

# The Economic Design of EuroLeague

*Analysis of Discussions around Club Profitability, Player Salaries, League Expansion and the Future of Financial Stability and Fair Play Regulations*

**Prepared by:** Cem C Karamürsel

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# Agenda

- **Introduction**
- **Key Design Principles of Sporting Contests**
- **Profitability of EuroLeague Clubs**
- **Player Salaries**
- **League Expansion Considerations**
- **Financial Stability and Fair Play Regulations**
- **Suggestions for Improvement**

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# Introduction

- **EuroLeague** was established in 2001 with the primary goal of managing the top-tier European club competition in a **more effective and economically feasible** way, especially focusing on the interests of eleven leading clubs in European basketball. Since then, mainly due to its similarities with the major sports leagues in the USA, a direct comparison to the NBA has been inevitable.
- On the sporting side, there is a common consensus that the league has established its position as a **high-quality basketball competition**, especially in tactical terms, and is deemed to be the second-best basketball league in the world. For instance, today's NBA superstars like Giannis Antetokounmpo and Luka Dončić who previously played in Europe praise the quality of the league on different occasions. However, when it comes to its **business model**, especially in terms of financial sustainability, EuroLeague receives hefty **criticism** from many different fronts.
- In recent years, amplified by the **negative impact of the pandemic** on club financials, the degree of criticism has reached a significantly higher level which ultimately led to the **departure of the long-term CEO and President** of the organization, Mr. Jordi Bertomeu, in 2022. While some of the criticism may not be deemed substantiated (nor fair), there are certain issues which need to be taken seriously and addressed with well-thought and effective measures.
- Key discussions currently circle around overall **financial stability and sustainability** of EuroLeague clubs, (lack of) **profitability**, high **player salaries** and league's **expansion plans**. All these topics have a direct relevance for the **economic design of sporting contests**.
- In this study, we aim to provide an in-depth analysis of above-mentioned discussion points by using the **principles and concepts of sports economics**. Ultimately, this study has the sole objective of providing a contribution to the ongoing discussions as well as finding most effective solutions that are in the best interest of European basketball as a whole.



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# Key Design Principles of Sporting Contests

- In economic terms, the **main concepts/issues** that are relevant for the design of professional team sports are (i) **ownership** rules and objectives, (ii) (contractual) **relationships with players** incl. salaries, (iii) availability and allocation of **playing talent**, (iv) **revenue sharing** mechanisms, and (v) **entrance/exit procedures** into/from the leagues.
- Historically, the **US-based major leagues** have been more active in introducing specific measures (e.g. reserve rule, rookie draft, salary cap, luxury tax, and broader revenue sharing mechanisms) in different formats and combinations. It is important to note that the main motivation behind their implementation has been to ensure/improve **competitive balance** and **uncertainty of outcome** which are deemed to be among the key determinants of demand for team sports. In other words, all such regulations originated from the NBA, NFL, MLB etc. were justified on the basis of **enhancing competitive balance** for the respective leagues.
- It is also essential to understand that, while the organizational structure of individualistic sports (e.g. Tennis) is fairly uniform and directly comparable on either side of the Atlantic (i.e. USA and Europe), the **organization of professional team sports** differs substantially. This is mainly attributable to **cultural differences, traditional attitudes and folk memory**. Historically, the design of **baseball** in the US and **soccer** in Europe has been leading in terms of establishing the main characteristics of the respective design principles.
- In **the US**, in general, the leagues are organized independently as **closed leagues** (i.e. without promotion and relegation), where entry to the league typically occurs through the sale of expansion franchises. Management is based on the “**profit maximization principle**” similar to “regular” enterprises in other areas of economic activity with a “hard budget constraint”. The club owners primarily follow **economic interests** in the form of return on investment and have principally the intention to recover their main investments incl. dividends at some point.

# Key Design Principles of Sporting Contests

- In **Europe**, on the other hand, the sports clubs had initially been founded as **associations** with the primary goal to fulfill **social functions**, e.g. solidarity among their members. Typically, the clubs were **not seen as profit-making enterprises**, but rather social entities acting in the interest of their respective societies. Management has rather been based on the **“win maximization principle”** along with a **“soft budget constraint”**. Other common elements of the “European model of sports” include Integrated governance within a global hierarchy and national leagues/associations, team mobility through promotion/relegation on sporting merit, competitive labor markets at entry stage, no draft, limited unionization/collective bargaining.
- Due to different circumstances and structural factors, it is important to understand the **root causes of the issues** first and develop appropriate solutions rather than copying/pasting certain regulations that may have been effective in a significantly different organizational set-up.
- **EuroLeague** has a **unique position** among the professional sports leagues in **Europe**. On the one hand, it bears certain characteristics of a US-based major league because it is practically a closed league for its shareholder clubs with certain governance rules as well as some centralized marketing and revenue-sharing mechanisms in place. On the other hand, it was created “in the middle of the European model of sports” with (still-existing) historical ties to the traditional structures and management practices of sports clubs in Europe. Ultimately, it would not be wrong to argue that EuroLeague is **not a league designed in full alignment with a US-major league nor a “traditional” European professional sports league**.
- In essence, we believe that EuroLeague’s current challenges, at least partially, are a direct consequence of the **“clash” between these two major designing models** which manifests itself in (partially) **unrealistic expectations**, both in financial and managerial terms, especially in direct comparison with the NBA.

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# Profitability of EuroLeague Clubs

- One of the **main points of criticism** against EuroLeague is that (almost) all of its clubs are deemed to be **loss-making** on a consistent basis and that the deficits are mainly **compensated by (direct) cash injections** from the owners. Financial sustainability of this model has been questioned for many years now. Only a few clubs publish their financial statements, therefore a full-scope analysis is not possible based on publicly available data. However, the Euroleague Financial Stability and Fair Play (FSFP) regulations provide an indication about the significance of the issue: In the 2022-23 season, the FSFP regulations (still) allowed up to 50% shareholder contributions. This implies that there are **still clubs which are essentially generating losses** every year which are **equal to or even more** than half of their entire budget.
- In financial terms, **result of a period** represents a **residual amount** which is defined as the *"difference between the amount earned and the amount spent in buying, operating, or producing something"*. If the difference is positive, a profit is generated. And loss occurs when it is negative. As such, it is a result of a formula which consists of (i) **revenues/income** on the one hand, and (ii) **expenses/costs** on the other hand. A loss can be turned into a profit by either increasing revenues/income or reducing expenses/costs, or both.
- The relationship between **revenue growth** and **cost control/reduction** is often complementary. Organizations can pursue both strategies simultaneously to enhance their financial performance. It is also important to strike a **balance** between revenue growth and cost reduction, as focusing solely on one strategy can have limitations. Relying solely on cost reduction may lead to decreased quality or hinder future growth opportunities, while solely focusing on revenue growth without considering costs can lead to financial instability.
- In the case of EuroLeague, we believe that **both strategies** should be applied **simultaneously** and diligently, since overemphasizing one over another may lead to (financial) inefficiencies.

# Profitability of EuroLeague Clubs

- On the **revenue** side, except for the pandemic season, EuroLeague has been announcing (significant) **revenue growth** since its inception. However, **no concrete figures** were shared with the public. Therefore, it is not possible for us to objectively assess the quantity and quality of EuroLeague clubs' revenue growth. Same applies to the **IMG contract**, especially as to whether it ensures optimal level of revenues or whether there is more potential to tap into. Assessing the effectiveness of (short-term) strategies requires more in-depth knowledge about the existing TV broadcasting deals, sponsoring contracts and studies as well ticketing data.
- Overall, we believe that **EuroLeague executives** should be more **transparent** as to whether EuroLeague has already fully realized its commercial value (for the current markets that it operates in). Is it fully out of discussion to have more lucrative TV deals, like MLS recently did with Apple TV? What are the missing pieces, what are the reasons for the lack of major revenues which leads to losses (along with high expenses as explained in the next session) ?
- The **lack of profitability** naturally raises the question about **financial sustainability** of the clubs. Very often the owners of the clubs like **Anadolu Efes** (Mr. Tuncay Özilhan) and **Armani Milano** (Mr. Giorgio Armani) are being called out as examples of investors who invest significant amounts of money in basketball, but allegedly do not get any return on their investments.
- For this discussion, we believe that focusing on the **stand-alone financial statements** of the EuroLeague clubs is **not the right approach**. Instead, due to certain specific characteristics of (team) sports, an analysis of related benefits and value creation from a **macro perspective** is essential. It is also important to note that EuroLeague consists of **clubs** which have quite **different objectives and cultures**. As such, the **owners' motivation** for investing in basketball can be very different from one another. Return on investment shall therefore be always measured under consideration of such differences (and, where needed, by using different/alternative methods).

# Profitability of EuroLeague Clubs



We first start with the analysis of **Anadolu Efes**. The club's current **player budget** is assumed to be in the **above-than-average category** within EuroLeague. According to the 2022 financial statements of Anadolu Group (i.e. the holding company which controls the club), the financial support that the club received from **Anadolu Group** for the calendar year 2022 amounted to approx. 504m Turkish Lira which equals to approx. **EUR 29m** (PY: **EUR 19m**, both converted by the average FX rate for the respective years). Below table provides a 5-year overview.

# ANADOLU EFES

in thousands	2022	2021	2020	2019	2018
TL	504.079	201.406	108.385	110.881	63.741
EUR	28.955	19.159	13.456	17.440	11.168

Source: Anadolu  
Group Annual Reports  
for the years 2018-2022



The significance of financial support that the club is receiving from its owner raises serious **questions about the financial sustainability** of participation in EuroLeague. Often it is argued that the only reason as to why the club would continue its basketball investments would be the **personal love and passion** of its owner for the game of basketball. Consistent with this assumption, it is further argued that the decision to **continue vs. cease** Anadolu Efes' basketball existence would solely be "between the two lips" of Mr. Özilhan.



