Private equity in football: How the arrival of funds has impacted the industry

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Abstract

This paper investigates the role of private equity in investment decisions in professional sports clubs, a phenomenon that is assuming growing importance in recent years. The entry of private equity into the main sports championships produces important changes in the management of professional sport which have not yet been fully investigated.

The results of the work conducted confirm the impact of private equity not only in terms of the size of investments, but also on the changes that will be necessary to encourage future investments by institutional investors. Secondly, qualitative analysis allows us to identify the criteria with which the ideal target companies are identified. Thirdly, it is shown how the coherence between choice criteria and investment strategies favors the construction of a more virtuous relationship that leads to longer-term investments and the improvement of the performance of professional teams and leagues. Finally, the quantitative analysis introduces an original calculation formula to determine the value of a sports club and shows its application to a sample of football clubs.

The study is of particular relevance because it offers insights into understanding the effectiveness of the private equity channel in stimulating investments in professional sport. In fact, promoting understanding of the effects of such investments is essential to encourage functional changes to maximize the benefits of the entry of private equity operators and mitigate their potential risks.

Keywords: sport, football, private equity, enterprise value, investments.

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Sommario

Il presente elaborato indaga il ruolo del private equity nelle decisioni di investimento nelle società sportive professionistiche, un fenomeno che sta assumendo crescente importanza negli ultimi anni. L'ingresso del private equity nei principali campionati sportivi produce importanti cambiamenti nella gestione dello sport professionistico finora non ancora pienamente indagati.

I risultati del lavoro condotto confermano l'impatto del private equity non solo in termini di entità degli investimenti, ma pure sulle modifiche che si renderanno necessarie per favorire i futuri investimenti degli investitori istituzionali. In secondo luogo, l'analisi qualitativa permette di individuare i criteri con i quali si individuano le ideali società target ideali. In terzo luogo, viene mostrato come la coerenza tra criteri di scelta e strategie di investimento favorisca la costruzione di una relazione più virtuosa che conduca a investimenti di più lungo periodo e al miglioramento delle prestazioni dei team e delle leghe professionistiche. Infine, l'analisi quantitativa introduce una originale formula di calcolo per determinare il valore di una società sportiva e ne mostra l'applicazione a un campione di club calcistici.

Lo studio è di particolare rilevanza perché offre spunti per comprendere l'efficacia del canale del private equity nello stimolare gli investimenti nello sport professionistico. Infatti, promuovere la comprensione degli effetti di tali investimenti è fondamentale per incoraggiare i cambiamenti funzionali a massimizzare i benefici dell'ingresso degli operatori di private equity e a mitigarne i potenziali rischi.

Parole chiave: sport, calcio, private equity, valutazione d'impresa, investimenti.

1. Introduction

This paper aims to highlight the reasons why sport entities – specifically football clubs – have become an element of interest for investment funds, trying to answer two fundamental questions: *what makes a sport entity attractive to private equity?* And *which can be the basis for a financial valuation of a football club?*

The paper highlights the opportunities and potential drawbacks of private equity entry into professional sports in light of the recent entry of institutional investors into both professional leagues and individual teams. First, opening up to institutional investors elevates competition for stakes in professional sports clubs. This improves the valuation of teams and encourages greater liquidity of investment with a consequent reduction in the dependence on the entrepreneur-patron that, until now, has characterized sports club ownership. Second, expanding the pool of potential owners stimulates innovation in an industry that is often resistant to change. Consequently, private equity involvement can help improve the governance and management of professional leagues and teams. The increased involvement of funds in sport is not, however, immune to risks. Chief among them is the public perception that the entry of private equity funds is driven solely by economic reasons to the detriment of the emotional element (passion for the game).

In order to contribute to the debate, the work conducts two original analyses, one qualitative and the other quantitative. The qualitative analysis aims to define a series of criteria that private equity firms use to evaluate the goodness of an investment in a company belonging to the sports industry; the second has the ambition of defining a valuation method and formula applicable when determining the value of a sports company with particular reference to the football sector.

Starting by defining the specific characteristics of sports clubs (Brandes *et al*., 2017; Johnson, 2021; Karen and Washington, 2001) and the objectives that a private equity fund typically pursues (Balboa and Martí, 2007; Caselli and Negri, 2021; De Maeseneire and Brinkhuis, 2012; Gammelsæter, 2017; Harris *et al*, 2014; Jensen and Ruback, 1983; Kaplan and Stromberg, 2009; Korteweg and Sorensen, 2017), the qualitative analysis aims to identify a set of criteria that private equity firms can use to a priori assess the goodness of an investment in a company belonging to the sports industry. Building on contributions in the literature (Damodaran, 2012; Guatri and Bini, 2009; Markham, 2013; Scelles *et al*., 2013; Tiscini and Dello Strologo), the quantitative analysis aims to identify a valuation formula that can best be applied to the valuation of a sports club.

The results of the analysis show how the consistency between the target company's selection criteria and the fund's investment choices contributes to finding the best balance between the advantages and disadvantages of private equity's entry into the sports industry. In this perspective, the work makes a significant contribution to academic research and practitioners in the sector by providing a new key to understanding a phenomenon that has so far been little investigated in the literature (Cumming *et al*., 2022).

The work is organized as follows. Chapter 2 presents the literature review, while Chapter 3 describes the empirical methodology followed in the work. Chapter 4 highlights the results of the qualitative and quantitative analysis and, finally, chapter 5 presents some concluding remarks.

2. Literature Review

Academic interest in the entry of institutional investors into the sports industry is recent and, therefore, the literature has so far only partially investigated the phenomenon. Although sport has experienced a noticeable increase in its economic role in recent decades and researchers have covered a wide range of topics in the field of private equity, efforts to understand, firstly, sports entrepreneurship and, secondly, the reasons why investors such as private equity funds devote attention to the sports sector are still limited (Cumming *et al*., 2022).

