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MANU - Q4 2019 Manchester United PLC Earnings Call

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## CORPORATE PARTICIPANTS

**Corinna Freedman** *Manchester United plc - Head of IR*

**Edward Woodward** *Manchester United plc - Executive Vice Chairman*

**John Clifford Baty** *Manchester United plc - CFO & Director*

**Richard Arnold** *Manchester United plc - Group MD & Director*

## CONFERENCE CALL PARTICIPANTS

**Corey Tarlowe** *Jefferies LLC, Research Division - Equity Associate*

**John Philip Tinker** *G. Research, LLC - Senior Research Analyst*

## PRESENTATION

**Operator**

Good day, ladies and gentlemen, and thank you for standing by. Welcome to the Manchester United Earnings Conference Call. (Operator Instructions) We would like to remind you that this conference call is being recorded.

I will now turn the call over to Corinna Freedman, Head of Investor Relations for Manchester United.

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**Corinna Freedman** - *Manchester United plc - Head of IR*

Thank you, operator. Good morning, everyone, and welcome to Manchester United's Fourth Quarter 2019 Earnings Call. A corresponding press release containing our financial results was issued earlier this morning and can be accessed via our IR website. Today's call is being recorded and webcast, and a replay will also be available on our site for 30 days thereafter.

Before we begin, and as a matter of formality, we would like to remind everyone that this conference call will include estimates and forward-looking statements, which are subject to various risks and uncertainties that could cause our actual results to differ materially from these statements. Any such estimates or forward-looking statements should be considered in conjunction with the cautionary note included with our earnings release regarding forward-looking statements as well as various other risk factor discussions in our prior filings with the SEC.

I will now turn the conference call over to our Executive Vice Chairman, Ed Woodward, for opening remarks.

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**Edward Woodward** - *Manchester United plc - Executive Vice Chairman*

Thank you, Corinna. Good morning, and thank you to everyone for joining us today. Also with me on the call, as usual, are Richard Arnold, our Group Managing Director; Cliff Baty, our Chief Financial Officer; and Hemen Tseayo, our Head of Corporate Finance.

Before Richard and Cliff take you through our commercial operations and our financial results, I'd like to say a few words about the club's overall direction. We and our growing global fan base demand success. Success means winning trophies. That target and that standard has never changed for Manchester United.

The progress we've made on the business side, that Richard and Cliff will shortly describe, underpins the continued investment in the football side. Much of the progress made around that investment in the academy, the recruitment department and the training ground facilities is behind the scenes and therefore isn't immediately apparent to those on the outside looking in.

For example, we've materially expanded our recruitment department in recent years to increase its efficiency and productivity. Many of the senior staff in these roles have been at the club for over 10 years. Recruitment recommendations and decisions are worked on, on a day-to-day basis by this department and the manager and his team.

These investments, together with the commitment we've made to Ole and his coaching staff in March, have given us the building blocks for success. Whilst we are confident this investment will deliver results, it's important that we are patient while Ole and his team build for the future. We will continue to focus on the long-term strategy and won't be influenced by short-term distractions.

As always with Manchester United, speculation around the summer transfer window is intense and the club was linked with hundreds of players, almost all without foundation. Despite this, our recruitment department's robust process and early alignments on targets with the manager, meant we were able to approach the window in a focused and disciplined way.

Our new signings, Dan James, Aaron Wan-Bissaka and Harry McGuire joined a strong squad that also saw renewed contract executed for a number of our key players, including Marcus Rashford, David de Gea and Victor Lindelöf as well as Martial and Shaw are amongst others earlier in this season.

We are optimistic for the future. The sale and loaning of players this summer has also allowed the manager to involve more of our young players and to provide a firm foundation and a culture ready for building the next trophy-winning squad.

Regarding the speculation around the head of football, we're continually reviewing and looking at the potential to evolve our structure on the football side. Much of the speculation around this type of role focuses purely on recruitments, an area that we've evolved in recent years.

As already mentioned, we feel the players that we've signed this summer demonstrated this approach is the right one. Returning to the roots of our clubs ethos of youth-led attacking football is the right way forward. And everyone at the club, the Board, the manager, the squad and all of the staff remains resolute in our desire to get Manchester United back to the top of English football.

