

Demystifying Andretti's Failed F1 Application

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On March 22, 2023, the Federation Internationale de l'Automobile (FIA) invited applications for a new team that would participate in the FIA Formula One World Championship (F1) starting in 2025 or 2026. Andretti Formula Racing LLC (Andretti), a partnership between Mr. Michael Andretti and General Motors (i.e., Cadillac), was the only applicant that FIA approved from a "technical" perspective in October 2023. However, in January 2024, Formula One Management (FOM) rejected Andretti's application based on insufficient "commercial" rationale. In its official statement, FOM stated that "while the Andretti name carries some recognition for F1 fans, our research indicates that F1 would bring value to the Andretti brand rather than the other way around."¹

While the legal fraternity has been discussing the legal implications of FOM's decision, we explore the "commercials" relating to an eleventh team on the F1 paddock and how it affects the "value" distribution among the F1 Teams.

We provide an overview of the F1 business and Andretti's application. We also discuss how F1's rise in popularity and financial performance improvements since Liberty Media's acquisition of the sport mean that Andretti may no longer bring material benefit to F1 on or off the track; and why the current \$200 million anti-dilution fee set by the FOM no longer sufficiently covers the dilution in existing teams' prize fund or reflects the recent transaction prices of



F1 teams and may need to be re-looked at. Fees for anti-dilution or expansion are common across American Major Leagues² and provide a mechanism to compensate existing teams for their dilution in the share of profits upon the entry of a new team. Therefore, to join the F1 paddock, FOM may need to consider a higher anti-dilution fee that reflects current economic trends to make entry of new teams such as Andretti commercially viable or reject the application process entirely and pursue the standing model, which is to invest in an existing F1 team at prevailing market prices. Our review of these prevailing economic trends helps in demystifying, from a financial perspective, FOM's decision on Andretti's application.

BACKGROUND

Mr. Andretti is a former race driver who operates racing teams across organizations such as IndyCar and Formula E, and has been exploring opportunities to join F1 for several years.

On March 22, 2023, FIA invited applications for a new team that would participate in F1 starting in 2025 or 2026.³ Although FIA received several applications, only four applicants advanced to the second phase of the process, and Andretti was the only candidate to meet the "technical" criteria set out by FIA.⁴ Andretti proposed using an existing F1 power unit until the 2028 season, when it would have switched to a General Motors engine.⁵ Andretti also promised an "all-American" F1 team with at least one American driver.⁶

On January 31, 2024, FOM rejected Andretti's application, stating his proposed team did not bring adequate competitive and commercial "value" upon entry. FOM explained that the addition of Andretti to the grid will not improve the competitiveness of the races as the new team will not compete for podium or wins, which is the most significant way for a team to bring value to F1.⁷ FOM also claimed it did not expect Andretti's entry to have any material positive effect on the commercial right holder's (i.e., FOM) financial results and would not be competitive participant as "novice constructor" team not being able to meet the "unique technical challenge to constructors",⁸ despite satisfying FIA's "technical" criteria.

Overview of Formula One

REGULATORY AND GOVERNANCE

The FIA is the governing body for F1 and, as such, is "solely responsible for regulating the sporting, technical, and safety aspects of F1, through the FIA's F1 Commission and World Motor Sport Council."⁹ FIA's primary responsibilities include setting safety standards, establishing rules and guidelines, and mediating and arbitrating competitive disputes amongst F1 teams.

FIA has granted FOM the exclusive commercial rights to F1 until 2110.¹⁰ FOM is responsible for the commercial exploitation and development of F1, including managing race promotion, media rights, and sponsorship arrangements.¹¹

The relationship amongst the FIA, FOM, and F1 teams is governed by the "Concorde Agreement",¹² which was last executed in August 2020 for the period from January 1, 2021, to December 31, 2025 (2021 Concorde Agreement).¹³ The 2021 Concorde Agreement establishes key terms such as the calculation and allocation of the prize fund, procedures for setting the F1 calendar, and termination rights.¹⁴

BUSINESS OPERATIONS

FOM generates revenue primarily from its commercial exploitation and development of F1, which include race promotion, media rights, and sponsorships. Prize fund distribution to the F1 teams is FOM's largest cost category. The prize fund is allocated to F1 teams based primarily on their finishing position in the preceding F1 season. In

addition, Ferrari is paid a certain amount in recognition of its heritage.¹⁵

In addition to their share of the prize fund, F1 teams generate revenue from their sponsorship and advertising partners. To compete, F1 teams incur operating costs such as driver salaries, research and development, team salaries, logistics, and other race operation costs.