The role and the functioning of private equity are fully described in Kaplan and Stromberg (2009) and Caselli and Negri (2021). After explaining how private equity funds are organised and what the characteristics of a typical buyout transaction are, Kaplan and Stromberg (2009) show how fundraising and private equity activities change over time. With regard to the effects produced, the empirical evidence suggests that private equity generally creates economic value, confirming the theory that private equity funds improve the performance of portfolio companies by contributing managerial, financial and good governance skills (Jensen, 1989). Overall, the empirical analysis confirms the existence of operational and productivity improvements in operations, including highly leveraged ones, conducted by private equity. However, it mitigates, but does not entirely negate, the criticisms of those who argue that private equity activity does not create operational value, but benefits primarily from cost cutting (Davis *et al*, 2014; Amess *et al*, 2013), tax breaks (Dyrda and Pugsley, 2018), superior information (Bernstein, 2022), and the ability to move in the capital market (Kaplan and Schoar, 2005).

The private equity industry today is characterized by a growing interest in sports business. This has led to the increase of purchase transactions in the sports sector and the expansion of sports-related products and services (Miragaia *et al*., 2017). In order to better understand private equity activity in sport, Hayduk and Walker (2017) use a sample of 967 deals made between 1998 and 2016 to track trends in capital investment in sports entrepreneurship and understand the conditions that influence the value of these investments. The survey results indicate that investments in sports companies are of growing importance to both investors and sports consumers. The main driver is that sports consumption has increased in parallel with the production, distribution and consumption of content via broadcast, cable and digital infrastructures. In particular, the advent of social media and Internet communications has stimulated the development of new modes of consumption such as online magazines, videos and live web tutorials.

New technologies offer a better experience by stimulating consumers and fans to seek new ways of communication and interaction and to use new channels in different ways according to their needs and expectations (Ratten and Taajeddini, 2017). At the same time, gaming through both game consoles and eSports has attracted the interest of traditional and digital content distributors, on the one hand, and institutional investors, on the other, due to the younger demographic it targets. Collective participation in new forms of sports entertainment fuels emotional attachment to favorite teams, elevates brand loyalty and stimulates subsequent purchase commitments.

In examining the entry of private equity into professional sport, Schenewark (2021) makes the case for why US sports leagues should not only facilitate the current influx of private equity investment, but also make substantial and permanent changes to their bylaws to encourage private equity funds to take minority or majority stakes in professional sports clubs. Koba (2021) examines private equity investment in sports activities in the United States between 2010 and 2020. The results of the study show the importance of revenue growth as the main driver for attracting investment. The finding that sports businesses with growing revenues acquire more funding is consistent with the risk profile of institutional investors. A positive correlation exists between businesses with growing revenues and likelihood of attracting investors (Ramsinghani, 2014).

Regarding the valuation of professional sports clubs, the literature seems to agree on the use of the financial method based on discounted cash flow valuation (DCF) as the main criterion (Demirakos *et al.*, 2004; Guatri and Bini, 2009). However, Tiscini and Dello Strologo (2016) point out that the use of DCF for the valuation of sports clubs is limited by the fact that in almost all clubs generate negative cash flows that, regardless of the discount rate, lead to a discounted value of zero and, in any case, below market value. Should the cash flows be positive, their unpredictability and high volatility would in any case not facilitate the ex-ante accuracy of the estimates (Markham, 2013).

There are two possible solutions to this problem. The first is the use of the multiples method or the comparable transactions method, which mitigate the dependence on future cash flows in industries with high revenue volatility (Damodaran, 2012). The use of the multiple method leads to relatively reliable valuations especially when revenue is used as the main business measure (Markham, 2003), while the comparable transactions method allows for the consideration of non-financial variables such as the size and accessibility of the sports facility that can positively influence annual revenue. The comparison between the use of revenue-based multiples and transaction prices makes it possible to highlight possible inaccuracies in valuations that may occur in certain time periods. The second solution is to introduce valuation methodologies that take into account not only the traditional financial variables, but also specific factors of the sports sector (e.g. roster value, development prospects of the competitive environment) that motivate the differential between market value and balance sheet value that is not always explained by rational valuation methods financial and, therefore, the interest of private equity operators to invest in sectors, such as sports, with typically negative profit margins. In this perspective, Markham (2013) introduces a multivariate analysis that considers, in addition to the traditional economic-financial magnitudes, some key indicators of the performance of professional sports teams with particular reference to football teams (i.e. stadium, television rights, players' service fees, fan numbers and loyalty). A significant indicator is the percentage of revenues supporting the cost of players' salaries (wage ratio), which should preferably be 50 per cent or more.

Although revenues do not contribute to covering wages, which are the main cost item of a sports club, they must not fall below a certain threshold in order not to negatively influence the value of the company. In other words, the strategy of increasing revenues, rather than one oriented to minimizing costs alone, may be the most appropriate choice to drive the increase in company value in the professional sports sector (Scelles *et al.*, 2016).

3. Methodology and data

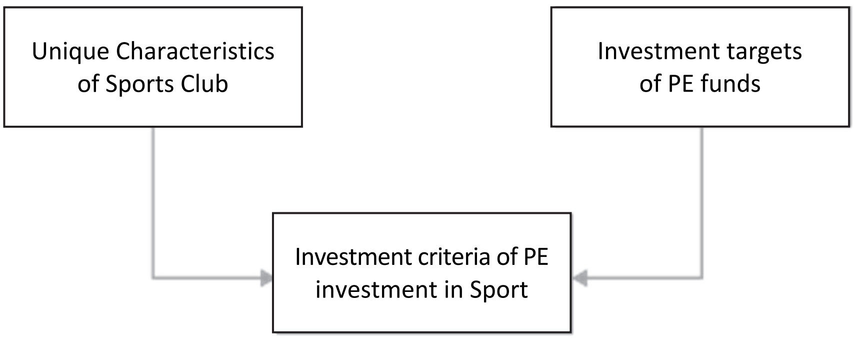
3.1. Qualitative analysis

The purpose of the qualitative analysis is to define the unique characteristics of sports clubs and the objectives that a private equity fund pursues in order to identify some basic rules that an investor should follow before making an investment in the world of sport. Figure 1 describes the framework of the qualitative analysis.

