



**MACHESTER UNITED LTD.
(NYSE: MANU)
OVERWEIGHT**

RECOVERY EXPECTATIONS; INCREASED
REVENUE; INITIATE BUY & TARGET \$19.11

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THESIS

We are Initiating an overweight rating on Manchester United PLC's (MANU) common stock. A Devastating losing streak on the field has pushed the price down to \$16.02, so we are setting a price target of \$19.11 because the positive mid/long-term outlook remains In place despite short-term woes. Out price target reflects a 19.39% upside to prices as of 11/12/21.

KEY DRIVERS

Stable cash flow stream from loyal fanbase. MANU Is one of the most established soccer teams In the world, with a history dating back over 140 years. Its status as a household name means that fans and soccer enthusiasts follow Its game regularly, providing a floor that Income streams like ticket and merchandise sales cannot go below. COVID-19 was an exception and dealt a massive blow to these revenues. The stadium, Old Trafford, Is now back to operating around Its full capacity of over 70,000. The English Premier League (EPL) Is the most lucrative soccer league In the world, and MANU Is one of the most popular clubs In It; In fact, It has the most Twitter followers In the EPL.

Increasing global engagement In soccer and MANU. Soccer Is the biggest sport In the world, and It still represents a growing market. This Is especially true for the EPL, which has outpaced other leagues decidedly. With Chinese Interest In the sport Is rapidly growing as well, MANU Is perfectly positioned to monetize this trend. It has already begun opening entertainment centers, like "Theatre of Dreams" In Beijing this May, In China. MANU's e-commerce arm grew considerably during the last years and Increasing global Interest In the club will surely keep that source of Income alive post-COVID as well. Besides that, the 2022 World Cup, scheduled to be held In Qatar next November, may act as a catalyst for price appreciation for soccer teams overall.

Abundance of talent and resources as a long-term driver of performance. MANU's performance on the field as of late has been lackluster at best, and it currently sits at 6th place in the EPL. However, the team's talent-rich lineup, which has a market value of \$1bln, combined with its aforementioned stable revenue streams mean that the club has the talent base and resources to turn their poor performance around. If not this season, then In future seasons. Performance now Is not Indicative of the future, and MANU's place has fluctuated between top three and sixth many times. With that, the likely future cash flows of the company remain Intact, so the value does as well.

PRICE:
\$16.02
[Pricing as of 11/12/21]

TARGET:
\$19.11

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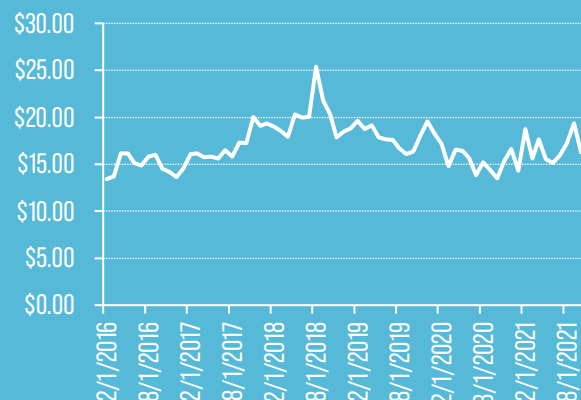
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SUMMARY

	Rating	Overweight
Current Price	\$16.02	
Target Price	\$19.11	
52 Week High/Low	\$14.26-\$20.86	
Shares out (mil)	43.3 m	
Market Capitalization	\$2.61 b	
Ev/EBITDA	23.69	
Div. Yield	1.12%	

NYSE MANU - Price chart



COMPANY OVERVIEW

Manchester United is a professional football sports club that was founded in 1878 and headquartered in Manchester, United Kingdom. Its operations are segmented into three categories of commercial, broadcasting, and matchday. Encompassed under commercial activities are Manchester United's three revenue streams of sponsorship; retail, merchandising, apparel & product licensing; and mobile content. Broadcasting is described as the revenue generated from global exposure for commercial partners, as well as through other platforms like Apple TV and Roku. Lastly, matchday events at Old Trafford bring in millions of dollars annually; for example, total revenue for 2019 was approximately \$850 million.

Currently, Manchester United has a market capitalization of \$2.6 billion, enterprise value of \$3.24 billion, and has earned revenues estimated around \$424.12 million over the last year. As of June 30, 2021, Manchester United has a current ratio of 0.55x, quick ratio of 0.55x, and a total debt to equity ratio of 198.04%. In the current economic climate, where the pandemic shut down in person games, broadcasting revenues and TV rights averaging around \$200 million have kept it afloat during COVID losses.

