

MANCHESTER UNITED’S IPO (2012)

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Abstract

A practice quite rarely used in the competition industry, the Initial Public Offering (IPO) of a sporting entity can have as a goal the procurement of financial resources in order to invest in productive assets or to adjust the economic image of the club. The listing on the Stock Exchange in 2012 of one of the most valuable football clubs in the world, Manchester United, was an atypical one within the sporting area, both in terms of the motivation behind it and of the technical considerations.

This analysis aims to provide a general perspective on the stock exchange index in this niche area and its relevance, focusing on the details of the English club’s listing and analyzing a set of indicators relevant to the dynamics of its economic evolution and popularity. After more than two years from the club’s listing on the Stock Exchange, the stocks have a value close to the initial one, the stock price following an oscillating trend, marked by a couple of stages of significant growth too. The research emphasizes the opposing effects of certain indicators: the brand value experiences a negative growth, while the income from current activities, especially the one from commercial activities follows a rising trend. So, it is still premature to deem the listing of Manchester United on the Stock Exchange a success or a failure, but the scientific debate is worth continuing.

Keywords: IPO, football club, Stock Exchange Index, commercial income

JEL Classification: L83, G32, Z19

1. Introduction

Companies can benefit from the advantages of the capital market by listing on the Stock Exchange, which allows different investors to buy stocks of the respective company, as well as it allows companies to have access to capital at the lowest possible price and invest it into productive projects. [11]

Companies are listed on the Stock Exchange in order to accumulate capital and create a public market where the founders and other stock-holders can convert a part of their liquidity into cash. The non-financial reasons, such as enhanced advertising, play a minor role for most of the companies. Taking no account of the economic benefits, most undertakers would prefer to manage their companies as they wish, without worries about the complex rules of the market.

The IPO of the companies in the sporting area shows certain features characteristic of the activity domain. The present paper aims to present the characteristics of this financial operation within the sporting area focusing on the case study: the Initial Public Offering of Manchester United Club. The paper’s goal is to assess the economic effects and the profitability of this operation.

2. The listing on the Stock Exchange of football clubs

Listing on the Stock Exchange represents a process frequently employed by companies, but seldom used by soccer clubs. Dobson and Goddard (2011) provide a historical perspective on the clubs which have used listing on the Stock Exchange. According to this, the first club listed was Tottenham Hotspur, in October 1983. Its listing was a great success, a four-time overwriting being achieved. The club has obtained £3.3 million by Initial Public Offering, today an equivalent sum of over £100 million (if we refer to the increase in the sums used in transfers). [6]

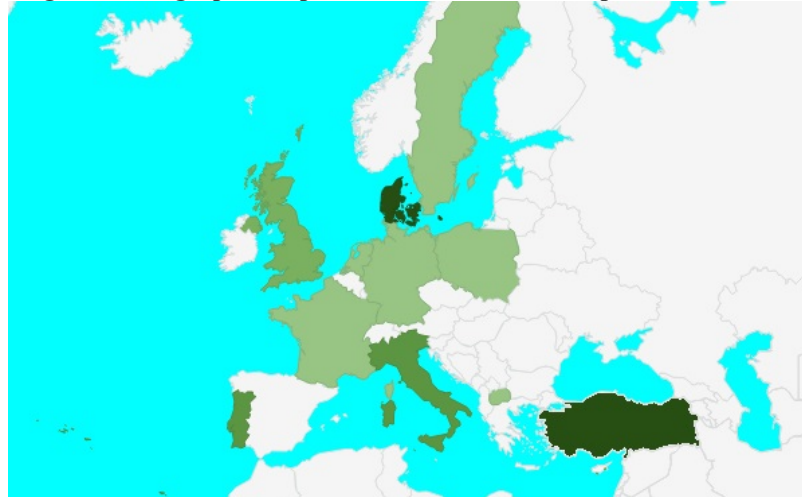
In order to have an overall image of the evolution of the sporting companies listed on the Stock Exchange, we will analyze the typical stock exchange index of this niche, the STOXX Europe Football Index, in point of structure, dynamics and comparison with the benchmark indices of the European Stock Exchange. The STOXX Europe Football Index aligns famous clubs listed on the Stock Exchange in Europe, Eastern Europe, Turkey and EU. In conformity with its nominal description, “the Index accurately reflects the economic dimension of the European football”. [15]

