

A Work Project, presented as part of the requirements for the Award of a Master's degree
in Management from the Nova School of Business and Economics.

Equity Valuation of Sport Lisboa e Benfica

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Abstract

This research aims to provide a recommendation on whether to buy, sell, or hold shares of Sport Lisboa e Benfica SAD as of June 30th 2024, with each share priced at €3.11. The author employs the Discounted Cash Flow (DCF) method, after forecasting key metrics based on the evaluation of quantitative and qualitative information. Additionally, the Multiples method was used for comparison purposes. The study concludes with a target share price of €4.52, leading to a BUY recommendation.

Keywords

Discounted Cash Flow, Equity Research, Multiples, Valuation

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Executive Summary

This work project focuses on sports valuation using a Discounted Cash Flow Model considering the case of Sport Lisboa e Benfica – Futebol SAD. The results show that the share price is undervalued as of the 30th June 2024. Based on these results, the author issues a BUY recommendation.

1. Introduction

The work project on sports valuation addresses an important issue of contemporary societies, sports, namely football. Football plays an important role in a multidimensional form. In fact, we are dealing with a global sport with the rare characteristic of uniting human beings. Besides these central social and cultural dimensions, football presents also interesting and important economic and financial aspects. In this research the author addresses some of these aspects, namely the valuation of one of the biggest and most historic clubs in the world.

The author approaches this issue trying to answer the following research question: “what is Benfica’s share value?”. A quantitative and qualitative methodology was applied to secondary data obtained in institutional documents.

The work is structured with the following topics: after the introduction, a literature review is presented; in section three the methodological options are identified, as well as the nature of the collected data; section four introduces insights on the macroeconomic environment; section five, a company overview is presented detailing history, business model, share performance and shareholder structure; section six introduces the relevant forecasts for the valuation model; section seven deals with the valuation breakdown and final recommendation; section eight a multiples analysis is conducted for comparison purposes; section nine concludes by highlighting the author’s recommendation, as well as its limitations and future line of research.

2. Literature Review

Sport's finance corresponds to a subject addressed by different research areas. In fact, and in the case of football, according to Calahorro-Lopés & Ratkai (2024), we observe a growing interest in football clubs in recent years in the areas of accounting and finance (Calahorro-Lopés & Ratkai, 2024, p.76).

According to the systematic literature review presented by Tabuk (2024) between 2020-2022, these include, by order of importance, social sciences, science technology, life sciences biomedicine, technology, arts and humanities (Tabuk, 2024, p.5). According to the same authors, there has been a cumulative increase in the number of publications in that period, particularly in the last decade. The countries that appear at the top list of the number of publications are Germany, the United States of America, Australia, the United Kingdom, Italy Spain, France, Brazil, Greece, and China. The subject of Finance is listed in 17th place in a total of 30 (Tabuk, 2024, p.10).

Regarding the field of sports finances, recent literature on the subject focuses the regulatory framework of the sector, namely the financial UEFA Fair Play Regulation. This norm aims the achievement of different requirements, namely financial ones (Caglio et al, 2024). This regulation illustrates the importance and concern with the finance stability of football clubs.

Other research conducted in the field of sport's finance mention the main financial risks of clubs. This is the case of Calahorro Lopéz & Ratkai (2024). These authors defend that "In European football, sporting objectives have taken precedence over organizational or financial objectives" (Calahorro Lopéz & Ratkai, 2024, p. 81). The authors identify the high salaries of the squads, as well revenues of television rights, resulting in a lack of correlation between revenue and expenditure" (Calahorro Lopéz & Ratkai, 2024, p. 82).

The subject of the relationship between club and financial performance is addressed by several authors (Di Simone & Zanardi, 2022; Abbas, 2022; Leksowski, 2021; Botoc et al, 2019). On one hand, and in the case of Simone & Zanardi, and Leksowski's research, the results confirm the reciprocal relationship between both dimensions. On the other hand, the research conducted by Abbas focused on the impact of club performance in stock price. According to the author, "The success of football clubs in achieving sporting victory attracts more fans. This leads to an increase in the club's profits and consequently to an increase in the price of its shares in the financial markets. Therefore, the societal benefit will be achieved by increasing the enjoyment of the audience and increasing the revenues of the club and the city to which it belongs" (Abbas, 2022, p.340). These results are in line with the findings of (Botoc et al, 2019).

Nowadays club's financial performance is increasingly dependent of broadcasting segments which are impacted by their centralization. This dependence will be tested in Portugal from 2029 onwards due to Law Decree N° 22-B/2021, 22 March, which regulates the issue of commercialization regarding the Portuguese television and media rights, preventing football clubs competing in the first and second leagues from marketing the rights to their individual matches (Pereira, 2022).

3. Methodology

The research adopted a quantitative and qualitative approach. The analysis was supported in secondary data, extracted from different sources, namely SL Benfica SAD's yearly Annual Reports, and the media. The yearly reports consulted cover the periods FY2016 to FY2024. Until 2019 the company had to present the financials not only in an individual but also in a consolidated manner, considering that it had a majority stake in other companies (outlined in section 5). In the aforementioned periods only the individual data was considered.

Regarding the data analysis approach, the following steps were considered:

- data sources were identified and analyzed
- the financial statements were directly extracted from the annual reports
- the financial statements were reformulated
- revenue projections were made based on and historical quantitative data, and qualitative information
- the financial statements were forecasted until the FY2029

The model adopted to reach a target price and subsequent recommendation was the Discounted Cash Flows (DCF). The results were subsequently compared with the Multiples method.

4. Macroeconomic Context

The macroeconomy context corresponds to an important dimension of this research, namely in the revenues forecast (section 6). For this analysis, the author used the information of Banco de Portugal (BP), that is, the report forecasting the macroeconomic environment for the next three years, released in October 2024. The author also considered other international forecasts for the European context. Those sources are very important in any exercise of forecasting.

According to this source, and regarding economic growth, the previsions are to expect a Gross Domestic Product (GDP) growth rate of 1.6% in FY2025, followed by 2.1% in FY2026, and 2.2% in FY2017. BP explains this trend with a “stable trajectory of internal and external demand, reflecting a gradual recovery from the pandemic's impacts and ongoing structural adjustments” (Banco de Portugal, 2024). Inflation is projected to decrease to 2.6% in 2024, converging towards price stability in subsequent years, with negligible inflation differentials within Euro area.

