties* and *Structure* of the deal. This section offers a brief explanation of the framework in order to then apply it to a hypothetical investment in the European football industry.

First of all, the three “Ms” in the framework refer to the business environment the firm is operating in:

- *Macro*: understanding the market the firm operates in, in terms of business model, growth trends, business cycles, key success factors, major competitors, barriers to entry and capital market conditions;
- *Micro*: understanding the firm itself, how it is positioned compared to its competitors and knowing its fundamentals (cash flows, capital requirements, leverage);
- *Management*: understanding firm management challenges, missing pieces in the management team and related incentives.

Then, the four “Es” indicate how value is created through the execution of the deal:

- *Entry*: value created by paying less than stand-alone fundamental value or by financing the deal at attractive terms;
- *Engineering*: value created by improvements in the firm, obtained through financial, governance or operational engineering as described in Chapter 1;
- *Exit*: value created through the possible divestment options and related challenges (economic environment conditions required for a profitable exit, management opposition, synergies available for the future buyer, transaction costs of exit);
- *Edge*: value created by comparative advantages in the three previous “Es” with regard to other players in the industry.

Finally, the last two elements of the framework relate to the deal itself:

- *Uncertainties*: primarily related to market, competition, management and exit;
- *Structure*: in terms of debt financing, leverage, governance controls, covenants and other incentives.

In order to apply the ME-ME-MEE(-US) framework in its entirety it would be necessary to analyse a specific transaction. Ex ante, it requires estimating a whole set of firm-specific data and obviously knowing the nature of the PE firm in question (fund size, available dry powder, investment horizon, target IRR and money multiples, industry expertise, etc). Ex post, it would allow us to accurately describe the rationale behind a PE transaction. Unfortunately, the confidential nature of many elements renders it impossible to be applied without first-hand information about the deal in question. Nevertheless, any PE investment in European top-division football clubs would certainly present some common drivers of interest for private equity investors, which can be analysed through the lenses of this proposed framework.

4.4.2 Applying the framework to European football clubs

Following the ME-ME-MEE(-US) framework presented above in order to analyse a PE deal, Chapters 2 and 3 have already described the *Macro* elements of the European football industry, the financials of football clubs and their trend over time. In terms of revenue, football proved to be an industry on a constant growth path, deeply impacted by the pandemic but already showing the first signs of recovery, despite a worsening outlook for the global economy. The business model of European football clubs relies heavily on sporting success, defined differently depending on the stature of the club considered. Bigger clubs operate with the goal of competing at the very top of their competitions, aiming to generate additional revenues through sporting success on the pitch. Medium-sized and smaller clubs often operate trying to avoid being relegated to less lucrative leagues and rely heavily on player scouting and talent generation through their academies in order to profit from transferring talent to the bigger clubs. In terms of barriers to entry, the open nature of European leagues theoretically allows a newly founded club to rise through the pyramid and reach the top division, while in practice investing in one of the clubs already playing in the top (or second) division would be the most feasible option. Chapter 1 briefly presented the latest developments in the capital market: rising inflation and interest rates prevent PE firms to obtain cheap financing options, but the abundance of dry powder at hand and the recent recovery in capital markets should not discourage PE activity in the near future.

As for *Micro* and *Management* elements, they are inherently dependent on the target club and its standing in the league. As mentioned above, top clubs carry with them a global fanbase with demanding expectations of sporting success, which require important investments. Smaller clubs may seem to be easier to manage, but they present a whole other set of challenges. Competing with bigger clubs while not having the same opportunities, also in terms of prestige for attracting talent, is certainly not an easy task and the open nature of European leagues presents the risk of relegation and its dire economic consequences.

Value creation once again is very deal-dependant, but it is possible to identify some common elements for the industry.

Entry conditions are unique for each club, since the nature of the deal varies enormously depending on the nature of the previous owners, the league in question and the financial performance of the club considered. Nonetheless, the impact on the industry resulting from the COVID-19 pandemic represented an interesting investment opportunity for investors with available capital and a long enough investment horizon, as lower valuations potentially allow to generate higher IRR and money multiples assuming that the industry recovers quickly.

On the other hand, *Engineering* strategies for football clubs are more generally applicable and represent more reliable sources of value creation.

Financial engineering would certainly bring some benefits in terms of the tax shield effect, but the peculiar nature of European football may prove to be an obstacle. In fact, loss-making clubs report no income to be shielded from tax authorities and the upcoming Financial Sustainability Regulation requirements prevent owners to cover deviations from the *football earnings rule* with debt. This requirement could be avoided by creating a holding company and using it to make direct cash or equity injections in the club, but the tax shield effect obtained from high leverage would not be applicable in that case. Add-on acquisitions are borderline unthinkable at the level of a single club, as the merging of two distinct entities tends to be violently rejected by the respective fanbases. Therefore, financial engineering seems to be the most unlikely source of value creation for a football club, especially considering UEFA and national leagues' regulations in place.

Governance engineering strategies for a football club would most likely involve applying changes to the existing incentive structure. Variable pay for players and coaches is the norm in the industry, as linking sporting performance to financial remuneration is very common. Aggressive cost-cutting goals linked to adequate incentives for the management could also put the club on a profitable path in compliance with the upcoming FSR rules.

Operational engineering would involve implementing the aforementioned cost-cutting programs, as well as trying to add new and improve existing sources of revenue. Broadcasting revenues are the main source of income for most top-division clubs, yet they are the most difficult to influence from a club's perspective as they are usually managed collectively by the league. Matchday revenues can be increased by improving the stadium experience for football fans and by offering a wider range of tickets or premium seating opportunities. Fans are often willing to pay a premium price for a better seat in more comfortable surroundings, up to dedicated VIP lounges with access to gourmet food and beverages and other amenities. This trend is relatively common across the sports industry and has been reflected in recent years by the growing number of stadium renovations that result in an expansion of VIP and premium seating areas (McCormick, 2022).

Exit conditions are somewhat more common for football clubs when compared with entry conditions. The almost complete absence of clubs on the European stock markets implies that an IPO is very unlikely to be the exit of choice for a PE fund. The number of top-division football clubs listed on the stock markets is limited and decreasing over time, with Italian club AS Roma being the latest significant example of delisting in the European football industry (AS Roma, 2022). Selling the club to a third party would require finding an interested buyer. As mentioned, PE funds, industrial groups, other investment funds and high-net-worth individuals represent the main possible alternatives.

Edge value creation would depend on the firm's specific network and expertise in the industry. Unless the PE firm has previous football expertise, it is unlikely that it would be able to offer much insight into proper management practices aside from more general corporate ones. An alternative Edge for the PE firm would consist in controlling a number of football clubs in different leagues, often dispersed around the

globe. Under the multi-club ownership model, add-on acquisitions would not be performed at a club level, merging two football clubs into one, but at a group level. The football clubs owned by Red Bull GmbH and the Abu Dhabi-owned City Football Group (CFG) are the most relevant example of this phenomenon. For example, CFG controls majority or minority stakes in 12 football clubs around the world (City Football Group, 2023). EPL-winning Manchester City FC obviously stands front and centre in this group, relying on talent scouted, produced, and developed by the other 11 clubs while at the same time counting on them to offer opportunities to academy players or new transfers in need of playing time. Additionally, managing 12 clubs under the same roof offers obvious synergies in terms of sharing best practices and talent acquisition. Both prospective players and training staff could be convinced to join one of the affiliated clubs with the ultimate goal of reaching the very top of the English Premier League following an intra-group transfer. Multi-club ownership cases in football are estimated by CIES Football Observatory to be 78, involving roughly 200 clubs all around the world, up from 111 before the pandemic (Aginì and Noble, 2023). Multi-club ownership within the same country is limited or restricted in more than two thirds of UEFA countries, including all the major ones (UEFA, 2022c). For all these reasons, networks of affiliated clubs are part of a recent and significant development that deserves much more attention than a brief mention in this paper.

Uncertainties and *Structure* complete the framework, but their very nature makes them even harder to assess from a general point of view. The main uncertainties concerning a football club acquisition inevitably relate to the market conditions during which both entry and exit are executed. The current worsening of the economic outlook and the rise in interest rates resulting from changes in monetary policy described in Chapter 1 result in additional costs and risks for the firm. Not differently compared to other industries, the PE firm may struggle to find an appropriate buyer at the desired time of exit and therefore be forced to carry over the investment to a new fund. The competitive nature of European football also represents another source of uncertainty, as the aforementioned vicious cycle of European football could lead a club into a spiral of poor financial performance and lacklustre sporting results, ultimately leading to a lower financial valuation of the club. A less obvious yet insidious

source of uncertainty is related to the management team already in place in the newly acquired club. Quite often former players or managers are employed by football clubs in a wide variety of roles, from brand ambassadors to youth team coaches, from team managers to sporting directors. Assessing the competence, experience, fit and personal incentives of existing staff is a crucial task that risks being obstructed by the affection felt by the fanbase for these individuals. The PE firm therefore would have to choose between replacing part of the existing management while angering the fans versus keeping them on board while risking sub-par performance or unnecessary friction. Not unsurprisingly, investors often bring in former glories as part of the new management team in order to appease the fans on which they rely to generate revenues.

Finally, *Structure* represents the most particular element of a PE deal, as its components such as leverage and covenants vary from case to case. Discussing them in general terms would be impossible even with regard to the football industry itself.

Considering all these examples of opportunities offered by European football, the number of investments in clubs recorded in recent years should not surprise anyone. Yet, the football industry presents at least three more drivers of interest for prospective investors. These elements deserve more attention and will be covered below.

4.4.3 Women's football in Europe

Women's football in Europe has made remarkable progress in recent years, as it gained increased popularity and recognition. Women's football has become more competitive and high-quality, both thanks to and generating increased visibility and investments in the industry. One of the key drivers of this growth is the media coverage and recognition of women's football, also thanks to social media, in a similar way compared to the increase in popularity of men's football during the 20th century. This increased attention obviously led to even more investments from governments, governing bodies, and private organisations like existing football clubs, promoting the sport and supporting its growth, providing funding for training facilities and equipment supporting both individual players and teams. Despite these positive developments,

women's football in Europe still lacks the recognition and funding proper of men's football, with many female players struggling to make a living from the sport.

Being still in its infancy, the nature of the industry presents some opportunities for a prospective investor (UEFA, 2022c). First of all, the number of top-division women's football clubs is not limited by existing leagues already packed with teams like in men's football. In the 2021/22 season, 517 clubs competed in Europe's top divisions, up from 508 in the previous season. In addition, only 62% of top divisions have promotion and relegation at the end of the season, therefore the remaining 38% of leagues present no downside risk of relegation for an underperforming team. Finally, 46% of clubs operate independently of men's clubs, representing a possible acquisition target for an existing men's club. In fact, in 2021/22, 330 men's football clubs had a women's team and 195 of them had both teams competing in their respective top divisions. Broadcasting rights for women's football are far from generating the same commercial interest as men's football, but the increased attention to this industry is leading to growing commercialisation of the women's game.

