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MANU - Q2 2020 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

Bryan Daniel Goldberg *BofA Merrill Lynch, Research Division - Research Analyst*

Laurence Davison *Deutsche Bank AG, Research Division - Research Analyst*

Randal J. Konik *Jefferies LLC, Research Division - Equity 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 everyone that this conference call is being recorded.

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

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

Thank you, operator. Good morning, everyone, and welcome to Manchester United Second Quarter 2020 Earnings Call. A corresponding press release containing our financial results was issued earlier this morning and can be accessed on 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 along with the cautionary note included with our earnings release as well as additional risk factor discussions in our prior filings with the SEC.

With us on our call today, Ed Woodward, our Executive Vice Chairman; Richard Arnold, our Group managing Director; Cliff Baty, our Chief Financial Officer; and Hemen Tseayo, our Head of Corporate Finance.

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

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

Thank you. Thank you to everyone for joining us today. Before we proceed with our usual earnings call, I would like to pay tribute briefly to Harry Gregg, who died earlier this month at age 87. Harry was one of the heroes of the Munich air disaster and a key member of Matt Busby team of talented young players, known as the Busby Babes, making 247 appearances for the club. To borrow Sir Alex Ferguson's words, Harry was a man of great character and a true legend to their club. Our thoughts and prayers are with him, with his family and friends.

I'd like to provide an overview of progress towards our #1 priority, winning trophies with the team playing entertaining and attacking football. Since our last call in November, we progressed to the knockout stages of Europa League. We are through to the fifth round of the FA Cup, and we remain in the mix to qualify for the Champions League.

This season is one of rebuild with many changes for this quarter. In terms of players who've left or gone out on loan, new players who we brought into the club and Academy graduates that we brought through to the first team. This process will continue as we implement our plan and our footballing vision under Ole and his coaching staff.

Despite being linked to 111 players in January, our acquisition of just one of them, Bruno Fernandes is an important step in that direction, demonstrating our commitment to adding experienced world-class recruits to the exciting crop of Academy graduates that are at the heart of this developing team. We'll take the same planned disciplined approach this coming summer.

In addition to the first team signings, somewhere under the radar, we've also made a number of exciting ease acquisitions in the past year, reflecting our commitment to bringing the best talent into our Academy. So far this year, our Academy graduates have contributed over 1/3 of first team playing minutes this season and over half our goals, emphasizing our Academy status as one of the most productive and elite level European football. It's an important competitive advantage for us and represents an excellent return on the fourfold increase in investment that we've made in the Academy over recent years.

On wider industry matters, we know the continued strength of The Premier League with 19% audience uplift for Sky in the seasoned state versus the same period last season. Sitting on the broadcast advisory committee of the Premier League, I see the great work being done behind the scenes, and we're very pleased with the recent announcement of the Premier League's groundbreaking 6-year pan-Nordic deal, which will be effective from summer 2022.

Our own long-term plan is underpinned by the enduring strength of our business, which provides us with the funds and the confidence to keep investing in our team and in our facilities. We are proud to being chosen to host the opening match of the 2021 Women's European Championship next season. Underscoring the continued status that Old Trafford is one of Europe's most iconic football venues. The choice also reflects our growing role within the women's game, following the successful launch of our women's team last season, on their immediate promotions to the Super League under the leadership of our manager, Casey Stoney.

In summary, while we still have much to do, we're progressing with confidence in the right direction.

I'll now hand you over to our Group Managing Director, Rich Arnold, who will update you on the key business activities. Thank you.

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

Thanks, Ed. Before I provide an update on our business activities, I'd like to say that the thoughts of everyone at Manchester United with those currently impacted by the coronavirus outbreak. In respect of the virus' impact, it's too early to understand the global implications, but we are actively monitoring the situation.

Turning first to our media and digital operations. Earlier in the quarter, we announced a new strategic partnership with Alibaba, which provides exclusive Manchester United Club content in China across Alibaba's multi-platform ecosystem. We launched with the first of its kind dedicated Manchester United channel on Alibaba's content platform, Youku. This makes our own highly engaging content available to over 700 million consumers in China.