Employment market dynamics constitutes other important aspect of economies. The population's quality of life and the available family income depends on those dynamics. According to BP, the Portuguese economy benefits from a "favorable labor market", with rising employment and wages. To this it is important to also mention "supportive fiscal measures". A gradual reduction in interest rates and the inflow of European Union funds are expected to drive increased investment, particularly in 2025–26. Private consumption remains a strong growth contributor, underpinned by household confidence and rising disposable income.

However, recent activity has shown signs of deceleration, with quarterly GDP growth slowing to 0.2% in Q2 2024. Export performance, a historical driver of growth, has softened due to diminishing post-pandemic recovery momentum in tourism services. This is expected to rebound modestly in late 2024 and 2025, aided by stronger external demand and a more dynamic tourism sector.

Inflationary pressures have recently moderated, stabilizing at around 2.4% by year-end 2024. This aligns with trends in core inflation, which has remained relatively steady despite idiosyncratic fluctuations in service prices. The inflation outlook through 2026 suggests sustained stability near 2%.

Overall, and according to BP, the Portuguese economy expresses balanced growth prospects, with a transition toward investment-driven expansion and stabilized inflation, fostering continued convergence with broader European income levels (Banco de Portugal, 2024).

The Portuguese macroeconomic context is dependent on global economy, namely the European context. The latest available forecasts by the European Commission (EC), the European Central Bank (ECB), the Organization of Economic Cooperation (OCDE), and the Development and the International Monetary Fund (IMF), presented forecasts of a

stronger growth in 2025 when compared to 2024. The EC revised its inflation forecast for 2024 downwards in its latest forecast, while the forecasts of the other three organizations were unchanged. Annual inflation in the euro area is projected to be lower in 2025 than in 2024. Overall, the EC forecasts a gradual rebound in an adverse environment.

It is worth to mention that currently this adverse context is explained by the wars taking place in different places of the world and, therefore, the political and geostrategic instability, as well as the climatic change with unpredictable consequences.

5. Company Overview

5.1. Company History

Sport Lisboa e Benfica (from now on, Benfica) is one of the most emblematic and successful sports clubs in Portugal, founded on February 28th, 1904, in Lisbon. On February 10th, 2000, Benfica established Sport Lisboa e Benfica - Futebol, SAD (from now on, Benfica SAD).

More than a century after its foundation, Benfica is currently a multifaceted club with a strong presence in different sports disciplines besides football, namely basketball, volleyball, roller hockey, athletics, among many others.

The club boasts an impressive history of achievements, being the most titled Portuguese club, with 38 National titles, 26 Portuguese Cup titles, 7 League Cup titles, and 9 Cândido de Oliveira Super Cup titles in its record. At the international level, SL Benfica has won two UEFA European Champion Clubs' Cups (now UEFA Champions League) in 1961 and 1962, and maintains a consistent presence in European competitions, particularly in the UEFA Champions League, the leading competition of UEFA, currently ranked 15th in UEFA's club ranking (UEFA, 2024).

Beyond its sporting achievements, Benfica is also recognized for its dedicated fanbase, holding the Guinness World Record as the club with the largest number of paying

members globally, and reaching nearly 300,000 members in 2022. Benfica plays at Estádio Sport Lisboa e Benfica, inaugurated in October 2003, which is one of the most iconic stadiums in Europe. The club's stadium has hosted the UEFA Champions League final twice.

5.2. Business Overview

Benfica SAD's operations revolve around its essential relationship with Benfica (the club), which allows for the use of the "Benfica" brand by the professional football team. Benfica SAD manages all aspects related to the professional football team, including its participation in national and international competitions, rights of players, and the branding and exploitation of the "Benfica" name.

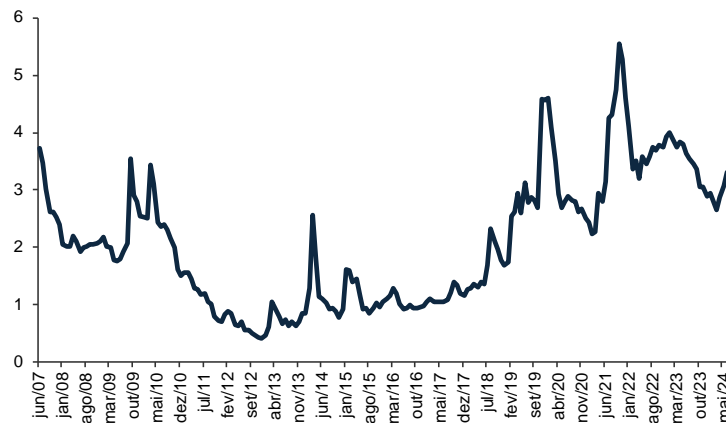
In 2019, Benfica SAD completed the sale of its full ownership stakes in Benfica Estádio (which manages the sports facilities) and Benfica TV (its media company) to SL Benfica SGPS. The total amount of the transaction was €99,297 thousand, with the payment structure set over 25 years. Both entities involved signed an operations agreement for the operation and management of the stadium. According to this agreement, the revenues generated by the stadium's operation are transferred to Benfica SAD, which in turn covers the operational expenses. Benfica Estádio is responsible for the venue's exploitation and management in all areas. Benfica SAD also continues to provide services to Benfica TV.

5.3. Share Performance

Benfica SAD is listed on the Lisbon Stock Exchange, Euronext Lisbon, as of June 30th 2024, with a share price of €3.11.

On May 22nd 2007, its shares were first admitted to enter the stock exchange. The lowest point it reached came in December 2012, reaching a price of €0.40, and its highest point was in November 2021, with a price of €5.44.

Graphic 1 – Share price evolution



Source: Euronext Lisbon

5.4. Shareholder Structure

For investors, understanding the company's shareholder structure is essential, as it defines the level of possible intervention in the company's management and directly influences the assessment of both the risk and the potential return on investment.

The share capital of Benfica SAD is €115 million, represented by 23,000,000 nominative shares, with a nominal value of €5 each, divided into 9,000,000 shares of category A and 13,800,000 shares of category B.