An overview of F1's business operations based on Liberty Media's 2023 Form 10-K is provided in [Figure 1](#).¹⁶

FINANCIAL PERFORMANCE FROM 2017 TO 2024

Liberty Media acquired FOM in 2017 at an enterprise value of \$8.0 billion.¹⁷ Following Liberty Media's acquisition, F1's financial performance improved in each year from 2017¹⁸ to 2023,¹⁹ except 2020,²⁰ which was affected by COVID-19.

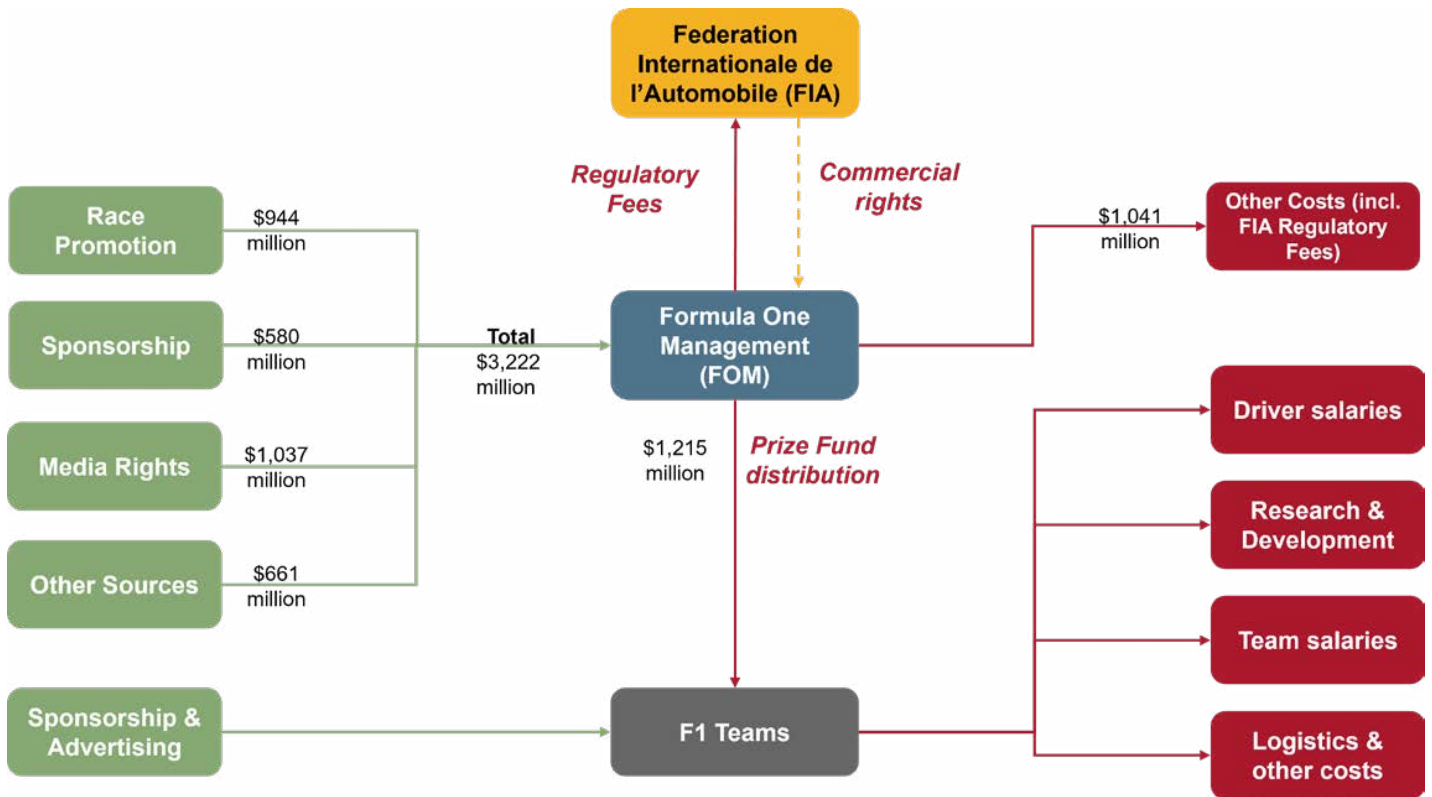
As depicted in Figure 2 above, since the signing of the 2021 Concorde Agreement, FOM's revenue has almost tripled from \$1.1 billion in 2020²¹ to \$3.2 billion in 2023.²² Similarly, FOM's prize fund distribution to F1 teams (represented as the red line in Figure 2) has increased by 71% from \$711 million²³ in 2020 to \$1.2 billion in 2023.²⁴

