The International Pro Cycling League (IPCL)

A Business Plan to Consolidate, Restructure and Revitalize Pro Cycling

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I. Executive Summary:

There is a tremendous opportunity to tap into the true entertainment and financial potential of men's professional cycling as a modern, 21st Century sporting league. But first, the sport needs an injection of new ideas, new capital, and a transformative restructuring. As detailed in this Business Plan, the party which is able to help pro cycling complete this grand journey will not only revitalize a proud and beautiful sport, but will also stand to make a very attractive financial return on its investment.

Pro cycling has suffered from seemingly endless doping scandals which have tarnished its public reputation and simultaneously scared off fans and potential sponsors. The sport's lack of a powerful central organizing body has led to an uncoordinated and lengthy calendar, overlapping events, a constantly changing team structure, and a highly uncertain financial situation in which individual races and teams constantly compete against one another for limited sponsorship dollars. And although the sport is heavily reliant on commercial sponsorship for its financial stability, significant global sponsors have largely been absent, due both to the sport's tarnished reputation as well as its unsophisticated marketing approaches. Furthermore, pro cycling's disorganized and feudal business model has left it unable to negotiate consolidated media rights packages; hence the television revenues which have been so critical in the growth of many other professional sports have been very minimal in pro cycling. Finally, the business of pro cycling has been largely run by ex-cyclists, many of whom have little business acumen or training. Poor business decisions have often been made, and an entrenched management culture remains generally wary of any kind of significant change.

Yet the sport has maintained a resilient popularity despite all these challenges and shortcomings. It has been estimated that 3.5 billion people around the world watch parts of the Tour de France, making it the third most-watched sport in the world after soccer and the Olympics. And this international fan base could expand significantly if the sport was properly marketed and more widely televised. As proposed here, professional cycling could flourish, with a few significant structural changes and some experienced business executives to manage it – bringing much greater growth and profitability to teams, organizers and athletes. But until there is central ownership and control, and the economic incentive provided by greater media rights and revenues, the financial challenges of pro cycling will never be solved.

There is really only one organization in cycling with the sporting, financial and political power to enact such sweeping changes – the Amaury Sport Organisation (ASO) – a privately-owned French company which owns the Tour de France and many other key races. Unfortunately, the ASO has never seemed inclined to utilize its power and strategic platform to consolidate the sport and implement the sort of transformation envisioned here; by all indications, the ASO appears to prefer the status quo. Hence, this Plan proposes a series of bold reforms and lays out a number of specific steps by which a *new* investor could acquire the ASO cycling properties, combine them with the RCS Sport events and other top cycling properties, and then quickly consolidate the top level of the men's sport into a single privately-owned and controlled entity – tentatively named the International Professional Cycling League (IPCL).

Once established, the IPCL would finally be able to stabilize the financial challenges of pro cycling – by cleaning up the sport's image, making long-needed governance and competitive changes, attracting major global sponsors back into the sport, and consolidating the marketing and distribution of the sport. More specifically, over an initial two-year period, the IPCL would undertake the following key tactical steps:

- Devise a professional certification model and ethics training program to fundamentally address the doping issue in pro cycling
- Build a new global sponsorship model with exclusive rights, targeted at major companies in selected markets
- Restructure the competitive race calendar into a coherent, 7-month schedule of approximately 20 key events – boosting the "scarcity value" of the sport by focusing on fewer but more important events raced by a smaller number of more elite athletes
- Create a new franchise-based league structure comprised of 14 top-level professional teams that would gradually build more of a regional fan base
- Refocus the competitive goals of the pro calendar, and offer significant prize money to shift the fan focus to season-long team and individual championships
- Exploit new technologies to generate more engaging, fan-friendly television content, and to help reduce the current high costs of TV production
- Aggregate the new league's television and media marketing rights to create a quickly growing and more sustainable base of revenue, and help the sport grow more quickly.

In short, the IPCL would build an independent, self-governing and more economically-sustainable premier league sport, with a more diverse and growing fan base. It would take what has too often been a negative and downwards spiral in pro cycling, and transform it into a positive and self-reinforcing upwards trajectory of growth and profitability.

Because all of the major events and teams in professional cycling are privately owned, there is virtually no publicly-available financial information for the sport. However, based upon the available research and discussions with existing and previous race organizers and industry executives, this plan contains a set of financial assumptions and sets forth a financial forecast for the IPCL opportunity. Based upon a simple ten-year financial model, it is estimated that the IPCL opportunity can yield to the new investor an attractive 19% internal rate of return, with a net present value of $66 million, even when discounted at a risk-averse rate of 15%. Although this plan's financial forecasts are necessarily somewhat imprecise, there is little doubt that this opportunity to transform professional cycling, if implemented correctly, can offer investors a very attractive rate of return. (The ASO could obviously implement this type of plan itself at far lower cost, if it chose to do so.) And finally, in addition to the purely financial opportunity, the changes envisioned in this plan will help to clean up the public image and restore the historical legacy of professional cycling, and lead to a stronger, more competitive and more exciting sport in the future.

As in any business endeavor, there are also risks involved. The cost to acquire various race events could be higher, projected TV and sponsorship revenues might not accelerate as quickly as projected, or it might take longer to correct the anti-doping problems in the sport, which could delay the attraction of major global sponsors. Riders and teams may object to the smaller number of initial teams, and some race organizers will object to the shortened calendar. Virtually everyone in the sport will find something not to like about this plan, because it significantly reshapes nearly all of cycling's long-held traditions and conventions. But the IPCL should not let these concerns distract it from the more fundamental business direction, and should hold to the conviction that the overall sport will be much better positioned in the future once these proposed changes are actually made.

There are also political risks. The Tour de France is a major cultural institution in France. There may be some concern that in one way or another, the government of France might somehow act to discourage any sale of the ASO assets. There may also be a concern that a sale of the ASO properties could jeopardize certain informal operating synergies or certain types of "hidden subsidies" – like discounted charges for the national police force for course marshaling and crowd control, and for the use of public roads, which might not carry over to any non-ASO business entity. However, changing ownership would not necessarily imply a major financial impact in terms of these types of qualitative attributes; it would be in all parties' interests to continue those relationships.

Assuming that these risks can be managed, this Business Plan demonstrates that there are potentially huge opportunities inherent in this consolidation strategy. Pro cycling is a popular sport which is still stuck in the mid-20th century, but there is a great potential to quickly pull it into the 21st century. Die-hard fans have always been there, but a new, more interesting, better marketed and more widely televised sport could bring in millions and millions of new cycling fans – and proportionately increase the sponsorship interest, financial stability, and general upside of the overall sport. A more coordinated and tightly-managed professional racing league, under the control of a single entity, can revitalize the competitive nature of the sport *and* make it considerably richer and more economically sustainable than it is today. If the ASO is not willing to implement this type of plan, then some other party must seize this opportunity now.

II. Background – The Current Challenge:

Professional cycling has been mismanaged and has had a poor public image for many years. Doping has been rampant, team managers and race organizers have been locked in a feudal and unproductive relationship, and corruption has even been alleged at the highest levels of the sport's governing agency. Although the sport arguably does a better job at policing its athletes than many other sports (where stronger athlete unions have resisted stringent drug testing, and therefore fewer athletes have tested positive) cycling is still widely viewed as an ethically challenged sport.

This poor public image has made it universally difficult to attract and retain sponsors, especially the kinds of major global sponsors which form the financial underpinning of many other Olympic and professional sports. This is doubly problematic in cycling, because the game is "played on the road" without the benefit of a stadium, and hence the sport can collect essentially no ticket or "gate" revenue. In other words, the sport is almost 100% dependent upon sponsorship and limited TV revenues for its financial livelihood; yet, it has done a poor job of attracting and retaining sponsors and promoting the value of its media rights.

Pro cycling has historically been characterized by a rather feudal nature – in terms of the athletic competition itself, as well as how the sport has historically been controlled and managed. On the road, riders from rival teams often form a breakaway and then work together, despite the fact that they are competitors, in order for the breakaway to be successful – an alliance of circumstance. But as they approach the finish line, this alliance ultimately breaks down and each person starts to ride for himself. On the larger scale, teams and events within the sport also tend to operate in a similar manner; they depend on each other to a certain extent, but this cooperation goes only so far. All parties tend to be continually suspicious of the ultimate motives of the others. This antiquated and feudal system of operation cries out for a more centralized form of governance.

All of these historical circumstances have created a very uncertain and continuously fragile financial environment in the sport; no participant in pro cycling can ever be confident about their future, and this leads to all manner of insidious pressures. To name just a few: top level pro teams and their sponsors come and go almost every year, riders switch teams with regularity hoping to protect their futures, and many race events teeter on the edge of financial collapse. In short, the environment breeds a short-term attitude and self-preservation ethic which creates adverse incentives for all the key players. This concern about financial survival and sense of desperation is often cited as an underlying driver of the doping crisis which the sport has experienced over the past 20 years. The sport has been trapped in this type of negative spiral for years.

There are more than a thousand professional-level bike races each year around the world – almost all of them owned and organized by different parties – private companies, families, cities or regional governments. Many European races were long ago timed to coincide with local festivals or carnivals, rather than any sort of international race calendar. Although there is a nominal organization of race organizers, there is little coordination among these different parties, each with their own economic, political or cultural objectives, and only a few race organizers actually make a good profit on their events.

Pro cycling's calendar is outdated and uncoordinated, often with overlapping events going on at the same time in different parts of the world. At almost ten months in duration, the season is very long –

longer than most other pro sports. While cycling fans may enjoy the fact that there are almost always racing events going on, the lengthy season stretches the economic capabilities of most teams, and many riders complain of the excessive physical demands put on them, particularly in the three-week-long Grand Tours. And all of these pressures and demands can again incentivize athletes to survive by resorting to doping.

