

Manchester United

NYSE: MANU

Analyst: Issam Kaisse
Sector: Consumer
Discretionary

BUY

Price Target: \$17.9

Key Statistics as of 4/11/2015

Market Price: \$15.66
Industry: Media and Entertainment
Market Cap: \$2 B
52-Week Range: \$14.72-19.97
Beta: 0.09

Thesis Points:

- British Broadcasting rights
- New Sponsorship deals
- Constant revenue stream
- Presence in the USA
- Stock Fluctuations

Company Description:

Manchester United PLC (Manchester United), launched its IPO on August 2012, is engaged in operating a professional sports team playing football. It provides Manchester United with a platform to generate revenue from various sources, including sponsorship, merchandising, product licensing, mobile and content, broadcasting and match day. The Company reviews its revenue through three principal sectors: Commercial, Broadcasting and Match day. The Manchester United Museum is located within Old Trafford. Within the Commercial revenue sector, Manchester United monetizes its brand through three revenue streams: sponsorship; retail, merchandising, apparel and product licensing; and mobile and content. The Company markets and sells sports apparel, training and leisurewear and other clothing featuring the Manchester United brand on a global basis. The Company generates direct revenue from the distribution and broadcasting of live football content directly and indirectly through its commercial partners. Broadcasting revenue is derived from the global television rights relating to the Premier League, Champions League and other competitions. Manchester United's wholly owned global television channel, MUTV, delivers Manchester United programming to over 85 countries and territories around the world. Broadcasting revenue including, in some cases, prize money received by Manchester United respect of various competitions. The Company generates revenue from Old Trafford, a sports venue and club.



Thesis

Manchester United is one of the most recognized and valuable professional soccer teams in the world. After their IPO, the club's share price has been impacted by the disappointing season after Sir Alex Ferguson departure. This year Manchester United is rebounding from their worst season in 2013 and they are trying to maintain a spot in the top 4 in order to qualify to the UEFA Champions League. Investors are not confident on MANU because they believe that the club will not play the European League next year. Thus, they believe that the company will suffer again and its new sponsorship deals, revenue stream and reputation will decrease. The stock price seems underpriced as investors are neglecting the positive impact that could come from Adidas deal, broadcasting rights deal, and merchandising deals. The current price is a buying opportunity and benefits will appear once the club has returned to a top four finish in the Premier League by the end of this season. This report will explain the key factors that will lead to a 14% upside and a target price of \$17.9

British Broadcasting Rights

On February, the Premier League announced a record-breaking television deal of 5.14 billion pound with Sky Sports broadcasting 126 games and BT Sport broadcasting 42 televised games. This deal represents a 70% increase from the previous rights deal and continues to make soccer the most valuable sport after football in the world. This deal starts for the season 2016/17 till 2018/19, but Manchester United could benefit from these broadcasting rights because 50% of the money is split evenly between the 20 clubs, 25% is given based on league position, and 25% is given as fees for televised matches. When NBC acquired the exclusive television rights in the USA for the English Premier League in 2012, Manchester United took advantage of this deal and realized a profitable annual return.



Broadcasting rights allow Manchester United to increase its flagship brand worldwide as the club's games were watched in almost 200 countries by approximately 659 million followers worldwide in 2013/2014 season.



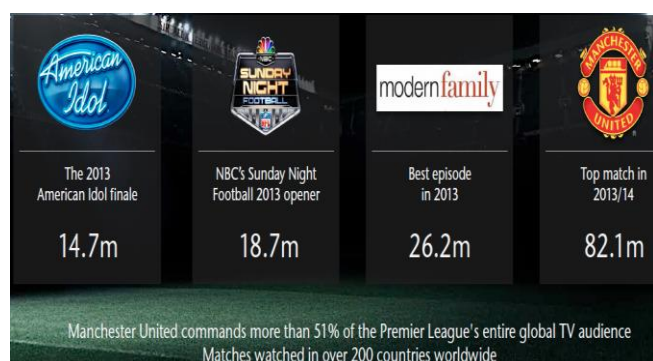
The team had one of its worst seasons in 2013, but the company generated revenue of almost 90 million pounds. Manchester United is rebounding nicely this season and if the club moves back into the top three it will increase its revenue split and qualify to the UEFA Champions league, which offers a total distribution of 1 billion euros. Thus, the performance of the club this season will determine whether the company will receive an interesting broadcasting revenue and sale of tickets. The new broadcasting deal will bring huge amounts of revenue for at least three seasons starting 2016/2017 and increase the Premier League value.