Initiated in April 1992, the STOXX Europe Football Index, at the time of the research (January 2015), is made up of the weightings of 23 sporting companies, 20 of which being soccer clubs. The level of concentration of the index is quite high, the first 3 equities representing over 30% of the total. The most important clubs which are part of the

index are: Juventus Torino, AS Roma (Italy), Borussia Dortmund (Germany), Olympique Lyon (France) and Galatasaray (Turkey). A negative and alarming aspect of the relevance of this index within the soccer area is the fact that two of the most valuable championships in Europe (Premier League – England and La Liga – Spain) are not part of this indicator.

The geographical spread of the sporting societies constituting the index points out a quite unbalanced covering of Europe, turning the scales in favor of the West and North of Europe (Figure 1). Most of the companies originate in Denmark (5 companies), Turkey (4 companies), Italy and Portugal (3 companies each).

Figure 1. Geographical spread of the STOXX Europe Football Index



Data source: www.stoxx.com

We notice a very small value of capitalization on this market, under one billion Euros. In addition to this volume downside, this market is characterized by a high instability, a symptom of a lack of liquidity within this area. Researchers Aglietta, Andreff and Drut (2008) have theoretically proved that “a market without liquidity is connected with the assessment problems resulting from the uncertainty about the fundamental value”. These drawbacks of the market determined the interest of the institutional investors to be very low. [1]

Figure 2 shows the trend of the STOXX Europe Football Index for the whole period (1992-2015). It highlights quite high fluctuations of the index, from values of over 500 (1997) to smaller values of 80 (2013). The descending trend is obvious starting with the year 2011, leading to the minimum historical values of the index in the last years (2012-2015), close to those during the period 1992-1993.

Figure 2. Trend of the STOXX Europe Football Index (1992-2015)



Source: www.stoxx.com

Analyzing the last five years (2010-2015), the trend of the STOXX Europe Football Index is below the Stock Exchange Index typical of Europe (Figure 3). If during 2010-2012, their values are comparable, during 2011 the value of the sporting index being even higher than the Euro STOXX 50, starting with the second half of 2012, the general

index has an ascending trend reaching in 2015 over 120% of the last five years value, whereas the sporting index is lowering at 75% of the value in 2010.

Figure 3. Comparative assessment of the STOXX Europe Football Index and the Euro STOXX 50 (2010-2015)



Source: www.stoxx.com

3. Terms of reference of Manchester United's listing on the Stock Exchange (2012)

Kesenne (2007) states that there are two reasons for which the owners of sport teams decide to list on the Stock Exchange: maximizing the profit (managing the club with the aim of maximizing the profit for the owners) or maximizing the scores (managing the club with the aim of maximizing the scores for a certain level of profit or loss). The two reasons involve a different handling of the funds obtained by listing on the Stock Exchange. [9]

Baur and McKeating (2011) have empirically demonstrated that the success of a team on the field before and after listing on the Stock Exchange can show if the club followed a strategy of maximizing the scores or the profit. If, after listing, the performance improves in comparison with other clubs from the internal or external leagues, then it is likely that the funds have been used to purchase new players, of superior quality. If, the performance does not change or becomes worse, the funds have been used mainly to consolidate the income statement (for example, the payment of debts). [4]

Hurduzeu and Dima (2009) have analysed the listing on the Stock Exchange in 2007 of the most valuable French Football Club at that time, Olympique Lyon. The club has obtained €90,6 million for the construction of a new sports ground, more exactly a whole sporting complex which will host numerous interconnected activities, all under the OL Land slogan. [8]

If the listing of Olympique Lyon represents an example of use of funds obtained for investments in productive assets, the companies which have the goal of maximizing the profit will mainly use the funds for the financial reorganization of the company (ex: reducing the debt level). The second behavior is also caused by a severe regulation as concerns investments, a regulation imposed by the financial markets conditioning the owners to maximize the profit. The listing of Manchester United Club in 2012 constitutes an example in this sense. The club used the funds obtained as result of listing to pay its debts and not to invest in productive assets. The owner of Manchester United Ltd. (MANU) staked on the fact the company can realize an initial listing at a quasi-value twice higher than any other sporting company. According to the data given by Bloomberg and Forbes, the price of the initial listing embarked the club owned by the Glazer Family at a value of \$2.9 billion, with about one billion dollars more than the value of the best rated club at that time, Real Madrid. According to Forbes, the baseball team New York Yankees was in 2012 the third sporting company in the world as concerns the Stock Exchange value, with \$1.85 billion. [18] - [20]