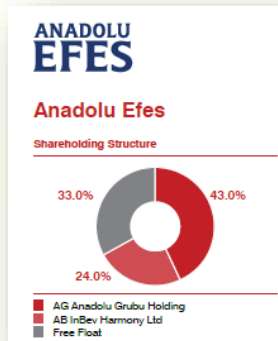
Without any doubt the **personal commitment** of the owner for the sport of basketball has been one of the key driving forces behind the Anadolu Efes "project". The initial decision to start a basketball team back in 1976 was very much associated with the **personal experiences and preferences of Mr. Özilhan\***. And we truly think that the (European) basketball community should be grateful for this long-term investment.

\*) <https://www.capital.com.tr/is-dunyasi/soylesiler/300-milyon-dolar-efes8217e-ne-getirdi>



# Profitability of EuroLeague Clubs

- Having said that, we do not believe that **Anadolu Group** would not have any other (significant) benefits out of this basketball engagement other than the “**personal utility maximization**” of its owner. We base this argument on the following facts:
- First of all, **Anadolu Efes Basketball Club** is directly associated with one of Anadolu Group's major business segments, namely the beer business. Anadolu Group represents one of the **leading industrial conglomerates in Turkey** with significant business activities under leading brands such as **Coca-Cola, Migros, Kia, Isuzu** etc. generating total revenues amounting to 177 billion Turkish Lira (approx. **EUR 10.2 billion**) in fiscal year 2022.



Source: Anadolu Group 2022 Annual Report

- Anadolu Efes Biracılık ve Malt San. A.Ş.** is a **subsidiary** of Anadolu Group representing the **5<sup>th</sup> largest** beer producer in Europe and **9<sup>th</sup> largest** in the world, in terms of total sales volume. It is a **public company** (separately from its parent). **33%** of its shares is in **free float**, whereas **24%** is owned by **AB InBev** and the remaining **43%** by **Anadolu Group**. It has significant market share in several countries incl. **market leadership** in Turkey, Russia and Georgia. Additionally, it is active in many other countries where basketball is (highly) popular.

- An analysis of Anadolu Efes Biracılık's financial statements reveals that its **investment in basketball** is not immaterial compared to its financial results. Anadolu Group is clearly positioning its basketball investment as a **CSR initiative**. In line with this categorization, first, it would not be wrong to argue that the company is generating **positive (indirect) benefits** for its business activities and further strengthening its brand equity which is a typical result of CSR activities.

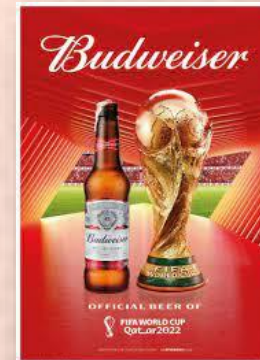


Source: Anadolu Group 2022 Annual Report



# Profitability of EuroLeague Clubs

- Furthermore, in an interview from 2006\*, Mr. Özilhan clarifies that their **investment in basketball** initially started as a **CSR/PR project** (upon recommendation of an external consultant), but with **clear benefit expectations** for the business. He also states that, even though the benefits for the business could not be measured in statistical terms/KPIs, the **effect for the Efes (Pilsen) brand** would be **clearly positive**. He also provides further context as to the business relevance for their basketball engagement by mentioning that **5% of company's total sales** is allocated to sales and marketing activities, of which **2% is directly assigned to the basketball operations**.
- Combined with the fact that Anadolu Group has been **investing in basketball since 1976** and the team has been in the first Turkish basketball division since the 1978-1979 without being relegated to the second division not even for once, represents, in our opinion, a **clear evidence** for the existence of (significant) business benefits. The business strategy might have changed since 2006. However, the fact that Anadolu Efes Biracılık is a **public company** and partially owned by AB InBev makes such decisions even more difficult and **subject to formal decision-making procedures**. As such, there seems to be a clear business strategy supported by objective evidence for the financial benefits of the basketball engagement.
- Another important aspect to consider is the **unique situation of the alcoholic beverages** industry. Due to certain (legal) **restrictions on certain marketing/advertising activities**, such investments in sports represent an attractive venue and provide tangible benefits. Compared to competitors' more significant sponsoring engagements in sports, primarily **football**, basketball seems to be even a **reasonable and (financially) modest** alternative for Anadolu Efes.



\*) <https://www.capital.com.tr/is-dunyasi/soylesiler/300-milyon-dolar-efes8217e-ne-getirdi>

# Profitability of EuroLeague Clubs

- 🏀 In our opinion, **Armani Milano** bears certain similarities with the case of Anadolu Efes. First of all, the **personal interest and passion** of its owner, **Mr. Giorgio Armani**, for basketball seems to be one of the main drivers behind their support for the basketball club **Olimpia Milano**. In this case, the availability of (financial) information is very limited (given the fact that Armani is a privately held company). However, in its sustainability report, the support for the sport of basketball is, like in the case of Anadolu Group, primarily viewed as a **CSR initiative**.



Source: The Armani Group Sustainability Report 2021

- 🏀 Besides the (indirect) benefits of such CSR initiatives for the business, in our opinion, it can also be argued that Armani might be **benefiting from the popularity of sports** to establish a brand for the **sportswear/lifestyle** segment (also called as athleisure) which has been growing more than any other (performance) categories of leading sporting goods companies such as NIKE and Adidas.

- 🏀 To put it in context, the **NIKE sportswear category** (i.e. apparel inspired by performance sports but used in daily life) generates the highest category revenues of NIKE representing almost **45% of the company's total revenues**. Furthermore, **Adidas** has collaborations with **luxury brands** such as **Prada, Gucci, Moncler** etc. which might be indicative of the (potential) benefits that Armani might also be obtaining out of its engagement in sports.





# Profitability of EuroLeague Clubs

- While it can be clearly argued that there is a **specific business value** for such investments in basketball (which is not visible in the stand-alone financials of the clubs), it should **not be taken granted** that these investments **will continue for ever**. In general, it can be argued that **sports sponsorship** continues to be a **very effective and attractive** strategy for many companies. However, there is **increasing competition** among **different sports** (and other cultural and entertainment activities) to attract companies as sponsors and/or direct investors and that business strategies can change over time to the disadvantage of basketball.
- Furthermore, **basketball investments** are also **not immune** to **adverse financial results** or (macro-) **economic crises**. As such, there are several examples of companies that withdrew from basketball in the last three decades (such as Benetton, Ülker, Montepaschi, Dogus, Banvit etc.) which clearly represent a **major risk for financial sustainability** of the clubs and leagues. It is obvious that the above-mentioned owners have a huge sympathy and passion for this sport which indeed can be seen as one of the decisive factors behind their continuous support. We believe that **EuroLeague management** has an important duty to help **define, measure and institutionalize the business benefits** of basketball investments for such shareholders/sponsors.
- As mentioned above, **EuroLeague** consists of **clubs** that have **different goals**. **Anadolu Efes** and **Armani** represent the case where **financially robust companies** stand behind basketball teams. Teams like **Real Madrid, FC Barcelona, Fenerbahce** and **FC Bayern Munich** represent another category which consists of **sports/football clubs in traditional sense**. Their motivation to compete in EuroLeague is primarily driven by **sporting reasons** and the **rivalry** among them. **Olympiacos** and **Panathinaikos** could also be seen in this category, as they compete under the name of a well-known football club, however these clubs' basketball divisions are organized separately and owned/controlled by wealthy businessmen with different goals. In a separate category, clubs like **Zalgiris, Maccabi** and **Baskonia** have some other **unique characteristics** in common.

# Profitability of EuroLeague Clubs

- For instance, in the case of **Zalgiris Kaunas**, **national identification** with Lithuania plays a central role. Basketball is the **most popular sport** in the country due to historical reasons and its relevance for the **national independence**. Former legendary Lithuanian player and current EuroLeague Coach Sarunas Jasikevicius once explained the **importance of basketball** for his country in an interview as follows: *“Every kid in Lithuania first tries to become a basketball player no matter what. If this turns out not to be possible, then he or she goes to other less important professions such as brain surgeon, professor or engineer.”* The name **Zalgiris** commemorates the **Battle of Žalgiris (Battle of Grunwald)**, one of the most important victories in the history of Lithuania.



- Similarly, **Maccabi Tel Aviv Basketball Club** represents one of the most important symbols of the Israeli society and state. The club, led by its **legendary player and captain Tal Brody**, already established itself in 1960s as an **elite club in Europe** and gained **acceptance and recognition** in the international area. The name **“Maccabi”** stems from **“Maccabees”** who were **a Jewish national liberation movement** that fought for and won independence from Antiochus IV Epiphanes representing a **historical relevance** and importance of the basketball club for the **Israeli heritage**.
- Baskonia** also shows certain similarities to these two clubs, especially in terms of **national/cultural identification**, representing the **Bask region** in Spain. Such cases where **historical missions** being taken over by sports clubs **barely exist in the US-professional sports leagues**.
- While it is not unreasonable to assume that the **historical and societal role** of these clubs would generate a certain **value** for their stakeholders incl. fans and the broader society, it is not always **practicable to measure** such benefits.