In order to carry out the analysis, a database was constructed containing the holdings of management companies in companies operating in the world of sport. The database consists of 46 companies and considers the following variables the company targeted by the fund, the league in which it competes, the country in which it belongs, the investor who carried out the operation, the year in which the operation took place, the amount (if made public) at which the operation was concluded, the overall valuation that was attributed to the target company (calculated as the ratio between the paid-up capital at the close of the operation and the percentage of shares received in exchange for it), the share acquired by the target company and, finally, the type of shareholding (minority or majority).

The criteria mentioned above were selected to identify which sport attracted the most interest from investment funds (number of completed acquisitions), what the average value of a transaction in the world of sport is, and which type of transaction was conducted the most – majority or minority acquisition. Table 1 illustrates the database. The data gathered in the database, clearly show that football is the most attractive sport for private equity institutions. Transactions involving football entities corresponded to 65% of the overall transactions analyzed.

Figure 1 – Qualitative analysis framework



Observation of the database reveals that more than half of the transactions ended after 2020. The average value of the forty-six transactions analyzed is EUR 442.9 million. The upper and lower extremes of the reference sample were excluded from the calculation as they represent two significant outliers. The two transactions excluded are the purchase of 60 per cent of Cesena Calcio in 2021 for EUR 1.8 million by the US-based JRL Investments, and the purchase of all the shares of the entertainment company UFC, specializing in martial arts fights, carried out in 2016 by a fund string composed of KKR, SilverLake and MSD Capital for a total value of EUR 4.3 billion. The average value of the overall valuations of the companies in the sample is EUR 2.5 billion.

With regard to the type of transactions, there is a substantial balance between transactions involving the acquisition of majority and minority stakes in target companies.

In order to confirm the indications contained in the database, a number of interviews were conducted with private equity funds managers with interests in the sports industry and sports companies professionals now owned by private equity funds. The interviews in question were of two types. The first type of interview focused on the funds' understanding of the clubs' attractiveness and the components that most presented a source of uncertainty in the preliminary evaluation and negotiation phases. The second type of interview focused on elements such as the funds' objectives in investing in sports, the expected timing of such investments, the determinants through which the value creation of the targets is assessed, and how the acquisition value was estimated.

Table 1 – Private Equity investments in sports (up to 2022)

Sport	Nation	League/Competition	Club	Owner/Fund	Deal date	Investment (€)	EV (€)	Quota club
Football	Italy	Serie A	Atalanta B.C.	Stephen Pagiuca e co.	2022	200.000.000	422.832.981	47,3%
Football	Italy	Serie A	Genoa Calcio	777 Partners	2021	100.000.000	101.010.101	99,0%
Football	Italy	Serie A	A.C. Milan	Elliott Management Corp	2018	300.000.000	300.210.147	99,9%
Football	Italy	Serie A	A.C. Milan	RedBird Capital	2022	1.200.000.000	1.200.840.588	99,9%
Football	Italy	Serie A	Venezia FC	VFC Newco 2020 LLC	2020			100,0%
Football	Italy	Serie A	F.C. Internazionale	LionRock	2019	170.000.000	546.623.794	31,1%
Football	Italy	Serie A	Juventus	Lindsell Train				11,3%
Football	Italy	Serie C	Cesena Calcio	JRL Investments	2021	1.800.000	3.000.000	60,0%
Football	Italy	Serie C	Campobasso Calcio	Halley Holding	2019			69,2%
Football	UK	Premier League	Chelsea	Todd Bohely e co.	2022	3.000.000.000	3.000.000.000	100,0%
Football	UK	Premier League	Manchester City (City Football Group)	ADUG	2008	380.000.000	493.506.494	77,0%
Football	UK		City Football Group	China Media Capital	2015	400.000.000	3.076.923.077	13,0%
Football	UK		City Football Group	SilverLake	2019	500.000.000	10.000.000.000	5,0%
Football	UK	Premier League	Manchester United	Lindsell Train				30,0%
Football	UK	Premier League	Burnley	ALK Capital	2020	170.000.000	195.402.299	87,0%
Football	UK	Premier League	Newcastle United	PIF	2021	400.000.000	400.000.000	100,0%
Football	UK	League One	Ipswich Town	Gamechanger 20 (ORG)	2021	40.000.000	40.000.000	100,0%
Football	UK	Women's Super League	Women's Super League	Bridgepoint	2022			
Football	UK	Scottish Premiership	Celtic	Lindsell Train				18,6%
Football	France	Ligue 1	Paris Saint Germain	Qatar Sports Investments	2011	80.000.000	80.000.000	100,0%
Football	France	Ligue 2	Tolosa	RedBird Capital	2020			85,0%
Football	France	Ligue 2	Caen	Oaktree	2020			80,0%
Football	Spain	LaLiga	LaLiga	Cvc	2021	2.240.000.000	22.400.000.000	*10,0%*
Football	Spain	LaLiga	Atletico Madrid	Ares Management Corporation		217.000.000	586.486.486	*37,0%*
Football	Spain	LaLiga	Siviglia	777 Partners	2018			
Football	Portugal	Liga Portuguesa	Vasco de Gama	777 Partners	2022	121.000.000	121.000.000	100,0%
Football	Belgium	Pro League	Standard Liegi	777 Partners	2022			
Football	Australia	A-League	A-League	SilverLake	2021	120.000.000	400.000.000	30,0%
Football			Ata Football	777 Partners	2020			
Football	USA	MLS	Inter Miami C.F.	Ares Management Corporation	2021	150.000.000		
Martial Arts	USA	UFC	UFC	KKR, SilverLake, MSD Capital	2016	4.300.000.000	4.300.000.000	100,0%
Motor Racing		MotoGP, Superbike	Dorna	Bridgepoint	2006	640.000.000	640.000.000	100,0%
Sport Facility	USA		Yes Network	Blackstone	2019	560.000.000	4.307.692.308	13,0%
Sport Facility	USA		Yes Network	RedBird Capital	2019	560.000.000	4.307.692.308	13,0%
Sport Facility	USA		Madison Square Garden	SilverLake	2018			10,0%
Rugby		6 Nations	6 Nazioni	Cvc	2021	380.000.000	2.620.689.655	14,5%
Rugby	UK	Premiership Rugby	Premiership Rugby	Cvc	2018	250.000.000	925.925.926	27,0%
Rugby	UK	Guinness Pro 14	Pro 14	Cvc	2020	150.000.000	535.714.286	28,0%
Rugby	New Zeland		All Blacks	SilverLake	2022	130.000.000	1.511.627.907	8,6%
Basketball	USA	NBA	Atlanta Hawks	Dyal Capital Partners	2022	120.000.000	2.000.000.000	6,0%
Basketball	USA	NBA	Sacramento Kings	Dyal Capital Partners	2021	75.000.000	1.500.000.000	5,0%
Basketball	USA	NBA	Pheonix Suns	Dyal Capital Partners	2021	75.000.000	1.500.000.000	5,0%
Basketball	USA	NBA	Golden State Warriors	Arctos	2021	610.000.000	4.692.307.692	13,0%
Basketball	UK	British Basketball League	British Basketball League	777 Partners	2021			
Volleyball			Volleyball World - FIVB	Cvc	2021	300.000.000		
Various Sports			Fenway Sports Group	RedBird Capital	2021	735.000.000	6.681.818.182	11,0%

