

Quo Vadis Euroleague Basketball?

*Insights into one of the most uncertain periods
of European club basketball*

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Introduction

- On May 26, 2022, it was reported that the Euroleague Shareholders Executive Board voted to **remove Mr. Jordi Bertomeu**, the President, Chairman and CEO of Euroleague Basketball from **all his positions**.
- This step was preceded by some key decisions made over the last 12 months, starting with a **secret meeting** organized by some of the Euroleague licensed clubs back in April 2021, followed by the **removal of Mr. Bertomeu from the Executive Shareholders Board**, the key management body in Euroleague Governance model. Back then the official comment was that this would just be a formal change with no impact on the decision-making processes at Euroleague, nor on Mr. Bertomeu's role and responsibilities. It was also reported that the clubs engaged an external audit firm to perform a **special audit** of Euroleague's financials.
- Mr. Bertomeu is not just "any" basketball manager. He has been the CEO of Euroleague since from the beginning and the Chairman of the Board and President for more than 10 years, making him arguably the **most influential basketball executive** in Europe. He has been the main personification of the idea of Euroleague. Therefore, his departure requires an in-depth analysis. Has the idea of Euroleague failed entirely? What are the underlying reasons/issues? Is there a future for Euroleague?
- This study aims at providing answers to (some of) these questions.

EuroLeague clubs-shareholders voted to dismiss Jordi Bertomeu from the CEO position

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Source: Eurohoops

Content

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Financial Issues

General overview

- 🏀 European club basketball has been **struggling with financial issues** for decades. Virtually none of the professional basketball clubs in Europe has been profitable on a continuous basis. A **solid revenue (growth) model** never existed. One of the main income items in club budgets has rather been **cash injections** from clubs' shareholders (e.g. football clubs, wealthy businessmen, companies, main sponsors or in some cases even – local – governments). Despite challenges with revenue generation and growth, expenses (predominantly **player salaries**), increased exorbitantly over the years which led to an even more unstable financial structure.
- 🏀 Euroleague's initial idea was to create a more "**attractive product**" for the sports fans which would be priced at a much higher value and sold through more platforms in Europe and the world. Founding member clubs had the expectation that, on the revenue side, the (semi-)closed league format, supported by more professional league management structure, would help generate significantly **more revenues**, whereas initiatives like Financial Fair Play rules were intended to bring a higher **budget discipline** and have a **slow-down effect** on clubs' spending.
- 🏀 From today's perspective, it is argued by many authorities that, despite some improvements, Euroleague could still not manage to implement a **sustainable financial model**, especially for the clubs. Hence, it is not very surprising to hear that Euroleague's economic performance has been called out as one of the main reasons for the management change.

Financial Issues

Availability of financial information

- It is almost impossible to get fully **transparent information** to assess Euroleague's actual economic performance which is in our opinion one of the critical issues that need to be improved. The **information policy** applied by Euroleague and its clubs has been quite **restrictive** and **selective** for many years, which primarily consists of sharing information about positive developments.
- Furthermore, in its press releases published after board meetings, **positive news** about increase in game attendance, social media presence, etc. has been shared with the public on a regular basis. Additionally, the **agreement with IMG** was promoted as a breakthrough event for European basketball in terms of increasing revenues and taking the competition to the next level with the support of a professional organization such as IMG.
- However, it is **not possible to assess** how clubs and Euroleague entities are actually performing in financial terms. Typically, (audited) financial statements (primarily the profit and loss statement as well as the balance sheet) represent the best source of information for such an assessment.
- In the case of Euroleague clubs, **only a few of them** are sharing such financial information with the public (in different formats and frequency). See below for further details and discussion.

Financial Issues

Club financials – FC Barcelona Basketball

- Below table provides a full income statement of FC Barcelona's basketball division for the seasons from 2015-16 through 2020-21. In these 6 seasons, the club generated an **average loss of EUR 26.6 million** per season (EUR 24.2 million/season on average before the pandemic) which is essentially **funded by club's football operations**.



BARÇA

<i>in thousand €</i>	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Revenues	6.811	9.430	9.196	11.264	8.537	10.669
Revenue from competitions	1.522	1.343	1.581	2.015	1.582	(45)
Revenue from season tickets and members	669	735	921	777	768	(156)
Revenue from TV broadcasts and TV rights	1.501	2.350	2.191	2.825	3.265	3.943
Revenue from marketing and advertising	3.119	5.002	4.503	5.647	2.922	6.927
Employee Expenses	(21.275)	(24.620)	(28.548)	(25.612)	(30.172)	(39.401)
Wages and salaries of sports squad	(20.408)	(23.820)	(27.718)	(24.676)	(29.214)	(38.461)
Wages, salaries et al.	(278)	(229)	(265)	(266)	(267)	(217)
Social security costs, et al.	(580)	(562)	(556)	(661)	(691)	(723)
Provisions	(9)	(9)	(9)	(9)	0	0
Other Operating Expenses	(7.354)	(7.091)	(6.954)	(6.507)	(4.835)	(4.250)
Other Costs / Income	(701)	(1.002)	(2.494)	(1.486)	(1.743)	(1.708)
Operating Profit / (Loss)	(22.519)	(23.283)	(28.800)	(22.341)	(28.213)	(34.690)

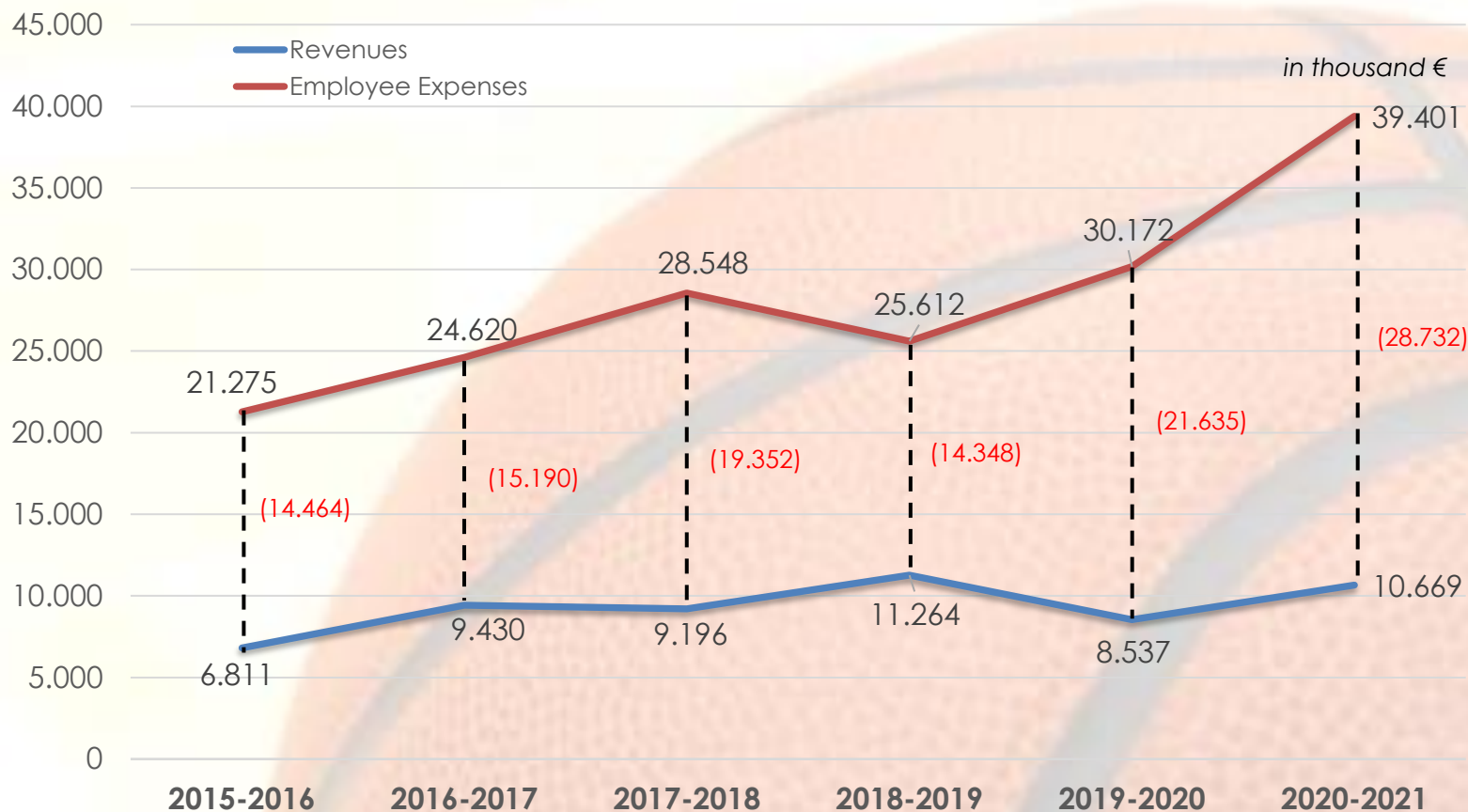
Financial Issues

Club financials – FC Barcelona Basketball



BARÇA

- The **gap between revenues and employee expenses**, a key measure for financial sustainability, has almost **doubled** in only 6 seasons, from **EUR 14.5 million** to **EUR 28.7 million**. The **significant increase of employee expenses** (31% vs. PY) even during the pandemic (2020-21 season) is concerning.



Source: FC Barcelona Annual Statements

Financial Issues

Club financials – Real Madrid Basketball



- Similar to FC Barcelona, each year Real Madrid is also generating **significant losses** as a result of its basketball activities. **Average loss per year** over the same 6-year period amounted to **EUR 23.8 million** (EUR 24.4 million before the pandemic). Due to similar business models, Real Madrid basketball is also **cross-funded by football**.