Pro cycling has not done a good job of making the sport as exciting as possible for its fan base. There is no logical build-up or progression of competitive events through the course of the season, as is typical in most other sports; cycling instead resembles a series of random events throughout the year, some important or popular, and some less so. The current WorldTour calendar begins with an isolated event in January and ends with a whimper in October. All but the most hard-core fans tune in only for the major events – the Tour de France, the other Grand Tours and the so-called Classics – which mostly occur between April and September.

In addition, cycling has not done a good job at utilizing various new technologies – like live on-board cameras and power meters, "mic'ed-up" riders, or GPS units to track the position and times of individual racers – to add "in-the-race" appeal and make the televised sport more exciting. It has even been resistant to technological improvements in the bicycle itself. Other sports, like NASCAR motor racing, have exploited new technological advances for many years to make their sport more compelling for the viewer; cycling has largely ignored them. Cycling is very expensive to broadcast live, but there are also new technologies evolving, like cell-phone video production and transmission, which may drastically reduce the cost of television coverage. The sport has often been indifferent or slow to consider change, and it must begin to more aggressively investigate and embrace a range of new technologies.

The international governing body, the Union Cycliste Internationale (UCI), has a charter which is far too broad; its management style has been opaque and its oversight is fraught with potential conflicts of interest. Because it oversees such a wide variety of individual disciplines – eight different sports, from the top professional level right down to the local amateur level – it is virtually impossible for the UCI to spend the time and focus needed on professional road racing. Furthermore, as both regulator and promoter of the sport, one part of the organization is often in conflict with another. With respect to men's pro road racing, the UCI should no longer be trying to act as both an International Federation and a sports league. As the independently-owned International Professional Cycling League (IPCL) is formed and implemented, it would no longer be under the oversight and direct control of the UCI – although the two entities would continue to work together on broader development projects.

In summary, cycling has been a troubled and mismanaged sport for many years, and as a result it has generally been undersold, under-followed and poorly distributed across the worldwide sports market. However, despite all of these challenges, cycling has maintained a unique historical legacy, particularly in Western Europe, with a dedicated and growing fan base in many other parts of the world – North and South America, Australia, South Africa, the Phillippines, and other parts of Asia. As discussed in the next section, if properly consolidated, modernized and marketed, the sport of pro cycling has a huge opportunity to rapidly expand its revenue base, its fan following, and its overall future growth and vitality. In turn, there is a significant financial opportunity for an investor willing to back and finance the consolidation and reorganization plan discussed below.

III. Looking Forward – The Opportunity:

Pro cycling has many under-recognized and high-potential attributes in today's commercial television and entertainment marketplace, despite its problems and historical challenges. It is a healthy, green and colorful sport, and it has a dedicated and passionate fan base. In its historical Western European hotbed, pro cycling has tended to attract more of a working-class audience, but in many other parts of the world, like the U.S. and Australia, cycling attracts a more highly educated and higher income-level audience than almost any other sport. These are exactly the kinds of values that many global companies in the healthcare, food, travel, technology, sporting goods and other "lifestyle" industries are trying to promote. The pro cycling audience and demographic represents precisely the kinds of people with whom these companies are trying to build marketing relationships.

Hence, there is a huge and untapped financial, sponsorship, sporting and entertainment opportunity for a new investor to consolidate the primary events of the sport into a new professional league – the IPCL. The IPCL could capitalize on the opportunity to unify the leadership and management skills of key events, maximizing talent while slashing operating costs, enhancing the television potential, and focusing on just the one single discipline of professional men's road racing.

Beyond the potential financial returns, the creation of the IPCL presents a great opportunity to clean up the sport, identify and attract new sponsors, exploit new technologies, and manage pro cycling towards a more robust and rapidly growing sport in the future. With a single private entity in charge of the sport, there will also be an immediate opportunity to modernize the structure and reorganize the calendar of the sport. Most importantly, with a consolidated ownership of the sport, there will be a much greater opportunity to aggregate TV rights and negotiate stronger media coverage and distribution packages – thereby growing the fan base with broader and more compelling coverage, and providing the sport with a substantial additional revenue source which it has never enjoyed in the past.

The potential market for this type of enhanced sporting league is huge. As a "premier" professional league, there would be virtually no competition from any other cycling entities at this top level of pro racing; the opportunity to rationalize the calendar and improve the structure of the sport is immense; and there are extensive duplicative costs that can be taken out of the system. It is a business and entertainment opportunity which has long been staring the sport in the face, but which neither ASO nor any other party has yet stepped up to exploit – indeed one which no entity other than the new investment group proposed here (hereafter referred to as "Newco") even has the potential to exploit. Neither the current Velon organization of pro teams – nor any of the other "break-away" leagues that have been proposed in the past – really has had the strength to effectively address this opportunity, or force this sort of transformative change. As proposed herein, Newco would be the only entity with the industry know-how, and the financial and political strength to truly be able to execute this sort of consolidation, reorganization and modernization.

The following sections detail exactly how this business plan can be set in motion and realized. (One clear historical model for exactly this sort of reorganization and consolidation challenge is provided by the example of Bernie Ecclestone's 1980s control, consolidation and growth of the Formula 1 racing sport. Ecclestone effectively promoted his new league, drove up the value of the media rights, and then shared the financial proceeds with the individual teams to grow F1 into the sporting and entertainment behemoth that it is today. This is a relevant and instructive case study which should be carefully examined by Newco and its investors prior to the implementation of this plan.)

IV. Specific Elements of the Plan:

Transformative change is not something to be approached slowly or timidly. In order for this reorganization and modernization plan to succeed, and for the IPCL to be operational in the next few years, the new investment group must move rapidly and decisively on a multi-faceted, simultaneous-track strategy to address pro cycling's key challenges. A tactical plan is briefly discussed in this section, and the key component tasks are graphically summarized in the chronological time and task chart shown in Figure 2.

1. **Commit New Equity Capital to Acquire the ASO Cycling Properties**: As mentioned, ASO is the one party strategically positioned to implement just this sort of transformative plan. Unfortunately however, by all reports the ASO seems content to maintain and protect its current position as a "big fish in a small pond." Rather than seeking to grow not only the overall sport, but also its own revenue and profit potential by virtue of a larger and more thriving sport, ASO has elected to maintain the status quo. Hence, this model assumes that a third party – referred to herein as Newco – must first acquire the ASO assets and then implement the other aspects of this plan.

   As detailed in the accompanying financial model below, this proposed Newco must be prepared to commit a significant amount of equity capital (or tap its borrowing facilities) to provide the acquisition and start-up capital necessary to acquire ASO, consolidate the major race events, and then create the IPCL. Although frequently debated in the past, the purchase of ASO's cycling properties, including the Tour de France, by a better-funded, more aggressive and more innovative third party may not be as difficult or far-fetched as some have assumed.

   According to multiple sources, the ASO parent company – called Editions Philippe Amaury (usually referred to as Groupe Amaury), long a major force in French publishing – hired investment bankers to seek buyers for most of the company's assets as recently as 2012, although no deal was reached at that time. Various investment groups, including a large American sports marketing agency and a large European private equity firm have been linked with specific offers to acquire the ASO cycling properties in the past. Other international sports/entertainment companies are rumored to be interested currently.

   The concept of a new owner stepping in to acquire ASO's cycling assets is certainly not unthinkable, as it might have been in the past. Foreign investors now own many symbolic European and American sports teams and events; Middle Eastern royalty and sovereign wealth funds have acquired iconic European football teams like Paris St. Germain and Manchester City, Russian oligarchs own the NBA Brooklyn Nets and the Chelsea Football Club, while private American families now own the storied English football clubs Manchester United and Arsenal. In sports, money no longer knows any international boundaries. Although the Amaury family keeps a very private profile, anecdotal evidence here suggests that the right buyer with the right valuation might be welcomed by the aging family matron Marie-Odile Amaury (who assumed control of the Amaury empire after the death of her husband, Philippe, in 2006) and her two children, Jean-Etienne and Aurore.

   The market value of the ASO cycling events has frequently been debated in the past, and there are no good comparable properties or transactions to study. However, there is at least one recent and verifiable data point which suggests that ASO's cycling properties might be acquirable at a reasonably affordable price. The rival French publishing firm Lagardere recently sold its 25% interest in the *parent* Groupe Amaury company for just €91 million, putting a value on the *total* company of €364 million. Although the Lagardere deal involved a heavily-discounted minority interest, and although the sale may have been driven by unrelated shareholder pressures at Lagardere, it nevertheless provides at least one rough precedent for a valuation of the overall Groupe Amaury business.

In attempting to roughly estimate the value of the ASO cycling properties, it is important to keep in mind two critical facts: (a) the parent group has estimated revenues in the €700 million range and owns numerous other media assets (including the leading French newspapers *L'Equipe* and *Le Parisien*) in addition to its ASO sports subsidiary; and (b) the sports subsidiary ASO, with current reported revenues in the €180 million range, owns not only cycling events, but also the Dakar Rally and other motorsports events, the Paris marathon, golf, sailing and various other sports properties. Because the company is private, no one knows the exact breakdown of the individual businesses, but it has been estimated that the cycling properties represent only a little over half of the ASO subsidiary revenues – implying that cycling would comprise just one-eighth or so of total company revenues.