We'll continue to make the necessary investments to make this happen across our first team players, our academy and our recruitment department. This long-term approach to building a squad is the right one.

I'll now hand you over to our Group Managing Director, Richard Arnold, who will provide more detail on the key business activities and opportunities.

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**Richard Arnold** - *Manchester United plc - Group MD & Director*

Thank you, Ed. This quarter, we built on strong commercial performance year-to-date. Perhaps most excitingly, on August 16, we announced the findings of the latest Kantar fan survey, which found that our worldwide fans and follower base increased by 400 million to 1.1 billion. We visited growth in every region with an approximate 125% increase in Asia.

The survey showed that we maintained our position as the most followed football club in the world. This growing popularity and its associated passionate engagement has underpinned success across all of our commercial activities. In terms of venue operations, we indicated last quarter, strong start to season's ticket sales, selling out in record time.

We also achieved our earliest ever sell-outs of our premium priced Executive Club tickets this season, and our waiting list demand also remained strong across all products.

We've rolled out multiple capital projects at Old Trafford this year, as we continue to invest in improvements across multiple areas to enhance the in-stadium experience for our fans. These include VAR capabilities, security upgrades, significant improvements for our disabled fans as well as a variety of other projects.

Our official membership program reached a new high for 2018, '19 at approximately 255,000 members with strong renewals. Engaging with fans beyond the stadium and between games continues to be an area of focus for the club, and our media and digital operations are at the forefront of that mission.

With respect to our owned and operated platforms and in line with trends to date, our free global mobile app continues to perform ahead of our expectations with improvement across all metrics for the quarter.

We passed the anniversary of the first year of activity and can now start to build a picture of what we can expect on a longer basis with this product. We continue to focus on the production of new and improved content formats, new product feature sets and a deeper integration with other cross club traffic initiatives to continue to drive improvement in our metrics of the future.

An example of this is the launch of the new shop button in our global navigation during the current quarter, building on the success of the in-game stats feature launched in the prior quarter. Driving the adoption of this free app represents a key activity for us in the immediate future. In terms of our direct-to-consumer subscription app, MUTV, we also achieved record subscriber numbers and engagement. This success was driven not just by the access to live content during the tour, but also by the previously mentioned enhancements in format of content through the year.

We've conducted trials of different pricing and subscription mechanisms with a view to increasing future optimization.

The scale of our fan base in China as well as our leadership position in respect of digital engagement of fans in that territory, merits particular mention. As announced previously, we've launched a Chinese language app. We have also produced China specific shows for our local audience in territory throughout our tour. We believe that this scale, engagement and capability not only completes the genuine global offerings for fans and sponsors alike, but also gives us competitive advantage in terms of being able to serve the engagement needs of our partners in one of the most important parts of the world. This is an area we will continue to focus on to develop further.

Of platforms, we saw continued significant engagement across all of our combined social media followings. During the quarter, the transfer speculation that Ed has previously referenced also drives a very high level of engagement with the club's social media communities. This is particularly powerful as we remain deeply connected and engaged with our fans even while the team may not be playing league games.

The scale of our fan base and the phenomenal engagement we're experiencing have translated into a strong year and final quarter for our sponsorship business. We're pleased to report that during the fourth quarter, we agreed to a number of extensions across our global partnership portfolio, including renewed deals with Apollo Tyres; our wine partner, Concha y Toro; Gulf Oil International; and luxury watchmaker, TAG Heuer. These are in addition to previously announced new partnerships during the full fiscal year for the likes of Chivas, Harves, Marriott International, Maui Jim and True Religion. And brings our total number of new and renewed global partnerships to 10 for the full year.

Whilst attracting new partner is obviously exciting, we believe that the renewals of our partner base in particular is a testimony to our continued appeal to brands, not only looking for the truly global reach in engagement but also the result of our continuous improvements in data, digital and content capabilities with a focus on delivering measurably effective return on investment for our partners.

An example of the interaction of these factors can be found in our series of international fan events called #ILOVEUNITED that we hold in key cities around the world, reaching millions of fans and creating engagement opportunities for our partners.

