

Manchester United PLC (NYSE:MANU)

US Portfolio – Investa Insights Rotman Chapter

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Company Overview

The Growth of a Footballing Giant



Business Overview

- Manchester United plc, together with its subsidiaries, owns and operates a professional sports team in the United Kingdom. The company operates Manchester United Football Club, which has over 659 million fans worldwide, and is regarded as the most successful club in British sports history
- It develops marketing and sponsorship relationships with international and regional companies to leverage its brand. The company also markets and sells sports apparel, training and leisure wear, and other clothing featuring the Manchester United brand
- In addition, it distributes live football content directly, as well as through commercial partners; broadcasts television rights relating to the Premier League, Union of European Football Associations competitions, and other competitions; and delivers Manchester United programming through MUTV television channel to territories worldwide

Key Stats (LTM)

Ticker	MANU
Revenue	731.7M
EBITDA	189.0M
EBITDA Margin	29.6%
Beta	0.8
EV/Revenue	4.1x
EV/EBITDA	15.8x
Debt/Equity	128.7%

Executive Team



Ed Woodward – CEO and Executive Vice Chairman

Served as a Senior Investment Banker at JP Morgan’s M&A team from 1999 to 2005

Brokered the Glazer’s 790 Million LBO deal to purchase Manchester United; Was subsequently named Executive Vice Chairman of the club



Avram Glazer – Executive Vice Chairman

Avram Glazer is the Executive Co-Chairman of Manchester United plc, and a member of the Glazer Family, that also owns the Tampa Bay Buccaneers of the National Football League

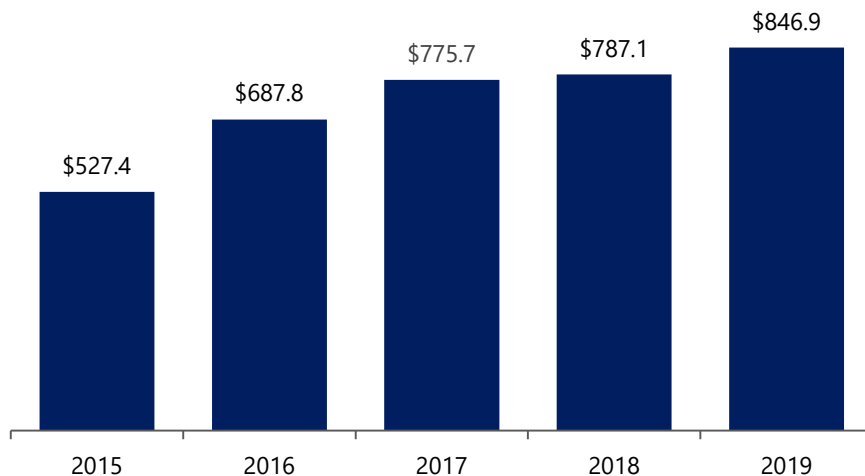


Richard Arnold – Group Managing Director

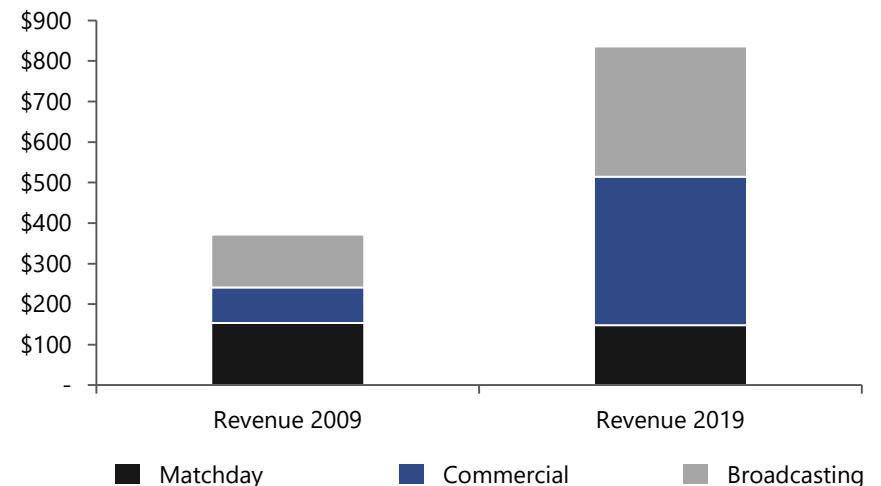
Richard Arnold is the Group MD of Manchester United, and oversees all commercial and operational aspects of Manchester United

