



**MAPFRE AM**

**The Ben Graham Centre's 1st European Value Investing Conference**

**“Is European Football the Most Interesting  
Under-the-Radar Value Investing Story at the Moment?”**



**MAPFRE AM**

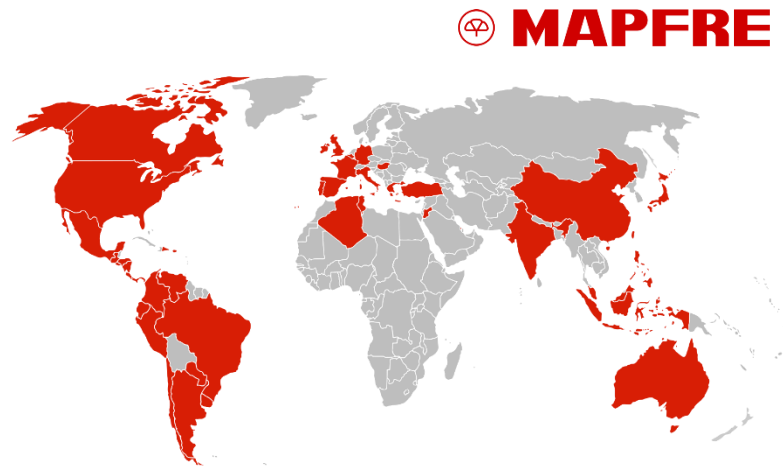
## Presentation Outline.

- I. About **MAPFRE AM**.
- II. About the **MAPFRE AM Behavioral Fund**.
- III. Deconstructing the **5 traditional reasons** for NOT investing in football clubs.
- IV. Sizing the opportunity: **Is football undervalued?**
- V. Still a lot of **room to go**.
- VI. Why do we invest in **Ajax, Olympique Lyon and Borussia Dortmund?**

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# About MAPFRE AM.



 **MAPFRE**

Present on the **5 continents**

**35.000 employees** all over the world

**EUR 61 bn** in assets under management

More than **50 years** of experience

## MAPFRE AM Asset Management

### TIMELINE



**MAPFRE AM**  
Investment Holding

LA FINANCIÈRE  
RESPONSABLE

abante

Boyar

**GSI** GLOBAL  
SOCIAL  
IMPACT

Long term investments

Experts in Asset Allocation

Investment in illiquid or liquid and alternative assets

Investment centers in Madrid, Sao Paulo, Boston and Paris

150 professional investors

# Our Strategic Partners



**La Financière Responsable** is a French fund manager that has built its reputation on the basis of the good results obtained from the application of its own methodology **Integral Management IVA® - Integral Value Approach**.



Since 1975, the Boyar family has tirelessly focused on discovering value for its customers. Using value investing to try to create and preserve wealth has been and always will be your sole objective.

Their experienced team of analysts hunt for diamonds in the rough, companies that the rest of the investment community has overlooked, but whose true value, in their opinion, significantly exceeds their current share price.

In essence, they are "trying to buy a dollar for fifty cents." At Boyar Asset Management and Boyar Research, the pursuit of value is at the heart of everything they do. Either to discover a new idea for your subscribers in the analysis area, as when managing pension funds or management mandates. Your investment ideas can help both professional and non-professional investors in pursuit of their investment goals.



# Our Investment Process

## SEARCH FOR OPPORTUNITIES

### GENERATION OF IDEAS

Observation in real life, Press readings, Communication with investors and Industry Analysts

### FUNDAMENTAL ANALYSIS

Company Sources (Networks, Research)  
Secondary Sources (Management, Analysts)

### VALUE INVESTING CONTEXT

Key Factors: Leverage, Returns, Margins, Growth, Relative Valuation, Sentiment

### INVESTMENT DECISION

What is the profitability-risk binomial?  
What impact does it have on the portfolio?

# Our Investment Process





# Sustainable Investment

In 2015, the UN approved the 2030 Agenda on Sustainable Development, an opportunity for countries and their societies to embark on a new path to improve the lives of all, leaving no one behind. **The Agenda has 17 Sustainable Development Goals, which range from the elimination of poverty to the fight against climate change, education, equality for women, the defense of the environment or the design of our cities.**



## ESG CRITERIA (ENVIRONMENTAL, SOCIAL & GOVERNANCE)



**ESG Criteria = “SOCIALLY RESPONSIBLE INVESTMENT”:**

- **Long-term profitability** is achieved while contributing to building a more sustainable world.
- Socially responsible investment has been established as a growing trend worldwide. **There are studies that grow that by 2020 half of the assets managed worldwide will meet these criteria.**
- Socially responsible companies have been shown to achieve **better financial returns in the long term.**



MAPFRE AM		EUROPE	USA	REST OF THE WORLD
UCITS	EQUITY FUNDS	European Markets	USA Market	Global
		Iberia Market	US Forgotten Value*	
		Behavioral Fund*		
		ESG Inclusion Responsible*		
		Good Governance*		
	FIXED INCOME FUNDS	Short-term Strategy Medium-term Strategy Long-term Strategy	Dollar Return	LATAM Markets
		Global Bond Fund*		
	BALANCED FUNDS	Wide range of diversified funds		
		ESG Capital Responsible*		
	GLOBAL FUNDS	Prudent Moderate Dynamic		
		Multi-Asset Strategy*		
ALTERNATIVOS	REAL ESTATE			
	PRIVATE EQUITY			
	PRIVATE DEBT			

\* Funds domiciled in Luxembourg.

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# About the MAPFRE AM Behavioral Fund.

MAPFRE AM Behavioral Fund is managed according to three core principles.

**(1)**

## Value Investing Builds Long- Term Wealth

We invest in attractively valued companies with:

- Low leverage.
- Aligned incentives.
- Track record of shareholder value creation.

**(2)**

## Concentrated Portfolios Outperform

Portfolio concentration encourages many virtues:

- A high level of conviction.
- A high threshold for inclusion (the 30-35 best stocks in Europe).
- A high degree of competition for capital (existing positions must continually “earn” their spot).

**(3)**

## Investor Biases are Predictable & Exploitable

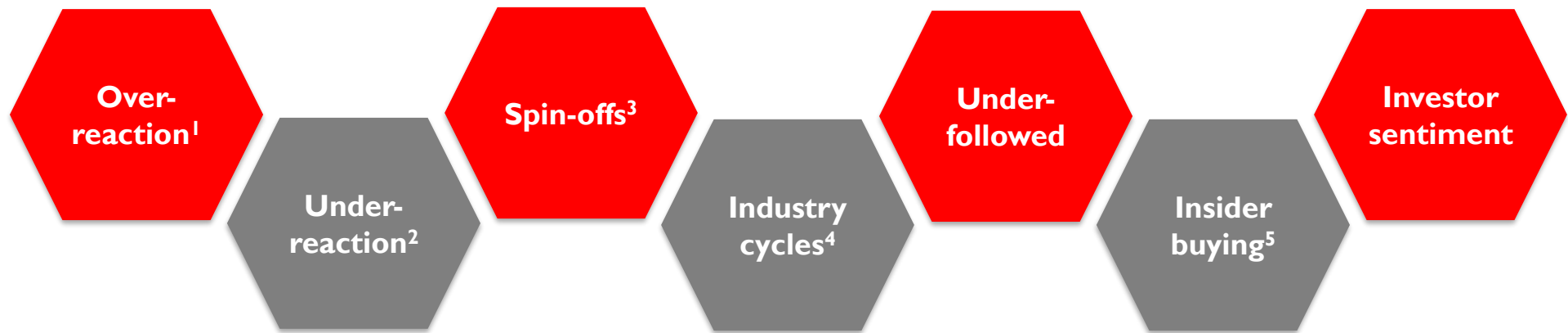
Investors are people who behave in predictably irrational ways:

- Over-reaction.
- Under-reaction.
- Availability bias.
- Recency bias.

