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9B19N006

Guangzhou Evergrande Taobao FC: Valuing Growth Potential[[1]](#endnote-1)

Stephen Sapp wrote this case solely to provide material for class discussion. The author does not intend to illustrate either effective or ineffective handling of a managerial situation. The author may have disguised certain names and other identifying information to protect confidentiality.

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In fall 2016, *Forbes* magazine had recently declared Guangzhou Evergrande Taobao Football Club (Evergrande) the most valuable football (soccer) club in China. The club, which had been purchased by Evergrande Real Estate Group in 2010 for US$16 million, was now valued at US$282 million, according to *Forbes*.[[2]](#endnote-2) This paled relative to its market capitalization of almost US$3.4 billion in China, where the shares were traded on the National Equities Exchange and Quotations Co., Ltd. (NEEQ).[[3]](#endnote-3) As a football fan, Li Zhang was considering buying shares in the highly successful football club, but he was concerned about the high price for its shares. Was the club really worth this much money? It had been successful on the field, but the team had yet to turn a profit.

The team’s success on the field was without question: it had won several championships since being purchased by Evergrande Real Estate Group, earning its first top-tier title in the 2011 season. The club was the only Chinese football club to win the Asian Football Confederation (AFC) Champions League[[4]](#endnote-4) twice: once in 2013 and again in 2015. It was also the first Chinese club to participate in the Fédération Internationale de Football Association (FIFA) Club World Cup, making its first appearance in 2013.[[5]](#endnote-5) These measures of success stood in contrast to the team’s financial losses of over US$100 million per year since the acquisition in 2010.[[6]](#endnote-6)

**The Dilemma**

Li was excited about the possibility of owning a part of Evergrande. However, he was unsure about how the football club generated value and thus whether it was worth such a high price. Before investing, Li wanted to determine whether Evergrande’s high price was warranted and whether there was still room for the price to increase in the future. To do this, he needed to understand how the team was valued. Evergrande appeared to be similar to a technology start-up, with negative cash flows early in its development due to a necessarily significant investment in assets (e.g., players) and a large potential for growth in the future. To get started, Li dove into the history of football in China in general and of Evergrande in particular.

**SOCCER IN CHINA**

Despite its many ups and downs, soccer was one of the best-supported sports in China. Its predecessor in China, *cuju* or *tsu’chu*, originated in China’s Warring States period in the second and third centuries BC. The sport was initially a military fitness exercise, but it became a popular game among the upper classes during the Han dynasty (206 BC–220 AD). The game developed over time and flourished in the Song dynasty (960–1279). The ancient game started to decline in the early Ming dynasty (during the fourteenth century); the Hongwu Emperor felt that cuju could demoralize the army, so he banned soldiers from playing it and punished violators by amputation. Interest in cuju was further dampened during the Qing dynasty (about 1636–1912), when the Manchu ruler issued a universal ban on the sport.[[7]](#endnote-7)

Modern football was introduced to China through Hong Kong in the late nineteenth century, and China became a member of FIFA in 1931. China had to withdraw from FIFA following the founding of the People’s Republic of China, but the Chinese Football Association (CFA) rejoined FIFA in 1979.[[8]](#endnote-8) China’s first attempts at distancing soccer from state influence began in the 1990s with the development of a Chinese league system. This marked the start of the professionalization and commercialization of the sport in China.[[9]](#endnote-9) The ongoing role of the government agency, the CFA, was necessary due to the Chinese law that restricted meetings of 10 or more people without official sanctioning.

As soccer’s popularity increased, more capital flowed into the industry. To retain the best players, football clubs competed by paying high salaries, which they financed using debt backed by the state safety net. To rein in this debt, in 2001 the CFA introduced a player wage and bonus cap. Some observers believed these actions led to the widespread match-fixing and corruption scandals that rocked the league in the early 2000s.[[10]](#endnote-10)

To address these scandals, the CFA established the Chinese Super League (CSL) in 2002. Teams wanting to join the CSL had to meet several requirements, which were designed to limit future scandals by ensuring the quality of the teams and their organizations. The league’s first season was in 2004, and there were 12 teams. The first season had some scandals, as a spillover from the previous system, but the league improved and grew, with the number of teams rising from 12 to 16 in 2009.[[11]](#endnote-11) In 2010, the league once again faced scandals such as gambling, match-fixing, and corruption—both within the teams and at the very top of the CFA. At this point, the Chinese government stepped in.[[12]](#endnote-12) By 2011, things were seen to be improving, and teams were bringing in international stars to increase the calibre of play.[[13]](#endnote-13)