The Glazer Family, owners of MANU, had in March 2012 a fortune assessed at about \$2.7 billion, according to Forbes. They also own the Tampa Bay Buccaneers in the National Football League (NFL), as well as the company First Allied Corp. headquartered in Batavia, New York, the owner of over 2 million square meters of commercial galleries in the United States. The Glazer Family paid in 2005 the sum of £790 million for stocks and shares of Manchester United Club and transformed it into a private company. The buyers have delisted the club from London Stock Exchange soon after purchasing it and they finalized the acquisition by loans of £374 million and stocks and shares of £275 million sold to investment funds, which brought about the followers' complaints. [18]

According to the issue notice, Manchester United has offered over 16 million general stocks and shares of class A. Half of these have been sold by the club and the other half by the Glazer Family. Those in the subscription list (Jeffries Co., Credit Suisse Securities, J.P. Morgan, Merrill Lynch, Deutsche Bank Securities) have had the option to buy additionally up to 2.5 million general stocks and shares of class A from the selling owners. The listed shares represent

10% of the total shares of the club, priced at 16 to 20 dollar per share. The club is listed on New York Stock Exchange, under the symbol MANU. Manchester United decided to list on the American Stock Exchange, after they rejected the plan of offering share of up to \$1 billion on Singapore Stock Exchange. Listing in Asia might be a higher success, keeping in mind the large number of fans from there. [19] – [20]

The Glazer Family kept 99% of the control votes, in conformity with the initial terms of the notice, because every share of class B which they have confers 10 control votes, as those of class A, distributed within the listing offer, have a single vote. The Glazer Family sold half of the shares offered and the club sold the rest, the obtained sum being used for paying the debts of the club.

Manchester United hoped to sell shares at a price between \$16 and \$20, but at the time of listing, the shares have been traded at a value of \$14, with a total capitalization of 2.3 billion. Moreover, the price of shares didn't succeed in initiating an avalanche of purchasing, the reaction of the market players being quite cold.

Even without this enthusiasm on the market, the ascent of MANU shares during September 2012 – March 2013 had an increasing trend (Figure 4), the share value reaching \$19 in the first months of the year 2013. During 2013, the share value oscillated between \$16 and \$19, but at the beginning of the year 2014 dropped at \$15. In the middle of the year 2014, the share value reached \$20, due to the improvement of the technical staff which led to poor sporting results during the season 2013/14. Then, the value dropped to around \$16 at the beginning of 2015. This trend is in conflict with the prediction of more financial specialists, who estimated that soon after listing, the share price will be about \$10. [17]

Figure 4. Price evolution of MANU share (2012-2015)



Source: www.finance.yahoo.com

When comparing the trend of MANU shares with another important sporting entity marketable on New York Stock Exchange, namely Madison Square Garden (owner of the clubs New York Knicks and New York Rangers), we can notice a more significant growth of MSG (a growth of 43% vs a drop of 4% of MANU, analyzing the last two years). Even in July 2014, the shares had comparable values, in the next months, the value of MSG reached the historical maxima, and MANU dropped to around the listing value (Figure 5).

Figure 5. Comparison of price evolution: Manchester United versus Madison Square Garden (2012-2015)



Source: www.finance.yahoo.com

4. Manchester United – before and after listing on the Stock Exchange

Manchester United is one of the most valuable and popular football clubs in the world. Originating in a provincial town in England, where football represents an important element of the local culture, United sustain the economy within Greater Manchester region, being the main sporting society in the area. The benefits of football within the region have been assessed by a study drawn up by Cambridge and Sheffield Universities (2013) at 5000 full-time jobs and a gross added value of 0.7% of the total of Greater Manchester region. [12]