# About the MAPFRE AM Behavioral Fund.

MAPFRE AM Behavioral Fund applies behavioral finance concepts to identify investments.

## Buy discipline



## Sell discipline

- Competition for capital: We sell when we identify a use of funds with a better risk / reward.
- Behavioral self-awareness: We manage risk from the anchoring effect by using valuation ranges as opposed to a single price objective and adjust according to new information and market conditions.

<sup>1</sup> DeBondt, W. F., & Thaler, R. (July 1985). "Does the Stock Market Overreact?" *The Journal of Finance*, Vol XL, No 3, 793-805.

<sup>2</sup> Brandt, M.W., R. Kishore, P. Santa-Clara, M. Venkatachalam. (2008). "Earnings announcements are full of surprises". Working paper, Duke University.

<sup>3</sup> Joel Greenblatt (1997), "You Can Be a Stock Market Genius: Uncover the Secret Hiding Places of Stock Market Profits", Fireside Ed.

<sup>4</sup> Chancellor, Edward (Ed.) (2015). "Capital Returns: Investing Through the Capital Cycle: A Money Manager's Reports 2002-15", Palgrave Macmillan.

<sup>5</sup> Cohen, L., Malloy, C., Pomorski, L., (2012). "Decoding inside information". *Journal of Finance* 67, 1009—1043.

# About the MAPFRE AM Behavioral Fund.

MAPFRE AM Behavioral Fund has an advisory board composed of experts in behavioral economics, neuroscience, and organizational leadership.

**The Advisory Board optimizes our investment process and improves decision making.**

- Composed of experts from diverse fields outside of the asset management industry.
- Monitor latest research on behavioral economics and neuroscience and incorporate best practices into our core value investing process.
- Analyze individual behavioral biases and team dynamics to improve internal decision making.



**Pedro Bermejo, MD**  
Neurologist



**Natalia Cassinello, PhD**  
Professor at ICADE



**Pedro Rey Biel, PhD**  
Professor at ESADE



**Guillermo Llorente**  
Sub director at MAPFRE

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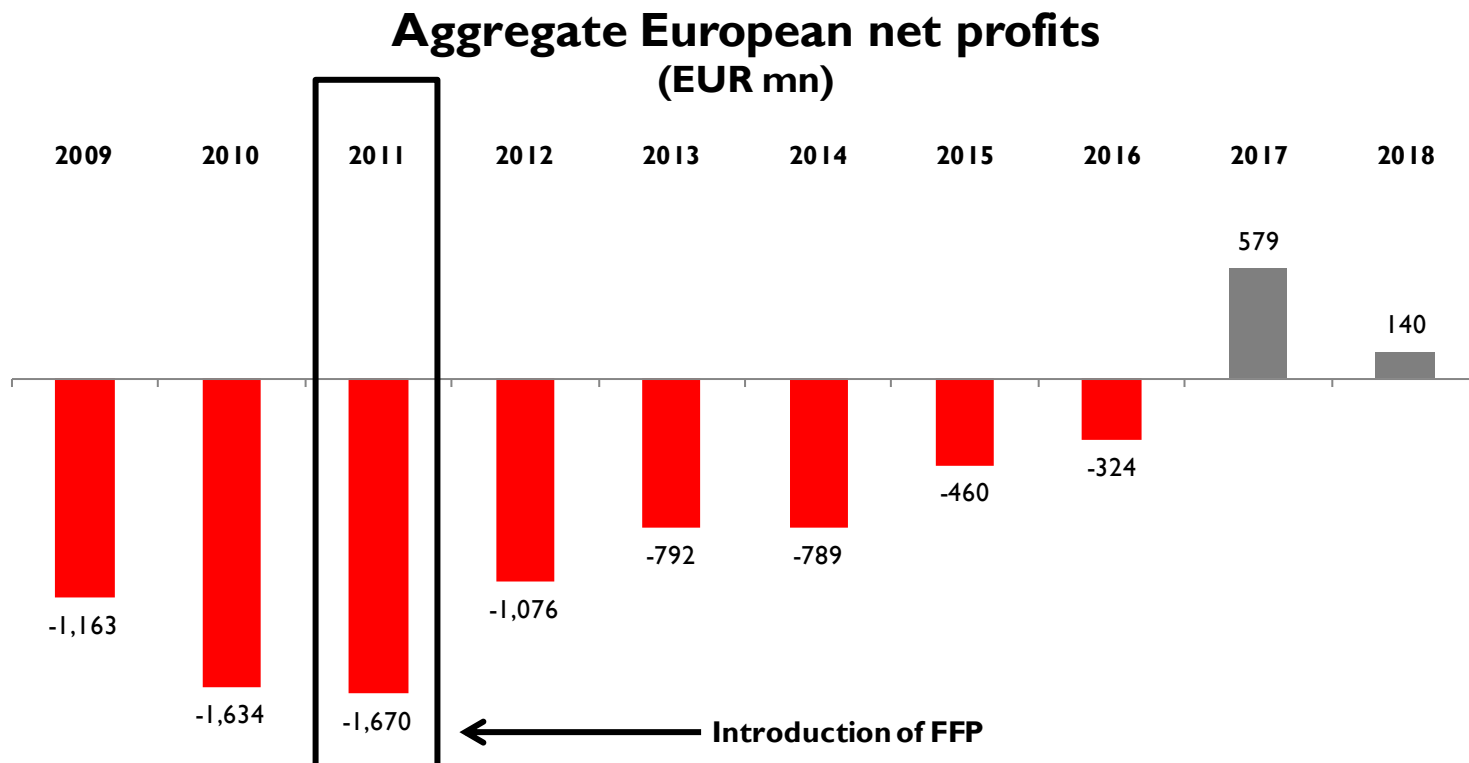
## Deconstructing the 5 traditional reasons for **NOT** investing in football clubs.

- 1) Football clubs do **not make any money**.
- 2) Investing in football clubs is like **sports betting**.
- 3) The football industry is **too cyclical**.
- 4) A couple of **bad seasons** can ruin my investment.
- 5) Football clubs are just toys for **rich people**.

# Deconstructing the 5 traditional reasons for NOT investing in football clubs.

## Reason #1: Football clubs do not make any money.

Fact 1: Bottom-line result has improved by > €1.8bn since introduction of UEFA Financial Fair Play (FFP).



Source: UEFA.

# Deconstructing the 5 traditional reasons for NOT investing in football clubs.

**Reason #1: Football clubs do not make any money.**

Fact 1: Bottom-line result has improved by > €1.8bn since introduction of FFP.



“We have always said we want investors in football. **Of course we want good investors in football.** (...) We have to build on the strength of **financial fair play** and we have to look into how we can **make investment possible** but with **reasonable, sustainable, appropriate** guarantees.”