He is responsible for the growth of the club’s sponsorships and retail business

YoY Revenue Increase in Millions of USD



LTM Revenue Breakdown 2009 vs 2019 in Millions of USD



Industry Outlook

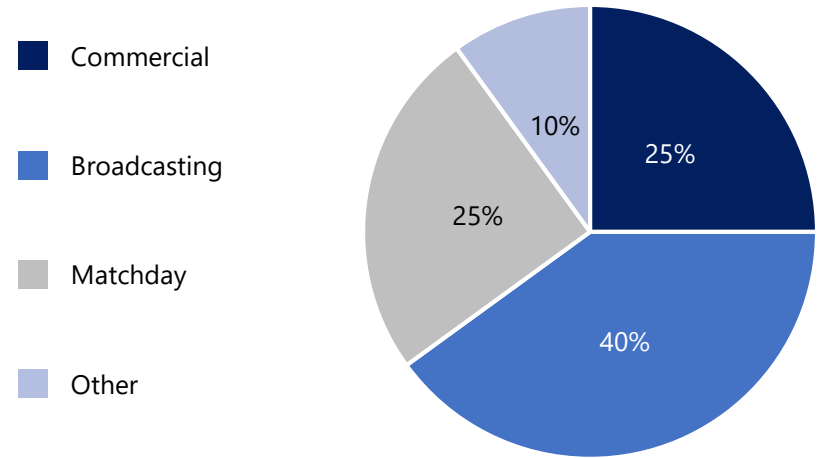
A Dive into the Football Space



Introduction to Broadcasting Rights

- The Premier League was formed around the idea that an elite group of clubs could form a league and sell the rights to their matches at high prices
- For the first time ever, Amazon has entered the broadcasting landscape, breaking the duopoly between Sky and BT sports
- The emergence of 5G will allow the 'FAANG' companies to stream live sports in Ultra HD, and appeal to a younger audience that has moved past Cable TV
- Private Equity group 'X' has launched a \$1.3B bid for broadcasting rights in the Serie A, that would value the league at \$13B
- Silver Lake partners have purchased a 10% stake in Manchester City football club for \$500M, valuing the club at \$5B
- Three takeover groups are interested in acquiring MLB team New York Mets for a price of \$2.8B, and an EV/Revenue multiple of 9x

Industry Revenue Breakdown



Key Players

- The top 5 most valuable football clubs in the world have an estimated combined market cap of \$17B, larger than the entire Serie A, or La Liga
- Apart from Manchester City, who's success has been more recent, the other 4 clubs have historically been the most successful in their respective leagues

Top 5 Clubs by Market Capitalization



Industry Trends

- Larger broadcasting deals are driving revenue for smaller clubs, allowing them to spend more in the transfer market, and increase parity in the league. In recent years, the English Premier League has seen the emergence of a 'Top Seven,' instead of the traditional 'Top 4'
- As a result of Covid-19, clubs are losing out on anywhere between 25-100% of their matchday revenue, and 50% of their broadcasting revenue, as a result significantly reducing activity in the transfer market
- eSports presents a significant revenue opportunity for sports franchises. Real Madrid plans to build a hybrid stadium that will accommodate eSports tournaments. Athletes are also coming together to start their own eSports leagues

Thesis 1: Valuing a Trophy Asset



Have rising multiples caused us to re-evaluate the drivers behind football clubs?