Whilst we have only recently launched our Youku channel, we are positive on the long-term potential opportunity to satisfy strong demand for our content among our significant fan base in China, the most digitally connected country in the world.

Moving to our global mobile app. We continue to improve our app functionality to deepen fan engagement by a more enhanced personalization, gamification of content and an even more dynamic second screen experience for Matchday. A bigger focus for the first half of our fiscal year has been evolving our cross-platform digital content offerings, in particular, more branded content offerings via the mobile app, including highly successful collaborations with adidas, Gulf, Swissquote and HCL during the quarter.

We are also pleased to announce the recent launch of our new podcast platform and the launch of our first official podcast, which has been extremely well received and offers a new opportunity to deliver high-quality unique plus focused stories and content to our fans and followers around the world.

Turning to nonowned and operated platforms. Our social media engagement remains robust, with particularly strong engagement surrounding our recent new first team signings. In fact, in the last week of January, our social channels generated over 38 million interactions for our second highest weekly engagement ever. There were over 300,000 mentions of the Bruno Fernandes signing on Twitter. Both of our new signings saw immediate growth in their own social platforms following signing for the club.

To put that in context, shortly after we concluded the loan signing of Odion Ighalo, he was the top trending item worldwide on Twitter, ahead of both Brexit day, and the outcome of the impeachment trial of the U.S. President. In summary, global interest in Manchester United remains very strong, and our engagement with fans around the world is continuing to deepen through our own platforms and via social channels.

In respect of our commercial business, it performed well in the second quarter. We launched several very successful partner activations during the quarter, including co-branded products with Chivas and New Era. During the quarter, our very popular #ILOVEUNITED fan experience and being party traveled to Dallas, Texas, and more recently, to Shenzhen in China.

We also recently announced a new global partnership with Mondelez International, the multinational behind brands such as Cadbury, OREO and belVita. In respect of our merchandising activities, adidas wholesale business continues to benefit from our localized product strategy with our Chinese New Year product line performing well. For our e-commerce business, the Fanatics, our gross sales are tracking up on a year-to-date basis, driven by an improved and diversified product mix.

In our Megastore, we have experienced strong increases in average basket size. And from a product standpoint, very strong customer response to several new products launched during this quarter, including an expansion of the branded adidas leisure wear in the women's and kid's categories and the introduction of adidas originals lifestyle footwear.

Turning to our venue operations. Our Matchday revenues have remained constant for the first 6 months of the fiscal year despite the absence of Champions League fixtures. We're experiencing very strong demand in our official membership program and have substantial waiting list for our 2021 season ticket sales and renewal campaigns.

In respect of our capital projects, they remain on track, particularly our new state-of-the-art GBP 11 million accessibility facilities, which will dramatically increase capacity and transform the match experience for our disabled supporters at the start of next season. We're also driving forward plans for our summer 2020 improvement initiatives.

As Old Trafford celebrates its 110th anniversary this year, these investments demonstrate our commitment to maintaining its status, one of the iconic football stadiums in Europe, whilst preserving the unique heritage and character, which sets it apart to more recently built venues.

We work with fan groups on measures to further enhance the Matchday experience in general admission areas, including the successful trial of an atmosphere section in the Stretford End and an application with relevant safety authorities to trial rail seating. These steps together with the freeze in season ticket prices for the past 8 consecutive seasons and the cap on away ticket prices in The Premier League, reflects our commitment to engaging with our loyal match going supporters to keep Old Trafford safe, full and atmospheric.

I'll now turn the call over to our CFO, Cliff Baty, to review our financial results in more detail.

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

Thank you, Richard. As a reminder, year-on-year comparisons relative to fiscal 2019 have been impacted by the absence of Champions League broadcasting revenues and the cadence of matches on a quarterly basis. In terms of headline figures, total revenues for the second quarter were GBP 168.4 million, down GBP 40.2 million versus the prior year, with adjusted EBITDA of GBP 72.1 million, down GBP 32.2 million versus the prior year. For the full year, we continue to expect revenues and EBITDA for fiscal 2020 to track in line with our previous annual guidance.