**Gianni Infantino**

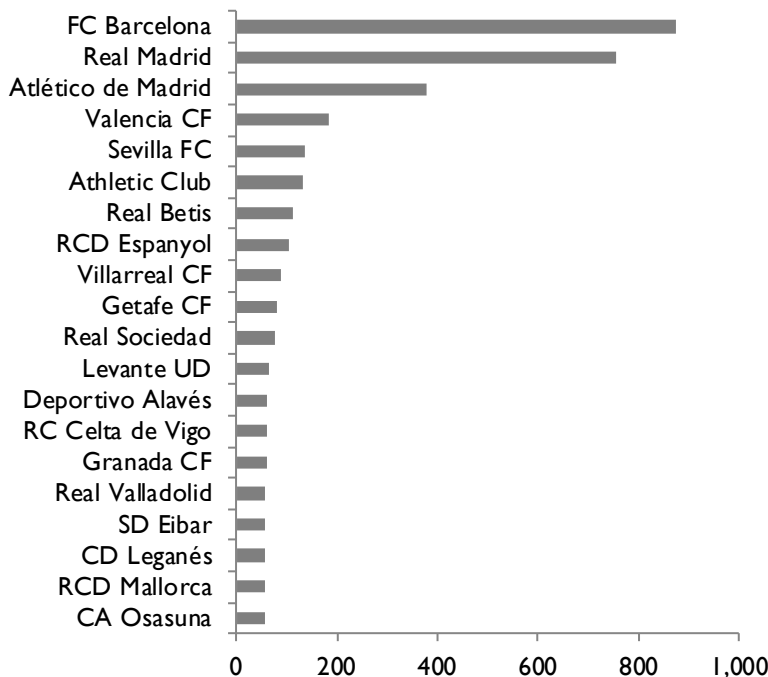
FIFA's President &  
Former UEFA's General Secretary

# Deconstructing the 5 traditional reasons for NOT investing in football clubs.

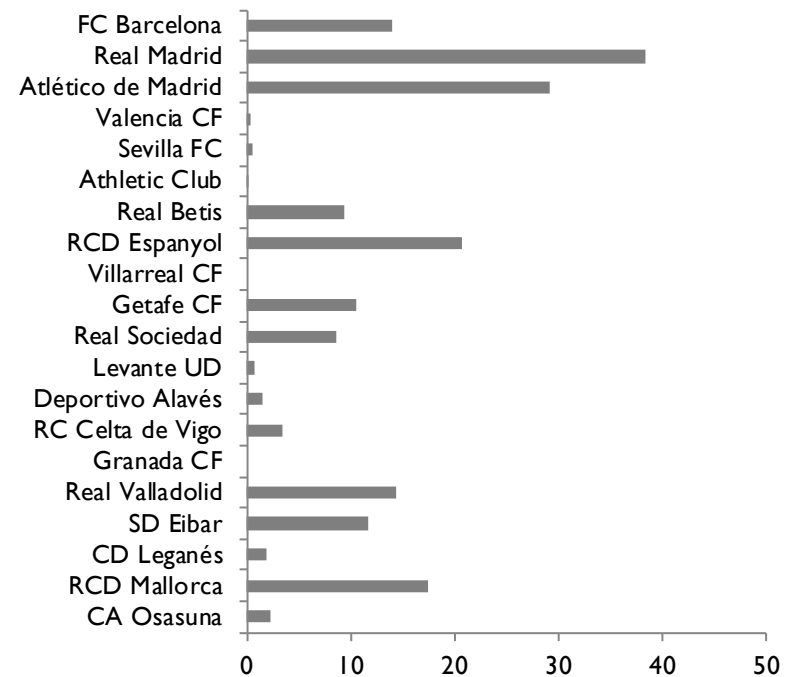
**Reason #1: Football clubs do not make any money.**

**Fact II: What about LaLiga? Almost every team is now profit making.**

**Revenue in 2019-20  
(EUR mn)**



**Net profit in 2019-20  
(EUR mn)**



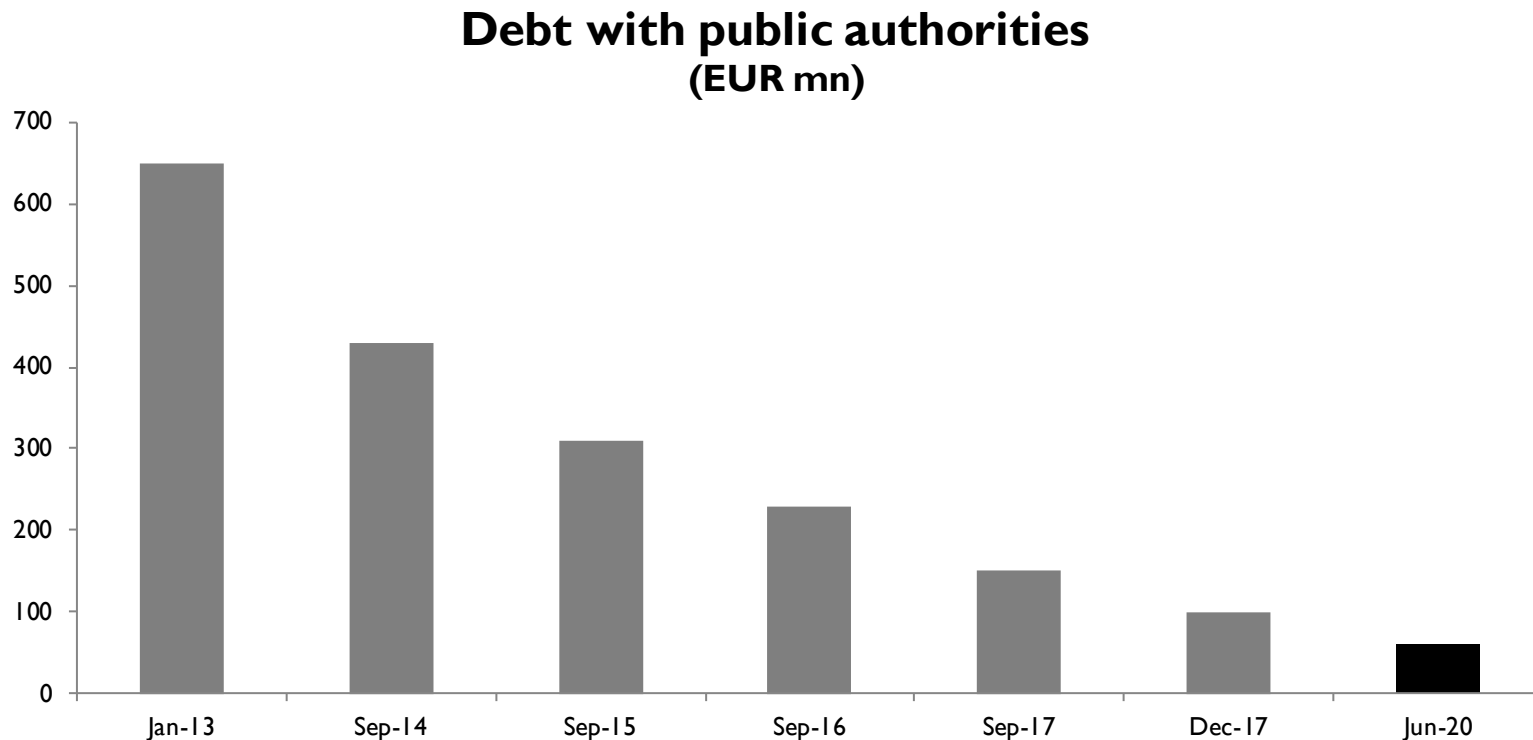
Source: Palco 23 based on 2019-20 budgets and company data.

