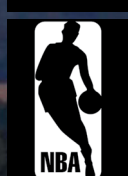
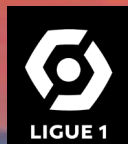


Elite Sports Clubs Financing

Acquisition and Disposal of Clubs

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INSIGHTS

Sports and Entertainment M&A Transactions

Contents

Stirling Infrastructure

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Stirling Infrastructure is a leading M&A and capital raising firm in advising on the acquisition and disposal of major international sports and entertainment assets. Our clients include sovereign wealth funds, institutional investors, listed companies and private market investors. The firm provides independent and objective analysis on company valuations, arranges structured financing and provides strategic advice on the sale and acquisition of high-value elite sports and entertainment assets globally.

For more information, visit stirlinginfrastructure.com

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FOREWORD

Stirling Infrastructure is an M&A advisor for the sale and purchase of major sports and entertainment assets globally. This paper provides a preliminary overview into the valuations for the purchase or sale, acquisition and refinancing of elite sports clubs. Elite sports clubs are defined by Stirling Infrastructure as assets with a value not less than \$300 million USD and with no upper limit.

This paper refers to elite sports clubs as sports clubs featuring in Europe's top football leagues such as the English Premier League (EPL), French Ligue 1, La Liga, Italian Serie A, and the German Bundesliga as well as top tier NFL and NBA franchises in the US. This paper refers only to assets which are available for private ownership and not owned by its members nor assets whose shares are listed on a public exchange.

Through presenting our experience and market knowledge, this paper discusses the key metrics in our methodology for valuing elite sports clubs and assesses the impact that clients can have through investing in them. Furthermore, it highlights the risks associated with ownership of football clubs and the impact that this can have on valuations.

EXECUTIVE SUMMARY

This paper is a practical guide to both proprietors and the prospective investors of elite sports clubs and details the factors considered and the processes executed when considering transactions for elite sports clubs.

There are numerous valuation methods which can be employed with some proving more reliable than others. In assessing the advantages and limitations of using each approach, this paper asserts that both relative and absolute valuation methods provide interested parties insights into the objective valuation of elite sports clubs. However, many view each asset as unique, therefore giving them values which can be subjective, lacking credibility and objectivity.

Moreover, elite sports clubs have an 'emotional value' for some sellers and purchasers. In advising on both the purchase and sale of such clubs, we find that sellers may set an unrealistic valuation of a club and in some circumstances, purchasers are willing to accept to pay above an objective valuation of the club premium due to the value they believe can be achieved through their ability to improve a club's performance. This can result in club valuations having a wide range of values dependent on who the acquirer is, how attractive the club and its commercial rights are, the risks the purchaser foresees and the capital at risk to achieve a return.

Although there are several principal factors in appointing a professional advisory firm for the acquisition or disposal of elite clubs, our ability is in working with our clients to set realistic and achievable boundaries and to act in their interests with integrity and effective negotiation skills.

The valuations of elite sports clubs are broadly determined by the revenues achieved from the sale of television rights, merchandising, sponsorship, the monetisation of the club's stadium and property leisure receipts.

Applicable to elite sports clubs throughout the European and North American continents, this paper finds that in securing recurring participation in the top leagues, clubs are able to increase their overall value. As such, while investing in clubs lower down in a league may incur greater risk to investors, clubs face commensurate premium financial gains as they could move up through the league and into prestigious competitions such as the UEFA Champions League, the NBA playoffs, or the NFL Super Bowl playoffs.

Overall, this paper concludes that shareholders in elite sports clubs have been seen a growth in their investments through an increase in revenue streams over the past decade. As a result, those clubs that have climbed to the top and maintained consistency in their on-pitch performance have enjoyed a significant uplift in their value and in their investments. Our aim is to support major investors and club owners who wish either to sell their interest or acquire, in part or in full, to make well informed decisions.

WHY STIRLING INFRASTRUCTURE

At Stirling Infrastructure, our team consists of financial, legal, and commercial sports experts who hold subject matter expertise. A sports club is an investment that serves its community and, with a combination of on-pitch success and good financial and commercial management, can add value and create revenues across international markets. Stirling Infrastructure has all the necessary skills in house to provide our clients with sound insights and confident transaction advice.