Shifting Investor Sentiment

- In November 2019, Silver Lake bought over 10% of City Football Group, at a \$5B valuation
- Similarly, in July 2020, RedBird Capital Partners acquired an 85% majority stake in the French soccer club, Toulouse FC
- This indicates a shifting investor sentiment and increased private equity or buyout interest in major teams



Houston Rockets Case Study



Initial Purchase: \$143M
Increase: 1,436%
YoY Increase: 60%

EV/EBITDA
35.0x

EV/Revenue
7.4x

Valuation
2.5B

- The Houston Rockets are an NBA franchise operating in America's '10th Largest Market'
- In 2017 they were acquired for \$2.2 billion, or an EV/EBITDA multiple of 35.0x

Premium in Owning the Biggest Club

- The size and nature of Manchester United require them to be evaluated on an individual basis
 - Owning a sports teams is like possessing a rare painting. It is a highly visible trophy asset
- Manchester United are the biggest club in England based on trophies won, average league finish, attendance records, and commercial revenue
- The reach of United's global brand means that fundamentals are marginally affected by the team's performance
 - Despite not having won the Premier League since 2013, United's stock price has soared, and their valuation has almost doubled since first hitting the market

Manchester City Case Study



Initial Purchase: \$200M
Increase: 2,280%
YoY Increase: 190%

EV/EBITDA
40.0x

EV/Revenue
7.0x

Valuation
5.0B

- Manchester City are a professional football club located in Manchester, and their cross-town rivals are Manchester United
- In 2019 American Tech Investor Silver Lake acquired a 10% stake in the club for \$500 million, or an EV/EBITDA multiple of 40.0x

“Back in the day, you owned a plane, then you owned a jet—now, you want to own a team.”

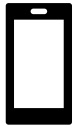
Thesis 2: The Emergence of Digital Revenue



Manchester United's transition towards a subscription-based revenue stream

The emergence of 'Over The Top' (OTT) service providers has brought a shift in the football rights broadcasting landscape, with clubs such as Manchester United focused on maximizing revenue sources

Digitizing Manchester United's Revenue Streams



Manchester United made a strategic business decision to launch a mobile application in order to boost fan engagement and drive higher-margin revenue opportunities

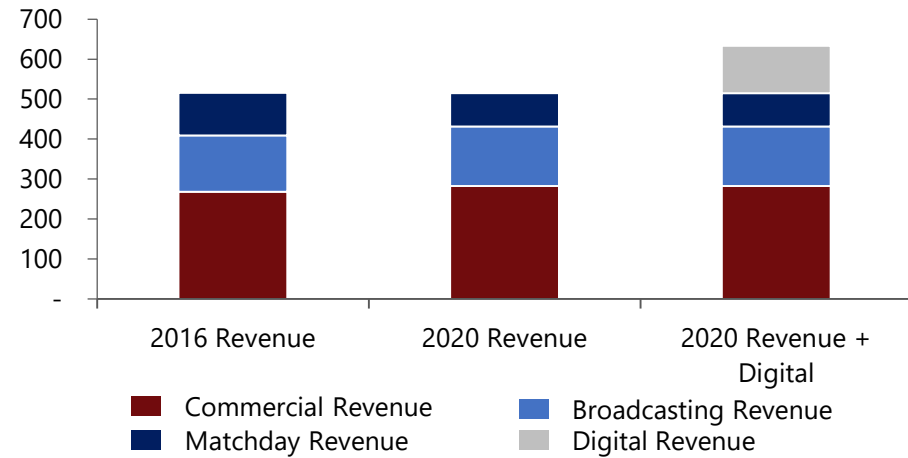


The sharing of exclusive content as well as match highlights allows fans to access broadcasted content at a significantly discounted price