The Chinese government continued to work on its mandate to grow football in China.[[14]](#endnote-14) This political support was seen to increase the potential value of the football clubs and to decrease the opportunities for scandals. President Xi Jinping, a confirmed soccer fan, often made clear his intention for China to become a soccer powerhouse. A crucial aspect of his plan was to develop the CSL into one of the best leagues in the world.[[15]](#endnote-15)

Expanding on these efforts, in March 2015 Xi’s government unveiled an ambitious plan to address his three wishes: to develop young soccer talent, to improve the Chinese national teams, and to get World Cup recognition. The reform plan included increasing the number of elementary and middle school soccer programs tenfold, to 50,000 by 2025, and increasing the separation between politics and the sport by removing the Chinese Football Admistrative Center from the CFA, which was done in February 2016.[[16]](#endnote-16) The changes were all targeted at reinforcing the private sector’s confidence in soccer.

**CHINA EVERGRANDE GROUP**

Guangzhou-based China Evergrande Group was the country’s largest real estate company in terms of sales, with total contracted sales of ¥373.37 billion in 2016.[[17]](#endnote-17) The group was founded in 1996 by billionaire Xu Jiayin, who was ranked by *Forbes* as the ninth-richest man in China in 2016.[[18]](#endnote-18) In recent years, China Evergrande Group had been striving to diversify into non-property sectors, such as entertainment, sports, fast-moving consumer goods (FMCG), health care, tourism, and finance. In 2016, the group recorded revenue of ¥211.44 billion and gross profit of ¥59.42 billion. Its core real estate business contributed ¥20.81 billion of profit.[[19]](#endnote-19)

The group launched an initial public offering (IPO) in Hong Kong in October 2009, raising HK$6 billion.[[20]](#endnote-20) In Hong Kong, the group also had two other listed companies: Evergrande Health Industry Group Ltd. and Hengten Networks Group Ltd., a residential community service joint venture with Chinese Internet giant Tencent Holdings Ltd. Evergrande Culture Industry Group Co. Ltd., the umbrella company for the group’s entertainment businesses, was listed on the NEEQ in China. In July 2016, the Hong Kong-listed real estate portion of the group changed its name from Evergrande Real Estate Group to China Evergrande Group, to “better reflect the diversified business strategy and corporate identity of the company.”[[21]](#endnote-21)

China Evergrande Group’s rapid expansion had been controversial due to its high leverage. With US$78 billion (¥500 billion) in debt outstanding as of the end of 2016, the company was sitting on the second-largest debt among all Chinese companies. In order to begin reducing its leverage, it had sold off its FMCG business in September 2016 for ¥2.7 billion.[[22]](#endnote-22) Within less than a week, China Evergrande Group also announced that it had sought a backdoor listing[[23]](#endnote-23) of its property subsidiary on the Shenzhen Stock Exchange.[[24]](#endnote-24) The company had already started selling significant blocks of shares of the new entity, expected to be valued at ¥195 billion, to strategic investors in order to further decrease its leverage.[[25]](#endnote-25)

**GUANGZHOU EVERGRANDE TAOBAO Football Club (FC)**

Guangzhou Football Club was founded in 1954 as a member of the Chinese national football league. After a poor performance in the initial seasons, Guangzhou Football Club was relegated to the league’s second division. The Guangzhou-based soccer club had inconsistent performance until 1966, when it was forced to stop due to the Cultural Revolution. The club started playing again in 1977. Between 1977 and 2001, the team was demoted and promoted among leagues several times due to inconsistent performance. In 2001, during a period of widespread scandal in the Chinese leagues, the team was again taken over by the Guangzhou Sports Bureau because of the number of scandals involving the team.[[26]](#endnote-26)

After several challenging years with ownership changing several times, Guangzhou Pharmaceuticals Corporation took over the club in 2006 and renamed it the Guangzhou Pharmaceutical Football Club. The team started to improve under this sponsorship, but in January 2010, ownership of the club was returned to the Guangzhou Sports Bureau due to match-fixing and the team returned to the name Guangzhou Football Club. Two months later, Evergrande Real Estate Group bought the soccer club for ¥100 million (US$16 million) and renamed it the Guangzhou Evergrande Football Club.