Stirling Infrastructure has direct relationships with many of the world's largest sovereign wealth funds, institutional investors and sophisticated private investors which places the firm in a unique position to support our clients in making direct contact to interested parties. Furthermore, the firm also has many direct relationships with numerous elite international sports clubs. Our connectivity with both the sell and buy-side of high-value sporting assets in the international market means we are well positioned to support our clients' objectives in the elite sports and entertainment markets.

VALUATION

The current management, history, support, and stability at the club to maintain on-pitch and off pitch success is highly relevant in assessing the value of a club. The success of a club is dependent on three key fundamentals, as with any business. The human capital, the customers, and the vision and strategy of executives. Within sports, these are represented by the talent of the players and staff, strong local and international fanbases backing the team and the effective management and ownership of the club. The combination of all these three elements would give rise to successful operations concerning revenues, debt, fan engagement and on-field performance. Such clubs would command a premium in their valuation.

There are several methods which can be taken to value assets such as football clubs. Valuation methods are typically divided into one of two categories. There are absolute valuation methods such as the Discounted Cash Flow method – which calculates value based on historical data including incomes, risk and projected growth. The other type are relative valuation models such as the comparable method. These methods compare the club in question to the known values of similar clubs by assessing important factors and how they differ in comparison. Such methods can be used as an indicative benchmark since several football clubs are publicly traded and so information on their value is identifiable.

Elite sports clubs can also be seen as unique assets due to the business opportunities they present which cannot necessarily be accurately accounted for. The value of football clubs in particular has been on an upwards trajectory. Fewer clubs are for sale and few people are able to afford them. This limits the number of clubs available on the market and therefore creates a premium in value. Therefore, it is important to assess how each of many factors are presented when considering and settling on the value of a football club.

Executive Team, Chairman & Board of Directors

As with any company, the skills and experience of the board contribute to its value. Their ability to manage and monetise the current assets of the club, create enhanced streams of income and to build a relationship of trust with fans and stakeholders are all important roles of the executive team which runs an elite sports club.

First Team Squad

Player registrations make up some of the most valuable assets owned by each club. Unfortunately, these registrations also depreciate quickly in value as contracts run out and need to be renewed. As such, a heavy emphasis is placed on keeping players fit and ensuring they are used in an effective manner so as to make the most of the value.

Backroom Staff, Academy and Infrastructure

Another factor regarding the value of an elite sports clubs regards the backroom infrastructure. This refers to the team of managers, supporting talent and academy coaches who support the squad and ultimately contribute to on-pitch performance. Considering the revenues clubs often make from producing talent, the potential of a club's backroom infrastructure ought not to be overlooked when considering its value.

Network

One important aspect of football and other elite sports clubs is that they provide access to a hub of international business networks. Through ownership of a football club, business relationships are often formed. Increasingly, national states are taking interest in owning or acquiring football clubs through their sovereign wealth funds. Similarly ultra-high net worth individuals may acquire clubs to raise their own profile, using them as a platform to build relationships and cultivate international business networks.

Both entities have entered into this industry to further their personal and national commercial interests. The network that is gained and acquired by owning a club is an intangible asset and is part of the goodwill value of the sports clubs. Each club has access to a different network of businesses and individuals and as such the goodwill valuation will differ from club to club.