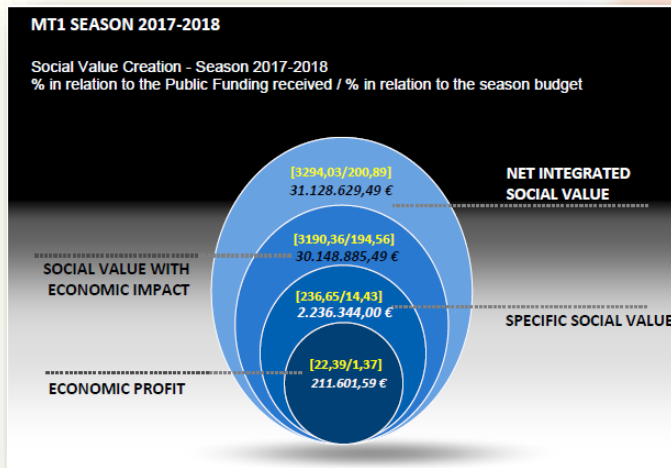


# Profitability of EuroLeague Clubs

Quantifying the so-called **social value of sports** has gained high attention in recent years. In a **PhD thesis** published in 2020, Mr. Xabier Mendizabal Leinena deals with this issue. One of the two clubs that were analyzed in the mentioned PhD thesis ("**Social Value of the Professional Basketball Clubs in Spain: A Necessity**") is assumed to be **Baskonia**, since we believe that it is the club that meets the definition criteria mentioned in the thesis\*.



The **analysis results** are quite interesting. In the **2017-18 season**, the club had **total revenues of approx. EUR 15.5m** and spent **approx. EUR 9.8m on salaries** and **EUR 4.4m on other OPEX** closing the year with a **profit of EUR 200k**. While the club barely made a profit in that season, it created a so-called "**net integrated social value**" of more than **EUR 31m** for all related stakeholders.



Source: Social Value of the Professional Basketball Clubs in Spain: A Necessity

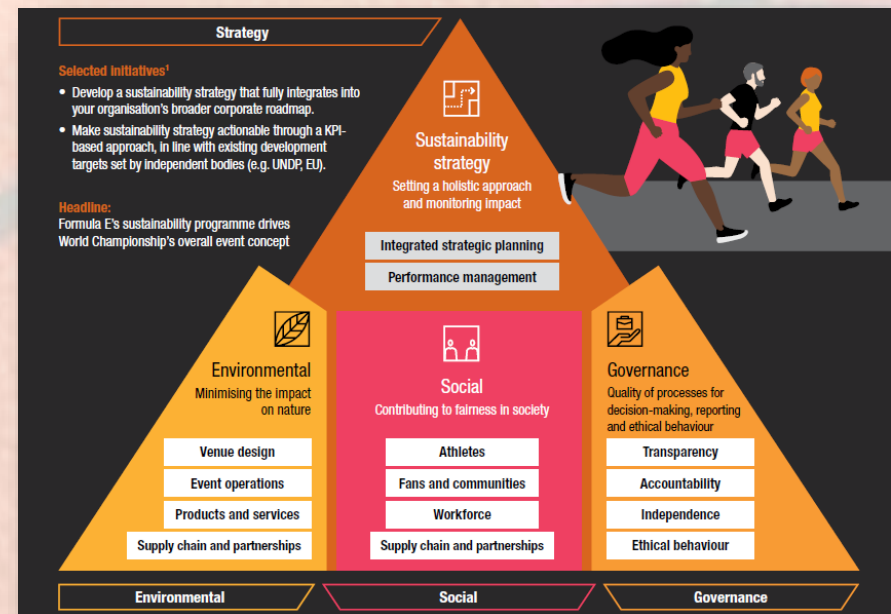
**Integrated social value analysis** is a **social accounting** model that considers both the **economic value** and the **social value** created by an organization for its stakeholders that it is interacting with. The concept of social accounting is derived from the social and environmental impacts that are **absent from conventional accounting practice** which so far is restricted to financial and economic events. For instance, social accounting covers information regarding the natural environment, employees' conditions, and broader ethical issues which

concentrate on customers and products, and local and international communities.

\*) MT1 represents a top or a leader team; then, this club is one of the three largest budgets in the competition, it has been competing in the highest category since the creation of the ACB League, and it regularly competes in the international European championship. Moreover, this basketball club has won several championships.

# Profitability of EuroLeague Clubs

- Above presented results should be interpreted in the **right context**. We think that such macro-level calculations could definitely serve as an **indication for the value generation** within the entire **ecosystem** that the clubs are operating in, however, ultimately, the salaries and the bills must be paid by **the cash that is directly generated** by the club's primary (economic) activities.
- We believe that such **new and alternative calculation methodologies** can nevertheless play a key role in presenting the value of a club's activity for the respective society and/or target groups in a more **comprehensive and effective manner**, thus adding **significant value** in negotiations with (potential) sponsors, investors as well as other stakeholders.
- Furthermore, there is another **major shift** that can offer a significant (financial) opportunity for sports clubs. Although many rights owners have long used their assets to support communities in various ways, **CSR initiatives** have mostly been planned/operated in an ad-hoc manner, without being fundamentally integrated into the corporate strategy. In today's world, CSR receives a completely different meaning and importance. **Environmental, Social and Governance (ESG)** initiatives represent a huge opportunity for sports clubs, considering their role in society as a genuine vehicle for positive change. ESG should therefore become a **strategic priority** for clubs.



Source: PwC's Sports Survey 2021, Sports industry: ready for recovery?

# Profitability of EuroLeague Clubs

- ESG initiatives are becoming more relevant and essential for companies, thanks to **higher awareness** and **legislation changes**. The **UN Sustainable Development Goals** represent the framework of such initiatives addressing sustainability, environmental and social aspects. This framework is being more and more adopted by companies. Recently, also sports organizations direct their attention to ESG.

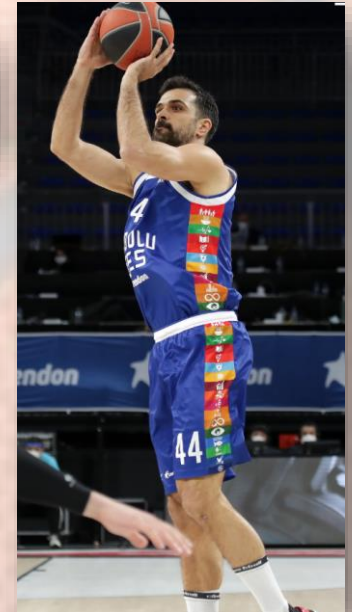


- For instance, in November 2022, the **German Basketball Bundesliga** announced its future sustainability strategy, explicitly referring to 5 of the 17 UN Sustainable Development Goals, namely, 3-Good Health and Well-Being, 4-Quality Education, 10-Reduced Inequalities, 13-Climate Action and 17-Partnerships for the Goals.



**Fenerbahce, One Team and BKT support UN Sustainable Development goals**

- EuroLeague **ONE TEAM** program primarily represents a **CSR initiative**, whereas in recent years direct reference is made to the development goals. However, we believe that there is still a **significant potential** which can be used by the clubs. For instance, in March 2021, Anadolu Efes played their last regular season game against Panathinaikos in their #17 #HareketeGeç (#TakeAction) jerseys which was a great initiative to increase awareness. However, we see a **disconnect** between the role of the Anadolu Efes team and the ESG concept of Anadolu Group, since the club is not even mentioned in group's sustainability program.





# Profitability of EuroLeague Clubs

- In this section, our aim was to demonstrate that in many cases the **financial result** as presented in a club's **stand-alone financial statements** may not be telling the **full story** as to the benefits that are being generated by the respective club's activities.
- The main reason for this situation is the fact that benefits are in most cases visible as “**externalities**”, either in the form of **marketing and brand benefits** for the respective owners or **CSR/ESG related benefits** that are becoming more and more important for the world.
- While we believe that there is still **significant potential** to increase direct revenues visible in the club financials, there should also be **more focus** put on the way how the **external benefits** are measured and further increased. As discussed above, ESG concept offers an excellent opportunity for sports clubs, especially for such clubs established within the European model of sports due to their authentic and historical role in the societies.
- In this context, **EuroLeague** has an important **role** to play in terms of defining and presenting the “**real**” **value** of the competition, by taking into consideration of all unique aspects and factors that are relevant for every individual EuroLeague team.
- As mentioned above, profitability of a club is a function with two variables, namely the revenues on the one hand, and the costs, on the other hand. This section dealt with **the revenue-side** of the equation. Following section provides **insights into the most significant expense** item in club income statements, namely the player salaries.



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- **Player Salaries**
- League Expansion Considerations
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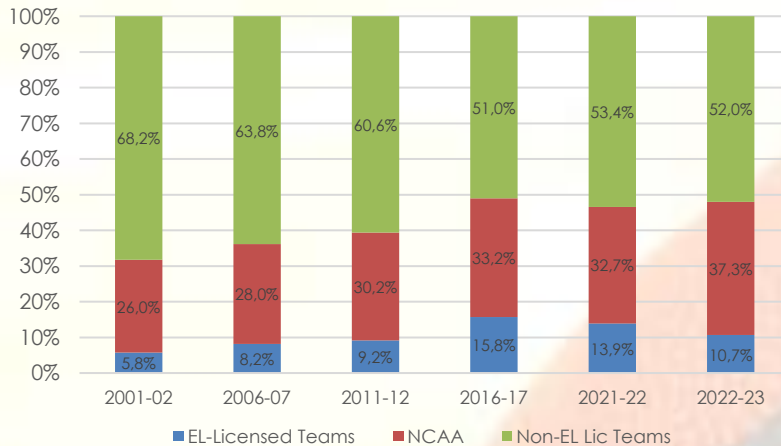
# Player Salaries

- The previous section primarily deals with the revenue/income side of club income statements. In this section, the **focus is on the expenses**. Looking at the club financials, it is quite obvious that the **main reason for club losses** observed in stand-alone financials is the **significant spend on player salaries** which seem to even increase more significantly than the club revenues.
- In general, the increase in investment in playing talent can be explained by the motivation of **“win maximizing” club managers** to ensure the best talent who is expected to bring success to the club. In sports economics, there is a fairly **reliable statistical relationship** between **wage expenditure and team performance**, especially for football. While the Final Four Format of EuroLeague might be bringing certain limitations to this assumption (surprise factor at F4), especially in terms of winning the league title, it is generally believed that “money buys success”.
- However, this assumption is more likely to hold, if the **player market is efficient**. In economic theory, basically the price of a good or service is determined by its supply and demand. This also applies to labor markets, i.e. if the supply of labor in a certain market is short, the related salary level goes up to reach the new market equilibrium. It is our opinion that currently there are **certain (internal and external) factors** which are **distorting the efficiency** of the players market in terms of talent availability in Europe.
- (Licensed) EuroLeague teams basically have **three main sources of player supply**: (i) **own youth programs**, (ii) **other (European) teams** not competing in EuroLeague, and (iii) **US players market** (mostly originating from NCAA). Below charts illustrate the development of the player supply from these three sources since from the beginning of EuroLeague (in 5-year intervals). This analysis focuses on the **11 licensed clubs** which were the founders of EuroLeague, since we believe that, as shareholders of the league, they have a **leading role** in shaping the players market in Europe.