MANAGEMENT OVERVIEW

Manchester United F.C. is led by Avram Glazer and Joel Glazer, current Executive Co-Chairmen, and Directors. The Glazer family holds a total of 6 positions on the board of directors, and a majority stake in the ownership of the company. The company is also led by Edward Woodward, current Executive Vice Chairman and Director. Mr. Woodward brings lots of experience in the financial services industry to the board, as he had worked in investment banking and tax advisory before he joined the club in 2005. The Glazer's along with others are committed to maintaining the high reputation of Manchester United F.C. by striving towards the company's short-term and long-term goals. Avram and Joel Glazer's 15+ years of experience running a public company and vast experience in sports business give them the credibility to lead Manchester United F.C. as they approach a critical point in their business. With the impact of the pandemic still being prominent, a new contract for the manager, the return of star player Cristiano Ronaldo, and current team struggles, decisions by management are more important than ever.

Per Manchester United's Q3 Interim Report filed 06/17/2021, the management's discussion and analysis of financial condition and results of operations places a strong emphasis on the effect of the pandemic and how the company is able to distinguish itself as one of the world's leading sports brands. Manchester United F.C. believes their reputation as one of the most successful sports teams ever is established mainly through 143 years of success on the field, which has led to a large and passionate community of followers that generate revenue in many different ways. When it comes to COVID-19, management is focused on minimizing the impact of the pandemic on the club, with stadiums recently reopening and fans starting to return. Management has made it clear that while the pandemic has had a significant impact on cash flows, they believe that they are placed well with a strong balance sheet. Revenue and cash flows are highly dependent on the covid-19 policies of the UK and other international governments, which imposes a risk for

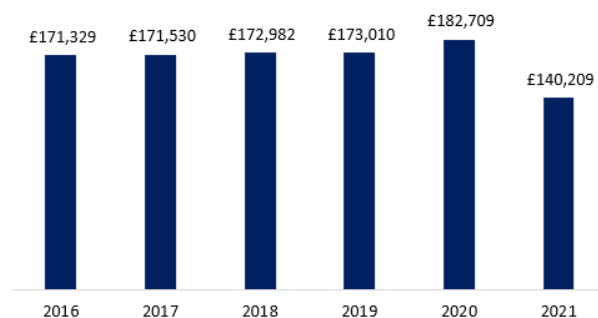
the company that management recognizes. Manchester United F.C., with the guidance of management, has taken the necessary steps to preserve capital and increase liquidity, as the pandemic has disrupted the timing of cash receipts. Overall, management appears to have the essential skills, leadership, and background to lead Manchester United F.C. as they embark on a new journey to transform through the pandemic and modernize their historic club.

REVENUE GENERATION

Manchester United has three main sources of revenue (1) commercial revenue (2) broadcasting revenue (3) Matchday revenue.

Within the commercial revenue segment sponsorship amassing a substantial portion. MANU generates revenue from marketing and affiliation deals with companies from around the world. The club's Image and popularity are essential to this revenue stream, which is largely contractual. MANU's star line-up featuring the generational star Cristiano Ronaldo, along with the reopening of Old Trafford to fans, should help bring in even more revenue in the future. Before the pandemic, sponsorship revenue generally sat just over £170 mln, but it fell to £140 mln in FY21 with the absence of fans or a summer tour. We project a speedy recovery in one year, returning to just under the average pre-COVID levels. The sponsorship market in the EPL is still growing, and so MANU is also poised to continue increasing its revenue from this source. We project a speedy recovery in one year.

Figure 1.0: EPL sponsorship revenue growth, thousands



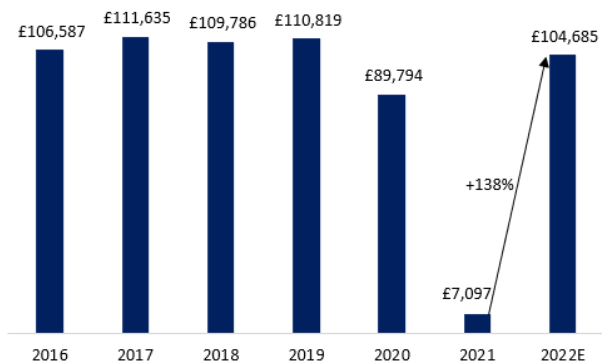
Retain, merchandising, apparel sales, and product licensing makes up the other portion of MANU's commercial revenue. Sports gear, labeled items like mugs, and leisure clothing are included in this subcategory. In the past, revenues from this source have been slightly over £100 mln, but they have dipped around 10% due to COVID. The reopening of the MegaStore should cause these figures to return to normal, while MANU's growing e-commerce business "United Direct" presents an upside opportunity. In fact, the t-shirt sales for Cristiano Ronaldo have broken global records so far, representing MANU's ability to monetize their popularity through this segment of its operations.