<i>in thousand €</i>	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Revenues	10.873	12.951	12.666	15.970	14.463	11.153
Membership fees, ticket sales and other stadium rev	3.785	4.459	3.965	5.497	4.140	55
Revenue from international and friendly matches	95	1.373	876	1.293	868	564
Broadcasting revenue	1.646	1.811	1.719	2.295	2.742	3.486
Marketing revenue	5.347	5.308	6.106	6.885	6.713	7.048
Sports and Non-sports Personnel Expenses	(25.865)	(28.771)	(27.468)	(32.336)	(32.628)	(31.144)
Operating Expenses	(6.364)	(7.278)	(7.339)	(8.410)	(6.599)	(5.346)
Other Costs / Income	(3.119)	806	(2.215)	(1.696)	(1.604)	6.476
Operating Profit / (Loss)	(24.475)	(22.292)	(24.356)	(26.472)	(26.368)	(18.861)

*) 2017-18 figures are based on club's budget

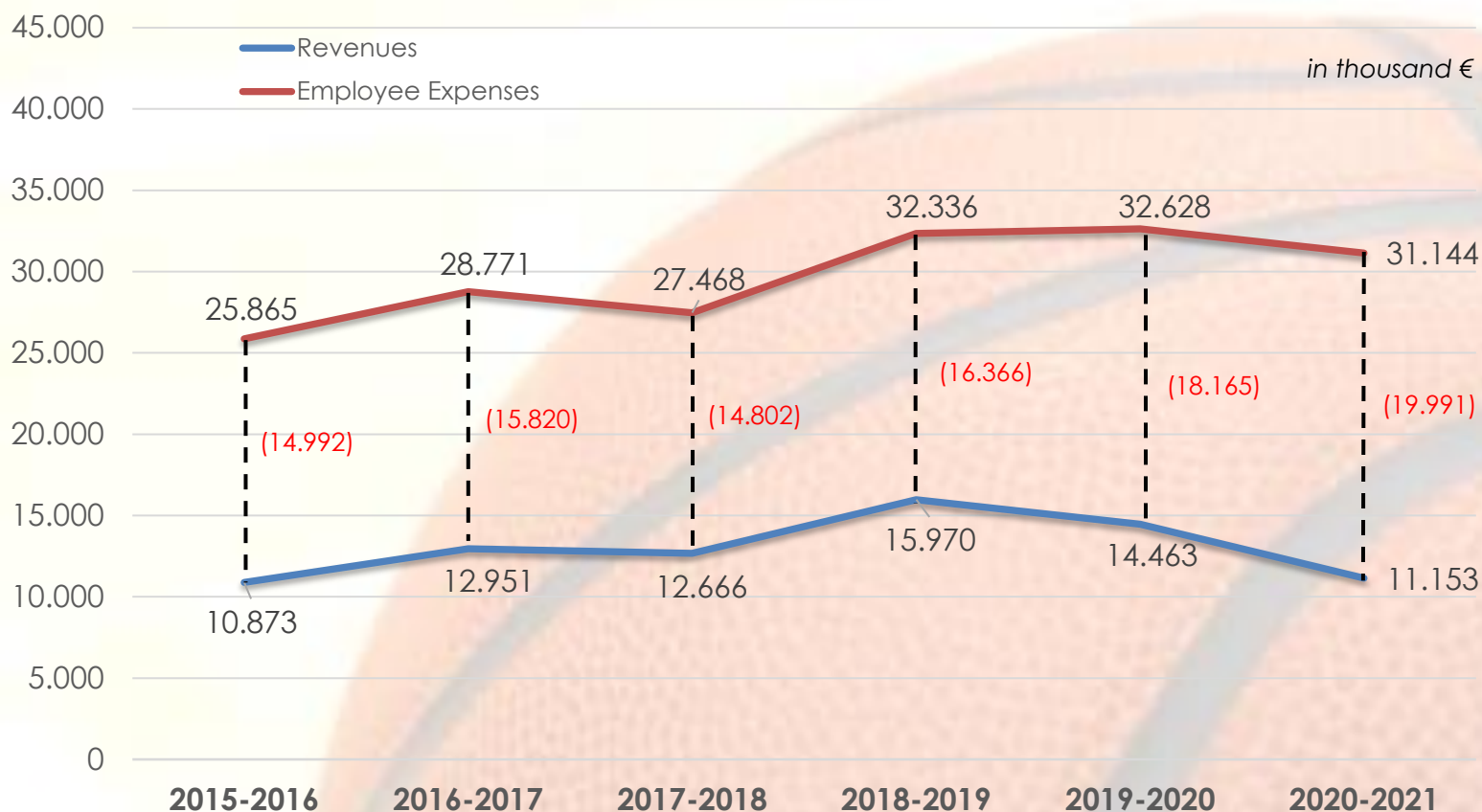
Source: Real Madrid Management Reports

- Real Madrid's **employee spend** slightly **decreased** in the last two seasons, whereas FC Barcelona spent 32% more on player salaries. Another factor to consider is that in 2020-21, Real Madrid is showing a **one-time gain on disposal of non-current assets** amounting to EUR 7.8 million which has a significant positive impact on the results. We assume that this is related to the transfer fees for players who went to the NBA.

Financial Issues

Club financials – Real Madrid Basketball

- 🏀 **Employee expenses** of Real Madrid **exceeded its revenues** on average by **EUR 16.7 million** or 129%. In terms of absolute figures, the deficit is lower than in the case of FC Barcelona, however the overall situation is **far away from being sustainable**.



Source: Real Madrid Management Reports

Financial Issues

Club financials – FC Bayern München Basketball



- FC Bayern has some **key similarities** with FC Barcelona and Real Madrid. Without any doubt, its **football division** plays in the same “league“, both in sporting as well as financial terms. As per **Deloitte Money League**, in recent years they were in the top group of football clubs (together with FC Barcelona and Real Madrid) with **highest revenues** in Europe. However, there are some **major differences** in the (financial) structure of their basketball divisions. One of FC Bayern Basketball's main founding principles was to create a separate basketball division which shall be **self-sustaining** (i.e. no direct funding from football).
- Unlike FC Barcelona or Real Madrid, the club's **revenues** seem to fully **cover (player) salaries** consistently. It also spends **more on operating expenses** which might be indicative of a more professional (and complete) management structure. However, in terms of **sporting success**, FC Bayern Basketball is (still) **lagging behind** top clubs. Ultimately, FC Bayern Basketball also generates **losses**, even before the pandemic (albeit by far not as significant as Barca or Real).

*) 2020-21 season gross profit also includes government subsidies for COVID-19 pandemic amounting to EUR 2.7 millions. Without this support, total loss for the season would amount to EUR 2.8 millions.



<i>in thousand €</i>	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Gross Profit	17.987	18.975	22.653	26.443	24.059	23.850
Personnel Expenses	(11.526)	(11.868)	(15.083)	(18.584)	(16.877)	(15.342)
Other Operating Expenses	(5.435)	(6.107)	(6.695)	(9.128)	(9.919)	(8.094)
Other Costs / Income	(1.254)	(970)	(1.389)	(727)	(511)	(511)
Operating Profit / (Loss)	(228)	30	(514)	(1.996)	(3.248)	(97)

Source: Published Financial Statements of FC Bayern München Basketball GmbH

Financial Issues

Club financials – Brose Baskets Bamberg



- Brose Baskets Bamberg is not playing in Euroleague anymore since the 2017-18 season. However, in our opinion, its **development over the years** has a direct relevance for assessing Euroleague's financial issues.
- The club was a **dominant force** in the German league, especially in the period 2005-2017, winning the German championship for 9 times and the German cup 4 times. In Euroleague, it never qualified for the Playoffs, but it was best known for its **success** in taking several players to the **elite level** such as Kyle Hines, Brad Wanamaker, Nicolo Melli, Fabien Causeur etc.
- Starting from the 2018-19 season, the club decided to compete in **FIBA Basketball Champions League (BCL)**. The switch to the BCL was also accompanied by some other key decisions such as changing the club's player **transfer policy** and focusing more on own **youth development**. This material change appears to have two major consequences: (i) **significant decrease in revenues/gross profit**, and (ii) **significant decrease in salary payments**, resulting in a **profitable operation with a less promising (sporting) vision**.

Source: Published Financial Statements of Bamberger Basketball GmbH



<i>in thousand €</i>	2015-16	2016-17	2017-18	2018-19	2019-20
Gross Profit	16.036	19.851	20.354	17.946	13.779
Personnel Expenses	(12.264)	(15.092)	(16.945)	(13.759)	(8.798)
Other Operating Expenses	(3.569)	(4.564)	(4.618)	(3.730)	(2.721)
Other Costs / Income	(352)	(266)	(484)	(325)	(541)
Operating Profit / (Loss)	(149)	(71)	(1.693)	132	1.719

Financial Issues

Club financials – Alba Berlin

- Alba Berlin **does not publish** detailed information about its income statement. Therefore, only the net income/(loss) (as included in their balance sheet) is presented below. The club appears to be **one of the few basketball clubs** which **did not** generate **negative results** in recent years. It seems that, even in the pandemic season (2019-2020), it managed to generate a profit, presumably thanks to its **sporting success** in that season, i.e. winning the German league championship, and **government subsidies** for the pandemic. Also, in 2018-19, reaching the EuroCup final must have played a key role for the profit.



Source: Published Financial Statements of ALBA BERLIN Basketball GmbH

	 EuroCup	 EuroCup	 EuroCup	 EuroCup	 TURKISH AIRLINES EuroLeague
<i>in thousand €</i>	2015-16	2016-17	2017-18	2018-19	2019-20
Net Income / (Loss)	216	23	368	804	107

- We believe that, in the mid-/long term, the (financial) development of Alba Berlin would be of high interest and relevance for the **overall sustainability** of the Euroleague system due to the following reason: Alba Berlin is sponsored by the **Alba SE**, a group in the recycling and waste management industry based in Berlin. While its **naming sponsor's support** is undeniable for the existence of the club for many years, going forward, the club would be required to **generate more and more incremental revenues** independently, because Alba SE generated losses in 4 of the last 7 years (i.e. since 2015). Its average profit in the same period was (only) EUR 0.7 million which is a small amount compared to some other companies that sponsor Euroleague clubs.
- The club's **unique characteristics**, such as having a rich basketball tradition, being based in a global metropole like Berlin, having access to a modern arena etc. are important strategic advantages. However, in our opinion, key aspect for the future of the club will be ensuring **financial stability** through revenue diversification which is also directly linked to **sporting success**.

Financial Issues

Club financials – Fenerbahçe Beko

- Fenerbahçe Beko is one of the most successful teams in the last decade of Euro-league. **Separate financials** of the so-called amateur branches incl. basketball are **not shared** with the public on a regular basis. Every year, the club presents an **activity report**. In its 2018 report, detailed information was available for all sports divisions. In following years, only **aggregated figures** were published. Therefore, we are not able to perform a multi-year trend analysis for the basketball division. Despite this limitation, we believe that the **analysis of 2018** would still be relevant for this study, because 2018 represents one of the **most successful** years of the club. Having won the Euroleague in 2017 and played final in 2018, club's **profit potential** should have been at a **maximum level**.



