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# Creating value in football: unveiling business activities and strategies of financial investors

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## ABSTRACT

A new group of football investors has emerged to focus on direct financial returns, but little is known about their business activities and the strategies they employ for generating value. This paper aims to better understand these activities and unveil distinct value-creation strategies. Through 16 self-conducted and six publicly available interviews and documents, we analyzed 61 transactions involving 37 investors using the grounded theory methodology. Football investors follow four parallel micro-processes: horizoning, focusing, synchronizing, and creating value. Through these four microprocesses and their properties, they develop five distinctive strategies for value creation: Phoenix Strategy, (Cash) Cow Strategy, Gazelle Strategy, Ants Colony Strategy, and Eagle's Nest Strategy. The findings of this study contribute to conventional investment theory and help stakeholders guide their actions in light of the increasing presence of football investors who focus on direct financial returns.

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## KEYWORDS

Soccer; sports; private equity; return-on-investment; value creation; grounded theory

Financial investments remain a scholarly focus in diverse business settings, particularly after economic downturns (Zubair et al., 2020) and pandemic-related crises (Uddin & Chowdhury, 2021). Football is a business setting in which financial investments have gained increasing popularity in recent years (Browndorf, 2021; Rohde & Breuer, 2016). We have even seen sovereign wealth funds acquiring European football clubs; for example, the Saudi Arabian Public Investment Fund's acquisition of Premier League club Newcastle United. Indirect returns have been

the primary motivations for these investors, such as spillover effects on other businesses (Marin & Lee, 2020), network-building strategies or political influence (Chadwick et al., 2016; Xue et al., 2020).

However, beyond these types, a particular one has recently emerged with the explicit intention of earning a direct financial return. Indeed, the total deal value within Europe's five most important football leagues increased from €66.7 million in 2018 to €4.9 billion in 2022 (Moura et al., 2023). While a large fraction of this amount is attributable to Clearlake

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Capital-led consortium's purchase of Chelsea FC, the market is still very dynamic and two characteristic cases demonstrate just that. Consider, for example, Dynasty Equity's acquisition of a minority stake of Liverpool valued at up to \$200 million in September 2023 or the sale of a 12.5% stake of Paris Saint Germain to the US based private equity firm Arctos Partners in December 2023, valuing the football club at \$4.3 billion. Such investors show an explicit financial behavior and adopt a private equity investing approach. They are experienced in acquiring assets, are at least partially funded by third parties, adopt an active investment strategy, and hold their assets for a limited duration only. As such, prominent shareholders in football such as the Glazer family at Manchester United or the Fenway Sports Group at Liverpool FC are not included in this study as they do not fulfill the stated criteria to be defined as investors with the explicit objective to pursue financial returns. Truly financial investors, however, believe that football, despite historically being a loss-making industry, entails attractive characteristics and can offer the opportunity to gain enticing returns through the right strategy (Moura et al., 2023; Plumley et al., 2021). Even though this type of investments' importance is growing, they have yet to be the subject of scholarly research. Consequently, a comprehensive understanding of their activities and strategies remains elusive. The purpose of this study is to fill this research gap by addressing the following two research questions: (1) how are investment activities of financial investors in football designed, and (2) what are their explicit value creation strategies?

As a result of this empirical study, three significant and interrelated theoretical and practical contributions are made. First, it facilitates the assessment of the similarities and differences between football financial investments within the conventional investment theory and this idiosyncratic empirical context. Thus, second, it offers a conceptual understanding of financial (private equity-like) investors'

behavior in football by developing a substantive grounded theory that explains how the activities and related processes of private equity investment unfold. Third, it provides a conceptual roadmap for football club administrators, regulators, and financial investors to use in understanding strategies and making decisions related to those strategies.

The remainder of this paper is structured as follows. Next, a theoretical background on private equity company investment activities is provided, followed by an examination of ownership structures within the football industry. The third section explains how data were collected and analyzed in this empirical study according to the tenets of grounded theory methodology. Finally, we discuss the five distinct value-creation strategies financial investors use in football before concluding with some practical implications.

## **Theoretical background and literature review**

### ***Capital investment and private equity firms***

Capital investment theory suggests that an investment should be selected if its return or profitability is greater than the investor's cost of capital, and if there is competition between investments, the investment with the highest return should be chosen (Alkaraan & Northcott, 2006; Cooremans, 2011; Maritan, 2001). Private equity firms raise funds from institutional investors, pension funds, insurance companies, and high-net-worth individuals. They operate as partnerships, with general partners overseeing management and limited partners providing most of the funding. Compensation for private equity firms includes management fees, a share of fund profits (carried interest), and potential deal and monitoring fees. Limited partners conversely expect a return on their investment within a specified timeframe (Gilligan & Wright, 2020; Kaplan & Strömberg,

2009). Thus, private equity firms are responsible for gaining returns and follow a business model of buying companies and, after steering them through a transition of performance improvement and increasing the investment's enterprise value, selling them (Barber & Goold, 2007). This value enhancement can follow different mechanics, such as the leverage effect, operational improvements, and multiple expansion, as described in detail further. Depending on some context factors, they make critical strategic decisions about business and portfolio management, which define their activities. As discussed by Krysta and Kanbach (2022), context factors include the characteristics of the investor and portfolio company, as well as factors related to the buyout and the environment.

First, private equity companies' investment activities are characterized by how long they hold their assets before selling them. Usually this is a short time only. Long and Ravenscraft (1993), for example, argue that they tend to have three to five-year holding periods. Researchers have examined the influence of holding periods on returns with varying results. Lopez-de-Silanes et al. (2015) suggest that longer holding periods are associated with decreased performance. In contrast, Siming (2010) found no evidence to support the claim that short investment horizons yield higher returns. For institutional investors with shorter holding periods, Castellaneta and Gottschalg (2016) emphasize the importance of targeted selection expertise. Those with longer investment horizons, however, must possess the experience and strategic acumen necessary to generate long-term value.

Further, private equity investors choose their portfolio companies based on various other considerations when evaluating possible investment opportunities. For example, Osborne et al. (2012) found that private equity firms prefer targets close to their home since it simplifies the application of restructuring measures and increases corporate control.

Moreover, there is a mixed picture of the typical size of companies acquired in mergers and acquisitions (M&A). Some scholars contend that acquirers tend to favor larger, well-established targets (Chatterjee, 2000; Sirio-poulos et al., 2006), while others argue that smaller firms with lower profitability are more prone to acquisition (Palepu, 1986; Singh, 1975).