Since the acquisition, the property developer had been pumping money into the team. Evergrande management suggested that the property company had invested over ¥1.5 billion in the club during the first three years.[[27]](#endnote-27) The investment brought the team results: Evergrande was promoted to the CSL after winning the title in the Chinese second tier league, China League One (CLO), in 2010, and it won the CSL championship in each of the following years. It also won the 2013 and 2015 AFC Champions League.

However, the team’s success on the field had not translated into financial success. The team had not been able to generate a profit since the purchase by Evergrande Real Estate Group. According to *Forbes*, Evergrande had an estimated revenue of ¥380.6 million (or US$57 million) in 2015 but a net loss of ¥953.2 million (US$146 million) for the 2015 season.[[28]](#endnote-28) The next year, there was an increase in revenue to ¥561 million (US$88 million), but the team’s financial position did not improve substantially; it still had a net loss for the 2016 season, although this had decreased to ¥812 million (US$ 127 million).[[29]](#endnote-29)

It was clear that China Evergrande Group was more focused on the team’s success on the field than on its profitability. As Xu Jiayin told the media in 2011, Guangdong TV stations paid the team only ¥40,000 for broadcasting each match, but in exchange, Evergrande got 90 minutes of brand exposure. Advertising boards were ubiquitous in Evergrande’s home stadium, and the team had many sponsors that wanted to promote their brands through its matches. This made sponsorship of the team a bargain compared to TV commercial costs of ¥150,000 per second.[[30]](#endnote-30)

Sponsorship represented more than 70 per cent of the club’s revenue by 2015.[[31]](#endnote-31) Its major sponsors included Dongfeng Nissan Passenger Vehicle Co. (Dongfeng Nissan), Unilever, and LVMH Moët Hennessy Louis Vuitton SE. The value of being related to a winning football club was increasing;[[32]](#endnote-32) this was consistent with the parent group’s real estate brand increasing to a value of US$4 billion by 2012, making it the most valuable real estate brand in China—it remained the top brand until 2015.[[33]](#endnote-33)

Beyond the increase in value of Evergrande’s brand and revenues, the external monetization of the football club could be seen in July 2014, when Alibaba Group Holding Limited (Alibaba) agreed to acquire half of the club for ¥1.2 billion (about US$192 million).[[34]](#endnote-34) After the investment, the club added Taobao, the name of Alibaba’s online marketplace, to its name. On announcing the deal, Xu told the press he was planning to seek more investors and eventually list the club. In preparation for the listing on China’s NEEQ, China Evergrande Group increased its stake in the club from 50 per cent to 60 per cent, for ¥400 million[[35]](#endnote-35) in May 2015, implying a valuation of ¥4 billion (US$630 million).

In January 2016, Evergrande raised ¥869 million (US$132 million) from institutional investors through the NEEQ.[[36]](#endnote-36) Following this transaction, China Evergrande Group remained as the controlling shareholder with a 56.71 per cent stake, and Alibaba held a 37.81 per cent stake, implying a valuation of almost US$2.4 billion.[[37]](#endnote-37) The club’s shares first traded on the NEEQ four months later, in March 2016, and had a market capitalization of over US$3.3 billion, making Evergrande the most valuable soccer club in the world.[[38]](#endnote-38)

How did a company losing so much money (US$146 million) have such a high valuation (US$282 million according to *Forbes*[[39]](#endnote-39) and over US$3.3 billion according to the Chinese stock market[[40]](#endnote-40))? Why would the owners of Alibaba (the owner of Taobao) pay US$192 million for 50 per cent of the club,[[41]](#endnote-41) indicating they valued the asset at US$384 million, a couple of years earlier? Successive private capital raisings in China valued the football club at US$1.6 billion in July 2015[[42]](#endnote-42) and at US$3.3 billion in March 2016, after the IPO.[[43]](#endnote-43)

**Business Model and Strategy**

In January 2015, Evergrande announced its second five-year plan. Its goal was to build an internationally compatible world-class club.[[44]](#endnote-44) The club was ambitious: it wanted to improve its operation to become one of the world’s top 20 clubs within five years and to be comparable to other world-class football clubs. Attendance at CSL games was rapidly increasing (see Exhibit 1) and was comparable to that of some top international leagues. By increasing its visibility and fan base, Evergrande could generate revenue and thus value for its investors through two principal means: the sports business and product sales.