Source: Fenerbahçe SK 2018 Faaliyet Raporu



GELİRLER	2018		
	BÜTÇE	FİİLİ	FARK
Sporif Faaliyet Dışı Gelirleri	120.970.000	22.931.611	-98.038.389
Aidat Giriş ve Teberru Gelirleri	52.500.000	24.262.635	-28.237.365
Amatör Şube Gelirleri	90.300.000	63.822.170	-26.477.830
Erkek Basketbol	68.500.000	45.340.477	-23.159.523
Kadın Basketbol	10.500.000	5.033.962	-5.466.038
Erkek Voleybol	2.000.000	1.258.420	-741.580
Kadın Voleybol	2.200.000	6.523.184	4.323.184
Kürek	400.000	64.210	-335.790
Atletizm	400.000	118.803	-281.197
Yüzme	400.000	153.247	-246.753
Masa Tenisi	400.000	10.599	-389.401
Yelken	5.100.000	5.292.214	192.214
Boks	400.000	27.054	-372.946
Amatör Şube Sponsorluk Gelirleri	0	32.993.465	32.993.465
Tarafart Kart Gelirleri	5.000.000	3.702.808	-1.297.192
Kambiyo Karları	10.000.000	27.245.228	17.245.228
Bağış Gelirleri	5.000.000	40.135.187	35.135.187
7103 SK Amatör Şube Tesvik Gelirleri	35.000.000	29.372.978	-5.627.022
Faiz Gelirleri	1.000.000	302.427	-697.573
Temettu Gelirleri	90.000.000	0	-90.000.000
Menkul Kıymet Satış Karları	55.000.000	0	-55.000.000
Diğer Çeşitli Gelirler	5.000.000	3.241.974	-1.758.026
Dış Kaynak	97.679.200	0	-97.679.200
TOPLAM	567.449.200	248.010.503	-319.438.697

GİDERLER	2018		
	BÜTÇE	FİİLİ	FARK
Genel Giderler	51.020.000	67.814.523	-16.794.523
Stad Giderleri	5.450.000	2.205.747	3.244.253
Can Bartu Tesis Giderleri	2.000.000	1.571.269	428.731
Lefter Küçükandonyadis Tesis Gid.	4.950.000	1.881.845	3.068.155
Bir Milyon Üye ve Tarafart Kart Gid.	9.980.000	7.200.701	2.779.299
Amatör Şube Giderleri	109.048.200	738.264.522	-629.216.322
Erkek Basketbol	136.200.000	158.838.884	-22.638.884
Kadın Basketbol	13.200.000	24.151.166	-10.951.166
Erkek Voleybol	7.700.000	13.048.260	-5.348.260
Kadın Voleybol	20.500.000	20.347.422	152.578
Kürek	3.646.400	3.778.895	-132.495
Atletizm	4.898.800	6.812.025	-1.913.225
Yüzme	4.142.300	4.406.563	-264.263
Masa Tenisi	1.585.100	949.383	635.717
Yelken	5.100.000	5.527.081	-427.081
Boks	2.078.600	1.904.493	174.107
Yatırım Giderleri	35.000.000	0	35.000.000
Finansman Giderleri	40.000.000	54.517.638	-14.517.638
İlişkili Taraf Finansman Gid.	210.000.000	164.852.595	45.147.405
Kambiyo Zararları	10.000.000	284.073.493	-274.073.493
TOPLAM	567.449.200	823.982.382	-256.533.183
Bütçe Dışı Kur Farkı Fazlası			-274.073.493
KUR FARKI SONRASI TOPLAM	567.449.200	549.908.889	17.540.311

- As presented above, in 2018 club's **direct income from basketball operations** amounted to **TRY 45.3 million** (EUR 7.9 million). With full allocation of sponsoring income and tax subsidies, **total income** amounts to **EUR 18.9 million**. **Direct expenses** were **TRY 158.8 million** (EUR 27.8 million) which results in a **deficit** of (at least) **EUR 8.9 million**. Please note that **EUR/TRY FX rate** has significantly **deteriorated** since 2018, moving from 5,71 to 17,69 in June 2022 (**210%**) which added **significant burden** to Turkish clubs' budgets, especially because the **salaries** are in **EUR or USD**.

Financial Issues

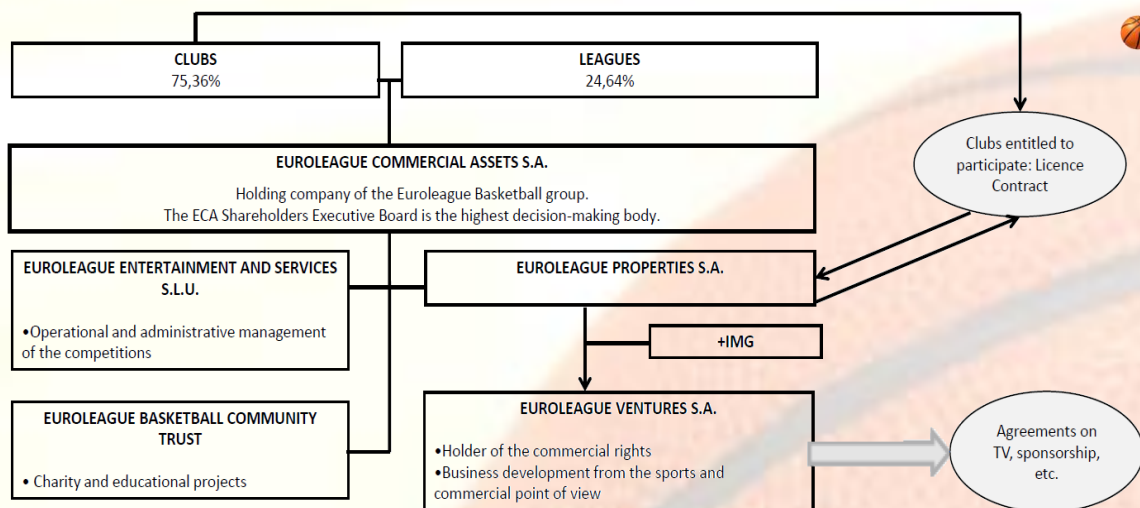


Euroleague
Basketball

Financials of Euroleague entities

- After analyzing the **financial statements** of select **Euroleague clubs**, in this section the focus is on assessing the **financial performance of Euroleague**, as the organizing entity of Euroleague basketball competitions.

- Euroleague Basketball consists of the following **legal entities**:



Source: <https://academia.utp.edu.co/extensioendeportes/files/2020/05/Modelos-Privados-De-Organizacion-Del-Deporte-EuroLeague-Basketball.-Marta-Utor.pdf>

- The **stand-alone financial statements** of its four entities (Euroleague Commercial Assets S.A., Euroleague Entertainment and Services S.L.U., Euroleague Properties S.A. and Euroleague Ventures S.A.) are publicly available. Euroleague Basketball Community Trust does not seem to have any major business activity.

Following slides provide a **brief description of each entity** and their **financial results**. However, since **no consolidated financial statements** are shared with the public, it is not possible to see the **“full picture”** without the elimination of the intra-group transactions. Despite this limitation, below financials still give a **certain indication** as to the financial activity and performance of the related entities.

Financial Issues

Financials of Euroleague entities



Euroleague Commercial Assets S.A. (ECA) (Luxembourg)

Euroleague Commercial Assets S.A. is the **limited liability company**, acting pursuant to **Luxembourg law**, with registered office in rue Beaumont 17, L-1219 Luxembourg. It is governed by its Statutes and the resolutions of its governing bodies, the **owners** of which are the **clubs participating in the EuroLeague** and a number of **leagues**.

<i>in thousand €</i>	2015	2016	2017	2018	2019	2020
Net Income / (Loss)	121	(16)	16	6	5	(25)

Source: Published Financial Statements of Euroleague Commercial Assets S.A.

Euroleague Properties S.A. (EP) (Luxembourg)

Euroleague Properties S.A. is the **limited liability** company, **controlled by ECA**, responsible for **managing and organising the Euroleague Basketball competitions** in which the EuroLeague and EuroCup clubs participate, as well as for **commercialising** the properties of these competitions (to deal with the promotion and development of the commercial activities linked to these competitions), in accordance with what is established in the relevant bylaws.

<i>in thousand €</i>	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Net Income / (Loss)	1.345	737	(705)	(1.422)	(1.277)	1.088

Source: Published Financial Statements of Euroleague Properties S.A.

Financial Issues



Financials of Euroleague entities

Euroleague Entertainment & Services, S.L.U. (SLU) (Spain)

EP has **designated** the company Euroleague Entertainment & Services, S.L.U., controlled by ECA, as the body **responsible for the management and administrative organisation of the Euroleague Basketball competitions** in accordance with what is established in the relevant Bylaws. The SLU must adhere to the EuroLeague Regulations and any future modifications, amendments or derogations approved by governing bodies.

<i>in thousand €</i>	2015-16	2016-17	2017-18	2018-19	2019-20
Net Income / (Loss)	324	364	296	431	250

Source: Published Financial Statements of Euroleague Entertainment & Services S.L.U.

Euroleague Ventures S.A. (EV) (Luxembourg)

Euroleague Ventures S.A. is the **limited liability company** incorporated by **EP** and **IMG Media Limited** according to the **Joint Venture Agreement** signed by both parties with the aim of **increasing the stature, awareness and economic value of the Euroleague Basketball competitions and the Clubs**. EP and IMG Media Limited have agreed on a **long-term cooperation** in the management, administration and organisation of the Euroleague Basketball competitions as well as their promotion and commercialisation through the incorporation of EV. IMG has a **45% ownership interest** in this entity.

<i>in thousand €</i>	2016-17	2017-18	2018-19	2019-20
Net Income / (Loss)	(1.136)	(1.152)	(825)	(3.968)

Source: Published Financial Statements of Euroleague Ventures S.A.

Financial Issues

Financials of Euroleague entities

Euroleague Ventures S.A. (EV) (Luxembourg)



Euroleague
Basketball

“Notwithstanding the fact that the Company has **cumulated losses** of **EUR 7,080,978.88** and **negative equity** of **EUR 6,930,978.28** as at 30 June 2020, we are of the opinion that the Company will be able to continue with its activities and meet its financial obligations at least for the upcoming 12 months [...] and therefore the [...] annual accounts have been prepared on a **going concern** basis. The Board of Directors refers to the financial support and guarantees offer by the **joint venture partner IMG** [...]. In this sense, as a result of the cancelation of the competition on 25 May 2020 that opened again on 1st October 2021, the Board of Directors resolved, [...], the constitution of a Financial Committee which agreed that the **Working Capital Requirements** of the JV company for the 2019-2020 financial year to [...] **EUR 7 000 000 to be financed by IMG through the Loan agreement** signed on 8 July 2020.” (2019-20 Balance Sheet – Euroleague Ventures S.A.)

CAPITAL, RESERVES AND LIABILITIES

	Reference(s)	Current year	Previous year
A. Capital and reserves			
I. Subscribed capital	1301 <u>Note 6</u>	301 <u>-6.930.978,28</u>	302 <u>-2.962.810,60</u>
II. Share premium account	1303 <u>Note 6.1</u>	303 <u>150.000,00</u>	304 <u>150.000,00</u>
III. Revaluation reserve	1305	305	306
IV. Reserves	1307	307	308
V. Profit or loss brought forward	1309	309	310
VI. Profit or loss for the financial year	1319 <u>Note 6.3</u>	319 <u>-3.112.810,60</u>	320 <u>-2.288.042,03</u>
	1321 <u>Note 6.3</u>	321 <u>-3.968.167,68</u>	322 <u>-824.768,57</u>

Source: 2019-20 Balance Sheet of Euroleague Ventures S.A.