Furthermore, many studies have shown that firms with higher financial stability, greater free cash flows, and lower long-term growth are more likely to be acquired by private equity funds (see Achleitner et al. (2013); Barger on et al. (2008); Chapple et al. (2010); De Maese-neire and Brinkhuis (2012)). However, some financial investors deliberately concentrate on financial restructuring and thus have different selection criteria. In addition, private equity investors predominantly employ an active investment strategy, typically seeking to acquire a majority stake to secure significant control rights (Acharya et al., 2013). Moreover, the finance literature underscores the significance of synergistic collaborations among portfolio companies as a crucial aspect for generating added value based on combining the strengths and resources within the portfolio (Borell & Heger, 2013).

As a central element of their strategies, private equity investors create value through three main levers: the leverage effect, operational improvements (such as EBITDA and free cash flow growth), and multiple expansions. Research indicates that approximately 46% of value creation comes from operational levers, 32% from the leverage effect, and 18% from multiple expansion in private equity deals in Europe (the remaining 4% from a combination of EBITDA growth and multiple expansion) (Achleitner et al., 2010).

### **Ownership in football**

Since their introduction in the late 1800s, shareholders have been contributing to the

professionalization of the sport (Kelly et al., 2012; Leach & Szymanski, 2015). As outlined in Rohde & Breuer's study (2017), investors in football have evolved in three distinct phases, which aid in understanding the current developments: clubs' separation from member associations, private majority investors, and foreign investors. Academic studies have identified three broad ownership structures in football: private ownership, public ownership, and member associations (Rohde & Breuer, 2017). Each of these has its distinct characteristics. Private ownership confers funding advantages, although it carries a higher risk of financial mismanagement (Amirnejad et al., 2018; Wyszynski, 2021). Buchholz and Lopatta (2017) even find an improvement in team performance with the increase of economic investors' ownership concentration. Public ownership tends to exhibit a more balanced approach to spending and boasts more efficient governance structures (Amirnejad et al., 2018; Franck, 2010). In contrast, football clubs owned by supporter trusts frequently grapple with decision-making delays due to the necessity for joint voting and strategic alignment (Sánchez et al., 2021; Tobin, 2017). Regarding member associations, there is a divergence of opinion on the impact of democratic decision-making. Ward and Hines (2017) and Waters et al. (2011) suggest that it favors long-term planning over short-term success, while Rohde and Breuer (2017) contend that only a select few large clubs with a global brand can realistically adopt this ownership model and secure the necessary funding for long-term competitiveness.

Overall, scholarly work points to a shift from member associations to corporate structures in football clubs, enabling greater involvement of external investors. Until recently, however, football clubs were not viewed as an attractive asset class by investors who were driven solely by financial considerations. Indeed, investing in football clubs that are listed on the stock market is believed to require more regular financial returns because of risks associated

with their business model, including the unpredictable nature of sporting results. (Huth, 2020; Lundgren & Heljeberg, 2021; Reikin, 2021). In addition, researchers have highlighted risks associated with the sports industry, including the unconventional structure of non-current assets and the large proportion of tangible assets (Wilson et al., 2013). In this regard, football club securities are considered a distinct asset class with limited correlation, a low free float, and low trading volumes (Litvishko et al., 2019; Prigge & Tegtmeier, 2020). Although these reservations exist, investors seeking direct investment returns are increasing in the football industry. However, what type of activities they engage in and what strategies emerge from these activities is a theoretical and managerial gap. This paper seeks to address this gap, and it is to this we will turn our attention after discussing the method employed in this study.

## Method

Despite the long tradition of private equity investments in the field of finance and investment (Cunha et al., 2021), our study is still considered exploratory, given that this type of investor has yet to be studied in the context of professional football. It is this exploratory and processual nature of this study that drove the research team to employ a grounded theory approach. Grounded theory is valuable in applied fields and questions involving "social processes and how they operate within contextual conditions" (Holt & Tamminen, 2010, p. 420). Business studies have employed this method in various empirical contexts (e.g. Božič et al., 2020; Rajan et al., 2023), including football (e.g. Plattfaut & Koch, 2021). Although different variants of this methodological approach have been developed for a variety of purposes under different philosophical stances (Anagnostopoulos, 2013; Sotiriadou & Shilbury, 2010), the present study utilizes the Straussian variant of grounded theory (see

Strauss & Corbin, 2008). It was chosen due to its pragmatic philosophical basis and its prescriptive data coding technique that Corbin and Strauss (1990) call the “paradigm model” (p. 99). By utilizing this model, the lead author immersed himself in the data by examining the *factors* contributing to the increase in private equity investments in the football industry while considering the *structural conditions* associated with it in order to better understand the *action/interaction* and its *consequences*. Accordingly, the research sought to describe and explain the characteristics and approaches of financial investors in football.

### Sample selection

The development of this substantive theory was based on data obtained from relevant investors and their transactions, which were selected in accordance with a set of specific inclusion criteria. As such, owners of football clubs were considered financially motivated if they met the following criteria: (a) existence of prior investments (not necessarily limited to the football industry); (b) partial or full funding of investments by third parties' equity; (c) adopting an active investment strategy; and (d) the predominance of assets held for a limited duration, as either a result of successful exits or explicit communication of intent to sell. These criteria were used to examine all owners (past and present) in the top two divisions<sup>1</sup> of the nine leading European leagues, the top three leagues in North and South America, and the top three leagues in Asia. These leagues were ranked based on the total market value of football players per league, as determined by Transfermarkt.de as of 01 June 2022. The screening resulted in 28 divisions consisting of leagues from England, Spain, Italy, Germany, France, Portugal, Turkey, Netherlands, Belgium, Brazil, United States, Mexico, the Kingdom of Saudi Arabia (KSA),

Japan, and the United Arab Emirates (UAE), which comprised a total of 545 clubs. Ultimately, the sample consisted of 37 different financial investors involved in 61 clubs from the abovementioned leagues. Among these, 14% were individuals ( $n = 5$ ), and 86% were institutions ( $n = 31$ ). Generally, 61% ( $n = 22$ ) of the investors in the sample are from and/or based in the United States, and the only two other countries that have more than one investor each are the United Kingdom (11%,  $n = 4$ ) and China (6%,  $n = 2$ ). The cut-off date for this study was 31 August 2022 (see supplementary file with all details).

### Data collection

This study collected data through a combination of secondary and primary sources, each of which involved two phases. Initially, to gather comprehensive information on relevant transactions and investors, data such as the precise date, share price, parties involved, and prior investments were obtained using the Mergermarket database. The investors' official websites were also thoroughly investigated to uncover details such as investment theses, team backgrounds, and portfolio structures. Additionally, press releases and interviews that were publicly available were reviewed as necessary.