Turning to the key items in the results. Total commercial revenues were GBP 70.6 million an increase of GBP 4.7 million versus the prior year, with sponsorship revenues of GBP 45.1 million, an increase of GBP 4.8 million over the prior year. Retail merchandising and licensing revenues for the quarter were in line at GBP 25.5 million.

Broadcasting revenues decreased by GBP 39 million due to the -- in the quarter due to -- to GBP 64.7 million due to our participation in the Europa League compared to the Champions League in the prior year. As previously highlighted, the second quarter is where we see the biggest year-on-year impact from the reduction in UEFA broadcast revenues due to the 5 of the 6 group games taking place in the quarter.

Matchday revenues decreased by GBP 5.9 million to GBP 33.1 million, given the impact of one less Premier League home match and one less home European match in the quarter, which is only partially offset by an additional midweek Domestic Cup home match relative to last year.

Moving down the income statement. Operating expenses, excluding depreciation and amortization, were down GBP 8 million versus the prior year. This includes wages, which were down GBP 7 million, primarily due to a reduction in player salaries as a result of non participation in the Champions League as well as one less home match played versus the prior year.

Amortization costs were GBP 31.2 million for the quarter, a decrease of GBP 2.2 million versus the prior year. Net finance income for the quarter was GBP 15.3 million compared to a cost of GBP 6.3 million in the prior year. This movement was due to foreign exchange movements on the unhedged portion of our U.S. debt and sterling strengthened. Our cash interest costs in U.S. dollars remained consistent year-on-year.

Turning to the balance sheet. At the end of December, cash balances were GBP 100.9 million, down GBP 89.6 million, primarily due to higher player capital expenditures. As mentioned in the first quarter, this higher player CapEx reflects the accelerated payment and deferred proceeds profiles of our summer activity.

Net debt at the period-end was GBP 391.3 million an increase of GBP 73.6 million compared to the prior year due to the lower cash balances, offset by the impact of foreign exchange movements on our U.S. dollar-denominated debt. Our gross debt in U.S. dollar terms remains unchanged.

Following recent transfer activity, we are now projecting committed player CapEx cash outflows for the full year of approximately GBP 190 million and amortization of GBP 130 million. We also continue to expect full year fiscal 2020 revenues between GBP 560 million to GBP 580 million, and our adjusted EBITDA between GBP 155 million to GBP 165 million.

With that, I'll hand the call back to the operator, and we're now ready to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question will come from Randy Konik of Jefferies.

Randal J. Konik - *Jefferies LLC, Research Division - Equity Analyst*

I guess, my first question for Ed. I know it's a little bit of a fluid situation, but we saw the news earlier this -- in the last couple of months regarding the Manchester City situation. Maybe just give us -- maybe you probably can't comment on that situation in particular, but maybe give us some perspective on what you've been seeing from your side of the woods as it relates to financial fair play and the regulations and the teeth that it has on the teams in the Premier League?

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

Yes. I mean, as you predicted, Randy, I'm not going to comment on City or any other clubs relating to those events. But what I will say is the -- I mean, I go to a lot of you UEFA-related meetings being on the ECA Board and also Deputy Chairman of UCC SA which is a joint venture between the ECA and UEFA. And I see a strong commitment from UEFA to ensure that financial fair play continues to deliver the benefits that it clearly has in the industry. And if you look at the last sort of 5 years, the overall operating profit across the top leagues in the 50, 55 countries in Europe, they've gone from pretty large losses all the way up to breakeven and small operating profit. So I think it's been beneficial overall. And clearly, it's up to the regulators to manage that.

Randal J. Konik - *Jefferies LLC, Research Division - Equity Analyst*

Got you. And I guess, Richard, maybe can you give us some perspective, expand upon the deal with Alibaba? Has the channel on Youku has that helped lead to further or acceleration of MANU app downloads and any measurement around increased engagement of the -- around the MANU app as a result of the recent partnership with Alibaba?

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

So obviously, the partnership is very new and it will be a little bit wild to be extrapolating off the basis of the few weeks of data we've got today. That having been said, we have seen a massive increase in the engagement levels we're able to achieve off the back of having Alibaba alongside as promoting our content. In respect to app versus through their channel, our analysis to date is that China is a heavily portal-led market and the consumers actually use a relatively small number of tools to access content and correspondingly our expectation is that the Youku channel and our engagement through Alibaba's platform will be very important to us in continuing to drive that engagement with them and indeed for them and continuing to be able to engage their consumers using our content.

