

Manchester United PLC



MANU STRONG BUY: A One-of-a-Kind trophy asset who's Economic Moat is set to drive revenue growth over the next 5-10 years.

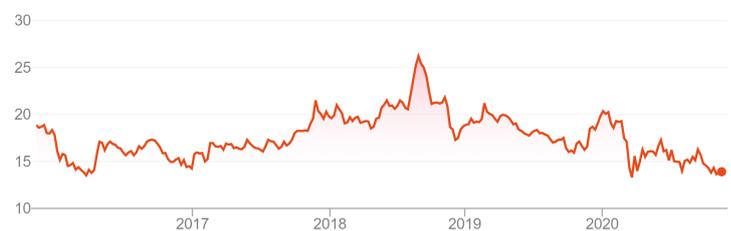
Company Overview:

Company Name:	Manchester United
Exchange:	NYSE
Ticker:	MANU
Country:	United Kingdom
Sub Industry:	Sports and Entertainment

Company Data:

Price Rating:	Strong Buy
Price Target:	\$32.00
Current Price:	\$13.85
Price Date:	23/10/20
52 Week Average:	\$16.26
Market Cap:	\$2.257 (bn)
Enterprise Value:	\$2.840 (bn)

Manchester United 5-year Stock Price Growth



Company Overview

- Manchester United plc, together with its subsidiaries, owns and operates a professional sports team in the United Kingdom. The company operates Manchester United Football Club, which has over 659 million fans worldwide, and is regarded as the most successful club in British sports history.
- It develops marketing and sponsorship relationships with international and regional companies to leverage its brand. The company also markets and sells sports apparel, training and leisure wear, and other clothing featuring the Manchester United brand.
- In addition, it distributes live football content directly, as well as through commercial partners; broadcasts television rights relating to the Premier League.

Figure 1: Revenue Increase

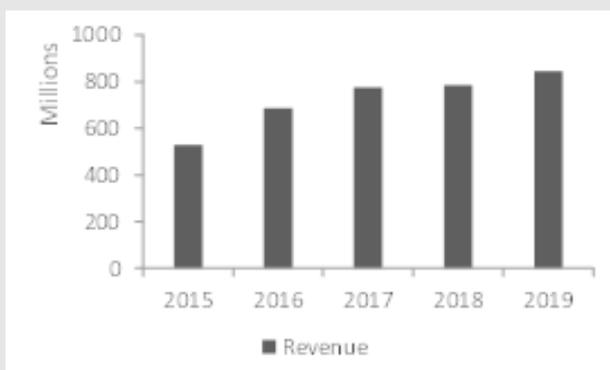
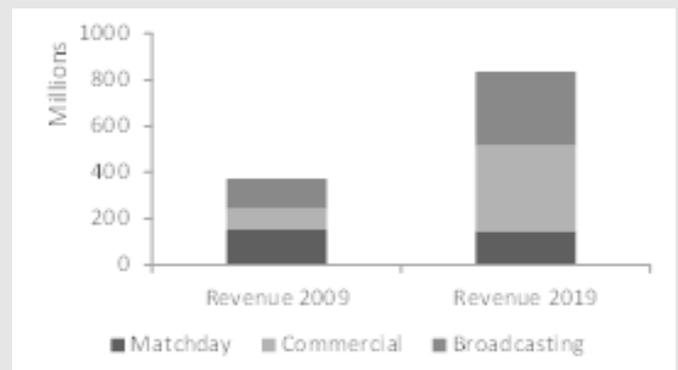


Figure 2: Revenue Breakdown



Reasons to Invest in MANU

MANU, for many years, has represented the pinnacle of global sports achievement. Being the most successful football club in the history of British football, and one of the most successful club in global sports history, Manchester United has accumulated a fan base of over 659 million supporters. Traditionally a pure sporting club, recent years have seen United delve into the commercial space, and the club IPO'd on the New York Stock Exchange in 2012. This report will go over some of the reasons why Manchester United presents a unique buying opportunity, however the central theme is the emergence of digital revenue in the industry, and how United is best positioned to take advantage of this with it's own MUTV app, and significant economic moat.