Following this first phase of secondary data collection, data were also collected from articles in the Off The Pitch platform, a football business intelligence service with convenient analytics. Often, these articles include interviews with involved parties (such as investors from the sample; see further) or direct information from them. This platform is widely renowned and used by the largest and most relevant organizations in football, such as FIFA, the English Premier League, Spanish La Liga, and the German DFL. In total, 76 documents were obtained by searching for the investors in the

<sup>1</sup>KSA and UAE do not have a relevant second division, so only their first division leagues were considered.

**Table 1.** List of publicly available interviews.

Interviewee	Interviewee Role	Interviewee Organization	Interviewer	Source	Date
Ivan Gazidis	CEO	AC Milan	James Corbett	Off The Pitch	29.10.2020
Paul Conway	CEO	Pacific Media Group	Emil Gjerding Nielson	Off The Pitch	27.01.2021
Mark Affolter	Partner and Co-Head of U.S. Direct Lending	Ares Management	CNBC	Private Equity Insights	18.09.2021
Andres Blazquez	Operating Partner	777 Partners	James Corbett	Off The Pitch	05.10.2021
Paul Conway	CEO	Pacific Media Group	Robert Kidd	Off The Pitch	23.02.2022
Juan Arciniegas	Managing Director	777 Partners	James Corbett	Off The Pitch	28.02.2022

**Table 2.** List of self-conducted interviews.

Wave	ID	Interviewee Role	Interviewee Organization	Date	Length
1	INV-NS 1	Managing Partner	Institutional investor (not in sample)	30.05.2022	00:47:49
1	INV-NS 2	Managing Partner	Individual investor (not in sample)	13.06.2022	00:38:02
1	ADV 1	Managing Partner	Advisor	17.06.2022	00:58:27
1	ADV 2	Assistant Director	Advisor	23.06.2022	00:33:41
1	INV-S 1	Senior Associate	Institutional investor (in sample)	07.07.2022	00:53:23
1	ADV 3	Senior Associate	Advisor	11.07.2022	00:49:30
1	FC 1	Executive Assistant	Football club	29.07.2022	00:58:37
1	INV-NS 3	Managing Partner	Institutional investor (not in sample)	03.08.2022	00:51:40
1	INV-S 2	Managing Partner	Institutional investor (in sample)	04.08.2022	00:50:47
1	FC 2	CEO	Football club	26.08.2022	00:56:46
1	INV-NS 4	Managing Partner	Institutional investor (not in sample)	29.08.2022	01:15:30
1	REG 1	Part of Executive Board	Regulator	18.09.2022	00:55:33
2	INV-NS 5	Managing Partner	Institutional investor (not in sample)	11.01.2023	00:43:20
2	INV-S 3	Lead Europe	Individual investor (in sample)	23.01.2023	00:44:28
2	ADV 4	Managing Partner	Advisor	31.01.2023	00:54:21
2	ADV 5	Senior Associate	Advisor	10.02.2023	00:35:16

database, encompassing all articles published since the foundation of Off The Pitch in 2018 until the cutoff date of 31 August 2022. Table 1 shows a list of publicly available interviews conducted by media such as Off The Pitch which are directly referred to in the following text.

The primary data collection source entailed interviews requested by all investors in the study's sample via email. Additionally, personal contacts and introductions from other interview participants were used to expand the pool of interviewees by including investors who were not part of the sample and experts such as regulators, advisors, and club managers. As a result of this process, 16 semi-structured interviews were conducted. Three financial investors from the sample and five who were not part of the sample were interviewed.

Moreover, primary data were supplemented by five advisors, a representative of a regulatory organization, and two football club managers (see Table 2), thereby adhering to the theoretical sampling principle of grounded theory.

The interview protocol covered investment objectives, target selection, the investment process, investor strategy, holding periods, value drivers, financial instruments, synergies, control rights, and exit requirements and strategies. As per the principles of theoretical sampling, however, questions were adapted to previous discussions with other participants, thus offering additional insights or validating previous discussions. The lead author transcribed the interviews verbatim, ensuring that the contents of the interviews were accurately recorded. To ensure participant anonymity, each interview was assigned a letter that



matched the participant's role (e.g. INV-S for investors from the sample or INV-NS for investors who were not part of the sample), followed by a number indicating the order of interviews within each group. In this manner, the authors maintained knowledge of the interviewees' exact names, roles, and institutions while protecting this information from any third parties.

### ***Data analysis and procedures***

Data from both the secondary and primary sources above were analyzed using Atlas.ti, a widely recognized qualitative data analysis software. As part of the initial analysis, and following inductive reasoning, open coding was employed to analyze the data gathered from the secondary sources as well as the first interview phase ( $n = 12$  interviews) to identify common themes relating to the involvement of financial investors in football. Common themes are identified when certain words, phrases, or concepts are repeatedly used (Miles & Huberman, 1994). This process resulted in 529 distinct terms and passages and 115 open codes. Subsequently, these open codes were reviewed and grouped into broader open categories. These categories, in turn, served as a codebook for an inter-coder reliability test among three research team members, resulting in a Cohen's Kappa score of 0.773, considered an acceptable agreement (Landis & Koch, 1977). Table 3 provides examples of how open and axial coding was carried out.

Following this initial coding stage, theoretical saturation was reached, indicating no new dimensions, properties, conditions, or actions were apparent (Strauss & Corbin, 1998). Consequently, in the subsequent phase, axial categories were established. Through axial coding, connections between different codes and categories were demonstrated and inherent differences and commonalities compared to conventional investment theory identified. As a result, 4 themes with several sub-

themes were identified, representing the foundation for the grounded theory on financial investors' activities in football.

In the final stage of selective coding, the results were refined, aggregated, and clustered to understand the value creation of financial investors in football. The approach consisted of two main components: first, each investor in the sample was analyzed regarding choices within the abovementioned themes, and patterns were identified accordingly. Second, the underlying quotes and information were revisited to develop an understanding for certain choices. This process revealed five distinct value creation strategies. To validate and verify the findings, a second round of interviews ( $n = 4$ ) was conducted. With this final phase of data collection, the research team sought to ensure that the study results and emerged theory were trustworthy. According to Lincoln et al. (1985) a study that deserves to be seen as trustworthy must first (among other things) demonstrate credibility, which pertains to confidence in the truth of the findings. "Member-checking" through this final round of interviews was the procedure used to ensure the theory's credibility. In this technique, the data, analytic categories, interpretations, and conclusions are "checked" through discussion with members of the group from which data was obtained originally and/or who met the predetermined inclusion criteria.