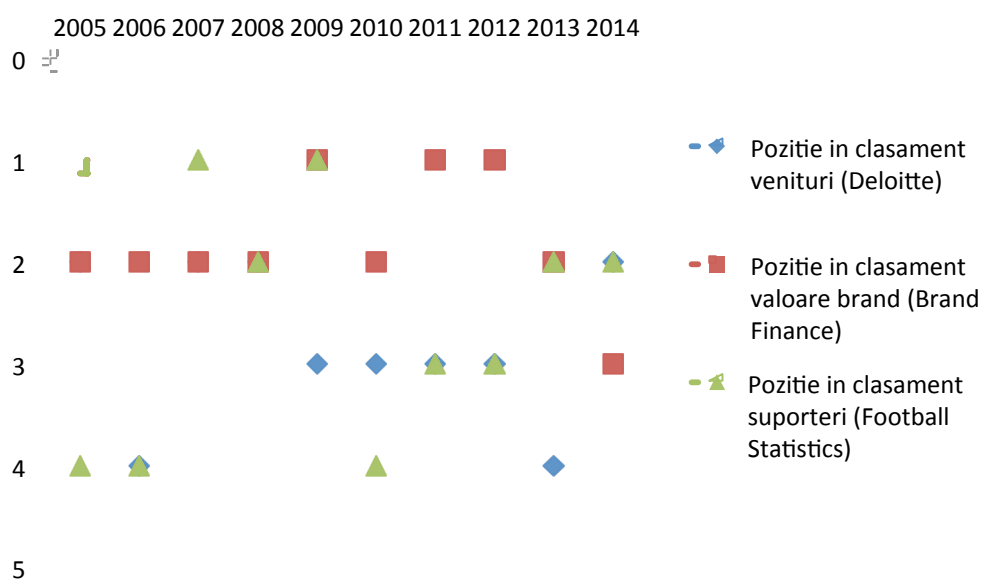
All the notable researches, studies and assessments of the sporting industry support the top position of Manchester United within the football industry. Thus, according to the benchmark publication which categorizes football clubs taking into consideration their ability to make money from current activities (except for transfer of players) – Football Money League – the magazine issued by the consultancy company Deloitte, Manchester United is constantly and continuously top positioned in the last analyzed decade (without falling under 4th place), being one of the clubs named “untouchables” by the experts in the field. [13]

With the advantage of having a brand with more of a century of history, Manchester is placed on the first three places as value of the brand, in an analysis made by specialists of Brand Finance, with an AAA rating. [14]

Manchester can also pride itself on constantly being one of the clubs which plays every time with full stadia and the capacity of the Old Trafford stadium is one of the largest in Europe (over 75000 seats). And the objective figures about the average number of the spectators at games held “at home” place the English club on one of the first four places every year of the last decade.

Figure 6 gives a synthesis of the positions occupied by MANU in different classifications previously mentioned (yearly income, brand value, average number of spectators at games held “at home”) and it refers to the period 2005-2014.

Figure 6. Positions occupied by MANU in Deloitte, Brand Finance and Football Statistics classification



Data source: www.deloitte.co.uk, www.brandfinance.com, www.european-football-statistics.co.uk/attn.htm

Analyzing these indicators at the time of listing on the Stock Exchange (2012), as concerns the income, we can see a drop in 2013, followed by a significant growth in 2014. Concerning the followers, a slight growth can be noticed, and regarding the brand value, an ascendant trend can be seen.

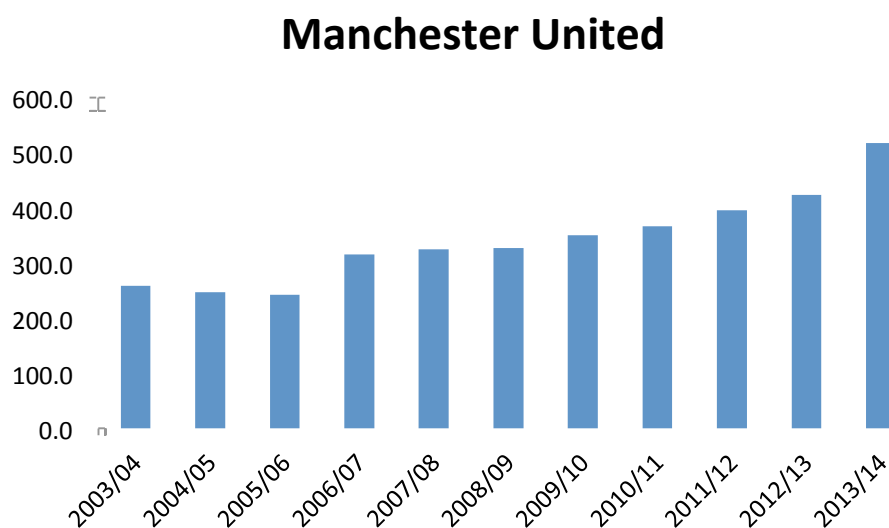
Coming back to the analysis of the income, the study Football Money League compares incomes from ticket games, packages for companies, incomes from media copyright in the internal championship and European competitions, sponsorship, marketing and other commercial activities.