Category A shares represent 40% of the share capital and grant specific privileges to the holders. Among these privileges veto rights involving public share offers, change of the headquarters location and modification of the company's symbols are included. Additionally, the bylaws of Benfica SAD dictate that the General Assembly may only deliberate, on the first call, with the presence of shareholders representing at least 50% of the capital (SL Benfica SAD, 2024).

On the other hand, category B shares, which represent 60% of the share capital, correspond to ordinary shares without special rights, granting their holders proportional benefits but not influencing the administrative decisions of the club or its investors. (SL Benfica SAD, 2024).

As of the 30th of June 2024, Benfica holds directly or indirectly a 66.98% stake in Benfica SAD, being the entity with shareholder control over the company. This ownership structure is divided as follows:

- Sport Lisboa e Benfica (40%)
- Sport Lisboa e Benfica, SGPS, S.A. (23.65%)
- Luís Filipe Ferreira Vieira (3.28%)
- Rui Manuel César Costa (0.04%)

The remaining of SAD's capital is held by different investors, ranging from the club's supporters to larger institutional investors who see value in the club's growth potential, namely Grupo Valouro, SGPS, S.A. with a 16.38% stake.

The majority stake achieved by Benfica's and Benfica SGPS's participation, ensures that the club maintains decisive influence over all major decisions. Thus, guaranteeing that the SAD's strategic decisions align with the club's and fans' long-term interests and goals without compromising the club's financial sustainability and viability.

6. Forecasts

6.1. Revenues Forecast

Understanding and forecasting revenues is essential to any financial evaluation. The accuracy of revenue projections directly impacts the overall assessment, influencing the variability of different components within the evaluation process. Consequently, a careful examination of this section is crucial.

This subsection delves into the revenue streams of Benfica, segmented into Television Rights, Commercial Activities, Game Revenues, and sale of Intangible Assets.

For the revenue forecast, the growth assumptions were made with consideration of the macroeconomic outlook outlined in section 4, ensuring that the estimates were aligned with the economic conditions.

- 6.1.1. Television Rights Revenues

Benfica's television rights revenue has become the club's most significant income stream, surpassing the sale of intangible assets for the past three years. This segment includes television broadcasting rights, UEFA performance awards, and other revenues. Television revenues primarily come from the contract currently in place with NOS for the exploitation of broadcasting rights of Benfica TV, where all home games of the team are broadcasted, excluding European competitions. The UEFA awards consist of payments related to participation, performance, and market-pool allocations for the Champions League and Europa League competitions.

Television revenues grew by 3.3% in 2024, matching the growth rate of the previous year. This upward trend shows no signs of stopping, supported by modest subscription price increases, the most recent of which occurred in 2023.

The strategic importance of this revenue stream is reinforced by the approval of a government decree mandating the centralized commercialization of television and multimedia rights for matches in the first and second Portuguese leagues. This change is set to be implemented by the 2028/2029 season, with existing contracts remaining valid until this period.

It remains uncertain how Benfica will adapt to this new framework, however, research on this topic concludes that a decrease of 45% in this caption is expected (Serviço Benfica, 2022). As precautionary measure, the author assumed a decrease of 50% from the 2028/2029 season onwards. Up to this point, a year-on-year growth rate of 3% was applied for the initial two years projected, consistent with growth observed in previous periods. Thereafter, a 5% growth rate was assumed, aligning with the historical compounded annual growth rate (CAGR).

UEFA awards are directly tied to the team's performance in European competitions. Benfica has achieved good results over the past ten seasons, reaching the quarter-finals of the Champions League three times and the final of the Europa League once.

The new Champions League and Europa League formats commenced in the first year of the forecast period. This updated structure ensures an increase in prize money for teams achieving stronger sporting performances (SL Benfica SAD, 2024).

Nevertheless, the author employed a conservative assumption, projecting alternating strong performances in European competitions one year, followed by less favorable results the next, over the first six years of the projection period. Growth rates of 15% were applied for strong years, while a decline of 10% was assumed for weaker years, in line with the historical evolution of this caption. After this period, a stable year-on-year growth rate of 4% was forecasted, equal to the CAGR observed.

- 6.1.2. Commercial Activities Revenues

The Commercial segment includes revenues derived from advertising and sponsorships, space rentals, royalties, and other commercial activities. This segment has shown consistent growth over the analyzed period, except during the periods impacted by the COVID-19 pandemic.

The sponsorship category generates income from sponsorship agreements, with prominent contracts including the main sponsor deal with Emirates, the technical sponsor agreement with Adidas, the official sponsor deal with Central de Cervejas (Sagres), and the official betting sponsor contract with Betano. Declines in advertising and sponsorship revenue during certain periods are primarily tied to the football team's performance, as key sponsorship agreements incorporate achievement-based bonuses. Notable recent developments include the extension of the Emirates contract, which will remain in place until the end of the 2028/2029 season.

Given the strong link between this caption and the team's performance, the author projects alternating "strong years" and "weaker years" with annual growth rates similar to how they have developed in the past, with growth rates of 18% and negative 6%, respectively. After six years, a transition to a stable growth of 2% is forecasted.

The space rental category reflects revenues from leasing spaces within the stadium, an activity managed by Benfica Estádio and transferred to Benfica SAD as stipulated in the operational agreement between the two entities mentioned in section 5. Space rental revenues have been steadily increasing, driven by the organization of larger and more frequent events. Recent highlights include hosting concerts by Ed Sheeran and Taylor Swift. This category has gained significant importance and is projected to grow further as management prioritizes leveraging the stadium for high-profile events. However, there are considerable time limitations, as the opportunity for events is confined to the off-season or national team breaks. For this caption, the author anticipates a 20% growth rate during the initial two years of the forecast, tapering to 10% annually over the subsequent four years, before stabilizing at 2% growth thereafter.

The royalties category is linked to sales generated by Adidas, from which Benfica SAD earns a share of revenue. Benfica is gaining greater visibility, driven by positive team results, high-profile player signings such as Di María and Aktürkoğlu, and participation in the Club World Cup, which will take place at the end of the 2024/2025 season. This caption experienced a growth of 104% in the last period analyzed. However, such growth is unlikely to be sustainable, prompting the author to forecast a 10% annual growth rate for the first six years of the projection, higher than the CAGR of 8%. Following this period, a steady growth rate of 2% is used.