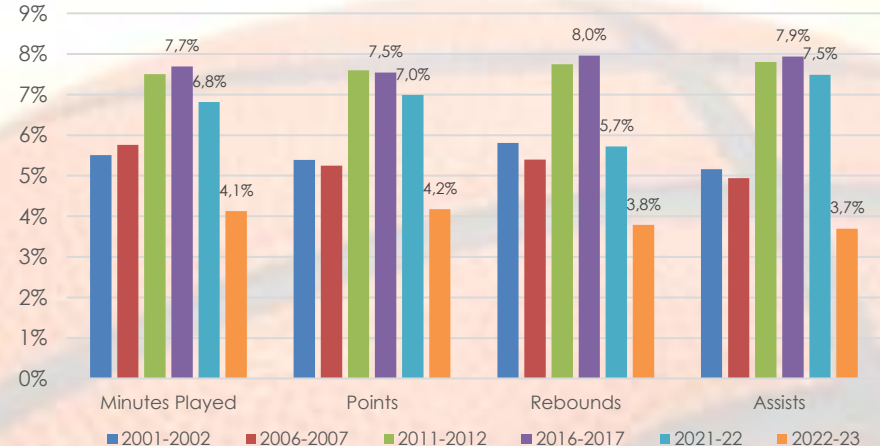
# Player Salaries

- Below **chart on the left** demonstrates the **mere number of players** based on where they “grew up”, e.g. in 2016-17 season approx.15% of all EL players came from the youth programs of licensed clubs. The **chart on the right** shows the **impact of such players** (i.e. players from licensed clubs' youth programs) on the league **in terms of minutes played, points, rebounds and assists**.

Where EuroLeague Players grew up\*



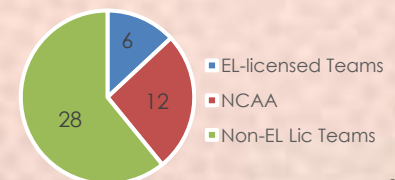
Impact of Players from EL-licensed Clubs\*



- Both the **number and impact of players** who grew up in an EL-licensed team seems to be on the **decline**, especially since the **new competition format** was introduced. Number of players **stemming from other clubs** other than EL-licensed clubs has also been **declining**, whereas the **reliance on NCAA-origin players is increasing** (from 26% in 2001-02 to 38% in 2022-23).

- To further assess the importance of players according to their “origin”, the **monthly EuroLeague MVP awards** have been analyzed for the last ten seasons played (i.e. since 2013-14). As illustrated on the right, **out of 46 players** who won this award in a total of 68 months, **only six players** went through the youth program of an EL-licensed team.

Origin of the monthly MVPs\*  
(since 2013-14)



# Player Salaries

- In our opinion, as also illustrated in the charts above, the **initial reason for supply constraints** on the players market is **related to the youth programs of licensed EL-clubs**. In European sports model, unlike the NCAA system, the **(local) player supply** is mainly provided by **clubs' grassroots programs**. In the context of licensed EuroLeague clubs, it can be argued that, with only a few exceptions, their **youth development programs** are **not effective** in terms of producing talented players who can have significant impact on the game.

**Adidas Next Generation Tournament Finals**  
(since 2007-08)

Season	Champion	Runner-up
2007-08	FMP	<b>FC Barcelona*</b>
2008-09	FMP	Lietuvos Rytas
2009-10	INSEP	FMP
2010-11	KK Zagreb	<b>Zalgiris Kaunas*</b>
2011-12	Lietuvos Rytas	<b>Fenerbahce*</b>
2012-13	J. Badalona	<b>FC Barcelona*</b>
2013-14	Crvena Zvezda	<b>Real Madrid*</b>
2014-15	<b>Real Madrid*</b>	Crvena Zvezda
2015-16	<b>FC Barcelona*</b>	Crvena Zvezda
2016-17	CFBB Paris	Mega Bemax
2017-18	Lietuvos Rytas	Stellazzurra
2018-19	<b>Real Madrid*</b>	Mega Bemax
2020-21	<b>Real Madrid*</b>	<b>FC Barcelona*</b>
2021-22	Mega Bemax	NG Select
2022-23	<b>Real Madrid*</b>	NG Select

Source: EuroLeague

- One **further indication** to support this conclusion is the results of the **Adidas Next Generation Tournament (ANGT)** which is a competition organized by EuroLeague to promote youth development.
- Over the last 15 seasons played, **only two licensed EL-clubs** (Real Madrid [4] and FC Barcelona [1]) managed to **win the title** and **only four licensed clubs** (additionally Zalgiris Kaunas and Fenerbahce, each once) could reach the **final game**. In other words, seven out of the 11 licensed clubs could not play an ANGT final and nine clubs could not win the ANGT championship title within the last 15 seasons.
- Key issue in this context is the **development of high-quality players** who can have a significant impact on the quality of the league. Although the team success might be a result of individual player talent, it may not always be the only relevant factor.



# Player Salaries

- As such, below tables provide **more insights** into the players' **individual success** at ANGT tournaments played in the same time period (i.e. last 15 seasons played).

**Adidas Next Generation Tournament MVPs**  
(since 2007-08)

Season	Player	Club
2007-08	Dejan Musli	FMP
2008-09	Dejan Musli	FMP
2009-10	Livio Jean-Charles	INSEP
2010-11	Dario Šarić	KK Zagreb
2011-12	<b>Metecan Birsen</b>	<b>Fenerbahce*</b>
2012-13	Alberto Abalde	J. Badalona
2013-14	Vojislav Stojanović	Crvena Zvezda
2014-15	<b>Luka Dončić</b>	<b>Real Madrid*</b>
2015-16	Boriša Simanić	Crvena Zvezda
2016-17	Ivan Fëvrier	INSEP
2017-18	Deividas Sirvydis	Lietuvos Rytas
2018-19	<b>Mario Nakić</b>	<b>Real Madrid*</b>
2020-21	<b>Eli Ndiaye</b>	<b>Real Madrid*</b>
2021-22	Nikola Đurišić	Mega Bemax
2022-23	<b>Jan Vide</b>	<b>Real Madrid*</b>

Source: EuroLeague

- As shown in the table on the left, **only two licensed clubs** (Real Madrid [4] and Fenerbahce [1]) produced **most valuable players (MVP)** of the competition whereas in ten seasons the MVPs came from non-EL licensed clubs.

- Looking at the all-time stats leaders of ANGT (table on the right), it can be stated that among the **Top-3 of the most critical game statistics**, points, rebounds and assists, only one player was from an EL- licensed team (Anadolu Efes).

**All-time Top-3 ANGT Players**

#	Player	Team
<b>Points</b>		
1	M. Popovic	Buducnost
2	H. Drell	Brose Bamberg
3	S. Magkounis	AEK Athens
<b>Rebounds</b>		
1	K. Pietras	U. Olimpija
2	K. Kamenjas	Sarajevo
3	M. Popovic	Buducnost
<b>Assists</b>		
1	<b>O. Ilyasoglu</b>	<b>Anadolu Efes*</b>
2	F. Covic	FMP
3	K. Klavzar	C. Olimpija

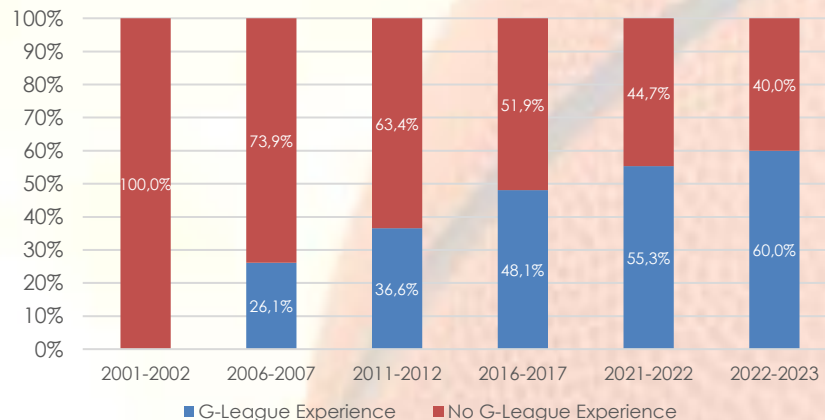
Source: EuroLeague

- Overall, **Real Madrid** seems to be arguably the **most successful EL-licensed club** in the area of youth development. Having developed talents such as **Luka Doncic**, **Osman Gruba** and **Nikola Mirotic** etc. is positioning them in a different category compared to other clubs. Despite their significant players' budget over the years, it can still be argued that having produced such talented players from own ranks has created some relief for the club's budget. The main issue for them, however, seems to be more the **protection** of their homegrown talent towards the **NBA**.