If the cycling properties represent only around one-eighth of the overall company revenues, then the valuation implied by the Lagardere transaction on a percentage revenue basis would be miniscule – something on the order of €50 million. However, as mentioned, the Lagardere transaction was undoubtedly conducted under shareholder pressure and at a strong discount. And the ASO cycling properties would obviously command a strong premium for other reasons. First, the cycling properties are likely far more profitable than the publishing properties, and would therefore represent a higher percentage of the overall value of the total company. But more critically, the Tour de France is clearly a crown jewel – a one-of-a-kind iconic and cultural asset, not simply a financial asset – and hence the likely market valuation of the ASO cycling properties would be much higher than an analysis based on the Lagardere transaction might suggest.

Although the exact financial figures for the different units is unknown, we assume first that the greater relative profitability of the cycling properties would imply that they are worth at least twice the amount predicted on a percentage revenue basis, or €100 million. Furthermore, given the discounted nature of the Lagardere transaction and the iconic value ascribed to the key ASO property, we assume that the ASO cycling properties would be worth at least an additional two to three times that value – or something in the €200 million to €300 million range. Ultimately, this valuation figure cannot be known, but in the financial analysis below, we make the assumption that acquisition cost of the ASO cycling assets would be €300 million or $330 million. Even if the acquisition number is larger than this, the investment opportunity here is still attractive, as demonstrated in the financial model below. Furthermore, this sort of up-front investment is easily within the reach of numerous private groups which might be interested in advancing the state of pro cycling.

2. **Acquire RCS Sports Cycling Properties**: Following an arrangement to acquire the ASO cycling properties, Newco would then attempt to acquire the RCS Sport Italian cycling events. Given the many documented financial and political struggles which RCS Sport has experienced during the last three years, it appears possible that it would consider parting with these sporting assets; indeed, there have been recent rumors that such a combination was already under private

discussion. The financial model below assumes that the race properties could be acquired at a cost of 150% of the current revenue level of €34 million, a purchase price of €51 million, or approximately US$60 million.

Assuming that those two events could be successfully undertaken, Newco would immediately control approximately two-thirds of the top international cycling races needed to fill out the proposed calendar going forward (see proposed revised calendar in Figure 1). Although it must again be emphasized that the collective valuation figures just mentioned (€300 million and €60 million respectively) are only rough estimates, it must be recognized that these numbers are truly tiny, relative to most other sports. There is a huge opportunity here to gain a controlling position in professional cycling for a mere "pittance" compared to what would be required in most other international sports. For example the *average* value of an *individual* NFL team franchise was recently estimated by *Forbes* magazine at over $1.4 billion, while the single franchise of the Dallas Cowboys was valued at over $3 billion. The Los Angeles Clippers basketball team was recently sold for almost $2 billion. Regardless of the precise acquisition costs here, there is clearly an opportunity in pro cycling to truly control the entire sport for a fraction of what individual teams are worth in other sports.

Once RCS was acquired, Newco would formally initiate the IPCL organization and appoint a new business management team to build and direct the early operations of the league. A new CEO or Commissioner and management team would preferably have experience in the sports and entertainment world, but would be chosen primarily on the basis of their business, management and marketing expertise. The financial model below explicitly recognizes the significant up-front management and administrative investment which would be necessary to get the early league operations off the ground.

The potential benefit of consolidating ownership and control of pro cycling is not a new idea. Somewhat similar plans have been explored at various times in the past, and there have been various, if misguided, efforts to put such an approach in place. For example, a London-based sports marketing firm called the Gifted Group, Ltd. tried to promote an independent "World Series" league several years ago; they envisioned 14 teams with a calendar of ten four-day races, to be organized outside of the UCI's control, but preserving many key existing races on the calendar. This group was apparently able to secure commitments of $30 million (reportedly including the Sky broadcasting and News Corporation media groups) and had hired Rothschild to assist in the preparation of a business plan. However, they made the critical mistake of trying to cut out the ASO, by coordinating an unwieldy group of teams to implement the plan. A major American sports marketing agency was rumored to have made a serious bid to acquire the ASO cycling properties in the late 2000s, but to no avail. The UCI itself tried to wrest general control of the sport away from ASO in the middle 2000s. Today's Velon group (a loose affiliation of eleven of the top pro teams) is pushing for some of the same objectives, and while the intent is understandable, it is likely to share the same fate. For the consolidation model to work, it has to start with the only entity that has the muscle to pull it off. That entity is not a group of teams, nor is it the UCI – it is, in one form or another, Newco.

3. **Implement a Transformative Tactical Plan**: Once the IPCL is formally organized with a skeleton management staff in place, it must move forward immediately to implement a transformative tactical plan comprised of nine critically important and simultaneous initiatives:

a. **Address the Ethical Challenges**: The IPCL must immediately nominate a new science and medical committee to put in place an integrated system of anti-doping monitoring, tracking and controls. This must be instituted quickly to eliminate (or at least begin to minimize) the endemic problem of doping and use of performance enhancing drugs in the sport. Although there is considerable anecdotal data that doping in pro cycling is not nearly as prevalent now as it was eight to ten years ago (and this was generally confirmed by the recent Cycling Independent Reform Commission Report), the importance of controlling and minimizing doping in the future cannot be over-emphasized. This program (see Attachment I for more detail of a recommended and specific approach to dealing with the problem) is necessary to repair the sport's image, and must be squarely addressed at a fundamental level before all of the other cascading opportunities to revitalize the sport can be simultaneously tackled.

   As noted earlier, while the reforms in this Business Plan are geared to improving the economic and financial stability of the sport, many of the proposed structural and calendar changes discussed below will also help to clean up the sport – by easing the economic desperation that often drives athletes to dope. This plan encourages not only greater economic stability; it also comprises a stronger and more permanent ethical foundation.

   There are also other ethical challenges to which pro cycling must pay more attention. The new league structure must also address the currently less visible but growing problem of gambling in the sport, and the pressure this can create for individual athletes. It must also address the historical prevalence within the sport of racers and/or teams buying and selling race victories.

b. **Build A New Global Sponsorship Model**: Once the sport is consolidated, a formal solution to the doping challenge is initiated, and a season-long TV coverage package starts to come together, it will be far easier to begin to attract key global sponsors. A newly-hired and broadly experienced sports marketing team (possibly with the help of temporary outside consultants) will quickly identify, approach and engage with potential new global sponsors. Innovative and attractive global sponsorship packages will be targeted to new companies in the healthcare, financial, technology, nutrition and lifestyle-related industries mentioned previously. A new key sponsor program will be put in place, similar to The Olympic Partners (TOP) Program of the Olympic Games, wherein key global companies are given exclusive global marketing rights and opportunities within their designated product category for a certain period of time – for example the exclusive airline or sports drink company of the IPCL. As discussed below, there will also be new and valuable naming rights and advertising opportunities to be associated with new events, new prizes, and new titles.

c. **Consolidate the Key Race Events**: The IPCL will quickly move to acquire other key properties and reorganize the calendar just as soon as the league is established. Newco (following the combination of ASO and RCS) would already own eleven of eighteen key existing WorldTour events, including virtually all of the historically significant stage races and one-day "monuments." The league would then quickly attempt to acquire financial ownership of (or at least operational control over) the few key races it did not already own, by offering longer-term incentives for the owners of those races to sell control to

IPCL. (The ASO has conducted this sort of acquisition spree itself, acquiring both the Paris-Nice and Dauphine races during the 2000s, and picking up a 100% interest in the Vuelta a Espana a couple of years ago.)

Many of these other races have been struggling economically for years, and it is projected that they would be willing to sell fairly quickly and at reasonable valuations. Particularly as it became clearer that the new league would dominate the future of pro cycling, many of these others races would want to be included early-on in the process.

d. **Restructure the Primary Calendar**: Once most of the other key race events are acquired, the IPCL would restructure and redefine the elite level of the sport into approximately a 20-event season – with a rearranged calendar and a shorter overall duration. The calendar proposed below – while subject to refinement and changes over time as the IPCL matures – has the strong advantage of remaining connected to the history and legacy of the sport, while simultaneously moving it into the future. Given today's sports and entertainment marketplace, there is a need to consider shortening not only the number of days in some of the traditional stage races, but also the length of individual stages. This proposed calendar maintains most of the major current events, although some are slightly shifted in the schedule or shortened, and the Giro d'Italia and Vuelta a Espana are reduced respectively to two-week and ten-day durations. (Another opportunity to be considered would be reducing all three Grand Tours to two weeks, spanning three complete weekends. Although this would be considered heresy in some circles, it would also make a "Triple Crown" much more likely – one rider winning all three races in a year. This could potentially lead to a much greater fan interest.)

Figure 1: Proposed IPCL Race Calendar

Race #	Event Name	# of Days	Date
1	Santos Tour Down Under	5	Late February
2	Paris – Nice	6	Early March
3	Strade Bianche	1	Early March
4	Amgen Tour of California	7	Mid-March
5	Tirreno – Adriatico	6	Late March
6	Milano San Remo	1	Final Sunday of March
7	Ronde van Vlaanderen	1	First Sunday of April
8	Paris – Roubaix	1	Second Sunday of April
9	Amstel Gold	1	Third Sunday of April
10	Fleche Wallone	1	Fourth Sunday of April
11	Liege – Bastogne – Liege	1	Last Sunday April/First May
12	Giro d'Italia	15	Starts in Early May
13	Criterium du Dauphine	7	Starts in Later June
14	Tour de France	20	Starts on First Sunday in July
15	Tour of Great Britain	5	Starts Last Sunday in July
16	GP Montreal & Quebec	2	Early August
17	Vuelta a Espana	10	Starts Second Wednesday of August
18	Il Lombardia	1	First Sunday in September
19	IPCL World Championships	2	Second Sunday in September

Current ASO-Owned or RCS-Owned Race

Alternate Ownership – Must be Acquired

This proposed calendar geographically balances events outside of Western Europe, linking historically popular and relatively new races across strong and emerging markets like Australia, Great Britain and North America. At the same time, the cadence and changes in location will help to minimize the logistics burden, travel complexities and costs. Depending on league growth and future market demands, some races might be added to the schedule or others replaced – for example, if a new race becomes successful in Colombia, which has a cycling-rich culture. The calendar would have some flexibility in its longer-term and more permanent schedule as the format matures, and as new markets become attractive.