Facilities

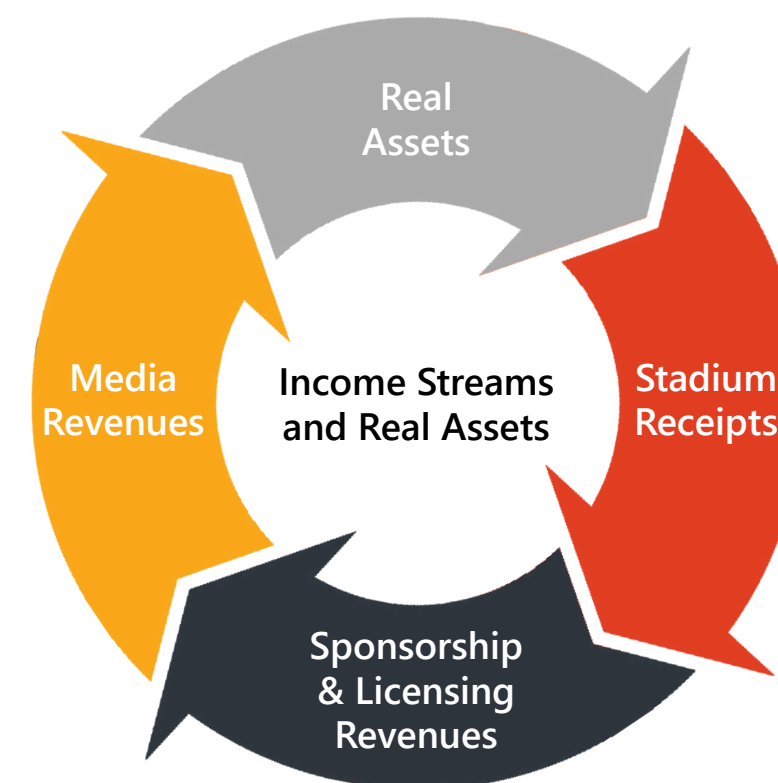
While facilities such as training grounds don't present the same income opportunities as stadia, they present a method of generating incomes for the club through investment in local communities and their plans to support their academy to invest and develop new talent. As such, clubs which preserve modern training facilities who also maintain a link to their local communities will see the value of this reflected in their club.

Stadium

The city and the location of an elite sports club is a factor that is also considered in relation to the valuation of a club. Clubs that are in primary cities are desirable and accessible locations attract a premium in their valuation. A club in a major international city with a large population is likely to have a greater valuation than a club of the same size and calibre in a secondary or tertiary city. The assets of a club include its real estate and infrastructure, and this is taken into consideration as part of the club's overall valuation.

With the ownership of a stadium comes several sources of revenues, including those outside of sporting events and matchday revenues. Therefore, the ownership and revenue streams of a stadium is one of a range of metrics applied when valuing football clubs.

Figure 1 - Income Streams and Real Assets



REVENUES

TELEVISION LICENSING RIGHTS

One income stream which has significantly increased the value of English football clubs in recent years relates to TV licensing rights. The 2018-2022 Premier League TV licensing deal, was sold through competitive bids for £4.7Bn¹. In the EPL, each club receives significant incomes if they are able to secure their position in the league. The total income of the television rights is distributed between all the 20 clubs. However, the television rights income is not distributed equally but in a hierarchical method which rewards clubs according to the number of their matches broadcasted and where they finish in the league^{2,3}. As television incomes are such a major source of income for elite clubs around Europe, this revenue stream is reflected in their value.

Similarly, when it comes to continental tournaments such as the Champions League and its offshoots, clubs which regularly qualify for these competitions are able to increase their value through enhanced television rights revenues, tournament winnings and a higher volume of matchday revenues.

COMMERCIALISATION AND SPONSORSHIP

Commercialisation refers to the revenue streams generated by a club that has given permission for the use of brand and image rights for the promotion and endorsement of third-party products, and services by association.

The value of a club is directly related to its exposure. In attracting larger sponsorship deals and maintaining a larger fanbase, the commercialisation of football presents many opportunities for clubs to maximise their income streams and therefore increase their value. Manchester United signed a 5-year sponsorship deal with TeamViewer worth \$325 million in 2021. Similarly, Juventus, Bayern Munich and Barcelona have agreed deals worth \$53.1 million, \$35.4 million, and \$64.8 million per year respectively⁴.

A sports club can make itself more attractive to potential sponsors through its on-pitch performance, participation in competitions and through the acquisition of players. In particular, Manchester United's acquisition of Cristiano Ronaldo in 2021 increased public interest in the club⁵. Similarly, Tottenham find themselves with a large South Korean following due to the popularity of one of their star players - Son Hueng-Min⁶.

Furthermore, the greatest sports stars typically eclipse their clubs in terms of social media attention. As of January 2022, while Cristiano Ronaldo boasts a following of roughly 370 million on Instagram, his current and former clubs Manchester United, Juventus and Real Madrid only have 53, 52 and 108 million followers respectively. Similarly in the NBA, LeBron James – the star player for the Lakers – has an Instagram following of 108 million, his current and former clubs of the LA Lakers, Cleveland Cavaliers and Miami Heat have 18.5, 11 and 5 million followers respectively. As such, football and other sports clubs must view each player's value beyond their contracts alone and understand that they can do well to spread the publicity of the club around the world.

