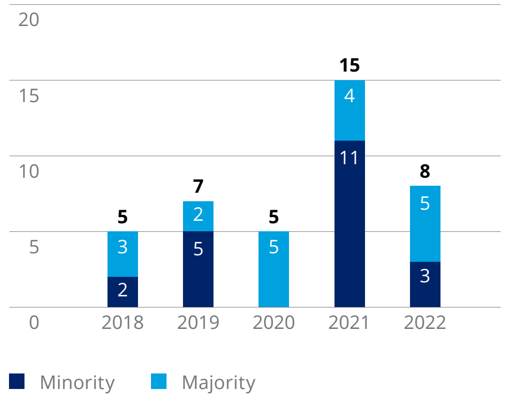
Responsible investment in sport

The 2022 Deloitte Annual Review of Football Finance highlights the resilience of football clubs following two turbulent years. This resilience and the greater need for, and reception to, private investment, alongside a renewed focus on financial sustainability, has led to significant investment into football at both league and club levels.

Investment into the ownership of football clubs is not a new phenomenon, but the volume and investor profile has evolved in recent years. In 2021 there were investments in respect of 15 clubs across the 'big five' leagues, mostly comprising minority investments (11 clubs). In 2021, the number of transactions was more than the prior two years combined. 2022 has seen a continuation of this uplift of activity, with investments in eight 'big five' clubs taking place so far, including the high-profile takeovers of Chelsea FC and AC Milan – both of which have been reported to be the first European football club takeover transactions exceeding a valuation in excess of £1 billion. The structure of club investments has also evolved, with some limited to specific income streams, such as Sixth Street Partners' minority investment into a special purpose vehicle holding only FC Barcelona's LaLiga media rights revenue.

Over the past five years the majority of club investments across the 'big five' has come from high net worth individuals (46%) and an influx of private equity interest (41%). The United States has been the source of over two-thirds of the investments.

Investments in 'big five' football clubs – 2018 to 2022 (to October 2022)



The economic rondo

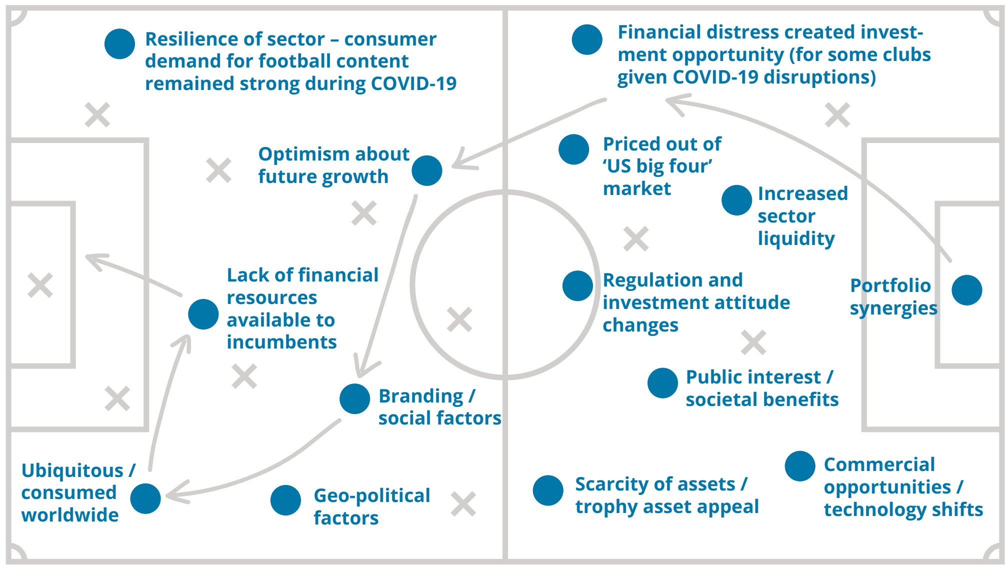
The increased level of investment is not a surprise given the resilience of the sector (shown by its ability to bounce back from COVID-19 disruption) and the strong fundamentals of European club football.