The IPCL World Championships (to consist of an individual time trial, followed by a criterium, a team time trial, and concluding with a road race) could be an entirely new format operated by the IPCL, or the league could simply incorporate the current UCI-owned event into the calendar. In either case, this event, like the current Worlds, would be held in a different location each year.

The current and excessively long racing season would be significantly shortened to seven months. It would start in late February and end in mid-September – more comparable to seasons in other major sports, and more accommodating to the athletes, team managers and staff. The calendar would nonetheless feature almost 100 days of total team racing – or something around 70 to 80 days of top-level racing for most of the key team members. If properly managed, marketed and distributed, this represents more than sufficient sporting action to justify the creation and negotiation of a consolidated set of broadcast and media rights. Formula 1, for example, has a season consisting of just twenty racing events, each of which is no more than two hours in duration. American football teams play just sixteen games per year.

The IPCL, like other professional sporting leagues, will also need to have an organizational system for developing and promoting new talent into the top level of competition. Pro cycling requires riders to maintain high levels of physical conditioning, teamwork and tactical craft at all times. These demands on top-level riders and teams will require more opportunities for racing and fine-tuning fitness for the whole team than a 20-race championship-series schedule may allow. Hence, the league will also need to formalize a system and schedule of lower-level races, which would provide continuous training opportunities for seasoned pros, experience for new pros, as well as a path for new teams to gradually develop into possible IPCL franchises.

There are several possible paths that could be investigated here. One possibility would be for the IPCL itself to directly build a network of other existing (and likely under-funded) races around the world. Significant cycling events which were *not* chosen for inclusion in the primary IPCL calendar might eventually be organized into a “Division Two” league that could act as a training, development and “feeder” entity for the IPCL – similar in nature to cycling’s current Pro Continental division or Major League Baseball’s AAA division.

Conversely, less formal agreements could be worked out with existing races and/or the UCI to collaborate on a series of joint-participation events. Such an arrangement could strengthen the integrity of lower division racing and the UCI's mission to develop cycling globally. By organizing and funding lower-level events that are in need of support, and by providing up-and-coming professionals with more opportunities to develop, this structure would also provide an avenue for new teams to perhaps evolve into IPCL-ready franchises. Regardless of the form a solution might eventually take, the IPCL would actively seek cooperation with other entities to formalize this complementary system of teams and events.

A final note here: Olympic participation has always been a key factor leveraged by the UCI to enforce its oversight of the sport, because it owns cycling's signature to the Olympic charter. A participatory agreement which collaboratively and constructively ensures acceptance of IPCL riders into the UCI's Olympic eligibility requirements will be an important detail to be worked out by all the parties. Success of the IPCL may in fact augment the Olympic experience, in the same way that basketball's "dream team" has enhanced global basketball. And as the IPCL becomes the dominant body for men's pro racing it may eventually be able to exert the same kind of influence that the NBA has over USA Basketball and FIBA – helping to drive policy and direction for globalizing the sport, instead of being limited by inflexible and outdated federation policies.

A revised calendar and competitive structure (discussed in the next section) will clearly be a significant departure from the history and largely Western European legacy of pro cycling. And any change in the timing, duration or location of historical races is bound to generate controversy with one group or another of fans and stakeholders. This concern and hurdle is not under-estimated. However, from a longer-term perspective, it is strategically critical to make these changes and quickly move forward. The new IPCL calendar and league structure will move the sport forward with these desperately needed structural changes, and it seems safe to assume that fans will get used to the new race format after a few seasons. In addition, there will always be some flexibility to adjust the schedule going forward – this calendar will not be set in stone. And the plethora of other races may continue to exist, if they can be economically sustained; they will just be included in a lower-division of the sport.

e. **Create a New Franchise League Structure**: From inception, the IPCL would evaluate, certify, and then invite fourteen or fifteen of the top professional teams to apply for a franchise position in the league. These original "anchor" teams would be owned by individual private interests, and would be encouraged to build from more of a national or regional fan base and sponsorship model. Each of these teams would essentially be granted a semi-permanent franchise position in the IPCL. As such, individual franchises could be bought and sold, and would otherwise operate on a model very similar to the National Football League (NFL) and other franchise league models. As the IPCL matured, all these teams would be eligible for the increasingly attractive profit-sharing distributions described in the financial section below – which starts off small but quickly builds to the level of several million dollars per team each year. In addition, this profit sharing split might be based upon competitive results, providing even more incentive for improving competitive performance. In addition to this "carrot" approach to helping teams maintain their focus on financial stability and competitive results, there might also be a "stick" approach, wherein poorer-performing IPCL teams might be relegated to the lower division league. Under certain extreme circumstances, they might even have their licenses revoked in favor of up-and-coming or new teams. The mechanics and requirements of this system would be determined during the first two years of the league's existence.

Fixing the extent of the initial league at this size would remove two or three teams from the current top professional WorldTour racing level. However, there are at least that many WorldTour teams which are already either economically or ethically on the edge of survival today. As the league becomes more established, and depending upon the level of fan and sponsor interest, and the supply of top-level professional talent, the number of franchised teams could increase – just as there have been "expansion teams" in other pro sports leagues.

Each team would be allowed about twenty riders, implying a top league with about 300 riders, as opposed to today's WorldTour contingent of approximately 400 pro riders. The largest race peloton size would be about 135 racers. Each team would be expected to enter its top riders in most of the events on the schedule – helping to build greater fan interest in the sport through continuity of key athletes from race to race. Because cycling races are not all "carbon copy" events – as is more the case in many other sports – this requirement wouldn't be compulsory, but a greater emphasis on full-year team and individual performance (see next section) would provide a strong incentive for top riders to participate in most of these events. Additional team and structural issues such as salary floors and caps, changes in roster sizes, and commitment to development teams would be dealt with by the Commissioner of the league in due course.

The revised calendar and the new league structure would remove numerous marginal races in which some WorldTour teams are currently obliged to race, and it would exclude some teams altogether. Teams and riders will obviously, and probably strenuously, object to these changes. However, this overall IPCL plan seeks to create and benefit from a significant "scarcity value" which has been sorely lacking in this sport – from both an event and an athlete perspective. With fewer and more important events raced by a smaller number of more elite racers, the economic and fan base of the sport can actually be grown. There may be fewer spots available at the top level of bike racing, but those spots – for both teams and for riders – will be much more prestigious.

These changes will enhance team franchise values, increase event income and rider salaries. They will also hopefully spark investment interest elsewhere in the sport to capitalize on new opportunities – perhaps in the "Division 2" proposed earlier, or other national federation-level events. While many details would have to be ironed out, one fact is certain: consolidating the top tier of the sport would not create an exclusive monopoly in the business of pro cycling. On the contrary, it would hopefully inspire such deeper investment in the formative and developmental levels of cycling, and create new opportunities for sponsors, athletes and fans. Collectively, these changes in calendar and league structure would eventually create a much more compelling and competitive platform at the top level of the sport.

(Note: It should be pointed out here that the development of a cohesive, international riders' union is another important step in changing the governance structure of pro cycling. This issue is totally independent of the formation of the IPCL, but all of the major stakeholders must have a “seat at the table” to develop lines of communication and an equal standing on key issues. The overall sport will benefit from a constructive and healthy friction between the league, the team owners and the athletes. It can easily be argued that many of the positive developments in other professional league sports over the past several decades have been largely driven by the players’ unions, and the same thing could happen in cycling.

Currently, the riders do not have a strong or unified voice through which to resolve grievances, or to express concerns over health and safety issues, compensation issues, or post-career challenges and opportunities. The weak rider representation system in place today actually dilutes the athletes' position at the bargaining table to the benefit of the UCI, the teams and the race organizers. Pro cycling has been able to hold down many of the natural forces which determine wage valuation, therefore maximizing the profits of those who own the teams or the races. But this has also had the effect of poisoning the overall value of the business model, because it provides no incentives for any business owners in the sport to change or diversify the revenue streams in order to meet rising wage demands.

Contrary to many statements by cycling's legacy of feudal management, a stronger union could be a positive driver of many needed changes; it would not drive the sport toward insolvency. If unified under an assertive leadership and a powerful spokesperson, a union could help to institute many of the proposed changes – to ensure economic health, improve rider safety, and enforce ethics through a combination of self-policing and incentives. The absence of a true union – able to bargain for equity and reform through collective movement – may in fact be one of the reasons why the sport has been trapped on a constant precipice of insolvency in the first place.)

f. **Place New Emphasis on Season-Long Team and Individual Champions**: Two critical sporting aspects have been lacking in pro cycling for many years. These factors have undercut the potential breadth and depth of fan interest in the sport, and have limited the level of sponsorship and broader TV coverage which the sport could command.

First, there must be a greater emphasis on the team aspect of the sport – not just the individual. As more regionally-based team franchises mature under the new IPCL structure, they should be better able to institute long-term talent development and retention strategies. Riders will become more comfortable spending their whole careers with a single team, thus helping their franchises to become more stable. In turn, instead of just following individual racers as many fans do today, this would allow teams and fans to build more enduring loyalties – as is the case in other more sustainable team sports leagues.