Elite sports clubs have the opportunity to generate extra revenues through stadium naming rights. However, some commentators have made the claim that the revenue stream is largely underused with only 6 of the 20 premier league clubs employing this strategy in 2019. It is calculated that such deals could be worth roughly EU20m per year for some of the sport's largest clubs⁷.

AA hugely significant deal in the US has seen the stadium belonging to the LA Lakers renamed. The stadium naming rights have been sold for \$700 million over the next 20 years⁸ suggesting this revenue stream remains to be a significant if not growing source of revenue.

There are a number of material challenges in the sale of stadium naming rights. Typically, it is not an easy right to sell. For instance, media does not always reference the name of the stadium and there is no visual branding other than rights in relation to the name at the stadium. Secondly, there is greater sensitivity around the name associated with stadiums and clubs in Europe.

While clubs can struggle to rename their stadium, facing backlash from fans, upon the construction of a new stadium, Arsenal were successfully able to sell the naming rights to their new stadium in a 15-year deal with Emirates airlines worth an estimated \$100 million⁹ with mixed feelings amongst fans.

¹ <https://www.bbc.co.uk/sport/football/57098432>

² <https://sqaf.club/premier-league-tv-money-distribution/>

³ <https://www.statista.com/statistics/240912/broadcasting-payments-to-clubs-in-the-english-premier-league/>

⁴ <https://www.forbes.com/sites/mikeozanian/2021/04/12/the-worlds-most-valuable-soccer-teams-barcelona-on-top-at-48-billion/?sh=60d547af16ac>

⁵ <https://www.theguardian.com/football/2021/oct/06/glazer-family-put-manchester-united-shares-worth-137m-up-for-sale>

⁶ <https://www.reuters.com/article/uk-soccer-england-tot-southkorea-idUKKBN2700Y7>

⁷ <https://www.kroll.com/en/insights/publications/valuation/european-stadium-naming-rights-report-2019>

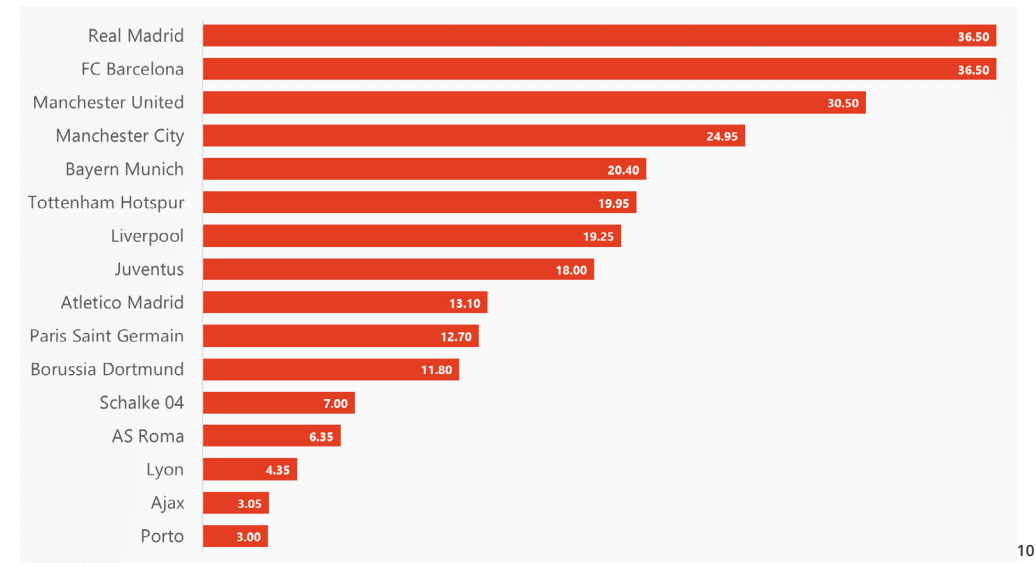
⁸ <https://www.latimes.com/business/story/2021-11-16/crypto-staples>

⁹ <http://news.bbc.co.uk/sport1/hi/football/teams/a/arsenal/3715678.stm>



Similarly, RB Salzburg and RB Leipzig both effectively changed their club's name and colours as they were taken over by Red Bull Group. Sponsorships of all kinds represent important income streams for elite sports clubs. However, it is important to realise these revenue streams in a manner which is respectful of a club's supporter base, culture, and history.