## **Findings and discussion**

### ***Towards a grounded theory of football investors' activities and strategies***

#### ***Financial investors' activities***

The financial investors' activities can be described as a combination of business- and portfolio-management. Data analysis revealed that financial investors in football generally differentiate and characterize their activities

**Table 3.** Examples of extracted quotes, codes and categories.

Quote	Open Code	Open Category	Axial Category	Investor
"We think it's really an interesting vehicle to support a decently managed football organisation that we can potentially help on the commercial and analytics side."	<ul style="list-style-type: none"> <li>• Blue-chip football club</li> <li>• Commercial</li> <li>• Data support</li> </ul>	<ul style="list-style-type: none"> <li>• Target club</li> <li>• Value drivers</li> </ul>	<ul style="list-style-type: none"> <li>• Activity dimensions</li> </ul>	Pacific Media Group
"So we're working in that direction by looking and creating first the human base. And then we'll work together to decide on which players we can invest, what is the best mix between academy and external players. And we want to do this in a systematic way."	<ul style="list-style-type: none"> <li>• Management &amp; governance</li> <li>• Player development</li> </ul>	<ul style="list-style-type: none"> <li>• Value drivers</li> </ul>	<ul style="list-style-type: none"> <li>• Activity dimensions</li> </ul>	<i>Not disclosed as quote part of non-public interview</i>
"Focus on misunderstood and mispriced situations. We look for places where capital has been misallocated."	<ul style="list-style-type: none"> <li>• High functional focus</li> <li>• Financial restructuring</li> </ul>	<ul style="list-style-type: none"> <li>• Functional focus</li> <li>• Value drivers</li> </ul>	<ul style="list-style-type: none"> <li>• Activity dimensions</li> </ul>	King Street Capital

based on four micro-processes: horizioning, targeting, synergizing, and creating value. In this section, we discuss each of the processes that explain the activities of financial investors in football and develop a theoretical framework based on their interactions.

### Horizioning

The micro-process "horizioning" refers to the duration for which an investor holds his/her assets. Although previous research has assessed holding periods in the context of private equity as being relatively short, i.e. three to five years (Long & Ravenscraft, 1993), football financial investors generally tend to have longer investment horizons. Most of the investors in our sample ( $n = 16$ ) who follow a particular investment strategy in terms of holding period are primarily long-term investors. According to Castellaneta and Gottschalg (2016), who also emphasize the importance of experience and strategic acumen in long-term holdings, many investors from the sample underline the significance of a strategic agenda and sustainable growth for football clubs.

A typical comment made by the CEO of a football club was that financial investors are seen and positioned as "long-term strategic partners that aim to represent a constant

within the club" (FC 2, 2022). In fact, one institution has even adjusted their overall structure to ensure a long-term orientation:

Being a holding company now, we are not required to return money to external investors. In this regard, we have tremendous autonomy in terms of how we deploy capital, how we look at our return profile, etc. In this sense, we are professional investors seeking long-term gains. (INV-S 2, 2022)

### Targeting

The process of "targeting" refers to the factors (properties, in grounded theory parlance) that influence investors to enter the football industry. These factors include (a) where the football club is located geographically, (b) the overall status of the football club (historically, at the time of investment), as well as (c) the extent to which their investment will result in them becoming decision-makers (i.e. voting rights power).

Most financial investors target European clubs (68%,  $n = 25$ ), while others adopt a more global approach (32%,  $n = 12$ ). Currently, none of the financial investors purchase football clubs primarily from non-European countries. Although literature in financial investment has shown that this business activity has close ties

with the origins of investors (Osborne et al., 2012), modern football marks an exception because most investors come from the US and purchase primarily European clubs as the observed data show.

With regards to the status of the football club, three different options have been observed. The majority of investors acquire clubs with high expected growth rates (64%,  $n = 25$ ). There are, however, some institutions (23%,  $n = 9$ ), mainly large, experienced investment firms such as Clearlake Capital or Sixth Street, which target large football clubs that have recurring revenues that are consistently high (for example, Chelsea or Real Madrid). A minority of investors (13%,  $n = 5$ ) acquire football clubs which need a turnaround (e.g. Oaktree Capital with Inter Milan). Therefore, our findings indicate that no prevalent strategy or predefined target structure exists, in contrast to literature focusing on other industries, which has demonstrated that private equity investors prefer companies with high financial slack, low stock volatility, and long-term growth prospects (Achleitner et al., 2013; Bargerion et al., 2008; Chapple et al., 2010; De Maeseneire & Brinkhuis, 2012). That said, some basic requirements need to be met for financial investors in football as well. One interviewee makes that clear by outlining a three-fold reasoning behind their decision to invest:

When pre-selecting an investment in a football club, investors pay particular attention to three factors. Having a steady cash flow is the first element. A second aspect is the community of followers that investors may buy into through investments. Thirdly, the club's valuation should be stable. For a football club to remain competitive, it is necessary to invest continually in the squad. This should be done in an established financial basis before the club makes any further investments in the squad. (ADV 2023, January 31, 2023, January 31)

The final element of the "targeting" process concerns how much power the investors will have once they have purchased a football

club (or part thereof). Literature indicates that, in general, private equity investors follow an active investment strategy, thus working to gain majority ownership to obtain important control rights (Acharya et al., 2013). The situation in the football industry is not dissimilar. When investing, most investors (63%,  $n = 25$ ) acquire the majority of shares. According to one of the investors, a majority stake simplifies the process of building a business (INV-S 1, 2022), although in some instances, minority stakes (38%,  $n = 15$ ) can also be considered a target. This latter approach, however, requires some specific circumstances. Due to the limited potential of taking strategic decisions from a minority position, one of the experts in football investments emphasized the need to target football clubs that have high-quality management teams in place (ADV 2022, June 17, 2022, June 17). Similarly, one of the investors stated:

[...] there are times when it can work quite well if you have partners who you trust and who have control over your future, and you are prepared to leave responsibility in their hands. Occasionally, it is a necessity for regulations if you have teams in your portfolio that may compete against each other at tournaments. (INV-S 2, 2022)