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# Deconstructing the 5 traditional reasons for NOT investing in football clubs.

**Reason #1: Football clubs do not make any money.**

**Fact II: What about LaLiga? Debt with public authorities has disappeared.**

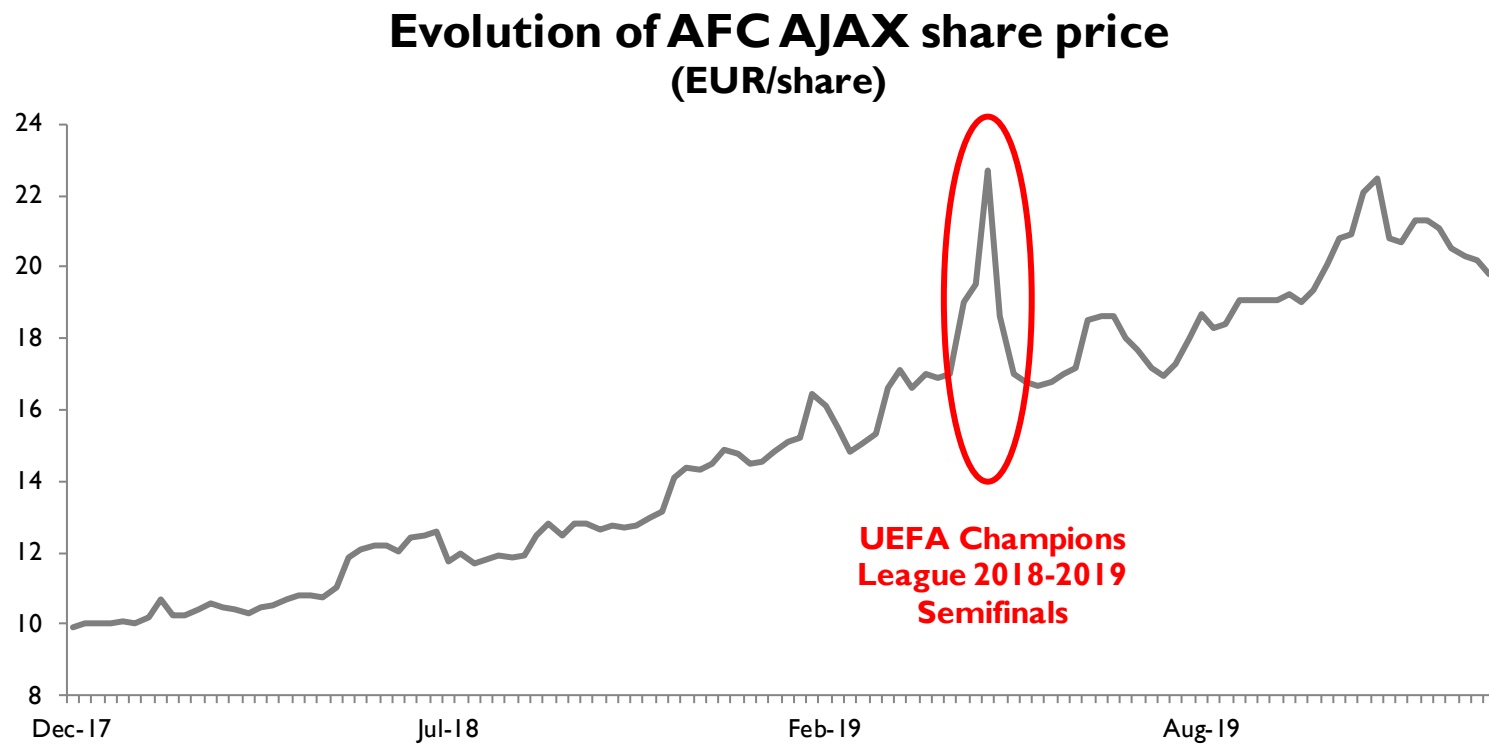


Source: Senn Ferrero.

# Deconstructing the 5 traditional reasons for NOT investing in football clubs.

**Reason #2: Investing in football clubs is like sports betting.**

Fact: This depends absolutely on which is your time horizon.



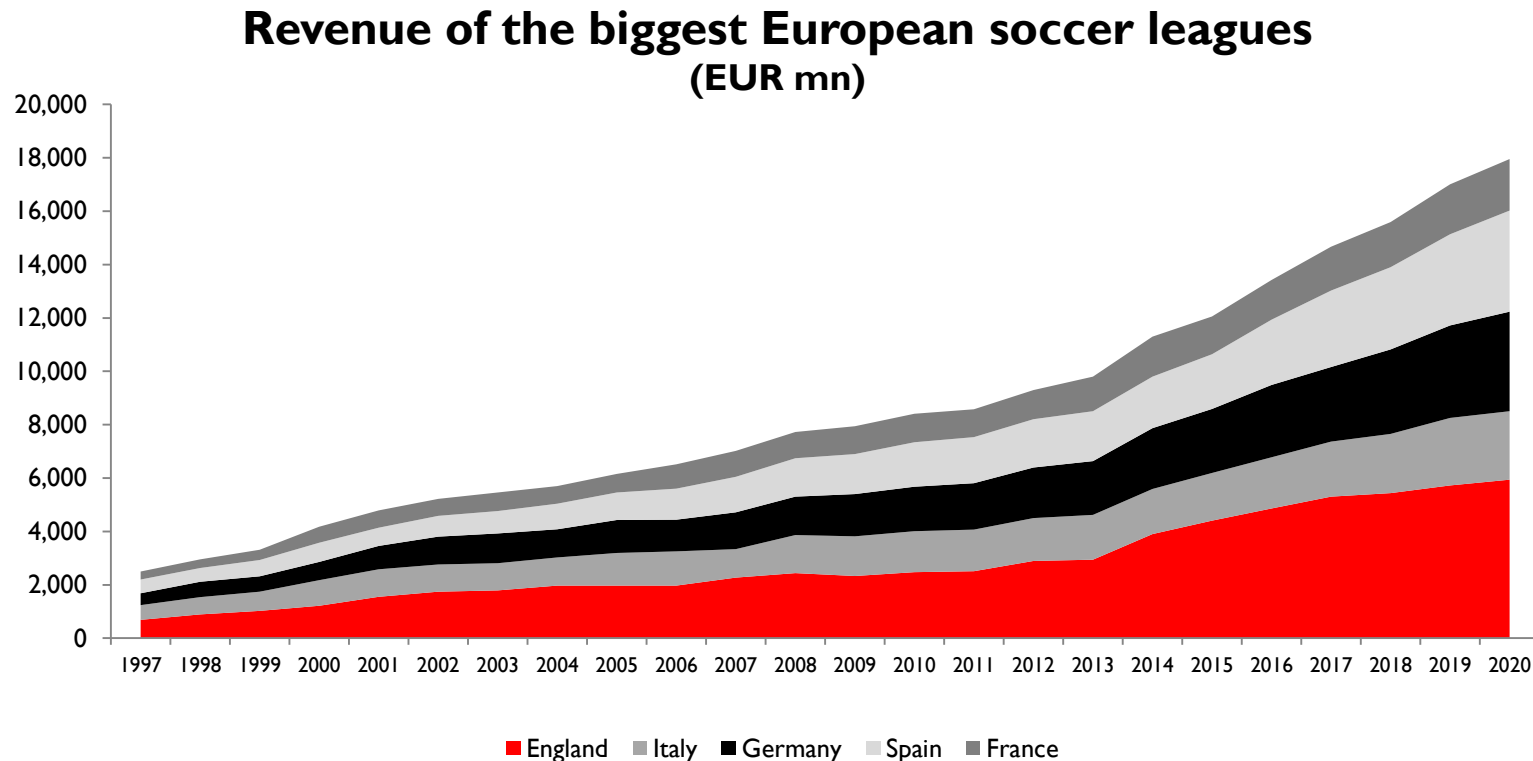
Source: Bloomberg.