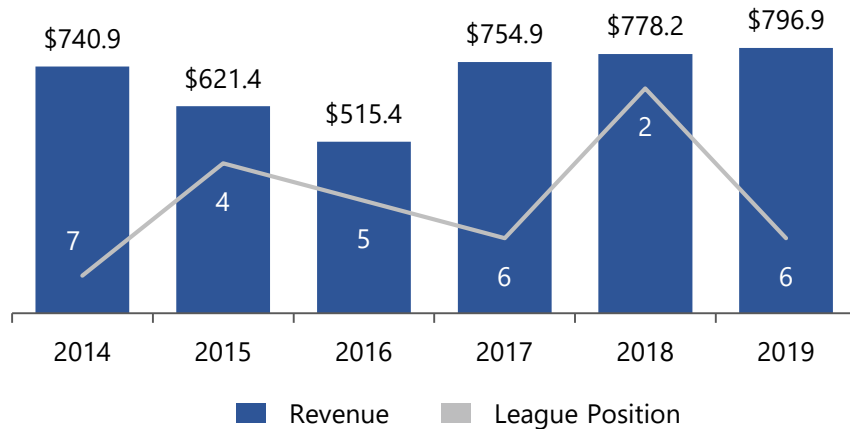


As of 2020, it is estimated that less than 1% of Manchester United 659 million supporters are subscribed to the app, however that figure is set to grow 'exponentially' in the coming years as the club starts to broadcast its own live matches

Revenue Breakdown With and Without Digital in Millions of USD



Revenue in Millions of USD Relative to On-field Performance



The Economic Moat of Manchester United

- There are only so many sports clubs, and so many supporters. Manchester United's fanbase of 659 million followers is unmatched and will be unmatched for a very long time due to the loyalty that comes with supporting a club
- This loyalty means that it is easier for the club to exploit their fanbase and introduce monetizing revenue streams such as mobile applications and digital experiences centers
- Their unparalleled success on the football pitch is what made them so popular in the first place, and their 13 top-flight titles is a feat that cannot be matched by any other club for many years to come, due to the cyclical nature of success in professional sports leagues

Thesis 3: Continued Expansion into China

Capitalizing on their Unparalleled Fanbase



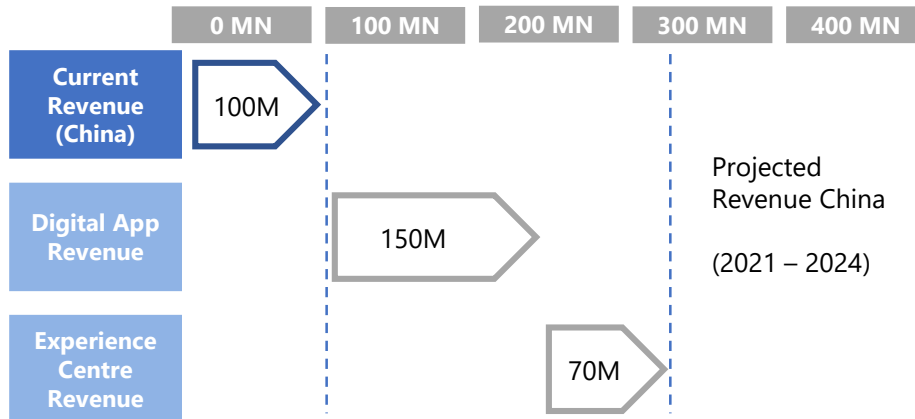
Strengthening Brand Presence Through Expansion

- Manchester United's expansion strategy has allowed them to amass the largest fanbase in world football (Over 700 Million Supporters)
- Their popularity in China has allowed them to sign deals with key market influencers such as Alibaba, Tencent and Harves
- United's content, including first team games, highlights, and original programming for the Chinese market, is now available on Alibaba's platforms, which reach 700mn people
- Their moat lies in the size of their fanbase, which other clubs have struggled to compete with due to the nature of supporting a sports club. There are only so many clubs and so many supporters, and United maximized the size of their fanbase by establishing an early international presence

Digital Experience Centers



Revenue Build-Out in China



Partnerships with Chinese Brands



In late 2019, Manchester United announced a partnership with China's Alibaba Group that would bring exclusive content to Alibaba's ecosystem for the first time and extend the club's strong relationship with its massive Chinese fanbase



Across Alibaba's dedicated streaming channel and B2c marketplaces, the partnership would see MU's content broadcasted to around 700 million consumers across Alibaba's platforms



Partnership with Chinese property development company Harves to develop entertainment and experience centers will bring the thrill of matchday at Old Trafford to their growing Chinese fanbase

Manchester United's effort to expand globally have allowed them to amass a fanbase of 253 Million supporters in China alone. The introduction of entertainment and experience centers will capitalize on foundation and further increase cash flows.