Other revenues from commercial activities encompass income from stadium and museum tours, intra-group recharges, training programs, and others. It is the second-largest

category within commercial activities. This revenue stream has shown significant growth since 2021, with a CAGR of 27%. In the longer term, the author predicts slower growth as certain activities approach saturation and operational efficiencies stabilize. Accordingly, a growth rate of 10% is forecasted for the first two years, followed by growth of 5%, until a steady state of 2% is reached.

- 6.1.3. Games Revenues

Games revenues encompass income from matchday activities for all home games, including corporate tickets, season tickets, national and European competitions, and other revenues.

The corporate category includes revenues from luxury suites and executive seats, which are commercialized by Benfica Estádio and transferred to Benfica SAD under the stadium operations agreement mentioned in chapter 5. The corporate segment began the last period with all suites and executive seats sold, maintaining a 100% occupancy rate across all offerings. This strong demand underpins the author's expectation of continued growth in this category, further bolstered by the introduction of the "Executive Seats Museu" category, which adds 320 new seats (SL Benfica SAD, 2024). Accordingly, the author anticipates a growth rate of 10% for six years, above the CAGR of 9%, transitioning to a steady state of 2% thereafter.

Season ticket revenues stem from the sale of Red Pass memberships to Benfica supporters, granting access to the home matches of the first team throughout the season. This revenue stream is projected to grow, driven by a high renewal rate for the 2024/25 season, with over 45,000 Red Passes sold and a waiting list of 17,000 members eager to secure a seat (SL Benfica SAD, 2024). A 20% rise is projected for the first year of the forecast period, similarly to the previous period analyzed, followed by annual growth of 10% over the next five years, eventually leveling off at 2%.

Matchday revenues from domestic and European competitions refer to ticket sales for home games in Liga Portugal Betclic and European tournaments, excluding seats sold through the corporate category or season tickets. This revenue is anticipated to increase, given the high demand for tickets, and the recent announcement by Benfica's president during the 70th anniversary of the stadium regarding plans to expand its capacity to 70,000 seats.

For domestic competitions, the forecast assumes consistent growth of 1% over the first five years, as the CAGR for this caption is slightly below 1%, stabilizing at 2% thereafter. In contrast, for European competitions, where performance impacts the number of matches played, alternating strong and weaker years are projected with growth rates of 50% and negative 30%, respectively, reaching a steady of 2% growth after six years.

- 6.1.4. Sale of Intangible Assets

A major focus of the club in recent years, which is expected to continue, has been the generation of capital gains through athlete transactions. The aforementioned strategy is viewed as a structural necessity for delivering sustained economic results over the long term.

Revenues from athlete rights transactions have been Benfica's primary source of income for most of the analyzed periods. This category includes gains from the transfer of athlete rights, representing the capital gains earned from these transactions, and other income from athlete rights transactions, which mainly encompass revenues from temporary loans of players.

In the National context, Benfica is the leading club in revenue generation from the sale of academy players, primarily due to its internationally renowned player development system at Benfica Campus. Prominent examples include João Félix, transferred to Atlético Madrid for €126 million in 2019; Rúben Dias, sold to Manchester City for €68

million in 2020; and, more recently, Gonçalo Ramos, and João Neves, sold to Paris Saint-Germain for €80 million and €60 million, respectively. The focus on the development of players through Benfica SAD's academy system will remain a core strategy.

Given this strategic focus, and the club's proven track record, the author projects consistent growth in revenues from athlete rights transactions, with increases of 15% and 10% in the first two periods analyzed, followed by a stable growth rate of 5% thereafter.

6.2. Costs Forecast

Benfica's costs consist of operating expenses and costs related to athlete rights transactions.

- 6.2.1. Operating Costs

Operating costs are primarily composed of third-party supplies and personnel expenses. Third-party supplies are mainly related to services contracted with Benfica Estádio for the operational management of the stadium, under the agreement between both parties. This category also includes specialized services (mainly consulting fees) and services provided by Benfica TV to Benfica SAD for managing the BTV channel. These costs are forecasted as a percentage of revenues from sales and services.

Personnel expenses are predominantly associated with the remuneration of the football squad. Consequently, this component is forecasted as a percentage of total sales.

- 6.2.2. Expenses from the Sale of Intangible Assets

Expenses from athlete rights transactions include losses incurred when the disposal of athlete rights results in a financial shortfall, as well as commissions paid to sports agents for mediating these transactions. They also account for the write-offs of athlete rights, representing the net book value of players who reach termination agreements with Benfica SAD. Additionally, these expenses cover costs related to player loans from other clubs, training compensation fees, intermediary commissions for temporary transfers, and

other charges tied to athlete rights transactions. For forecasting purposes, these expenses will be estimated as a percentage of revenues generated from athlete rights transactions.

6.3. Net Working Capital (NWC)

Working capital includes current assets such as accounts receivable, other current assets, and operating cash, as well as current liabilities, including accounts payable and other current liabilities. All relevant working capital components were projected as percentages of their corresponding revenue segments, based on historical averages. For the purposes of this analysis, the author assumed operating cash to be 2% of the revenues.

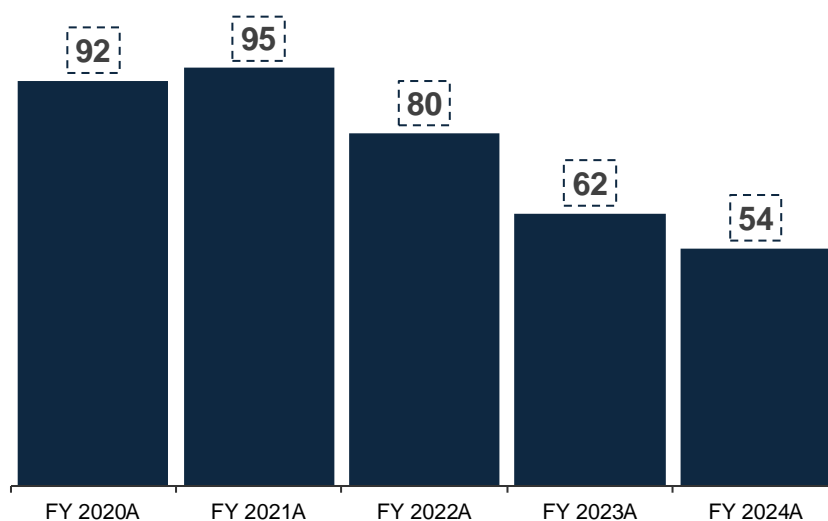
6.4. Capital Expenditures (CAPEX)

Benfica's CAPEX is composed of investments in both tangible and intangible assets, however the author has chosen to analyze them separately, as intangible assets represent the most significant and impactful investments for the club. The quality of these investments not only directly influences revenue from the sale of intangible assets - one of the club's primary revenue streams - but also plays a critical role in determining the team's performance, which indirectly affects nearly all financial metrics.