Second, there must be more focus on a season-long series of events which successively build upon one another – as opposed to the calendar simply being a confusing arrangement of unrelated individual events. For example, many casual cycling fans perceive that the winner of the Tour de France is the world champion, despite the race happening mid-way in the current calendar; this actually devalues the World Championships at the end of the season. By carefully revising the current race points system, and by gradually shifting the sport’s focus towards the top-ranked individuals *and teams* at the end of the league season, fans can be better enticed into and then swept along towards an end-of-season climax.

As shown in the financial model below, the creation of the IPCL will relatively quickly result in a much stronger and more financially sustainable league. The growing profits of the enterprise will be increasingly shared with the teams, in an effort to grow and sustain the overall sport – just as other successful pro sports have done. As this new source of funds starts to become available by around Year 4 of the Plan, there will also be considerable monies to create new prizes and financial incentives for both teams and riders. As mentioned, some of this profit sharing might be proportionally related to the individual team's competitive success on the road, helping to create and sustain a strong competitive environment.

The Tour de France will always be a major event, and individuals will of course continue to win races, but there will be a steadily shifting focus toward the best *overall* riders and best *teams* – one event building upon another and reaching a crescendo at the end of the season. This will be given a much greater focus by providing additional and considerable prize money for both the best teams and the top individual racers at the end of the season (virtually identical to the system in Formula 1). If properly designed and introduced, the opportunity of sponsoring these new prizes could represent a highly sought-after marketing value.

g. **Exploit New Technologies to Create Greater Interest in the Sport**: There are also great opportunities to apply new technology for the greater growth and exposure of the entire sport. On-board cameras, power meters, physiological monitors and individual GPS tracking units to follow individual riders are just some of the currently-available technologies which are in wide use in other sports, and which could quickly be adapted to professional cycling. Other sports, like motor racing's streaming in-car views and hockey's digital puck tracer, have exploited these new technological advances to make their sport more exciting to the viewer – but cycling has largely ignored them.

Pro road racing is very expensive to broadcast live, but there are also new technologies evolving – such as miniaturized video production systems, rapid video encoding for cross-platform broadcasting, and cell-phone network transmission techniques that can quickly be exploited and applied to the sport – making it cheaper to produce and more exciting to viewers. In turn, this will help to engage and grow the fan base. The sport has often been indifferent or slow to consider change, and it must begin to more aggressively investigate and embrace a range of new technologies. There is considerable and virtually immediate value to be built here.

h. **Aggregate Media Marketing Rights and Build New Revenue Sources**: Finally, once the IPCL structure and initial calendar is set, and as all the stakeholders – athletes, teams and fans – begin to better understand and buy into it, there will be an unrivalled opportunity for the IPCL to aggregate the media marketing and television distribution rights for the revitalized sport. This is a fundamental component of the overall business plan, and can act as the catalyst and the key driver of future growth and profitability opportunities. For the frustrated cycling fan, accustomed to tapping into choppy and often legally blocked video streaming on foreign-language websites, the ability to purchase a season-long package of the top twenty cycling race events over the internet or on a cable TV channel would be a virtual blessing.

The league will be in a far stronger negotiating position with television channels and distributors, once such a season-long package of television rights can be offered to viewers around the world. A consolidated and technologically-enhanced package of television coverage would quickly attract more fans, interest new sponsors and advertisers, and produce a new and increasingly larger source of revenue. In addition, the league could look at current and emerging technologies for producing live race coverage more cheaply. The IPCL could then use this expanding new source of revenue both (1) to reward its investors, and (2) to reinvest in a wealth of new ways to grow and strengthen the overall sport. As shown in the attached chronology and financial forecasts, it may take a few years to realize these media and marketing synergies, but the eventual benefits will be very significant.

There would also be new opportunities for developing other sources of revenue, once all the top-level teams and events are consolidated as an entity under one structure. For example, merchandising rights, more standardized race start and finish VIP viewing areas or season-long tickets, charging larger fees to start and finish towns in the major stage races because of increased marketing value, event and season winners' jerseys, the world championship prizes, and so on. With these marketing changes, cycling could migrate into the 21st century in terms of media content and distribution rights, and develop important new sources of revenue to carry the sport forward.

i. **Build a New and Independent Sport**: No longer encumbered by obligations to the UCI, the new league would be free to develop its own rules and regulations regarding racing, technology, equipment, TV coverage and so forth. Hence, it could be more agile and responsive to provide the kind of coverage that the global audience really wants to see. Early marketing research could establish what some of those criteria or current fan expectations and desires might be, while acquisition of experienced consultants and executives from successful sports leagues would help to strategically apply that data for long-term planning.

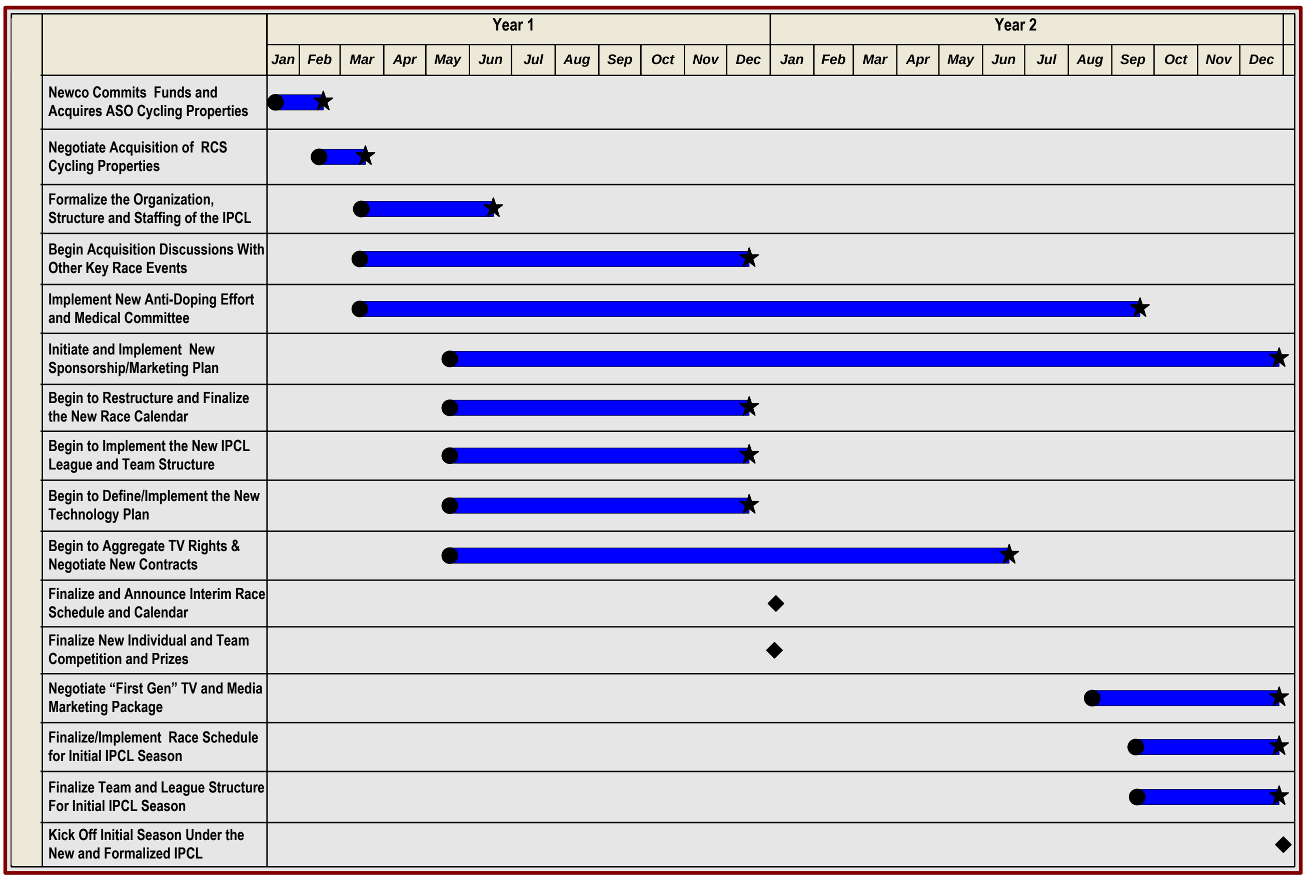
At the same time, there would still be instances in which the IPCL would cooperate and work together with the UCI, and with various national cycling federations, in order to establish or maintain Olympic qualifications. This could largely be modeled after the National Basketball Association (NBA), and the way it interacts with the Federation Internationale de Basketball (FIBA); the NBA is the premier league for professionals, while FIBA organizes professional "club" leagues, amateur competitions, develops talent, and upholds Olympic guidelines. The NBA is the economic powerhouse where every player aspires to compete, and FIBA is largely a "feeder" association with very little control over the professional sport.

There would continue to be a healthy competition amongst the lesser UCI races which currently exist in the calendar. As the IPCL succeeds in changing the professional league mindset and economic engine, the UCI – much like FIBA does for basketball today – could continue to promote a series of other races as a continuation of its Continental Division, in which aspiring pro riders could continue to ply their trade and develop their skills. As noted earlier, this is where emerging talent could be grown and honed for the IPCL franchise teams, and also where aspiring teams could develop and begin to challenge for an IPCL franchise license.