**Sports Business**

Within the sports business revenue sector, the club monetized its soccer team and the brand via sponsorship, match-day ticket sales, appearance fees, match rewards, and licensing. The club had both sponsors related to Evergrande’s real estate and other businesses, and major international clients including Dongfeng Nissan and Unilever. In 2016, “commercial ads earned the club about 400 million yuan [US$59 million], accounting for more than 70 per cent of . . . total revenue, while the second-largest contributor was the 100-million-yuan [US$15 million] in fees and bonus money.”[[45]](#endnote-45) The value of sponsorship and appearance fees for some of the top teams in more developed markets (see Exhibit 2) was very high, in some cases generating up to two-thirds of the teams’ overall revenue.[[46]](#endnote-46)

The club’s home, Guangzhou Tianhe Stadium, seated 56,000. Evergrande offered both season tickets and single match tickets. The team’s victories on the pitch had given a boost to its ticket sales: match-day revenue in 2015 “saw earnings of 235 million yuan [US$35 million], quadrupling the 55 million yuan [US$8 million]” from 2013.[[47]](#endnote-47) In 2015, Chinese broadcasters paid only US$13 million to show local league games. In 2016, China Media Capital purchased the broadcast rights to the Super League over the next five seasons in a deal worth ¥8 billion (US$1.3 billion).[[48]](#endnote-48) The broadcast rights and appearance fees earned by top global teams (see Exhibits 3 and 4) indicated that these fees could be very valuable. In comparison, the broadcast fees earned by Major League Soccer (MLS) in Canada and the United States—a newer league with attendance similar to the CSL’s attendance of approximately 22,000 per game in 2015—were just US$90 million annually from domestic TV deals.[[49]](#endnote-49)

While Evergrande had made headlines by paying record-breaking transfer fees for foreign soccer stars, it had recently changed its strategy, working to form an all-Chinese team by 2021. To execute this strategy, the parent group invested ¥1.95 billion to build a soccer training school. The club could either keep its players, thus saving transfer fees, or sell its young players in order to generate revenue.[[50]](#endnote-50)

**Product Sales**

All of the products featuring Evergrande’s brand were sold directly by the club through its online and offline outlets, including an online shop on Alibaba’s retail marketplace TMall. While Evergrande remained behind the top European clubs in terms of monetizing its potential value, sales figure for the top European teams (see Exhibit 5) suggested the significant potential for a team such as Evergrande. In fact, a report by Deloitte highlighted the future potential of the Chinese Super League and suggested that as many as three Chinese clubs could compete for a place in the top 20 global football clubs.[[51]](#endnote-51)

**Valuation**

Although *Forbes* had estimated the price of Evergrande at US$282 million,[[52]](#endnote-52) Li wanted to understand the difference between this figure and the club’s current market value of over US$3.3 billion.[[53]](#endnote-53) The value of sports teams came from several sources: the marketing value companies derived from having their names associated with successful sports teams; the long-term value that could be generated once the asset’s value could be monetized; and the prestige of owning a rare, high-profile asset.

According to the club’s financials, it was losing money each year. In fact, it was losing so much money that its principal investors had to keep injecting equity capital into the organization to keep it afloat. Although the revenue base was increasing, it was still far below the high costs being incurred to acquire new assets (players) and grow.[[54]](#endnote-54)

Despite Evergrande’s valuation on the NEEQ, Chinese soccer’s 10 most valuable teams were worth an average US$130 million each, according to *Forbes* (see Exhibit 6).[[55]](#endnote-55) In the 2015 season, Chinese teams generated an average estimated revenue of US$28 million and were valued at an average price to revenue ratio of 4.67.[[56]](#endnote-56) Most of these teams were not publicly listed, so Li could only compare the values estimated by *Forbes*.

Looking outside of China for comparable teams, there were similarities between the CSL and MLS in the United States and Canada. Both leagues were still in the early stages of development and were known for acquiring star players. The valuations of the teams in these leagues were somewhat similar; the average value of the 10 most valuable MLS teams was US$197million, but their average price to revenue ratio was 7.05[[57]](#endnote-57) (see Exhibit 7).

As the next stage of his analysis, Li looked at how the more established professional sports teams were valued, by pulling together some valuation and financial information on the top European football clubs, also from *Forbes*. The clubs were in mature markets with large, well-established fan bases (see Exhibit 8). He hoped this information would allow him to see the potential long-term value of Evergrande. Although most football clubs were private, Li was able to get some information on the actual market values of some top European clubs and both their debt and equity costs (see Exhibit 9). This information could be used to do some rough fundamental valuations for Evergrande, relative to its European peers.