The information gathered in the interviews and the observation of the transactions contained in the database make it possible to identify the strategies accompanying the entry of private equity funds into the world of sports, to determine the elements of attractiveness of the sector and the factors behind the success of the transactions, and, finally, to determine some possible criteria for analysis of a qualitative nature. The illustration of the results of the qualitative analysis will be further explored in the next paragraph.

It is necessary to note that the database taken into consideration has limitations. Firstly, in terms of its breadth, as the number of transactions taken into account is not fully sufficient to draw complete and exhaustive conclusions. Secondly, the limited availability of reliable data on the value at which the transactions analyzed were conducted leaves room for inaccuracies regarding the values themselves. However, for the purposes of the research conducted, the database considered is sufficient to draw the most exhaustive information possible.

3.2. *Quantitative analysis*

The valuation of a company requires the use of criteria and methods capable of expressing, as far as possible, rationality, demonstrability, objectivity and stability. Professional doctrine and practice have developed various criteria and methods, focusing on the different aspects of the company being valued. Table 2 summarizes the main valuation criteria and methods.

Table 2 – Private equity valuation criteria and methods

Criteria		**Method**
Costs Criterion	→	
Flows Criterion	→	Methods based on Income
		Financial Methods
		- *Dividend Discount Model*
		- *FCFE Valuation*
		- *FCFF Valuation*
Mixed Criterion	→	Mixed Methods
Market Criterion	→	Multiples Methods
		Transactions Methods

The choice of the most appropriate criteria for arriving at an estimate of a firm's value must be based on the firm's specific characteristics and, generally, on the purpose of the valuation exercise.

Flow criteria identify the value of a company's capital according to the future benefits it generates; they are usually applied using financial and income methods[1].

[1] Financial methods are based on the consideration that the cash flows that a company will be able to generate in the future are the best representation of its actual value. The economic value of the company is, therefore, equal to the sum of the present value of the cash flows the company will be able to generate in the future, discounted at the rate of return on risk capital, or the weighted average cost of capital, depending on the cash flow configuration used. Profitability methods estimate the value of the company according to the profitability that the company is able to generate prospectively. This approach therefore identifies the contraposition of revenues and costs for the year as the fundamental driver of company value. Economic value is equal to the sum of the flow of expected normal income (over a limited, i.e. unlimited

Taking up the considerations expressed in the literature review regarding the use of valuation methods in professional sports (Markham, 2013), the quantitative analysis is based on the method of multiples supplemented by some correctives.

The multiples method uses two market indices as guide variables: the ratio of Enterprise Value to revenue (EV/Sales) and the ratio of price to revenue (Price/Sales). The non-use of indices such as the ratio of Enterprise Value to revenue magnitudes (EV/EBITDA or EV/EBIT) is due to the high volatility of the latter. Enterprise value is thus determined by multiplying market multiples referring to listed companies operating in the same reference sectors with the selected enterprise quantities.

In the case study, the market multipliers (Price/Sales, Enterprise Value/Sales) are taken from the Damodaran Online website and refer to the entertainment sector in Europe. The multiples of the industry under consideration are multiplied with the revenues of professional societies. in the sample determining the implied market value of each of the companies. The amount of corporate debt is then deducted from the market value thus obtained.

Two other addends are considered to determine the final value (Tiscini and Dello Strologo, 2016). The first addend is represented by the monetary variation given by the differential existing at the time of valuation between the market value of the athlete's roster (whose source is the Transfermarket platform)[2] and the book value of the same. The second addend is given by a coefficient that measures the target's development prospects: it is derived from the estimated growth of the professional league in which the company being evaluated belongs. The calculation formula is as follows:

$$W = [(\text{Revenues} \times \text{Multiple}) - \text{Debt} + \Delta\text{Team Value}] \times \alpha \quad [1]$$

where Revenues refer to the ones reported in the latest available company financial statements, Multiple is the multiple of segment revenues, Debt represents the book value of the company's net financial debt, Δ Team Value is

period of time), discounted at the rate of return on risk capital. Market criteria conceive the capital value of the company as a function of prices, expressed on regulated markets or in private negotiations, for shares in the capital of the company itself or similar companies. This approach therefore disregards actual, historical and prospective asset and earnings values. The multiples method and the comparable transactions method are part of this approach. The multiples method estimates the value of a company's economic capital on the basis of prices traded on organized markets for shares of comparable companies. The comparable transactions method is based on assigning a value to a company based on transactions that have taken place involving shares in the share capital of comparable companies.

