

Case 3A

Type: Mergers And Acquisition



ConQuest

Consulting & Strategy Club of IIM Shillong



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Problem Statement:

Your client is a US-based retail conglomerate with no exposure, whatsoever, to sports and related materials. It wants to acquire one of the top three football clubs in Europe. You are expected to provide consultation on the same.

| SCRIPT KEY | |
|-----------------------|--|
| Interviewer | |
| Interviewee/Candidate | |

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I would like to begin by asking a few preliminary questions, to get a sense of the requirements and objectives of our client as well as the said acquisition.

Sure! Go ahead

What is the client's objective behind making this acquisition? Is it a scope of business play, or is it something else?

The client's decision to acquire a football club is an ambitious move. Even so, our goal would be to objectively look at this acquisition and derive the maximum benefit for him and for the conglomerate.

When the client specifies 'top three football clubs' – do they have anything in mind? If not, what factors do they want us to consider while shortlisting potential targets?

The client is looking for one of the clubs amongst – Manchester City, Manchester United, and Liverpool. Since we are the ones objectively evaluating the acquisition, why don't you start with listing down some factors we should look at?

To evaluate such a decision, the first factor to consider would be the club's current state revenues, as revenues would reflect best on the club's annual earnings/cash flows. Amongst the ones listed; Manchester United's revenue generation is considerably higher than the other two. However, looking at it from a singular standpoint of numbers would not be accurate evaluation. We should also look at it from a revenue channel standpoint.

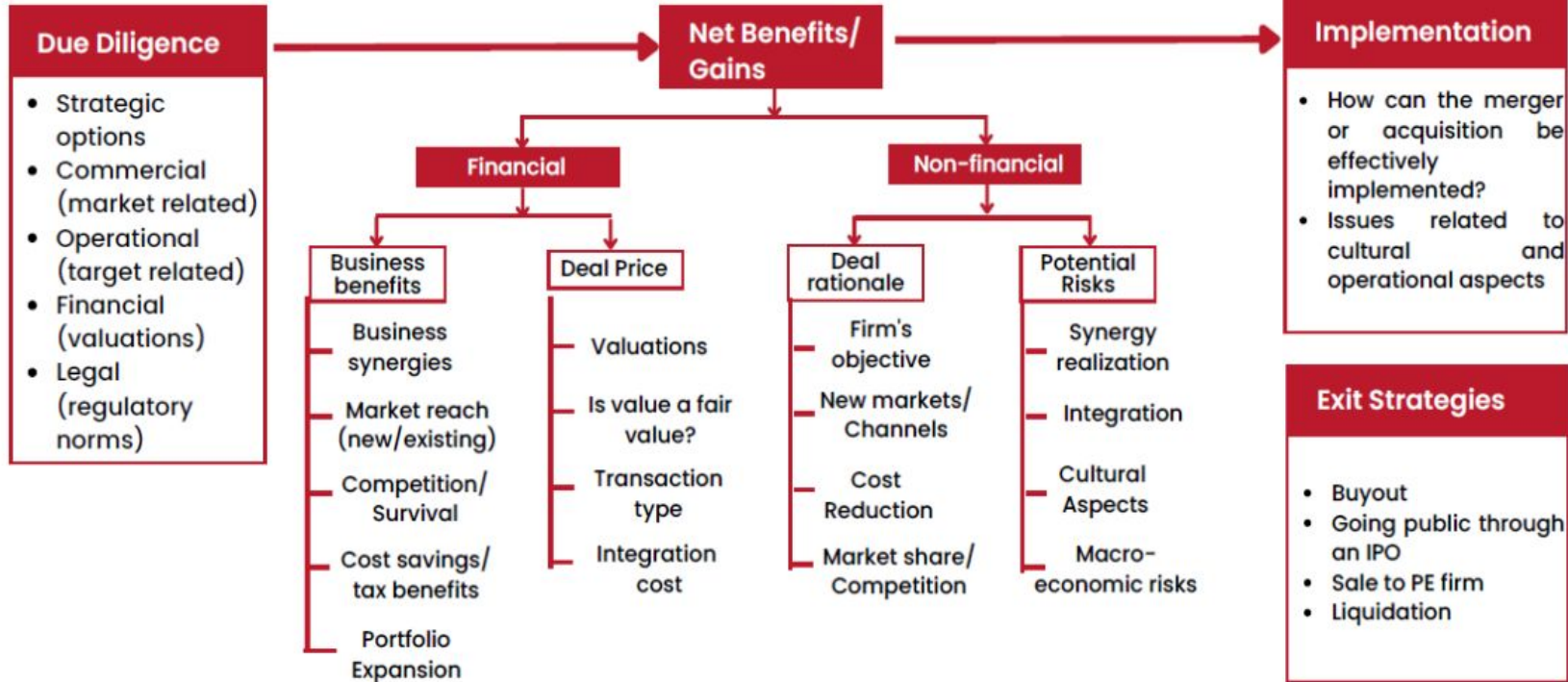
What all revenue channels do you think any football club, such as a Manchester United should have in place and what are some additional ideas that can be constructed on to diversify their revenue channels more?

Traditional revenue channels include the matchday sales & ticketing as the matches work on a 'Home-ground' hosting basis. Claims on broadcasting rights is another such correlated channel. Based on these two factors, there are minimal differences between the top 3 clubs in terms of revenue churn. Moving to some differentiated channels, a large portion of income receivable by the clubs can come from sponsors, merchandise sale, retail, tours, and friendly matches. Manchester United is considerably ahead on these facets as compared to the other two clubs in question. What pushes Manchester United beyond the edge, is the recent in-transfer of Cristiano Ronaldo, which is not only expected to yield increased sponsorships and merchandise sales but also enhanced returns on the transfer market. Additional revenue channels, especially in these digital times, includes discounts and merchandise giveaways through online league battles hosted on club's website for increased traffic.

(Understand the league battle concept, followed by a guesstimate on T-shirts sold due to Ronaldo's signing.) There are a couple of ways to source finance for this transaction. If the US-conglomerate is cashflow rich, the deal can accommodate a significant cash-deal clause. Using the same base, a lower-than-usual interest rate loan can be used for a leveraged buyout setup. If the US conglomerate is publicly listed or is trading in the private market at a premium, then a stock deal can be structured accordingly. However, more information is required around the capital structure, cash flow position and market price of the stock.

Thank you, that was very helpful.

FRAMEWORK/APPROACH



QUALITATIVE INFORMATION

Case Background:

Your client is a US-based retail conglomerate with no exposure, whatsoever, to sports and related materials. It wants to acquire one of the top three football clubs in Europe. You are expected to provide consultation on the same.

Case Facts:

1. Client is looking for one of the clubs amongst – Manchester City, Manchester United, and Liverpool.
2. Client's decision to acquire a football club is an ambitious move.

CLARIFYING ANSWERS TO BE PROVIDED ONLY IF ASKED BY INTERVIEWEE

| Interviewee | Interviewer |
|---|--|
| What is the client's objective behind making this acquisition? Is it a scope of business play, or is it something else? | The client's decision to acquire a football club is an ambitious move. Even so, our goal would be to objectively look at this acquisition and derive the maximum benefit for him and for the conglomerate. |
| When the client specifies 'top three football clubs' – do they have anything in mind? | The client is looking for one of the clubs amongst – Manchester City, Manchester United, and Liverpool. |

GLOSSARY

Valuations: Present value of cash flows it can generate in the future based on the capital structure.

Synergies: Revenue (more market share etc.) and cost synergies (sharing of distribution channels etc.) generated through merger and acquisition.