

Offside Trap – Why Your Favourite Soccer Club Belongs On The Pitch, Not Your Portfolio

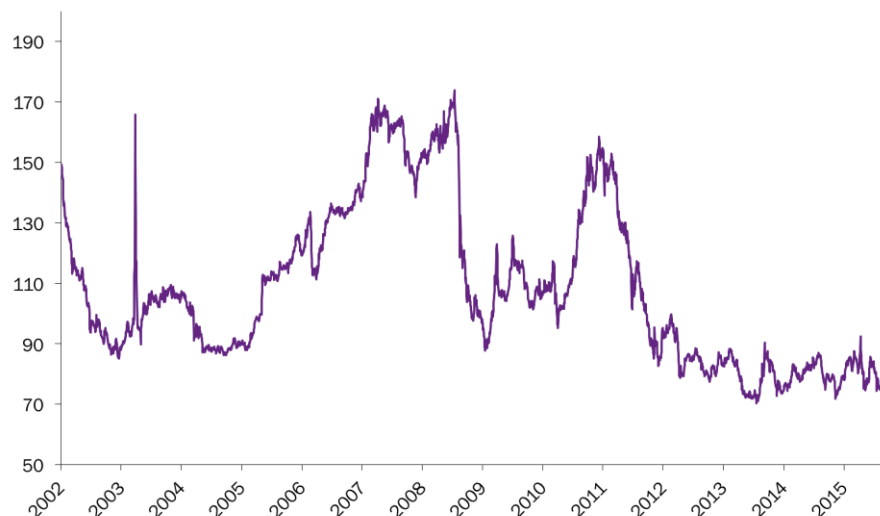
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In 2012, when the richest club of the English Premier League, Manchester United (“MU”), debuted its IPO on the New York Stock Exchange, many fans could finally realize their dream of owning a stake in their favourite sports franchise. Despite the recent mediocre performances of MU on the field, the club’s shares have appreciated by more than 30% since the IPO. MU, however, is the exception rather than the rule when it comes to track records of soccer clubs on public markets. So, should an investor consider putting money into soccer franchises for the purpose of financial gain?

European stock exchanges list shares of 23 clubs from 11 countries. Performance of the shares is tracked by a special indicator - STOXX Europe Football Index, which was initiated in 2002. It is down by more than 45% since its inception, as depicted in the graph below. Even more depressing are the market quotes of the four clubs that originally formed the core of the index 12 years ago. Since then, the stock of Juventus fell from €3.52 to €0.30, Lazio fell from €174 to €53, Borussia fell from €5.2 to €3.9, and Roma fell from €3 to €0.54.

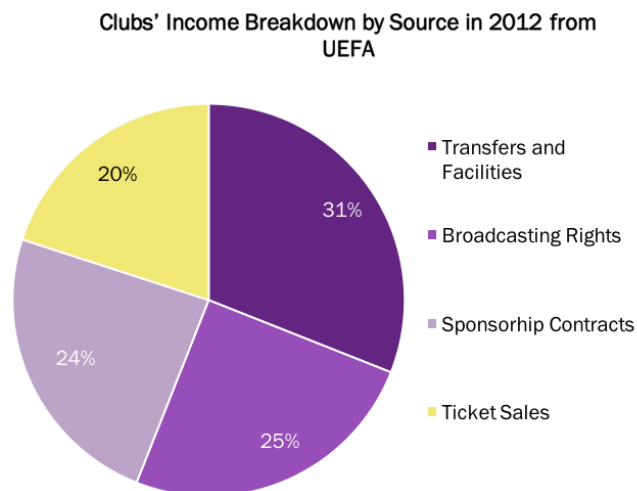
STOXX Football Index (EUR) - Index Value



You may ask - what about the enormous salaries of players and coaches, the continuously soaring prices of player transfers and sponsorship contracts? Well, it seems that from a business perspective, football is a money maker for management, players, and other affiliates, but not for the average investors. Even the club's sporting achievements do not guarantee investment return. Gianmaria Bergantino, an asset manager from Italy’s Bank Insinger de Beaufort, has commented on the problem, “Soccer clubs are difficult to value because of variable and uncertain revenue and limited transparency about players’ contracts. They aren’t very popular among brokerages and institutional investors”. Indeed, Juventus – one of the oldest and most titled Italian clubs – has seen its share price continuously decline since its IPO in 2001, despite its strong performance on the pitch in the past few years.

The decline of share prices from IPO levels seems to be typical among many soccer clubs. In addition to the unpredictability of sporting success as mentioned above, tight control of majority shareholders, low liquidity and high volatility are just some of the reasons that soccer clubs are very risky ventures for the ordinary investor seeking attractive long-term gains.

The appealing and well diversified sources of income for many clubs (illustrated below) simply do not translate into cash flows and financial gains for public shareholders. The vast majority of the publically traded franchises do not pay dividends and overall do not have much to offer to attract ordinary investors (except for the love of soccer). It is no surprise that as a result, some of clubs have decided to withdraw from the stock exchanges and go private. Originally, the STOXX Europe Football Index tracked 33 clubs though now the number has dropped to 23.



The fundamentals of soccer economics are based on the tradeoff between the shareholder value and success on the pitch. To increase shareholder value, franchises need to maintain fiscal discipline and strength. This conflicts with the competition and investment required to acquire and train the right players to win games.

Regulatory changes, such as Financial Fair Play initiated by UEFA, Europe's main governing body, have tried to even out the financial playing field and balance out the priorities. According to the rules, the clubs that want to compete in major European competitions must be financially healthy and make more money than they spend. The initiative has shown progress; net losses of the major clubs have narrowed and salary growth has slowed.

Nevertheless, there are no clear indications that major positive changes are developing in the investment landscape for soccer clubs. So for now, we should forget about investing in soccer franchises and enjoy the upcoming El Clásico between Real Madrid and FC Barcelona as fans rather than owners.