[2] Transfermarkt is a German-based website that has footballing information such as scores, results, statistics, transfer news, and players' valuation.

the difference between the market value of the team and its book value, and α represents the index of the prospects for the development of the competitive environment, calculated as (1 + ß), where ß corresponds to a percentage value defined on the basis of the growth in the value of TV rights broadcasting contracts signed in the past by the home league with broadcasters in the media industry. By applying the formula [1] to the clubs belonging to the sample, it was possible to derive the value (W) of each of them.

The sample of sports companies consists of soccer teams playing in the main Italian professional soccer league (Serie A). For the selection of these clubs, consideration was given to the existence of investment fund holdings in their properties, the presence of recent corporate handover transactions, news about the intention of divestment by the current owners, and, finally, the stock market listing. In compliance with the illustrated criteria, the selected clubs are as follows: A.C. Milan, A.S. Roma and B.C. Atalanta as they are the subject of recent ownership changes involving private equity funds; F.C. Internazionale Milano, which is rumored to be soon to be sold; and F.C. Juventus, as it is listed on the Italian stock exchange.

The choice of the following sample is given by the need to be able to carry out a comparison on companies operating in the same reference market, in order to verify the impact of the various elements used to develop the formula on players belonging to the same competitive scenario. However, in order to verify the applicability of the formula in different markets, an expansion of the sample considered could be carried out in future studies.

4. Results

This section discusses the results obtained from the qualitative analysis linking two dimensions: the characteristics of sports clubs that make them most attractive to an investment fund and the objectives of a fund when deciding to invest capital in sports. The combination of the two dimensions – characteristics of sports clubs and desiderata of investment funds – identifies the criteria that guide an institutional investor's entry into professional sports.

4.1. The characteristics of sport companies

There are five main characteristics of sports companies that can attract the interest of private equity funds: visibility and breadth of the fanbase; stability and growth of cash inflows; media potential; extra-sports development; and barriers to entry.

Visibility and breadth of the fanbase. The sports industry is subject to very high public relevance, both media and social. In terms of media relevance, the sports industry represents the only case in which an industry has dedicated news outlets and radio and television broadcasts. In addition to the presence of numerous specialized media players, sports enjoy a high following on social networks, where pages and blogs proliferate and where live sporting events often become trend-setters that catalyze internet communication flows for the period of their duration. Social relevance is evidenced by the high attendance that sporting events have worldwide and the emotional involvement they generate in supporters (Karen and Washington, 2001). The link between fans and sports clubs is rooted in many geographical areas, particularly in Europe and South America, where there are numerous organized supporter groups supporting clubs. Sports, moreover, is a source of interest for the community of fans willing to invest their savings to follow their favorites through the purchase of tickets to attend live sporting events and/or subscriptions to audiovisual platforms that broadcast live events.

Stability and growth of cash inflows. As anticipated in a previous chapter, the presence of cash flows guaranteed by sports event broadcasting agreements with audiovisual broadcasters is unique to the sports industry and difficult to replicate in other sectors. This has high value for any investor because it allows the possibility of developing a business plan by leveraging a predetermined share of revenues. The growth in the value of television rights seen in recent years is a trend that is gaining momentum. The most striking cases are the English Premier League soccer league and the American professional basketball league NBA, which have seen the value of their television events more than double in just fifteen years (Johnson, 2021).

Media potential. Given their great social relevance and constant presence in the news media, sports clubs enjoy a high media potential that to date has not yet been fully exploited. The growth in social media following that sports club accounts have been experiencing in recent years and the creation of ad hoc TV series, especially by streaming services, testify to the media potential of professional clubs.

Extra-sports development. The sports industry presents development opportunities not only related to the core business, but also to other economic sectors/sectors such as real estate. The construction of new stadiums with multipurpose functions is the classic example. This includes the recent construction in London of the new Totthenham Hotspurs stadium, the renovation of Real Madrid's historic stadium, and the project to build a new stadium in

Milan, which would include the redevelopment of the area and the creation of public and reception spaces with a value of the project exceeding 1 billion euros.

Barriers to entry. A further characteristic of the sports industry is the high barriers to entry it enjoys. There are a few elements that make it difficult for a new player to enter the competitive system. First, the limited-seat competitive system forces a new entrant to climb ranks and leagues starting from the lowest level of the sports system, namely the amateur leagues. The implementation of such a path takes several years not compatible with a short-term long-term investment. Second, the high cost of the operation necessary not only for the acquisition of a club, but also to bear the expenses of management and strengthening the roster. Third, the difficulties in accessing the fanbase with the implications on media and social relevance. Many clubs have many years of history that has allowed them to polarize fan sentiment and consolidate their image. Recently, there is only one case of a new entrant that has managed to quickly gain a space on the international scene. RasenBallsport Leipzig, owned by the RedBull Group and born from the ashes of SSV Markrandstad, a small club playing in Germany's fifth league, has managed to rise from the German lower leagues to a stable presence in Germany's top league and Champions League in little more than a decade thanks to substantial payouts from the ownership.