V. Two-Year Tactical Plan and Chronology:

The foregoing pages have presented an aggressive but achievable business plan to consolidate, restructure and revitalize the sport of professional cycling over the next two to three years. It is critical that the IPCL address these changes, improvements and new directions on a rapid but also simultaneous basis. A simplified graphical summary of these key tasks and the estimated time-frames of each are shown in the chart below. Note that while some of these individual tasks are essentially on-going throughout the two-year timeframe (or even beyond), others have a clear start and finish date. This Figure represents the initial tactical plan but individual dates and tasks would clearly be flexible, and would change as the IPCL organization gradually took form.

Figure 2: Two-Year Chronological Development Plan for the IPCL



VI. Pro Forma Financial Forecast:

There is little public historical information available about the financial operations of the ASO, RCS, or most of the other race events that are listed in the revised calendar above. Hence, it is difficult to assemble specific pro forma financial figures to support the basic assumptions in this business plan. However, based upon discussions with various executives involved today or in the past with the management of the sport, historical anecdotes and certain data points which *have* been made public, or facts and figures which have been uncovered previously by journalists or researchers, the numbers presented in Figure 3 below (in terms of U.S. dollars, at the current exchange rate) are thought to be reasonably reliable estimates. More importantly, from a general illustrative perspective, this table demonstrates the general scope of growth and profitability which is hypothetically possible, if and when all the critical steps mentioned in this plan are actually taken. Nevertheless, readers and potential investors should keep in mind that these are in fact only estimates, whose detailed validity cannot be guaranteed.

Figure 3: IPCL Pro Forma Financial Forecast
(Millions of U.S. Dollars)

	2014 (base)	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**	**Year 9**	**Year 10**
ASO Cycling Revenues	$ 100.00										
RCS Cycling Revenues	$ 40.00										
Total Revenues	$ 140.00										
TV Revenues		$ 77.0	$ 84.7	$ 93.2	$ 139.8	$ 167.7	$ 201.2	$ 231.4	$ 266.1	$ 292.8	$ 322.0
Sponsor/Partner Revenues		$ 28.0	$ 33.6	$ 40.3	$ 48.4	$ 96.8	$ 121.0	$ 151.2	$ 181.4	$ 208.7	$ 229.5
All Other Revenues (1)		$ 35.0	$ 38.5	$ 42.4	$ 46.6	$ 51.2	$ 56.4	$ 62.0	$ 68.2	$ 75.0	$ 82.5
Total Pro Forma Revenues		**$ 140.0**	**$ 156.8**	**$ 175.8**	**$ 234.7**	**$ 315.7**	**$ 378.6**	**$ 444.6**	**$ 515.8**	**$ 576.4**	**$ 634.1**
Operating Expenses (2)	$ 63.70	$ 63.7	$ 73.3	$ 84.2	$ 92.7	$ 101.9	$ 112.1	$ 123.3	$ 135.7	$ 149.2	$ 164.2
Gross Margin	$ 76.30	$ 76.3	$ 83.5	$ 91.6	$ 142.1	$ 213.8	$ 266.4	$ 321.3	$ 380.1	$ 427.2	$ 469.9
SG&A Expenses (3)	$ 27.30	$ 27.3	$ 21.8	$ 22.9	$ 24.1	$ 25.3	$ 26.5	$ 27.9	$ 29.3	$ 30.7	$ 32.3
Initial Organization Costs (4)	$ -	$ 5.0	$ 5.0	$ 2.5							
Pre-Tax Income	$ 49.00	$ 44.0	$ 56.7	$ 66.2	$ 118.0	$ 188.5	$ 239.9	$ 293.4	$ 350.9	$ 396.5	$ 437.7
Net Income		**$ 33.0**	**$ 42.5**	**$ 49.6**	**$ 88.5**	**$ 141.4**	**$ 179.9**	**$ 220.1**	**$ 263.1**	**$ 297.4**	**$ 328.2**
Profit Sharing/New Prizes (5)	$ -	$ -	$ -		$ 8.8	$ 28.3	$ 54.0	$ 66.0	$ 78.9	$ 89.2	$ 98.5
Capital Expenditures (6)	$ -	$ 415.0	$ 10.0	$ 11.0	$ 12.1	$ 13.3	$ 14.6	$ 16.1	$ 17.7	$ 19.5	$ 21.4
Cash Flow	$ -	**$ (382.0)**	**$ 32.5**	**$ 38.6**	**$ 67.5**	**$ 99.8**	**$ 111.3**	**$ 137.9**	**$ 166.5**	**$ 188.7**	**$ 208.3**
Present Value at 15%	**$65.57**										
Internal Rate of Return	**19%**										

Notes:

1. Includes merchandising and licensing fees, regional start or finish event fees, team registration, caravan fees, and other event revenues
2. Includes all operational costs, including race management costs or subcontracts, TV production, police assistance, regional and local staffing, road closures, signage, etc.
3. Includes all sales, marketing and general administrative overhead of league management, Newco oversight and management fees, etc.
4. Includes one-time review, set-up and organizational costs for the new league; longer-term and on-going administrative costs are captured in the SG&A line above
5. Increasing Profit sharing with the IPCL teams, and funds available for new team and individual prizes
6. Includes initial capital injection for acquisition funds in Year One, plus additional working capital, and event/production capital investment on an on-going basis

Column 2 of the Table shows the estimated 2014 baseline financial figures upon which the rest of the financial model is predicated. ASO cycling-specific revenues are assumed to be $100 million, or 50% of the firm's total revenues of about $200 million. (This is based upon the recently reported total revenue figure of €180 million, and assumes the current exchange rate of the Euro to the Dollar at 1.10). Based upon discussions with various industry officials, RCS revenues are estimated at $40 million – for an initial combined cycling revenue base of $140 million. Net profitability (pre-tax income as a percent) on these revenues is estimated at 35%, based upon both the publicly-available figures for ASO, as well as discussions with industry contacts. (This is thought to be a relatively conservative assumption; some industry insiders placed that figure more in the 40% to 45% range.) All of the other figures and projections in this financial model flow from these baseline 2014 assumptions.

In terms of the revenue breakdown, it is assumed that television rights represent 55% of the total cycling revenues, with sponsorship/partnership revenues making up an additional 20%, and all other sources comprising the remaining 25% of revenue. As shown in Footnote 1, this "other" category includes all licensing and merchandizing fees, event start and finish line fees, and various other items.

The critical TV revenue component is assumed to grow at just ten percent for the first two years of operation of the league. However, once the league is fully up and operational, and with the time to aggregate the events and negotiate new contracts, revenues from the sale of packaged TV rights are projected to jump by 50% in Year 4. Thereafter the TV revenues grow at a declining rate, from 20% per year down to 10% per year by the end of the forecast period. Sponsorship and partnership revenues are also expected to show good growth, as the marketing and sponsorship plan of the new league is gradually put into place and realized. With sponsor interest in the new league gradually growing through the first three years at a rate of 20%, once the expanded TV coverage and revenue takes off in Year 4, sponsorship interest is expected to blossom the next year – with incoming sponsor/partner revenues doubling in Year 5. Thereafter, sponsor revenues settle back down to a 25% growth rate, and tail off to a 10% growth rate by the end of the plan period. By the end of the ten year period, sponsorship revenues are equal to about 36% of total revenues. (As a comparison point, the total percentage that sponsors contribute to the overall revenues of the Olympic Games is about 40%.) The remaining "other" category of revenues sources is assumed to grow at a steadier and more conservative rate 10% per year throughout the entire timeframe of the model.

Total costs, calculated on the basis of the initial revenue and margin assumptions, are segmented into 70% direct operational costs and 30% administrative and overhead expenses. Direct operating costs are assumed to grow at 15% per year for the first two years, representing the complex integration and logistical challenges of combining together a number of different race events and organizers, but then drop back to increase at a 10% annual rate for the rest of the plan period. On the other hand, general and administrative costs drop slightly in the first year – due to synergies and the potential cost reductions from combining several different race organizations and eliminating redundant overhead – and then rise at a slower rate of 5% per year throughout the rest of the plan. The review, set-up and initial organization of the IPCL will incur various significant one-time staffing, consulting and contract management costs, which are shown in the Table as a separate cost item – an additional $5 million the first two years, declining to $2.5 million in Year 3, after which time all administrative costs are assumed to be included in the on-going SG&A line item. The total effective tax rate on income is assumed to be 25%.

A key assumption behind this financial plan is the provision by Newco of sufficient capital to acquire the initial ASO and RCS cycling properties, and to inject sufficient additional working capital to support the organization as it begins a period of rapid expansion. As mentioned on pages 9 and 10 above, the base case financial model shown in Table 3 assumes purchase prices for the ASO and RCS cycling properties of $330 million and $60 million respectively. The financial model assumes an additional capital injection in the first year of $25 million, which would go towards increased working capital and funds to be applied towards acquisition of the other major race properties mentioned earlier, or for other early capital improvements. As mentioned earlier, once the IPCL began to consolidate the sport and gain power, it is likely that most other races would be eager to join the league and ensure their place on the calendar rather than get left behind; hence, it is implicitly assumed that the other key events can either be acquired fairly cheaply, or simply replaced with new and similar events. On-going maintenance and capital investment requirements begin in Year 2 at $10 million, and increase at 10% per year thereafter through the rest of the forecast period.

The league would quickly become profitable enough for its investors that it could begin to share a significant amount of its net profits with the individual teams, thus helping to grow the value of the individual franchises, and begin to achieve the type of stability and sustainability that has eluded the sport to date. The financial model assumes that, once the league is up and fully operational by Year 4 that 10% of the profits would be shared with the teams. This would grow to 20% in Year 5, and level out at 30% in Year 6, carrying on at that rate into the future years. This would quickly build to the level of several million dollars per team each year. (Other assumptions behind the financial model are listed at the bottom of the Table.)