As a matter of fact, the broadcasting rights will enable fans to follow their favorite team from wherever they are. It is estimated that Premier League is followed by approximately £720 billion internationally and by £1.71 billion domestically. This makes the English Premier League one of the biggest leagues in terms of value compared to other leagues.



Manchester United can also count on being the most watched club in 2013/2014 with a global audience of 3 billion.



Thus, Manchester United is more viewed than American Idol and Sunday Night football by far. The broadcasting rights will continue to have a positive impact on the popularity of the club and the interest from the fans can still be seen through social media.

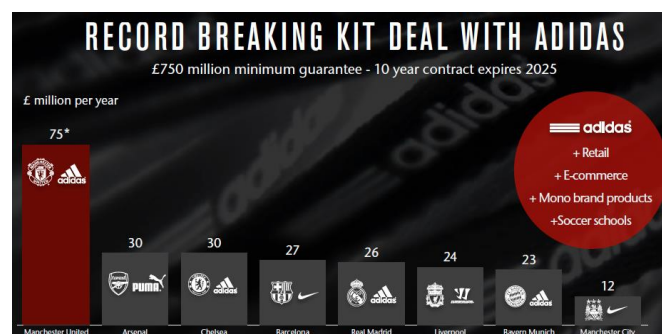


The club's Facebook page alone has well over 65 million, which is well above the Yankees' fan page. Its global fan base size is extraordinary and with a qualification to the

Champions League next year these numbers can only increase to more outstanding results.

New Sponsorship Deals

Manchester United concluded this year a record-breaking deal with Adidas for 10 years' worth approximately £750 million a year and will take effect as of next season till 2025.



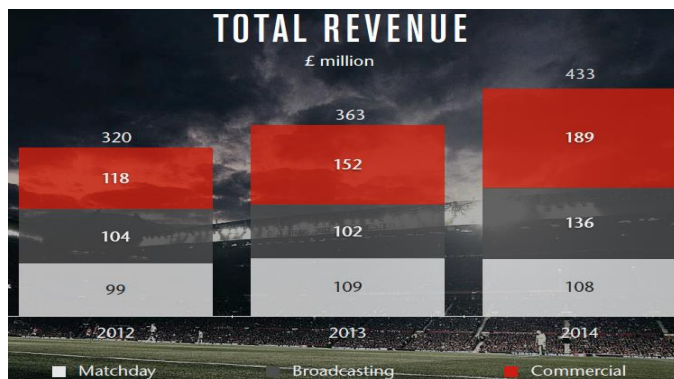
The club needs this deal in order to improve its already outstanding reputation, but the agreement states that if the club fails to qualify for the Champions League for more than 2 consecutive seasons, then Adidas has the right to reduce the payment by 30%. Based on the current performance of the team, Manchester United could at least finish 4th, and possibly 3rd if they sustain the same momentum for the last 7 games. The Adidas sponsorship is more profitable than Nike because the new deal is worth almost double that of the previous deal. As a reminder, Nike deal will end this season and was worth £25 million plus a 50% on merchandise profits. Also, Manchester United concluded another deal with General Motors' Chevrolet worth \$70 million from the current season till the end of the 2020/21 season plus an increase of 2.1% every season. Hence, the club will receive approximately \$600 million in total by the end of the 2020/21 season, which is a payment of over double what the previous deal with Aon was offering.



Manchester United continues to improve its reputation worldwide and merchandising revenue could keep on growing. In fact, the club sold over 2 million jerseys worldwide before summer 2014. This year the club can outpace this number because the new players signing such as Angel Di Maria and Radamel Falcao will drastically boost merchandising revenue over the coming seasons.

Constant Revenue Stream

Manchester United is able to realize a constant revenue stream when games are played at Old Trafford. Over the last 17 years, the club has been able to maintain an average attendance of approximately 99%. If the club qualifies to the Champions League, match day revenue will increase by nearly £108 million because more games will be played at home.

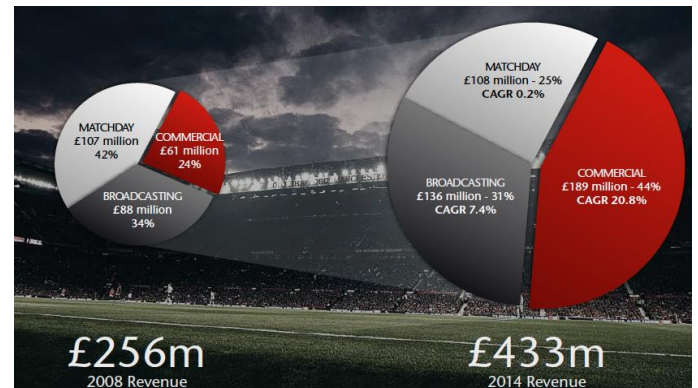


Although Old Trafford has only 76,000-seat capacity, Manchester United can count on the constant and impressive attendance figures as it gives the team a steady stream of income for several investments such as new players signing, improvement of training facilities and the opening of new store.