A prospective investor should consider the possibility of women's football consistently growing in the future, even if not to the same levels as men's football. In that case, entering the industry now that the associated costs (wages, transfer fees, salaries) are low and the existing competition is limited, could prove to be a profitable investment. In light of the absence of competitive rules like the old Financial Fair Play or the new Financial Sustainability Regulations regarding women's football, investing heavily compared to the standards of the industry could lead to immediate sporting success and would allow building a heritage for the club in the women's game, all for a financial cost that would be dwarfed even by a single average transfer market signing in the men's game. The club would therefore be able to associate sporting success in women's football with its brand, further improving its value also for the men's team, in a particular version of the virtuous cycle already discussed at length. Since the current popularity of women's football is still far away from the men's game, such a strategy would require a medium- to long-term horizon to be carried out, which could probably be incompatible with the relatively short investment horizon of PE funds.

4.4.4 Real estate: stadium, training grounds and more

One of the less obvious but most lucrative opportunities offered by investing in European football consists in being able to realise real estate investments in prime locations inside European cities. Top division football clubs often play in modern stadiums, being them either new constructions or renovations of existing buildings, but not all of them do. In this regard, European football presents significant differences between countries. From the point of view of an investor, owning a club lacking a modern stadium offers the opportunity to build or renovate one from scratch. More often than not, clubs playing in an obsolete stadium do not own it, but rather pay some rent to the local authorities for the privilege of playing in it. The construction of a new club-owned stadium offers some benefits such as increased matchday revenues, new non-matchday commercial revenues (from concerts and other events), no more rent or other expenses to be paid in order to play in a stadium owned by the local authorities, and a better financial position as the stadium is listed among the club's long-term assets on its balance sheet.

A prime example of real estate opportunities linked with football club ownership is offered by Serie A. In the Italian top division, only 6 of of 20 clubs competing in the 2022/23 season own the stadium they play in (Atalanta, Bologna, Cremonese, Juventus, Sassuolo and Udinese), with Frosinone being the only other Italian team part of this group (currently in Serie B). All other Italian teams playing across divisions pay variable sums to local authorities in order to play in the stadium and have little to no opportunities of generating additional matchday revenues from commercial operations, such as shopping centres, food and beverage services, and sponsorship agreements like the sale of stadium naming rights to a sponsor. From a regulatory perspective, the Italian government passed a law colloquially known as "Legge Stadi" (D.L. 24 aprile 2017, n. 50), modified further four years later (D.LGS 28 febbraio 2021, n. 38), aimed at incentivising the construction of stadiums owned by sports clubs. This piece of legislation tries to reduce the bureaucratic burden on clubs interested in presenting a project for a new stadium, training grounds or related facilities, while also explicitly allowing for the commercial use of said infrastructure (Sottoriva, 2017; Federici, 2022).

The complexities of Italian bureaucracy and the overlapping sphere of competence of numerous local authorities regarding city planning and building permissions still make the approval process of a new project and its consequent realisation a daunting challenge even for the most determined investor. Two examples of these hurdles are represented by the approval process for the new projects presented by some of the top Italian teams. The first one is “La Cattedrale” (The Cathedral), the proposed new stadium of AC Milan and Inter Milan, which are currently playing in the Giuseppe Meazza stadium owned by the City of Milan (Inter Milan, 2021). Chosen by the two clubs in late 2021 among a set of competing projects, it is currently facing opposition from the local authorities, seemingly unwilling to allow the clubs to demolish the current stadium to build a new one in its place. The other example, on which entire books regarding its failed approval process could be written, is the “Stadio della Roma” project put forward by AS Roma in 2011. Dragged through the tenure of four different Rome mayors, the project was ultimately dropped in 2021 after a change in club ownership, who then decided to start a new project from scratch in a new area of the city. The approval process of the current project seems to be going ahead much faster than the previous one, also thanks to a better and more collaborative relationship with the local authorities (Sky Sports, 2023b). In both cases, the projects included a new stadium alongside a set of related infrastructures, commercial and residential properties.

Difficulties and risks notwithstanding, stadium projects offer great real estate opportunities. Under Italian law the proponent of a new project may be required to provide for and realise all the related infrastructures necessary for its approval under the existing urban planning regulations, such as roads, parking lots, public works and even train or metro railway stations. A proponent that asks for more building capacity than allowed by the local regulations may need to reimburse the local administration in terms of more infrastructures as compensation. At the same time, in case more infrastructures are needed for the project approval, the proponent may be awarded additional building capacity to be used in other ways, such as in terms of residential or commercial real estate investment. Resulting from a complex negotiation process with local authorities, a prospective investor may settle for the realization of a significant number of public works for the benefit of the city in exchange for the

opportunity to realise lucrative real estate investments in prime locations, since stadiums are often located close to the city centres. In this regard, the industrial network and previous real estate expertise available to the PE firm could prove to be an edge over potential competitors and other investors. The proceeds from real estate investments linked to sporting infrastructures could either be directed to the football club, in order to further boost its financial capabilities and assemble a more competitive team, or alternatively extracted by the firm for the benefit of the investors. In any case, Italian clubs are not the only ones that offer similar real estate opportunities. Every European country presents different hurdles in the bureaucratic process, but any football club that has not recently built a new stadium or training grounds could be used as an opportunity to do so. By leveraging the support of the fans, a club owner could influence local administrations into approving lucrative real estate projects that would have little to no chance of being approved otherwise.

4.4.5 The European Super League (ESL)

Initially announced in April 2021, the European Super League (ESL) was proposed by a consortium of 12 of the top European clubs from England, Spain and Italy, all among the top 20 clubs by revenue in 2020/21 (Deloitte, 2022b). Conceived as a midweek competition, in conflict with UEFA club competitions such as the UEFA Champions League, it intended to create a more profitable and prestigious tournament for the participating clubs. On top of the 12 founding members, the ESL would have included 8 additional top European clubs each season. The partially close nature of the ESL, as the founding members would not have been at risk of relegation, alongside concerns regarding the potential harm to the sport's competitive balance and the exclusion of smaller clubs, led to a massive backlash from fans, especially from the 6 EPL clubs in question (Arsenal, Chelsea, Liverpool, Manchester City, Manchester United and Tottenham Hotspur), players, governing bodies and even politicians (Ahmed, 2021). The wide and furious opposition from English fans presented a great opportunity for then PM Boris Johnson, who saw no political downside to ride the wave and threatened those 6 EPL clubs with harsher visa restrictions and punitive taxes if they were to go ahead with the project. Alongside Atletico Madrid, Inter Milan, and AC Milan, the 6 EPL clubs, therefore, decided to leave the project, leaving only Real

Madrid, Barcelona, and Juventus to support the proposed new competition. The rapid collapse of the ESL project was followed by a hostile reaction by UEFA as the 3 remaining clubs decided to pursue legal action in order to prove the legitimacy under EU law of starting a conflicting competition in European football, outside UEFA control. The legal case regards UEFA and its power of banning clubs and players from taking part in an unsanctioned competition. The European Court of Justice (ECJ) is expected to reach a verdict on this case later in 2023, but the Advocate General at the ECJ already delivered a recommendation stating that “the FIFA-UEFA rules under which any new competition is subject to prior approval are compatible with EU competition law” (Reuters, 2022b). In any case, the furious backlash from English fans suggests that it would be unlikely that EPL clubs decide to rejoin the ESL project in the future, even in case of a favourable ruling from the ECJ. In fact, without the participation of English clubs, the ESL project would have had a hard time presenting itself as a “Super” league and therefore it could be considered a failed project.

The European Super League project, as presented in 2021, may be dead once and for all, but the rationale behind its conception is not a new development in European football and is likely to lead to similar projects in the future. The reasons for its appeal to football clubs’ owners are pretty simple: it would combine the best of both the closed leagues typical of the North American model and the open leagues of the European model presented in Chapter 2. For once, a closed midweek competition would remove the risks of not qualifying for it and the clubs could rely on a stable source of revenues, partially detaching themselves from the virtuous and vicious cycles of football. Such a project would also offer even more lucrative commercial opportunities as every match would be contested by top football clubs with global fanbases and it would command higher sums from broadcasters, who would pay handsomely for the rights to televise regular matches between the best that European football has to offer. On the other hand, these football clubs would still take part in the transfer market and would be able to attract the very best talent available, as opposed to resorting to draft systems like in the North American model. One of the main arguments raised against the ESL project regarded the loss in competitiveness inside the national leagues that would result from its introduction. Unsurprisingly, over the last 20 years, the three national leagues in question have been won by one of the

12 ESL founding members on all but two occasions (Valencia FC winning La Liga in 2003/04, Leicester City FC winning the EPL in 2015/16). While these 12 clubs already have significant competitive advantages over their national rivals, especially in terms of financial resources available to invest in their squads, massively increased revenues from ESL participation would have obliterated in the other clubs any remaining hope of competing for national titles and would have led to a lower commercial interest in national league games. In addition, the absence of at least 12 of the top European clubs would have reduced the commercial appeal of UEFA competitions and the resulting financial transfers toward participating clubs in terms of broadcasting revenues and UEFA prize money.

All things considered, a prospective investor interested in the European football industry should consider the possibility of future developments in this direction. Owning one of the top clubs could indeed result in being akin to owning a profitable franchise in North American sports, generating relatively stable revenues over time. On the other hand, owning a smaller club not part of a similar project could lead to lower profits or even losses, following what would be an unfavourable change in the industry. The recent trends of the English Premier League presented in Chapter 3 could lead to further differences in financial and sporting power with the other "big 5" leagues, making it sort of a Super League in itself. The limited sporting success of English clubs in UEFA club competitions shows that the top continental clubs are still able of competing with the top EPL clubs. Nonetheless, it is a trend that warrants some additional attention in the near future.

Conclusions

This paper aimed to offer an overview of the European football industry, especially in light of the recent increasing trend of private investments into both leagues and clubs, by a large set of professional investors. Even in spite of a global rise in interest rates and a reduction in the availability of cheap capital, the abundance of dry powder already available increases the pressure on firms to execute more deals. Since the sports industry historically proved to be an excellent asset class capable of withstanding periods of economic downturns and the US market offers fewer investment opportunities at attractive valuations, even more investors turned their attention to the European football industry.

From the private equity perspective, European football presents some characteristics that inevitably make it an appealing target for profit-seeking investors.

First of all, it represents the very best that the most followed sport in the world has to offer and this is reflected in the financial trends of the industry. Revenues of top-division clubs increased by 8.2% CAGR from 2000 to 2020, showing signs of a market constantly growing at a sustained pace even during the financial crisis.

Secondly, European football was put on a path towards better financial sustainability by the introduction of UEFA's Financial Fair Play rules in 2011, as clubs reported increasing aggregate operating profits and decreasing aggregate net losses up until the COVID-19 pandemic. The introduction of a new set of Financial Sustainability Regulations, set to come into effect from the 2023/24 season, further incentivises football clubs to limit losses and should consolidate the financial stability of the industry.