### **Synergizing**

The process of "synergizing" refers to the potential benefits an investment in a football club can have as a result of (a) the established network the targeted investment club already has, as well as (b) the company's overall portfolio dynamics. Indeed, to facilitate the active generation of synergies between football clubs, many investors, such as "Orlegi Sports" or "777 Partners", create multiple club ownership (MCO) models. As one of the institutional investors summarizes in the conducted interview: "For me, if you own multiple clubs, it is a no-brainer because you can extract several synergies by centralizing certain functions, even if the clubs are located in different

markets.” (INV-S 2, 2022). Apart from these cross-club synergies, almost all financial investors in the sample seek to maximize synergies within their existing portfolios. This is consistent with the literature, which indicates that creating synergies between portfolio companies can lead to a significant increase in value (Borell & Heger, 2013). As a matter of fact, some investors in the sample (38%,  $n = 14$ ) explicitly focus on synergies with other football or sports clubs. For example, as per “Noah Football Group” the goal is:

[...] to acquire control and minority stakes in sports clubs in attractive markets across the globe and pursue a scalable multi-club model that focuses on maximizing the commercial growth of individual assets as well as portfolio wide synergies and economies of scale. (Noah Football Group, 2023)

Other investors focus primarily on maximizing synergies between their portfolio companies and companies in other industries (59%,  $n = 22$ ). “Sport Republic”, for example, mentions using their comprehensive portfolio of sports technology companies to accelerate their development (Sport Republic, 2023). Moreover, other financial investors such as Core Sports Capital or Silver Lake establish data platforms in conjunction with other companies in order to leverage them for their football club(s) investment(s).

### **Creating value**

A final process that emerged from our analysis relates to “creating value”. Put differently, private equity investors weigh their options on the basis of the potential value (and the drivers thereof) that may result from such a decision. They do so by considering the “synergizing” options they have once “horizoning” and “targeting” have become somehow clearer.

There are various financial value drivers in football, but they are primarily related to investor activities that improve the balance sheet structure of their targets, whereas private

equity firms in other industries employ a wider range of financial levers (Castellaneta et al., 2019). A financial investor described debt restructuring as one of the most important capabilities for investors in the field of football: “Obviously, they [the football clubs] have a problem with their balance sheet, but that sometimes creates opportunities to renegotiate with lenders and try to reduce the debt.” (Arciniegas, 2022, february 28). In this study, only a small fraction of the sample of financial investors are driven by strictly financial-oriented values (18%,  $n = 6$ ), which supports the general observation that modern football has become an industry dominated by the need for sound management. Accordingly, 42% of investors in the relevant sample ( $n = 14$ ) are driven by operational values. That is, they emphasize the importance of improving processes and professionalizing business models. Characteristically, Pacific Media Group firmly suggests that: “If you’re smarter and run it more as a business you can be successful in European football, but it takes discipline.” (Conway, 2021). Private equity investors in other industries also place a great deal of emphasis on operational improvements. Achleitner et al. (2010) find that such levers account for 46% of the total value creation in their sample of transactions. It appears, however, that operational levers are even more crucial in the football industry, while other measures, such as financial engineering, are less common.

The data indicates that investors recognize the importance of top line growth and apply revenue-generating value drivers (85%,  $n = 28$ ). As a result, these drivers can be separated into different dimensions, which are closely related to the revenue streams of football clubs in general: commercial, media, matchday, internationalization, and player development. Furthermore, investors in football (45%,  $n = 15$ ) also consider infrastructure, data, and governance as enabling value drivers. The explicit role of data support in the strategies of many

financial investors in football is especially noteworthy. Some of them (33%,  $n = 11$ ) apply value drivers based on data and analytics. An investor interviewed stated that the data they have access to is used to predict the level of competition in the leagues in which their clubs compete – and adjust priorities and even players accordingly (INV-S 3, 2023). Governance aspects, too, constitute value enablers, as observed at financial investors in other industries (Acharya et al., 2013).

The abovementioned four microprocesses can be arranged in a theoretical framework which is shown in Figure 1. Financial investments are summarized by illustrating the microprocesses and their properties, thereby providing insights into potential differences between financial investors' activities in football. The framework provides the basis for analyzing investors, comparing their approaches, and assessing their overall impact on the football industry.

Investing in football involves an indicative investment horizon and selecting investment targets based on factors such as market, clubs, and voting rights. Even though the analysis of investment targets does not necessarily follow a strict order, it is possible for these three different factors to interact with each other. Most investors adopt a long-term approach due to the necessity of transforming business models and improving processes and structures within football clubs. The significant economic importance of Europe region often results in clubs from this area being included in investors' portfolios. Furthermore, the majority of investors seek to obtain controlling positions, depending on their investment strategy (see further when discussing the five strategies). Investment decisions related to turnaround, high-growth, or blue-chip clubs depend on their underlying investment rationale and financial resources.

The investment horizon and target chosen are crucial factors in determining the value drivers that are applied. There is a

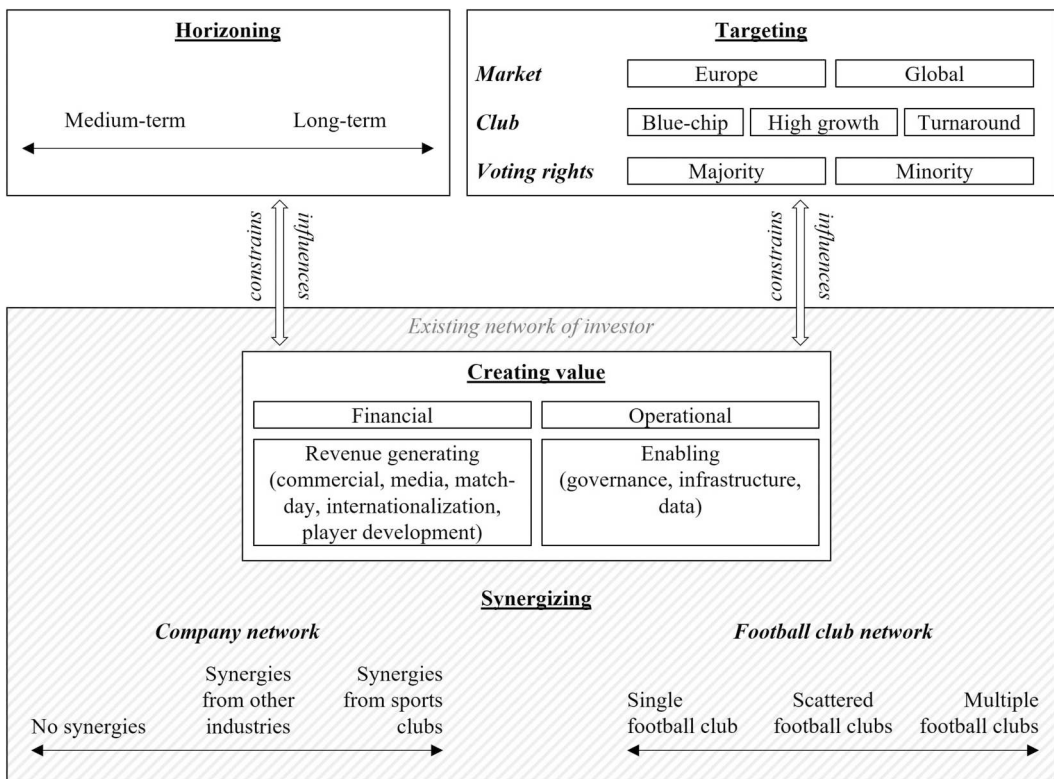
bidirectional relationship between the investor's operating context and capabilities and the choices he or she can make regarding investment horizons and targets. The ultimate strategy for creating value relies heavily on the value drivers identified. Financial investors undertake this process in an environment that is characterized by their existing portfolio or network, including football clubs and other businesses, and their ability to maximize synergies.

