

NEWSLETTER N°1

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Madame Tsarina of Marseille football: hats off, gentlemen!

Since Tuesday, April 13, 2016, the football club "Olympique Marseille" (OM) is up for sale.

The news was announced by its owner, Mrs. Margarita Louis-Dreyfus (MLD), in a very moving, lucid and compelling statement. Putting OM on the market is both symbolic and symptomatic for many reasons.

Symbolic because the Club is in a way a symbol in France for its history, its successive owners and managers, its geographical location, the size of the population and economic basin that surrounds it, the importance of this game in a region with significant young and multiethnic population.

Symptomatic because the announcement comes just months after the suspension of Sepp Blatter and Michel Platini, arrests of football officials and some other major actors on the "football marketplace", and police raids in offices of different federations - all this just months before Euro 2016 is to be held in France.

Having a husband - Dr. Sergey Vakula - passionate about football and the two of us having met together for the first time in Manchester at a UEFA Cup Final, I decided to try and answer the question "what is OM worth today in such a situation? and why buy it?"

As a good Swiss financial analyst, member of the SFAA (www.sfaa.ch), I should *a priori* refrain from expressing myself on the valuation of an asset – whatever it be - without having previously studied financial statements as well as all sorts of other important documents such as, for example, contracts (with the players, the coach, the suppliers, the city of Marseille, the sponsors, the contracts for television transmission rights etc.) over the last 10 years of the club. Upon signature of an NDA (Non Disclosure Agreement) letter, a serious potential buyer will be undoubtedly granted access to all these documents. In addition, transactions on sports clubs are rare and their full details are more often than not confidential. Only a few official announcements and rumors – which mostly concern the British Premier League clubs – permit to perform only some limited comparisons. Therefore in this Newsletter let us forget about any financial analysis and cash flow projections. MLD has said that every year she put her money into the club, which is heavily overdrawn – in total several tens of millions of euros after her husband Robert passed away in 2009. Apply any, even very low, price-to-earnings (P/E) estimate to losses, and you will always end up with a negative value. Certainly the club has some assets, like the stadium, the equipment, the players ... but against how much debt on the books? And the costs of stadium maintenance, of administration and management of dozens of professionals, from players to masseurs, are very high.

Apparently in his will Robert Louis-Dreyfus indicated a minimum selling price of € 150 mln for OM. Rumors have it that MLD would be ready to sell the club for much less to a buyer with solid financial guarantees and an ambitious plan. "The price is not my primary concern, but the capacity of the new shareholder to build a winning team capable of winning at the highest level is essential." MLD also hinted between the lines that she has maintained the club to respect and honor the passion and commitments of her late husband. She acknowledges that football has become an industry totally out of sync with what it was nearly 10 years ago. One should be prepared to make huge investments of the order of several tens and even hundreds millions of euros before hoping to win national and international titles. But once the investments have been made and the Cups won, how could the shareholder make a profit? Basically either by engaging in player trading by lending or selling them, or by selling the club at its peak form. This is theory but in reality it seems rather that football clubs can remain "sieves" for quite a while before the talent of the team and extremely professional financial

management would reverse the situation of the "negative value" of such an asset. Certainly, very serious mass media, such as Financial Times, regularly publish valuation estimates of over one billion euros for clubs such as Chelsea, Manchester United and others, and therefore I can say that a buyer whose fortune would allow investments of tens and hundreds of millions right after the purchase - probably in the form of recapitalization or loans – should logically be able to create one day the "OM" brand which would have solid diversified assets capable of generating high positive cash flows. Any company, which owns a brand that generates growing cash flows, has a significant value which can be estimated as the sum of the discounted future cash flows. That said, the current situation of the club, the French tax system, and the fact that Ligue 1 is by far not the British Premier League, you have to find other motivations and interests for the buyer to purchase the Club from the Swiss-Russian businesswoman.

I can think of quite a lot of them. They are almost all very noble and worth of praise, which in a way is both ironic and even touching for a sport that has been going recently through a lot of turmoil and scandals, the full entity of which we most probably still do not fully comprehend but which in modern democratic countries classify as crimes: misuse of company assets ("abus de biens sociaux" in French), unfair and abusive management practices, corruption, opaque commissions and retrocessions, not to mention the most recent sextape blackmail stories.

First of all, the owner of a football club, and especially the future buyer of OM, will do almost a charitable thing. By investing at a loss for several years, he will give immense joy and intense happiness to millions of fans: he or she will allow them to watch practically free all the matches on TV and attend just for a few euros the games in a stadium filled with emotions, and follow their heroes on social networks. The shareholders will maintain and create jobs. It will enable the city of Marseille to increase its international reputation. If the buyer is a foreigner - a Chinese, another Russian? – he could use the opportunity to meet local entrepreneurs looking for commercial partners, and financial and strategic investors. The business development potential is virtually unlimited, like in dreams.

If one looks strictly from the viewpoint of the interests of the purchaser, the latter should base his short- and medium-term interests prevalently on the passion for the game, on respect that should result from his financial and human commitment, and the huge media coverage he would receive, on opportunities to invite friends and business partners to an original environment filled with excitement. OM is already a strong enough brand, but the goodwill accumulated up to now is still nothing compared to what can be achieved by hiring experts in sports marketing and giving them sufficient means for promotional and marketing activities and events. Finally, with a little luck, starting from June 2017, after the presidential elections France will exit the almost communist system of its public institutions, its taxation regime and especially abandon its Labour Code (laws which are hostile to entrepreneurs). Thus this perspective provides an additional reason for a French or foreign investor to acquire the Club.

In conclusion, companies owning football clubs can be considered, and valued, as some sort of a hybrid that mixes and overlaps features of companies as different as a biopharma start-up, an investment fund specializing in art and paintings, and a combination of a trade fair park and a concert hall, such as Palexpo in Geneva.

From the point of view of strict financial analysis, today OM is worth nothing. But I am sure of the opposite – it is a rough diamond which must still be cut properly, this time with different means and tools, to give it a value which would be not very far from the sum of expected future discounted cash flows, and that the more the buyer will invest, the more he will be rewarded. Understandably, the ideal profile of the buyer is the one who has both the means and the time. If I were in the place of Margarita, I will be patient and persevering: French timing is neither European nor Russian nor the Chinese. Margarita might still need to give a few millions in loans, as much as would be necessary to maintain the motivation of the players until the purchase contract is signed. I bet that with time one or more buyers will step forward. Media coverage, prestige, introductions and reputation which the buyer

would acquire with the Club are PRICELESS! "Priceless" is the price of rarity and in this case of uniqueness!

"Sorry, my jet is waiting. Tomorrow morning I have to be in London as I am buying myself a hobby. " It is the term "hobby" that Roman Abramovich used one evening in June 2003, when he apologized to an Austrian businessman to decline a dinner invitation in Austria ...

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