# Player Salaries

- Regarding the **second major player supply** for EuroLeague, the **non-EL licensed clubs**, it should be noted that there are **two main developments** that have an impact on the scarcity of available resources: (i) the **growing economic challenges of (domestic) teams** who are investing in youth development (directly related to the challenges of domestic leagues), and (ii) **increased attractiveness of the NBA** which often leads to the decision of talented players to skip the top-tier European club competition and play directly in the NBA. These two factors are in our opinion amplified by certain actions of the players' agents as explained in more detail below.
- The **third category of main player supply for EuroLeague** teams is the **US player market**. EuroLeague arguably represents the **second-best basketball league** in the world. As such, it has a certain popularity for such players who are not "good enough" for the NBA. While this assumption is deemed to be still valid, there are **certain developments** that are pressuring the player supply from EuroLeague's perspective. First of all, for many talented US-players, **NBA Development League (G-League)** has become a viable option (thanks to so-called two-way-contracts) to stay visible to the NBA teams while earning relatively better salaries.

**G-League Experience of US-Players playing in EuroLeague\***



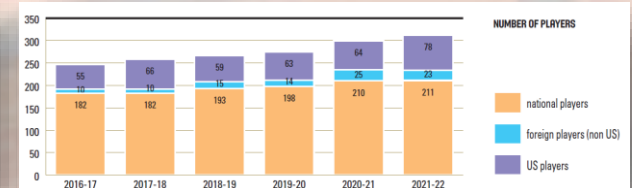
- This effect is visible in the profiles of US players who join EuroLeague teams. As per the chart on the left, there is an **increasing trend** as to having **G-League experience** among the US players who play in EuroLeague. For instance, in the 2001-02 season (i.e. the inaugural season of G-League), (logically) none of the US-players had G-League experience whereas in the 2022-23 season **60% of the US-players** did.

# Player Salaries

- **Second important development** that has been observed especially over the last 10-12 years is the fact that certain **Asian leagues**, especially **China** and **Japan** have been growing significantly and attracting more and more (US-American) players.
- For instance, although **Chinese league** was relatively stable in terms of player demand and number of teams in recent years, mainly due to the negative impact of the pandemic, the **demand for players** has grown by **52%** since the season 2011-12.
- In the **Japanese league**, within only **six years**, total number of **teams** increased from **18 to 22** leading to an incremental player demand of 65 players (26%) whereas the number of US players has increased by 23 players to a total of 78 players, pushing the **demand for US-players by 42%**.



	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Number of teams	18	18	18	18	20	22
Number of regular season games	540	540	540	369	574	649
Number of regular season games per team	60	60	60	41	57	59
Number of players	247	258	267	275	299	312
% of foreigners	26	29	28	28	30	32



Source: FIBA

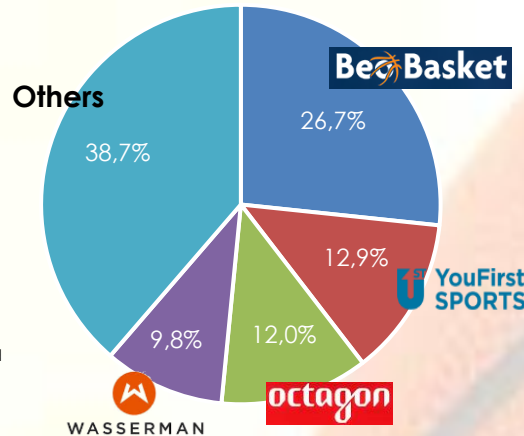
- Also, **Australian league** expanded from **8 to 10 teams** over the same period of time, now demanding **24% more players** compared to the 2016-17 season.
- All these developments in other international leagues lead to a **higher demand for US-American players**. As such, the competition for obtaining the best talent outside of the NBA is becoming more challenging for EuroLeague which is reflected in a **higher salary level**, especially considering the trend for a higher share of US-American players to compensate the lack of talent from the local market.



# Player Salaries

- Another key factor which impacts the efficiency of the player market (besides the ineffective youth development programs of the EL-licensed clubs, as explained above) is the role of **players' agents** in Europe. Mainly, this issue has **two aspects**: (i) **High market concentration of agencies** and its (assumed) impact on salary levels, and (ii) **Cherry-picking of talent** associated with “questionable” business practices.
- EuroLeague teams seem to primarily **cooperate with a few player agents/agencies**. The market shares of the leading agencies for the 2022-23 season is illustrated in the below chart.

**Market Shares of Agencies**  
(by number of players)  
(2022-23 season)



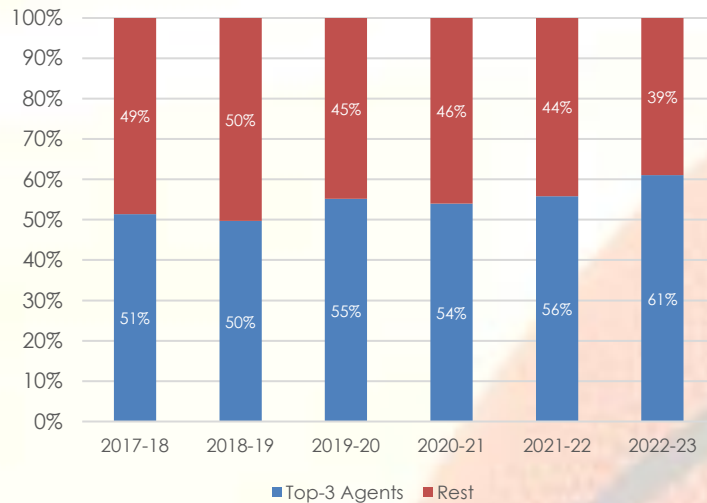
Source: EBAG  
Analysis based  
on data from  
Eurohoops

- In economic theory, **market structure** depicts how firms are differentiated and categorized based on the types of goods/services they sell and how their operations are affected by external factors and elements.
- In our opinion, the **current market structure** of players' agents bears certain characteristics of an **oligopoly**, i.e. a market form where only **small number of firms** together control the majority of the market share and tend to avoid price war (which, however, may not be fully/ directly applicable in the case of players market). In an oligopoly, **prices** are usually **higher than** they would be in **perfect competition**.
- Above conclusion is also supported by the calculation of **two indicators**, **Herfindahl-Hirschman-Index** and **Concentration Rate** which are commonly used for this purpose. We argue that the concentration level is expected to be even higher, if, instead of **mere number of players**, the **contract values** represented by the agencies would be taken as the calculation basis.

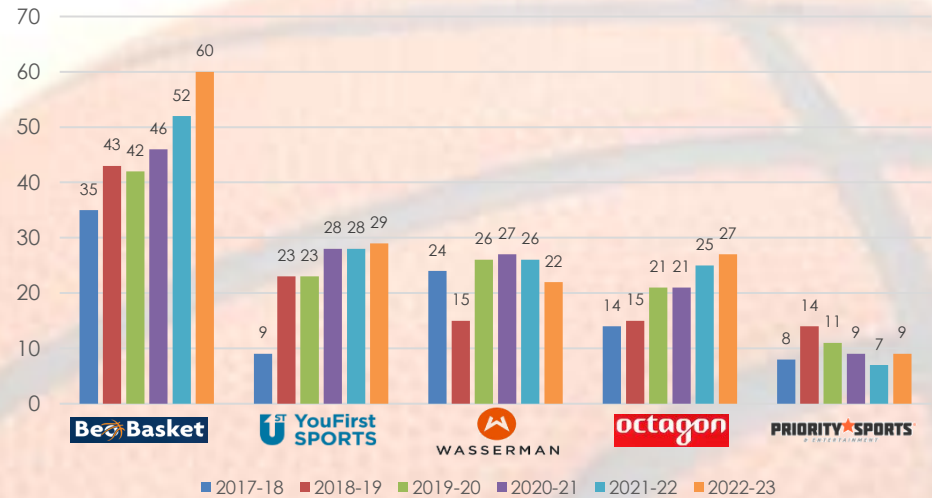
# Player Salaries

- Market concentration** of agencies seems to be a tendency which could be observed over the last years. As presented in the below table on the left, the **cumulative market share of Top-3** among the ten largest agencies has been **consistently growing** since the 2017-18 season, reaching more than 61% in the season 2022-23, an **increase of approx. 10 % points in 6 years**.

**Market Shares of Agencies among Top-10\***  
(by number of players)



**Number of Players represented by Top-5 Agencies\***  
(by number of players)



- The **table on the right demonstrates** the **development of number of players** represented by the **Top-5 agencies** since the 2017-18 season which provides additional insights into the agency market evolution.
- In our opinion, **high concentration** within the players' agents market could push the player **salaries to higher levels** and cause several **conflicts of interests** among involved parties.

\*) EBAG Analysis based on data from Eurohoops

# Player Salaries

- The **second important aspect** regarding the role of players' agents is the **cherry-picking of talent in association with questionable business practices**. Agents have a (generally legitimate) interest in identifying the next talents and securing a representation contract with them as early as possible. This interest might, however, be in direct conflict with the interests of other involved parties, such as the clubs engaged in youth development activities or even the players to be represented by the agents.
- To mitigate such conflicts and risks, there are **certain (FIBA) regulations** as well as additional **restrictions imposed by the local federations**, such as not allowing a players' agent to be **involved in the management of a [...] club**, in any possible capacity, personally or through third parties. This rule is explicitly stated in **FIBA Internal Regulations Book 3 Chapter 9: Players' Agents**. A similar principle can also be found in **NBPA Regulations Governing Player Agents**.



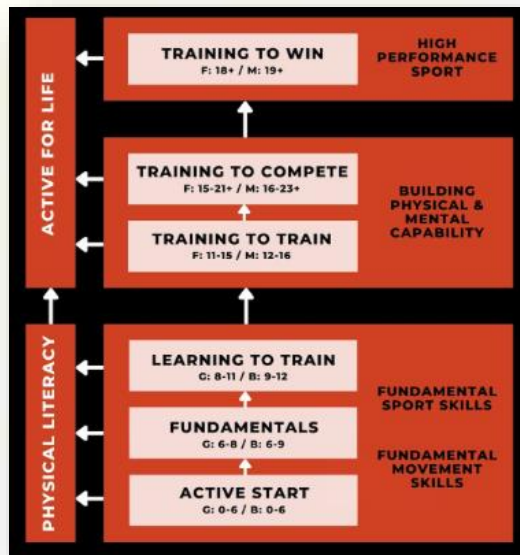
298. A FIBA-Licensed Agent or a person applying to become a FIBA-Licensed Agent (the latter referred to as a "Candidate" in this Chapter) may not, under any circumstances, hold a position within or be otherwise involved personally or through third parties in FIBA, a Zone, a National Member Federation, a club, or any organisation affiliated or connected to such entities such as leagues or players' associations. For the avoidance of doubt, a player of a national team or club is deemed to be involved personally in the relevant National Member Federation or club.