Figure 2 - Champions League stadium naming rights value estimate per season (€M)



SPORTS IN THE NEXT DECADE

NFTs

Some recent developments in the sports markets include the creation of fan tokens. These are assets in the form of non-fungible tokens (NFTs) which give the supporter a degree of influence over their club¹¹.

NFTs provide another opportunity for supporters to engage with their club and in some instances, in more creative ways. For example, certain “moments” get converted into NFTs so fans can commemorate a game or a play within the game. Alternatively, some clubs are more direct when they reach out to their fans; in 2021 the NFL team Cincinnati Bengals, gave away limited-edition NFTs for any season-ticket fans that attended their AFC Wild Card game against the Raiders.

At the current time, the sale of NFTs does not result in any meaningful impact to a club’s balance sheet. However, as this service becomes more popular and interest gathers, clubs could have a source of revenues and the crypto and NFT sphere ought to be monitored regarding their potential use on a greater scale¹².

Esports

The increasing popularity of esports has presented the opportunity for some elite sports clubs to branch out and create franchises within this arena. In particular, Paris Saint-Germain is one club that sees an opportunity to develop an esports franchise capable of attracting fans and winning prestigious tournaments¹³. The development of esports as an emerging professional market is gathering pace and elite sports clubs ought to assess the potential of this to engage fans and generate revenues from sponsorships and tournament winnings¹⁴.

Growth of Women’s sports

With most European football and NBA franchises having both men’s and women’s professional teams, these clubs recognise the importance of the growth of women’s sports. Women’s football is set to reach new heights in the coming years as a record £30m sponsorship deal was announced for the FA Women’s Super League and Women’s Championship¹⁵.

Current clubs ought to maintain their efforts to promote the women’s game moving to involve new fanbases and attract the next generation of supporters. With development of this area of sports, comes new income streams and greater engagement.

10 <https://www.kroll.com/en/insights/publications/valuation/european-stadium-naming-rights-report-2019>
11 <https://worldinsport.com/the-most-expensive-football-nfts-from-2021/>
12 <https://www.mancity.com/news/club/heroes-of-manchester-nft-drop-63777671>
13 <https://en.psg.fr/esports/about>
14 <https://www.insiderintelligence.com/insights/esports-ecosystem-market-report/>
15 <https://www.cityam.com/deloittes-sport-business-forecast-womens-football-to-reach-new-heights-in-2022/>

FINANCING

DEBT AND EQUITY

The debt-to-equity ratio of a company measures the degree to which they are able to finance their operations through debt or equity. It therefore shows the ability of shareholder equity to account for the debts owned by the company in the case that the company faces downturn. As such, a high debt-to-equity ratio signals that an investment may be riskier since the company will struggle to cover debt in the event of failure.

The debt service coverage ratio refers to the overall incoming cashflows of a club relative to the annual interest payments on debt obligations. Given this, a more favourable ratio demonstrates a greater ability for a club to service its debt. This ratio demonstrates how well managed a club may be with regard to its financing requirements.

Since companies need investment to grow, they must finance this growth through debt or equity. If a company aggressively finances its growth through debt, it may have a faster growth rate than otherwise, yet such investments prove to involve more risk than companies leveraging lesser amounts of debt. If the leverage on the company causes growth and generates greater incomes than the interest on the debt, then shareholders will benefit.

As such, the security of incomes is crucial in allowing elite sports clubs to finance their debt and to leverage debt in order to grow. Clubs looking to be promoted from a second-tier division in European competitions may leverage debt to invest in the club in order to see them generate greater incomes if they are able to reach the top tier division. Similarly, this is the case for clubs within Europe’s top leagues looking to break into continental tournaments.

INVESTMENT AND GROWTH

Through investing in a club, an investor may target the development of a stadium or a marketing strategy to create a greater, more active fanbase. While success on the pitch is always desirable, there are many factors which can be grown through investment. In particular, the TV licensing deals have increased the value of top five European Leagues as they are entitled to a share of the revenues based on their position. As such, with the continued growth of football – something which the pandemic has exacerbated – clubs can grow in value simply by maintaining their positions in the top European leagues.