# Deconstructing the 5 traditional reasons for NOT investing in football clubs.

## Reason #3: The football industry is too cyclical.

Fact I: Revenues have been growing quite steadily, without decline.

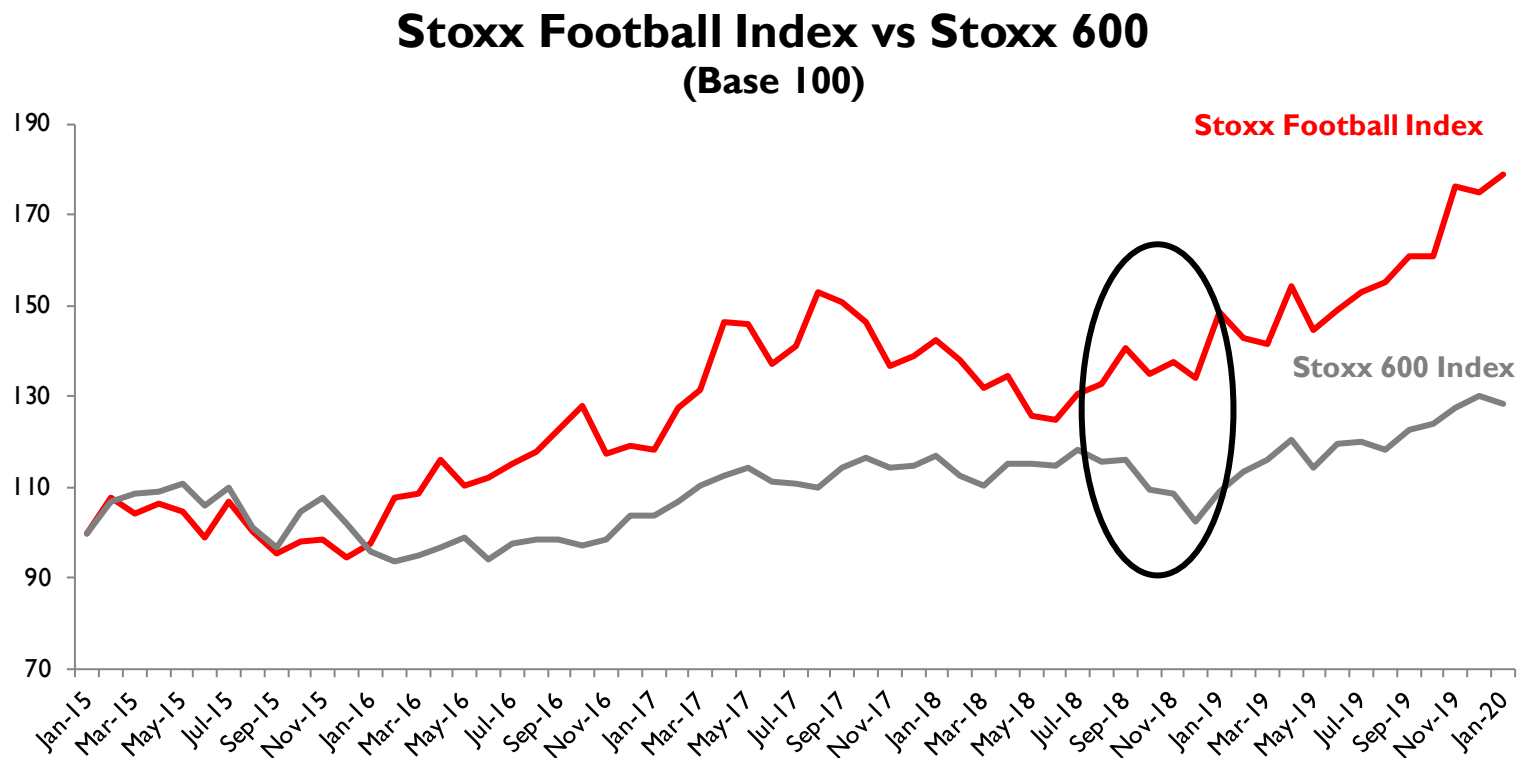


Source: Statista.

# Deconstructing the 5 traditional reasons for NOT investing in football clubs.

**Reason #3: The football industry is too cyclical.**

Fact II: Football clubs can help to diversify your portfolio risk.

