Stock market listing: a development lever for sports clubs?

Definition and state of play

Access to the stock market results in the issuance of shares, i.e., ownership titles in a company that can lead to the distribution of dividends. By mobilising international savings where they are available and in excess, and by making them available where they are needed, the financial markets provide professional sport with new resources to finance development projects: 189 million euros were raised during the IPO of Manchester United in 2012, 105 million for Juventus Turin in 2001, 102 million for Borussia Dortmund in 2000 and 89 million for Olympique de Lyon in 2007.

About 50 clubs have been listed on the stock market globally. This is a very small proportion compared to the number of clubs (5% in Europe). From 1983 onwards, only European football has aroused any real interest, with some 40 clubs listed in 11 countries: Great Britain (24 clubs), Denmark (6), Turkey (4), Portugal (3), Italy (3), Germany, France, the Netherlands, Poland and Sweden (1). Outside of Europe, very few clubs are listed: a few franchises in the major North American basketball, baseball and ice hockey leagues, and a small number of football clubs in South America, Africa and South-East Asia. A stock market listing is not necessarily synonymous with sporting performance. Amongst the 20 or so football clubs listed in the early 2020s are some top teams (Manchester United, Juventus, Borussia Dortmund) and others of modest standing (Aalborg BK, Ruch Chorzow, Brondby IFB). Similarly, the market capitalisations of the clubs vary widely, from 2 million euros for Chorzow to more than 3 billion euros for Manchester United (July 2020).

The stock market can be an advantage for clubs: a lever for the development of their real estate investments (stadia), a reinforcement of their equity to recruit players, a diversification of the shareholder base, additional liquidity for previous shareholders, a reduction of their debt, an obligation of rigorous management, planning and transparency and the association of fans with the financial life of the club.

During the 1990s, a stock market bubble formed in European football. However, since it burst in 1997, it has not reappeared. On the contrary, from the 2000s onwards, few clubs were priced above their introductory level; from the 2010s onwards few new listings were made; and by the early 2020s, half of the listed clubs are no longer listed. An empirical study of the detailed Dow Jones Stoxx Football index shows high volatility of returns and share prices, as well as weak market depth [Aglietta, Andreff and Drut, 2008].

Uncertainties and risks of listing

The peculiarities of the spectacle of high-level sport allow us to better understand the erratic relationship between listed clubs and financial markets. There is a fundamental contradiction between the stock market, which does not appreciate uncertainty, and sport, whose entertainment value is created mainly by the glorious uncertainty of the result. Moreover, investors doubt the ability of clubs to create value in the long term. There is also a risk that the value will be captured by the players and their agents, and not by those who take the financial risks (the shareholders). In addition, the allocation of resources is oriented, in most cases, towards sporting issues to the detriment of a commercial diversification strategy. Lastly, the markets are fearful of poor financial management by the clubs, with a lack of control over the wage bill and recurring deficits.

The fundamental value of a club is not easy to determine. The assets of clubs are mainly, and sometimes almost exclusively, intangible assets such as the players. These intangible assets are characterised by high variability and, above all, the speed at which they can depreciate for a variety of reasons: injuries, poor form, psychological difficulties, and poor integration. The high variability of these assets is not covered by sufficient equity.

Research based on event studies shows that three sets of elements cause financial markets to react and are a source of variability in the fundamental value of clubs: sporting results, value creation and its distribution to shareholders, and players' wage-bill management.

Sports results and stock market volatility of clubs

The ex-ante evaluation of the future performance of a professional football team is delicate. It is difficult to predict the individual or the collective performance of the players, in other words, the transition from individual to collective talent, including poor refereeing decisions or simple bad luck. The players' wage bill accounts for the majority of a club's operating costs due to the continuous increase in remuneration. However, the turnover depends on the team's sporting results.

Sports results contain important information for investors who revise their portfolios after matches [Benkraien, Le Roy, Louchichi, 2012]. Thus, on average, for English clubs listed on the stock exchange including during the 2000s, we note a significantly positive impact of victories on the club's share price (+ 0.88% over the three days following the match) and a significantly negative impact of defeats (- 1.01% over the three days following the match) [Palomino, Remeboog and Zhang, 2009].