1. The Emergence of Digital Revenue:

- Manchester United made a strategic business decision to launch a mobile application in order to boost fan engagement and drive higher-margin revenue opportunities.
- Less cyclical FCF caused by recurring monthly revenue from the MUTV app.
- The sharing of exclusive content as well as match highlights allows fans to access broadcasted content at a significantly discounted price.
- As of 2020, it is estimated that less than 1% of Manchester United 659 million supporters are subscribed to the app, however that figure is set to grow 'exponentially' in the coming years as the club starts to broadcast its own live matches.

Figure 3: Revenue with and without Digital

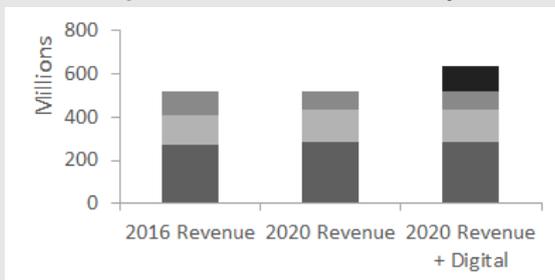
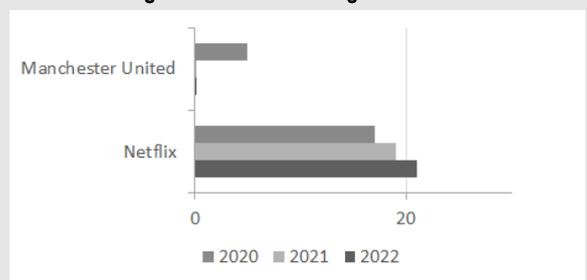


Figure 4: Cost of Creating new Content



2. Continued Expansion into China:

- Manchester United's expansion strategy has allowed it to amass the largest fanbase in world football (Over 700 Million Supporters).
- Their popularity in China has allowed them to sign deals with key market influencers such as Alibaba and Tencent.
- United's content, including first team games, highlights, and original programming for the Chinese market, is now available on Alibaba's platforms, which reach 700mn people.
- Their moat lies in the size of their fanbase, which other clubs have struggled to compete with due to the nature of supporting a sports club. There are only so many clubs and so many supporters, and United maximized the size of their fanbase by establishing an early international presence.

Figure 5: Revenue Build-Out in China

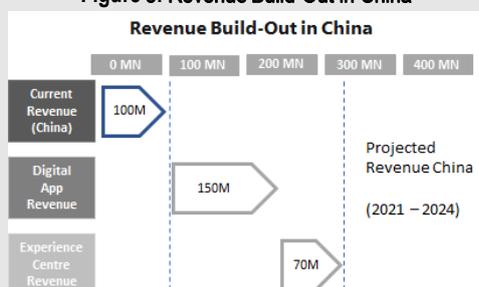


Figure 4: Partnership with Chinese Brands





MANU Valuation Methodology

We made usage of a discounted cash flow (DCF) analysis to reach our valuation and price target on MANU. This was done for the following reasons:

- We see Man United as an undervalued company due to the misconception between seeing football clubs as purely sporting plays, rather than as commercial enterprises..
- We believe that United's investment in digital infrastructure will play a key part in its revenue growth going forward, hence why we need a DCF to model out this growth.
- We believe that United can achieve 1.5 - 2x revenue in the next 5-10 years, and this will significantly increase its EDITBA and net profit, especially with higher margins.