Financial Issues

Euroleague Ventures S.A. from the perspective of IMG

ENDEAVOR
IMG

- IMG has an **up to 20-year agreement** with Euroleague basketball, which could extend into 2036, **to manage and capitalize** on all of the **commercial business** of the league, including **media rights, sponsorship, content production, licensing, digital distribution, events staging, and hospitality**, for which IMG receives a **management fee**.



Source: Endeavor 2021 Annual Report

● 2021 Annual Report – Endeavor Group Holdings, Inc.

As of December 31, 2021, [Endeavor, the parent company of IMG] has an **equity-method investment in Euroleague**, a related party.

For the years ended December 31, 2021, 2020 and 2019, [Endeavor] recognized **revenue of \$5.6 million, \$(1.5) million and \$6.6 million**, respectively, for a **management fee** to compensate it for **representation and technical services** it provides to **Euroleague** in relation to the **distribution of media rights**. [...]

Also, for the years ended December 31, 2021, 2020 and 2019, [Endeavor] recognized **revenue of \$12.4 million, \$7.8 million and \$7.9 million**, respectively, for **production services** provided to **Euroleague** as well as **direct operating costs** of less than **\$0.1 million, \$3.5 million and \$4.1 million**, respectively, for the procurement of a **license for gaming rights** from Euroleague [...].

Financial Issues

Euroleague Ventures S.A. from the perspective of IMG



- Total **revenues** and **costs** recognized by IMG for the **management fee** as a compensation for **representation** as well as **technical** and **production services** it provided to Euroleague since the fiscal year ended as of December 31, 2016 through 2021 which are **not eliminated** in Endeavor's consolidated financial statements are as follows:

in million \$	2016	2017	2018	2019	2020	2021
Revenues	2.5	12.5	15.7	14.5	6.3	18.0
Costs	(1.4)	(3.4)	(2.6)	(4.1)	(3.5)	(0.1)
Net Impact on IMG results (excl. JV result on equity investment)	1.1	9.1	13.1	10.1	2.8	17.9

Source: SEC Filings of Endeavor Group Holdings, Inc.

- Endeavor's 2021 annual financial statements (Form 10-K) **does not include** any explicit information as to the **equity method results** generated by the Euroleague Ventures S.A.
- However, the Company's **Adjusted EBITDA schedule** includes a line item for "**Equity method losses**" which only shows losses that are related to its equity investment in "Learfield IMG College". Based on this, it can be **assumed** that the JV with Euroleague, Euroleague Ventures S.A., unlike its local stand-alone financials per local GAAP, **does not** create any **losses** under US GAAP that are recorded in the consolidated financial statements of the ultimate parent company, Endeavor.
- As such, the **partnership with Euroleague** appears to be **overall profitable** for IMG/Endeavor.

Content

- Introduction
- Financial Issues
- Governance Issues
- Conclusions
- Future Outlook

Governance Issues

General overview

- Governance is defined as the **system** by which organizations are **directed** and **controlled**. It deals with **structure** and **processes** for **decision-making**, **accountability**, **control** as well as **behavior** within an organization and has a direct influence on how an organization's **objectives** are set and achieved, how **risk** is monitored and addressed and how **performance** is optimized.
- Current governance issues in European basketball exist at **different organizational layers**:
 - (i) at a broader scale within European Basketball,
 - (ii) at Euroleague level and
 - (iii) at club level.

(i) Bad governance practices at a broader scale within European Basketball

- Below mentioned issues **do not only concern** or are **not directly/solely caused** by **Euroleague**. They rather represent challenges which are **also relevant** for other stakeholders in European (club) basketball, i.e. these governance issues are also applicable and relevant for all other organizations and stakeholders **outside of the Euroleague system**.
- While Euroleague may not be able to “fix” all these issues alone, we believe that it has an **important (leading) role** to play to ensure better governance practices across the European basketball community.

Governance Issues

(i) Bad governance practices at a broader scale within European Basketball

FIBA-Euroleague dispute

FIBA-Euroleague dispute represents by far the **most critical** governance issue that currently exists in European basketball since it directly concerns the **top-level management of club basketball** in Europe. This leads to a misalignment and lack of solidarity with regard to almost all **key strategic aspects** of European club competitions which has a significant negative impact on (almost) all of the stakeholders, primarily the players and fans.

In summary, European basketball does not have the “**luxury**” to **split the attention** of basketball fans between Euroleague and National Team games due to conflicts in game scheduling or at the same time running four different European competitions, because it is **not effective, nor efficient**. We believe that without finding a permanent solution for this issue, European basketball will never be able to overcome its structural issues.

For more details about the FIBA-Euroleague dispute and the reasons as to why there has to be an agreement, please refer to the related **EBAG study** published in 2017 which can be found here: [Analyses & Reports - European Basketball Advisory Group \(eb-advisorygroup.org\)](https://www.eb-advisorygroup.org/Analyses%20&%20Reports%20-%20European%20Basketball%20Advisory%20Group)



Governance Issues

(i) Bad governance practices at a broader scale within European Basketball

Manager profiles

Managing basketball at the highest level is not an easy task. In a world which is getting more and more complex, the **experiences and skills of the managers** become a key success factor for their organizations.

Having a background and experience in basketball as a **former athlete** is definitely a huge advantage in terms of having an insider view, especially into the sporting aspects of the game (e.g. as a sports director). However, if a former athlete is **not equipped** with certain skills and experiences in key (business) areas, then he or she will **not be able to** perform up to the challenges within the general management of clubs, leagues or federations. Therefore, we believe that there is an **urgent need** for having talented and experienced managers in key positions who are being selected for GM roles based on their **skill-set**, rather than solely on their former career history as a (star) athlete without any relevant capabilities.

Salary structures & levels for management roles




In many basketball organizations in Europe there is a **significant salary gap** between the top-level managers (i.e. GM, sports director) and the remaining staff members who are in charge of various tasks that are strategically important for their organizations. We do not believe that this is **fair**. In our opinion, it also represents a **major issue** for **attracting young talent** which is desperately needed to tackle the current challenges in (European) basketball.

Governance Issues

(i) Bad governance practices at a broader scale within European Basketball

Corruptive/non-ethical practices

Like in any other line of business, **corruption, fraud, bribery** and other **non-ethical practices** do also exist in basketball which can be observed in different forms:

-  Acts against the integrity of the game: (Allegations) about match-fixing, illegal (online) betting, doping, sponsors with questionable business practices/relationships etc.
-  Financial and tax-related practices:, Making/receiving kick-back payments (e.g. from player transfers, sponsoring deals), misusing of shareholder/government funds, taxation related practices such as not paying players'/coaches' payroll taxes (on time), not paying taxes for benefits in-kind, improper taxation of image rights, using off-shore accounts etc.
-  Business practices of agents: Inflating player salaries, representing too many players/coaches at the same time leading to major conflict of interests, approaching (young) players/coaches who are under contract with another team, having significant (direct/indirect) influence over clubs, not following FIBA/local federation regulations etc. For further discussion about the role of agents, please refer to the related EBAG study here: [Analyses & Reports - European Basketball Advisory Group \(eb-advisorygroup.org\)](https://www.eb-advisorygroup.org/Analyses%20&%20Reports)

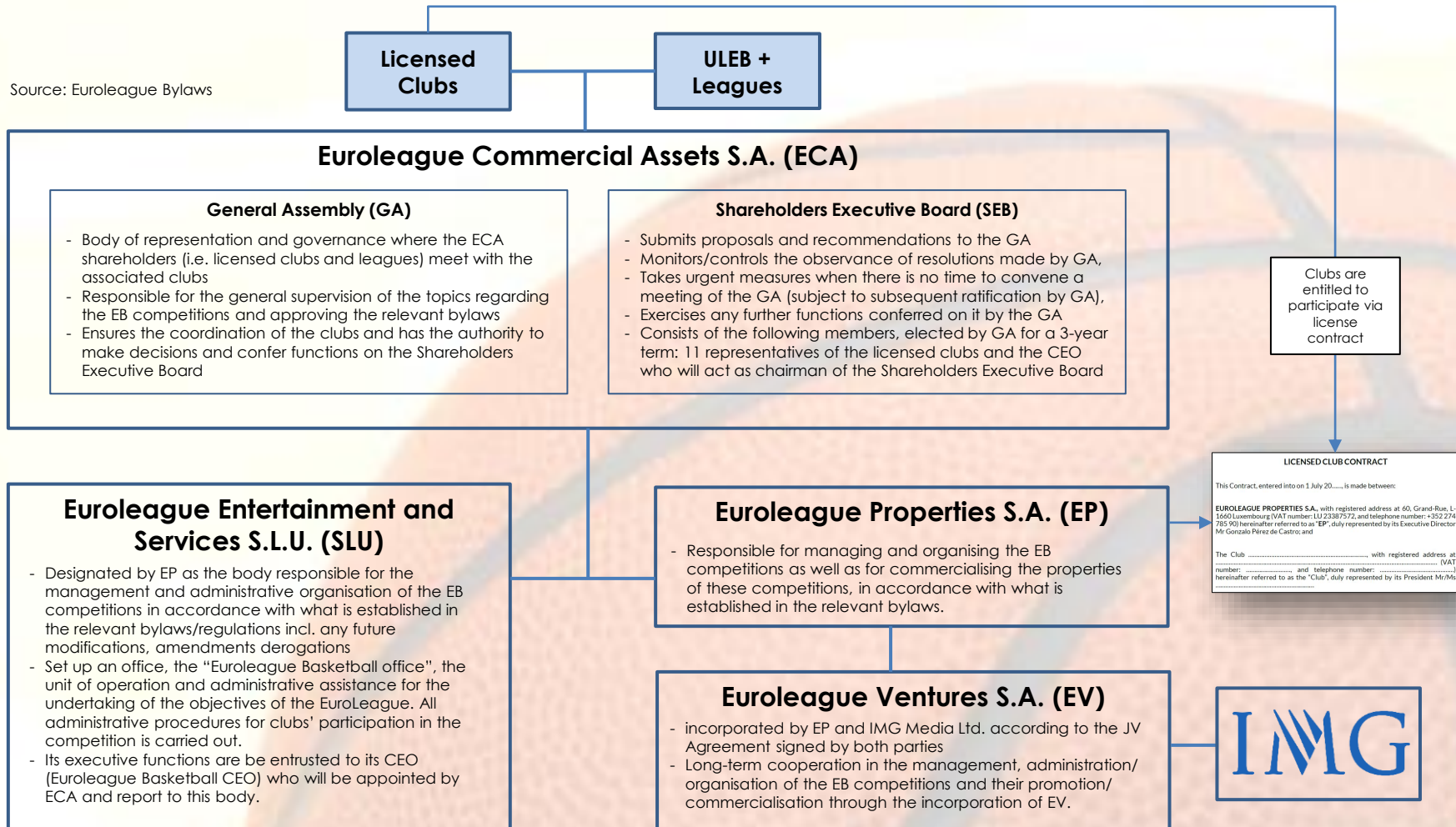
In every organization, **corruptive/non-ethical practices** can happen. However, good governance requires that **key measures** are implemented to **prevent, detect** and **punish** such behavior. In European basketball, there are several instances where **serious allegations** were made even publicly, with almost **no reaction** from the respective executives and/or organizations. In our opinion, this lack of reaction can be classified as **gross negligence** at a minimum, if not **intent**.