4.2. The goals of investment funds

Observation of recent changes in ownership of sports companies facilitates the identification of the objectives that an investment fund intends to achieve when making a transaction in a company active in the sports sector. These objectives turn out to be a synthesis between the common objectives that move transactions carried out by an investment fund and the specific objectives related to interventions in the sports sector. Four stand out among them: the monetization of investment over a given time horizon, the implementation of an effective exit strategy, the control of risk, and the strengthening of the fund's reputational capital.

Monetization of the investment. A key element in the success of a private equity fund is the ability to maximize investment returns through its monetization over a predefined horizon (Harris *et al.*, 2014). The capital gains generated by the buyout transaction must fall within the target parameters that a fund sets for itself. Among the most widely used performance measures is the Internal Rate of Return (IRR) generated at the end of the investment: this is calculated as the sale price of the asset, compared to the purchase price of the asset, raised by a ratio of one over the number of years the asset has been in the fund's portfolio, from which the absolute value of 1 is subsequently subtracted.

As of today's date, it is not possible to estimate the average IRRs expected in private equity transactions in sports because there is not yet a significant number of investment exit transactions. However, the recent transfer of ownership of the soccer club A.C. Milan, which is the first transaction involving the transfer of controlling shares of a sports club between two investment funds, is a proxy for determining the possible internal rate of return of private equity-led buyout transactions in sports. In this specific case, the Elliott fund took over the club in the year 2018 through the redemption of the share pledge granted by the previous owner, Chinese businessman Li Yonghong, against a loan provided in his favor by the same American fund. Through the Milanese company's data analysis, the value at which Elliott Management took over the club is close to 300 million euros. Calculating the IRR through the formula presented earlier as the differential between the purchase value (300 million euros) and the transfer value (1.2 billion euros) and considering the investment term of four years, the rate of return exceeds the threshold of 40 percent. Adding into the IRR calculation the capital paid into the club by Elliott for financial rehabilitation and support for day-to-day management (about €530 million) and subtracting the amount of €130 million related to the repayment of a previous bond issued to A.C. Milan by Elliott, results in a net investment value of €400 million to which corresponds an adjusted IRR of 14.4 percent. The result of the operation conducted by Elliot Management shows that it is possible to realize a return-and thus generate value-from investing in a sports club despite the fact that the sports club does not generate positive economic performance throughout the entire investment period.

Implementation of an effective exit strategy. As reported in the literature (Korteweg and Sorensen, 2017), the duration of a private equity fund is typically no more than ten years. If the investment in the sports industry-and in particular in companies that participate in sports competitions-is made using a fund with a limited duration as a vehicle, it is necessary that the duration of this investment does not exceed the duration of the fund; this translates into the need to realize a positive return on investment within a maximum period of ten years. Given the peculiar dynamics of the sports industry, in which clubs, especially in the European football scene, often operate with balance sheets in the red, it is not always easy to assume the realization of successful exit strategies within the predetermined periods. For this reason, it is vital for a private equity fund to identify the correct target company in which to invest.

The limited duration of investments leads to two consequences that produce a strong impact on the sports industry. On the one hand, the importance of defining the optimal capital structure of acquired companies emerges (De Maeseneire and Brinkhuis, 2012); on the other hand, opportunities to find contestable companies in the market at cyclical periods grow (Jensen and Ruback, 1983). To mitigate the critical issues related to possible mis-matching of the investment time period, private equity funds with a focus on sports are increasingly setting up evergreen vehicles, i.e., not subject to limited duration.

Control of risk. Because of the need to present positive returns over defined periods of time to fund subscribers, private equity firms need to adequately control the inherent risk of their investments. In the context of operations in the sports industry, the activity of risk control can be particularly complicated because there is a high correlation between the sports performance of clubs, which by their nature is volatile and not perfectly predictable, and the returns expected by investors. Therefore, it is relevant for PE managers to understand the dynamics of the sports industry and the competitive environment in which PE companies operate.

Strengthening the reputation capital of the fund. A unique element of the world of sports is its visibility, which affects not only the places and actors involved, but spreads to other spheres of activity such as culture, society, politics, and business in general (Gammelsæter, 2017). Such visibility can be exploited by a private equity fund as a tool to increase its reputation capital and brand awareness (Balboa and Martí, 2007). In the case of investments in top clubs, private equity managers can benefit from the reflection of a club's eventual victory to convey a message of success about their activities. This is in addition to other factors such as the track-record of completed deals, which, however, take longer to build and often have less impact on the investing public. In addition, any sporting successes of the club invested in sends a positive message to fund subscribers about the managers' expertise in sports, which, as previously highlighted, is a central pivot for successful investment strategies.

In addition to the four objectives presented, there is an additional objective of interest to funds specializing in the sports industry. This is represented by the possibility of diversifying investments in an under-explored sector characterized by different dynamics and cycles than those of the manufacturing or service economies, where private equity attention is typically focused.

4.3. The identification of the selection criteria

As described in the theoretical framework, the qualitative analysis aims to identify some guiding criteria that can support private equity operators' investment choices in sports companies. The criteria are the result of the combination of the specific characteristics of sports companies and the investment objectives of private equity, described in the previous two paragraphs. The guiding criteria identified are five:

- the balance in the financial structure of the target company;
- the real prospects for development;
- the potential for sports success;
- the favorable competitive environment;
- the economic and social fabric of the target company's home territory.

Balance in the financial structure of the target company. The search for the optimal structure of the target company is a key guiding criterion. Within the sports enterprise landscape, an excessive presence of financial debt elevates the risk of the investment as variability in operating results puts regular debt service at risk. Cash inflows generated from television rights should be made entirely available for debt repayment by limiting their use to enhance the sporting and commercial development prospects of the club invested in. Likewise, the absorption of cash flows may produce tensions in operational management (e.g., delayed payment of salaries) resulting in exposure to sanctions by regulators and the risk of reduced competitiveness of the roster. A vicious cycle danger would be generated that could only be mitigated by the injection of new cash by the fund in the form of equity or quasi-equity.