Through these four interrelated microprocesses and their relevant properties, financial investors develop strategies for generating value in the football industry. The following section discusses observed strategies as well as their broader implications for the football industry.

### *Strategies for value creation*

By observing the behavior of financial investors in football, certain patterns can be discerned within the aforementioned framework. As such, five distinctive strategies for value creation that are currently being used by financial investors in football are outlined and explained. Future scholars should, however, critically evaluate these strategies in real-life scenarios and quantitatively analyze the actual returns once certain financial investors have executed their exit strategies.

The five value creation strategies are as follows: the Phoenix Strategy, the (Cash) Cow Strategy, the Gazelle Strategy, the Ants Colony Strategy, and the Eagle's Nest Strategy. Figure 2 below illustrates the patterns observed across various themes and sub-themes. The light shadow indicates a tendency towards a certain characteristic in the behavior of the investors implementing the strategy. Gray boxes indicate a stronger pattern (indication), whereas black boxes indicate a clear application of the respective characteristic within the strategy (focus). In the following section, we provide a brief description of each strategy.



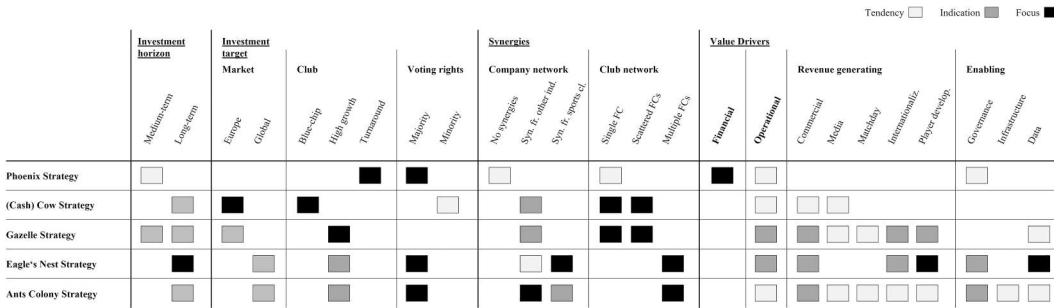
**Figure 1.** Towards a substantive theory of football financial investments.

**Phoenix strategy**

The Phoenix strategy primarily focuses on turnaround cases, utilizing financial restructuring as the primary means of creating value, with operational or governance measures being applied in certain instances. There is no strategy that is particularly suitable for medium-term goals other than this one. A geographical focus is

not observed, as investors generally focus on one club, acquiring major positions without attempting to synergize with their other portfolio assets, which do not contribute significantly to value creation.

The Phoenix strategy is predominantly employed by renowned investment firms such as Elliott Management, King Street Capital,



**Figure 2.** Characteristics of value creation strategies.



Merlyn Partners, Oaktree, and Sisu Capital. These firms have substantial expertise in distressed cases in a variety of industries. By leveraging their experience, these investors can assist football clubs in ensuring their survival. As AC Milan noted: “The constant support of Elliott, which guarantees the financial stability of AC Milan, has however allowed important investments, the effects of which will begin to be visible in the near future.” (Gazidis, 2020). In 2022, AC Milan won their first national title since 2011 and appeared in the semifinals of the Champions League the following year as a result of this strategy.

### *(Cash)#Cow strategy*

An important characteristic of the (Cash) Cow strategy is the focus on well-established football clubs with high revenue streams, primarily in the European market. The investors who adopt this strategy have a long-term perspective and do not seek to establish a network of multiple clubs. The (Cash) Cow strategy takes a relatively passive approach, with value creation frequently focused on increasing revenues in commercial areas and selling the football club’s shares at a higher value later. As a result, holding minority positions is an appropriate course of action. In this strategy, the overarching objective is to invest in the overall market based on the belief that growth rates will continue to be steady. Thus, investors select clubs that are in a stable position and have a significant share of the industry’s income. Ares Management’s investment rationale is explained as follows:

We remain encouraged by the attractive industry tailwinds that are driving great demand for innovative investors, like Ares, in this sector. We believe the strong secular demand for content in the sports, media and entertainment sector is driving the need for flexible capital. (Affolter, 2021, september 18)

There is a widespread belief among US investors that the football industry will continue to

grow significantly, particularly in terms of media revenues. Even if the recently, rather stagnating, revenues from the sale of domestic broadcasting rights could also indicate a deceleration of market growth. However, their conviction has been based on the higher revenues and valuations seen in US sports franchises, which have led them to believe that football can also experience an upswing. It is noteworthy that 56% of all investors in this category are based in the United States. Paul Conway of Pacific Media Group echoes this sentiment, stating:

And then your typical American investor says wait a minute, if I want to buy this basketball team or MLS team it’s 12 times revenue, that doesn’t make sense. I can go into Europe at one-and-a-half times revenue or two times or three times. And this is what the world wants to watch. (Conway, 2022)

### *Gazelle strategy*

Gazelle strategy investors seek to identify football clubs with a high potential for rapid growth. Specifically, this strategy focuses on second-tier European clubs that can quickly improve both their sporting and commercial performance. Given the relatively modest valuations of such clubs, financial investors expect substantial returns. Thus, all avenues of generating revenue, particularly player development, play an important role within this strategy. An important point to note is that investors practicing the Gazelle strategy do not necessarily seek a majority position in these clubs.

