

## Sporting Investments - Part 2

Following on the article from last week where the transfer policy of football clubs was discussed, we take a look at some of the assets held by football clubs.

Football clubs have a variety of assets. These include immovable assets such as football stadiums and training facilities, depreciating assets like training equipment, human assets (players and staff), and intangibles, which include the brand. Depending on who you ask, some might be viewed as more important than others, but none of these are without merit.

Players are the first to be considered when listing a football club's assets. They produce the "product", which is football. Fans do not flock to stadiums to watch the training staff debate tactics. One can, therefore, argue that players are a club's most valuable asset. This could be true - but nothing is ever that simple.

Football clubs exist to produce football. However, due to the ever-evolving landscape in which they operate, these clubs are becoming multi-faceted businesses. Although football matches are still the essence of a club, the focus has shifted to their brand and merchandise distributors. Engaging with fans in ever-more interesting ways in order to enhance the fan experience has become quite crucial.

Few businesses have fiercely loyal customers. Apple users camp outside stores before a product launch. For most businesses, this is but a dream. Football clubs are of the few enterprises who have such a following.

Football is quite an interesting form of entertainment. For those with an interest in the sport, it would make sense to study the fixture list and rank games according to their entertainment value, and then match this with their own time constraints. Only matches with a high-enough ranking that fit into the schedule are watched. This should then be repeated on every match day. Of course, this scenario is not reality. Doing this would incur its own set of costs, either reducing the net utility gained from watching matches, or out-weighting it entirely.

It also does not happen, because we humans are social creatures that long to be part of a group. While the world is getting smaller, people are growing apart. Football clubs offer fans the chance to be part of something bigger than themselves. It is quite primal really; 50 000 fans watch their 11 champions battle it out against an opposing team of champions.

Clubs are a part of a fan's identity. Consider Liverpool's slogan, "*You'll never walk alone*". This is a powerful message that entrenches the fan as a vital part of the club. Life can be tough and unforgiving, but for those few precious hours on a Saturday, fans get to be part of something special. Liverpool fans had to endure decades of relative hardship, and yet they remained loyal regardless. Few businesses can say the loyalty of fans (consumers) kept them afloat through a decade of underperformance.

Modern football clubs are about more than the game. They have become a brand. The top clubs have tremendously valuable brands. A company called Brand Finance has set out to estimate the value of top football club brands ([view full report](#)). Mind the findings, it is not easy to value a football club's brand. This is only meant as food for thought.

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Below is an extract from the report showing the top ten football clubs -

Rank 2018	Rank 2017	Brand Name	Country	Brand Value (USD m) 2018	% Change	Brand Value (USD m) 2017	Brand Rating 2018	Brand Rating 2017
1	1	Manchester United	England	1,895	+9%	1,733	AAA+	AAA+
2	2	Real Madrid CF	Spain	1,573	+11%	1,419	AAA+	AAA+
3	3	FC Barcelona	Spain	1,511	+7%	1,418	AAA+	AAA+
4	5	FC Bayern Munich	Germany	1,406	+15%	1,222	AAA+	AAA+
5	6	Manchester City FC	England	1,331	+30%	1,021	AAA	AAA
6	9	Liverpool FC	England	1,204	+33%	908	AAA+	AAA
7	4	Chelsea FC	England	1,195	-4%	1,248	AAA+	AAA
8	8	Arsenal FC	England	1,083	+15%	941	AAA+	AAA
9	7	Paris Saint-Germain FC	France	913	-10%	1,011	AAA-	AAA-
10	10	Tottenham Hotspur FC	England	764	+10%	696	AAA-	AA+

Source : Brand Finance

As hard as it might be to estimate brand value, the numbers shown here are noteworthy.

Although valuable, these brands aren't yet competing with the world's largest companies. According to [Forbes](#), Apple remains the world's most valuable brand, estimated to be worth \$ 200bil. Manchester United's brand is less than 1% of this. However, Apple is a bit of an outlier, and Starbuck's brand is valued at a more reasonable \$ 17bil. Bearing that in mind, these top clubs don't seem that far off.

Football is evolving. At the turn of the century it became a global sport, with some clubs growing to extra-national reach. English clubs had a worldwide audience at the time, in part explaining their dominance in today's rankings of revenue generated and brand value. In the early 2000's, Roman Abramovich bought Chelsea and loaned the club hundreds of millions of pounds. It placed this run-of-the-mill club on the map. Following this, clubs have been bought by super fans as a vanity project, as well as for their ability to market products to fans. Over the past 20 years, clubs have been run either at a small profit, or at a loss. However, profit was rarely the ultimate goal. With Financial Fair Play rules and increased financial regulation, clubs are being nudged ever more in the direction of becoming a business.

Some investment companies are prepared to take long-term stakes in football clubs. Wide adoption of this might be some time off, but this is likely the direction in which we are headed. In a few years, sports clubs could become a regular feature of an investment portfolio.

If a sports club can generate over \$ 650mil in revenue and have a brand value estimated at almost \$ 2bil, it is a business - or will become one. When reviewing an investment opportunity, one of the factors to consider is the ability of the business to sustain and generate revenue. Brand loyalty should be part of this consideration. No brand is sacred. It is subject to intense competition and disruption. Businesses that enjoy customer loyalty are able to make this a part of the consumers' identity. These enterprises offer consumers the experience of being part of something bigger. We live in a world where companies and brands need think about more than just their product.

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From an investment perspective, it is important to factor the above into your process. Strong brands are crucial in today's environment, but there is great risk in them as well. It can take years to build a brand and minutes to destroy it. Accounting for an intangible asset such as a brand can be an error-prone activity. However, in spite of these challenges, intangibles are a crucial aspect to investigate when deciding to invest in a company for the long term.

Strong brands make for strong businesses.

Kind regards,



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Performance has been calculated using net NAV to NAV numbers with income reinvested. Full performance calculations are available from the manager on request.

### DEFINITIONS (where applicable)

Annualised Return	Annualised return shows longer term performance rescaled to a 1-year period. Annualised return is the average return per year over the period. Actual annual figures are available to the investor on request.
Highest and Lowest Annual Return	The highest and lowest returns, since launch, for any rolling 1-year period have been shown.