Governance Issues

(ii) Governance issues at Euroleague level

● Inconsistencies within Euroleague's governance model

(Governance structure as described in Euroleague Bylaws)



Governance Issues

(ii) Governance issues at Euroleague level

🏀 Inconsistencies within Euroleague's governance model

Euroleague Commercial Assets S.A. is the **holding entity** which has (directly or indirectly) control over all other Euroleague entities. It is a limited liability company acting pursuant to Luxembourg law and is governed by its statutes and the resolutions of its governing bodies.

Compared to ECA's articles of association, following **inconsistencies** with the governance structure as explained in the Euroleague Bylaws can be observed:

- 🏀 **Shareholders Executive Board**, which has a key function according to the Bylaws and is formally referred to in the Bylaws as an "**ECA body**" constituted by the General Assembly, is **not explicitly mentioned** in **ECA's official articles of association**. Instead, the Company's management is formally performed by a **board of directors** composed of at least 3 members appointed by the general meeting of shareholders.
- 🏀 Further, it is stated in the **articles of association** that "the **board of directors** is vested with the **broadest powers** to perform all acts necessary or useful for accomplishing the Company's object." Since ECA is a legal entity, we believe that, legally, there might be a **risk of misalignment** between the two boards. At a minimum, it is somewhat **confusing** as to which Board has which exact competencies.
- 🏀 Similar comments can be made for the **General Assembly** vs. the **General Meetings of Shareholders**. According to the **Bylaws**, the **General Assembly** is "**the ECA body**" of representation and governance where ECA shareholders meet with the associated clubs, whereas according to the **ECA Articles of Association**, General Assembly **is not explicitly mentioned** and that only ECA shareholders attend the General Meeting.

MANAGEMENT - SUPERVISION

Art. 11. The Company is managed by a board of directors composed of at least three members, either shareholders or not, who are appointed for a period not exceeding six years by the general meeting of shareholders, which may remove them at any time. The directors shall be re-eligible.

GENERAL MEETINGS OF SHAREHOLDERS

Art. 14. Any regularly constituted meeting of the shareholders of the Company shall represent the entire body of shareholders of the Company. Decisions of the shareholders are taken by general meetings of the shareholders.

Source: Luxembourg Commercial Register

Governance Issues

(ii) Governance issues at Euroleague level

Inconsistencies within Euroleague's governance model

The above-mentioned **ambiguity** regarding the **ECA shareholders executive board** vs. **ECA board of directors** is even present in official **Euroleague communications** about board decisions, as illustrated in the examples below:

Source: Euroleague Basketball website

ECA Board meets to take strategic decisions, approves postseason special regulations

Euroleague Basketball News | 6 March 2021 • 3 mins read

ALBA Berlin awarded with a two-year EuroLeague wild card Clubs approve 2020-21 Special Regulations updates on Playoffs and Final Four The Euroleague Commercial Assets Board members gathered virtually on Monday, March 8, to review and discuss a series of topics,

Decisions made by the ECA Board will be submitted to the next ECA Shareholders Meeting for formal approval.

ECA Shareholders Executive Board meets in Barcelona

Euroleague Basketball News | 18 June 2021 • 2 mins read

2021-22 EL and EC participants approved FC Bayern Munich and LDLC Asvel Villeurbanne are granted long-term licences The Euroleague Commercial Assets' Executive Board members met on Friday, June 18, in Barcelona to discuss several topics.

The decisions made at the ECA Executive Board will be brought to the ECA Shareholders Meeting, scheduled to be held on July 8, 2021.


Reading through the above communications, it can be concluded that, for external parties it is absolutely **not clear** as to whether there is more than one Board as an “ECA body” with the authority of taking strategic decisions such as determining the teams participating the Euroleague Basketball competitions and approving regulations.

Governance Issues

(ii) Governance issues at Euroleague level

🏀 Inconsistencies within Euroleague's governance model

Source: Luxembourg
Commercial Register

- 🏀 It also needs to be noted that, until the decision of the licensed clubs to remove Mr. Bertomeu from the ECA (Shareholders Executive) Board, in June 2021, (i.e. from 2009 to 2021), there were **no representatives of the licensed clubs** in the official **ECA board of directors**. 
- 🏀 The **change of the ECA board members** (i.e. replacement of 5 former directors incl. Mr. Bertomeu with the representatives of 11 licensed clubs) seems to be **causing two more issues**, namely:
 - 🏀 (i) According to the Article 13 of ECA Articles of Association, “the Company will be bound by the **joint signature of one director of category A** and by **one director of category B**”. However, it seems that, **all representatives of licensed clubs** have been **appointed as A category directors** and that currently there is **no category B director** on the ECA Management Board; and
 - 🏀 (ii) The Board of Directors (i.e. now the 11 licensed clubs) shall appoint from among its members a **chairman**. In the absence of a chairman, the board of directors shall be directed by a director present and appointed for that purpose. Given the **current division** of clubs on major topics, it might be a **challenge** to appoint a chairman for the board.

Administrateur(s) / Gérant(s)		Modifier	Rayer	
<u>1</u>	BERTOMEU-Jordi	page 3	<input type="checkbox"/>	<input checked="" type="checkbox"/>
<u>2</u>	LAINATI-Giovanni	page 4	<input type="checkbox"/>	<input checked="" type="checkbox"/>
<u>3</u>	BARTOLUCCI-Gabriele	page 5	<input type="checkbox"/>	<input checked="" type="checkbox"/>
<u>4</u>	ERIK-Sophie	page 6	<input type="checkbox"/>	<input checked="" type="checkbox"/>
<u>5</u>	DE-BERNARDI-Alexis	page 7	<input type="checkbox"/>	<input checked="" type="checkbox"/>
<u>6</u>	Nouvel administrateur / gérant : ANADOLU EFES SPOR KULUBU	page 8		
<u>7</u>	Nouvel administrateur / gérant : CSKA Professional Basketball Club	page 9		
<u>8</u>	Nouvel administrateur / gérant : FUTBOL CLUB BARCELONA	page 10		
<u>9</u>	Nouvel administrateur / gérant : FENERBAHCE SPOR KULUBU	page 11		
<u>10</u>	Nouvel administrateur / gérant : MACCABI TEL AVIV BASKETBALL CLUB (1995) CO.LTD	page 12		
<u>11</u>	Nouvel administrateur / gérant : OLYMPIACOS SFP BSA	page 13		
<u>12</u>	Nouvel administrateur / gérant : YSI ZALGIRO KREPSINIO CENTRAS	page 14		
<u>13</u>	Nouvel administrateur / gérant : SASKI BASKONIA S.A.D.	page 15		
<u>14</u>	Nouvel administrateur / gérant : PALLACANESTRO OLIMPIA MILANO S. SRL	page 16		
<u>15</u>	Nouvel administrateur / gérant : PANATHINAIKOS BASKETBALL CLUB S.A.	page 17		
<u>16</u>	Nouvel administrateur / gérant : REAL MADRID CLUB DE FUTBOL	page 18		

For **external parties** (and possibly even for some of the clubs), **Euroleague's governance model** looks **complex** and, to a certain extent, **nontransparent**. In general, it is an advantage to utilize the (governance) structures of corporate law (e.g. Euroleague being run by legal entities and their respective management boards). And, we believe that the **formal bodies** in the context of corporate law shall always be **prevailing** and that **no dual structures** are created.

Governance Issues

(ii) Governance issues at Euroleague level

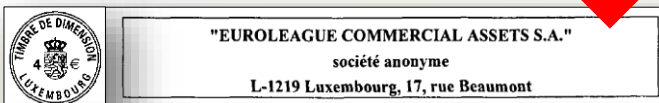
Equity structure of Euroleague Commercial Assets S.A.

According to the company records obtained from the Luxembourg Commercial Register, **Euroleague Commercial Assets S.A.** was **established** on March 1, 2006 with a **subscribed share capital** amounting to **EUR 2,720,000** (for a total of 2.720 shares), of which **50% was paid**. 2.719 of the shares has been subscribed to a company called **“Dalecrest Limited”** based in **Isle of Man** and 1 share was subscribed to an individual. Soon after the creation of the entity, there was

a **change on the capital subscriptions**. No detailed information is publicly available, but we assume that this change mainly relates to the **acquisition of the shares by the licensed clubs and leagues**. As of March 8, 2006, the share capital has been **fully paid**.

In **July 2013**, the share capital was **increased** by EUR 40,000, as a result of which the **Russian United Basketball (VTB) League** has also become a shareholder of ECA.

Source: Luxembourg Commercial Register



CAPITAL - SHARES

Art. 7. The subscribed share capital is set at **two million seven hundred and twenty thousand Euros (2,720,000.- EUR)**, represented by **two thousand seven hundred and twenty (2,720) shares** with a par value of **one thousand Euros (1,000.- EUR)** each.

The amount of the share capital of the Company may be increased by contribution in cash or in kind or reduced by a resolution of the general meeting of shareholders adopted under the conditions required for

SUBSCRIPTION

The share capital has been subscribed as follows:

1.- The company "DALECREST LIMITED", prenamed, two thousand seven hundred and nineteen shares,	2.719
2.- Mrs. Romaine SCHEIFER-GILLEN, prenamed, one share,	1
Total: two thousand seven hundred and twenty shares,	2.720

The shares have been paid up to the extent of **fifty per cent (50%)**, so that the amount of **one million three hundred thousand and sixty Euros (1,360,000.- EUR)**, is as now at the disposal of the Company, proof of which has been duly given to the notary.

SUBSCRIPTION AND PAYMENT

The actual shareholders having waived their preferential subscription right, the forty (40) new shares have been subscribed and fully paid up by payment in cash by the company **UNITED BASKETBALL LEAGUE**, having its registered office in 3-rd Frunzenskaya str. 6, 119270 Moscow (Russia).

The sum of forty thousand Euro (40,000.- EUR) is forthwith at the free disposal of the public company limited by shares **EUROLEAGUE COMMERCIAL ASSETS S.A.** as has been proved to the notary by a bank certificate, who states it expressly.