- Despite this clear regulation, in practice, there are **certain agencies** who have **significant involvement in management** of certain clubs which are competing in domestic/national leagues.
- These clubs are being used by the agencies for **recruiting talented young players** from other clubs with the primary intention to prepare them for the **next transfer** to another professional team or even the NBA. In many cases, **international players** (even below 18 years) might also be involved. Some of these cases have been subject to legal procedures between clubs, FIBA directly interfering especially in the case of international transfer of young players.
- We believe that such practices cause **significant harm** to the (future of) European basketball, in terms of youth development. We base this argument on the following facts:



# Player Salaries

- As mentioned above, the **player development in European model of sports** is the primary duty of sports clubs. These sports clubs, in many cases, operate on the basis of **social values** and **objectives** and receive tremendous support from **volunteers and/or idealistic individuals** incl. coaches. **Grassroots organization** is a key aspect of sports, both in terms of ensuring healthy generations (“sports for all”) as well as identifying and developing talent for the professional level (“performance sports”). Sports clubs ensure that these activities are performed on a broad basis.
- Furthermore, **youth development** represents a **legitimate source of income for sports clubs**. As such, (certain) sports clubs with their limited resources invest in talent development with the expectation to obtain transfer fees from the **“sale” of talent** which they identified and developed. This represents a cumbersome, costly and long-term process.



Source: LATD, I. Balyi

- According to the **Long-Term Athlete Development Model** developed by Istvan Balyi, one of the generally accepted models in the sports, athlete development consists of **multiple phases** which take **several years of systematic investment and effort**. Athletes are provided with different techniques and skills on their way up the career ladder. Typically, **until the age of 16-20 athletes** build physical and mental capability which is required to enable them competing and winning at the professional level.
- The **starting point** of the model is the early stages called “active start”, “fundamentals” and “learning to train” covering the ages 0-12 followed by “training to train” and “learning to compete”.

# Player Salaries

- In recent years, it has become almost a **regular practice** of some of the agencies that **young talented players in the ages between 16-18** are identified and transferred to the clubs controlled (or significantly influenced) by them. By doing so, best talent is being “cherry-picked”, in several cases, without even paying **any fair compensation** to the sports clubs which invested in the previous development of the players. This mainly leads to **two complications**: First, sports clubs tend to **reduce their investments in youth development** and second, due to non-realizable transfer fees at a later stage, sports clubs might enter into **financial difficulties**. Since the clubs controlled by agencies do not generally invest in earlier stages of player development (i.e. no basketball schools, no junior teams below U16/U18), **grassroots programs** in European basketball, especially in certain countries, are becoming **less productive and effective**.
- Furthermore, there are certain **questionable business practices** involving **international transfer of young players**. In these (dispute) cases, **FIBA generally intervenes** and determines a certain fee which needs to be paid by the new club. However, there are several examples where FIBA determined **a fee in the range of EUR 12k-15k** which cannot be seen in any **reasonable relation** to the amount of investment that the talent-developing clubs made over the years.
- **EuroLeague** does **not have any regulations for players agents** in current version of its Bylaws. As such, none of the above-mentioned problematic practices represents a wrong-doing in EuroLeague ecosystem. However, given the strategic importance for the player supply as well as the salary levels as discussed above, certain regulations seem to be required.
- In our opinion, **players’ agents** are among the **most critical stakeholders in basketball**. Their primary role is to protect the rights of their clients (players), who are typically in a “weaker” position in contract negotiations compared to team managers. As such, agents play a key role. However, we think that **their activities** should be **regulated** in a more detailed manner.

# Agenda

- Introduction
- Key Design Principles of Sporting Contests
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- League Expansion Considerations
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- Suggestions for Improvement











# League Expansion Considerations

- For the **US-based closed leagues**, league **expansion** represents the only possible way for **new teams** to enter the respective competition. From a financial perspective, it also represents a **significant incentive** for the existing teams, since the owner(s) of the new team are required to pay a (significant) **entrance fee**. Typically, the full fee represents incremental income for the existing teams, since it is not subject to salary cap and distribution mechanisms with the players on the basis of collective bargaining agreements.
- In the case of **EuroLeague**, **expansion** could basically take **two different forms**: (i) Granting a **(long-term) EuroLeague license** to a new club (e.g. the recent cases of FC Bayern Munich Basketball and ASVEL acquiring shares of Euroleague Commercial Assets S.A.), or (ii) **Accepting additional so-called Associated Clubs** which can theoretically be determined differently before the start of every season. There is no publicly available information as to whether or how much a new team shall pay in order to become a licensed or associated club. We assume that the amount is not material from the individual teams' budget perspective.
- Current discussions around **possible expansion of EuroLeague** circle around **two (types of) clubs** and locations. In the **first category**, there are certain **European clubs** which demonstrate a relatively **solid (organizational/financial) basis**, such as Valencia Basket and Virtus Bologna.
- The **other category** is related to a potential expansion of EuroLeague to **new (strategic) locations** such as London, Paris or Dubai. EuroLeague's plans to ensure a **stronger footprint** in economically powerful countries such as the **UK, France and Germany** have been known for a relatively longer period of time. Potential expansion to **Dubai** caught public attention when the EuroLeague management and shareholder clubs paid a visit to Dubai last year.
- There are certain aspects which need to be taken into account **regardless of the location and team** which are explained below.


# League Expansion Considerations

-  The **main goal** for a possible expansion of EuroLeague is directly associated with **growth expectations**, in terms of increasing both commercial and TV broadcasting as well as ticketing revenues. A key determinant for these expectations would be the **number of games** to be added to the EuroLeague game schedule upon expansion.
-  First, we believe that currently there is **not too much room in the competition calendar** for scheduling additional games without putting the **players' health at serious risk**. Especially after the change of the competition format to a round-robin structure, the number of games and associated travel have reached a concerning level.
-  **Below table** illustrates the number of domestic and European games (and related travel) that the **champions of the major professional sports leagues in Europe** played in the 2018-19 season, i.e. the last season before the pandemic. It seems that EuroLeague teams are required to play

Competition / Winner	Season Length (weeks)	Number of Domestic Games	Number of European Games	Average Games per Week	Number of Away Games in Europe	Total Travel in Europe (km)*
 	42	38	13	1,2	6	16,962
 	30	37	11	1,6	6	12,238
 	39	20	20	1,0	10	21,668
 	35	35	<b>36</b>	<b>2,0</b>	<b>18</b>	<b>77,660</b>

Source: EBAG Analysis based on data from the leagues

similar number of games in their domestic competitions (except Handball), but the number of European games they play is **significantly higher compared to other major sports**.

-  As such, in our opinion, before any decision can be taken with regard to a possible expansion, the **competition format and the number of games require a material change**.

# League Expansion Considerations

- In this context, we also believe that the main issue with the **FIBA National Team** windows is not necessarily the timing of such games, but rather the **high number of games** and **associated travel**. Avoiding a conflict with the FIBA windows, as recently agreed upon by FIBA and EuroLeague by combining two windows into one, does not (fully) address the root cause. Instead, it will be adding further (NT) games for the EuroLeague players who were not able to attend the games in previous seasons, thus **increasing their commitment to play more games**.
- One possible “solution” which is being voiced from time to time is the **separation of EuroLeague teams from their domestic leagues**, or joining the domestic competition from a certain (advanced) stage, e.g. play-off semifinals. We believe that such changes would (further) undermine the importance and value of the local competitions. However, due to strategic interdependencies between EuroLeague teams and their respective local competitions, e.g. youth development, it would **not be in the best interest of the European basketball** as a whole.
- Second, another **important factor** to consider is the **availability of playing talent**. As explained in detail above, we believe that currently there is a shortage on the supply of (talented) players for EuroLeague teams. Game quality is among the key determinants of demand for a sports league. Expanding the league essentially means that the **need for talented players will increase**. Given the current restrictions on player supply, in our opinion, **two consequences** are likely to be observed in case of a league expansion (assuming no major change in player supply in the short term): (i) Player **salaries** would **further increase**, and (ii) **League quality** would likely **drop**.
- Third, in case of an expansion to a new strategic market (e.g. London, Paris or Dubai), the main discussions that we could observe (over the years) have been mainly circling around **finding an investor** in the respective locations who would **(financially) kick start** a team to compete in EuroLeague. We **do not believe** that this an **effective, nor sustainable strategy**.



# League Expansion Considerations

- The main issue in these markets is the fact that **basketball is not among the most popular professional team sports**. The popularity of a sport in a given society has historical and cultural roots. As such, increasing the popularity of basketball, particularly EuroLeague, would require long-term, persistent and diligent strategies to primarily reach younger generations.
- For instance, **in the case of UK**, the **dominance of football** is obvious. However, there are several market studies which indicate that, in terms of participation, **basketball is one of the most popular team sports in the UK**, especially among kids and youth playing at schools. In our opinion, this represents a great opportunity for EuroLeague, which however requires to be present and directly visible at grassroots events and organizations across the UK. This can only be possible when there is **fully-dedicated (marketing/PR/CSR) staff strategically** and solely focusing on the UK market and entering into strategic cooperations with key players and stakeholders from the local market.
- The **case of Germany** is a little different. With FC Bayern Munich there is now even a licensed EuroLeague club with high potential and commitment to long-term investments (like the SAP Garden). Alba Berlin represents another interesting club which fulfills virtually all criteria of a top-tier club. However, the **key challenge** in Germany is the **lack of visibility of basketball** in general, and EuroLeague in particular, **in the media**. The coverage of basketball in TV and print media is **extremely limited** compared to the size of the population and its (relative) success in basketball.