Thirdly, the impact of the pandemic was significant in terms of both lower revenues, putting clubs in difficult positions facing fixed costs like wages and player depreciation, and lower valuations, making transactions cheaper for prospective investors.

Fourthly and finally, a set of recent trends in the football industry represent some significant drivers of interest for a PE firm with access to the required professional network and expertise necessary to take advantage of these opportunities. Multi-club

ownership is becoming increasingly common: by creating a network of affiliated clubs the firm could realise synergies and generate more value. Furthermore, as women's football in Europe is growing very quickly and breaking into the spotlight, an investor willing to deploy enough capital could start to write a story of success in this adjacent industry still in its infancy, further growing the brand of the club and benefitting the associated men's team. Owning a football club also offers some interesting real estate investment opportunities to the investor capable of exploiting the club and the support of its fans, in order to have commercial or residential projects approved by local authorities. Finally, the announcement (and subsequent partial repudiation) of the European Super League project by 12 of the top 20 European clubs in 2021 is an important element to consider. While the ESL project may be dead, it is possible for a similar project to be realized sooner or later. In that case, owning one of the major football clubs could end up being equivalent to owning a profitable franchise in the US sports industry. In this regard, the English Premier League has been showing trends of growth unrivalled by any other league, making it a prime candidate for becoming a sort of Super League in itself.

Drivers of interest notwithstanding, European football also presents some limitations from the private equity perspective.

The limited number of clubs available for sale at any given time limits the choice for the prospective investor. The uncertainty intrinsic to the European model of sports competition, with promotion and relegation at the end of each sporting season, renders transforming a lower-division club into a lucrative top-division club a difficult and risky strategy.

On top of potential difficulties in entering the industry, exit opportunities are limited. Football clubs tend not to be listed on the stock market, thus reducing the possible exits to transactions with another investor. For a PE fund with a set investment horizon, this could prove to be an issue and lead to lower exit multiples.

The most significant hurdle for a prospective PE firm is the aforementioned uncertainty that characterises European football in its current form, as a club could enter the vicious cycle of poor financial performance followed by poor sporting performance, feeding on itself. Even in the most optimistic case, a successful

investment in a football club could suffer from volatility deriving from seasonal performance. In fact, PE firms that have set their eyes on the European football industry have been increasingly more interested in investing in leagues, not only single clubs, as cash flows from broadcasting rights are more predictable and the downside risk is much more limited.

All things considered, European football is due to receive more attention from all sorts of private actors and profit-seeking investors over the next few years. The upcoming introduction of UEFA Financial Sustainability Regulations is likely to further incentivise the profitability of the industry, making it a prime candidate for private equity investments. The elements presented in this paper warrant additional research, with particular attention on the potential crystallisation of competition at the top of European football.

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Introduction

This paper intends to further explore the topic of private equity (PE) investments in the European football industry, on which I based my thesis for the Bocconi MSc Finance program. That paper offered a broad overview of the phenomenon, collecting and analysing financial data from a range of different sources in order to identify recent trends and possible drivers of interest for professional investors.

In this paper, I intend to focus specifically on the Italian football industry, broadly following the same steps in the analysis already carried out at the European level. Looking at country-specific data, while drawing comparisons with the other main European leagues, allows for a better understanding of the rationale behind this recent trend.

In light of the conclusions drawn from the previous analysis, it's clear that the popular belief that top-division football is a loss-making industry, more suitable for owners interested in prestige than making a profit, does not hold up to a closer look. European football possesses some characteristics that make it interesting for professional investors. It grew substantially over the past decades while proving to be on a path towards financial sustainability before the pandemic and presenting some drivers of interest for PE. But is the same true for Italian football as well, considering its dismal track record in terms of profitability?

The Bocconi thesis identified some characteristics proper of European football that make it an interesting investment opportunity for PE and other professional investors. This paper intends to analyse whether Italian football possesses the same characteristics or presents some peculiarities instead.

The analysis carried out here is similar in approach. Starting from existing academic literature and books on this topic, it integrates a wide range of reports on the football industry together with qualified newspaper and online articles on some of the most recent news. The information collected is then organised in a framework used to evaluate PE investments, in order to identify the main drivers of interest and possible limitations for PE opportunities in Italian football.

Chapter 5 presents once again a brief literature review of PE and an update on the recent trends in the industry.

Chapter 6 proceeds to analyse the Italian football industry in qualitative terms, in light of the classification of sports competitions presented in the Bocconi thesis and in terms of competitiveness.

Chapter 7 offers a summary of the economic and financial fundamentals of Italian football compared with the other main European leagues, looking at how revenue, costs and profitability evolved over time.

Finally, Chapter 8 attempts to highlight possible drivers of interest behind the increasing involvement of PE in Italian football.

5. Literature review and update on the private equity industry

Section 1.1, Chapter 1, of the Bocconi thesis provides a theoretical overview of the private equity industry, by reviewing the relevant academic literature on the topic. Section 5.1 offers a summary of the main characteristics of PE, while Section 5.2 provides a brief update on the current state of the industry.

5.1 A summary of the literature review on private equity

Kaplan and Strömberg (2009) provide a description of private equity, its main components and their evolution over time. PE firms are often organised as partnerships or limited liability companies. They raise money from investors and organise it into one or more private equity funds, closed-end investment vehicles with a fixed life (usually ten years, which can be extended), and then deploy the money in order to control target companies. Investors, or limited partners (LPs), commit the majority of the capital, which is then managed by the PE partners, or general partners (GPs). LPs typically include high-net-worth individuals and institutional investors. GPs' remuneration depends on three components: i) management fees, ii) part of the profits from the funds (carried interest) and iii) deal and monitoring fees from the firms the funds invest in.

A PE transaction typically consists of acquiring a company, either public or private, with significant leverage. Minority investments are rare, as the ownership stake acquired is usually complete. The majority (60-90%) of the acquisition is financed with debt, which often includes senior (secured) and junior (unsecured, mezzanine) portions. The portfolio company is then managed by a new management team until the PE firm decides to exit the investment. By applying highly leveraged capital structures and active governance, PE firms try to create value out of the portfolio companies that are part of their funds. Exits from PE investment typically consist of selling the company to a third party, which could also be another PE fund, or through an IPO. Once every portfolio company is divested, the fund is closed and capital is returned to the LPs, net of management and carried interest fees.

Døskeland and Strömberg (2018) describe further elements of the PE industry. They point out that in European terminology the private equity market involves the whole professional market for investments in unlisted companies, including those carried out by investors with a different internal structure compared to pure PE firms. Therefore, the PE market, as defined above, can be divided into multiple segments, such as venture capital, growth equity, buyout and distress. A PE fund that invests in all of them can be defined as *balanced*. The authors also explain why PE expected returns tend to be higher than public equity investments, due to liquidity and systemic risk premia. Furthermore, the authors also assess the historical performance of PE funds, comparing them to alternative strategies such as investments in market indices. PE funds have generated an annual internal rate of return (IRR) in excess of 3% over the S&P500 (1980s-2000s, 2014 data), net of fees.

Harris, Jenkinson and Kaplan (2014) also note how PE outperformance over the S&P500 averages 20% to 27% over the fund's life and more than 3% annually.

Harris, Jenkinson, Kaplan and Stucke (2014) present evidence on the persistence of performance for PE funds.

As mentioned briefly here and more extensively in Chapter 1, academic literature indicates that PE funds managed to generate excess returns consistently over time. Additional literature provides examples of the most commonly used value-creating strategies employed by PE firms. Kaplan and Strömberg (2009) and Døskeland and Strömberg (2018) propose three main categories for *engineering*, often applied in conjunction, which result in value creation:

- *financial engineering*: primarily consisting of the *tax shield effect*, as a consequence of the debt-heavy capital structure common in portfolio companies, and in *multiple arbitrage*, which is realised through add-on acquisitions carried out at a lower multiple while the portfolio company is valued with a higher one;
- *governance engineering*: smaller boards and a reduction in agency costs, also thanks to better incentives for the management team;
- *operational engineering*: consisting primarily of adopting better practices and operational improvements in the portfolio companies. Industry-specific

experience also allows PE firms to have an advantage in deal sourcing and execution, leading to proprietary deals rather than intermediated deals.

Bernstein and Sheen (2016) provide additional examples of operational engineering strategies, such as training, monitoring and better-aligned worker incentives.

Bloom, Sadun and Van Reenen (2009) detail how PE portfolio companies report better management practices scores compared to government-owned, family-owned and privately-owned companies.

Axelsson, Jenkinson, Strömberg and Weisbach (2013) compare capital structures of publicly traded firms with PE portfolio companies. Regarding buyouts, they identify the main determinant of leverage in the availability of abundant and cheap credit and that PE portfolio companies become more leveraged as credit gets cheaper.

Once again, this section merely summarises the more extensive literature review offered in Chapter 1 of the Bocconi thesis, which serves as a theoretical foundation for the analysis carried out in this paper. Additional details on the nature of the PE industry can be found in Chapter 1.

5.2 Updates on recent trends in the private equity industry

Chapter 1 of the Bocconi thesis offered an overview of the trends in the private equity industry, from the 2007-2008 financial crisis to the surge in dealmaking during the following decade, up to the post-pandemic changes in monetary policy in a high inflation environment (Bain & Company, 2022). The two main challenges for the PE industry were considered to be higher financing costs and worse economic conditions, risking lower returns and lower valuations, leading to increased difficulty in exiting deals.

In fact, in 2022 global deal value decreased to \$654bn (-35%) and global exit value decreased to \$565bn (-42%), certifying a marked slowdown for the industry (Bain & Company, 2023a). While data for 2023 is not available yet, mid-2023 projections paint a grim picture of the industry, registering an additional -41% in global deal value and -54% in global exit value over the year.

Record fundraising activity contributed to lead “dry powder” (PE-committed, unallocated capital) to record highs in 2021, reaching \$3.7tn in 2022 (+16%) and projected to remain stable in 2023 (Bain & Company, 2023b). Fundraising does not seem to be the main issue for PE firms going forward, as opposed to the aforementioned higher financing costs and lower valuations.

Monetary policy tackled the inflationary surge of the past few years. In early 2024, US inflation reached 3.1%, leading the market to expect several rate cuts by the FED, as the current rates sit between 5.25-5.50% (Duguid and Clarfelt, 2024). Eurozone inflation is also projected to halve, from 5.4% in 2023 down to 2.7% in 2024, and the ECB is expected to start cutting rates soon, currently at 4.0% (Tamma, 2024).

As central banks appear to be set to ease their monetary policy, the PE industry could face lower financing costs in the future, leading to more leverage in deals, better returns and increased dealmaking activity.

6. The Italian football industry

This chapter offers a brief presentation of the Italian football industry, in order to highlight its characteristics compared to the European football industry as a whole and to define the market Italian football clubs operate in.