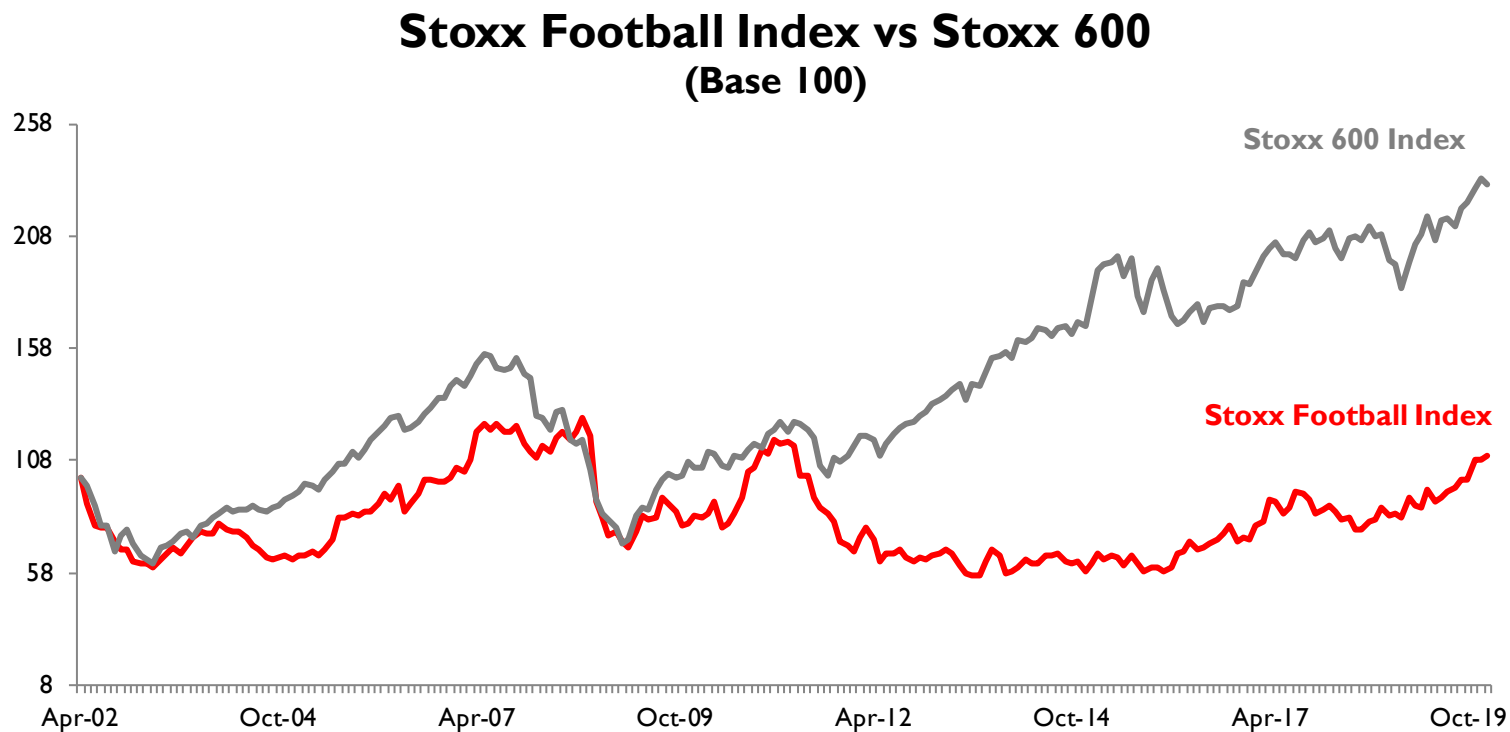


Source: Bloomberg

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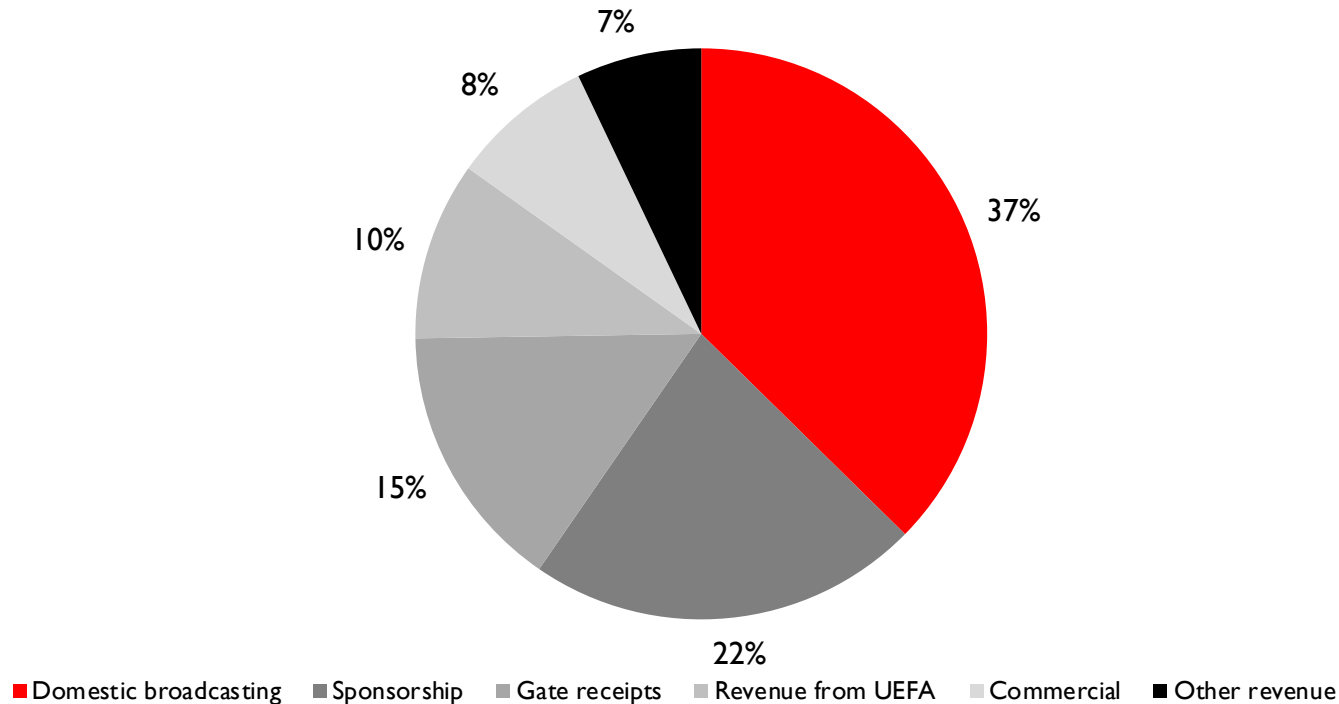
Source: Bloomberg.

# Deconstructing the 5 traditional reasons for NOT investing in football clubs.

**Reason #4: A couple of bad seasons can ruin my investment.**

Fact I: Football clubs have significantly diversified their sources of revenues.

Club revenue by source 2018



Source: UEFA.

# Deconstructing the 5 traditional reasons for NOT investing in football clubs.

**Reason #4: A couple of bad seasons can ruin my investment.**

Fact II: Hidden asset value de-risks the investment.

**1**

**Buy clubs  
that own  
real estate**

**2**

**Avoid  
excessive  
leverage**

**3**

**Look for  
Skin in the  
Game**

# Deconstructing the 5 traditional reasons for NOT investing in football clubs.

**Reason #5: Football clubs are just toys for rich people.**

Fact I: The industry is attracting more and more sophisticated investors.

## THE WALL STREET JOURNAL.

MARKETS

### Buyout Giant Silver Lake Invests \$500 Million in Manchester City Soccer Club Owner

U.S. firm buys stake in latest example of private equity moving into sports franchises



Hedge fund Elliott takes control of Italian soccer club AC Milan

The New York Times

### *La Liga Agrees to \$3 Billion Private Equity Investment*

Spain's top soccer league has agreed to sell a 10 percent stake to CVC Capital Partners. The deal, which requires the approval of clubs, could alleviate a cash crunch.



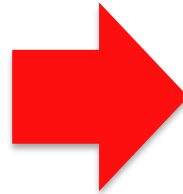
# Deconstructing the 5 traditional reasons for NOT investing in football clubs.

**Reason #5: Football clubs are just toys for rich people.**

**Fact II: The quality of management teams has increased significantly.**



**From local real estate developers...**



**...to global business school graduates.**


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# Sizing the opportunity: Is football is undervalued?

**Football is a stable and attractive (but stigmatized) business.**

As a product, football has a compelling value proposition for fans:

		Importance to the Consumer	
		Low	High
Cost to the Consumer	High		
	Low		

# Sizing the opportunity: Is football is undervalued?

## How do we value a football club?

A conceptual framework for understanding the key value drivers.