**the Decision**

With all of this information, Li had to determine whether Evergrande was a good investment at this price. The situation appeared similar to a technology start-up, which also tended to burn through cash in its initial years as it built up its assets and customer bases in anticipation of large profits in the future. This raised more questions regarding how to value an asset with significant performance on the field but yet unrealized financial potential, and why this value was so different from the valuation provided by *Forbes* and that of the Chinese stock market.

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**Exhibit 1: Attendance at SOccer Games in Major leagues (thousands)**

Note: CSL = Chinese Super League; MLS = Major League Soccer; US = United States; CA = Canada FR = France; MX = Mexico

Source: Created by the case author using data from Yutao Chen, “Infographics: More Football Fans Turning Out for the Chinese Super League,” CGTN America, accessed August 8, 2018, <https://america.cgtn.com/2017/07/20/infographics-more-football-fans-turning-out-for-the-chinese-super-league>.

**Exhibit 2: Largest sponsorship deals in soccer (in US$ Millions)**

|  |  |  |
| --- | --- | --- |
| Rank | Team |  |
|  |  | Annual Average |
| 1 | Barcelona | 233 |
| 2 | Real Madrid | 216 |
| 3 | Manchester United | 214 |
| 4 | Chelsea | 148 |
| 5 | Bayern Munich | 109 |
| 6 | Arsenal | 89 |
| 7 | Liverpool | 82 |
| 8 | Manchester City | 77 |
| 9 | Tottenham Hotspur | 74 |
| 10 | Juventus | 52 |

Source: Created by the case author using data from Chris Smith, “The Most Valuable Sponsorship Deals in Soccer,” *Forbes*, May 11, 2016, accessed August 8, 2018, www.forbes.com/sites/chrissmith/2016/05/11/the-most-valuable-sponsorship-deals-in-soccer/.

**Exhibit 3: per-season Broadcasting rights for major global football leagues (in US$ Millions)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| League | Domestic | International | Total | Term |
| Premier | 2,340 | 2,210 | 4,550 | 2017/2019 |
| Bundesliga | 1,299 | 269 | 1,568 | 2018/2021 |
| Serie A | 1,056 | 208 | 1,264 | 2016/2018 |
| La Liga | 989 | 271 | 1,260 | 2017/2019 |
| Ligue 1 | 813 | 90 | 903 | \*2017/2020 |

Note: \*International rights 2018/2024

Source: Created by the case author using data from Mike Ozanian, “The World’s Most Valuable Soccer Teams 2017,” *Forbes*, June 6, 2017, accessed August 7, 2018, www.forbes.com/sites/mikeozanian/2017/06/06/the-worlds-most-valuable-soccer-teams-2017/#23935ded77ea.

**Exhibit 4: Top Champions League appearance fees for major global Football clubs, 2014–2015 (in € millions)**

|  |  |  |
| --- | --- | --- |
| Rank | Team/Country | Amount |
| 1 | Juventus (Italy) | 89 |
| 2 | Barcelona (Spain) | 61 |
| 3 | Paris Saint-Germain (France) | 56 |
| 4 | Real Madrid (Spain) | 53 |
| 5 | AS Monaco | 52 |
| 6 | Bayern Munich (Germany) | 50 |
| 7 | Manchester City (England) | 46 |
| 8 | AS Roma (Italy) | 46 |
| 9 | Atletico Madrid (Spain) | 44 |
| 10 | Chelsea (England) | 39 |

Source: Created by the case author using data from Totalsportek2, “UEFA Champions League Prize Money 2018 (Winners to Earn Upwards of €100 Million),” Total Sportek, May 25, 2018, accessed August 7, 2018, www.totalsportek.com/money/uefa-champions-league-prize-money/.

**Exhibit 5: commercial (merchandise and sponsorships) Earnings in 2015**

**(in € millions)**

|  |  |
| --- | --- |
| Real Madrid | 231.5 |
| Manchester United | 226.4 |
| Bayern Munich | 291.8 |
| FC Barcelona | 185.7 |
| Paris St-Germain | 327.7 |
| Manchester City | 198.3 |
| Chelsea | 135.7 |
| Arsenal | 92.2 |
| Liverpool | 124.1 |
| Juventus | 85 |

Note: € = EUR = euro; US$1 = € 0.9538 as of December 31, 2016

Source: Created by the case author using data from Samuel Boor, Chris Hanson, and Calum Ross, *Rising Stars: Football Money League*, Deloitte, January 2018, accessed August 8, 2018, www2.deloitte.com/uk/en/pages/sports-business-group/articles/deloitte-football-money-league.html.