Risks and Catalysts



Will disappointing on-field performances hurt the company's stock?

Regulations surrounding broadcasting rights, as well as the continued impact of Covid-19 will both fuel and hinder United's growth prospects.

Risks



The Ongoing Impact of Covid-19 – (A)

With social distancing rules in place for the foreseeable future, clubs will lose out on millions of dollars worth of matchday and broadcasting rights revenue



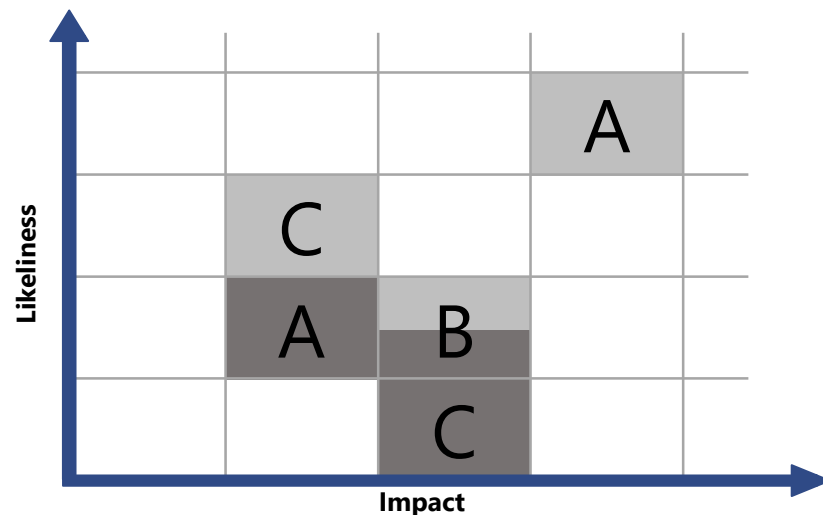
Broadcasting Rights Payout Ratio – (B)

United must be careful not to breach the conditions in its contract with Sky Sports, and risk losing out on the Premier league broadcasting rights deal



On Field Performances – (C)

United's on field performances have had little impact on the stock price to date, however if bad performance continue over the next few years, then it could be reflected via investor confidence



Catalysts



Increase in Comparable Multiples – (A)

Recent sports team transactions have shown a rise in multiples such as EV/EBITDA and EV/Revenue. This will only boost United's valuation, which has been subject to a potential takeover



Increase in Broadcasting Rights Deal – (B)

Despite United's declining reliance on a Premier League broadcasting deal as a main source of revenue, the projected increase in the size of the deal will add a significant chunk of free cash flow for the club



Digital Experience Centers – (C)

Once United's digital experience centers are setup, it will be able to bring in more than \$US 50M of FCF every year. If the model turns out to be successful, it can be expanded into other international locations

Mitigating Factors



The Ongoing Impact of Covid-19

Matches between premier football teams have restarted, without fans in attendance. Although matchday revenue is greatly decreased, broadcasting revenue is stable



Broadcasting Rights Payout Ratio

United has strong negotiating power for broadcasting rights with Sky Sports, especially as Covid-19 has reduced the number of sports teams able to play matches



On Field Performances

United's recent appointment of Ole Gunnar Solskjaer has kickstarted their youth development project, which should yield stable results for the next year or two, and set up the club to win titles in the years going forward