As can be seen, under these assumptions – again, thought to be reasonable based upon the available information – the funding, consolidation and start-up of the IPCL has a very attractive financial return to the Newco owner – yielding an internal rate of return of 19%, and a net present value of over $66 million when discounted at a rate of 15%. Although this table presents only a ten-year forecast, it is believed that these revenues could continue to show continuing growth out into future years, particularly if the television and media rights were managed and grown in an optimal manner, perhaps even eventually developing a captive television programming or internet delivery capability. If Year 10 cash flows are assumed to extend into the indefinite future, the present value of the investment increases to the $400 million range.

A brief sensitivity analysis conducted on these financial models shows that the results are obviously quite dependent upon the assumed up-front investment and acquisition costs, and to a lesser extent, upon relatively small variations in the rate of growth of TV and sponsorship revenues. All other things being held equal, the up-front acquisition costs could be increased still while maintaining a positive net present value – suggesting that Newco has some flexibility, if necessary, to negotiate the purchase price of the two cornerstone acquisitions. Using lower growth rates in terms of cost appreciation, or limiting the amount of profit sharing with the teams also makes the results predictably more optimistic.

In summary, although the reader is again reminded that this forecast is based upon reasonably educated estimates, the model serves to illustrate the potential financial opportunity represented by a consolidation and restructuring of pro cycling. It is believed that the key assumptions in this Table are reasonable – specifically, moderate revenue growth forecasts, lower than likely percentage profitability rates and possibly higher than necessary capital outlays. Hence, the attractiveness and rates of return that are projected here might also be exceeded. (It also goes without saying that if the ASO itself undertook this type of plan, it could do so at a much higher rate of return and profitability, because it could avoid the massive $330 million up-front acquisition cost.)

VII. Conclusion – Risks and Benefits:

The foregoing section has summarized the potential for very attractive financial returns in this plan to consolidate pro cycling – as well as a renewed sense of vitality and growth in the sport. But as with any business undertaking, there are also associated risks. In terms of the key financial assumptions, the prices at which the various race properties and events might be purchased could be higher, or the time that it might take to obtain control of them could be longer. The projected TV and sponsorship revenues might not accelerate as quickly as assumed in the financial forecasts. The profitability of managing major race events seems well-established, but there could be unforeseen operational or consolidation challenges that could cause costs to be higher or revenue growth to be slower. It might take longer to truly correct the anti-doping problems in the sport than what is assumed here, and hence the attraction of major global sponsors might take longer. And of course there are *force majeure* types of events beyond the control of the league – severe worldwide economic decline, for example – which could potentially impact the achievability of this plan. All of these items are risks, although we have elaborated on the reasons that we believe the plan and the underlying financial assumptions are generally achievable and conservative.

Different aspects of this plan will undoubtedly upset different stakeholders. Riders and teams will clearly object to the smaller number of initial teams; race organizers will object to the shortened calendar. Many fans will object to both. Entrenched team managers will object to the tighter anti-doping requirements. Some of these groups can be very vocal, and some of them will be very resistant to this reinvention of a new and more modernized sport. Similar resistance from entrenched stakeholders or traditionalists has plagued other evolving professional sports as well; there is of course always resistance to significant organizational change. But Newco should not let these concerns distract it from the fundamental business plan here, and should hold to the belief that the overall sport will be much better-positioned in the future once these proposed changes are actually made. Fans will likely adjust to and appreciate the new structure and calendar after just a few seasons.

Another risk inherent in this business plan is more of a political and generally non-quantifiable one. The Tour de France has for decades been a major cultural institution in France and a primary showcase for the French travel and tourism business. There may be some concern that in one way or another, the government of France might somehow act to block any sale of the ASO assets to a foreign owner. However, if the valuation was attractive and if the ASO ownership group itself favored an outright sale, it seems unlikely that the French government could legally block a sale. (The same concerns may be a cultural issue or political constraint in terms of the sale of the RCS's primary asset – the Giro d'Italia.) However, it would also be realized that there is virtually no incentive for either a new owner or the French government to tinker around very much with the Tour de France – it is a highly successful event, and there is no reason to try to fix something that isn't broken. Furthermore, if there in fact *was* a real or perceived concern, or a desire to maintain some level of control, Newco could also offer certain rights or controls to an appropriate entity of the French government, or even a stake in the ownership of the new league. A new owner would have every incentive to preserve and grow the Tour; indeed, as the sport flourished and grew under the IPCL, France and French tourism would only benefit.

Because the Groupe Amaury also owns L'Equipe – one of the major sports daily newspapers in France – and other complementary assets, there may also be a concern that separating the cycling events of ASO from the parent company could cause certain informal operating synergies, cross-marketing capabilities or other types of "hidden subsidies" to be disrupted or jeopardized. Certain events, like the Tour de France, are also offered unquantified but probably important hidden subsidies from the French government – for example, discounted charges for the use of the road systems and the national police force. These are the sorts of background issues or implicit subsidies that would clearly need to be investigated and evaluated in more depth. However, it is not believed that changing ownership would necessarily imply a major financial impact in terms of these types of qualitative relationships; it would be in everyone's interest to continue those relationships.

As this document has demonstrated, there are potentially huge opportunities inherent in this consolidation plan, assuming that these risks could be overcome or managed. By instituting a totally new approach to control and minimize doping, bring major global sponsors into the sport, reorganize and manage a new competitive structure of pro cycling, and put in place a stronger package of TV rights, there is a great potential to take a popular sport which is still stuck in the mid-20th century, and quickly drag it into the 21st century. The die-hard fans have always been there, but a new, more interesting, better marketed and more widely televised sport could bring in millions and millions of new fans – and proportionately increase the sponsorship interest, financial stability, and general upside of the overall sport. With the right type of marketing and distribution expertise, the sport could perhaps even develop its own system to deliver season-long coverage directly to the home via TV or internet, like other sports have done.

This type of revitalization and investment opportunity – very similar to the consolidation of Formula 1 racing – does not come along very often, and certainly not at this kind of very affordable investment level. Indeed, the opportunity to single-handedly control and transform an entire professional sport is available here at a mere fraction of the value of a *single* mediocre NBA or NFL franchise.

But the most important financial consideration here, as Christian Prudhomme, Director of the Tour de France has himself said, "Newspapers created the Tour de France, radio made it popular, but television made it rich." A more coordinated and tightly-managed professional racing league under the control of a single entity, and with the ability to negotiate stronger and more widely distributed television packages and media rights, can attract new and stronger sponsors, bring in a multitude of new fans, revitalize the competitive nature of the sport, *and* make it considerably richer and more stable and sustainable than it is today. Someone must seize this opportunity now.

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Appendix 1

A New Approach to Anti-Doping

There is no greater threat to the future of pro cycling than the continued lack of a consistent and defensible anti-doping system. Athlete testing and punishment is often inequitable or inconsistently applied, the testing methods themselves are sometimes analytically inconclusive, and the responsibility and coordination between different governing agencies is often absent or unclear. The shortcomings of this system have been felt across the entire sport – from its shaky financial situation to the growing demand for fundamental structural and governance reform. Real progress and a more effective solution to the doping dilemma would allow the sport to attract more sponsors, generate more revenue and flourish in the future.

Over the past several years, there have been hundreds of articles and editorial pieces criticizing the current anti-doping procedures in pro cycling, and decrying the wide spectrum of failures, inequities, and unintended consequences; even proclaiming the end of sport. But few observers have had any concrete suggestions for new approaches to deal with the problem. In this article, we suggest some new ideas about anti-doping, and propose a broad conceptual outline for the application of the professional certification model – and the creation of an independent **Cycling Certification Program** (CCP).

The general concept of certification has existed in different professional contexts for decades – as a means of defining an accepted and consistent standard for conducting business, or for manufacturing and providing goods and services. This includes the wide range of accreditations required of professionals such as doctors, accountants or architects; as well as the comprehensive manufacturing quality control standards of the International Standards Organization (ISO) 9000 and 14000 protocols, or the LEED certification conventions for environmentally sustainable buildings. These groups have taken it upon themselves to impose a certification process – to ensure that all participants face the same scrutiny and requirements regarding their skills and ethics, and to maintain the reputation of their overall industry. So why not consider applying the principles of certification to the arena of professional sports?

The command and control system used today to discourage cheating in pro cycling is pretty simple: the rules are set, and those caught breaking them are punished. This encourages most participants to adhere to the rules, but it may also lay out guidelines for others to navigate shortcuts around those rules. And if enough players cheat often enough without getting caught, more and more players will also make the decision to cheat. This is exactly what has happened in pro cycling over the past thirty years; almost everyone felt they had to dope simply to survive. Disgracefully, team officials, medical staff and allegedly even governing agencies have sometimes conspired to push the limits.

The current system is further limited by serious gaps in the monitoring and oversight process. For example, the current Biological Passport program has many blind spots in its execution. Infrequent athlete testing paints only a partial picture of their individual physiologies. Simply put, the passport resembles a family photo album: it tells the story of a person's life one snapshot at a time. But if these snapshots are taken infrequently, the "album" is incomplete and may tell only part of the story. In addition, different national Federations have different review procedures and may mete out widely varying sanctions and punishments – dramatically illustrated by the recent cases of Roman Kreuziger and Jonathan Tiernan-Locke.

