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Investment Insight

PRESIDENT XI'S THREE WISHES FOR CHINESE FOOTBALL: The Increasing Influence of Chinese Investors on World Football – the Ownership, the League and the Game

This article is an abridged version of a much longer piece written by Matt Tench, the leading UK-based sports journalist and editor. Currently he writes for the i newspaper. Previously he has held senior positions at the Independent, Daily Mail, FourFourTwo magazine and The Observer Sport Monthly.

In the autumn of 2015 the Chinese President Xi Jinping interrupted his five-day state visit to the UK for a remarkable reason. Between the royal banquets, business summits and high-level discussions, he visited an English football club – Manchester City – which was an added surprise because he is believed to be a Manchester United fan.

Looking back, it feels as if his visit will turn out to be the most significant single event in the English Premier League (EPL) last season; greater even than the extraordinary title victory by Leicester City, in only its second season back in the Premiership. It demonstrated to the world that Chinese enthusiasm – not just a simple liking for the game, but a desire to be involved and influential – springs right from the top of the Chinese Government.

Chinese Government ambitions

For several years previously President Xi had expressed his three wishes for Chinese football – he wanted China to qualify for another World Cup, to host the tournament and to win it. Even for the leader of the most populous country in the world, it was a bold ambition, given that China then had qualified for just one World Cup in 2002 and did not make it past the group stages.

President Xi's visit to Manchester occurred just as a number of substantial football-related developments were taking place within China and globally. Within three months, a Chinese consortium had paid \$400m for a 13% stake in Man City. In April 2016, the Chinese Football Association (CFA) outlined plans to make China into a “world football superpower” by 2050. The CFA set ambitious targets, including for 50 million Chinese to play football on 20,000 pitches and at 70,000 training centres by 2020; and providing one pitch for every 10,000 people.

In 2016 the wave of Chinese investment into English football accelerated with the purchase of four established names – Wolverhampton Wanderers, Aston Villa, Birmingham City and West Bromwich Albion. All four clubs are based in the Midlands, for many years an under-performing region in terms of footballing success.

Including these five transactions in the UK, Chinese investors have purchased equity stakes in, or full ownership of, c. 20 European football clubs over the last two years. The process looks to be continuing with the owners of Southampton and Liverpool both thought to be in advanced discussions with Chinese buyers.

Chinese interest in European clubs

There are several reasons why investment in a European football team is so attractive to Chinese buyers. Most clubs in the higher leagues are now professionally run, and many generate operating profits, including 17 of the 20 clubs in the EPL. Apart from the huge escalation in the value of international broadcasting rights, top European clubs now

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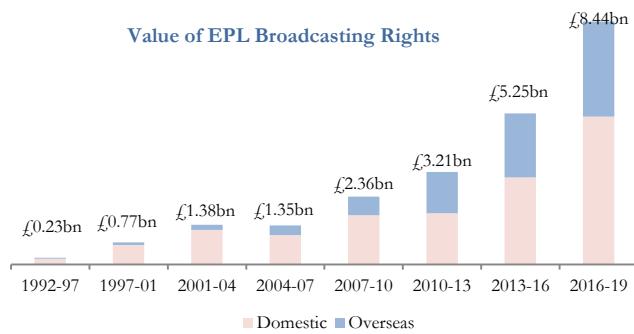
generate substantial revenues from sponsorship and broader commercial initiatives. In short, they have become viable long-term investments, offering long-term returns.

Owning a well-known European football club, a trophy asset of global renown, can also confer knock-on benefits to the owner, for example in access to capital for expanding other businesses. Buying a football club may constitute an acceptable way of investing money overseas in accord with President Xi's wishes and official Chinese government policy. And finally, acquiring a club is an effective means of quickly acquiring expertise and know-how at a time of major investment in the game in mainland China.

Interest from international buyers encompasses all of the major European leagues, with the exception of the German Bundesliga where a 50% + 1 share rule (held by 'local' Germans) has provided a hurdle. Of the major leagues, the EPL has attracted the largest number of suitors. In the simplest sense this has been driven by the enormous and growing value of TV rights, allowing the clubs to afford the best talent and boosting viewing appeal. This virtuous circle of money, talent and popularity has been boosted by other factors such as the equitable distribution of the TV money across the EPL, making it the most competitive league in Europe. A tighter competitive battle for the title each year creates greater excitement and in turn greater value again.

Outlook for TV rights

A central question around the prospects for the EPL is whether the value of the TV broadcasting rights can be sustained at the current elevated level – £2.8bn p.a. during the current three year contract, a 3.5x increase over ten years and 6x over 15 years – or whether the outlook is for continued growth, or even decline?



Some recent evidence in the UK has pointed to a peak of local demand. For example Sky's UK football viewing figures fell back in the summer of 2016; and a growing number of younger fans have been accessing EPL matches through alternative online channels. By contrast the intensity of competition from media companies for EPL content has continued at a high level. BT's entry in 2013 has been a good commercial experience, and only this month it agreed to pay £394m p.a. to retain the exclusive rights to the Champions and Europa League matches over 2018-20, a 34% increase over the current level.

Interest from Qatar?

Continued growth in the global franchise of the EPL is expected to be a major positive influence on the value of the overall TV rights in the next auction cycle 2019-22, even if the UK element might grow at slower pace. For example it is widely rumoured that beINsports, a global Qatari-owned network, could join the incumbents of Sky and BT in the auction as a third bidder. The beIN network, formerly known as Al Jazeera Sports, already owns TV rights in many countries, including French football inside France. The country of Qatar is planning to spend c. \$200bn on hosting the 2022 World Cup, so paying say £10bn over three years to take control of the domestic and significant international EPL rights would be a small increment with huge additional marketing leverage as Qatar endeavours to become a serious footballing nation.

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*A golden age
of value growth*

There are other substantial medium-term growth vectors in the international markets for EPL content. These include China, where the EPL recently revealed that it is expecting to sign a new three year contract worth some ten times the existing level, or over £500m in total. Interest in the EPL is also growing strongly in India, boosted by urbanisation and the increasingly wealthy middle-class, who are seeking some bandwidth to add to the traditional cricket focus.

With the rapid growth of new media platforms and the increasing globalisation of many sports, unconstrained by national boundaries, it feels as if the industry is in the midst of a ‘golden age’ in value growth and cash generation. Within this mega-trend there are good grounds for believing that European football will gain in the rankings. It has truly global appeal; more than say NFL or baseball. Fans and players of all abilities understand it and love it. The three leading sports clubs on social media are Barcelona, Real Madrid and Man United. Within the global industry of football, the EPL is in a tremendously strong position in terms of revenue growth and appeal to the leading players and managers in the world. This pre-eminence may be challenged in some way by China in the next few decades, if President Xi’s three wishes come true. But even in a shift to a ‘global’ Champions League we guess that EPL clubs will be sure to feature.

*Matt Tench
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