The club has made significant investments over the past two seasons but is expected to return to previous spending levels, as it has following a strategic process to renewing its squad, focusing on reducing the average age of players and acquiring high-potential talent in advance, resulting in a consistent decrease in the number of players under contract. Simultaneously, the club remains committed to leveraging players developed through Benfica's academy.

Consequently, a qualitative approach was adopted for the analysis.

Chart 1 – Number of players registered in intangible assets



Source: Benfica SAD Annual Report 2023/24

The author forecasts an investment level of 30% of total revenues for the first two periods, consistent with the average of the previous two analyzed periods. From the third period onward, this percentage is anticipated to decrease to 23.2% of revenues, resulting in an average investment of €82 million per season.

Investments in tangible assets are predominantly directed toward Benfica Campus. These investments have historically remained stable as a percentage of total revenues, except for 2019, when significant renovations and expansions were undertaken. Given this consistency, the author anticipates that investments in tangible assets will continue to account for 1% of revenues throughout the forecasted period.

7. Valuation

7.1. Discounted Cash Flow

The method used to calculate the value of Benfica SAD shares as of June 30th, 2024 was the discounted cash flow (DCF) method. The author chose this method given it is widely recognized as the most reliable approach for estimating a company's value. It offers several advantages, including its ability to incorporate an economic foundation into the valuation. However, it also has some drawbacks, such as the fact that investment needs

may lead to negative cash flows during the projection period, which can complicate the estimation process.

The forecasting period spans seven years to incorporate the effects of the centralization of TV rights in the 2028/2029 season into the model. The company's cash flows were derived from the previously outlined forecasts on revenues, costs, working capital expenditures, and CAPEX. These projected cash flows were then discounted using an appropriate weighted average cost of capital.

7.2. Weighted Average Cost of Capital (WACC)

The Weighted Average Cost of Capital (WACC) reflects the opportunity cost investors encounter when choosing to invest in one business.

To implement the cost of capital, we must maintain consistency between the elements of the WACC and free cash flow. Since the latter represents the cash flow accessible to all financial investors, the WACC must encompass the expected return for every investor. Subsequently, the WACC is calculated as the weighted average of the after-tax cost of debt and cost of equity:

$$1. WACC = \frac{E}{E + D} * R_E + \frac{D}{E + D} * R_D * (1 - T)$$

This involves estimating three components: Benfica's cost of equity, after-tax cost of debt, and target capital structure. The tax rate in effect for 2024 is 22.5%, which includes the standard tax rate of 21% plus a municipal surcharge of 1.5%.

In this section, the author will begin by defining each component and detailing the methodology used for their estimation.

Table 1 – WACC summary

SL Benfica SAD WACC	
Risk-free rate	2.49%
Market risk premium	5.39%
Levered beta	1.14
Cost of equity	8.61%
Cost of debt	4.71%
Marginal income tax rate	22.50%
WACC	5.14%

Source: Author's analysis

- 7.2.1. Cost of Equity (R_E)

The cost of equity is the return that investors expect to receive in exchange for investing in a company's equity. For its calculation, the author used the capital asset pricing model (CAPM):

$$2. R_E = R_F + \beta * MRP$$

To adjust for the company specific risk the beta (β) is used, which will measure the volatility of the stock to the overall market. The risk-free rate (R_F) and the market risk premium (MRP) will be common to all companies.

- 7.2.2. Risk-Free Rate (R_f)

The risk-free rate refers to the return on a portfolio (or security) that has no correlation with the market (Koller et al, 1990). To determine it, we refer to zero-coupon government bonds that are free from default risk.

Typically, US Treasury bonds are used for this purpose. However, since Benfica is listed on Euronext Lisbon, a European stock exchange, the author utilized 10-year German government bonds, with the value obtained being 2.49% as of June 30th, 2024.

- 7.2.3. Beta (β)

According to the Capital Asset Pricing Model (CAPM), the expected return of a stock is determined by its beta, which gauges the correlation between the stock's returns and the

overall market. The author selected the MSCI European Index as a market proxy due to Benfica's operations in Europe.

Since beta cannot be directly observed, the author estimated it. Initially, the raw beta was computed by regressing Benfica's monthly percentage stock returns against the MSCI European Index returns from July 2019 to June 2024, resulting in a raw beta of 0.43.

To enhance this estimation, the industry beta was calculated, using the selection of comparable companies: Sporting CP, FC Porto, SC Braga, and Juventus FC.

This was followed by the computation of their levered betas, regressing their percentage monthly returns against the MSCI European Index, which were then unlevered, using the following formula:

$$3. \beta_L = \beta_U * [1 + D/E * (1 - t)]$$

The author averaged these unlevered betas and subsequently calculated Benfica's levered beta. The value obtained was a beta of 1.14.

- 7.2.4. Market Risk Premium (MRP)

The MRP refers to the difference between the market's expected return and the risk-free rate (Koller et al, 1990). To calculate it, the author averaged the yearly market risk premium from 1990 to 2024, comparing the MSCI European Index with the 10-year German government bonds. The resulting value was a MRP of 5.39%.

- 7.2.5 Cost of Debt (Rd)

Benfica reports its cost of debt annually, and as of June 30th 2024, it was 4.71% (SL Benfica SAD, 2024). This value was used to approximate the most accurate cost of debt.

7.3. Terminal Growth Rate

Benfica SAD operates in Portugal, and as such, the target European inflation rate set by the ECB of 2% was used as a proxy for the terminal growth rate of the company.

7.4. Valuation Result

Using all the parameters outlined, the enterprise value (EV) was calculated at €311 million, derived from the sum of the present value of cash flows amounting to €1 million and a terminal value of €310 million. From this EV, the book value of Benfica's net debt was deducted, yielding an equity value of €104 million.