According to the 2015 edition of the Deloitte Study (analyzing the season 2013-2014), Real Madrid maintains its top position for the tenth year consecutively, with a verified income of €549.5 million. Manchester is placed second with an income of €518 million, the stage being filled up by Bayern Munchen (€487.5 million). [13]

The trend of Manchester income for the last 11 seasons is given by figure 7. An ascending trend and a doubling of the income along the whole analyzed period can be noticed. Making reference to the time of listing

on the Stock Exchange we can notice a growth of 7.05% during the very next season (2012/13) and a spectacular boost of 22.23% for the season 2013/14. The structure of the income - 25% matchday, 31% broadcasting and 44% commercial - emphasizes a significant increase in the incomes from commercial activities, both as nominal value and as percent of the total income.

Figure 7. Evolution of income from current activities of Manchester United (2003/04 - 2013/14)



Source: www.deloitte.co.uk

Kuper and Szymanski (2009) argued that the high popularity of the club results from the fact that Manchester was the first industrial town of the world. At the same time, many people from the former British colonies grew up attached to the British football, this being televised for years in many Asian countries, which builds loyalty. [10]

Indeed, the significant growth of the income from commercial activities is determined by the policy of the club to add regional partners to the imposing portfolio of global partners, this year bringing new liabilities on the emerging markets such as China, South Korea or Nigeria. [13]

Taking into account that season 2013/14 was a disastrous one for Manchester from a sporting point of view (they finalized the internal championship on the 7th place and they will not engage into the European competitions next year), the financial performance is all the more admirable. However, the non-engagement within European competitions this season (2014/15) will lead to significant consequences in the classification from 2016, but given the level of commercial income and the enhanced interest in the brand MANU, it is possible that 2017 will bring them to the top of the classification.

The expansion of the brand United in Asia and North America reached 659 million followers, but it risks to slow down if the team does not sustain the goal of a brand which was and always targets the first place in the world, by sporting results and investments.

5. Conclusions

Manchester United is one of the few clubs with such a valuable brand that some investors wished to buy shares without having the financial gain in mind. For the common investor, the decision was more an emotional one, without a basic financial analysis. For many people, the possibility to boast of having Manchester United shares counts more than the share price itself.

The club management has understood that, in order to increase the share value, United have to increase the income from commercial activities, because both the broadcasting copyright and that of selling tickets show certain limitations (number of yearly matches performed on one's own field, value of the contracts for TV copyright). And the aggressive campaign in order to attract new regional sponsors and partners brought the highest growth of the club income in the last years. However, if the sporting results are not significantly improved and the followers do not feel that the season 2013/14 was only an accident, the consequences will be unfavorable from a financial perspective. However, the fact that the club income reached the highest growth in the last ten years even in circumstances of the poorest football season in the last 10 years shows a lot about the value of this brand and the loyalty of their followers.

It is difficult to assess if the decision of listing on the Stock Exchange was a success or a failure. On short

term, the club has obtained the required funds to reduce debt and to improve the circumstances of enhancing the club performance. The evolution of the price of MANU shares goes beyond the analysts' expectations. At the same time, the poor sporting results of the last season put a high question mark. And the conflicting evolution of some economic indicators (the positive trend of the commercial income vs the descendant trend of the brand market value) postpones the verdict of this scientific debate, challenging at the same time a sequel of this multidisciplinary academic enterprise.

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