In this last quarter, we visited Guangzhou, China, where the size of our passionate fan base in the region was demonstrated by 27 of our partners, staging a record 149 activations in just 4 days. Over 10,000 fans applied for tickets for the live screening, and we reached an audience of 17.3 million by connecting our fans across 5 satellite events held simultaneously in 5 other markets around the world.

Similarly, our tour games this year, while continuing with the constant principle of forming a solid platform for team preparation and integration, also allowed for extensive in-territory fan engagement, particularly in China as well as underpinning significant digital engagement previously referred to.

Finally, turning to our merchandise activity. Our underlying adidas business performed in line with expectations for fourth quarter and for the fiscal year with particular strength in the Asia Pacific region, especially China. Growth in this region has been accelerated by the introduction of the market-specific merchandise this year.

In our direct-to-consumer business, the Megastore continued to trade well throughout the 2018, '19 season. As we anticipated last quarter, the stadium retail business has experienced a stronger start to our current season compared to prior year due in part to the World Cup in the prior year delaying the launch of new kits.

Our underlying e-commerce business, in partnership with Fanatics, was impacted by a later launch of our kit following the World Cup in 2018. Excluding this timing shift and aided by new digital platforms delivering additional traffic to the store, we have seen strong growth throughout the summer.

The licensing business continues to perform very well with new partnerships with Maui Jim, True Religion and Remington announced during the year combined with extensions to existing partners, Paul Smith and Tag Heuer.

We previously announced an exciting partnership with Harves Entertainment Group for the development of Manchester United experience centers throughout China. In June, we opened a preview and marketing center in the prestigious Beijing FUN development adjacent to Tiananmen Square. We are excited about the opportunity to virtually bring the Old Trafford to our fans across China together with Harves.

And with that, I will now hand you over to our CFO, Cliff Baty.

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**John Clifford Baty** - *Manchester United plc - CFO & Director*

Thank you, Richard. Firstly, I'll talk through our fiscal year highlights and then I'll provide more details on our guidance for the upcoming fiscal year. As a reminder, year-on-year comparisons relative to fiscal 2018 have been impacted by the new Champions League broadcasting deal.

In terms of headline figures, total revenues for the period were GBP 627.1 million, up GBP 37.3 million versus last year with adjusted EBITDA of GBP 185.8 million, up GBP 9 million over last year. Both revenue and EBITDA were in line with previous guidance.

Turning to key items in the results. Total commercial revenues were GBP 275.1 million with sponsorship revenues of GBP 173 million, being in line with prior year, reflecting underlying sponsorship growth offset by reduced tour revenues.

Merchandising and licensing revenues was GBP 0.7 million below prior year at GBP 102.1 million, reflecting some impact from the late product launches due to the World Cup in full year of '18.

Broadcasting revenues increased by GBP 37 million to GBP 241.2 million, driven by the increased Champions League revenues from the new broadcasting deal. Matchday revenues for the year increased by GBP 1 million to GBP 110.8 million.

Moving down the income statement. Operating expenses, excluding depreciation, amortization and exceptional items, were up 6.9% versus the prior year. This includes wages which were up 12.3% primarily due to ongoing investments in first team salaries, including the renegotiation of a number of key first team players. This increase is offset by a 6.8% reduction in other operating expenses for the fiscal year due primarily to the shorter preseason tour and reduced domestic cup-related costs.

Amortization costs were GBP 129.2 million for the fiscal year, a decrease of GBP 9.2 million compared to last year. Net finance costs were GBP 22.5 million, an increase of GBP 4.4 million due to foreign exchange movements on the unhedged portion of our U.S. dollar debt. As mentioned on previous quarters, our cash interest cost in U.S. dollars remain consistent year-on-year.

Turning to the balance sheet. At the end of June, cash balances of GBP 307.6 million, up GBP 65.6 million compared to the prior year. Net debt at the period end was GBP 203.6 million, a decrease of GBP 50.1 million compared to the prior year as the higher cash balances were offset by the unfavorable foreign exchange movements on U.S. dollar-denominated debt.

And now turning to our guidance. Broadcasting revenues will reduce in fiscal 2020 due to participation in the Europa League versus the Champions League. This revenue reduction is partially offset at an EBITDA level to savings on player wages as a result of Champions League remuneration clauses. As such, we expect full year fiscal 2020 revenues between GBP 560 million to GBP 580 million and our adjusted EBITDA is expected to be between GBP 155 million to GBP 165 million.