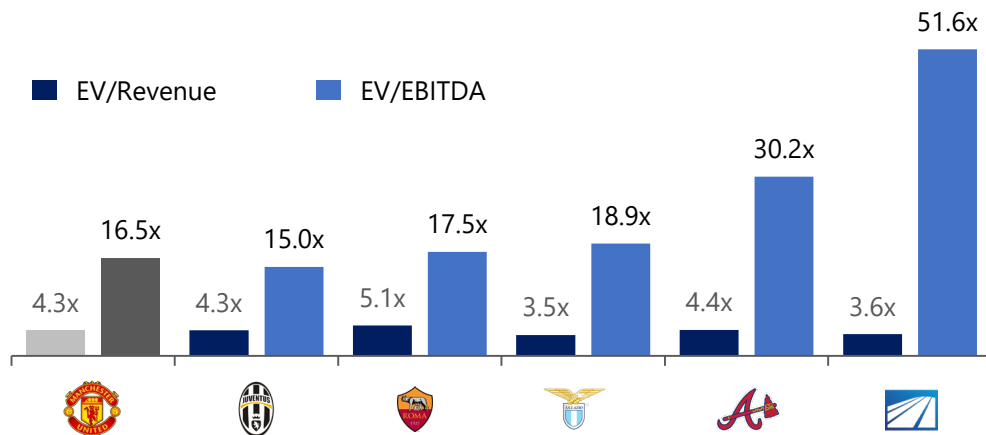
Comparable and M&A Transaction Overview



How does Manchester United compare with its peers and past transactions?

Manchester United trades at a significant discount compared to many of its peers. For valuation purposes, the difference in multiples between football clubs and other sports teams was considered.

Comparable Company Analysis



Comparable Valuation

Multiple Range

- **EV/EBITDA:** 15.0x – 51.6x (med. 18.9x)
- **EV/Revenue:** 3.5x – 5.1x (med. 4.4x)

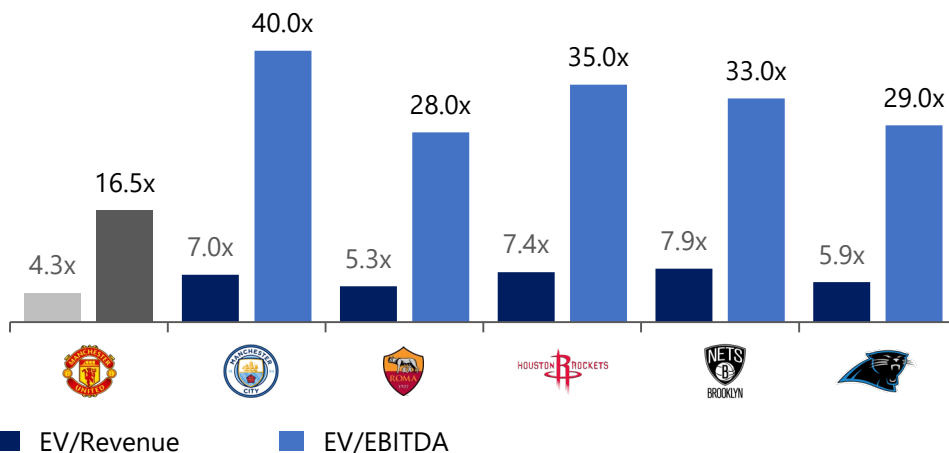
Share Price Valuation

- **EV/EBITDA:** 27.6 – 82.7 (med. 39.3)
- **EV/Revenue:** 15.0 – 23.5 (med. 18.9)

Comparable Methodology

- Chose 4 comparable football clubs and 2 North American sports clubs
- Calculated the median multiple by weighting the
- Revenue and EBITDA for all 5 clubs

Precedent Transaction Analysis



M&A Transaction Valuation

Multiple Range

- **EV/EBITDA:** 16.5x – 40.0x (med. 33.0x)
- **EV/Revenue:** 4.3x – 7.9x (med. 7.0x)

Share Price Valuation

- **EV/EBITDA:** 38.6 – 56.7 (med. 46.1)
- **EV/Revenue:** 24.5 – 38.3 (med. 32.7)

Transaction Methodology

- Chose 2 comparable football clubs and 3 North American sports clubs
- Calculated the median multiple by weighting the revenue and EBITDA for all 5 clubs