Governance Issues

(ii) Governance issues at Euroleague level

Equity structure of Euroleague Commercial Assets S.A.

Source: 2021-22 Euroleague Bylaws

As per Euroleague, with **75,36% of the total voting rights, licensed clubs** represent the **majority shareholder** (group) of Euroleague Commercial Assets S.A.

According to the **Article 4** of the **Licensed Club Contract** which is signed by Euroleague Properties S.A., each licensed club “commits itself to **subscribe for** and **purchase** the number of ECA shares set by the General Assembly”. It also commits itself, **upon expiry** [...] of this contract, to **sell its ECA shares** in full compliance with

the procedures and pricing the criteria established by the General Assembly. As per Article 13 of the same agreement, the **stipulated term of the contract is 10 years**.

Above provisions essentially state that (i) the **status of the clubs as shareholders** of the ECA is specified in a **contract** which is managed by a **subsidiary of ECA** (which is **quite unique**, in our opinion), and (ii) the clubs obtain the ECA shares only for a **limited period of time**, i.e. 10 years.

Key issues with the above are: (i) In the Licensed Club Contract it is **not clearly specified** to which **party/parties** the shares **shall be sold** by the clubs after the agreement expires. We assume that it is the ECA, since ECA has an explicit clause in its articles of association related to the redemption of its own shares, and (ii) it is relatively **unusual** that the majority shareholders hold “**redeemable shares**” of an entity, because it may **not be clear** as to which party/parties will become the majority shareholder(s) when all licensed clubs are required to sell their shares back after 10 years. The **intention of the sell-back** of shares is **not clear** to the public.



Governance Issues

(ii) Governance issues at Euroleague level

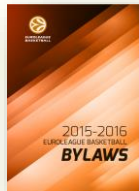
Equity structure of Euroleague Commercial Assets S.A.

Another confusing aspect of the ECA equity shares is that, until the season 2014-2015 the Licensed Club Contract included in the Bylaws was specifically stating the **exact number** of ECA shares that each club was committed to purchase.



6. The Club commits itself to subscribe for and purchase 120 (one hundred and twenty) ECA shares.

Starting from the 2015-2016 season above clause has been **reworded** as follows:



6. The Club commits itself to subscribe for and purchase the number of ECA shares set by the General Assembly.

Currently, it is not known to the public as to **which club has how many ECA shares**. However, the number of shares that was stated in the previous version of the Licensed Club Contract (i.e. 120 shares) also seems to be confusing, since the total shares that were supposed to be purchased according to this formula **does not seem to add up to 75%** of total shares with one voting right attached to each:

⇒ 120 shares x 11 licensed clubs = 1.320 shares = 47,8% of total 2.760 shares

Governance Issues

(ii) Governance issues at Euroleague level

🏀 Sub-optimal alignment of key stakeholders

The initial idea of Euroleague was based on a **consensus-driven**, fully **aligned** approach of leading European basketball clubs. They have been subject to criticism over the years due to the fact that Euroleague has been clearly **prioritizing the interests** of its (licensed) clubs. Essentially, this **commitment as a group** has been the driving force for more than 20 years.



Source: Eurohoops

But recently, there is a **clear division** of licensed clubs on **crucial topics**, such as the dismissal of Mr. Bertomeu from his positions, decision about the situation of the Russian clubs and how to evaluate the games already played in the current season. Some **other important decisions** will follow in short- to mid-term, such as the appointment of a new CEO, situation of the Russian clubs, future relationship with FIBA, and the extension of the JV agreement with IMG.

The **main issue is not**, per se, the **dismissal of the long-time CEO** of Euroleague or the decision to **exclude the Russian teams** from the competition. It is rather the **close voting ratios** (i.e. 6-5) based on which such key decisions were taken. This **misalign-**

ment might have a further **destabilizing effect** on Euroleague's decision-making process, if other **minority shareholders** (i.e. ULEB and leagues) somehow manage to **enforce their voting rights** in a way that they support those **5 clubs** who have **voted against such decisions** in the Board. We do not have all details as to whether this is **legally possible** (e.g. through revoking **proxies/syndication**), but even attempting to do so might further **weaken/destabilize** Euroleague's governance system.

Governance Issues

(ii) Governance issues at Euroleague level

Sub-optimal alignment of key stakeholders

During the pandemic, **some clubs** demonstrated a thoroughly **selfish** and **short-sighted** approach, especially towards the **players** and **coaches**.

Upon the break-out of the pandemic, there were many **pessimistic scenarios** talking about the **loss of up to 50%** of full season **revenues**. Quite often even the most basic concepts of accounting and finance (such cash vs. accrual basis accounting) were being misrepresented in the early stages of the pandemic leading to more confusion and chaos.

The cash flow of the club's revenue is streamed mostly in the last quarter of the season (April-May-June) "which almost amounts to 45% – 50 % of the annual revenue". It's obvious that in this environment the damage will end up being huge in almost every case.

Source: Eurohoops

Some other clubs immediately started looking for **"creative"** ways to **freeze salary payments** or even **terminate existing and legally valid** contracts. It was even **tragic (!)** to see

one club's GM trying to mobilize other clubs to create a **"force majeure"** case in the very early stage of the pandemic, but at the same time asking players/coaches to **stand by** for an immediate return to practice in case the pandemic ends.

Without any doubt, the pandemic has been an **unprecedented disruption** and a **human tragedy** with a significant impact on all areas of human life incl. basketball. Therefore, it is somehow normal to observe **emotional/insecure reactions** from certain stakeholders.

However, we believe that **Euroleague** and its **shareholder clubs** unfortunately **failed to demonstrate** an **aligned, calm** and **well-thought** reaction in the most critical phase of the pandemic, where **solidarity, full alignment** and **mutual support** among key stakeholders should have become the absolute highest priority.

 Donatas Urbonas @Urbodo Source: Donatas Urbonas ...

A big fight is emerging in Lithuania due to the cancelled LKL season. It's very likely LKL clubs will try to avoid paying players for 2-3 remaining months of the season arguing force majeure situation, but agents believe it wasn't force majeure case yet.

15min.lt
Agentai stoja ginti be darbo paliktų Lietuvos krepšinininkų: ko...
„Nenorėčiau šiandien būti agentu“, – juokavo vienas Lietuvos krepšinininkas, kreipdamasis į savo agentą informacijos apie ...

10:58 AM · Mar 14, 2020 · Twitter Web App

Governance Issues

(ii) Governance issues at Euroleague level

🏀 Sub-optimal alignment of key stakeholders

Furthermore, the **creation of institutions like Euroleague Players Association (ELPA), Euroleague Head Coaches Board (EHCB) and Union of Euroleague Basketball Officials (UEBO)** was an important step. However, we believe that their alignment among each other and interaction with Euroleague as well as participation in the decision-making processes still have **significant potential for improvement**.

Last but not least, **Union des Ligues Européennes de Basketball (ULEB)** is **not just any** ECA shareholder. It played a **historical key role** in the **creation of Euroleague** back in 2001. Hence, we believe that it should not be deemed as a **diplomatic success (!)** to see ULEB file a **competition complaint** before European Commission against ECA.



ULEB Press Release

ULEB files competition complaint before European Commission against EuroLeague organizer ECA



ULEB, the association of the 11 major basketball leagues in Europe, has filed a competition complaint against Euroleague Commercial Assets (ECA), the organizer of EuroLeague which is the most prestigious basketball club competition in Europe.

Tomas Van Den Spiegel, ULEB President, stated:

"Together with the member leagues, we are working hard to protect the sporting principles of the game, both domestically and in international club competitions and we will continue to do so. We believe that all of our clubs must be able to compete at the highest level and we want to keep the dream of international basketball alive for every club at every level. ECA decisions have had a major impact on the calendar over the past years. Once it became clear that ECA still intends to proceed with the removal of any slots for national leagues as from next season we all felt the need to undertake action to defend our rights. That is why ULEB has officially launched a complaint to the European Commission versus ECA for its anti-competitive behaviour."

Governance Issues

(ii) Governance issues at Euroleague level

🏀 Inconsistent/ineffective application of Euroleague Bylaws



Euroleague Bylaws include certain **regulations** which are **mandatory** for all clubs. Not following certain rules might, under certain circumstances, even lead to the **cancellation of the club's license**.

The cancellation of the Licensed Club Contract will entail the **loss of the club's right to participate** in the EuroLeague and the loss of all **rights derived from the Club's condition** as a EuroLeague member. In addition, the club will lose its **status as an ECA shareholder**, which will entail the obligation to sell its shares in this company.

The suspension of the Licensed Club Contract will entail the loss of the club's **right to participate** in the EuroLeague, the loss of the club's **rights derived from its participation**, and the **loss of the economic and voting rights in ECA**. Additionally, it will also entail the club's obligation to refrain from executing any rights (e.g. economic, voting, etc.) held in the companies during the suspension period. Based on the above, it can be stated that the Bylaws include some **severe consequences** for clubs which are not compliant with Bylaws.

However, the **effectiveness** of such regulations is primarily dependent on their **consistent application**. For instance, a club might even (temporarily) lose its license, if (among others):

- 🏀 The conduct or omission of the club, its owner/manager or any person acting for the club, is or becomes seriously detrimental to the image and standing of EuroLeague (or any of its entities/clubs).
- 🏀 The club fails to fulfil the criteria and requirements established in the EuroLeague FSFP Regulations.
- 🏀 During two consecutive seasons, the club does not manage to reach the threshold of 80% of paid attendance in relation to the minimum arena capacity throughout the EuroLeague season.

Governance Issues

(ii) Governance issues at Euroleague level

Inconsistent/ineffective application of Euroleague Bylaws

It can be evidenced that the **above-mentioned rules** have **repeatedly** been **violated** by multiple clubs over a relatively long period of time **without any serious consequences**.

For instance, **gross insults of a club owner** towards EuroLeague and its CEO for many years should have **never been tolerated**. Similarly, certain clubs which **systematically insult/degrade Euroleague referees** or do nothing against **“Euroleague Mafia” chants** during games must have received more severe penalties. Such issues should have been even directly **addressed via ECA Board Resolutions** instead of (monetary) penalties.

If a club is **increasing its player salary budget by 32%** even in a pandemic season, while having a long history of generating **significant losses** each year, it is obvious that the club is **grossly violating the FSFPR**, with **no serious consequences** for the club known to the public yet.

It is also not a secret that the requirement to have **at least 80% paid attendance** in relation to the minimum arena capacity (i.e. on average at least 8.000 fans paying the full ticket price every game) is **not (or cannot be) met** by more than one club. Consequences of such non-compliance to the respective clubs are not known to the public either.

NBA is very often referred to as being the **best professional league** in the world. There is no doubt that sports-related aspects play an important role for that image. The direct comparison of Euroleague to the NBA would not be possible, nor fair, due to many reasons. However, when it comes to **basic principles of governance**, we believe that there are some key learnings. Without the **consistent application** of certain rules and disciplinary measures (some of them being extremely unpopular and controversial), especially enforced by its legendary commissioner **Mr. David Stern**, NBA would have never been there where it is today.