**Media /  
Content  
Business**



**Real  
Estate  
Assets**

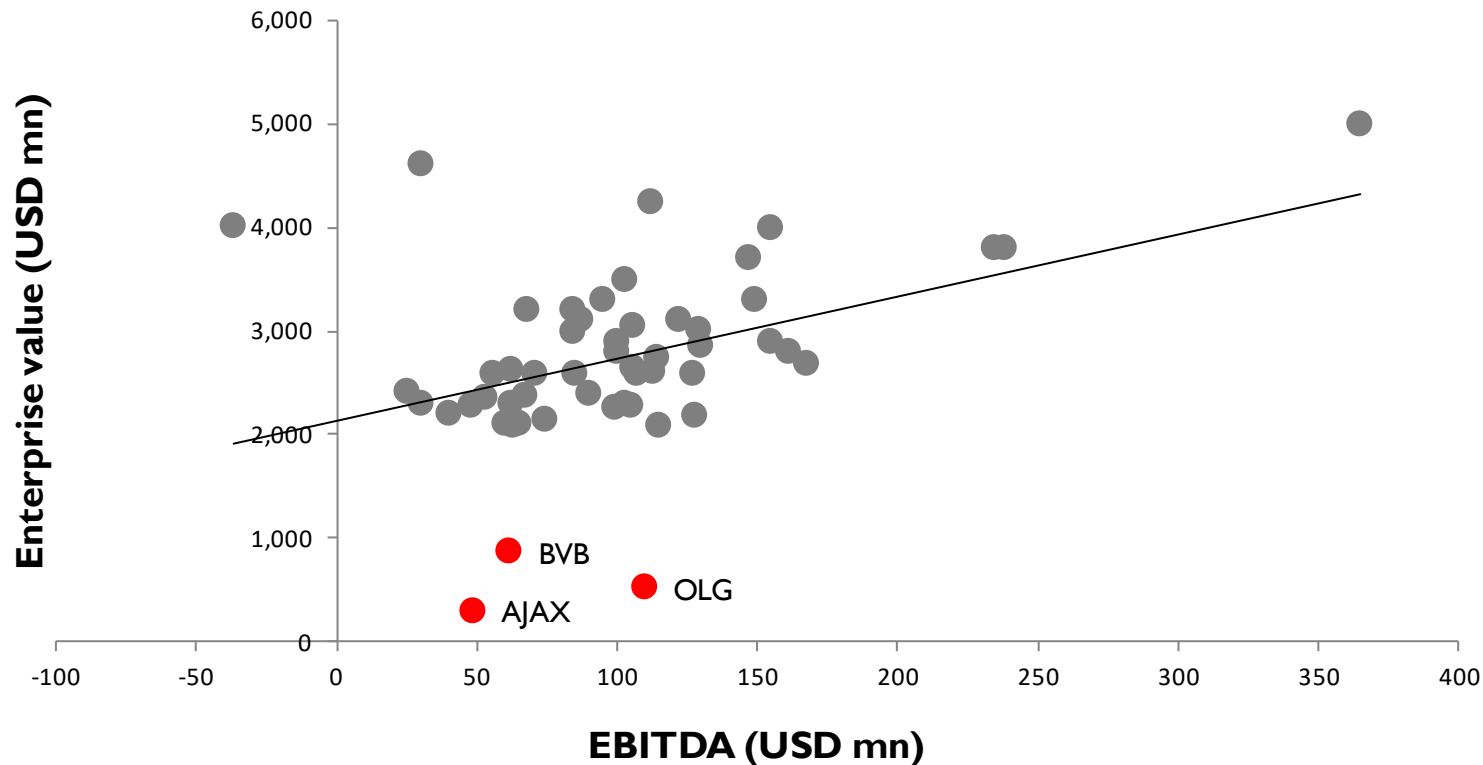


**Net  
Transfer  
Revenue**

# Sizing the opportunity: Is football is undervalued?

## Are European football clubs undervalued by the market?

A quick look at their relative valuation **vs US sport franchises** would suggest that they are... big time. (I)



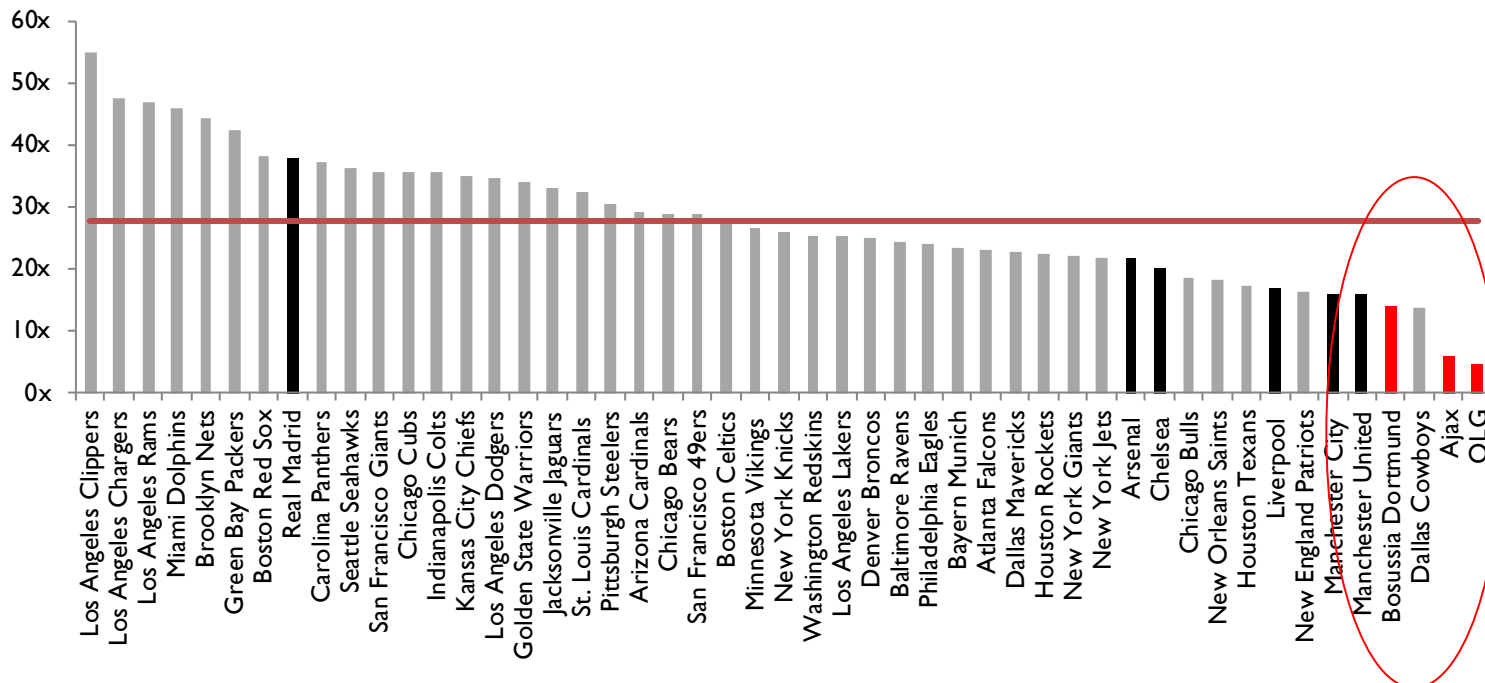
Source: Forbes and MAPFRE AM estimates.