**Exhibit 6: Valuations of top Chinese football clubs**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | Valuation (US$ million) | Revenue (US$ million) | Multiple of Revenue |
| 1 | Guangzhou Evergrande Tabao | 282 | 57 | 4.95 |
| 2 | Beijing Guoan | 167 | 30 | 5.57 |
| 3 | Shanghai SIPG | 159 | 37 | 4.30 |
| 4 | Jiangsu Suning | 144 | 36 | 4.00 |
| 5 | Shandong Luneng Taishan | 126 | 24 | 5.25 |
| 6 | Shanghai Greenland Shenhua | 106 | 29 | 3.66 |
| 7 | Hebei China Fortune | 90 | 22 | 4.09 |
| 8 | Tianjin Teda | 84 | 15 | 5.60 |
| 9 | Congqing Lifan | 76 | 17 | 4.47 |
| 10 | Liaoning Whowin | 67 | 14 | 4.79 |
|  |  |  |  |  |
|  |  |  | Average | 4.67 |
|  |  |  | Median | 4.63 |
|  |  |  |  |  |
|  |  |  | Minimum | 3.66 |
|  |  |  | Maximum | 5.60 |

Source: Created by the case author using data from “Chinese Soccer’s Most Valuable Teams,” *Forbes*, accessed August 7, 2018, www.forbes.com/pictures/gkle45fmd/chinese-soccers-most-va/#c01422e41361.

**Exhibit 7: Valuation for Major League Soccer Teams**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Team | Value (US$ million) | Revenue (US$ million) | Operating Income (US$ million) | Multiple of Revenue | Multiple Operating Income |
| LA Galaxy | 315 | 63 | 9 | 5.00 | 35.00 |
| Seattle Sounders | 295 | 53 | 6 | 5.57 | 49.17 |
| Toronto FC | 280 | 46 | −9 | 6.09 |  |
| New York City FC | 275 | 34 | −9 | 8.09 |  |
| Orlando City SC | 272 | 33 | 2 | 8.24 | 136.00 |
| Portland Timbers | 268 | 44 | 3 | 6.09 | 89.33 |
| Sporting Kansas City | 260 | 36 | 2 | 7.22 | 130.00 |
| New York Red Bulls | 245 | 32 | −2 | 7.66 |  |
| Chicago Fire | 240 | 25 | −7 | 9.60 |  |
| San Jose Earthquakes | 235 | 34 | 0 | 6.91 |  |
|  |  |  |  |  |  |
| average | | | | 7.05 | 87.90 |
| median | | | | 7.07 | 89.33 |

Source: Created by the case author using data from Chris Smith, “Major League Soccer’s Most Valuable Teams,” *Forbes*, August 16, 2017, accessed August 7, 2018, www.forbes.com/sites/chrissmith/2017/08/16/major-league-soccers-most-valuable-teams-2/2/#314b3460199c.