Dividing this figure by the 23 million shares outstanding, a target price of €4.52 per share was projected for 30th June 2024. This represents a potential return of over 10% compared to the current share price, so the author issues a BUY recommendation.

7.5 Sensitivity Analysis

A sensitivity analysis was performed to evaluate the impact of changes in the WACC and perpetual growth rate on the estimated share value. Variations of 0.2% and 0.1% were applied to the WACC and growth, respectively. The analysis revealed that Benfica's share price could range between €1.80 and €7.73. Sell recommendations would be applicable in 5 out of the 25 scenarios analyzed. Nevertheless, 16 of the 25 outcomes favor the buy recommendation.

Table 2 – WACC sensitivity analysis

		WACC				
		4.80%	5.00%	5.20%	5.30%	5.40%
g	1.80%	5.45	4.36	3.41	2.56	1.80
	1.90%	5.96	4.81	3.79	2.90	2.10
	2.00%	6.51	5.28	4.21	3.26	2.42
	2.10%	7.10	5.78	4.64	3.64	2.76
	2.20%	7.73	6.33	5.11	4.05	3.11

Source: Author's analysis

8. Multiples Analysis

The multiples of the companies previously identified as peers of Benfica SAD during the beta calculation were analyzed to estimate a potential share price for the company. The

multiples calculated were the current EV/Sales and EV/EBITDA. The author opted not to calculate multiples involving EBIT for the analyzed period as Benfica SAD presented negative values. Additionally, the Sales used for the EV/Sales multiple was calculated excluding the sale of intangible assets, given the high volatility in this area within the analyzed clubs. Since the analysis focused on a single period, this approach was deemed the most prudent to ensure consistent results.

Applying the median values to both multiples, a share price was calculated which fell short of the one obtained through the DCF valuation methodology.

Table 3 – Comparable companies multiples

Coco's Multiples			
Name	Country	EV/Sales	EV/EBITDA
SL Benfica	Portugal	1.53	7.07
Sporting CP	Portugal	1.63	6.92
FC Porto	Portugal	1.52	5.40
SC Braga	Portugal	0.46	4.10
Juventus FC	Italy	3.05	26.01
Median multiple		1.6	6.2

Source: Author's analysis

9. Conclusion

The research contributes to sports finance in the case of football clubs, and the application of valuation models in a very specific company sector. Having in mind that volatility characterizes almost all industries, in the case of football this characteristic assumes other dimensions. As mentioned by the literature on the subject, this is caused by the significant correlation with the 'game' of football.

The result achieved allows to issue a buy recommendation, considering that the value produced by the model exceeds by more than 10% the price of Benfica shares at the 30th June 2024.

Some of the limitations of the research are related to the availability of good comparable companies, something that impacts the quality of the results, namely in the multiples method. Another limitation has to do with the collected data regarding TV rights, considering the institutional uncertainty and consequences of the centralization of this revenue stream. Therefore, the main recommendation envisaging future research is to analyze the impact of the Portuguese TV rights Law Decree in the club's share price, when new developments regarding the topic are available.

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11. Appendix

Appendix 1 – Reformulated Balance Sheet

'000€	FY 2016A	FY 2017A	FY 2018A	FY 2019A	FY 2020A	FY 2021A	FY 2022A	FY 2023A	FY 2024A
Tangible assets	20,576	20,297	27,635	34,529	108,771	108,108	103,469	98,359	93,748
Intangible assets - football squad	115,192	124,303	113,491	80,426	102,884	146,162	111,866	126,462	149,143
Other intangible assets	53,667	53,563	51,968	53,774	52,166	50,438	48,843	47,426	45,677
Total Fixed Assets	189,435	198,163	193,094	168,729	263,821	304,708	264,178	272,247	288,568
Operating cash	3,844	4,681	3,605	4,736	2,851	3,881	4,671	5,694	5,127
Accounts receivable	64,516	57,834	71,072	74,674	63,146	31,653	70,057	69,572	50,713
Other current assets	14,106	15,657	15,251	119,684	26,172	26,595	24,545	39,138	29,436
Current Assets	82,466	78,172	89,928	199,094	92,169	62,129	99,273	114,404	85,276
Accounts payable	63,007	63,762	55,537	46,213	50,241	58,344	85,032	103,249	90,200
Other current liabilities	40,749	37,658	51,441	55,178	64,794	46,894	59,927	56,198	61,616
Current Liabilities	103,756	101,420	106,978	101,391	115,035	105,238	144,959	159,447	151,816
Net Working Capital	(21,290)	(23,248)	(17,050)	97,703	(22,866)	(43,109)	(45,686)	(45,043)	(66,540)
Other non-current assets	118,129	162,830	184,627	104,470	128,601	116,232	150,883	148,252	176,099
Other non-current liabilities	21,230	33,755	100,150	115,678	111,332	128,526	108,324	115,709	109,324
Net Invested Capital	265,044	303,990	260,521	255,224	258,224	249,305	261,051	259,747	288,803
Shareholders equity	25,900	70,344	91,305	119,233	161,149	143,654	109,014	113,215	81,868
Net Equity	25,900	70,344	91,305	119,233	161,149	143,654	109,014	113,215	81,868
Short-term debt	149,306	24,905	99,035	53,140	32,515	91,765	26,048	25,623	57,750
Long-term debt	110,952	211,465	71,318	94,410	67,035	54,077	145,387	143,838	164,467
Excess cash	21,114	2,724	1,137	11,559	2,475	40,191	19,398	22,929	15,282
Total Net Financial Debt	239,144	233,646	169,216	135,991	97,075	105,651	152,037	146,532	206,935
Total Net Equity + Net Financial Debt	265,044	303,990	260,521	255,224	258,224	249,305	261,051	259,747	288,803