According to one of the investors in an interview, their goal is to invest in leagues that have relatively low wage levels, enabling them to compete in European competitions while achieving substantial cash margins (INV-S 3, 2023). The investor base of this strategy is the most diverse of the five, with Joseph Tacopina and Stephen Pagliuca being two of the individual investors who are part of the group. Moreover, this strategy is not only the most

commonly applied (32%,  $n = 12$ ), but it is also preferred by investors with a narrower focus, such as those who specialize in sports or football. Therefore, one could argue that the Gazelle Strategy falls at the crossroads of general investing and special sports expertise.

### **Eagle's Nest strategy**

The Eagle's Nest strategy is one of two distinct strategies that specifically involve the establishment of a multi-club ownership (MCO) model. This strategy typically involves acquiring targets on a global scale. Contrary to the next strategy, investors place a high priority on player development as a means of generating revenue and enhancing overall value. Consequently, the focus is on leveraging synergies with other sports clubs, with data support providing the key value driver – beyond player development – to facilitate well-informed squad decisions. To achieve their objectives through the Eagle's Nest strategy, investors utilize operational, governance-related, and commercial levers to establish optimal professional structures for talent development. An investor interviewed indicated that this strategy was formulated specifically with the development of players at its core:

Our players can be guaranteed a match time, which is of utmost importance. We are able to do this more easily within an MCO model than if we were to lend players to other clubs. We would not be able to offer our players a chance if these clubs were to become insolvent. We are able to control this in our own ecosystem - sometimes player development is more important than avoiding relegation. (INV-S 3, 2023)

These investors have a strong focus on the industry, since they have the ability and belief to influence the sporting side of the business. With John Textor, there is only one investor who holds other entertainment and media assets, whereas Blue Crow Sports, Core Sports Capital, David Blitzer, and Pacific Media Group all focus exclusively on sports or football assets.

### **Ants Colony strategy**

The Ants Colony strategy exhibits similar characteristics as the Eagle's Nest strategy. Investors concentrate on synergies between football clubs and other assets within their portfolio. 777 Partners own multiple football clubs in different countries and assert:

We believe the synergies gained by owning logical multiple clubs and multiple competitions and multiple stadia [*sic!*] makes a lot of sense. There are significant synergies to be gained by being able to maximize the value of these assets. (Blazquez, 2021)

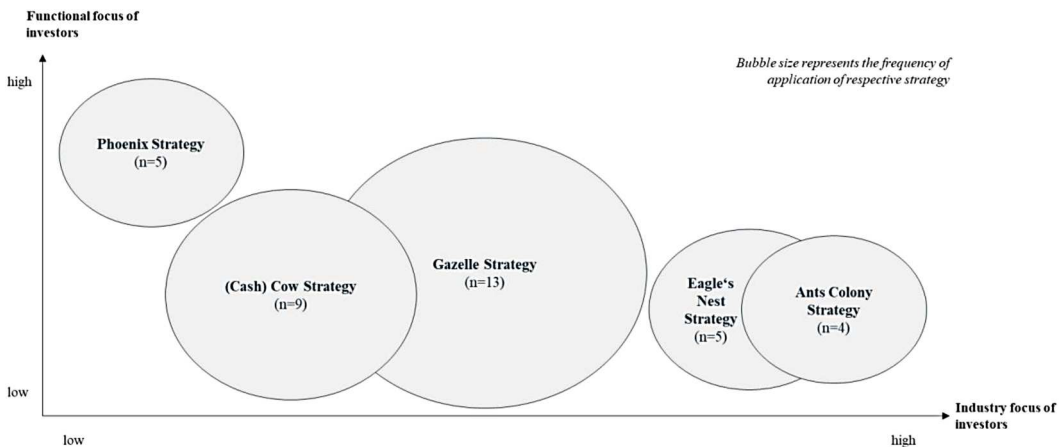
An additional motive of creating MCO constructs can be to diversify risk. One of the institutional investors explains:

It is just the very basic principle of risk diversification. If you own only one club, you have objectives for it, but if it does not achieve them, or in a worst-case scenario, it is relegated, the impact on that one club may be tremendous since your revenue could drop by two-thirds. When you spread your risk across two, three, four, or ten clubs, the impact on the overall structure will be smaller if one club receives a pretty poor sporting result. (INV-S 2, 2022)

This strategy has been implemented by prominent investors such as 777 Partners, ACA Football Partners, Orlegi Sports, and Noah Football Group. In most cases, these investors are institutional and have significant experience in the field of sports and football. Commercial expansion within the industry is their explicit objective.

Figure 3 illustrates the framework resulting from the above results and the establishment of five distinct value creation strategies. Financial investors in football employ specific strategies based on their functional and industry focus. Typically, investors with a deep understanding of sports and football, who are characterized by a narrow industry focus, tend to tailor their strategies towards implementing significant operational changes and influencing club performance. Conversely, investors with





**Figure 3.** Industry and functional focus of investors applying different value creation strategies.

extensive expertise and experience in investing tend to focus on individual clubs that display high growth potential or seek to capitalize on market expansion in general. Lastly, investors who are well versed in handling distressed situations continue to focus on acquiring turn-around clubs.

### Conclusions and implications

In this study, we sought to formulate a substantive theory regarding the value creation process employed by financial investors in football as compared to conventional investment theory. To gain a deeper understanding of these investors' nature and activities, a framework comprising four processes with multiple properties elucidating financial investors' activities in football is introduced, along with five discrete value-creation strategies demonstrating how these patterns are evolving.

The importance of such an understanding is particularly apparent in light of the ongoing interest of financial investors in football clubs. The investors analyzed in this study elucidate the attractiveness of this industry by highlighting two key factors: first, football assets display a significant lack of correlation with most other asset classes, as even during economic downturns, people continue to engage with football.

A second factor contributing to good returns is the constant increase in revenues in the biggest European leagues (but certainly not across the football industry as latest reports show (e.g. Deloitte Annual Review of Football Finance 2023)) and an accelerated professionalization process.

Three practical implications can be drawn from the findings of this paper. Firstly, football club managers will be able to gain a more comprehensive understanding of the motivations and strategies employed by their owners and peers, allowing them to make more appropriate management decisions. Secondly, financial investors may perceive the football industry as a viable investment opportunity and formulate strategies accordingly. Last but not least, regulators can put in place appropriate safeguards for regulating the business activities of financial investors, especially the possibility of owning multiple clubs participating in the same competition.