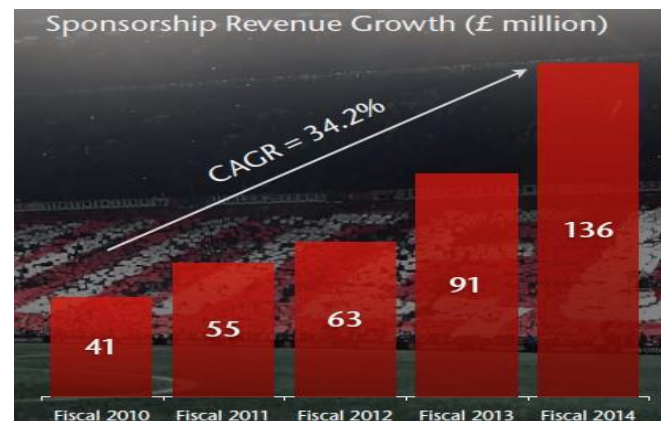


Commercial revenues will continue to have a positive impact on the club with a double-digit percentage gain in

the next few years. A qualification to the Champions League will enable the club to improve its margins and record future positive earnings. The Glazer family, owners of Manchester United since 2005, has increased and diversified the club's revenue streams.



For example, commercial revenue has gone from 24% of the team's overall revenue in 2008 to 44% last year. Commercial revenue plays a large part in the increasing income because United's jerseys are in demand around the world. Within the commercial segment, the club recorded a sponsorship revenue growth of approximately 34% from fiscal 2010-2014.



Presence in the USA

According to Forbes, soccer popularity is on the rise in the US. In fact, it is considered the fastest growing Premier League TV audience market in the world. The recent performance of the US team in the World Cup 2014 has been characterized as the most widely streamed live event ever in US history. Because of this change in popularity and commercial growth in soccer, Manchester United is targeting the attractive US football market and they plan to organize a summer tour of America every year. It has been a successful summer for Manchester

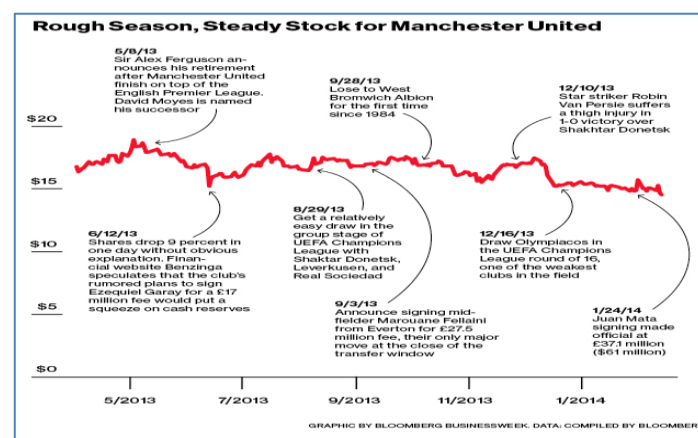
United in the US because in five matches more than 360,000 fans have watched the club. The current executive vice-chairman of Manchester United said “I’d like to talk about the exciting emerging market that is the US. We seem to be in the midst of a step-change at the moment with football or soccer breaking into the mainstream sporting consciousness. Clearly that’s been aided by the recent World Cup in Brazil and performance of the national team there and football-themed video games”¹. Also, Manchester United is the most watched soccer club in the USA with a 2014 opening weekend streaming up 56%.

Financial results

In the last earnings call the executive vice chairman stated several financial key points. The club’s total revenue decreased by 14% because of the absence from European competition this season. The huge debt load is also a burden for Manchester United’s financials because the owners added significant financial leverage to the team when they bought it in 2005. Thus, Manchester United’s debt has risen to £380.5 million but the club is trying to reduce it with the sale of players such as Ronaldo and the release of unused players. For the current fiscal 2015, Manchester United expects its revenue to reach between \$385-395 million with an adjusted EBITDA of \$90 to \$95 million. Also, the company expects broadcast revenue to be down because the lack of Champions League matches, but a decline in wages will offset it. The Glazer family has no intention to sell Manchester United because they see some exciting potential for revenue growth. United fans constantly criticize the owners as they have little knowledge about soccer and they are using Manchester United as a way to pay off their debt. Hence, United have spent more on debt repayment, interest fees of over £680 million than on player acquisitions. Without the debt United would have been able to compete for the top players in the transfer market. This year the club decided to conclude key sponsorship deals in order to revive its ability to compete for a spot in the Champions League. Free cash flow generation is going to be significantly better after the debt refinancing and revenue growth will get strong in the years to come because of Manchester United’s ability to get its products around the globe as well as the gain from broadcasting fees.