Appendix 2 – Reformulated Income Statement

'000€	FY 2016A	FY 2017A	FY 2018A	FY 2019A	FY 2020A	FY 2021A	FY 2022A	FY 2023A	FY 2024A
Revenues from sales and services	110,310	111,068	102,557	145,470	139,954	94,031	169,337	195,797	179,044
Operating costs	(103,518)	(107,393)	(95,088)	(142,692)	(163,707)	(146,201)	(184,112)	(198,205)	(198,804)
Revenues from athlete's rights transactions	81,893	122,995	77,712	91,351	145,154	100,016	64,211	88,915	77,329
Expenses from athlete's rights transactions	(15,011)	(20,333)	(13,933)	(21,306)	(19,439)	(12,458)	(22,610)	(25,198)	(18,927)
EBITDA	73,674	106,337	71,248	72,823	101,962	35,388	26,826	61,309	38,642
Depreciation and amortization	(2,455)	(3,080)	(3,126)	(4,038)	(8,208)	(8,266)	(8,280)	(8,156)	(8,491)
Depreciation and impairment from athlete's rights	(36,769)	(43,728)	(36,473)	(36,167)	(39,787)	(52,239)	(50,128)	(39,413)	(44,945)
EBIT	34,450	59,529	31,649	32,618	53,967	(25,117)	(31,582)	13,740	(14,794)
Net financial expenses	(14,238)	(14,353)	(11,045)	(7,970)	(7,474)	(8,904)	(9,951)	(11,937)	(15,996)
EBT	20,212	45,176	20,604	24,648	46,493	(34,021)	(41,533)	1,803	(30,790)
Taxes	(132)	(829)	(272)	3,389	(4,788)	16,641	6,516	2,410	(570)
Net Profit	20,080	44,347	20,332	28,037	41,705	(17,380)	(35,017)	4,213	(31,360)

Appendix 3 – Reformulated Cash Flow Statement

'000€	FY 2016A	FY 2017A	FY 2018A	FY 2019A	FY 2020A	FY 2021A	FY 2022A	FY 2023A	FY 2024A
Core Free Cash Flow									
Change in working capital	130,411	90,738	76,455	68,498	141,678	42,653	9,989	109,262	38,213
Payment of tax revenue	(70)	584	(546)	625	(24)	506	238	92	(147)
Operating Cash Flow	130,341	91,322	75,909	69,123	141,654	43,159	10,227	109,354	38,066
Capex tangible assets	(896)	(1,357)	(5,568)	(11,488)	(5,101)	(2,783)	(1,998)	(1,293)	(2,751)
Capex intangible assets	(90,002)	(72,136)	(50,414)	(51,888)	(72,796)	(69,948)	(47,744)	(93,505)	(87,016)
Core Investing Cash Flow	(90,898)	(73,493)	(55,982)	(63,376)	(77,897)	(72,731)	(49,742)	(94,798)	(89,767)
Core Free Cash Flow	39,443	17,829	19,927	5,747	63,757	(29,572)	(39,515)	14,556	(51,701)
Non-Core Free Cash Flow									
Interest receipts	-	-	-	28	2,787	27,497	-	-	124
Payments to financial investment	-	-	-	(921)	(799)	(664)	(534)	(317)	(37)
Non-Core Investing Cash Flow	-	-	-	(893)	1,988	26,833	(534)	(317)	87
Non-Core Free Cash Flow	-	-	-	(893)	1,988	26,833	(534)	(317)	87
Cash Flow from Financing									
Receipts from interest	2,920	2,011	-	-	5,000	-	-	-	-
Receipts from loans	140,000	136,000	101,071	112,438	28,115	50,000	95,000	22,141	84,212
Interest payments	(16,591)	(14,111)	(9,912)	(9,393)	(6,079)	(6,002)	(8,718)	(9,826)	(11,571)
Loan payments	(143,472)	(159,240)	(77,162)	(96,285)	(74,750)	(2,513)	(66,189)	(22,000)	(29,241)
Loan granted to related party	(437)	-	(36,546)	-	-	-	-	-	-
Lease payments	(42)	(42)	(41)	(61)	(29,000)	-	-	-	-
Cash Flow from Financing	(17,622)	(35,382)	(22,590)	6,699	(76,714)	41,485	20,093	(9,685)	43,400
Total Cash Flow for the period	21,821	(17,553)	(2,663)	11,553	(10,969)	38,746	(19,956)	4,554	(8,214)

Appendix 4 – Forecasted Balance Sheet

'000€	FY 2024A	FY 2025F	FY 2026F	FY 2027F	FY 2027F	FY 2027F	FY 2028F	FY 2029F
Tangible assets	93,748	104,170	104,300	104,504	104,642	104,860	105,008	105,069
Intangible assets - football squad	149,143	125,407	126,724	128,054	129,399	130,758	132,131	134,773
Other intangible assets	45,677	54,800	54,786	55,135	55,132	55,515	55,527	56,111
Total Fixed Assets	288,568	284,377	285,809	287,693	289,173	291,132	292,666	295,953
Operating cash	5,127	5,773	5,934	6,462	6,561	7,142	7,271	6,837
Accounts receivable	50,713	68,803	73,946	79,006	81,904	87,516	90,787	93,155
Other current assets	29,436	28,777	29,577	32,211	32,703	35,599	36,240	34,077
Current Assets	85,276	103,354	109,457	117,679	121,168	130,257	134,297	134,069
Accounts payable	90,200	71,255	77,960	82,078	86,124	90,673	95,157	99,518
Other current liabilities	61,616	79,366	79,957	87,429	89,297	97,576	99,967	94,853
Current Liabilities	151,816	150,621	157,916	169,506	175,420	188,249	195,124	194,371
Net Working Capital	(66,540)	(47,268)	(48,460)	(51,828)	(54,253)	(57,993)	(60,827)	(60,302)
Other non-current assets	176,099	180,625	192,392	208,337	212,627	230,167	235,433	225,431
Other non-current liabilities	109,324	118,611	115,198	123,462	121,267	131,340	130,249	115,196
Net Invested Capital	288,803	299,123	314,543	320,740	326,279	331,967	337,024	345,886
Shareholders equity	81,868	134,595	186,799	201,497	206,382	222,553	228,394	221,373
Net Equity	81,868	134,595	186,799	201,497	206,382	222,553	228,394	221,373
Total debt	222,217	201,892	168,119	181,347	185,744	200,298	205,554	199,235
Excess cash	15,282	37,365	40,375	62,104	65,847	90,884	96,925	74,722
Total Net Financial Debt	206,935	164,528	127,744	119,243	119,897	109,414	108,630	124,514
Total Net Equity + Net Financial Debt	288,803	299,123	314,543	320,740	326,279	331,967	337,024	345,886