The graphic below highlights some of the key factors that have contributed to the high level of investor interest in European football.

Multi-club ownership model

Multi-club ownerships (MCO) particularly emerged in the early 2000s. Recent years have seen a surge in the adoption of this model with over 70 MCOs now in existence, more than double the amount five years ago.

MCOs are typically set up with the intention of trying to unlock synergies from operating multiple clubs across both sporting and more commercial operations. MCOs typically comprise a 'star club' which it aims to grow while promoting the financial sustainably of the group and each individual club. A key pillar also



commonly cited to underpin a MCO model is a successful player trading model, with player flow and development between a 'star club' and other clubs within the same group considered important.

As the 2022/23 season commences, nine of the 20 Premier League clubs operate within a MCO model, most notably City Football Group which holds investments in 11 clubs around the world.

League of their own

2021 saw the emergence of private equity investment into the 'big five' European leagues, with some of these competitions and their member clubs becoming more receptive to external funding in exchange for a share of future commercial rights. CVC Capital Partners moved first, reportedly purchasing a 10% stake in Spain's LaLiga (reportedly valuing the rights at €24 billion). This was followed by the purchase of a 13% stake in French Ligue 1 (valuing the rights at €11.5 billion)

The topic of league investments has also been reportedly discussed or secured in respect of Serie A (Italy), Bundesliga (Germany), FA Women's Super League (UK), Campeonato Brasileiro Série A (Brazil), Australian Professional Leagues (Australia), and Liga MX (Mexico).

League investments don't possess some of the unique risks associated with club football, such as reputational damage of poor performance on-pitch, the financial consequence of relegation and potential need for cash injections to fund player acquisitions. An investor at league level can typically have greater certainty of revenues due to the contractual nature of its commercial rights deals and this has attracted certain investors. Typical arrangements involve allocating the majority of the investment (in phases) to clubs, with spending criteria focused on infrastructure improvement, player trading and commercial initiatives to help grow the commercial value of the league and its member clubs.

Do the right thing

The influx of investment and changes of ownership in sport has received a mixed response from fans and other stakeholders. Concerns can relate to reputational issues, expectations of future sporting performance, and risks surrounding a club's financial sustainability. For example, 2021 saw:

- Derby County (England) enter administration following long-running financial issues;
- Bordeaux (France) administratively relegated to Ligue 2 following financial issues; and
- Chievo Verona (Italy) excluded from professional football in Italy due to outstanding tax payments.

As long-standing advisers in the football (and broader sports) industry, we recognise that responsible and sustainable investment into sport is of paramount importance. We believe responsible investment into football clubs is defined by an ownership strategy that protects long-term financial and operational viability, whilst also balancing the desire to be competitive on-pitch.

We believe this is achieved by investors entering the sector in a risk-focused manner, considering all the factors that may impact their future ability to be responsible custodians of a football club, including factors such as:

- What is driving your interest in sport?
- What is your level of risk appetite?
- How does it fit in your current portfolio?
- Minority versus majority stake?
- What level of participation do you expect in the management of the football club?
- Does the time horizon for exit align with the strategy of the club?
- Do you have the current expertise to make an informed decision?
- Is a club's management team critical to success of investment, and will they stay post-acquisition?
- Have financial forecasts been stress-tested?
- Have you identified the level of initial and subsequent investment required?
- What is the interest from other parties that might bid-up the acquisition price?
- Have you completed the appropriate depth and breadth of due diligence to understand the investment opportunity?
- Have you communicated with and received comfort from critical stakeholders in respect of the direction of the league and club?
- Have you stress tested and considered the appropriateness and reasonableness of the club's valuation?

Deloitte is unique in our approach to M&A work in the sports sector. We offer a bespoke end-to-end service to clients considering investment into, or divestment from, the industry. We are flexible to client needs depending on the stage at which they might be at on the lifecycle of a potential investment opportunity.

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