Football is the most popular sport not only on a global scale but also in Italy. Based on Nielsen/Gracenote data (PWC, 2023), the Italian Football Federation (FIGC) estimates that 57% of the Italian population is interested in football, making it the most popular sport by a wide margin. Only Spain reports a similar level of football popularity among its population, while the other countries home to the “big 5” leagues (UK, Germany and France) all report values between 43% and 52%.

Popularity inevitably leads to economic activity. In 2022, the whole Italian football industry directly or indirectly employed over 125'000 people across different sectors and contributed to the national GDP for more than €11.1bn, an increase of 3,5% and 10,3% respectively compared to pre-pandemic figures in 2019 (PWC, 2023).

6.1 Relegation in Italian football

Chapter 2 of the Bocconi thesis presented the differences between the North American sports model, consisting of closed leagues of franchise teams competing against each other with no risk of relegation at the end of the season, and the European sports model, where open leagues with promotion and relegation determine not only sporting success but also financial results for the teams involved. As a consequence, the European model of sports competitions presents an additional set of risks (and opportunities) for prospective financial investors.

Italian football strictly follows the European model. The Italian football pyramid is regulated by the Italian Football Federation (FIGC) and is organised in nine different tiers (FIGC, 2020). At the national level, professional football makes up the top three tiers (Serie A, Serie B and Serie C), while the fourth tier (Serie D) is the first non-professional tier in the pyramid. Lower tiers are organised at regional or provincial levels (Eccellenza, Promozione, Prima Categoria, Seconda Categoria, Terza Categoria). At the end of each season, a certain number of teams is promoted from a lower tier into the one right above and a corresponding number of teams goes the other way.

As for the top tier, promotion to and relegation from Serie A currently amounts to 3 teams per season (out of 20 taking part in both Serie A and Serie B, as opposed to Serie C where 60 teams compete against each other in three divisions).

The consequences of relegation can be dire, as described related to the business model of a football club. Such a club risks entering the vicious cycle of football: worse sporting performance leads to lower commercial appeal, worse financial performance, inability to maintain a talented squad and ultimately leading to even worse sporting performance, furthering the cycle (European Leagues, 2020).

Chapter 3 of the Bocconi thesis offered an overview of the economic and financial fundamentals of European football clubs, highlighting trends for the “big 5” leagues. Aggregate data points out that Italian teams suffered from financial unprofitability even before the COVID-19 pandemic and were further impacted by it. The severity of this compounded effect on Italian clubs’ finances is reflected in the number of teams that struggled to survive in lower leagues. Between 2018 and 2022, out of the 395 teams that took part in Italian professional football competitions, 44 of them were excluded from aggregate data as a consequence of failing to satisfy the financial requirements to take part in the corresponding competition. Out of those 44 teams, 0 Serie A teams and only 3 Serie B teams were affected, leaving the vast majority of struggling teams to Serie C. In Serie C, 41 out of 236 teams failed to remain in professional football and were therefore either relegated to non-professional tiers or dissolved entirely, representing 17% of the total. Relegation within professional football competitions has severe consequences, which become existential in case of relegation to non-professional football. FIGC reports that 40% of the teams that were relegated to Serie D between 2010 and 2022 ultimately filed for bankruptcy within 2 years (PWC, 2023). A prospective financial investor should therefore be aware of the acute risks associated with relegation in the Italian football industry.

6.2 Professional football at the top of the pyramid: Serie A

Relegation to lower tiers of professional football inevitably leads to lower financial performance for the clubs involved. In 2022, Serie A teams reported aggregate revenues of €2.9bn, almost 9 times higher than Serie B (€355m) and 20 times higher than Serie C (€148m). Operating costs for Serie A were almost on par with revenues

(97%), but operating costs for Serie B and Serie C were markedly higher than their revenues (145% and 154% respectively), leading to negative EBITDA values for the second and third tier competitions. Unfortunately for Serie A clubs, depreciations and amortisations amounted to €970m, bringing aggregate EBIT and EBT in the negative territory, ultimately amounting to net losses of over €1bn. Serie B and Serie C also reported net losses of €168m and €92m, respectively (PWC, 2023).

Since Serie A generates massively higher revenues and net losses compared to Serie B and Serie C, one could say that the first tier of Italian professional football is leagues apart from the ones right below it. Both this stark difference in market size and the aforementioned availability of financial data render it necessary to consider Serie A on its own, on par with other European top divisions, and to exclude the other two Italian professional leagues from the scope of this paper.

Nevertheless, Serie B and Serie C present various investment opportunities to the financial investor willing to embark on the journey towards Serie A and its lucrative spots in European club competitions. The investment rationale for these clubs would be similar to the one behind an investment in a Serie A club, with all the limitations linked to the lower commercial appeal of second and third-tier competitions.

6.3 National and international Serie A competitiveness

Chapter 2 of the Bocconi thesis introduced the concept of “win maximisers”, teams that prioritise sporting results over financial performance, as opposed to “profit maximizers”, which usually describe franchises in the North American sports model (Hoye et al., 2018). Inevitably for teams that compete in the European model, Serie A clubs have historically operated according to the former definition, posting the aforementioned huge aggregate losses in order to satisfy the need to beat opposing teams on the pitch, whether for the prestige of winning titles or to qualify for European competitions such as the UEFA Champions League.

From 2007/08 to 2021/22, Serie A has been won by the team paying the highest wage bill in all but three seasons (Juventus in 2011/12, ranking 3rd; Inter in 2020/21, ranking 2nd; Milan in 2021/22, ranking 4th). Sorting the teams by revenues, this happened in all but five seasons. Compared to the other main European leagues over the same period, only the German Bundesliga reports a similar number of wins by an

underdog (three times), while it happened five times in Spain, six times in France and ten times in England, over fifteen different seasons (PWC, 2023).

Broadening the analysis up to last season, 2022/23, Napoli's league title (the third team winning it in a row without having either the highest wage bill or the highest revenues) could point to a recent improvement regarding sporting competitiveness within Serie A, which could lead to more exciting title races, greater interest from football fans and ultimately higher revenues for the whole league.

Domestic competitiveness is only one side of the coin, as the top 7 Serie A teams compete internationally each season with European rivals across three different club competitions organised by UEFA: Champions League, Europa League and Conference League. As already mentioned, taking part in UEFA competitions allows a club to attract better players, generate more revenues (commercial and matchday) and, most importantly, to guarantee additional proceeds in the form of UEFA prize money and broadcasting revenues. UEFA revenues, usually grouped within broadcasting revenues at the aggregate level, amount to over €2.7bn per year in the 2021-2024 cycle, distributed to participating clubs in different proportions depending on the competition. Serie A clubs managed to obtain €328m in 2021, relatively in line with the other "big 5" leagues (English Premier League €515m, Spanish La Liga €420m, German Bundesliga €362m, French Ligue 1 €277m), much more than the €96m obtained by the Portuguese Primeira Liga ranking sixth (UEFA, 2023). In 2022, Serie A teams generated a lower amount of UEFA revenues (€257m) due to worse sporting performance, while the other leagues managed to generate similar figures compared to the previous year (UEFA, 2024a). In 2023 Italian teams managed to conduct better European campaigns, culminating in three European finals reached by Inter, Roma and Fiorentina, in each of the three UEFA competitions. While this could signal that Italian football is still competitive on the international scene, it certainly implies better financial results to be reported in FY 2023.

An additional proxy indicator for Serie A international competitiveness is UEFA rankings, which see Italian clubs currently in third place behind England and Spain, with an association club coefficient of 84.855, and a 2023/24 season country coefficient of 109.000, currently the highest among all UEFA countries (UEFA, 2024b).

7. The economic and financial fundamentals of Italian football clubs

Chapter 3 of the Bocconi thesis presented an overview of the economic and financial fundamentals of European football clubs at an aggregate level, especially in light of the COVID-19 pandemic's impact. It described the main components of football clubs' revenues and costs, how they determine profitability and ultimately the resulting impact on valuations. This chapter intends to focus on Italian football clubs, highlighting the main differences with European counterparts in order to determine which country-specific peculiarities are to be taken into account when evaluating an investment opportunity in this market.

In order to do so, a similar analysis is carried out based on aggregate financial data and reports published by UEFA, FIGC and others. Considering individual football clubs would have presented some limitations, as only 2 Italian clubs are listed companies (Juventus FC and SS Lazio) and the detail of available financial documents for the non-listed ones differs greatly from club to club.

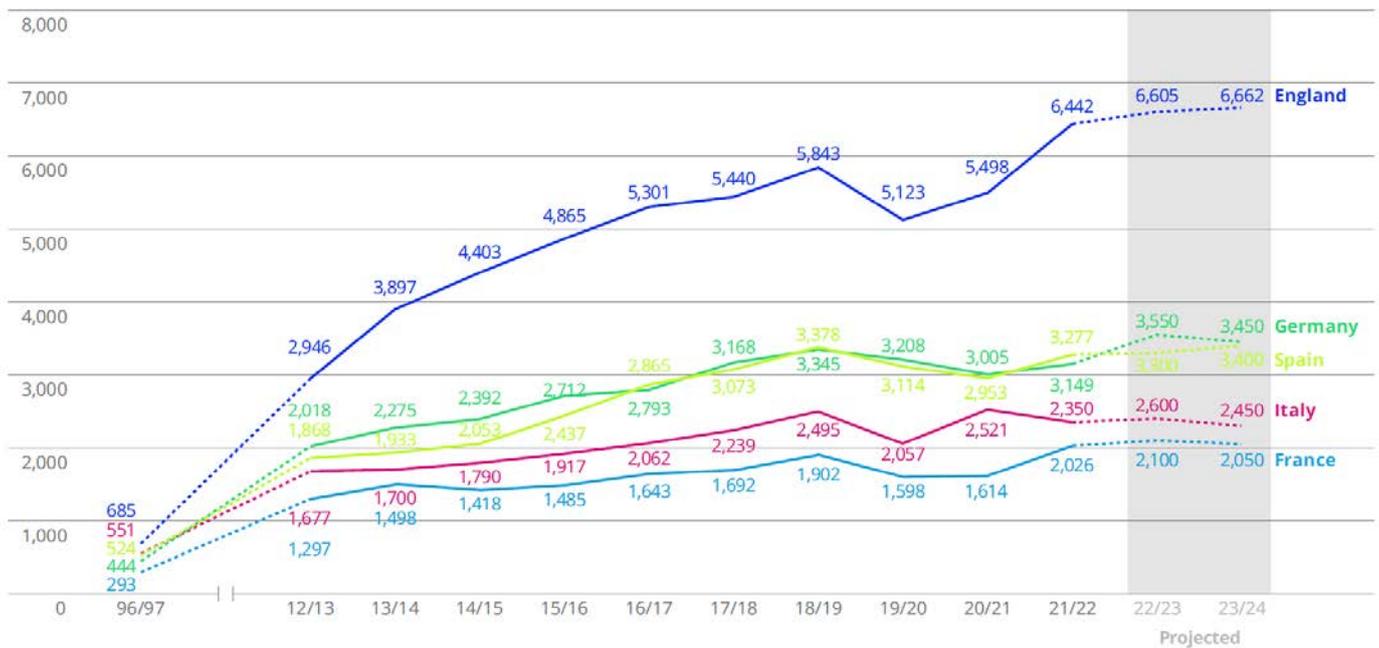
7.1 Italian football clubs' revenues

As already covered in Chapter 3 of the Bocconi thesis, football clubs' revenues can be divided between operating revenues (such as broadcasting, sponsorships, merchandising and ticketing) and capital gains obtained on the transfer market, from either player trading or selling homegrown players. Capital gains generated on the transfer market are quite hard to predict in advance, rendering it impossible to finance a football club entirely this way. For this reason and since operating revenues represent the largest and most consistent source of value creation for Italian clubs as well, aggregate revenue figures exclude capital gains from player transfers.