**Exhibit 8: Forbes valuation for top football clubs**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Rank | Team | Current Value (US$ b) | 1-Year Value Change | Debt/Value (US$ m) | Revenue (US$ m) | Operating Income (US$ m) | Multiple of Sales | Multiple of Operating Income |
| 1 | Manchester United | $3.689 | 11% | 24% | $765 | $288.00 | 4.82 | 12.81 |
| 2 | Barcelona | $3.635 | 2% | 6% | $688 | $102.10 | 5.28 | 35.60 |
| 3 | Real Madrid | $3.580 | −2% | 3% | $688 | $181.00 | 5.20 | 19.78 |
| 4 | Bayern Munich | $2.713 | 1% | 0% | $657 | $120.00 | 4.13 | 22.61 |
| 5 | Manchester City | $2.083 | 8% | 5% | $583 | $162.00 | 3.57 | 12.86 |
| 6 | Arsenal | $1.932 | −4% | 16% | $520 | $122.00 | 3.72 | 15.84 |
| 7 | Chelsea | $1.845 | 11% | 0% | $497 | $52.00 | 3.71 | 35.48 |
| 8 | Liverpool | $1.492 | −4% | 7% | $448 | $29.00 | 3.33 | 51.45 |
| 9 | Juventus | $1.258 | −3% | 7% | $379 | $58.00 | 3.32 | 21.69 |
| 10 | Tottenham Hotspur | $1.058 | 4% | 17% | $310 | $68.00 | 3.41 | 15.56 |
| 11 | Paris Saint-Germain | $0.841 | 3% | 0% | $578 | $92.00 | 1.46 | 9.14 |
| 12 | Borussia Dortmund | $0.808 | −3% | 0% | $315 | $26.00 | 2.57 | 31.08 |
| 13 | AC Milan | $0.802 | −3% | 73% | $238 | −$50.00 | 3.37 |  |
| 14 | Atletico de Madrid | $0.732 | 16% | 9% | $254 | $56.00 | 2.88 | 13.07 |
| 15 | West Ham United | $0.634 | 17% | 11% | $213 | $48.00 | 2.98 | 13.21 |
| 16 | Schalke 04 | $0.629 | −4% | 7% | $249 | $45.00 | 2.53 | 13.98 |
| 17 | AS Roma | $0.569 | 12% | 31% | $242 | −$21.00 | 2.35 |  |
| 18 | Inter Milan | $0.537 | −4% | 37% | $199 | $11.00 | 2.70 | 48.82 |
| 19 | Leicester City | $0.413 | - | 0% | $191 | $39.00 | 2.16 | 10.59 |
| 20 | Napoli | $0.379 | −4% | 0% | $158 | $41.00 | 2.40 | 9.24 |
|  |  |  |  |  |  |  |  |  |
| average | | | | | | $73.50 | 3.29 | 21.82 |
| median | | | | | | $54.00 | 3.32 | 15.70 |

Notes: b = billion; m = million

Source: Created by the case author using data from “The Business of Soccer: 2018 Ranking,” *Forbes*, accessed August 7, 2018, www.forbes.com/soccer-valuations/list/#tab:overall.

**Exhibit 9: Publicly Listed European Football Clubs in APRIL 2016**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Market Cap | Market Cap (US$) | Cost of Equity | Cost of Debt | Debt ÷  (Debt + Equity) |
| OL Groupe (Olympique Lyonnais) | €165.8 | 198 | 5.8% | 0.5% | 63% |
| Borussia Dortmund | €563.6 | 675 | 8.0% | 3.0% | 3% |
| Juventus FC | €770.4 | 921 | 12.8% | 0.6% | 32% |
| Arsenal FC | £1,648.8 | 2,228 | 7.1% | NA | 0 |
| AFC Ajax | €183.5 | 220 | 4.2% | NA | 0 |
| AS Roma | €194.3 | 232 | 10.0% | 1.9% | 48% |
| Manchester United | US$2,401.4 | 2,401 | 8.1% | 0.7% | 19% |

Notes: € = EUR = euro; US$1.00 = € 0.9538 as of December 31, 2016; £ = GBP = British pound; US$1.00 = £0.8158 as of December 31, 2016.

Source: Created by the case author using data from Bloomberg terminal data, accessed April 3, 2018.

Endnotes

1. This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in this case are not necessarily those of Guangzhou Evergrande Taobao Football Club or any of its employees. [↑](#endnote-ref-1)
2. Sergei Klebnikov, “China’s Ten Most Valuable Soccer Teams Are Led By Guangzhou Evergrande At $282 Million,” *Forbes*, August 10, 2016, accessed November 21, 2018,www.forbes.com/sites/sergeiklebnikov/2016/08/10/chinas-ten-most-valuable-soccer-teams-are-led-by-guangzhou-evergrande-at-282-million/#3fa6af3a3dfa. [↑](#endnote-ref-2)
3. The National Equities Exchange And Quotations Co., Ltd. (NEEQ), also known as the New Third Board, was a Chinese over-the-counter system for trading shares of small to medium-sized public limited enterprises. [↑](#endnote-ref-3)
4. The Asian Football Confederation (AFC) organized the annual AFC Champions League, commonly known as the Asian Champions League. It was the premier club tournament in Asia, equivalent to the South American Football Confederation (CONMEBOL) Copa Libertadores and competitions of the Union of European Football Associations (UEFA); Confederation of African Football (CAF); Confederation of North, Central American and Caribbean Association Football (CONCACAF); and Oceania Football Confederation (OFC) Champions League. [↑](#endnote-ref-4)
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