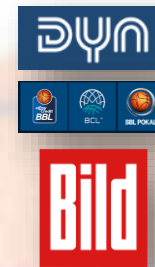
Basketball: Does the sport get the respect and support it deserves?

Former GB captain Kieron Achara: "The only logical explanation that I can give is that there is a subconscious bias against basketball and specifically the demographic that basketball represents."

Last Updated: 14/09/20 1:48pm

# League Expansion Considerations

- In that regard, there is a **recent development** which is expected (or at least hoped) to be a game-changer, namely the creation of a **new streaming platform**, DYN, by the **former CEO of the German Football Bundesliga, Mr. Christian Seifert**, who is deemed to be one of the most-competent professional sports leagues managers in the country.
- This project, also **directly supported by the country's most powerful media house**, Axel Springer (i.e. among others BILD newspaper), will start its operations in the upcoming basketball season. EuroLeague's existing TV deal for Germany is with Deutsche Telekom/Magenta. It would be interesting to observe whether or how EuroLeague could **benefit from the (expected/hoped) positive impact of DYN** on the popularity of basketball in Germany.
- In the case of a **possible expansion to Dubai**, additionally following factors should be considered: In our opinion, the **geographical location** would not necessarily represent a big challenge (provided that the game schedule is "fixed" as discussed above).
- We also think that opening up the league to **new investors** would not necessarily be a wrong strategy. However, it needs to be ensured that there is a **sustainable basis** (both in financial and fandom/sporting terms). We **doubt** that this would be currently the case in Dubai.



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# Financial Stability and Fair Play Regulations

- In 2012, it was announced that **Euroleague Commercial Assets Board** approved a framework to establish principles of greater financial stability and fair play in its competition by unifying the criteria used by and applied to participating clubs. Starting from the 2015/16 season, all participating clubs were required to follow the **Financial Stability and Fair Play (FSFP) regulations**.
- According to EuroLeague, FSFP regulations aim at **optimizing management methods** and **budgetary control** to be applied by the clubs participating the competitions. Besides solvency related rules as well as the formal documentation and audit requirements, the central element of the FSFP rules relates to achieving a **fair play result** supported by some budget restrictions, specifically for player salaries as well as the shareholder/ related party contributions.
- Conceptually, these regulations show some **important similarities with the UEFA Financial Fair Play and Club Licensing criteria** which were introduced in 2010 and came into full force with the 2013/14 season.
- Their intention was to “fix” the **unhealthy and instable financial situation** of the football clubs by addressing the “*soft-budget constraint*” that lead to “*irrational bailout expectations*” (moral hazard) by the club managers and preventing “*financial doping*” (i.e. large, unsustainable money injections from shareholders who act as purely success seeking benefactors. By doing so, the **ultimate goal** was to ensure a **viable and sustainable competition**. Although not called out as an explicit/formal objective, UEFA was initially seeking to achieve this goal by forcing the clubs to “**keep their wage bill under control**” by “lowering salary costs and/or limiting the number of players under contract”.

## Article 2 (2) - UEFA Club Licensing and Financial Fair Play Regulations (Edition 2015)

- a) to improve the economic and financial capability of the clubs, increasing their **transparency** and **credibility**;
- b) to place the necessary importance on the protection of creditors and to ensure that **clubs settle their liabilities** with employees, social/tax authorities and other clubs punctually;
- c) to introduce more **discipline and rationality** in club football finances;
- d) to encourage clubs to operate on the **basis of their own revenues**;
- e) to encourage responsible spending for the long-term benefit of football;
- f) to protect the **long-term viability and sustainability** of European club football.

## Article 1 – Turkish Airlines Euroleague Bylaws / Appendix I Financial Stability and Fair Play Regulations (2016-2017)

- a) Ensure good financial practice in the **Euroleague Basketball** competitions.
- b) Guarantee the **transparency** and **credibility** in the finances of the participating clubs.
- c) Ensure the financial stability of the clubs and the Euroleague Basketball competitions through a **balanced budget and a consolidated equity**, protecting the **long-term viability and sustainability** of the **Euroleague Basketball** competitions.
- d) Guarantee the **fulfilment of the economic commitments** adopted by the clubs.
- e) Define the role and tasks of the Management Control Commission and the external auditing firm, the minimum procedures to be followed in their assessment of the requirements [...]

# Financial Stability and Fair Play Regulations

- Currently, **Financial Stability and Fair Play Regulations of EuroLeague** stipulate the following financial criteria (Article 3) that all EuroLeague clubs are required to comply with:
  - No **overdue payables** with players, coaches, employees, any other clubs, and/or tax or social authorities;
  - Not having been formally declared **bankrupt or insolvent** by a competent body;
  - Not presenting an **aggregate deficit** from the three immediately previous seasons that **exceeds 10%** of the club's budget average from the same seasons;
  - Presenting a **revenue budget** of a minimum of **EUR 7 million** for the 2022-23 season onwards;
  - Having a budget allocated to **gross player remunerations** that does **not exceed 65%** of the total budgeted expenses of the club;
  - Not having **direct or indirect contributions** from the **shareholders/related parties** of each club representing **more than 50%** for the 2022-23 season onwards;
  - Having a **financial year** from July 1 to June 30;
  - Presenting a **positive equity** by season 2025-26.
- In this section, it is not our intention to perform a detailed assessment of all above-mentioned criteria from an effectiveness standpoint. Rather, the focus of discussion will be on (i) **consistency in applying** the FSFP regulations by the clubs and the league, (ii) **limitations on investments** from the shareholders/owners and (iii) **potential future changes** of the regulations, especially possible introduction of a salary cap as part of the Financial Stability and Fair Play Regulations.
- First of all, we truly believe that ensuring a certain level of **transparency** and **credibility** in the finances (and financial statements) of the clubs is a very important objective. Additionally, **fulfilling payment obligations** on time and implementing measures for a more **effective cost control** and **budget discipline** are essential rules that should be even more strengthened.

# Financial Stability and Fair Play Regulations

- Furthermore, regardless of whether a measure (or set of measures) is expected to be effective or not, it is a **fundamental governance imperative** that rules and regulations that are formally approved by shareholder clubs shall also be **applied on a consistent basis**. Without any doubt, the consistency in applying any of the EuroLeague Bylaws and commitment to their effective execution is key for the success of the competition.
- In an **interview from 2022**, former CEO & President of EuroLeague, **Mr. Jordi Bertomeu** stated the following: *"Some teams wanted and want to **win at all costs**. That's why they demand access to players without restrictions. This leads to the assumption of spending without considering revenues. And then they complain that the league must distribute more money instead of fitting into their own budgets. Other teams have accepted that control is necessary for survival, according to the reality of business, even if they are the ones investing the most because they understand the mutual benefits of the restrictions. For financial control to be effective, it is necessary for everyone **to trust each other**. In any other case, the system does not work."*\*
- Based on the above, it can be argued that the **economics of EuroLeague** seem to be caught in a **game theory deadlock**, best represented by the **"Prisoner's Dilemma"**: Shareholder clubs act as "prisoners", facing pressure from the European basketball community and broader public to ensure a **financially stable and sustainable top-tier basketball competition** in Europe. If all of them stay collusively and adhere to the enacted regulations, this goal is likely to be achieved (notwithstanding the discussions around the effectiveness of the FSFP regulations).
- However, as called out by Mr. Bertomeu in the above-mentioned interview, some clubs apparently prefer **winning at all costs** and demand access to players without any restrictions. No single club or league can break the **deadlock** on its own, as this would risk jeopardizing its own position. Yet, everyone agrees that a different collective outcome would be preferable. In reality, humans generally have a behavioral bias towards cooperation.



# Financial Stability and Fair Play Regulations

- We believe that in this situation the **best strategy to break the deadlock** would be to (i) **increase the severity** of the punishments for FSFPR violations and, (ii) simultaneously **provide more significant benefits** to those who comply with the regulations. Please refer to the section “Suggestions for Improvement” for further context.
- The **second aspect about the FSFP regulations** is related to such rules that have a **(restrictive) impact on the investment behavior** of the club owners. Namely, the break-even requirement (with a 10% deviation allowance) and a 50% limitation on shareholder contributions represent regulations which directly interfere with the investment decisions and behavior of current club shareholders as well as potential future investors.
- Although we fully agree with the objective of **increasing the accountability with regard to cost control and budgeting processes** of the clubs, we believe that **no restrictions** shall be in place which would **categorically reject** any capital investment (incl. cash injections) in European basketball. Instead, there should be mechanisms in place which should allow full flow of investments into EuroLeague without any restrictions whatsoever, while ensuring that such investments are contributing to the financial strength and sustainability of the league as a whole. Such mechanisms could include **(new) distribution models** based on clubs' marketing and sales activities, meeting FSFP requirements, game attendance and investment in youth development.
- The **third aspect** relates to the **future of Financial Stability and Fair Play Regulations**, especially the discussions around a possible **introduction of a salary cap** into EuroLeague. First of all, it needs to be called out that the **current rule of 65% budget cap** for gross player remunerations **essentially represents a salary cap**. Its main difference to an explicit salary cap is the fact that it imposes a relative cap based on the respective club's budget size, whereas the explicit salary cap sets an absolute limit which is applicable to all clubs regardless of their budgets.