Following more than a decade of growth, European football has been severely impacted by the pandemic, as described at length in the Bocconi thesis. Then FY 2021 reported a rebound in terms of Serie A revenue, up to €2.5bn from €2.1bn one year before, just above pre-pandemic levels. In spite of that, one year later Serie A was

the only one out of the “big 5” leagues to report a reduction in terms of aggregate revenue in 2022 (Deloitte 2023, UEFA 2024a). In order to determine the reason for this discrepancy, it is necessary to look into the revenue mix of Serie A and how its components evolved over time.

Figure 7.1 – Aggregate revenue, “big 5” leagues (1996/97 and 2012-2024, €m)



Source: Deloitte (2023). *Annual Review of Football Finance*

As covered by Chapter 3 of the Bocconi thesis, operating revenues of football clubs can be further divided into three major categories: broadcasting revenues, commercial revenues and matchday revenues. The revenue mix has been shown to vary across different countries, divisions and clubs. Nevertheless, aggregate data from Serie A clubs allows us to focus on the Italian football industry more specifically.

A detailed description of the various categories can be found in the aforementioned chapter, therefore the present one only briefly describes them and focuses on the differences compared to the main European leagues. Aggregate data already reported in Chapter 3 of the Bocconi thesis is updated with FY 2022 figures and analysed with respect to Serie A.

7.1.1 Broadcasting revenues in Italian football

Broadcasting revenues represent the most significant portion of the revenue mix for modern-day football clubs in the “big 5” leagues and Serie A is no exception. As mentioned, UEFA prize money and similar revenues are routinely collected under this category.

In pre-pandemic years, Serie A teams reported broadcasting revenues amounting to values around 58% of aggregate revenue, very similar to English and Spanish teams, while German and French ones reported a smaller broadcast portion of their revenue mix (46% and 43% respectively). This percentage remained relatively stable over time, up until 2021 when it increased to 70% (Deloitte, 2023). This increase is common among all the main leagues and can be explained by the postponement of games from the 2019/20 season into FY 2021, in light of pandemic restrictions. Another factor that contributed to this variation is the aforementioned collapse of matchday revenues during that season. In 2022 broadcasting revenues for Serie A clubs amounted to €1.3bn (57% of the total), consisting of a decrease in value of €429m compared to the previous year (-24%). Such a reduction cannot be simply explained by the extraordinary revenues recorded in FY 2021, but also due to the signing of a new domestic broadcasting deal with OTP provider DAZN, amounting to €927m per year until 2024, down from the previous deal amounting to €973m per year, from 2018 to 2021. Just as the domestic broadcast deal decreased in value, so did the international one: Serie A teams managed to get €340m from international broadcasters from 2018 to 2021, but only €315m from 2021 to 2024. Italian teams have been unlucky with the timing of the expiration of their existing deal, as their struggling financial positions due to the pandemic allowed broadcasters to negotiate better deals for themselves. Serie A has not been alone in this: German and French teams had to negotiate new deals at the same time and therefore ended up with reductions of -14% and -19% in value, respectively (UEFA, 2024a). In late 2023, Serie A clubs managed to sign a new deal, lasting five years until 2029, amounting to €900m per year (Calcio e Finanza, 2023a). While the EPL seems to be on track to generate ever-increasing broadcasting revenues and La Liga has a deal in place until 2027, whether the gap with the other main leagues (Ligue 1 and Bundesliga) will widen in

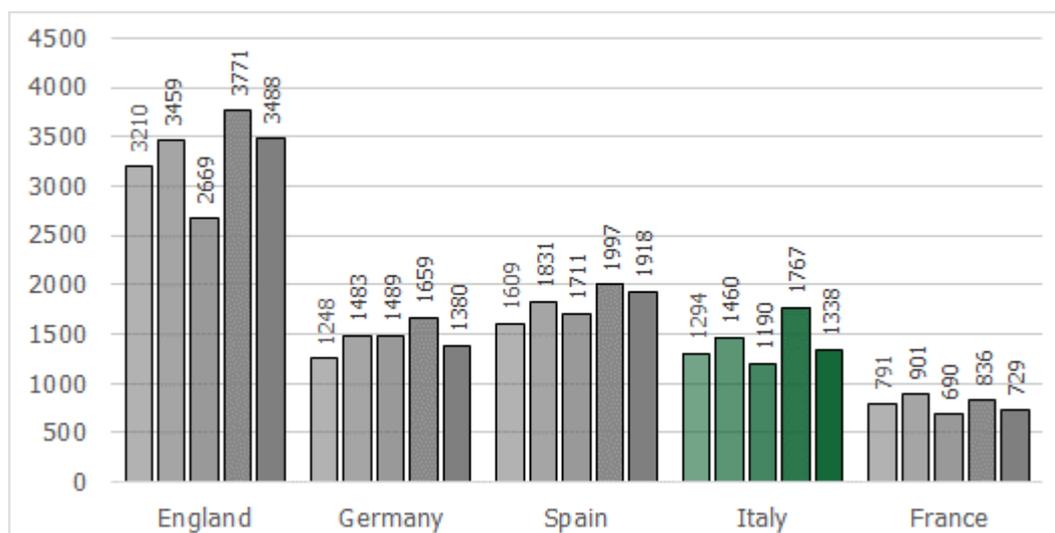
this regard depends on the deals that those leagues will be able to sign in the coming months.

The “big 5” leagues also present a significant disparity in the value received from domestic broadcasters compared to international ones. In 2023, English teams received only 47% of their total broadcast rights revenues from the domestic market, being the only European league receiving more money from international deals, while for Spanish teams it amounted to 52% of the total. Compared to the domestic share for French (88%), German (86%) and Italian teams (82%), the gap is obvious. A possible reason lies with the worldwide popularity of English and Spanish as languages, allowing broadcast and online content to be more accessible to foreign fans (UEFA, 2023).

In Serie A half of the revenue from broadcast deals is distributed equally and the other half according to a range of parameters such as viewership estimates, stadium attendance, historical performance, sporting performance over the previous season and over the previous five seasons. As a consequence, teams receive very different amounts. For example, in 2023 Inter is estimated to have received €87m, while 20th-placed Cremonese only €29m (Calcio e Finanza, 2023b).

The other component of broadcasting revenues, granted by UEFA, is received only by those teams participating in European competitions, based on their performance.

Figure 7.2 – Broadcasting revenues, “big 5” league clubs (2017/18 to 2021/22, €m)



Source: Deloitte (2019, 2020, 2021, 2022, 2023). *Annual Review of Football Finance*

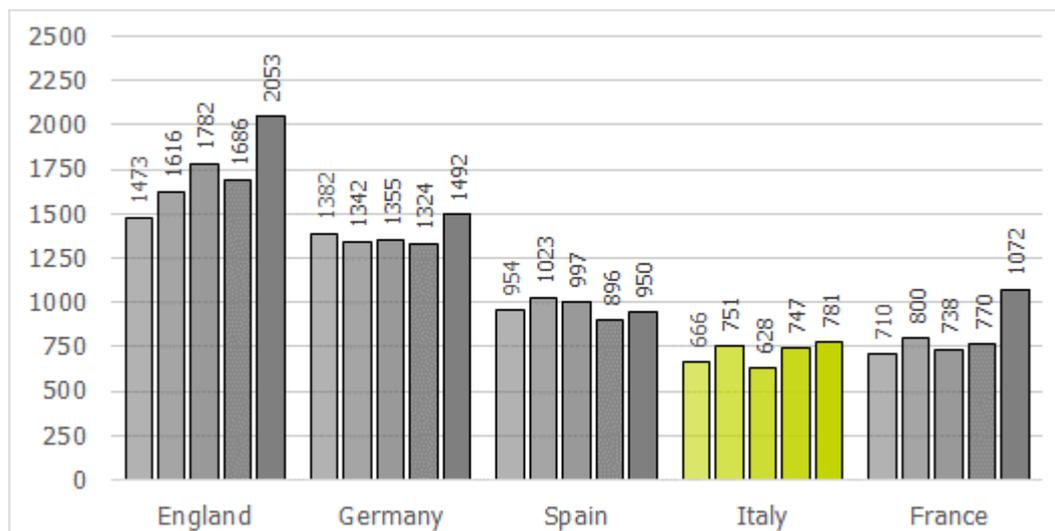
7.1.2 Commercial revenues in Italian football

Commercial revenues for Serie A hovered around 30% pre-pandemic and reached 33% in 2022 (Deloitte, 2023). English and Spanish teams report similar percentages (32% and 29% respectively), while French and German teams manage to generate a bigger portion of their revenue through commercial deals (53% and 47% respectively).

The increase in commercial revenues above pre-pandemic levels is a positive signal for the commercial appeal of Serie A, as clubs have been able to sign lucrative deals even when facing pandemic restrictions forcing them to play in front of smaller crowds.

Within commercial revenues, Serie A teams routinely collect most of this figure from sponsorship deals (€401m in 2022), divided between main sponsors (40%), technical sponsors (20%) and other sponsors (40%) (PWC, 2023).