A certification program would deemphasize this reliance on command and control thinking, and would reinvent the general governance and anti-doping approach in the sport by means of three cornerstones: (1) a more comprehensive system of team and/or athlete auditing, monitoring and tracking; (2) the development and institution of stronger ethical standards and training; and (3) more severe and permanent penalties for those found guilty of breaking the rules.

Certification at the Team Level: The most effective application of a certification plan would be to place the key responsibilities – as well as the repercussions for failing to meet them – directly on the teams. These are the entities which have the most power to implement immediate cultural change. An independent certification agency would be created and empowered – modeled upon the ISO as a private and impartial standard-setting organization – and would be independent of the anti-doping and sporting federations. This new agency would set operating and behavioral standards, create appropriate metrics by which to measure adherence to those standards, and would hold teams accountable to the standards necessary to compete in pro cycling. The specific metrics would have to be agreed upon, but the objective would be to grade a team's ability to meet specific ethical, operational, financial and administrative thresholds such that they could be certified for top-level pro competition.

Just like the way in which private corporations become ISO-certified or are financially audited by external accounting firms today, cycling teams would be evaluated and approved to participate in the business of pro cycling. If and when irregularities were detected, a red flag would be raised, and the team would need to respond or make changes in order to continue competing. Under the league model, which we discussed earlier, there would be a very strong economic incentive for all top teams to comply with these minimum standards. If a professional franchise was unable to compete due to a failed audit, it would have a potentially devastating economic effect. And if the team failed to correct the problems within a specific time period, it could risk losing its professional license, relegation to a lower division, or some other severe economic consequence which no team could bear to endure. No longer would poorly managed or unethical teams be able to expose races, competitors or governing agencies to tainted results, doping scandals, economic fiascos, or ruined reputations.

The critical team characteristics to be evaluated and measured in the certification process would include details like the professional histories and licensing of training staff, doctors, and other medical advisors; minimum safety and health standards, like the number of expected racing days per rider; financial and competitive strength of the team; contracts and salary levels; physical infrastructure of the team; expected code of conduct and ethics training programs; and so on. Unannounced audits of key criteria could take place at any time if a team was suspected of bending the rules, to prevent teams from taking an approach of "we'll pass the test when we need to" and to generally ensure quality and compliance.

The general process here could be envisioned as a more comprehensive version of the licensing process that the UCI conducts today, with the critical difference that the certifying agency would be independent. The certifying agency would be responsible for monitoring and policing the sport, not promoting it; it would not be subject to conflicting objectives, such as the UCI faces with Team Astana today.

Adoption of a stronger certification and ethics program would finally position the individuals and team staff as professionals to be held accountable for their actions. Athletes caught doping would face the same kind of severe penalties that professionals in other industries receive for breaking accepted ethical codes of conduct. As we will discuss later, entire teams might also face similarly harsh punishments. The shift from trying to catch individual riders, to holding teams accountable for the actions of their riders, would essentially create a situation where team managers could no longer tolerate the potential transgressions of questionable riders and staff. And the risk to reward proposition of doping would become unacceptable to those trying to game the system.

Certification at the Individual Athlete Level: Pro cyclists have reached the top level in their profession, and are "professionals" in every sense – in training, physiology, nutrition, racing tactics and so on. Yet, the only certification that a pro cyclist can obtain is a UCI license. And this is a somewhat arbitrary certification, because there is essentially no agreement about who should or should not be qualified to become a "pro" in the first place; there are few minimum requirements or standards. Only certain national Federations and anti-doping authorities "test" their athletes for ethics considerations at all, or specify what they expect in terms of adherence to the rules. In short, if you've demonstrated that you can ride a bike fast, there are few other requirements for or barriers to obtaining a UCI license. This deficit of clear expectations and qualifications results in an over-dependence on the command and control model.

But the stakes have grown so high from a financial perspective that the incentives to dope and cheat the system are just as great today as they have been in the past. Advances in the science of performance enhancement, and how to mask those procedures, seem to outpace the science of detection; and many of the highest-profile cases have been "won" due to confessions, rather than lab work. An individually-focused "Athlete Certification Program" (ACP) could also be created so that the riders could exercise more direct control over whether they could truly be labeled as "clean."

Individual certification would have several distinct benefits, similar to what can be observed in other professions. First, the professional would determine and maintain their personal certification to participate in the industry. This would turn cycling's traditional model on its head; *everyone* would have a strong competitive and financial interest in ensuring that the system works. Second, the oversight agency would uphold the certification, such that actual standards could be enforced. Third, non-compliance would be quickly identified, and the penalties would typically be severe and non-negotiable; the high frequency of testing would leave little room for unscrupulous practitioners to get away with violations.

The ACP model could improve the current Biological Passport by increasing the frequency of testing – to perhaps twice monthly - providing a more definitive record of the athlete's personal physiology. This would create a true "baseline reference file" which could be compared year-over-year, or against longer personal historical trends. Once validated by the appropriate agencies, this up-to-date history would essentially certify the rider as a clean athlete. This is directly analogous to the industry model where an independent agency certifies the company (in this case the teams) but where its products (the athletes) are validated by a third party. (General Electric is ISO certified as a corporation, and its toasters and refrigerators are UL-approved.) A higher frequency of testing would leave fewer windows by which an athlete could dope, and make it easier to catch those trying to cheat at points of competition: the historical record would show what the baseline *should be for that person*, as opposed to a comparison against averaged values from other athletes.

There are numerous logistical requirements for setting up an individual certification system. First, there would have to be more accredited laboratories to handle the higher volume of testing, as well as more sophisticated analytical and data management systems; the new system could "piggy-back" off of the existing network of private labs, and make better use of existing electronic health record systems. Second, it would be critical to develop stronger inter-agency agreements, to refine and streamline the review and appeal process for when adverse results are found. Third, the level of cooperation between UCI, WADA, national anti-doping and cycling federations, teams, race organizers, and the riders union would need to be strengthened. WADA would need to review and authorize improvements to the testing model. The UCI and the international federations would need to support the concept, and perhaps help to defray the startup costs. Although better science will help to attack the problem of doping, the real solution will be dependent upon better and more cooperative governance.

Of course, the riders themselves would have to buy into the new philosophy of being certified professionals – they would now be more in charge of their own destiny, as opposed to being policed by higher power. The higher testing frequency required in order to obtain and keep certification might seem intrusive at first, but it might be preferable to today's system of specifying whereabouts months in advance, and submitting to unannounced testing at all hours of the day. Furthermore, it is not unusual in industries where workers need to regularly show they are adhering to an anti-substance abuse policy. ACP's certification standards could become a requirement – along with passing a much more detailed ethics training program and exam – for a new professional to obtain their racing license.

Stronger Punitive Measures: Once teams and/or riders were certified under this type of program, anti-doping punitive measures could finally be given real teeth. Explicit agreements within other certification models, such as those which disbar lawyers or prohibit doctors from practicing, would make it virtually impossible for cheaters to be repeat offenders in the future. Guilty parties are often permanently barred from being licensed again, even if they manage to escape financial penalties or jail time. The whole premise of employment in this sport needs to be changed – riders, and staff, need to understand that cheating can mean the end of their careers. Proven doping cases, even for first-time offenses, could lead to a lifetime ban for the rider; possible six-month loss of certification for the entire team (rendering it unable to compete in any events for the duration of the audit and investigation that the team would have to undergo to become re-certified); if any team staff were found to have aided and abetted the rider, these persons could also be given a lifetime ban; and if an audit discovered systematic, organized doping within the team, the team could suffer an effective “death sentence” – losing its certification altogether and being run out of the sport.

The beauty of an athlete certification model is that it encourages and empowers the athletes to initiate and maintain responsibility for their certification – in exactly the same way that other business professionals are responsible for accreditation to work in their chosen field. The athletes would gradually become collectively invested in making sure the process works, reporting wrong-doing as it happens, and ensuring that everyone is treated equally. So long as they maintained their regular testing schedule and produced no questionable results, riders would be allowed to maintain and affix a prominent ACP symbol or logo of “good housekeeping” to their jersey – showing teams, organizers and fans that they are an accredited and certified clean racer. Over time, the reputational privilege and purely economic value of being able to wear that “ACP Clean” symbol would grow significantly.

Change is never easy, and the transition to any type of certification model would obviously not be simple. There are clearly numerous and significant start-up, organizational and management requirements which would have to be explored in far more detail. We realize that a shift to this type of anti-doping system would be sharply opposed by certain groups, who may have a vested economic interest in maintaining the status quo. Of course no certification system is going to be perfect either; one needs only to remember the Enron/Arthur Andersen debacle to realize that a certification system is dependent upon the integrity and commitment of its participants. But just like the Enron crisis, which resulted in a vastly strengthened financial regulatory system, certification could be the catalyst to change pro cycling’s landscape. And though our focus here is on cycling, it should be pointed out that there are numerous other sports which could also benefit from such a team or individual certification system – and which could share the costs.

Cycling needs to clean up its act now, and a timely move to this type of certification and punitive model might reinforce the wave of change which is rippling through the peloton, particularly among the younger riders in the sport. If carefully designed and implemented, certification *could* take root, improve competitive conditions, and gradually become the norm throughout the sport. This is exactly what has historically happened in many other professions. Well-intentioned riders would finally have the charter *and* the tools to protect themselves; just as important, they would have both the incentive and the supporting team structure to gradually weed out others who didn’t want to play by the rules. By certifying themselves to be clean, riders would in turn validate the races in which they participated; races would have true winners, and results would no longer have to be re-written by doping scandals after the fact. All of this could create a sharply upward spiral in the sport – building a greater sense of legitimacy, growing the fan base, encouraging new investment, and promoting economic growth.