Accuracy

FOOTBALL EPISODE 4 – FOOTBALL & VALUATION

ECONOMICS

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When football clubs are sold, the club values divulged can be extremely variable, depending on the championships and countries concerned (from a few million for a French Ligue 2 club to several hundred million for an English Premier League club). But why are there such differences? Do these values reflect a value bubble or valuation errors? Or, on the contrary, are they the result of the valuation methods used in other sectors?

To answer these questions, we have to consider what actually is the "value" of a football club. There are, in our opinion, three values for a club: the financial value, the transaction value and the societal value. These three values can be presented as three concentric circles that grow each time: in the centre, the financial value, and on the outside, the societal value.

Financial framework

The "financial" value of a football club is the value returned purely to its shareholders. It can be determined using typical financial valuation methods, with the DCF (or discounted cash flows) method being the most relevant. This method discounts the future cash flows based on scenarios consistent with the economic environment and the sporting projects of the club. In

this context, clubs from the largest championships that benefit from the highest audiovisual rights or those that own their stadium have the greatest financial value.

The “transaction” value is higher than the financial value as it includes some of the synergies that an acquirer is willing to pay for. These synergies can be commercial in nature, for example, when a club acts as a media showcase for an entrepreneur who plans to use the club to promote his or her other activities. They can also represent the price to pay to generate media interest or reach other objectives (philanthropic, political, etc.). Finally, acquirers can generate other synergies linked to owning several clubs, for example.

Societal value

Finally, the “societal” value takes into account the value created for all stakeholders (in economics, we talk about “externalities”). This relates to measuring the impact of a club on the wealth creation of a town or a region. This value takes into account all direct economic benefits (revenues of shopkeepers that increase during match days, etc.) and indirect economic benefits (greater attractiveness of a city or region in which a leading club develops, etc.). In certain cases, when a club is effectively the flag bearer of a region and becomes a veritable institution, the societal value can be considerable (e.g. FC Barcelona). By definition, these stakeholder flows are very difficult to determine.

Overall, a football club is most often sold at a transaction value that is higher than its financial value but significantly lower than its societal value. Understanding these different concepts enables us to understand the different dimensions of the value of a football club. In practice, if financial models make it possible to define the financial value of a club and, to a lesser extent, its transaction value, the societal value remains largely beyond the scope of a typical financial framework.