In summary, F1's popularity has grown since Liberty Media's acquisition, thanks to social media presence, expansion into the US, and Netflix's "Drive to Survive" reality series amongst others.²⁵ Consequently, audiences — both at races and those watching from home — have increased,²⁶ and so has F1's revenue from all sources. The flywheel effect has benefited F1, Liberty Media (or FOM), and existing F1 teams, but at the same time joining the F1 paddock has become ever so difficult.

ANDRETTI MAY NO LONGER BRING MATERIAL BENEFIT TO F1 ON OR OFF THE TRACK

F1, like the American Major Leagues, operates under, what some may call, a "closed league" model, wherein the same teams compete in the competition year over year irrespective of their sporting performances. Over time, the American Major Leagues have added new or "expansion" teams to improve the sporting and financial performance. For instance, Major League Soccer (MLS) started with 10 teams in 1996 but "expanded" to 29 teams for the 2023 season.²⁷

Figure 1: F1's Business Operations Overview



For American Major Leagues, such as MLS, new or “expansion” teams are value accretive as the league expands to newer markets, attracts more fans, and increases the number of matches to be played which in turn increases ticket, commercial, and broadcasting revenues.

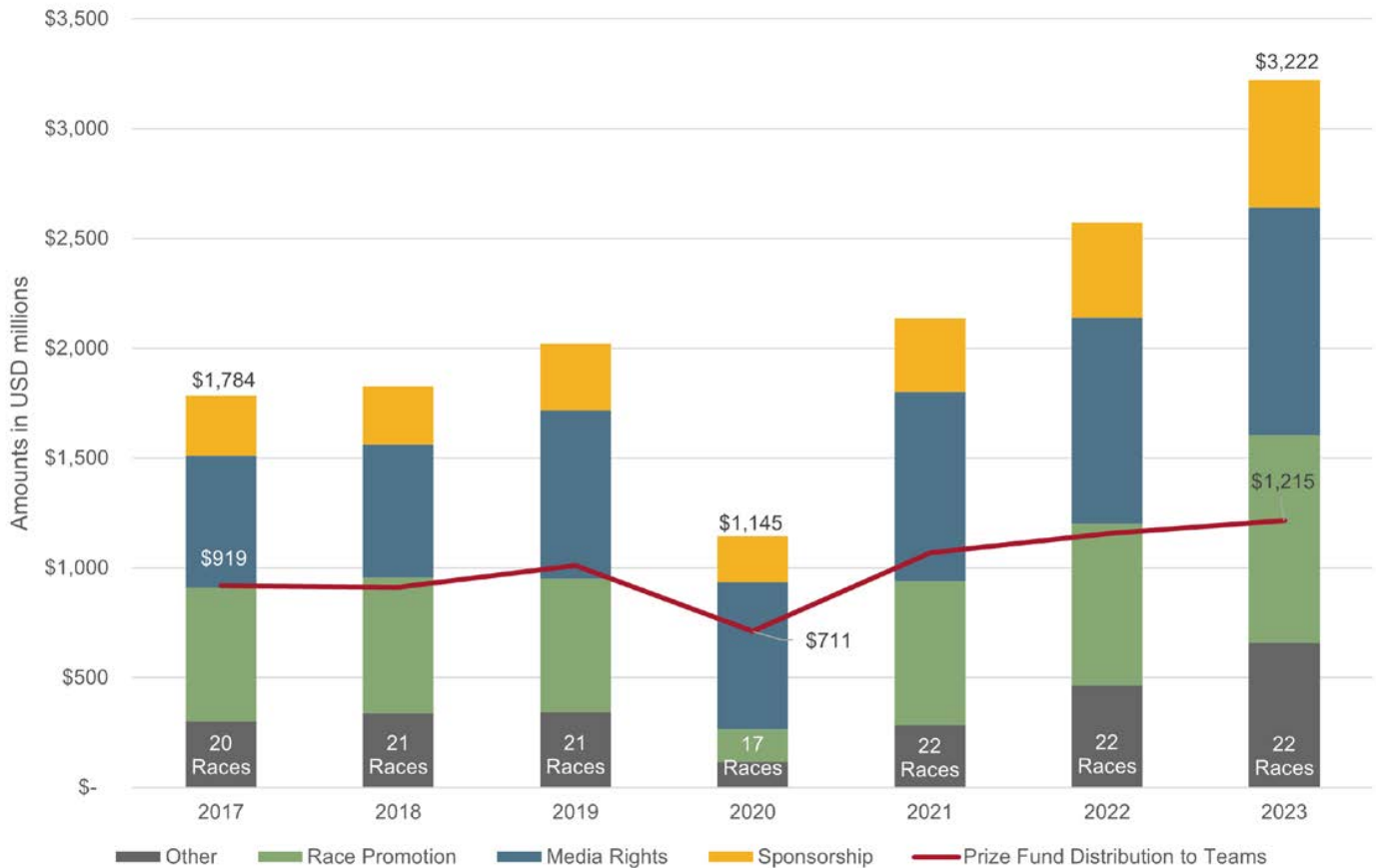
In the case of F1, it was reported that Andretti could assist F1 in developing the US market further. Andretti promised an “all-American” F1 team with an American power unit provider²⁸ (i.e., General Motors) and at least one American driver.²⁹ However, F1’s competition structure and improving popularity and financial performance over the past five years could explain FOM’s comment that adding Andretti to the F1 paddock would not bring adequate competitive and commercial “value”, as discussed below.³⁰

