FOOTBALL EPISODE 1 – FOOTBALL: A GOOD RISK FOR INVESTORS

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From a financial perspective, investing in a Ligue 1 club is not so irrational. The higher a club's budget is, the lower the risk.

The football sector is regularly portrayed as an example of 'irrational exuberance' with regard to its financial practices (player remuneration, prices of transfers, etc.). Football clubs are often described as underperforming in their financial management and as opaque and risky entities.

However, despite this unflattering image, the appeal of the sector is undeniable. Investors of diverse nationalities have invested significant sums to acquire large European clubs: Manchester City, Chelsea, Paris Saint-Germain, and more recently Olympique de Marseille, bought by the American investor Franck McCourt.

SPORT RESULTS, THE ONLY REAL RISK

Is a football club the folly of 21st-century investors? One way of progressing this debate would be to measure the risks taken by financiers when they invest in football. What are these risks? Are they quantifiable? Is it possible to protect against them? Is there hidden value in the clubs that is currently underestimated?

The answer to the first question is the most simple: for a football club, the risk is above all performance-based. An ‘underperforming’ club will have to face a fall in its revenues and ambitions the following year. In the long term, a lack of good results gradually devalues the brand. It goes without saying that this sport risk is not the same for all clubs.

PERFORMANCE, INTIMATELY LINKED TO THE BUDGET

What is more surprising is the level of divergence between clubs. We have been able to measure the correlation between sport risk (and therefore revenues) for Ligue 1 clubs and their budget. We saw that no club with a budget in excess of €100 million was relegated to Ligue 2 in the last ten years.

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The clubs with the largest budgets only have an 8% risk of finishing between 10th and 17th in the league, a 65% chance of qualifying for the Champions League and a 23% chance of qualifying for the Europa League. At the opposite end of the spectrum, a club with a budget lower than €40 million has a 22% risk of being relegated to Ligue 2, a 4% chance of qualifying for the Europa League and only a 1% chance of qualifying for the Champions League.

In other words, the budget influences the results. This tendency has strengthened significantly over the last few years with the arrival of investors and the growth of television rights. The total budget of Ligue 1 has grown from €850 million to approximately €1.5 billion in just ten years, enabling four clubs to have a budget in excess of €100 million in 2015.

BEARABLE DIFFERENCE

Moreover, the clubs in Ligue 1 have significant reserves of value. In 2015, the market value of the teams of most Ligue 1 clubs (15 clubs) was between two and fifteen times higher than the net book value. This reserve of value results in part from the fact that numerous teams have high-performance training centres and are capable of training up top players whose value does not appear in the accounts.

Investing in football is therefore not completely irrational from a financial perspective. The risk is quantifiable and, additionally, highly correlated to the budget. In Europe, Ligue 1 has significant potential for development, and it is bound to continue to attract financial investors. Ultimately, with investors better understanding and mastering the risks – and always in search of new investment opportunities – football remains a territory to explore.

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