Randal J. Konik - *Jefferies LLC, Research Division - Equity Analyst*

Very helpful. And then, I guess, lastly, one thing that's kind of noticeable is obviously that the breadth and the power and the scale and the global nature of the MANU brand, is this -- it shows that power with the signing of Mondelez, 26th global partner. And it seems like there's been a reacceleration in partnerships again. So are there other things you're kind of trying to think about in terms of helping to bring even more added value to these partners that you've been thinking about in different ways versus in the traditional ways of bringing value to those brands and partnering with you, let's say, 3 or 4 or 5 years ago?

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

Yes, that's a good question. I mean, obviously, the world has changed fairly rapidly. Two aspects, I think, are very powerful in driving perhaps renewals more than new partners. And again, the first thing that goes hand-in-hand is our renewal rate is industry-leading, we believe, and that's a function of the satisfaction that partners have in delivering on their objectives, which is a function of 2 things. Firstly, the work that's gone into, and I alluded to it in our update, the work that's gone into our digital activities and making sure that the fan engagement-led activity in respect to it being, again, we believe the best-in-the-world at engaging fan digitally with our content, and that translates into the results. And correspondingly, being able to manage sponsors to achieve phenomenal success in their digital engagement through our IP and content without it being intrusive to fans in terms of being perceived as advertising or otherwise. So from that point of view, the use of analytics, the use of AI and the other bits and pieces that have been woven into that work that we're doing in terms of supporting existing sponsors, I think, is in combination with the privileged position we have, having the biggest, most engaged, passionate fan base in the world, put us in a prime position to acquire and retain the partners we've got.

Operator

Our next question comes from Laurie Davison of Deutsche Bank.

Laurence Davison - *Deutsche Bank AG, Research Division - Research Analyst*

It's Laurie here from Deutsche. First question, just on the shirt sponsorship deal. So we've had press reports of a GBP 70 million deal with Haier versus the GBP 64 million, I believe, you're getting from Chevrolet previously on a per annum basis. Can you comment on the veracity of those deals? Secondly, just in terms of what you mentioned about rebuild for the squad. When we're thinking about player CapEx beyond the current fiscal year GBP 190 million guidance, what should we be thinking about in terms of higher, lower versus that level for the following years?

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

So in respect to the first question, we've communicated previously that the shirt process is underway and ongoing. We've communicated previously that at the point at which a deal is concluded, as you would expect, given its materiality, we will announce that in the usual way. That hasn't happened. And concurrently, we've also indicated that we won't be providing running commentary on how that process and the associated negotiations are proceeding. So beyond speculation, there isn't -- from the press, there is nothing further I can add in respect of that ongoing process.

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

Laurie, it's Cliff here, in answer to your second question, in terms of future sort of player CapEx. As you can imagine, we don't guide on what that will be for sort of -- for obvious reasons. What I will say and reiterate what I said last quarter and then I've just said just now is that the level of CapEx spend that we've got this year does reflect the accelerated payment and deferred receipt profile of last summer's activity. So if you stroll that through to what that really means, that does mean that our future commitments, liabilities are in a very good place, I guess, you'd say, compared to where we might be in a more typical or in other years. So in terms of what that means, that means we've got -- we have obviously less liabilities looking forward. And that would impact what our CapEx will be.

Laurence Davison - *Deutsche Bank AG, Research Division - Research Analyst*

Just to follow-up on that, though, would it be fair to say that we should be considering that you would most likely reinvest that those -- that headroom that you've got as those liabilities roll off?

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

I say, we don't give sort of that direct guidance. So I mean, if you look at history, you can look at where the squad is, and what comments that Ed has just made as well in terms of what we're trying to do with the squad and how we're going to build the squad. But we wouldn't give any direct guidance to what that number will be, we'll tell you a new -- we will tell you by the time we speak in September once the transfer window is done.