1. Use of an existing power unit provider: As Andretti planned to use an existing power unit provider until the 2028 season, FOM explained that its drivers were unlikely to compete for podiums or wins, which is the primary way a new team could improve race quality, attract audience, and add value to F1.

- 2. Pre-determined worldwide race calendar:** F1 has a pre-determined worldwide race calendar that is not affected by the addition of a new team (unlike MLS wherein adding a new team leads to two more matches). The number of F1 races have increased from 20 (including one in the US) in 2017³¹ to 24 (including three in the US) in 2024, which is the upper limit stipulated in the 2021 Concorde Agreement.³²
- 3. Increase in popularity and audience:** The increase in popularity and audience – both at the races and those watching from home – has contributed to tripling FOM’s revenues between 2020 and 2023, as depicted in Figure 2 above. In addition, Apple Inc. reportedly offered to take over F1’s global broadcasting rights for \$2 billion,³³ which would double FOM’s 2023 media rights revenue (\$1 billion in 2023), if successful.³⁴

Based on the above factors, it is not surprising to see FOM’s concerns with Andretti’s application and the lack of commercial “value” the eleventh team would bring to F1.³⁵

Figure 2: F1's Financial Performance (2017-2024)



ANTI-DILUTION FEE IS NOT REFLECTIVE OF PRIZE FUND AND TEAM VALUES IN 2024

A potential investor can invest in a sports team or a league in one of two ways:

1. purchase a stake in or acquire an existing team by paying the transaction price (which reflects expected cash flows and prevailing commercial factors), or
2. if available, establish a new team by paying the expansion fees (which is pre-determined by a league's regulator or the 2021 Concorde Agreement in the case of F1).

We note that the \$200 million anti-dilution fee does not sufficiently cover the dilution in the existing teams' share of the prize fund nor reflect the recent transaction prices of F1 teams.

\$200 Million Cover Existing Teams' Dilution in Prize Fund Share for Only Two Seasons

For American Major Leagues, which are organized under a "closed league" model,³⁶ the same teams share the league's

profits each year. When a new team is added, the profit distribution ratio is re-calculated. Therefore, all else equal, the profit share of an existing team is diluted after a new team is added to the league.

The expansion fee is often revised to reflect the prevailing economic trends and maintain comparability and consistency with the transaction price. For instance, for the National Hockey League ("NHL"), we noted a 30%³⁷ increase in expansion fees paid by the Seattle Kraken in 2021, compared to the Vegas Golden Knights in 2017, which is consistent with a 36% increase in NHL team value during the same period.³⁸

As discussed above, FOM's prize fund distribution to F1 teams increased by 71% from \$711 million in 2020 to \$1.2 billion in 2023. Accordingly, each F1 team, on average, received \$71 million³⁹ in 2020 and \$122 million⁴⁰ in 2023. If the prize fund was distributed amongst 11 teams instead of 10, each team's share, on average, would have reduced by \$6 million⁴¹ in 2020 and \$11 million⁴² in 2023.