Soccer viewership on TV and streaming sites also represents a portion of MANU's top-line. Revenue from EPL games is the major factor in this segment. Broadcasting revenues represent an average of 37% of MANU's total revenue over the last 5 years.

Broadcasting revenues are dependent on where a team finished within the EPL. Larger teams tend to be less dependent on broadcasting revenues compared to their smaller counterparts where broadcasting makes up 90% of revenues. In some cases, which shows the MANU's revenue diversification. The EPL agreed to extend the broadcasting contract through 2025 worth £4.8 bln over 200 games via Sky, BT, and Amazon. BT secured another deal worth £1.2 bln to broadcast UEFA Champions League (CL) through 2024. Additionally, CBS signed a \$600 mln contract through 2024 for American broadcasting. Sony Pictures Media also extended their deal through 2024. These deals represent consistent sources of income for the leagues and therefore individual teams like MANU.

Matchday Revenue is the third and final major stream of revenue for the club. Ticket sales and purchasing activity of people in home games at Old Trafford traditionally was a stable source of revenue for MANU. The pandemic saw it drop dramatically, but the new season features a return of 72,800 fans to match days, with attendance averages of about 99%. The full capacity is 74,239 people, and the difference is due to COVID-19 measures that the company still has in place. With that, this source of revenue is set to recover fully to its original figures of over £100 mln.

Figure 1.1: Matchday revenue drop, thousands



LOSING STREAK

MANU suffered a brutal four game losing streak that ended in a historic home game loss of 0-5 against Liverpool. During the month of this losing streak, accompanied by the Glazers' sale of 9.5 million shares to the open market, MANU's market cap fell by 20%; however, these events do not diminish MANU's future earnings prospects by nearly that much representing an undervaluation. It is true that long-term subpar performance could mean missing out on more games on the UEFA stage, but the club has the resources to shuffle players or coaches around to achieve better results in future games and seasons. Since good or bad performance on the field is purely a function of these employees, and the club can afford to replace them as they see fit, current hardship on the field is not an indicator of performance even next year, let alone over a mid-term or long-term horizon.

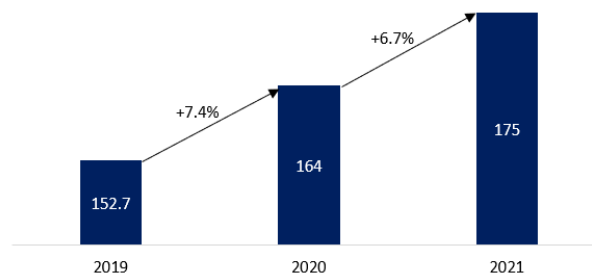
Figure 1.2: MANU EPL standings by year



ONLINE EXPANSION

While MANU already has the largest online fanbase in the EPL, its presence is still growing. MANU's total follower numbers on social media have been steadily increasing at high single digit rates. With China also entering this narrative, this gives a clear growth outlook for MANU's e-commerce initiative "United Direct". China's heightened interest in MANU will directly translate into merchandise sales, whether through United Direct or entertainment centers like Theatre of Dreams, which MANU is opening in major Chinese cities. The revenue boosts from these Chinese fans will not only be contained in retail though, but more viewers are also already bringing in increased Chinese sponsorship money and have the potential to increase the value of broadcasting contracts.

Figure 1.3: Social media followers in millions.



DCF PROJECTIONS

The current price of MANU stock is \$16.02, and our price target of \$19.11 represents a 19.39% gain, while the upside prediction of \$21.70 represents a 35.45% gain. Our model factored in increased expenses mostly stemming from MANU's commitment to pay all its employees above the living wage, and a two-year recovery period for MANU revenue streams overall.