Governance Issues

(ii) Governance issues at Euroleague level

The role of IMG

IMG, a subsidiary of Endeavor, is a **leading company** in the global sports industry with strategic assets and expertise in **sports marketing** and **management**. IMG and Euroleague Properties agreed on a **long-term** (i.e. up to 20 years) **cooperation** in the management, administration and organization of the Euroleague Basketball competitions as well as their promotion and commercialization through the incorporation of Euroleague Ventures S.A.



300+ EUROLEAGUE GAMES
BROADCAST TO 100
COUNTRIES ANNUALLY


According to **Endeavor's annual report**, Euroleague (together with UFC and PBR) is part of Endeavor's **owned sports properties segment**.

01. Owned Sports Properties

UFC



Euroleague Basketball

We believe that such **strategic partnerships** with external parties like IMG, especially with the intention of **gaining access to key capabilities** in areas such as (digital) marketing, commercialization and content production, can have a **positive impact** on the growth of European basketball.

But we assume that, since the format change to a round-robin structure was made upon signing the JV agreement, IMG also plays an **important role** in such matters. Furthermore, as stated in the Euroleague Bylaws, the **approval of EV** is required before a **club license** can be **transferred** or **substituted**. EV also needs to approve the **allocation of associated club licenses**. Although EV is a jointly controlled entity, we assume that IMG has, at least, a **blocking power** in such situations.

It is our opinion that when it comes to decisions about the format of the competition(s) and/or participating teams, the **ultimate decision-making power** should **solely** lie with the **ECA shareholders**.

Governance Issues

(iii) Governance issues at club level

Essentially all governance issues explained in the first section above (i.e. bad governance practices at a broader scale within European basketball) have an impact on or are directly visible at the club level. Additionally, following two governance issues have a direct relevance for current challenges within Euroleague:

Neglecting supervisory duties as ECA shareholder

As mentioned above, licensed clubs are, besides their role as a participant of Euroleague competitions in sporting terms, **shareholders of ECA** with certain **duties and rights** regarding the management of Euroleague. For instance, they can obtain **direct information** about financial performance of all Euroleague entities and directly **participate** in executive **decision-making processes**.

In the current situation, there are some **basic questions** as to the organizational structure as well as the financial performance of Euroleague incl. the details of the agreement with IMG. In our opinion, and despite the issues explained on previous slides, all clubs must have participated in the **management processes** of Euroleague in a more **proactive** and **effective** manner and should have asked **critical questions**, as part of their **supervisory duties**, at an earlier stage.

Lack of resources and expertise

We believe that one of the main reasons for the above issue is related to the **lack of appropriate resources and expertise** at the majority of the clubs, especially in the areas of **finance, legal** and **strategic management**. In our opinion, the root cause of this is more related to the **mindset of club managers/presidents**, rather than **lack of funding**.

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Conclusions

Financial issues (1/3)

- 🏀 **Financial issues** have been called out as one of the **main reasons** behind the request of the majority of the licensed Euroleague clubs to make **changes in Euroleague's management**. The main criticism about Euroleague's financial model is that the clubs would be receiving **too little income from the Euroleague** and that it would **not** be **sustainable** for clubs and that.
- 🏀 Per detailed review of some clubs' financials, it can be confirmed that clubs seem to **struggle further in financial terms**. While an **increase of revenues** can be observed for the analyzed clubs over multiple years (except for the pandemic seasons), the revenue growth is more than offset by (significantly) **higher increase in expenses**, especially **player salaries**. This leads to (significant) **deficits** each year. Exact figures are not available for the public, but the Euroleague Financial Play Stability and Fair Play (FPSFP) regulations provide an indication about the significance of the issue: In the 2022-23 season, the FPSFP regulations will (still) allow **up to 50% shareholder contributions**. This implies that there are **still clubs** which are currently above this threshold, i.e. essentially generating **losses** every year which are **equal to or even more than half of their entire budget**. Under these (economically irrational) circumstances, a **“normal” enterprise** would go **out of business** after a relatively short period of time.
- 🏀 There is also no public information about **Euroleague's exact contributions** to the clubs (the so-called contributions from the market and sports pools). However, some club representatives have repeatedly complained that total payments received by a F4 champion from Euroleague would **not even cover** the success bonuses of the players and coaching staff.
- 🏀 While owners of some clubs do **not seem to have any issues** with compensating such losses on a yearly basis, some clubs, especially the ones that were actually **“doing the right things”** in terms of generating relatively more revenues from ticketing and sponsoring before the pandemic broke out, seem to be **dissatisfied** with the financial performance of the league.

Conclusions

Financial issues (2/3)

- 🏀 **Euroleague Financial Stability and Fair Play** regulations were first introduced in 2012 and have been in effect since the 2015-16 season (i.e. for seven seasons). The main purpose of these rules was to **optimize management methods** and apply **budgetary control** and ultimately to **protect the long-term viability** and **sustainability** of the Euroleague Basketball competitions. From today's perspective, in our opinion, it is more than **questionable** as to whether these regulations achieved the **stated objectives**. For a more detailed analysis and discussion, please refer to the related **EBAG study** which can be found here: [Analyses & Reports - European Basketball Advisory Group \(eb-advisorygroup.org\)](https://www.eb-advisorygroup.org/Analyses%20&%20Reports)
- 🏀 In **Euroleague's case** (i.e. the financial situation of **Euroleague entities**), although it is not possible to draw a complete conclusion (since consolidated financial statements are not shared with the public), we believe that the **stand-alone financials** of the individual entities can still provide some indication as to the overall performance and profitability of their operations. As per detailed review of Euroleague entities' financials, it can be argued that, except for the JV entity Euroleague Ventures S.A., **Euroleague entities** normally seem to be **generating enough revenues** to cover their expenses, and, unlike the majority of the clubs, are **not in a loss-making situation** on a **consistent basis**.
- 🏀 According to **Euroleague Bylaws**, the clubs have the **right** to be informed about the **annual state of the profit and loss accounts** related to the Euroleague and the companies (Euroleague Club Licensing Rules – Article 18.1.5). It seems that the majority of the licensed clubs were not of the opinion that they were being properly and transparently informed about the financial situation of the Euroleague and its entities and therefore decided to engage an **external auditor** to perform a **special audit** of Euroleague's finances. In our opinion, this can be interpreted as a **complete loss of trust** in Euroleague's (financial) management.

Conclusions

Financial issues (3/3)

- The **joint venture with IMG** was introduced as a **groundbreaking partnership** which would help secure certain level of (increasing) revenues for Euroleague and its clubs for a (minimum) period of 10 years. However, it is confusing to see that, in its stand-alone financials, **Euroleague Ventures** has been generating **losses** cumulatively amounting to more than **EUR 7 million**.
- From **IMG's perspective**, and based on the interpretation of publicly available information, it can be concluded that the partnership with Euroleague appears to be **overall profitable** for IMG/Endeavor, since IMG generated a **total net income of \$ 54.1 million** from the provision of technical and production services as well as representation to Euroleague since from the inception of the partnership back in 2016. IMG's **equity investment** in Euroleague Ventures also does not seem to have generated any losses from IMG's perspective.
- As such, the (majority of the) clubs (still) seem to be the only **loss-making** party in this trilateral relationship (i.e. Clubs-Euroleague-IMG). There seems to be a significant **expectation gap** between Euroleague and its clubs in terms of the **commercial (and financial) development of the league**, i.e. clubs had apparently higher expectations with regard to revenue growth as a result of all key decisions that Euroleague management made incl. entering into a strategic partnership with IMG.
- Since these expectations do not seem to be fully met (due to multiple reasons incl. governance- and strategy-related issues and the corona pandemic), the **dissatisfaction of (certain) Euroleague clubs** is somehow comprehensible. However, we also believe that, as the shareholders and members of the shareholders executive board of ECA, clubs have a direct **responsibility** and **accountability** for all management decisions of the Euroleague organization. Furthermore, clubs must be fully committed to the **full application** of the **Euroleague FSFPR** in all respects which however, in our opinion, was **not always the case**.

Conclusions

Governance issues

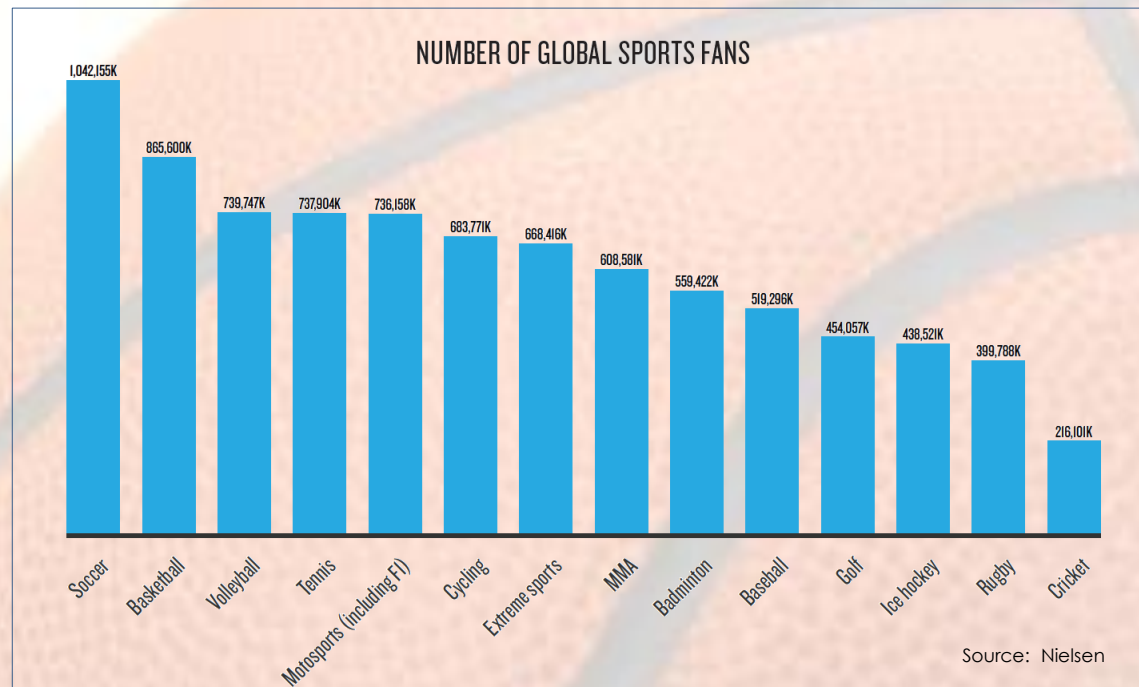
- Euroleague system is characterized by the **direct involvement** of its licensed clubs in the management and decision-making processes of the competitions. The initial idea of Euroleague was based on a **consensus-driven, fully-aligned approach** of its founding members which were convinced that European club basketball could be developed/improved by prioritizing the interests of leading basketball clubs over the interests of other stakeholders.
- Despite several challenges, Euroleague managed to stay as a **union for more than 20 years**. Recent developments, especially the decision to remove Mr. Jordi Bertomeu from all his positions **triggered a deep division** of Euroleague clubs on key topics. Some clubs appear to be **dissatisfied** with the way how Euroleague is structured and being managed, including financial terms.
- **Governance** issues in European basketball exist at **different levels**, (i) at a broader scale across all stakeholders, (ii) at Euroleague level and (iii) at club level. Without properly addressing the **issues at the highest level** (e.g. FIBA-Euroleague dispute or non-compliant/non-ethical practices), **governance issues on lower layers** cannot be resolved ultimately.
- The governance model of Euroleague is, in principle, based on the **concepts of corporate law** which ensures a certain level of **effectiveness** and **transparency**. However, as explained above, there are some **inconsistencies** with regard to the **decision-making competencies** and **application of its bylaws** which create certain issues for its stakeholders. Increasing transparency, and elimination of ambiguous structures are the two main tasks to be performed in order to ensure a more stable operating model for Euroleague.
- Clubs are the locomotives of European basketball. In our opinion, the main governance issue at club level is the **lack of resources and expertise** in order to deal with the current challenges of Euroleague and European basketball.