In order to determine the financial soundness of a sports enterprise, two main indices are used: the primary liquidity index, given by the ratio of available cash to the amount of short-term debt, and the secondary liquidity index, given by the ratio of available cash plus immediately liquid assets-in this case represented by athletes' tags-and the amount of short-term debt. These indices, considering only available cash as the predominant item in the numerator, appear to be more stringent than the current liquidity index, given by the ratio of current assets to current liabilities, used by major European federations, including the Italian Football League.

The real prospects for development. Development prospects are defined as the potential for commercial expansion and sports growth of the target company. The prospect of commercial development is assessed both in relation to the size of the fanbase and the potential for growth in the value of television rights, which is decisively affected by the dynamics of development of the competitions in which the club participates.

With regard to direct commercial revenues, that is, those entirely dependent on the club's operational management, attention should be paid to the brand's popularity around the world, the engagement of local and international fans, and their propensity to spend on merchandising so as to determine the possible future trajectory of revenues from retail activities. In addition, the existing agreements of the club's current sponsors and the possible impact of sports performance on renegotiating contracts and seeking new sponsorships should be analyzed. Regarding commercial development related to television rights, it is necessary to observe the performance of previous negotiations with broadcasters and understand the attractiveness of the league to domestic and international audiences.

Finally, in terms of sporting growth prospects, it is crucial to carry out an accurate assessment of the club's roster of athletes and facilities dedicated to the youth sector because nurseries (cantinas) contribute to the internal creation of talent, which can represent future capital in both sporting and economic terms.

The potential for sports success. When evaluating an investment in sports clubs, it is important to consider the presence of real potential for sporting success since it is an enabler of revenue growth given that it fuels direct revenue from sporting performance, commercial revenue from merchandising, and a sponsorship-related revenue. As evidenced by renegotiations with sponsors conducted recently by clubs such as Real Madrid and A.C. Milan, the value of sponsorship increases significantly in the presence of sporting victories in major competitions. In addition, the existence of sports potential strengthens the fund's reputation capital by conferring an image of success, which can be leveraged in subsequent fundraising.

The favorable competitive environment. By competitive environment in the world of sports we mean the sphere represented by the other companies against which the target company competes. Specifically, the competitive environment refers to both domestic territory and international competitors: in the former case it is more easily defined since participation in domestic competitions for a club is certain; in the latter case the element of uncertainty grows since participation in international competitions is determined by sporting merit. This distinction clearly does not hold true for franchises present in American leagues where the only existing competitors are other league members.

The importance of the competitive environment, especially in the

European context, is crucial to the success of a deal since the sale of league television rights, which is the main revenue item for sports clubs, is determined through negotiations between the broadcasters involved and the governing bodies of the individual leagues, which act as delegates of the clubs.

It is crucial for a potential outside investor to understand what the relational dynamics are within the competitive environments in which the target operates and whether there are shared league development programs among member clubs. The absence of cohesion or dialogue among clubs can undermine the development prospects of individual leagues by negatively affecting the revenues of individual participants and consequently limiting their development prospects.

The economic and social fabric of the target company's home territory. When selecting a company to invest in, the composition and quality of the economic and social fabric of the target company's home territory cannot be overlooked. The local economic fabric is relevant because smaller clubs receive most of their sponsorship from companies operating in the same territory of origin as the club. Consequently, a thriving economic fabric favors the inflow of resources from sponsorship agreements. The presence of social tensions, particularly between the club and organized supporters, assume some relevance when analyzing the investment. A fickle fan base that is particularly tied to sporting results can produce negative repercussions on the achievement of sporting success as well as phenomena of protest by fans against the team and/or ownership generate an image return that is not positive.

Finally, it is crucial to seize the opportunity to build solid relationships with local administrative bodies: through the discussion and approval of government bodies, it is possible to implement extra-sports projects, such as the construction of new facilities in which to host events. For example, the "Stadium Project" that A.S. Roma has been proposing for years struggles to find implementation due to the difficult relationships with the successive public administrations that have led the capital city over time.

When applied organically, the described guiding criteria are not a guarantee of a successful buyout transaction in sports, but they do help elevate its feasibility. Their intensity of adoption clearly depends on the investment strategy that the private equity operator wants to pursue. If the fund operates according to a strategy of creating a network of non-first-tier clubs, then parameters related to the prospects for sports development, the favorable competitive environment, and the quality of the local socio-economic fabric will be of primary importance. On the other hand, if the fund intended to make an investment in a top club, the criteria represented by the financial situation of the target company (because of the amount of capital required for the completion and ultimate success of the transaction), the sporting and commercial development prospects, and, finally, the potential for sporting success would assume greater weight.

In conclusion, the qualitative analysis points out that in the sports industry, especially in the European matrix, it is not possible to separate the value of a club's commercial results from that related to sports operations since the two elements are closely related and tend to influence each other.

4.4. The results of the quantitative analysis

This section presents the results from applying a specific calculation formula for determining the value of a sports club to a sample of soccer clubs. The selection of the sample was made by examining only clubs operating in the Italian soccer league that have recently completed a transfer of ownership between private equity funds (A.S. Roma, B.C. Atalanta, A.C. Milan), that are listed (F.C. Juventus) or that, responding positively to the criteria defined in the qualitative analysis, are a potential source of interest for private equity operators (F.C. Internazionale). Table shows the results of the analysis carried out.