The primary objective of financial investors is to generate financial returns. This study demonstrates that they adapt their strategies and employ distinct approaches in order to accomplish this goal. By doing so, they contribute to the professionalization of football club management and the rationalization of strategic decisions. As long as regulators ensure that football clubs and their owners adhere to

fundamental economic principles, financial investors can have a positive impact on the football industry. As irrational investors harm competition, it is necessary to prevent the injection of substantial capital without the intention of achieving profitability. In contrast, financial investors with a long-term, rational, and strategic approach may achieve positive results. Because additional regulations usually represent an intrusion into competition, it is important to keep in mind that they should be evaluated carefully before they are implemented.

This study should be viewed as tentative due to its exploratory nature, and further research should be conducted to validate its findings. Scholars should also compare different strategies quantitatively based upon the actual returns they generate as the number of realized exits increases. As an additional consideration, it would be valuable to analyze the impact from the perspective of football clubs, taking into account the nature and strategies of the respective investors.




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**Appendix. Information on sample of investors.**

#	Investors	Origin	Value Creation Strategy	Club Origin	Club Invested ( <i>within observed sample</i> )	Voting Rights	Year Entry	Year Exit
1	Elliott Management	USA	Phoenix Strategy	Italy	AC Milan	Majority	2018	2022
2	King Street Capital	USA	Phoenix Strategy	France	Girondins Bordeaux	Majority	2018	/
3	Merlyn Partners	Luxembourg	Phoenix Strategy	France	LOSC Lille	Majority	2020	/
4	Oaktree	USA	Phoenix Strategy	France	SM Caen	Majority	2021	/
5	Sisu Capital	UK	Phoenix Strategy	Italy	FC Internazionale Milano	Minority	2019	2021
				England	Coventry City	Majority	2007	/
6	ACA Football Partners	Singapore	Ants Colony Strategy	Belgium	KMSK Deinze	Majority	2022	/
8	Core Sports Capital	Switzerland	Eagle's Nest Strategy	France	Clermont Foot 63	Majority	2019	/
9	Noah Football Group	Canada	Ants Colony Strategy	France	Paris FC	Minority	2022	/
10	Orlegi Sports	Mexico	Ants Colony Strategy	Mexico	Club Santos Laguna	Majority	2006	/
				Mexico	Atlas Guadalajara	Majority	2019	/
				Spain	Sporting Gijon	Majority	2022	/
11	Pacific Media Group	USA / China	Eagle's Nest Strategy	Belgium	KV Oostende	Majority	2020	/
				England	FC Barnsley	Majority	2017	/
				France	OGC Nice	Majority	2016	2019
				France	AS Nancy-Lorraine	Majority	2021	/
				Netherlands	FC Den Bosch	Majority	2021	/
12	Blue Crow Sports	USA	Eagle's Nest Strategy	Spain	CD Leganes	Majority	2022	/
13	Sport Republic	UK	Gazelle Strategy	England	FC Southampton	Majority	2022	/
14	ALK Capital	USA	Gazelle Strategy	Turkey	Goztepe SK	Majority	2022	/
				England	Burnley FC	Majority	2021	/
15	Aser Group	UK	Gazelle Strategy	England	Leeds United	Majority	2012	2014
16	CMC	China	(Cash) Cow Strategy	England	Manchester City	Minority	2015	/
17	IDG Capital	China	(Cash) Cow Strategy	France	Olympique Lyonnais	Minority	2016	/
18	North Sixth Group	USA	Gazelle Strategy	Italy	Ascoli Calcio 1898 FC	Minority	2021	/
19	Orkila Capital	USA	Gazelle Strategy	Belgium	Club Brugge KV	Minority	2021	/
20	RedBird Capital	USA	Gazelle Strategy	England	Liverpool FC	Minority	2021	/
				France	FC Toulouse	Majority	2020	/
				Italy	AC Milan	Majority	2018	2022
				Spain	FC Malaga	Minority	2021	/
21	Silver Lake	USA	(Cash) Cow Strategy	England	Manchester City	Minority	2015	/
22	777 Partners	USA	Ants Colony Strategy	Belgium	Standard de Liege	Majority	2022	/
				Italy	Genoa C.F.C.	Majority	2021	/
				Spain	FC Sevilla	Minority	2018	/
23	Ares Management	USA	(Cash) Cow Strategy	Spain	Atletico de Madrid	Minority	2021	/
24	Clearlake Capital	USA	(Cash) Cow Strategy	USA	Inter Miami CF	Minority	2021	/
				England	Chelsea Football Club	Majority	2022	/
25	Colony Capital	USA	(Cash) Cow Strategy	France	FC Paris Saint-Germain	Majority	2006	2011
26	General American Partners	USA	Gazelle Strategy	France	Girondins Bordeaux	Majority	2018	/
27	GFH Capital	UAE		England	Leeds United	Majority	2012	2014

(Continued)



Continued.

#	Investors	Origin	Value Creation Strategy	Club Origin	Club Invested ( <i>within observed sample</i> )	Voting Rights	Year Entry	Year Exit
28	KKR	USA	Gazelle Strategy	Germany	Hertha BSC	Minority	2014	2018
29	Lindsell Train	United Kingdom	(Cash) Cow Strategy	England	Manchester United	Minority	2017	/
30	LionRock Capital	Hongkong	(Cash) Cow Strategy	Italy	Juventus Football Club	Minority	2016	/
31	Peak 6	USA	(Cash) Cow Strategy	Italy	FC Internazionale Milano	Minority	2019	2021
32	Sixth Street	USA	Gazelle Strategy	England	Wolverhampton Wanderers FC	Minority	2021	/
33	Jim Miller	USA	(Cash) Cow Strategy	England	AFC Bournemouth	Minority	2015	2019
34	Joseph Tacopina	USA	Gazelle Strategy	Spain	Real Madrid CF	Minority	2022	/
35	David Blitzter	USA	Gazelle Strategy	Spain	FC Barcelona	Minority	2022	/
36	Stephen Pagliuca	USA	Gazelle Strategy	Spain	Real Zaragoza	Majority	2022	/
37	John Textor	USA	Eagle's Nest Strategy	Italy	SPAL	Majority	2021	/
				Italy	FC Bologna	Majority	2017	/
				Italy	AS Roma	Majority	2011	2014
				Belgium	SK Beeveren	Majority	2020	/
				England	Crystal Palace	Majority	2015	/
				Germany	FC Augsburg	Minority	2021	/
				Netherlands	ADO Den Haag	Majority	2022	/
				Spain	AD Alcorcon	Majority	2019	/
				USA	Real Salt Lake City	Majority	2022	/
				Italy	Atalanta Bergamasca Calcio	Majority	2022	/
				Belgium	RWD Molenbeek	Minority	2022	/
				Brazil	Botafogo Rio de Janeiro	Majority	2022	/