Figure 7.3 – Commercial revenues, “big 5” league clubs (2017/18 to 2021/22, €m)



Source: Deloitte (2019, 2020, 2021, 2022, 2023). *Annual Review of Football Finance*

7.1.3 Matchday revenues in Italian football

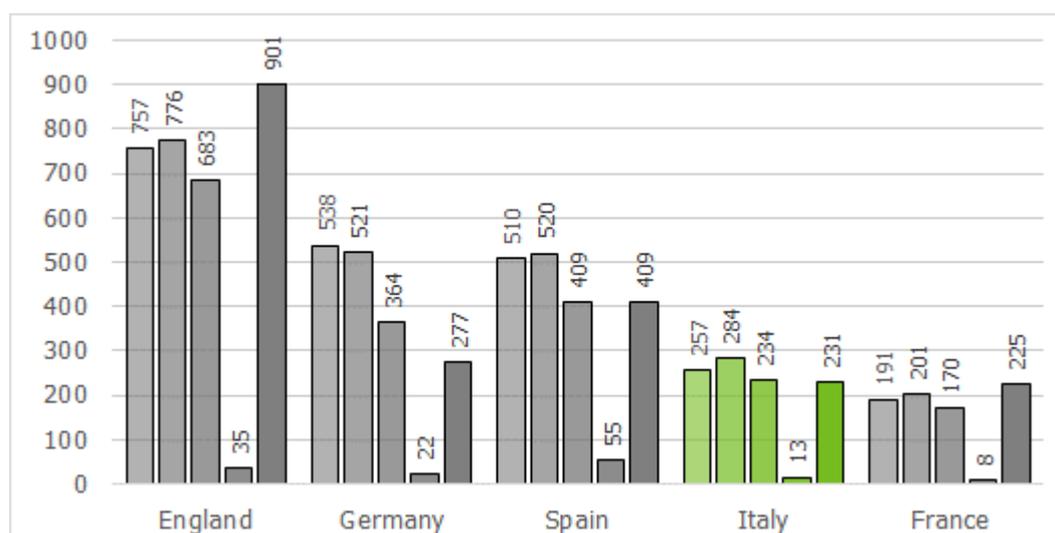
Matchday revenues complete the revenue mix. As mentioned, they were the component most impacted by the pandemic, as restrictions forced teams to play behind closed doors or in front of smaller crowds. While this has been devastating in smaller leagues and lower tiers, “big 5” clubs suffered a softer blow as pre-pandemic matchday revenues hovered between 11% of the revenue mix for French clubs and 15% for Spanish and German ones. For Serie A teams, this percentage amounted to 11% before the pandemic and returned to 10% in 2022 (Deloitte, 2023; UEFA, 2023).

FY 2022 covers the 2021/22 season, which saw pandemic restrictions evolving over time. Serie A clubs were able to fill their stadiums only up to 50-75%, often with a cap of 5'000 fans, until restrictions were lifted in April 2022 (PWC, 2023).

In 2022, Serie A clubs recorded matchday revenues of €231m, down -19% on the last full pre-pandemic season (2018/19). Out of the “big 5” leagues, only the EPL and Ligue 1 managed to generate higher matchday revenues compared to 2018/19, also due to different pandemic restrictions in place during the 2021/22 season.

At the European level, early reporting clubs show that in 2023 matchday revenues increased by 32% over the previous year, but aggregate data including all top-division clubs has not been published yet (UEFA, 2024a). The impact of post-pandemic matchday revenues on the revenue mix of Serie A teams remains to be seen.

Figure 7.4 – Matchday revenues, “big 5” league clubs (2017/18 to 2021/22, €m)



Source: Deloitte (2019, 2020, 2021, 2022, 2023). *Annual Review of Football Finance*

7.2 Italian football clubs' costs

Football clubs face three main categories of costs: wages (players, technical area staff, and administrative staff), net transfer market costs, and operating costs.

Chapter 3 of the Bocconi thesis showed how costs evolved similarly to revenues over the last two decades, only to explode upwards due to the COVID-19 pandemic. In 2021, wages and net transfer costs reached 91% of total revenue at the European level. Serie A teams reported an even higher value of 119%, representing a 30% increase over the previous year, clearly signalling how costs spiralled out of control due to the pandemic. Out of the "big 5" leagues, only Ligue 1 teams recorded an even higher value (135%), while the remaining three remained below 100%. (UEFA, 2022a; UEFA, 2023).

7.2.1 Wages in Italian football

In 2019, Serie A teams reported total wages of €1.8bn. In relative terms compared to revenue, this value amounted to 70%, slightly higher than the European average of 64% and the other "big 5" leagues, excluding Ligue 1 (UEFA, 2021).

Also due to an increase of up to €2.1bn, the pandemic-related reduction in revenue caused the wages/revenue ratio to increase to 84% for Serie A in FY 2021, compared to 77% at the European level (UEFA, 2022a). In 2022, Serie A wages decreased to €1.9bn, but the wages/revenue ratio settled on similar levels (83%), only to ultimately improve significantly in 2023, reducing to 68%, thanks to a reduction in wages down to €1.6bn. In 2023, only Ligue 1 reports a similar ratio (70%), while Spain (61%), England (50%) and Germany (44%) post more sustainable values (UEFA, 2024a).

It needs to be noted once again how the recently introduced UEFA Financial Stability Regulations require clubs to satisfy the squad costs rule, by not spending more than 70% of revenue on wages and net transfer costs (90% in 2023/24 and 80% in 2024/25). As Serie A teams barely managed to reduce wages below that level, it's clear that, as a whole, they have still some way to go.

7.2.2 Net transfer market costs in Italian football

The Bocconi thesis summarised how net transfer market costs (or income) are determined by transfer market activity, as a consequence of the amortisation of players' sporting rights (Giudice, 2020).

While European clubs reported a net income on transfer activity in 2017 and in 2018, even before the pandemic this value turned negative, resulting in net costs of €0.5bn in 2019. This value increased up to €3.1bn in 2021, only to decrease back down to 2019 levels in 2023 (UEFA, 2024a). Serie A clubs have been the most affected by the pandemic impact on transfer activity, resulting in net transfer costs up to €0,8bn, or 32% of total revenue in 2021. English clubs have been the second worst in this regard, as they reported net transfer costs of 24% of total revenue (UEFA, 2022a). In 2022, Italian teams reported net transfer costs of €369m, leading to a ratio of 16%, markedly improving their position also with respect to the aforementioned squad costs rule (UEFA, 2024a).

7.2.3 Operating costs in Italian football

The last component of football clubs' costs, operating costs, includes a wide range of expenses that don't fall under the other two categories. While these costs decreased since the introduction of FFP in 2011, in relative terms to revenue, during the pandemic they reported lower volatility compared to wages and net transfer costs.

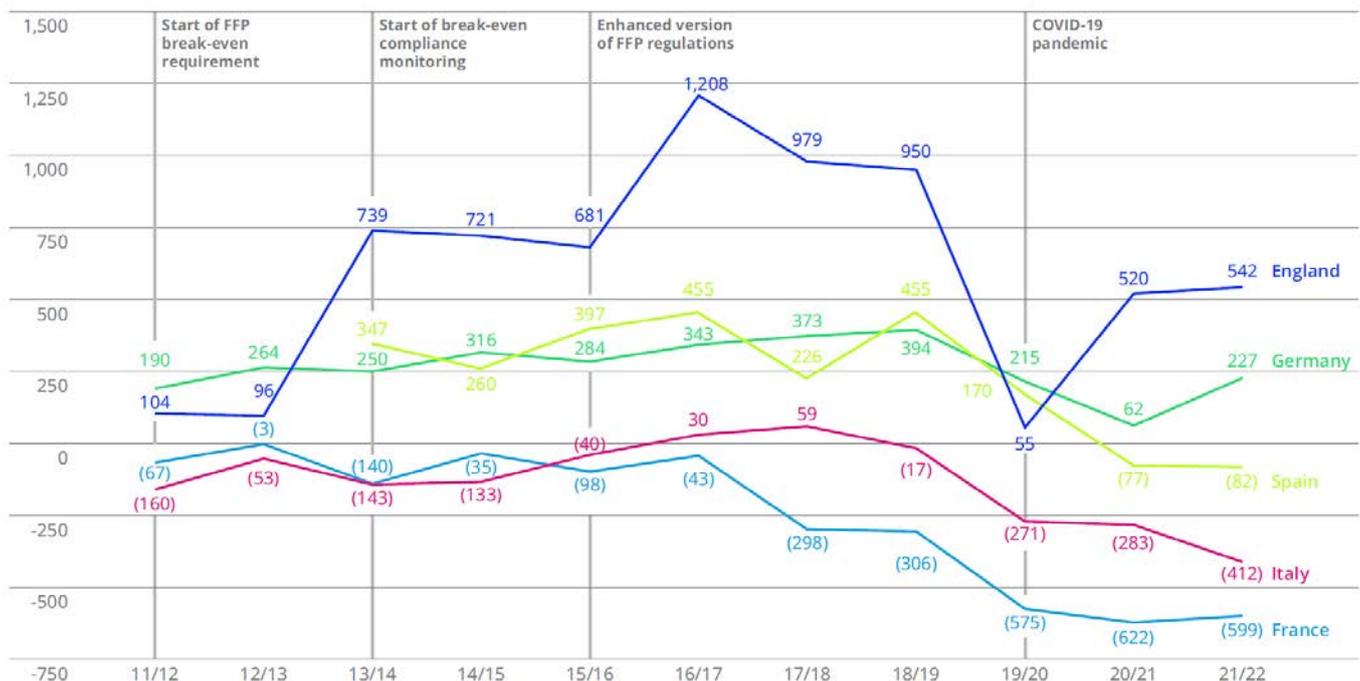
Serie A clubs reported operating costs of €700m before the pandemic, €695m in 2021 and €784m in 2022, reflecting high inflation and increased economic activity after the pandemic. In relative terms compared to revenue, the ratio evolved from 30% in 2018, to 27% in 2021 and to 33% in 2022. With the exception of English clubs, which reported values closer to 20%, the other main European leagues all recorded ratios around 30%, increasing from the pandemic years (UEFA, 2020; UEFA, 2022a; UEFA, 2024a).

Analysing revenue and cost components faced by Italian football clubs and their evolution over time allows us to now look at profitability measures, inevitably already expecting them to draw an unflattering picture of the Italian football industry.

7.3 Italian football clubs' profitability

The Bocconi thesis pointed out how the introduction of Financial Fair Play in 2011 initially placed the whole industry on a path towards financial profitability, turning €382m of operating losses in 2012 into record operating profits of €1,4bn in 2017, and ultimately €906m of operating profits in 2019. The pandemic negatively affected profitability, as revenue decreased and costs increased (UEFA, 2022a). FY 2021 and 2022 recorded aggregate operating losses of over €1.0bn and €0.9bn, respectively, but early reporting clubs' data points to a return of operating profits in 2023 (UEFA, 2023; UEFA, 2024a). The "big 5" leagues followed different paths over time. Their profitability worsened even before the pandemic as transfer market activity led to higher spending. Following the collapse of 2020, their paths diverged. The EPL bounced back in 2021, reporting aggregate operating profits of €520m, while Bundesliga clubs reported operating profits of €62m. The remaining three leagues posted bigger losses once again, led by Ligue 1 with operating losses of €622m. Serie A unique position is characterised by a marked increase in operating losses in 2022 as well, going from €283m in 2021 to €412m in 2022 (Deloitte, 2023).

Figure 7.5 – Operating profits/losses before taxes, "big 5" leagues (2011-2022, €m)



Source: Deloitte (2023). *Annual Review of Football Finance*

As mentioned, analysing operating profitability is necessary to understand the business model of football clubs, but net profitability (net profits or losses) is the most significant measure for prospective financial investors. European data shows how the introduction of FFP in 2011 pushed football clubs on a path toward net profitability, following a similar evolution compared to operating profitability (UEFA, 2022a).