Appendix 5 – Forecasted Income Statement

'000€	FY 2024A	FY 2025F	FY 2026F	FY 2027F	FY 2027F	FY 2027F	FY 2028F	FY 2029F
Revenues from sales and services	179,044	199,742	198,874	220,400	220,201	243,862	244,626	216,990
Operating costs	(198,804)	(207,503)	(195,478)	(214,643)	(216,279)	(237,349)	(239,950)	(219,625)
Revenues from athlete's rights transactions	77,329	88,928	97,821	102,712	107,848	113,240	118,902	124,847
Expenses from athlete's rights transactions	(18,927)	(23,484)	(24,799)	(26,039)	(27,341)	(28,708)	(30,144)	(31,651)
EBITDA	38,642	57,684	76,418	82,430	84,429	91,044	93,434	90,561
Depreciation and amortization	(8,491)	(9,139)	(9,163)	(9,188)	(9,214)	(9,241)	(9,268)	(9,363)
Depreciation and impairment from athlete's rights	(44,945)	(44,652)	(45,120)	(45,594)	(46,073)	(46,557)	(47,045)	(47,986)
EBIT	(14,794)	3,893	22,134	27,648	29,142	35,247	37,120	33,212
Net financial expenses	(15,996)	(13,559)	(9,426)	(10,890)	(11,301)	(12,921)	(13,432)	(12,459)
EBT	(30,790)	(9,666)	12,709	16,758	17,841	22,326	23,687	20,754
Taxes	(570)	(1,009)	1,326	1,749	1,862	2,330	2,472	2,166
Net Profit	(31,360)	(10,674)	14,035	18,507	19,703	24,656	26,159	22,919

Appendix 6 – Forecasted Cash Flow Statement

'000€	FY 2024A	FY 2025F	FY 2026F	FY 2027F	FY 2027F	FY 2027F	FY 2028F	FY 2029F
Core Free Cash Flow								
Change in working capital	38,213	114,878	96,571	101,870	84,658	113,459	95,573	59,849
Payment of tax revenue	(147)	(369)	485	639	681	852	904	792
Operating Cash Flow	38,066	114,509	97,056	102,509	85,339	114,311	96,477	60,641
Capex tangible assets	(2,751)	(2,887)	(2,967)	(3,231)	(3,280)	(3,571)	(3,635)	(1,709)
Capex intangible assets	(87,016)	(86,601)	(89,009)	(74,962)	(76,107)	(82,848)	(84,338)	(79,306)
Core Investing Cash Flow	(89,767)	(89,488)	(91,976)	(78,193)	(79,388)	(86,419)	(87,974)	(81,016)
Core Free Cash Flow	(51,701)	25,022	5,081	24,316	5,951	27,893	8,504	(20,374)
Non-Core Free Cash Flow								
Interest receipts	124	-	-	-	-	-	-	-
Payments to financial investment	(37)	-	-	-	-	-	-	-
Non-Core Investing Cash Flow	87	-	-	-	-	-	-	-
Non-Core Free Cash Flow	87	-	-	-	-	-	-	-
Cash Flow from Financing								
Receipts from interest	-	-	-	-	-	-	-	-
Receipts from loans	84,212	93,688	78,015	84,154	86,194	92,947	95,387	92,455
Interest payments	(11,571)	(11,455)	(9,539)	(10,289)	(10,539)	(11,364)	(11,663)	(11,304)
Loan payments	(29,241)	(84,525)	(70,386)	(75,924)	(77,765)	(83,858)	(86,059)	(83,413)
Loan granted to related party	-	-	-	-	-	-	-	-
Lease payments	-	-	-	-	-	-	-	-
Cash Flow from Financing	43,400	(2,293)	(1,909)	(2,059)	(2,109)	(2,275)	(2,334)	(2,263)
Total Cash Flow for the period	(8,214)	22,729	3,171	22,257	3,842	25,618	6,169	(22,637)

Appendix 7 – Discounted Cash Flows

'000C	FY 2016A	FY 2017A	FY 2018A	FY 2019A	FY 2020A	FY 2021A	FY 2022A	FY 2023A	FY 2024A	FY 2025F	FY 2026F	FY 2027F	FY 2027F	FY 2027F	FY 2028F	FY 2028F
Revenues	192,203	234,063	180,269	236,821	285,108	194,047	233,548	284,712	256,373	288,670	296,696	323,112	328,049	357,102	363,528	341,838
EBIT	34,450	59,529	31,649	32,618	53,967	(25,117)	(31,582)	13,740	(14,794)	3,893	22,134	27,648	29,142	35,247	37,120	33,212
Tax Rate	-0.65%	-1.84%	-1.32%	13.75%	-10.30%	-48.91%	-15.69%	133.67%	1.85%	10.44%	10.44%	10.44%	10.44%	10.44%	10.44%	10.44%
NOPAT	34,225	58,437	31,231	37,103	48,409	(12,831)	(26,827)	32,106	(15,968)	4,299	24,444	30,533	32,183	38,925	40,993	36,678
D&A	39,224	46,808	39,599	40,205	47,995	60,505	50,408	47,569	53,426	53,790	54,293	54,762	55,297	55,797	56,314	57,349
Operating Cash Flows	73,449	105,245	70,830	77,308	96,404	47,674	31,781	79,675	38,368	58,090	78,728	85,316	87,470	94,722	97,307	94,027
Capex	(90,898)	(73,493)	(55,982)	(63,376)	(77,897)	(72,731)	(49,742)	(94,798)	(89,767)	(89,488)	(91,976)	(78,193)	(79,388)	(86,419)	(87,974)	(81,016)
Change in WC		(1,958)	6,198	15,456	(21,272)	(20,243)	(2,577)	643	(21,497)	19,272	(1,192)	(3,368)	(2,425)	(3,740)	(2,834)	524
Unlevered Free Cash Flow	(17,449)	29,794	21,046	29,388	(2,765)	(45,300)	(20,538)	(14,480)	(72,896)	(12,126)	(14,440)	3,754	5,657	4,564	6,499	13,536
PV of Free Cash Flow										(11,533)	(13,063)	3,230	4,630	3,552	4,812	9,531

Valuation - Discounted Cash Flows '000C	
Sum of PV of Cash Flows	1,159
Terminal Value	309,741
Enterprise Value	310,900
Net Debt	206,935
Equity Value	103,964
Number of Outstanding Shares	23,000
Share Price	4.52
Share price Jun 30th	3.11
Current Upside/Downside	45.34%
Reccomendation	Buy