RISK

RELEGATION

Perhaps the largest risk to consider when investing is the security of revenues. Since licensing makes up such a large part of the revenue stream for football clubs, the possibility of losing such revenues is a daunting prospect. On the other hand, through growth, a club can achieve access to growing revenue streams increasing its value significantly.

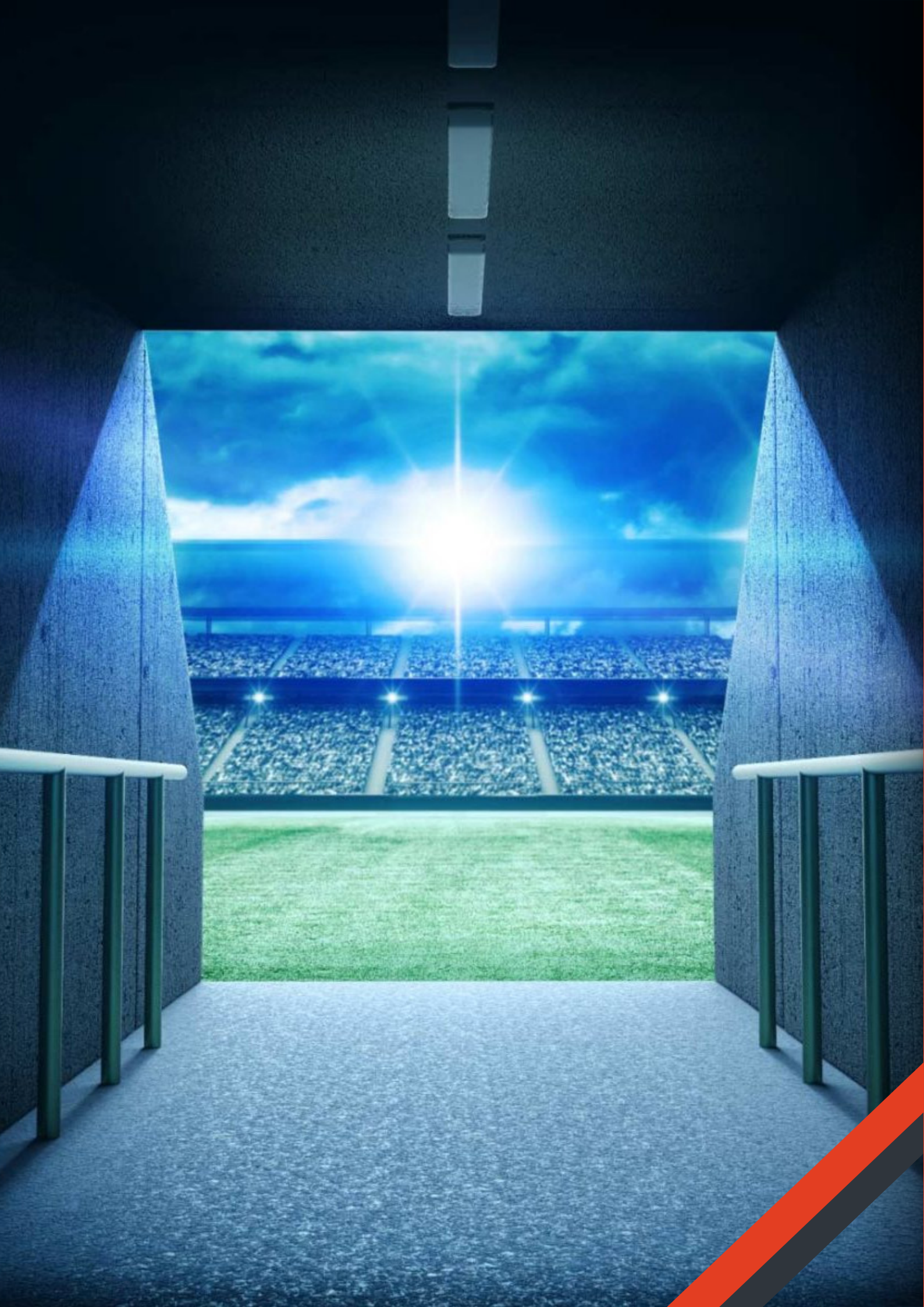
In the top five European football leagues, there is a stark difference in revenues between first and second tier clubs which create significant opportunities as well as great risks for clubs. Top European Leagues currently pay “parachute payments”¹⁶ to relegated clubs so that they have time to balance their books and adjust to second-tier level revenues¹⁷. Players are frequently offered contracts with relegation clauses so that a club may pay them a reduced salary in the event of relegation or that the player may be able to exit their contract early in such cases.