# Financial Stability and Fair Play Regulations

- In sports economics, from the perspective of contest design, a **salary cap** is deemed to have a **positive effect** in terms of enhancing the competitive balance, when participating teams are, in principle, **win maximizers**. In principle, it can be argued that EuroLeague teams are acting more like win maximizers rather than profit maximizers.
- However, there are **certain criteria** which need to be fulfilled to ensure the (full) effectiveness of a salary cap: First, there should be a **Collective Bargaining Agreement** in place which has the legal power and legitimacy to cover all players in the league. Second, the salary cap concept has **many different forms**, such as soft caps, hard caps, luxury tax or further exceptions like “Larry Bird Rule” etc. Depending on the exact league structure and circumstances, the **effectiveness** of various salary cap forms might be **significantly different**. Hence, the optimal alternative should be identified. Third, implementing a salary cap **alone** (i.e. without having any other key elements of a closed league, especially the revenue sharing and draft system) may not be sufficient.
- We believe that each of these **three conditions** represent a **major challenge for EuroLeague**. There is already a **Framework Agreement** in place, which was agreed between EuroLeague and ELPA. However, in our opinion, with its current version, this agreement would not qualify as a Collective Bargaining Agreement which would eliminate all legal risks of “price fixing” for players across all EuroLeague countries. Furthermore, in economic theory, to be fully effective, a salary cap system should ideally allow **no exceptions** and ensure that the **small revenue generating teams raise their spending to the level of the cap**. However, it is very unlikely that this can be ensured given the major differences between countries in terms of taxation, living expenses etc. The **third condition** is the existence of other mechanisms, especially revenue sharing and draft system. Salary cap has been praised for its effectiveness in the US-major leagues. However, it is important to note that **more than 10 NBA** teams are deemed to be **loss-making** before the redistribution of league revenues, despite the existence of a salary cap system\*.

# Financial Stability and Fair Play Regulations

- Besides these economic factors, we believe that there is even a **more important issue** with a salary cap from a **strategic perspective**. Compared to the US-major leagues (with the exception of MLS), it is important to note that **EuroLeague is not the leading basketball league** in the world, neither in sporting, nor in economic terms. Additionally, as explained above, in Europe the player development system is quite different compared to NCAA.
- As such, we anticipate that a salary cap, if effectively and consistently applied, would have a **negative impact on EuroLeague** in terms of **attracting and/or retaining talented players**. We also anticipate that the number of EuroLeague **players who would decide for** the continuation of their careers in the **NBA** (or even in other international leagues) would further increase. This, in return, would **decrease the quality of the league**, ultimately leading to loss of interest and demand of the (potential) fans in EuroLeague.
- Considering all these factors, we believe that the **decision for implementing a salary cap** is complex and therefore needs to be **well-thought-through**. Imposing a **top-down limit** on spending for the players might initially seem an **easy “fix”**. However, both operational and strategic consequences of such decision are significant. Trying to **lower the budgets to the level of small revenue generating teams** would not lead to effective results. Instead, we believe that such limitations would likely **reduce the league quality**. We base this argument on the fact that in Europe there are some domestic leagues which are effective in cost control and pressuring player salaries. While they clearly manage to ensure a **higher budget discipline**, one of the observable consequences is that these leagues struggle with attracting/ keeping star players.
- As mentioned earlier, having **accountability** in terms of **effective and transparent** cost control and budgeting processes is a **must-have** for all EuroLeague clubs. However, in our opinion, there should be a healthy balance between cost control and revenue growth on a continuous basis.



# Agenda

- Introduction
- Key Design Principles of Sporting Contests
- Profitability of EuroLeague Clubs
- Player Salaries
- League Expansion Considerations
- Financial Stability and Fair Play Regulations
- Suggestions for Improvement

# Suggestions for Improvement






● **General note:** EuroLeague is a **highly complex** organization. Its complexity mainly stems from the fact that it comprises basketball clubs from nine different countries that have different structures, cultures and goals. Providing improvement suggestions for such a complex organization is **not an easy task** and would first require a careful and in-depth studying of **all relevant facts**. However, we are an external party with access to **publicly available information only**. Accordingly, keeping our below suggestions at a relatively **high/conceptual level** is an intentional decision, since trying to provide more specific solution options based on multiple different scenarios, variables and possible outcomes **would not be efficient**, nor respectful towards the professionals who regularly work on fixing EuroLeague's issues, despite the risk that the below suggestions for further improvement **might seem superficial** to (some of) the readers of this report.

## ● **Suggestions for Improving the Profitability of Clubs**

- Ensuring a better understanding of the (potential) owners' needs & expectations: As outlined above, club owners might have quite **different benefit and ROI expectations** from their investment in basketball. EuroLeague should find **new ways of identifying, defining, institutionalizing as well as measuring of such benefits** in a tangible manner, if needed, by using alternative calculation/quantification measures and strategic tools.
- Developing unique strategies for individual clubs: Closely connected with the above, different needs and expectations require diverse, **unique (business) strategies** for the individual clubs and their owners. EuroLeague should further **intensify its efforts** to help clubs operate on the **right strategic track**.
- Elevating ESG initiatives to a strategic business imperative: **ESG** represents a tremendous (business) opportunity for sports clubs. EuroLeague should build up more resources in this area to ensure the **optimal positioning of the league** as well as its clubs.

# Suggestions for Improvement




## Suggestions for Mitigating High Player Salaries

-  Obligation to invest more significantly in youth development: EuroLeague should assume **higher responsibility and accountability** for developing **young players** by investing more resources in its youth development programs.
-  Introducing a fee for intra-league transfers: As an **incentive** for such clubs that take the risk of recruiting (US-) players without any prior EuroLeague experience (e.g. Baskonia, Maccabi, Zalgiris), a **transfer fee** should be introduced for all **intra-league transfers** from one team to another.
-  Strengthening contractual protection mechanisms: Losing the **best talent to the NBA** every season has a major (negative) impact on the league. In vast majority of the cases, the club that invested in youth development does not receive a proper compensation. EuroLeague needs to implement a **more effective protection mechanisms** (in cooperation with FIBA and NBA) to ensure participation in the success of players originating from its clubs.
-  Creating a Youth Development Fonds: In order to further **incentivize investments** in youth programs, EuroLeague should create a **Youth Development Fonds** (similar to the system in the German BBL) which should be used for rewarding young talents taking initiative in the league. This can be also a good opportunity to attract a sponsor for this specific purpose.
-  Regulating the activities, rights and obligations of the players' agents: EuroLeague should create its own **regulations** regarding the **activities of players' agents** to ensure that potential conflicts of interest are being properly mitigated and that the young players as well as the clubs that invest in youth development are protected.






# Suggestions for Improvement

## Suggestions for League Expansion

-  Fixing the game calendar and competition format: Considering the overall (travelling) conditions as well as the triple-competition structure in European basketball (i.e. domestic leagues, national team windows and EuroLeague), **current game calendar and competition format** of EuroLeague does **not seem sustainable**. The answer to the question as to which format and number of games would be optimal, requires detailed analysis of multiple factors incl. the business/commercial aspects which would be affected.
-  Enhancing the supply of talented players: Any **expansion decision** without improving the availability of **talented players** would have a major adverse impact on the league quality, which ultimately would lead to a **decrease in the demand** for EuroLeague. Suggestions provided above for mitigating high salaries shall be prioritized accordingly.
-  Adjusting expansion strategies for the UK, France, Germany (and Dubai): For such countries like the UK, France and Germany that have been declared by EuroLeague as strategic growth markets, there should be **comprehensive market penetration strategies** which require a certain **level of investment** in terms of fully-dedicated staff with corresponding marketing/sales/PR experience in the respective countries. Trying to attract investors to kick start a (new) EuroLeague team in these markets alone does not seem to be an effective approach. It should rather be seen as a **long-term investment** that covers **multiple generations**. EuroLeague should develop and execute such strategies for these markets to benefit from the fact that basketball is among the sports which attract the attention of new generations/Gen Z.


# Suggestions for Improvement

## Suggestions for Financial Sustainability and Fair Play Regulations

-  Breaking the “deadlock” by enacting more severe penalties for violations and higher incentives for compliance: As explained above, it seems that the consistent application of FSFP regulations represents a challenge. EuroLeague shareholder clubs should agree on more **severe penalties** in case of violations. It is also important that collected penalty payments are channeled to other clubs that comply with the regulations, rather than using them to pay league's operating expenses. At the same time, clubs that are **doing the “right things”**, e.g. in terms of being compliant with FSFP regulations, implementing effective marketing and sales strategies, ensuring high game attendance along with an optimal ticketing strategy etc. should be **incentivized more significantly**.
-  Putting more emphasis on transparency and accountability: **Reliability and transparency of club finances and financial statements** should be further elevated in the sense that the applicable accounting rules to be applied should be further standardized. More detailed accounting guidance should be provided to the clubs to ensure a **uniform accounting treatment** of similar transactions to ensure comparability. Additionally, the clubs should be required to hire finance experts who should not only ensure a proper bookkeeping, but rather provide **strategic guidance and support** from financial standpoint.
-  Ensuring the “right” decision for introducing a salary cap: Salary cap is a complex mechanism which requires certain **prerequisites** and **conditions** to ensure effectiveness. Besides the purely economic/financial aspects, potential **strategic effects** of systematically pressuring the salary levels should be assessed in full.

# Suggestions for Improvement

## Suggestions for Financial Sustainability and Fair Play Regulations

-  Eliminating all obstacles that hinder new/additional investments in basketball: EuroLeague should ensure that **no new/additional investments** (in any format) are categorically **rejected**. Instead, it should design and implement such regulations which ensure full flow of investments into the basketball ecosystem while addressing the **long-term sustainability** of such investments incl. via contractual guarantees.

Overall, we believe that EuroLeague is a **great basketball product** which has a significant **potential to further grow** its commercial value. Primarily, **unity and alignment** among its **shareholder clubs**, especially in strategically critical issues, as well as **re-establishing** (and further improving) the cooperation with **FIBA** represent, in our opinion, the most **fundamental preconditions** for any future decision and/or change.



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- Conclusions & Improvement Suggestions
- References & Relevant Sources

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