Figure 1.4: Valuation range

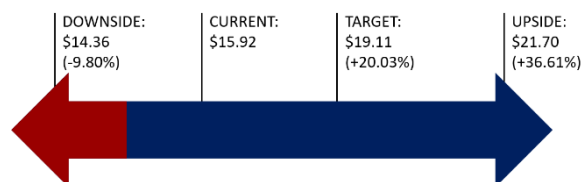
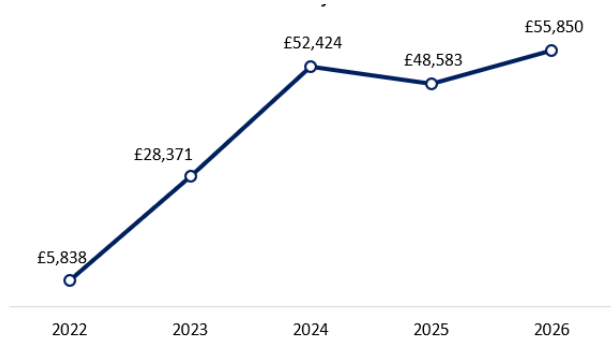
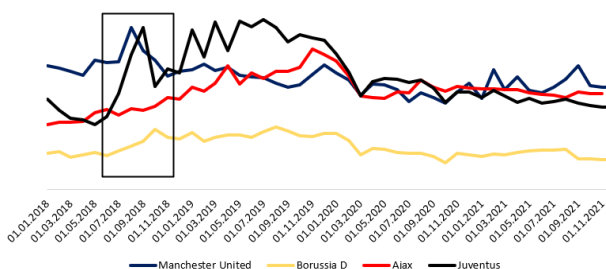


Figure 1.5: Unlevered free cash flows in millions



The 2018 World Cup generated the most engagement a tournament had in recorded history, with 7.5 billion viewers tuning in and \$6.1 bln in revenue being generated. In fact, the stock of major soccer teams trended up during the last World Cup season. This event scheduled to happen in November 2022 can serve as a catalyst for value realization for MANU stock.

Figure 1.6: World cup



RISK FACTORS

There are three main risk factors that have been identified for Manchester United (1) the negative impacts on revenue if the team does not qualify for the Champions League or, secondarily, the Europa League (2) the uncertainty with the teams coaching staff, particularly Ole Gunnar Solskjær : the team's head coach and (3) the potential for injury of start players like Cristiano Renaldo.

CONCLUSION

MANU stock is undervalued right now at \$16.02; it's future potential for free cash flow is not affected by current underperformance on the field. Besides a revenue increase from the reopening of Old Trafford, MANU;s growing global presence also presents opportunities for sales growth. The downside case is cushioned by the loyalty of the fans to the club and the high market value of the players. The risk factors we believe are important but unlikely to hold the share price back from the predicted \$20.11.

Team standings in the Premier League are important for a number of reasons including prize money and UEFA EL and UEFA CL qualifications. Teams that rank in the top four go on to play in the Champions League where a substantial amount of revenue can be generated. Teams can earn up to £52 mln in prize money from advancing in the league in addition to broadcasting and commercial revenue increases. The team that finishes in fifth place goes on to play in the Europa League where they gain another opportunity to qualify for the champions League. The opportunity for prize money is £17.25 mln in addition to broadcasting and commercial revenue increases. While Manchester United currently stands in sixth place, the odds of not qualifying for either of the two top tier leagues remains low based off of the teams last ten years of competition. While this could hurt additional revenues, Premier League teams generate the majority of their revenues in the Premier League and additional revenues from the Champions League or Europa League would only amount to a 25% increase in the best case scenario.

Manchester United's four game losing streak has made management skeptical over Ole Gunnar Solskjær's head coach position. The team has given Solskjær the three matches following their loss to Liverpool for him to save his job. Should the team undergo a head coach change during this season, it could hurt team synergy and potentially cost the team a top five finish this season but should ultimately bode well for the 2022-2023 season.

Injury risk is an inevitable part of elite professional sports especially in highly physical sports like soccer. Paying out salaries to injured players continues to remain a high business expense for all teams . Data taken from the 2018-2019 season showed that Manchester United had the second largest injured player expense at £25.2 mln to injured players throughout the season. Manchester United's current squad's average age is 27.9 years old, and data shows that 52% of all injuries occur to players between the ages of 26 and 30. While this is a risk, Manchester United continues to provide world class physical trainers in an effort to prevent injury. Also, star player, Cristiano Renaldo, has rarely been injured in his career and thus seems unlikely to be injured within the time frame of the proposed position; however, he would be the costliest player to sit on the bench .