Finally, I'd like to provide some color on few other key items you may find instructive when modeling our business. We expect amortization to be around GBP 125 million. This amount can change if we buy or sell a player or extend a player's contract. And net finance costs of around GBP 22 million. Again that is subject to foreign exchange movements.

Our committed net player CapEx for fiscal 2020 currently stands at approximately GBP 173 million. This includes payments for players acquired in previous periods as well as reflecting the shorter payment and extended receipt profiles of our recent summer activity. As a result, contracted CapEx commitments for fiscal 2021 and beyond are substantially reduced. As we have mentioned in the past, net player CapEx is lumpy by nature, dependent on differing payment and receipt profiles and may continue to vary significantly from period to period.

And finally, I have one last point to highlight. As we do each year, we will be filing our annual report Form 20-F shortly. In connection with the annual report, we will also be filing 2 documents relating to our existing shelf registration statement. These are technical filings that allow us to keep our shelf registration statement effective. The company has had a similar shelf registration statement in place since 2012. Please also note that these filings do not indicate that any shares are actually being sold.

And with that, I'll hand the call back to the operator. Thank you.

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## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) Our first question today comes from John Tinker with Gabelli.

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**John Philip Tinker** - *G. Research, LLC - Senior Research Analyst*

Just a quick question. You mentioned player loans, which I can sometimes find a little confusing in terms of -- I get the transfer market, who people are buying and selling, can you just explain a little why loans have taken off from what they actually mean?

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**John Clifford Baty** - *Manchester United plc - CFO & Director*

Sure. John, loans have been happening for many, many years in the industry and it is where we retain the registration of the player and they move to another club for a period of time which could be 6 months or could be a season. So they could theoretically come back in January if you have those terms put in there, but then you have a payment that you receive that either pays proportion or all of the wages or indeed you could have a -- you could receive more than the wages and that's just described as a loan fee. And that is all booked against the wage -- the overall wage bill of the club.

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**John Philip Tinker** - *G. Research, LLC - Senior Research Analyst*

And I mean to be direct, is this a way of getting around paying agents' fees? Or why…

**John Clifford Baty** - *Manchester United plc - CFO & Director*

No, no. It's nothing to do with agents' fees. It's just that -- it's just an opportunity to -- if you have too many players in one position but you don't necessarily want to sell a player because you can see a future for them or otherwise, then you may look to loan them rather than sell them. It is becoming more common, you're right, but it's been in the industry for many, many years.

**Operator**

The next question today comes from Randy Konik with Jefferies.

**Corey Tarlowe** - *Jefferies LLC, Research Division - Equity Associate*

This is Corey Tarlowe on for Randy Konik. The brand of Manchester United continues to gain popularity and we've seen that with global fans increasing from 700 million to over 1 billion. Within the context of this growing fan base, how do you think about the opportunity in China versus where the company is today given the initiatives you have there, the opening of multiple club experience centers, any increasing appreciation for the sport in the region?

**Richard Arnold** - *Manchester United plc - Group MD & Director*

Yes. Thanks for the question. I think that the first thing to bear in mind is that engagement with our fan base is an incredibly important asset and that's true across the world. Obviously, an enormous proportion of the family of fans are based in China, so that does attract a due amount of attention. We've also been visiting there with the teams since the '70s, and so have a long and established track record. And I think that's very consistent with what we see in terms of other organizations that are successful in China in terms of the need to have a long-term plan rather necessarily any -- perhaps more opportunistic approaches. And so our strategy is to engage fans there in the context of being respectful, particularly to both local government and the fan culture there.

In terms of that engagement, the strategy of the physical centers coupled with digital engagement and the broadening and deepening partner engagement activity, we're able to support it in activating in cities but otherwise we wouldn't be able to reach I think are the key components of what we're looking at going forward. And in partnership with the work we do in adidas where China is an incredibly important market, I think we're uniquely positioned to really cement those relationships.

**Operator**

This concludes our question-and-answer session. The conference is now also concluded. Thank you for attending today's presentation. You may now disconnect.