

# Valuing sports teams

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Portsmouth, Liverpool, Arsenal and Manchester United: four Premier League football teams with very different on-field fortunes this season.

Off the pitch, however, Portsmouth's search for its fifth owner of a turbulent campaign with a reported price tag of £30 million, the Rhone Group's proposal to take a controlling 40% stake in Liverpool for a reported £100 million, Liverpool's appointment of Barclays Capital to find new investment into the club, a 16% and potentially controlling stake in Arsenal put up for sale by one of the shareholders with a reported asking price in the range of £80 million, and the efforts by a consortium of City bankers and lawyers calling themselves the Red Knights to acquire Manchester United for a price reported to be in excess of £1 billion binds the four clubs together through this simple question: just what is a football club worth and how does one go about valuing such an enterprise?

Fundamentally, the techniques for valuing a football club are the same as those employed in valuing any enterprise. Generally, two main approaches are employed: the income approach, in which future cash flows attributable to the owner of the business are modelled, discounted to present value, and then summed to give the net present value of the business; and the market approach, in which financial statistic multiples are derived from observations of either similar publicly traded companies, or transactions in similar companies, and then applied to the appropriate financial statistic of the company under

valuation. Revenue multiples are most normally used in the latter approach, in order to reflect the fact that there is significant scope for varying costs (and therefore profits) within sports teams, particularly around player wages and bonuses.

Whether a football club is valued through the income approach, market approach, or both, the valuation will require certain adjustments to be made to reflect specific features of the team being valued. When adopting the market approach, adjustments may need to be made to the multiple used to reflect factors such as the extent and profitability of commercial operations, sponsorship income, stadium ownership and the need for capacity increase or indeed a new stadium, size of catchment area, the presence of other teams nearby, and of course recent success. Recent success impacts not only football revenue but also the ability to attract and enhance sponsorship income and media rights income.

The income approach would incorporate the effect of these factors in the forecast cash flows, and often allows for more subtler valuation adjustments than the simple tweaking of a multiple; however, the need for detailed forecasts and an in-depth understanding of how a club's cash flows could be altered often impedes the use of this method by an outsider seeking to value a sports team. Finally, it should be noted that valuations are required for many sporting organisations other than football clubs: for example, Grant Thornton's Valuations Services team has carried out valuations for several Formula One teams in recent years in addition to valuing a number of football clubs and other sporting events/organisations. It is also true that valuations may be required for other purposes than just potential investment: for tax-planning, perhaps, or determining an appropriate fee for stadium naming rights, or for a club with a particularly valuable brand they wish to use as collateral when seeking finance. What is clear though is that this is a highly-specialised field, with vast sums often at stake, and that it is crucial for those involved to have expert advice on their side before going out to play.

## Grant Thornton's sport experience

Grant Thornton's expertise in the field of sport extends far beyond valuations. We have a long-established track record of acting as auditor to football clubs: for example, the firm is currently auditor to the Scottish Football Association, Rangers Football Club plc, Sheffield United plc and Norwich Football Club.

In addition to audit services, our recent work has included several due diligence assignments. We have completed a number of review assignments involving Football League clubs, including reviews of financially distressed clubs. We have also advised clubs who have suffered relegation from the Premier League upon the restructuring of their businesses. On the individual side, we also advise a number of well-known Premier League players on

commercial and tax matters. Our Advisory team provided evidence to the All Party Parliamentary Committee on Football Finance and has been retained by the Football League to provide expert advice on footballing sanctions.

We also provide services to sporting spheres other than football. Our Government and Infrastructure Advisory team has assisted with developments relating to the World Cup and major sporting venues including Wembley Stadium and the proposed new stadium for Everton FC. We have carried out Assurance and tax work for the PGA European Tour, the Rugby Players' Association, the Women's European Golf Tour, and Surrey Country Cricket Club. Finally we also provide tax advice to the Rugby League.



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