Operator

(Operator Instructions) And our next question comes from Bryan Goldberg of Bank of America Merrill Lynch.

Bryan Daniel Goldberg - *BofA Merrill Lynch, Research Division - Research Analyst*

I had a follow-up on sponsorship. I was wondering if you could update us on sort of what kind of key verticals are out there that might be unsold or renewing this year or next year? How we could maybe think about opportunity there? And then not specifically about your Jersey deal, but I was wondering if you could just sort of help us think about how the sponsorship market plays for that type of inventory? How is the market plays different today versus when you initiated that deal, I guess, right before you went public? So that's my sponsorship question or series of questions. And then I actually have a second one, and forgive me if this was asked earlier, I joined a little late, but coronavirus implication, I recognize that this is impossible to predict the situation and hopefully, the worst is behind us, but could you help us think about how your revenue contracts work? Are any of them tied to the actual delivery of live sports content? We're just trying to get our heads around potential exposures to possibly cadence of the situation worsen from here.

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

So in respect of the first 2 questions, I'll answer those. So the question was, if I understand it correctly, how should we view open or renewing categories in respect to the overall sponsorship business. I think there's 2 or 3 points, I would refer to. The first is that we continue to be successful in segmenting and defining new previously unexplored categories in terms of the work we're doing. So success, for example, Maui Jim and the work that's happened there. The work that has gone on the Marriott affinity programs, the work that's going on with Kohler as a bathroom and kitchens organization as well as generators, demonstrating the appeal of what we offer in categories that perhaps other people haven't explored and been successful in the same way. The second aspect, I would say is that when you look at the build rate of our categories compared to the most popular categories for the industry in general, actually, we have a fairly significant number of open categories that we would have a strong expectation for the future in terms of being good categories. So if you look at soft drinks, consumer electronics, for example as well as a number of the technology and software verticals there continues to be a big opportunity in open existing categories. And the final point, and again, I alluded to this in the earlier conversation, our renewal rate, we believe, is industry leading. There's a lot of investment and very skilled individuals that work in servicing our clients and delivering on their ambitions and goals, and that results in very strong renewals. And that allows us to generate fairly significant continued growth with them as they see the benefit of the rights as well as in category improvement in price points, which are achieved not just through renewal, but also replacement in category.

But that comes on to the second question you asked, which is, how are we seeing the overall market for sponsorship? And I think that it's actually a very exciting time in sponsorship. The combination of the scale of what we offer globally, the ability to be a single solution on both live media across almost every TV set in the world as well as having the most engaged digital footprint in the world, both in Chinese ecosystem as well as Western ecosystems means that we're fairly uniquely positioned. That, coupled with the investments we've made in ensuring that we can compete with the biggest platforms in the world in terms of measurement and activity and understanding how we target and segment, and then finally, just the effectiveness of the IP and the engagement in translating into partner needs. All of those things added up, are showing that there is a really effective offering from a sponsorship point of view, if you're a major brand, particularly if you are global, particularly if you're trying to achieve ambitious goals where at the point of being unique in the world in terms of what we offer. And that's been translating into the ongoing growth you're seeing in these categories. It is a competitive market from -- in terms of the number of properties out there, but I don't think it's genuinely competitive in terms of the offering we have relative to others, and we've seen a sort of polarization in terms of the strong getting stronger with regard to that, and that's benefiting us. And we're seeing that in the general success rates we're having across our sales process as a whole. So on the whole, we continue to be bullish in respect of the current and future prospects of the sponsorship business.

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

Thank you, Richard. And then the third question, Bryan, I think it was obviously around coronavirus. And first and foremost, I'll kind of repeat what Richard said earlier in the call, if you've missed it, which was our thoughts go out to everyone in China and other countries affected by it. We've got many supporters, obviously, in China and the rest of Asia and staff in Hong Kong. So our first concern is for people's welfare. It's a very fluid situation, and we're monitoring it closely. We're aware of the impact to sporting events in Asia and what's obviously been happening in Italy the last 2 days. But to date, we haven't seen any disruption to sporting events in the U.K., and we are continuing to monitor the situation and will follow any and all guidance from the relevant authorities, including the Premier League and UEFA.

Operator

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