When shortlisting clubs in which to invest, Stirling Infrastructure employs a methodology based on previous finishes in their league. The risk of relegation comes greater to clubs finishing in the bottom half of the table while clubs consistently finishing in the top half of the table can more safely guarantee their revenues.

Furthermore, in the EPL, clubs finishing in the top six positions will also guarantee qualification for the European competitions. Teams in fixed leagues in which there is no relegation are deemed more stable investments due to the guarantee of playing in the top division as well as the improved chance of winning the respective tournaments. Indeed, most NFL teams have won at least one Super Bowl.

Given that there are a further two positions available for the winners of the FA and EFL cups, this often means that the teams placing seventh and eighth also qualify for the European competitions as the winners of these competitions tend to finish in the top six. Therefore, clubs consistently finishing in the top six tend to have a low risk of maintaining their incomes from European football competitions as well as from the English Premier League.

16 https://www.footballbenchmark.com/library/parachute_payments_in_the_big_five_leagues
17 <https://www.theguardian.com/football/2021/may/13/football-league-hits-out-at-premier-leagues-new-domestic-tv-deal>



For clubs comfortably in the top division, the risk of relegation is significantly reduced. However, there are further revenues which come from the continental leagues. Earning a place in these leagues could make or break a club's season as well as their finances.

Therefore, this presents opportunities to those looking to buy into mid-table clubs in order to develop them. We measure the risk of investments on a case-by-case basis but considering the finishing position of a club over the past five seasons gives an insight into their performance and hence their risk, as is shown in the table below.

Top 5 European Football Leagues - League Table

Position		
1	Champions League Qualification	Very low risk investments
2		
3		
4		
5	Europa League Qualification	Low risk investments
6	Europa Conference League Qualification	
7	Potential European Competitions Qualification	
8		
9		
10		Risky investments
11		
12		
13		
14		
15		Very high risk investments
16		
17		
18	Relegation from top division	
19		
20		

**The German first division – The Bundesliga - has 18 positions.*

The proposed Super League was a breakaway league which took the largest teams from the European continent pitting them against each other in a domestic league format. In a similar way to how the American leagues of the NBA, NFL and MLS function, each of the “big six” Premier League teams would not have been able to be relegated from the league and therefore, such a proposition represented great opportunities to its owners¹⁸. Through eliminating the risks associated with playing football at the highest level, revenues could be secured long into the future and therefore value added to each of the participating clubs.

Ultimately, this idea failed due to the lack of popular support from fans. Furthermore, this was also politically challenged by the existing football leagues and associations in Europe as well as governments who declared intentions to legislate to preclude this type of anti-competitive activity that would have a detrimental impact on lower league clubs.

CONCLUSION

Stirling Infrastructure has direct and diverse relationships with influential institutional investors including sovereign wealth funds, listed companies and private investors who retain interests in high-value and trophy assets across sectors and borders.

Our valuation methodology considers both physical assets of each club such as the stadium and its possibility to generate returns as well as the intangible assets like global marketing reach, community engagement and popular support. As such, our expertise navigates the trade-offs between commercial development that includes the acquisition of sponsors or rebranding and protecting the culture of elite sports clubs.

Our approach to the acquisition and financing of elite sports clubs also considers the potential risks as well as the rewards on offer. For those looking for more secure core-type investments, Europe's top clubs will provide those, but our analysis finds that significant advancements in a club's value can be made considering value-add and opportunistic-type investing in clubs associated with greater levels of risk.

The firm has long-standing relationships with major club owners and companies in the sports and entertainment industry. As such, Stirling Infrastructure is well placed to support a client not only on the standard M&A and financial aspects of an acquisition or disposal process but also on opening discussions with the relevant parties on either the buy or sell side of transactions.

¹⁸ <https://thesuperleague.com/press.html>

FOR FURTHER INFORMATION

This paper provides an overview and our insights of how we evaluate and value elite sports clubs for the purposes of acquisition and disposal.

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