Table 3 – the value of the multiples of specific revenues for each of the companies analyzed given by the ratio of club revenues to the total valuation calculated in the formula [1]

	Revenues (€)	Multiples	Enterprise value (€)	Debt (€)	Equity value (€)	Delta Team value (€)	Alfa	Total (€)
A.C. Milan	261.000	2,6	665.550	41.300	**624.250**	390.000	1,10	**1.115.675**
	261.000	2,9	764.730	41.300	**723.430**	390.000	1,10	**1.224.773**
F.C. Internazionale	364.700	2,6	929.985	471.300	**458.685**	284.000	1,10	**816.954**
	364.700	2,9	1.068.571	471.300	**597.271**	284.000	1,10	**969.398**
F.C. Juventus	480.700	2,6	1.225.785	343.000	**882.785**	70.000	1,10	**1.048.064**
	480.700	2,9	1.408.451	343.000	**1.065.451**	70.000	1,10	**1.248.996**
B.C. Atalanta	242.700	2,6	618.885	21.800	**597.085**	204.600	1,10	**881.854**
	242.700	2,9	711.111	21.800	**689.311**	204.600	1,10	**983.302**
A.S. Roma	190.400	2,6	485.520	311.800	**173.720**	205.150	1,10	**416.757**
	190.400	2,9	557.872	311.800	**246.072**	205.150	1,10	**496.344**

	A.C. Milan		F.C. Internazionale		F.C. Juventus		B.C. Atalanta		A.S. Roma	
	Value min. (€)	*Value Max. (€)*	*Value min. (€)*	*Value Max. (€)*	*Value min. (€)*	*Value Max. (€)*	*Value min. (€)*	*Value Max. (€)*	*Value min. (€)*	*Value Max. (€)*
Equity Value	**1.115.675**	**1.224.773**	**816.954**	**969.398**	**1.048.064**	**1.248.996**	**881.854**	**983.302**	**416.757**	**496.344**
Price/Sales	4,27	4,69	2,24	2,66	2,18	2,60	3,63	4,05	2,19	2,61
EV/Sales	4,27	4,69	2,24	2,66	2,18	2,60	3,63	4,05	2,19	2,61

As shown by the applied results of the formula, a mere application of the revenue multiple does not reflect the intrinsic value of a football club, since it doesn't entirely take into account the impacts of the financial performance (debt structure), the on-pitch results (value of the team) and the interest generated by the league, the media value of which highly impacts the long-term results of each club.

Furthermore, it is important to note that the 2 elements that have received investments from private equity funds part of the analyzed sample (AC Milan and Atalanta BC), share a common characteristic, a low debt exposure, confirming how a balanced financial structure is a central criterion in the evaluation of a sports club by an investment fund.

5. Conclusions

This study aims to investigate the reasons that drive the interest of the world of private equity in the sports industry, a phenomenon that is recently experiencing considerable growth.

Analyzing the current participation of private equity funds in professional sports clubs, the work highlights the existence of two types of funds: multi-sector funds that want to diversify their portfolio by investing in the sports world; funds created for the specific purpose of making acquisitions of sports clubs. The former show greater interest in future revenues generated by the sports industry and, therefore, are oriented to the acquisition of participation of professional leagues; the latter act with the aim of taking control of individual clubs by adopting specific investment strategies (purchase of tier one clubs, purchase of one or more tier two clubs, hub-and-spoke acquisition strategy).

The purchase of a club of first level previews high costs of purchase and operating maintenance; the benefits are the high propensity of a top club to achieve sporting successes that contribute to the maximization of the value of the investment and the increase of the fund's reputation capital. The purchase of one or more smaller clubs is associated with a lower acquisition cost and lower management costs; the objective is to realize positive performances of the investment through synergies of cost and revenue that can be realized above all in the optical of the construction of network of club of second level. The adoption of a hub-and-spoke acquisition strategy involves, first, the purchase of a top club and, then, a series of minor clubs in order to create a network of sports clubs in which minor clubs orbit around the main club.

Having identified the most common strategies for entry into the sports industry, the focus of the work has shifted to defining, through an original qualitative analysis, what are the criteria that it is appropriate for a private equity fund to follow to implement a buy-out sports out in line with the expectations of its investors. Through the combination of the unique characteristics that companies in the sports industry possess and the investment objectives of a private equity fund, the five guiding criteria that emerge from work are: the balance in the financial structure of the target company, real development prospects, the potential for sports success, the favorable competitive environment and, finally, the economic and social fabric of the target company's home territory.

The study shows that the benefits of private equity in sport outweigh the potential disadvantages as the cohesion between the selection criteria of the target company increases, the investment objectives of the fund and the specific characteristics of the target sports club. The survey is innovative because it is, as far as is known, the first attempt to understand whether the investment policy of private equity funds, which finds the highest expression in buy-out transactions, be consistent with their nature and the values on which the sporting world is founded.

The empirical application conducted in the quantitative analysis and the comparison with recent comparable transactions shows that the price at which the transactions took place is within the range of values expressed by the new evaluation formula thus confirming its goodness.

From a theoretical point of view, the main contribution of the study is not limited to investigating the traditional factors underlying the investment choices of funds, but to offer both theoretical and managerial insights on the entry of institutional investors in sport by expanding the coverage of existing literature (Cumming *et al.*, 2022). From the point of view of managerial implications, the conscious research in the sport world of the target companies defines the competitive positioning of the private equity fund and the ways in which to undertake investment strategies in compliance with the principles of sport.

The limitations of study create opportunities for future research. While considering the exploratory content of the research, the first limitation is that the results may be influenced by the narrowness of the sample. Therefore, future works should broaden the survey base to better understand how private equity funds with different investment profiles pursue their performance objectives in buy-out transactions affecting the sports sector. A second limitation concerns the quantitative methodology adopted which could be affected by the content of the reference space of time. The extension of the time series would act as a mitigating factor, especially if it included economic phases characterized by different economic conditions (expansion/recession) and monetary (interest rate level).

Possible developments starting from this study can take two main paths. A first relating to an expansion of the database created by analyzing a larger sample of transactions, in order to analyze the reference markets for investments in the world of sport and deduce further selection criteria. A second path instead concerns a deeper quantitative analysis, so as to increase the accuracy of the developed formula, integrating the literature currently existing regarding the financial evaluation of sports clubs.

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