Discounted Cash Flows

Valuation

Gordon Growth, Multiple, and Sensitivity Analysis

Discounted Cash Flow (\$M) - Manchester United PLC	Forecast						Perpetuity Forecast				
	FY 2019	FY 2020E	FY 2021E	FY 2022E	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
EBITDA	\$ 247	\$ 258	\$ 320	\$ 362	\$ 344	\$ 378	\$ 411	\$ 443	\$ 472	\$ 498	\$ 521
NOPAT	\$ 41	\$ 58	\$ 149	\$ 197	\$ 213	\$ 262	\$ 313	\$ 338	\$ 360	\$ 381	\$ 399
Less: Increases in Working Capital	\$ (96)	\$ 119	\$ 61	\$ 69	\$ 78	\$ 82	\$ 89	\$ 95	\$ 101	\$ 106	\$ 110
Add: Depreciation and Amortization	\$ 196	\$ 185	\$ 134	\$ 116	\$ 78	\$ 51	\$ 19	\$ 20	\$ 21	\$ 22	\$ 23
Less: Additions to Intangibles	\$ (142)	\$ (178)	\$ (153)	\$ (153)	\$ (153)	\$ (153)	\$ (153)	\$ (153)	\$ (153)	\$ (153)	\$ (153)
Less: Capital Expenditure	\$ (17)	\$ (18)	\$ (16)	\$ (18)	\$ (17)	\$ (18)	\$ (20)	\$ (21)	\$ (22)	\$ (22)	\$ (23)
Unlevered Free Cash Flow (UFCF)	\$ (18)	\$ 166	\$ 175	\$ 211	\$ 199	\$ 224	\$ 248	\$ 279	\$ 307	\$ 334	\$ 356
<i>Growth Rate</i>		-1027%	5%	20%	-5%	13%	11%	13%	10%	9%	7%

Terminal Multiple Method		Gordon Growth Method	
Cumulative PV of Free Cash Flow	2,103	PV of Forecast Period	2,103
<i>% of Enterprise Value</i>	50.2%	<i>% of Enterprise Value</i>	47.5%
Terminal Value		Terminal Value	
Terminal Year EBITDA	499	Terminal Year UFCF	487
EBITDA Multiple	11.0x	Perpetuity Growth Rate	2.0%
Terminal Value	5,485	Terminal Value	6,106
PV of Terminal Value	2,089	PV of Terminal Value	2,325
<i>% of Enterprise Value</i>	49.8%	<i>% of Enterprise Value</i>	52.5%
Enterprise Value	4,192	Enterprise Value	4,428
Less: Net Debt	(700)	Less: Net Debt	(700)
Equity Value	3,491	Equity Value	3,728
Fully Diluted Shares Outstanding	164	Fully Diluted Shares Outstanding	164
Implied Share Price	\$21.25	Implied Share Price	\$22.69
Current Share Price	\$15.79	Current Share Price	\$15.79
Implied Margin of Safety	34.6%	Implied Margin of Safety	44%

Exit Multiple	WACC				
	9.1%	9.6%	10.1%	10.6%	11.1%
10.0x	38.4%	32.7%	27.3%	22.1%	17.1%
10.5x	42.4%	36.5%	30.9%	25.6%	20.4%
11.0x	46.4%	40.4%	34.6%	29.1%	23.8%
11.5x	50.4%	44.2%	38.2%	32.6%	27.1%
12.0x	54.4%	48.0%	41.9%	36.0%	30.5%

WACC Analysis	
10-Year U.S. Treasury	1.67%
Market Risk Premium	11.7%
Beta	0.91
Size Premium	-
Cost of Equity	12.3%
Cost of Debt	3.8%
Tax Rate	20.0%
After-Tax Cost of Debt	3.0%
Target Debt/Capitalization	23.4%
WACC	10.14%

- Considering the growth of technology and broadcasting rights as a main revenue stream for Manchester United, a long-term growth rate of 2% is expected
- The exit multiple chosen is quite conservative as other clubs also trade at relatively low valuations, and it's primarily for the precedents transactions that we see such high EBITDA and Revenue multiples