Serie A clubs are no exception. While improving since 2011, Italian clubs' net profitability was still in negative territory in 2018 (€195m of net losses), being Serie A the only one among the "big 5" leagues not reporting net profits (UEFA, 2020). In 2019, Serie A reported similar net losses of €216m, being joined in the negative territory by the EPL (UEFA, 2022a). Since the pandemic, Serie A clubs consistently reported net losses: €720m in 2020, €1.1bn in 2021 and €909m in 2022, showing the first signs of improvement. For the remaining "big 5" leagues, it is possible to distinguish the EPL and Ligue 1, with very similar levels of net losses (€764m and €717m in 2022, respectively), while both La Liga and the Bundesliga already returned close to profitability (net losses of €59m and €119m, respectively) (UEFA, 2024a).

7.4 Italian football clubs' valuations

Chapter 3 of the Bocconi thesis briefly covered the topic of valuation concerning football clubs. As mentioned, since the football industry presents some peculiarities, certain valuation methods are not adequate or not even applicable at all (Markham, 2013). Unfortunately, this remains true even in the context of valuation relative to Italian football clubs.

Market capitalisation requires a company to be listed on a stock exchange, therefore it could only be applied to the two aforementioned clubs listed on the stock market (Juventus FC and SS Lazio). The *discounted cash flow* method (DCF) consists of estimating future cash flows and calculating their present value. *Bankruptcy valuation* and *broker's valuation* of a football club in Italian football present the same issues already covered at the European level, as estimating the selling price of core assets (stadium, training grounds and players) cannot be easily simulated.

Relative valuation is widely used with respect to football clubs. Among the possible alternatives, the *revenue multiple* approach represents the simplest way to perform a valuation of a football club, as it can be applied even to clubs reporting losses year

after year. Nevertheless, Italian football clubs present the same shortcomings presented in Chapter 3 of the Bocconi thesis. As a consequence, revenue multiples are often applied by implementing some adjustments, such as those used by Football Benchmark in its proprietary formula, briefly described in Section 3.4.

For these reasons, it is necessary to reiterate the importance of club-specific valuation following extensive due diligence, which remains outside the scope of this paper.

8. Private equity and Italian football

Chapters 2 and 3 of the Bocconi thesis offered an overview of the football industry, the business model of football clubs and their financial data over time. As mentioned, an industry on a path of constant growth and towards better financial sustainability is one that private equity tends to be interested in. Chapter 4 of the Bocconi thesis summarised the recent trends of PE investments in European football and highlighted some of the underlying drivers of interest.

As the scope of this paper is country-specific, chapters 6 and 7 focused more on the Italian football industry, showing its peculiarities and the main differences compared to European football, in particular compared to the other “big 5” leagues. This chapter aims to look at Italian football using the same framework used in Chapter 4 of the Bocconi thesis, in order to explore if some country-specific drivers of interest can explain the investments recorded in recent years.

Similarly to the analysis carried out in Chapter 4 of the Bocconi thesis, this chapter will consider all kinds of recent transactions in the European football industry, adopting a wide interpretation of “private equity” (Døskeland and Strömberg, 2018).

8.1 Investments in Italian football

As mentioned, investments in football clubs are increasingly more common.

In 2023, 7/20 Serie A clubs and 30/76 clubs in the remaining “big 5” leagues had ties to private capital investors, which include not only traditional PE but also private credit and other hybrid financing (UEFA, 2024a).

This marks a revolution compared to previous decades, as Italian football has long been dominated by entrepreneurs and politicians interested more in prestige than money, with obvious consequences on industry profitability that have been analysed in the previous chapters. It is a trend that follows similar investments in all of European football, especially in the “big 5” leagues, as covered by the Bocconi thesis.

The pandemic effects on Italian clubs’ finances are likely to be felt for a while, but the current path seems to be one toward financial sustainability, due to the implementation of UEFA Financial Sustainability Regulations and the Settlement Agreement (SA) penalties imposed on four of the biggest Serie A teams in 2022.

Juventus FC and AC Milan signed a 3-year SA up to the 2025/26 season, alongside four other clubs in France and Turkey, while FC Internazionale and AS Roma signed a 4-year SA up to the 2026/27 season (UEFA, 2022b; UEFA, 2022c). All four clubs failed to fulfil the break-even requirement set out in the FFP regulations and have been provided with a pathway up to compliance with the football earnings rule defined in the Financial Sustainability Regulations, described in Chapter 2. In short, at the end of the monitoring period assessed by the SA, the clubs must have either an aggregate football earnings surplus or an aggregate football earnings deficit within an acceptable deviation of €60m. In order to reach this financial sustainability target, the clubs agreed to regular monitoring by UEFA, intermediate financial targets and further penalties, conditional on failing to fulfil these obligations.

The increased interest of professional investors in Italian football should not come as a surprise, as increased profitability enforced through regulations is obviously welcomed by those otherwise responsible for covering the losses.

8.2 Investments in Serie A as a league

As already mentioned in Chapter 4 of the Bocconi thesis, acquiring a stake in a football league is one of the two major alternatives available to PE investors interested in European football. In this case, the rationale of the investment would consist of profiting from broadcasting revenue, as leagues control broadcasting rights. In the case of Italian football, it would mean setting up and owning a share in a company that obtains broadcasting rights from Lega Serie A, which is a private association of the 20 football clubs playing in it during the current season.

Italian clubs sell their broadcasting rights collectively, usually signing 3-year deals with traditional or OTP broadcasters, with the exception of the most recent 5-year one which will last until 2029.

In recent years, several PE firms and other investment companies approached Serie A club presidents with different proposals, yet they have always been rebuffed in favour of traditional broadcast solutions, such as the aforementioned DAZN deals (2018-2021, 2021-2024, 2024-2029) (Carrà, 2020; Reuters, 2022; Biondi, 2023).

Investing in Serie A as a league would consist of betting on the increasing value of broadcasting rights and would obviously benefit from diversification: the investor

would be less affected by the risk of a single club underperforming over several years, while still being able to capture the upside of growth and increased profitability of the league as a whole. In this regard, the domestic and international competitiveness of Serie A points to an interesting investment opportunity, also due to the slow but steady improvements that Italian clubs have been making in terms of profitability.

8.3 Investments in Serie A clubs

Chapter 4 of the Bocconi thesis explained how investing in a football club requires a much more active managerial approach from the PE firm and involves a higher degree of uncertainty and downside risk, compared to an investment in a league. Serie A clubs are no exception.

Considering that only a handful of top-division clubs are up for sale at any given time, restricting the focus on Italian football means that the possible targets are limited in number, as only 20 clubs take part in Serie A and 20 in Serie B during a season, while investing in one of the 60 Serie C teams puts the investment closer to non-professional football and the aforementioned risks associated with relegation.

Should a professional investor be able to find a Serie A team up for sale, it needs to be noted that, currently, there are no limitations similar to the “50+1 rule” proper of German football, if not a ban on multi-club ownership within the different tiers of Italian football (UEFA, 2024a).

8.4 Drivers of interest in Italian football

8.4.1 How to evaluate a private equity investment

In order to apply to Italian football the same analysis carried out in the Bocconi thesis at the European level, it is necessary to reiterate which core principles this analysis is based on. For this reason, Section 4.4.1, Chapter 4, is summarised here once again, as follows. Chapter 4 offers a more detailed description.

Strömberg (2018) proposes a framework to evaluate investment opportunities, the *ME-ME-MEE(-US) framework*, as a guideline to understand the core elements of a PE deal. It is an acronym: *Macro, Micro, Management, Entry, Engineering, Exit, Edge,*

Uncertainties and *Structure* of the deal, all the elements that need to be considered to understand the rationale behind a PE investment.

Macro, *Micro* and *Management* pertain to the business environment of the target company, in terms of business model, growth trends, business cycles, competitors, barriers to entry, capital market conditions and more target-specific elements.

Entry, *Engineering*, *Exit* and *Edge* describe how and when the PE firm creates value. As described in Chapter 1 and briefly recalled in Chapter 5, *Engineering* can be divided into three categories of improvements in the firm: financial, governance and operational engineering.

Finally, *Uncertainties* and *Structure* are two deal-specific elements that complete the description of the PE deal in question.

As mentioned in Chapter 4, applying the ME-ME-MEE(-US) framework in its entirety requires details of a specific transaction. Ex ante, it requires fund- and target-specific data, estimates and information. Ex post, it allows to describe the rationale behind the deal in question. Inside information about the PE deal in question is required in order to apply it in its entirety, to evaluate and describe the investment opportunity. Nevertheless, since PE investments in Italian football clubs present some similarities, the framework allows us to identify the common drivers of interest.

8.4.2 Applying the framework to Italian football clubs

The ME-ME-MEE(-US) framework presented above, already applied to the European football industry in the Bocconi thesis, can be similarly applied to Italian football clubs, in order to highlight country-specific differences.

Chapters 6 and 7 described the *Macro* elements of the Italian football industry, the financials of football clubs and their trend over the past few years. Italian football followed a similar path compared to European football as a whole and the other “big 5” leagues, reporting constant growth up until the pandemic hit. Nevertheless, it is showing its first signs of recovery and a slow return towards profitability, also thanks to the implementation of UEFA Financial Stability Regulations. The business model of Italian football clubs does not differ from that of other European clubs and relies heavily on sporting success in order to generate higher revenue.

Micro and *Management* elements are once again inherently dependent on the target club and its standing in the league.

Value creation depends on the deal in question, but it is possible to identify some common elements specific to the Italian football industry.

While *Entry* conditions are unique for each club, Serie A reported lower levels of profitability compared to the other “big 5” leagues, excluding Ligue 1. Italian clubs have been left reeling from the pandemic and reported a more significant hit on revenue compared to other European leagues. Considering relative valuation as the most applicable method to value a football club, Serie A clubs could end up being comparatively cheaper thanks to lower financials relevant to valuation. Alongside the aforementioned proxies of Serie A competitiveness, acquiring an Italian football club could prove to be a bargain, ultimately generating value for the fund.

Engineering strategies for football clubs have been covered extensively in the Bocconi thesis. *Financial engineering* and *governance engineering* relative to Italian clubs are unlikely to present differences compared to other European clubs, while *operational engineering* could offer an interesting opportunity. Broadcasting revenues are the most relevant source of income for football clubs, Serie A ones included. Italian clubs manage their rights collectively through the league, therefore obtaining a more lucrative deal requires convincing the other Serie A presidents. Certainly not an easy task, yet the aforementioned gap between domestic and international broadcasting revenues suggests that Serie A clubs should indeed focus on increasing their appeal around the world, in order to negotiate better deals right where there seems to be room for growth.

Exit conditions for Italian football clubs do not differ from other European clubs. Since an IPO is very unlikely to happen, any divestment is bound to consist of a third-party sale. The recent increase in private capital within Italian football signals that there is a pool of potential buyers interested in entering the industry.

Edge value creation once again depends on the PE firm’s specific network and expertise in the industry. As discussed in the Bocconi thesis, multi-club ownership is proving to be a popular model of football club management and is not currently

banned in Italy, if not within Italian football itself: an investor could control a club in Italy in addition to other clubs around the world.