Figure 7: MANU Discounted Cash Flow Model

Discounted Cash Flow (\$M) - Manchester United PLC	Forecast					Perpetuity Forecast					
	FY 2019	FY 2020E	FY 2021E	FY 2022E	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
EBITDA	\$ 247	\$ 247	\$ 321	\$ 370	\$ 428	\$ 457	\$ 501	\$ 545	\$ 587	\$ 625	\$ 660
NOPAT	\$ 41	\$ 49	\$ 149	\$ 201	\$ 265	\$ 318	\$ 382	\$ 416	\$ 448	\$ 478	\$ 505
Less: Increases in Working Capital	\$ (96)	\$ 119	\$ 61	\$ 69	\$ 78	\$ 82	\$ 89	\$ 95	\$ 101	\$ 106	\$ 110
Add: Depreciation and Amortization	\$ 196	\$ 185	\$ 134	\$ 119	\$ 97	\$ 62	\$ 23	\$ 25	\$ 27	\$ 28	\$ 29
Less: Additions to Intangibles	\$ (142)	\$ (178)	\$ (153)	\$ (153)	\$ (153)	\$ (153)	\$ (153)	\$ (153)	\$ (153)	\$ (153)	\$ (153)
Less: Capital Expenditure	\$ (17)	\$ (18)	\$ (16)	\$ (18)	\$ (21)	\$ (22)	\$ (23)	\$ (25)	\$ (27)	\$ (28)	\$ (29)
Unlevered Free Cash Flow (UFCF)	\$ (18)	\$ 158	\$ 175	\$ 217	\$ 267	\$ 286	\$ 319	\$ 358	\$ 396	\$ 431	\$ 462
Growth Rate:	-900%	77%	24%	23%	7%	7%	11%	12%	7%	9%	7%

WACC Schedule	
Market Risk Premium (Rm - Rf)	11.7%
Bottom-Up Beta	0.909
Adjusted Market Risk Premium	10.6%
Add: Risk Free Rate of Return	0.09%
Cost of Equity	10.7%
MANU E/(D+E)	76.6%
Cost of Debt - Average of Last 5 Issuance	3.80%
Tax Rate (5 Year Average)	20.0%
After-Tax Cost of Debt	3.04%
MANU D/(D+E)	23.4%
WACC	8.9%

Multiple Method	
EBITDA Multiple from Comps	18.9
WACC	8.9%
2029 Estimated EBITDA	639.9
Terminal Value	12472.6
PV of Terminal Value	5297.4
% of Total Value	74.1%
Sum of PV of Yearly UFCF	1848.0
% of Total Value	25.9%
Implied Enterprise Value	7145.4
Add: Cash and Equivalents	118.6
Less: Debt	700.3
Less: Minority Interest	0.0
Less: Value of Preferred Shares	0.0
Implied Equity Value	6563.7
Shares Outstanding	164.3
Implied Price per Share	39.9
Current Price per Share	15.4
Implied Return	159.4%

Gordon Growth Method	
Terminal Growth Rate	2.00%
WACC	8.94%
2029 Unlevered Free Cash Flow	462.06
Terminal Value	2,252.66
PV of Terminal Value	3,355.8
% of Total Value	64.49%
Sum of PV of Yearly UFCF	1,848.00
% of Total Value	35.51%
Implied Enterprise Value	55,203.79
Add: Cash and Equivalents	118.60
Less: Debt	700.3
Less: Minority Interest	0.0
Less: Value of Preferred Shares	0.0
Implied Equity Value	54,622.09
Shares Outstanding	164.3
Implied Price per Share	28.13
Current Price per Share	15.40
Implied Return	82.7%

Figure 8: 2019 MANU Financial Summary

5 Year Revenue Growth Rate:	18.15%
Gross Margin:	78.54%
EBIT Margin:	5.80%
Adj. EPS:	\$0.320
Forecasted Growth Rate:	7.559%
Terminal Growth Rate:	2.00%
Discount Rate:	8.90%
Effective Tax Rate:	25.01%

Future Catalysts:

- **Increase in Comparable Multiples:** Recent transactions have showed increasing EBITA and Revenue multiples
- **Increase in Broadcasting Rights Deal:** Set to grow by approximately 30%, adding new revenue for the club
- **Digital Experience Centers:** They will be able to yield approximately %50mn of FCF for the club every year, greatly increasing the club's potential valuation

Investment Risks:

- **Covid:** Second major outbreak could halt the return of fans to stadiums, and the club will miss out on match day revenue
- **Broadcasting Rights Payout Ratio:** PL may accept a more equal payout ratio, which means less payout for Man United
- **On Field Performances:** Although the thesis behind this valuation isn't affected by the club's performance, continuous declining performances could cause short-term investor disappointment.

Disclosure:

The information contained within this research report is for general educational purposes only. It is not a substitute for financial advice from a licensed professional. Please conduct your own research when making investment decisions.