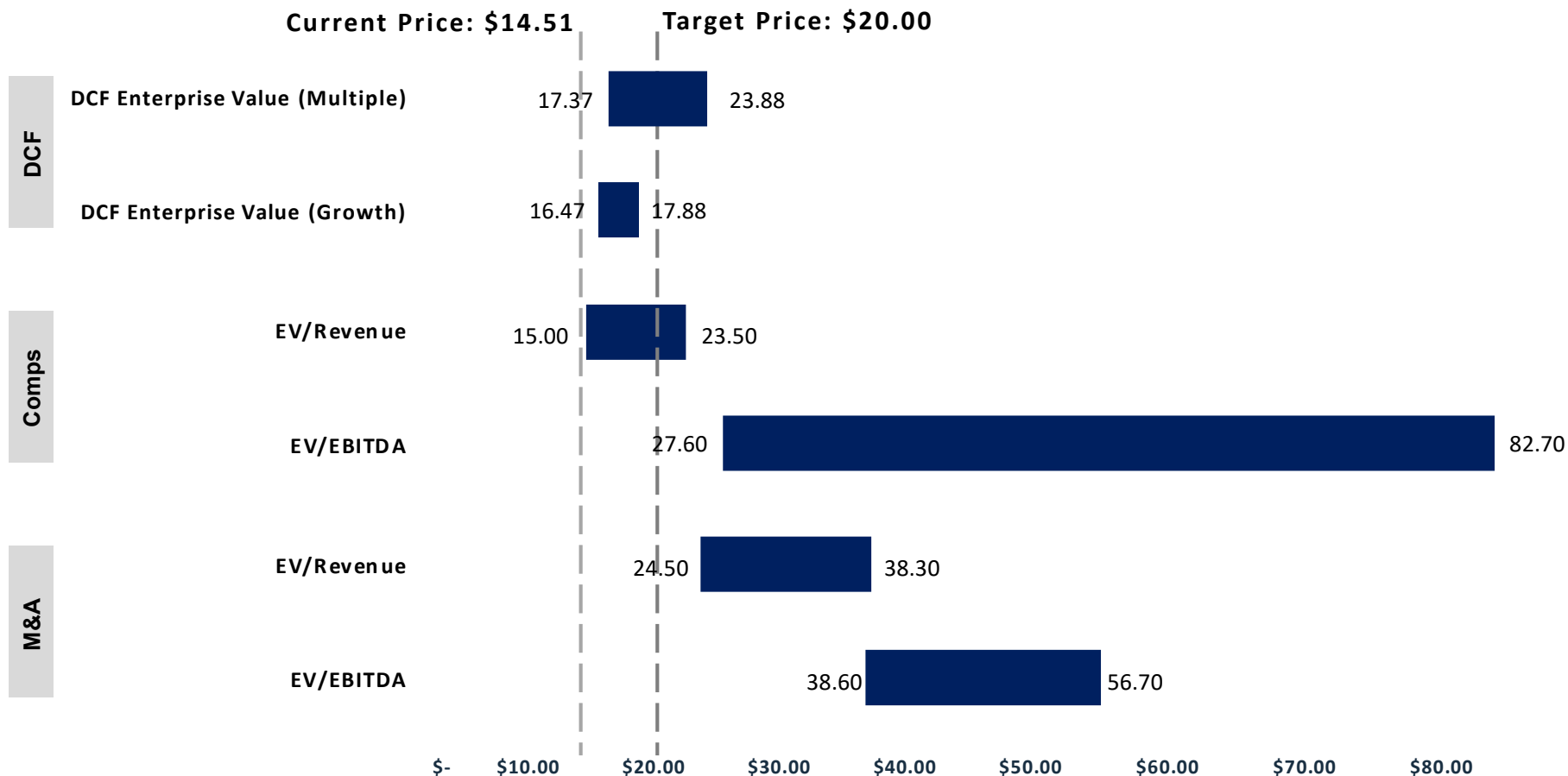
Recommendation: Buy Manchester United

Football Field Valuation Chart



Manchester United trades at a significant discount compared to many of its peers. For valuation purposes, the difference in multiples between football clubs and other sports teams was considered, and a Target Price of \$20 was chosen.

		Worst Case	Best Case			Worst Case	Best Case
DCF	Multiple Method	17.37	23.38	Comps	EV/EBITDA	27.60	82.70
DCF	Growth Method	16.47	17.88	M&A	EV/Revenue	24.50	38.30
Comps	EV/Revenue	15.00	23.50	M&A	EV/EBITDA	38.60	56.70



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