Forecasts

United’s stock fluctuates with important events in the course of the season. On its initial public offering in August 2012 on the New York Stock exchange, the stock started to trade at \$14 per share. After Sir Alex Ferguson departure, the stock price has undergone several ups and downs because it is tied to several factors: European qualification, injuries, acquisitions, and rumors of acquisitions. As you can see on the chart below, the market mimics the mood on the field when the season is underway.



Manchester United appears well set to recover in fiscal year 2016 because the company is getting more aggressive in its push to return to European football, which would guarantee it remains among the top sports brands in the world. The business model of Manchester United is attractive as the club is signing agreements with key sponsors for the long term. However, the only possible risk is the significant debt that the Glazer family accumulated before acquiring the club. The purchase of MANU shares is more of a gamble than an investment because stock price moves according to the club’s performance. The new Adidas deal will start in 2015 as well as the Chevrolet sponsorship will allow the company to see strong numbers. A top three finish will get the company back to its peak broadcast figures as the club is prepared to do some key signings during the summer transfer window.

¹ <http://www.irishtimes.com/sport/soccer/manchester-united-target-the-usa-market-1.1925332>

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Manchester United plc		MANU	Analyst DJ SAM	Current Price \$15.77	Intrinsic Value \$17.04	Target Value \$17.92	Divident Yield 0%	Target Return 1-y Return: 13.66%	NEUTRAL
General Info			Peers	Market Cap.	Management				
Sector	Consumer Discretionary		Arsenal Holdings plc	\$987.73	Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2014
Industry	Media		Juventus Football Club S.p.A.	\$281.57	Glazer, Joel	Executive Co-Chairman, Principi	\$ -	\$ -	\$ -
Last Guidance	Feb-12-2015		(Invalid Identifier)		Glazer, Avram	Executive Co-Chairman and Me	\$ -	\$ -	\$ -
Next earnings date	5/1/2015		Borussia Dortmund GmbH & Co. Komu	\$338.49	Woodward, Edward	Executive Vice Chairman and Pri	\$ -	\$ -	\$ -
Market Data			Rangers International Football Club PLC	\$28.92	Arnold, Richard	Group Managing Director and I	\$ -	\$ -	\$ -
Enterprise value	\$3,144.27		Millwall Holdings plc		Reigle, Jamieson	Commercial Director and Direct	\$ -	\$ -	\$ -
Market Capitalization	\$224,790.42		Sport Lisboa e Benfica - Futebol, SAD	\$32.45	10y-Median Performance				
Daily volume	7.72		AFC Ajax NV	\$168.94	MANU		Peers		Industry
Shares outstanding	163.80		Olympique Lyonnais Groupe Société Ano	\$91.93					All U.S. firms
Diluted shares outstanding	163.88		Celtic plc	\$70.08					
% shares held by institutions	77.53%		Current Capital Structure		Growth	10.0%	8.2%	6.3%	7.4%
% shares held by insiders	10.99%		Total debt / market cap	14.63%	ROE	13.7%	23.1%	10.2%	9.9%
Short interest	0.79%		Cost of Borrowing	8.07%	Net Profit Margin	14.1%	10.2%	3.1%	6.9%
Days to cover short interest	10.94		Interest Coverage	184.52%	Rev./Common Equity	97.5%	226.3%	330.3%	144.8%
