Football Corporations bring M&A onto the brazilian football field

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For years now, the professionalization of management in football and the incorporation of "clubs as companies" have been regular topics in Brazilian sports news. Most entities competing at the main levels of Brazilian football are still organized as not-for-profit civil associations, a legacy of their origins as social clubs which, over the decades, saw sports activities outstrip typically social activities, particularly in the case of highly popular sports such as basketball, volleyball and football (or soccer, as it's called in the U.S. and Canada).

Because of the great economic potential of football, which constitutes a productive sector in itself, management of these clubs has increasingly come to resemble the management of classic business organizations, although they are still subject to the legal framework governing associations and to the peculiarities of their internal governance, with extensive numbers of club members and directors and greater susceptibility to internal political conflicts and cycles of ever-changing strategies and visions.

Added to this is the fact that over years of inefficient financial management, many football clubs in Brazil accumulated significant debts of various kinds, to the point where some have put themselves in a position of financial collapse. Not infrequently, clubs in these situations depend on patrons with historical or emotional ties to the club to take over management, in exchange for an inflow of funds to solve pressing crises and form teams, with little room for long-term vision and strategy.

The movement toward professionalization in football club management, away from the association model and toward classic business organizations, with the usual rules governing responsibilities and operations, has always provoked debate between its defenders in the business world and the associations' managers. In practice, the business model is not widely adopted.

Nonetheless, in recent years, various traditional clubs had to face a sharp decline in sports revenue, an exponential increase in indebtedness and increasing scarcity of patrons with well-lined pockets, bringing them to the brink of bankruptcy. The search for a solution became urgent and culminated in this most recent legislative initiative to establish a new legal framework for clubs, with the approval of Law 14.193/2021, the Football Corporations Law or *Lei das SAFs*.

Law 14.193/2021 is structured in large part around Brazil's Corporations Law, Law 6.404/1976, and creates a special type of corporation, the *sociedade anônima do futebol – SAF*, which is defined as a corporation (*sociedade anônima*), subject to a specific type of governance and tax regime, that is mainly engaged in economic activities involving professional football.

For football clubs, the main advantage of the new legislation is that it contains express provisions to allow such civil associations to (i) carve out their football activities – the main economic activity and source of income for many associations – into an SAF held by the association, (ii) adhere to more favorable plans and conditions to address the association's indebtedness, and (iii) search for new economic agents (investors, strategic partners, managers, etc.) to share the ownership and management of football activities within the new structure.

The new Law seems to have given the market a true boost to climb over the barriers that made the reorganization of Brazilian football so challenging. In less than a year, at least four of Brazil's most traditional clubs have used the SAF structure to effectively reorganize management of their football activities and attract new partners (e.g. Botafogo and Cruzeiro) or are in negotiations for similar transactions (e.g. Vasco da Gama and Bahia).

The signs suggest that merger and acquisition transactions involving football clubs and new investors will become a trend in coming years, and may be the long-hoped lifesaver that will bring Brazilian football aboard the ship of professional management. And, looking beyond the demands of the first deals, with professional organization of clubs' management and the ability to carry out structured capital transactions, there is the likely possibility of secondary transactions in the horizon, following the path forged by international football in other markets around the world.

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