Uncertainties and *Structure* are the remaining two elements of the framework, inevitably linked to the deal in question. Both elements are time- and deal-specific, as they consist of the uncertainties and structure of the deal that the PE firm is able to secure. As described in Chapter 4, they depend on the market conditions at entry and exit, on the competence of both current and prospective management teams, on the leverage used in the acquisition, on the covenants and on the other specific details of the transaction. Once again, discussing them in general terms would be impossible even with regard to the football industry itself, let alone a country-specific one like Italian football.

The Bocconi thesis highlighted three additional drivers of interest for prospective financial investors in European football: the rise of women's football, real estate investment opportunities and potential changes in European competitions, such as the proposed European Super League (ESL). The following sections briefly describe them in context with Italian football clubs.

8.4.3 Women's football in Italy

Women's football made remarkable progress in recent years, both at the European level and in Italy. The Bocconi thesis highlighted the investment opportunity consisting of entering a fast-growing sport while there is still relatively less competition compared to men's football. It needs to be noted how costs related to women's football are still excluded from UEFA Financial Sustainability Regulations, potentially allowing a willing investor to secure sporting success by outspending the competition, all for a modest amount of money compared to what's needed to compete at the top of men's football.

Italian women's football has been growing very consistently over time, almost doubling the number of registered players and of girls playing in youth academies between 2008 and 2022.

UEFA projections point to a significant increase in commercial value for Italian football: from a modest €6.6m in 2021, up to €46.7m in 2033. At the European level,

it's expected to reach €686m in 2033 (PWC, 2023). It's clear that the amount of money involved is tiny compared to men's football, yet the room for growth is there and the required investment is unlikely to break the bank for deep-pocketed financial investors such as PE firms.

As for investment opportunities, Serie A Women currently sees 10 teams competing in it, while 16 play in Serie B Women. Italian women's football has not reached a level of saturation similar to the men's game, as there seems to still be room for more professional teams to enter the fray. Clubs currently in Serie A all have a women's football team as well (UEFA, 2023).

Italian Serie A Women became part of FIGC in 2018 and part of professional football only in 2022. This kind of institutional support offered to women's football is likely to further accelerate the growth of the sport.

8.4.4 Real estate in Italian football: stadium, training grounds and more

As Section 4.4.4, Chapter 4, of the Bocconi thesis covered the real estate opportunities of the football industry by highlighting the Serie A example, it is presented here once again, alongside necessary updates.

One of the less obvious but most lucrative opportunities offered by investing in European football consists in being able to realise real estate investments in prime locations inside European cities. Top division football clubs often play in modern stadiums, being them either new constructions or renovations of existing buildings, but not all of them do. In this regard, European football presents significant differences between countries. From the point of view of an investor, owning a club lacking a modern stadium offers the opportunity to build or renovate one from scratch. More often than not, clubs playing in an obsolete stadium do not own it, but rather pay some rent to the local authorities for the privilege of playing in it. The construction of a new club-owned stadium offers some benefits such as increased matchday revenues, new non-matchday commercial revenues (from concerts and other events), no more rent or other expenses to be paid in order to play in a stadium owned by the local authorities, and a better financial position as the stadium is listed among the club's long-term assets on its balance sheet.

A prime example of real estate opportunities linked with football club ownership is offered by Serie A. In the Italian top division, only 6 of 20 clubs competing in the 2023/24 season own the stadium they play in (Atalanta, Bologna, Frosinone, Juventus, Sassuolo and Udinese), with Cremonese being the only other Italian team part of this group (currently in Serie B). All other Italian teams playing across divisions pay variable sums to local authorities in order to play in the stadium and have little to no opportunities of generating additional matchday revenues from commercial operations, such as shopping centres, food and beverage services, and sponsorship agreements like the sale of stadium naming rights to a sponsor. From a regulatory perspective, the Italian government passed a law colloquially known as “Legge Stadi” (D.L. 24 aprile 2017, n. 50), modified further four years later (D.LGS 28 febbraio 2021, n. 38), aimed at incentivising the construction of stadiums owned by sports clubs. This piece of legislation tries to reduce the bureaucratic burden on clubs interested in presenting a project for a new stadium, training grounds or related facilities, while also explicitly allowing for the commercial use of said infrastructure (Sottoriva, 2017; Federici, 2022).

The complexities of Italian bureaucracy and the overlapping sphere of competence of numerous local authorities regarding city planning and building permissions still make the approval process of a new project and its consequent realisation a daunting challenge even for the most determined investor. Two examples of these hurdles are represented by the approval process for the new projects presented by some of the top Italian teams.

The first one is “La Cattedrale” (The Cathedral), the proposed new stadium of AC Milan and Inter Milan, which are currently playing in the Giuseppe Meazza stadium owned by the City of Milan (Inter Milan, 2021). Chosen by the two clubs in late 2021 among a set of competing projects, it faced opposition from the local authorities, unwilling to allow the clubs to demolish the current stadium to build a new one in its place. Both clubs are not currently set on a definitive solution to their stadium woes, as recent news hints at possibly acquiring the current one from the city of Milan.

The other example, on which entire books regarding its failed approval process could be written, is the “Stadio della Roma” project put forward by AS Roma in 2011. Dragged through the tenure of four different Rome mayors, the project was ultimately

dropped in 2021 after a change in club ownership, who then decided to start a new project from scratch in a new area of the city. The approval process of the current project seems to be going ahead much faster than the previous one, also thanks to a better and more collaborative relationship with the local authorities (Sky Sports, 2023). In both cases, the projects included a new stadium alongside a set of related infrastructures, commercial and residential properties.

Difficulties and risks notwithstanding, stadium projects offer great real estate opportunities. Under Italian law, the proponent of a new project may be required to provide for and realise all the related infrastructures necessary for its approval under the existing urban planning regulations, such as roads, parking lots, public works and even train or metro railway stations. A proponent that asks for more building capacity than allowed by the local regulations may need to reimburse the local administration in terms of more infrastructures as compensation. At the same time, in case more infrastructures are needed for the project approval, the proponent may be awarded additional building capacity to be used in other ways, such as in terms of residential or commercial real estate investment. Resulting from a complex negotiation process with local authorities, a prospective investor may settle for the realization of a significant number of public works for the benefit of the city in exchange for the opportunity to realise lucrative real estate investments in prime locations, since stadiums are often located close to the city centres. In this regard, the industrial network and previous real estate expertise available to the PE firm could prove to be an edge over potential competitors and other investors. The proceeds from real estate investments linked to sporting infrastructures could either be directed to the football club, in order to further boost its financial capabilities and assemble a more competitive team or alternatively extracted by the firm for the benefit of the investors.

8.4.5 The European Super League (ESL) and Serie A clubs

The Bocconi thesis concluded the analysis of possible drivers of interest in European football by highlighting the evolution of the European Super League, a new competition proposed by a consortium of 12 top European clubs in conflict with UEFA. Following a botched announcement, the project looked to be dead in the water and legally depended on a ruling from the European Court of Justice, which arrived in late

2023 (Reuters, 2023). Even in light of the legal ramifications of the partially favourable ruling, it currently appears very unlikely to ever see the light of day, due to public opposition and newly introduced regulations across Europe.

In late 2023, FIGC updated its regulations by introducing a clause preventing clubs from participating in unsanctioned competitions, such as the ESL (Eterno, 2023). While it is uncertain whether such a clause would hold up in court in case someone decided to test it, it certainly seems to be enough to discourage clubs from even trying to.

In addition, starting from the 2024/25 season, the aforementioned changes in UEFA competitions are likely to reduce the incentive for big clubs to set up a competition of their own, as they come with increased prize money and more games in the calendar, ultimately resulting in higher revenue for participating clubs.

While it is not possible to dismiss the possibility of future developments in this direction, it seems unlikely that Italian top-division clubs will leave UEFA-sanctioned competitions any time soon.

Conclusions

This paper intended to further analyse the topic of recent PE investments in the European football industry, covered in my thesis for the Bocconi MSc Finance program. By focusing on the Italian football industry, it is possible to draw some country-specific conclusions useful to have a better understanding of the phenomenon, also in light of recent trends in the PE industry.

Over the past few years, Italian football drew significant interest from professional investors, who either invested in clubs or unsuccessfully tried to acquire a stake in Serie A as a whole. In light of the analysis carried out, it is not surprising.

The PE industry is still sitting on record amounts of unallocated capital (“dry powder”), increasing the pressure on them to actively execute more deals. Considering that Italian football presents most of the same characteristics that were found to make European football an attractive investment opportunity, this interest can be easily explained.

First of all, Italian football represents one of the “big 5” European leagues, alongside England, Germany, Spain and France. An investor interested in the constantly growing football industry is inevitably drawn towards one of the bigger, most lucrative leagues in Europe.

Secondly, even if Italian football historically proved to be among the least profitable leagues in Europe, it was put on a path towards better financial sustainability since the introduction of UEFA Financial Fair Play in 2011. Recently introduced UEFA Financial Sustainability Regulations impose further restrictions on clubs, forcing them to operate by reducing losses. Italian football has been among the most severely affected by the pandemic, but it appears to have already returned towards better financial sustainability, which is great news for prospective investors and club owners.

Thirdly, as the pandemic’s impact on clubs led to lower valuations, this is even more true for Italian clubs. Prospective investors benefit greatly from lower transaction costs, making Italian football an attractive investment target.

Finally, most of the recent trends in European football that were identified in the Bocconi thesis as drivers of interest for PE investments are also applicable with respect

to Italian football. Multi-club ownership is only partially banned in Italy, as owners are only prevented from controlling multiple clubs within the different tiers of Italian football, yet they are allowed to own them in different countries. Women's football in Italy is on the rise and only recently obtained institutional support from FIGC. Real estate investment opportunities linked to stadium or training grounds projects offer significant returns in case the investors are able to navigate and survive the ordeals of Italian bureaucracy. New competitions such as the proposed European Super League are still unlikely to launch anytime soon, but it cannot be ruled out completely therefore it remains an important element to consider when evaluating an investment opportunity in Italian football.

From the PE perspective, Italian football presents the same limitations as European football.

The limited number of clubs up for sale at any given time is even more limited in the context of a single country, restricting the field of available alternatives. At the same time, exit opportunities tend to be limited to sales to other investors.

Italian football operates with promotion and relegation at the end of each season, The latter obviously represents a significant risk for investors, as descending into non-professional football tends to be fatal for Italian football clubs.

Even if a club manages to avoid relegation, uncertainty is the name of the game in Italian football. Sporting performance determines financial results, heavily influenced by the participation in UEFA club competitions, and Serie A proved to be a very competitive league over the last few years. One way to avoid this uncertainty would consist of investing in Serie A as a whole, but Italian club presidents have always rebuffed any approach from investment funds, in favour of traditional broadcasting deals.

Nevertheless, recent changes in monetary policy and the upcoming, expected rate cuts in 2024 are going to lower the cost of debt, allowing PE to use higher leverage and ultimately obtain higher returns. Coupled with all the elements presented above, the picture points towards an increase in dealmaking in the near future. Italian football is set to become an even more attractive opportunity for financial investors.

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