52 week high	\$19.97		Altman Z	1.85	Excess Cash / Rev.	N/A	4.8%	13.5%	12.9%
52-week low	\$14.72		Debt Rating	C	Total Cash / Rev.	15.3%	24.1%	12.3%	15.2%
5y Beta	0.09		Levered Beta	0.40	Unlevered Beta	0.09	0.23	0.90	0.95
6-month volatility	24.55%		WACC (based on market value weights)	4.99%	TEV/REV	5.1x	1.8x	2.2x	2.5x
					TEV/EBITA	17.9x	29.9x	13.8x	13.1x
					PE	53.7x	14.0x	25.5x	23.5x
					P/BV	3.6x	3.1x	2.4x	2.2x
Past Earning Surprises		Revenue	EBITDA	Norm. EPS	Non-GAAP Adjustments in estimates computations				
Last Quarter	5.0%		51.4%		Operating Leases Capitalization	0%	N/A	N/A	
Last Quarter-1	3.0%		25.1%		R&D Exp. Capitalization	0%	N/A	N/A	
Last Quarter -2	4.0%		1.6%		Expl./Drilling Exp. Capitalization	0%	N/A	N/A	
Last Quarter -3	4.1%		0.0%	33.3%	SG&A Capitalization	0%	N/A	N/A	
Last Quarter -4	-0.2%		0.0%	0.0%					
Proforma Assumptions		\$	-	Rev. Growth	Adj. Op. Cost/Rev	Common Equity	Net Margin	ROE	Ke
Money market rate as of today	0.59%		LTM	34.2%	69.0%	\$763.30	16%	12.2%	5.0%
Annual increase (decrease) in interest rates	0.1%		NTM	19.6%	64.5%	\$845.61	20%	19.3%	5.1%
Yield Spread acceleration	1.2		NTM+1	12.3%	62.3%	\$930.84	21%	20.5%	5.2%
Marginal Tax Rate	37.5%		NTM+2	8.7%	61.1%	\$1,031.73	22%	20.8%	5.3%
Risk-Free rate	2.5%		NTM+3	6.8%	60.6%	\$1,145.26	23%	20.5%	5.4%
Tobin's Q	295.26		NTM+4	5.9%	60.3%	\$1,269.98	23%	19.9%	5.5%
Op. Cash/Rev.	2%		NTM+5	5.5%	60.1%	\$1,405.40	23%	19.2%	5.6%
Growth in PPE	NPPE Growth=0 (GPPE grows by DPR exp. each year)		NTM+6	5.2%	60.1%	\$1,551.57	24%	18.5%	5.7%
Long term Growth	5.0%		NTM+7	5.1%	60.0%	\$1,708.90	24%	17.8%	5.8%
Long term EBITDA Margin	40.0%		NTM+8	5.1%	60.0%	\$1,878.04	24%	17.2%	5.9%
Long term NOPLAT Margin	20.0%								
Long term ROE	15.0%								
Most recent Unlevered Beta	0.09								
Long term Unlevered Beta	0.90								
Valuation		Common Equity x (ROE-Ke)	Enterprise Value (UFCF Valuation only)	Total Debt	Other claims	Equity Value	LDCF Valuation	Relative Valuation	Weighted Price Per Share
LTM	\$54.77		\$3,576.61	\$594.47	-\$43.58	\$3,025.73	\$22.11	\$5.66	\$18.00
NTM	\$119.94		\$3,746.00	\$594.47	-\$130.82	\$3,282.35	\$23.36	\$4.63	\$18.67
NTM+1	\$142.25		\$4,002.94	\$594.47	-\$242.33	\$3,650.80	\$25.16	\$3.84	\$19.83
NTM+2	\$160.24		\$4,438.38	\$594.47	-\$364.75	\$4,208.67	\$28.23	\$4.04	\$22.19
NTM+3	\$173.02		\$5,121.64	\$594.47	-\$497.42	\$5,024.60	\$33.04	\$4.90	\$26.01
NTM+4	\$182.88		\$6,182.85	\$594.47	-\$640.33	\$6,228.72	\$40.66	\$6.19	\$32.04
NTM+5	\$191.22		\$7,856.16	\$594.47	-\$793.83	\$8,055.53	\$52.49	\$7.78	\$41.31
NTM+6	\$198.81		\$10,575.06	\$594.47	-\$958.45	\$10,939.04	\$72.23	\$9.52	\$56.55
NTM+7	\$206.07		\$15,170.36	\$594.47	-\$1,134.85	\$15,710.74	\$106.19	\$10.91	\$82.37
NTM+8	\$207.61.81		\$23,297.06	\$594.47	-\$1,323.87	\$24,026.47	\$142.21	\$12.41	\$109.76
Monte Carlo Simulation Assumptions		Base	Stddev	Min	Max	Distribution	Monte Carlo Simulation Results		
Revenue Variation	0		10%	N/A	N/A	Normal	Intrinsic Value		1y-Target
Op. Costs Variation	0		10%	N/A	N/A	Normal	Mean est.	\$18.00	\$18.67
Country Risk Premium	6%		N/A	5%	7%	Triangular	σ(ε)	\$0.32	\$0.25
Long term Growth	5%		N/A	3%	10%	Triangular	3 σ(ε) adjusted price	\$17.04	\$17.92
							Current Price	\$15.77	
							Analysts' median est.		\$19.52