With an anti-dilution fee of \$200 million and ten existing F1 teams, each of the ten teams, on average, would have received \$20 million as compensation for the dilution in their share of profits upon the entry of an eleventh team. Therefore, the anti-dilution fee would have compensated the existing teams' reduced profits for three to four seasons based on 2020 prize fund distributions (i.e., \$20 million / \$6 million), but for approximately only two seasons based on 2023 prize fund distributions (i.e., \$20 million / \$11 million).⁴³

Anti-Dilution Fee Does Not Reflect the Recent F1 Team's Transaction Prices

In a previous [thought paper](#), we explained that "the value of a sports team is determined based on future economic returns, which are influenced by factors such as the popularity of the sport and the team and the league's competition structure".⁴⁴

In the aftermath of the COVID-19 pandemic, when several F1 teams were on the verge of bankruptcy, FIA introduced a cost cap at the start of the 2021 season.⁴⁵ Coupled with the growing popularity of the sport and the "closed league" structure, the cost cap improved F1 teams' financial sustainability and profitability, and in turn, their value.

For instance, Mr. Lawrence Stroll purchased the Aston Martin F1 Team⁴⁶ for \$117 million in 2018⁴⁷ and sold a minority stake thereof to Arctos Partners at a \$1.24 billion valuation in 2023,⁴⁸ an increase of 960%⁴⁹ in six years. While one might say that Mr. Stroll might achieved above average returns because the erstwhile Force India team,

which Mr. Stroll purchased in 2018, was in a financially distressed situation at the time, the value of F1 teams, on average, has increased from \$500 million in 2019 to \$1.88 billion in 2023, an increase of 276% over five years, according to Forbes.⁵⁰

A summary of F1 team implied values based on recent transactions is provided in [Figure 3](#).

In summary, FOM's revenues and F1 team values have approximately tripled since the 2021 Concorde Agreement. The anti-dilution (or expansion) fees for F1 must be revised to reflect current economic conditions and team values, akin to the approach taken by the NHL as previously explained. It has been widely reported that the current \$200 million anti-dilution fee will likely be revised to at least \$600 million in the upcoming renewal of the 2021 Concorde Agreement,⁵¹ which is consistent with the increase in FOM's revenues and F1 team values discussed above.

FINAL THOUGHTS

Since its acquisition, Liberty Media, via FIA and FOM, has implemented several measures to improve the F1 business, including the introduction of new cost caps and car development rules, adding more race events, expanding into the US, and increasing the sport's popularity through social media and Netflix's "Drive to Survive" series. Consequently, the financial performance and values of FOM and F1 teams have substantially increased.

Figure 3: F1 Recent Transactions Summary



Given that the revenues and values of F1 teams have increased drastically since 2020, the current \$200 million anti-dilution fee will need to be increased to reflect the prevailing economic trends and maintain comparability and consistency with the recent transaction prices of F1 teams.

Expanding the F1 grid, which American Major Leagues have successfully accomplished, could be an avenue to improve sporting and financial performance, resulting in value-accretive benefits. However, F1 has a pre-determined race calendar with races organized across the globe and followed by a global fanbase. Thus,

the thriving global F1 phenomenon explains FOM's comments that the entry of Andretti would not bring sufficient overall additional "value".

Would Andretti be prepared to pay a higher anti-dilution fee that reflects current economic trends or purchase a stake in or acquire an existing F1 team at prevailing market prices?