The share price reacts more intensely at the end of the season because the last matches are decisive for the club's sporting future: European Cup qualification or league survival, promotion or relegation. These matches provide more information about the club's end-of-season revenues (TV rights share) and the projected revenues for the following season. Only the club's sporting results can remove the uncertainty and provide the investor with information.

If a club is eliminated from the Champions League, its stock market price will fall significantly due to the financial stakes involved in qualifying for the finals (several tens of millions of euros). For example, the two successive eliminations of Juventus Turin in the last 16 of the Champions League in 2020 and 2021 resulted in a drop in the value of Juventus' shares the day after each match:
-10% on 9 August 2020, -8% on 9 March 2021.

Value creation, dividend distribution, player and payroll management

The price of football clubs seems to react more extensively to financial information - (balance sheets, commercial contracts, structural investments), human resource management (mainly superstars and coaches) or changes in the competition formula that reduce the sporting risk - rather than the evolution of sporting results [Gimet and Montchaud, 2016].

The example of Juventus Turin's share price fluctuations over two decades illustrates the diversity of stock market movements depending on the nature of the information received. From the 2000s onwards, Juventus' share price collapsed from €3.70 in 2001 to €0.20 in 2016 due to major dysfunctions: failing governance (doping, corruption), sporting and economic risk, (as in 2006, when relegated to the second division and a 50% drop in revenue as a result of fraud), and infrastructure obsolescence.

In the late 2010s, however, the club's share price recovered significantly, although it did not return to its initial price – from 0.2 euros in 2016 to 1 euro in 2020. The stock market has appreciated Juventus' new business model, which aims to turn the club into a global entertainment company with the construction and ownership of a modern stadium, the recruitment of Cristiano Ronaldo, successive league victories, lucrative participation in the Champions League finals, profitable operating results, and the distribution of dividends to shareholders.

The arrival of the Portuguese superstar was therefore seen as an indicator confirming this ambition: the share price rose by 20% in the four days following the announcement of the player's signature on 10 July 2018. It is evident that, beyond his sporting contribution, Ronaldo, with his image of a global superstar (more than 300 million subscribers on Western social networks), constitutes a strategic source of additional revenue for Juventus: +60% of sponsorship, +120% of the contract with Adidas, tripling of sales of the club's football shirts.

One way to reduce, or even hide, the impact of sporting results on stock market prices is to strongly diversify the club's economic activities and revenue structure [Bancel, Belgodère and Philippe, 2018]. By capitalising on its brand, Manchester United sees its share value as that of a company much more than that of a football team. Its poor sporting results in the late 2010s did not lead to a stock market crash. With 650 million fans worldwide and omnipresence on social networks, the Manchester United brand is so valuable that its commercial partners sign up for long-term contracts without worrying about short-term sporting contingencies.

The prospects for long-term value creation for certain clubs and the football industry linked to the announcement of the creation of a private, closed Super Champions League was greeted on the 18th of April 2021 by the Milan Stock Exchange with a 7% rise in the share price of Juventus Turin (a founding member of this ultimately postponed project).

Some academic studies question the value of listing sports clubs on the stock market [Aglietta, Andreff and Drut, 2008]. A chronic stock market underperformance of clubs has been observed in comparison with other stock market indices and even with obligatory indices. This is despite the fact that the extreme risks are higher for the clubs with very erratic prices over certain periods. The importance of intangible capital (the value of players) and the difficulty of its valuation by investors, as well as the uncertainty of the sporting result, make the professional sports industry vulnerable to the financial markets.

Furthermore, a listing does not significantly improve sporting results and, with the exception of Manchester United and Juventus, all the other major European clubs are not listed (Barcelona, Real Madrid, Bayern Munich, Manchester City, Liverpool, and PSG). Club owners now prefer to look for revenue from player sales, TV rights or merchandising, rather than raising money on the stock market.

Further information:

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