Football and Finance: Exploring the Capital Markets

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Aim

In a framework of increased globalization and competition, football clubs often find it necessary to make significant investments to remain financially competitive and sustainable (Andreff, 2008). These investments may be related to:1) on-field performance (buying the best or most promising players);2) national and international branding through effective marketing initiatives; and 3) sustainability of their business models by diversifying revenue streams beyond broadcasting rights and ticketing. A primary question for many football clubs is where to obtain the additional capital required for these types of investments? The aim of this presentation, using best practices in capital markets, is to systematically analyse the key dynamics of capital market actions and to identify the criteria and necessary steps football clubs must take to finance their investment programs through a capital markets action, such as: 1) issuing corporate bonds; 2) initiating an IPO (Initial Public Offering); and 3) integrating a football club's fan base into a shareholder structure.

Design and Implementation

This presentation is based on the assumptions that football is a multi-billion Euro industry (UEFA Report, financial year 2016) and globally rooted with a significant social impact (Krabbenbos, 2013). It should be noted that a limited number of football clubs have initiated IPOs, suggesting that either football clubs may be reluctant to launch IPOs or that they have difficulty entering capital markets (Sarkar, 2016; Harty, 2008). This presentation provides a "capital markets" framework for football clubs that includes options for football clubs to reach a higher level of "financial appeal" (LSEG 2010, guide to IPO), which is designed to mediate mutual reluctance between football clubs and capital markets.This presentation explains and provides examples (through a study case focused on the English Premier League) of how selected European football clubs may potentially target capital markets actions.

Findings and Discussion

'This presentation primarily addresses key factors that should be taken into account by football clubs when considering a capital markets initiative. Based on the professional experience of the author and capital markets best practices, they represent the key drivers in the investment decisions of investors. These factors include:
1) *Trends within the global football market* such as increased growth projections, overall positive financial results, and corporate sponsorship investment.
2) *Economic and financial prerequisites*. Referring to "consolidated" economic and financial analyses of best practices, investors consider investments football club's in more positively with: a) Turnover (CAGR), over the last three years, >0; b) Net Profit >0; c) Growing (or at least stable) marginality over the last three years; d) Net financial indebtedness /Ebitda <= 4x/5x; and e) Net Financial indebtedness /Equity <= 1x/1,5x. In addition, more specific sport industry related criteria also may be taken into consideration, for example: a) reduced dependence on broadcasting rights, at least in line with a football market benchmark; b) stadium load factor in line with football market benchmark; and c) Gross Ebitda % and Ebitda % in line with football market benchmark.

3) *Sustainable strategy.* Even provided that conditions 1) and 2) may be matched and positively evaluated by investors, the economic and financial projections and long-term financial and marketing strategies of a football club must be perceived as sustainable, consistent and executable.
4) *Corporate legal structure and balanced corporate governance.* All companies, regardless of size, private and public, early stage or established, compete in an environment where good governance may substantially impact key corporate events and its long-term sustainability. The most suitable corporate governance model also should be complemented with the most appropriate corporate legal structure. A synergistic relationship between a football club's corporate governance model and legal structure will impact the ability of the club to initiate a capital action.

Conclusion and Implications

The combination of the four key elements identified above would result in a high level of Financial Appeal (FA) and would increase a club's chance of being positively evaluated by investors and, therefore, to initiate a successful capital markets initiative. For football clubs, a solid economic and financial track-record (matching all the economic and financial prerequisites as per section two may not be sufficient. Further "intangible", but substantial prerequisites may be necessary, such as: 1) a well-defined and executable business and marketing strategies; 2) balanced corporate governance; 3) suitable corporate structure; and 4) a competent management team. Football clubs with uneven economic and financial track-records (matching some of the prerequisites as per section two) may find it necessary to undertake additional preliminary actions prior to reaching the highest level of financial appeal. This presentation would be of interest to football club managers as well as other sport managers, sport marketers, and sport economists.

References

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