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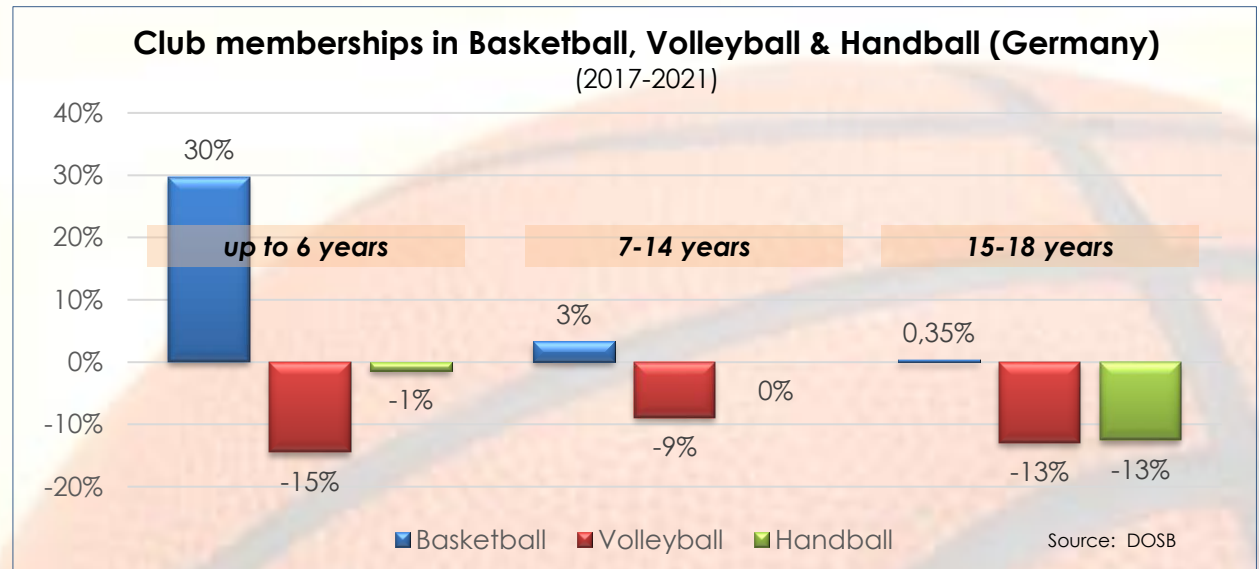
Future Outlook

- As the world is still navigating through the **challenges of the corona pandemic**, the **disruption of the global economy** is expected to have further consequences. Furthermore, the Russian invasion of Ukraine is creating **additional uncertainty** for the humanity. The sports world is not immune to any of these developments. The effects of the pandemic have still not been fully recovered. Despite all these difficulties, there are **reasons to be optimistic** about the future development of sports, in particular basketball.
- According to a study performed by Nielsen Sports, **basketball has more than 865 million global fans** which makes it the 2nd most popular team sports in the world.



Future Outlook

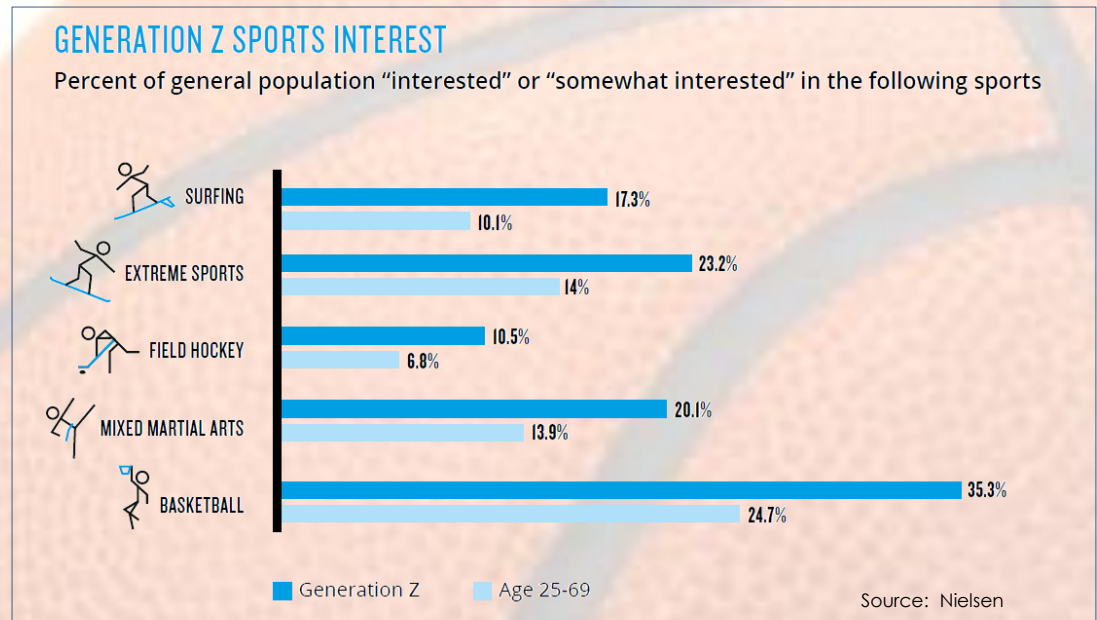
- There are several indications that the **popularity of basketball is growing**. For instance, with its dominating market position at a global scale, **NIKE brand** has a unique importance for the sport of basketball. Over the last 4 years, NIKE's **basketball category revenues** grew on a cumulative basis by **31%** (i.e. 7% CAGR).



- With its huge **demographic potential** combined with **high purchasing power**, **Germany** has been a **key market** for Euroleague for a long period of time. Although basketball is still not among the most popular sports in the country, its **growth trend** for the period 2017-2021, especially in direct comparison with other team sports is promising. While the number of club members in **Volleyball declined** between 9%-15% in all three age categories since 2017, and **Handball** was **not able to grow** in any age category, **interest in Basketball increased in all three youth categories**.

Future Outlook

- Sports consumption preferences of **Generation Z** are believed to play a key role for the **future of the sports industry** and therefore have been under scrutiny by the industry experts in recent years.
- According to a Nielsen study, **Generation Z** is more likely to be **fans of any sport than those ages 25 and older**. However, **sports with a faster pace** of play are better at attracting the interest of Generation Z fans.
- The biggest differences observed in fandom between age groups include surfing, extreme sports, field hockey, mixed martial arts and **basketball**. Compared to other sports, **basketball seems to have unique potential for further growth**.
- Although **NBA** is clearly the most attractive basketball league in the world, **Euro-league has more than a fair chance** to benefit from this opportunity in the future as well, provided that, it manages to take the **right strategic decisions** to overcome its current challenges.



Future Outlook

- In our opinion, **tackling the governance challenges** as explained above should have the **absolute highest priority** for all stakeholders within the Euroleague system, especially for the **new CEO** who will be succeeding Mr. Bertomeu. Especially, **reaching an agreement with FIBA** and **shedding light on the past**, both in financial and management terms, should be among the first action items in order to **re-establish trust** and **alignment**.
- **Transparency, accountability** and **integrity** should become the leading principles in all matters. All necessary changes in the structure of the entities, decision-making bodies as well as regulations should be made urgently.
- Once the governance-related issues are properly addressed, **new strategies** need to be developed with **contribution from all stakeholders**, especially with regard to the following areas/issues:
 - Overhauling the **growth strategies in key markets** such as Germany, the UK, France, Italy and China
 - Revisiting the **competition model**; Switching from the round-robin system into another format (e.g. two separate divisions ending with two F4s and a Best-of-Seven European Final Series) might help achieving higher and quicker growth, also in key markets in Western Europe
 - Focusing more on **revenue diversification and growth** instead of cost control (as being the highest priority) and not rejecting any potential investments into basketball; instead implementing incentives for clubs that are doing the “right things” by channeling funds from “wealthy” clubs that are not meeting certain requirements
 - Developing **different solutions and regulations for different types of clubs** (e.g. FC Barcelona has totally different needs and expectations compared to a club like Zalgiris Kaunas), and not insisting on one-size-fits-all type of regulations.

Future Outlook

- Putting more emphasis on **sustainability** and **purpose-driven sponsorships** including the development and implementation of a new concept to measure the impact and return of such initiatives
- Taking more effective measures to support and protect **youth development programs**
- Investing in **people, technology** and **processes**, first in order to master the fundamentals, and avoid “wrong” prioritization of initiatives (e.g. NFTs or eSport should not be the very first priority if a club does not even have the most basic elements of IT systems in place which are required for more essential functions).
- ...
- In summary, despite current challenges and uncertainties, European basketball and particularly Euroleague can have a **positive future**, if the **root causes** of the issues are **identified, accepted** and **addressed** with determination and full collaboration among all key stakeholders.
- However, if the **key executives** and **decision-makers** in European basketball **fail to see** the necessity of **acting together** and **putting personal egos and agendas aside**, then it is likely that current crisis will **evolve into further crises** and European basketball will continue to **lose traction**.
- In a paper about the European basketball between 1992 – 2002, the prominent sports economist **Didier Primault** states that “there has indeed been a crisis in European basketball over the last 10 years: an institutional crisis, financial crisis, a sporting crisis and an identity crisis.” If the same **mistakes are repeated** by the key decision-makers in European basketball, then it is more than likely that **the next ten years of European basketball** will be subject to similar conclusions.



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