ENDNOTES

1. [F1 statement](#), January 31, 2024.
2. American Major Leagues include the National Football League (NFL), the National Basketball Association (NBA), the Major League Baseball (MLB), the National Hockey League (NHL), and the Major League Soccer (MLS).
3. [F1 statement](#), January 31, 2024.
4. [FIA article](#), "FIA approves Andretti formula racing application after rigorous analysis", October 2, 2023.
5. [The Athletic article](#), "Why Andretti is not waiting for a green light to build its F1 team", January 29, 2024.
6. [The Athletic article](#), "FIA approves Andretti bid to become new Formula One team", October 2, 2023.
7. [F1 statement](#), January 31, 2024.
8. [F1 statement](#), January 31, 2024.
9. Liberty Media Corporation, [Form 10-K](#), for fiscal 2023, page I-17.
10. Liberty Media Corporation, [Form 10-K](#), for fiscal 2023, page I-17.
11. Liberty Media Corporation, [Form 10-K](#), for fiscal 2023, pages I-15 and I-16.
12. Liberty Media Corporation, [Form 10-K](#), for fiscal 2023, pages I-18 and I-19.
13. Liberty Media Corporation, [Form 10-K](#), for fiscal 2023, page I-19.
14. Liberty Media Corporation, [Form 10-K](#), for fiscal 2023, pages I-16 to I-19.
15. Liberty Media Corporation, [Form 10-K](#), for fiscal 2023.
16. Liberty Media Corporation, [Form 10-K](#), for fiscal 2017, page II-59.
17. Liberty Media Corporation, [Form 10-K](#), for fiscal 2017, page II-26.
18. Liberty Media Corporation, [Form 10-K](#), for fiscal 2023, page II-23.
19. Liberty Media Corporation, [Form 10-K](#), for fiscal 2020, page II-25.
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23. Liberty Media Corporation, [Form 10-K](#), for fiscal 2023, page II-24.
24. [The Athletic article](#), "After years of American growth, has F1's U.S. fandom plateaued?", January 11, 2024.
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27. [The Athletic article](#), "Why Andretti is not waiting for a green light to build its F1 team", January 29, 2024.
28. [The Athletic article](#), "FIA approves Andretti bid to become new Formula One team", October 2, 2023.
29. [F1 statement](#), January 31, 2024.
30. [2017 Formula 1 Race Calendar](#).
31. [The Athletic article](#), "How F1 made its 2024 calendar: Regionalization, Saturday GPs and even more races", July 5, 2023.
32. [Planet F1 article](#), "Multi-billion Apple TV deal could shake up F1 broadcasting landscape – report", October 1, 2023.
33. Liberty Media Corporation, [Form 10-K](#), for fiscal 2023, page II-23.
34. [F1 statement](#), January 31, 2024.
35. In a closed league model, the number of teams competing in the competition is limited and their participation in the competition is secured and not affected by their sporting performances in each season (i.e., a team is neither promoted nor relegated).
36. [The Athletic article](#), "NHL expansion scenarios: 6 cities the league could consider next", March 14, 2023. Calculated as: 30% = (\$650 million / \$500 million) – 1.
37. [Secretariat article](#), "Valuations of Sports Teams on the Rise: A Tale of Two Continents", Figure 1, October 2023, referencing Forbes.
38. Calculated as: \$71 million = \$711 million / 10 teams.
39. Calculated as: \$122 million = \$1,215 million / 10 teams.
40. Calculated as: \$6 million = \$71 million (\$711 million / 10 teams) - \$65 million (\$711 million / 11 teams).
41. Calculated as: \$11 million = \$116 million (\$1,157 million / 10 teams) - \$105 million (\$1,157 million / 11 teams).
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46. Aston Martin F1 team was named Force India in 2018 when it was acquired by a group led by Mr. Stroll.
47. [Reuters article](#), "Canadian group led by Stroll paid \$117 million for Force India", October 4, 2018.
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49. Calculated as: 960% = (\$1.24 billion / \$117 million) – 1
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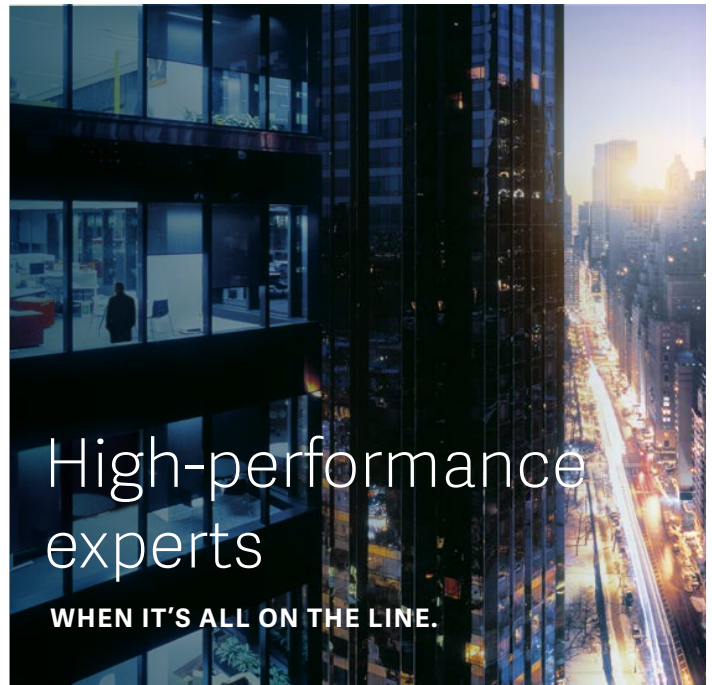
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