# Sizing the opportunity: Is football is undervalued?

## Are European football clubs undervalued by the market?

A quick look at their relative valuation **vs US sport franchises** would suggest that they are... big time. (II)

### EV/EBITDA of global sports franchises



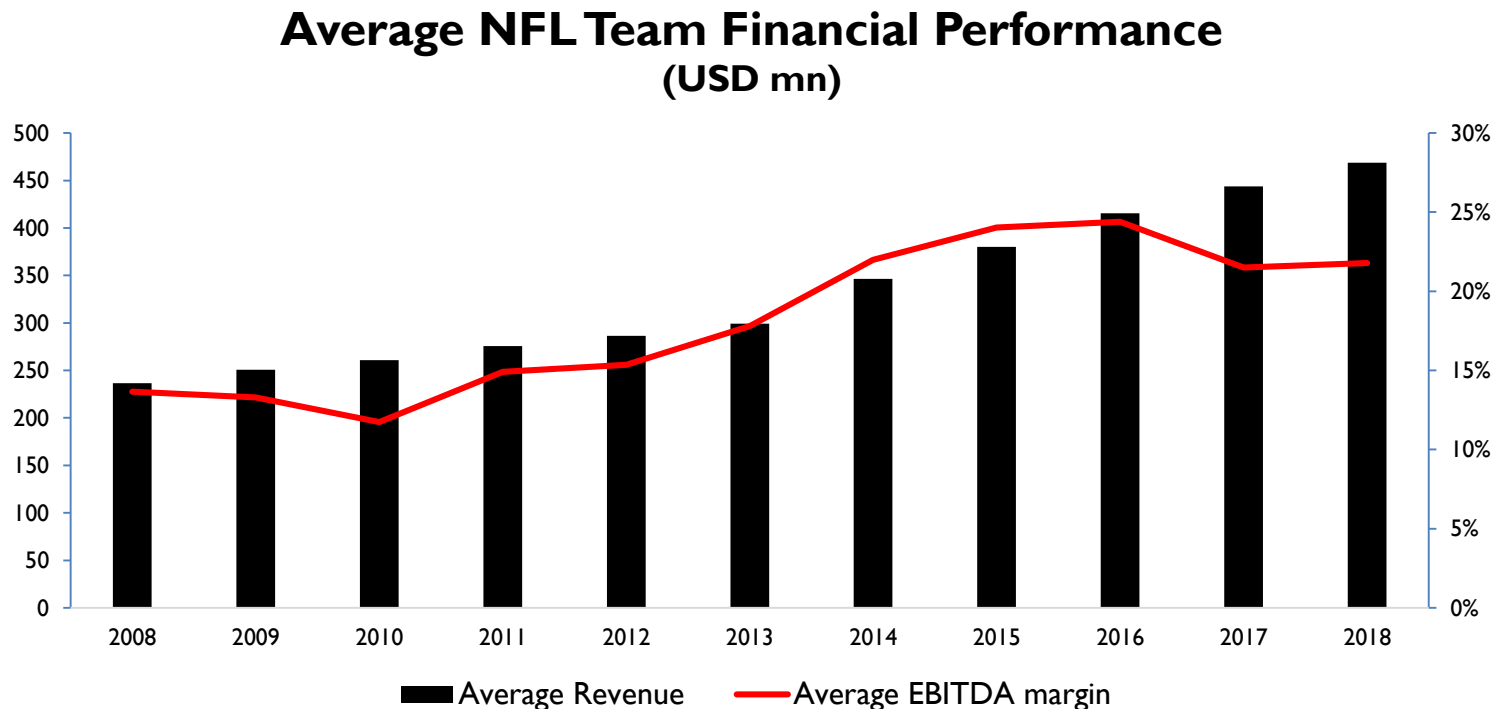
Source: Forbes and MAPFRE AM estimates.



# Sizing the opportunity: Is football is undervalued?

## Case Study: Operating leverage in the NFL

Like many media businesses, professional sports have high fixed costs. Revenue per team doubled from 2008 to 2018, while EBITDA tripled.



# Sizing the opportunity: Is football is undervalued?

## Case Study: Operating leverage in the NFL

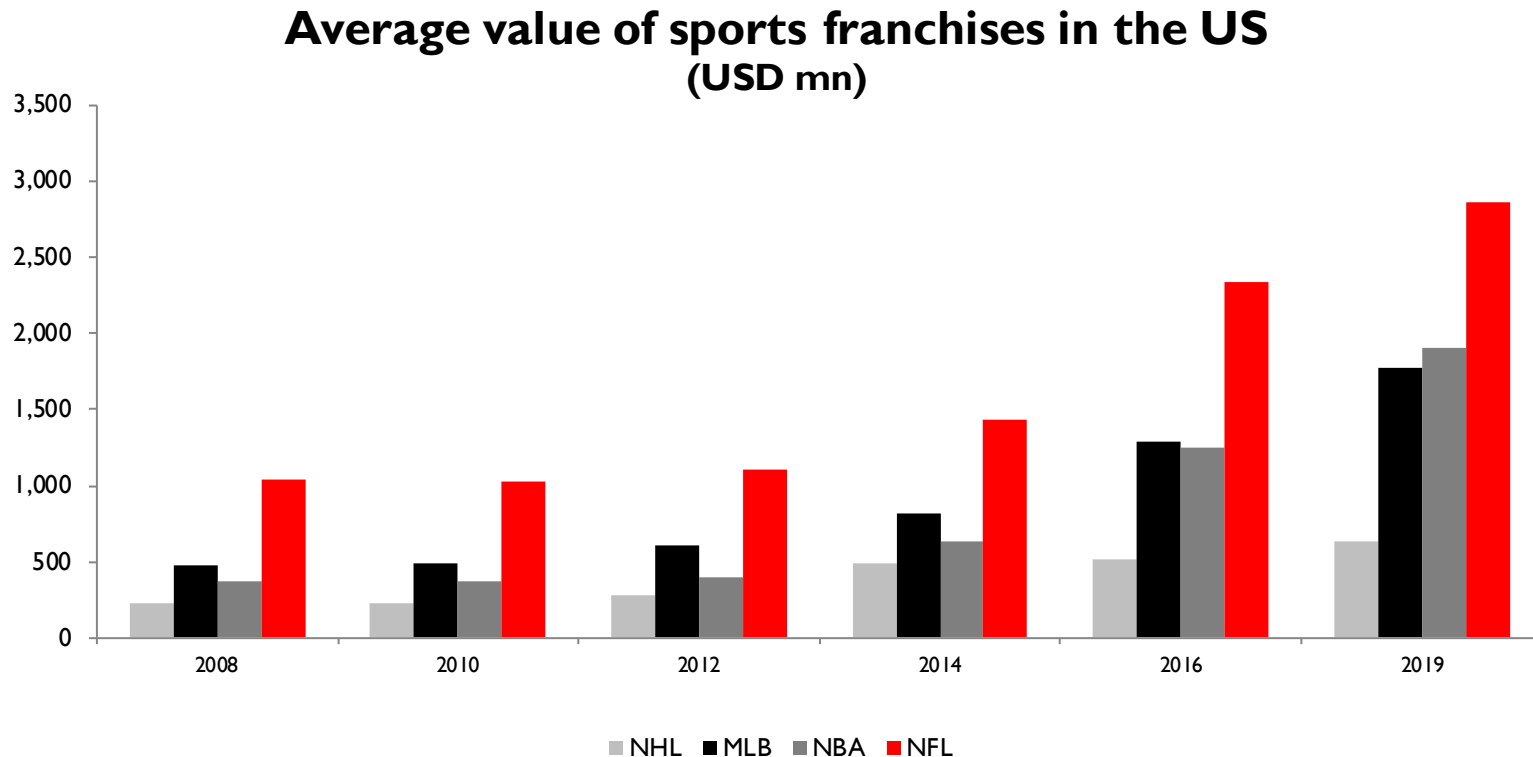
NFL teams generated strong incremental margins on revenue growth beyond \$250mn, consistent with what leading European football clubs earn today.

Years	Avg. Revenue	Avg. EBITDA	Avg. Margin	Incremental Margin
2007-10	\$242	\$30	13%	--
2011-14	\$302	\$54	18%	39%
2015-18	\$427	\$98	23%	35%

# Sizing the opportunity: Is football is undervalued?

**Are we seeing the beginning of a similar trend in European football?**

We think so: revenue growth with margin expansion leads to higher valuations.



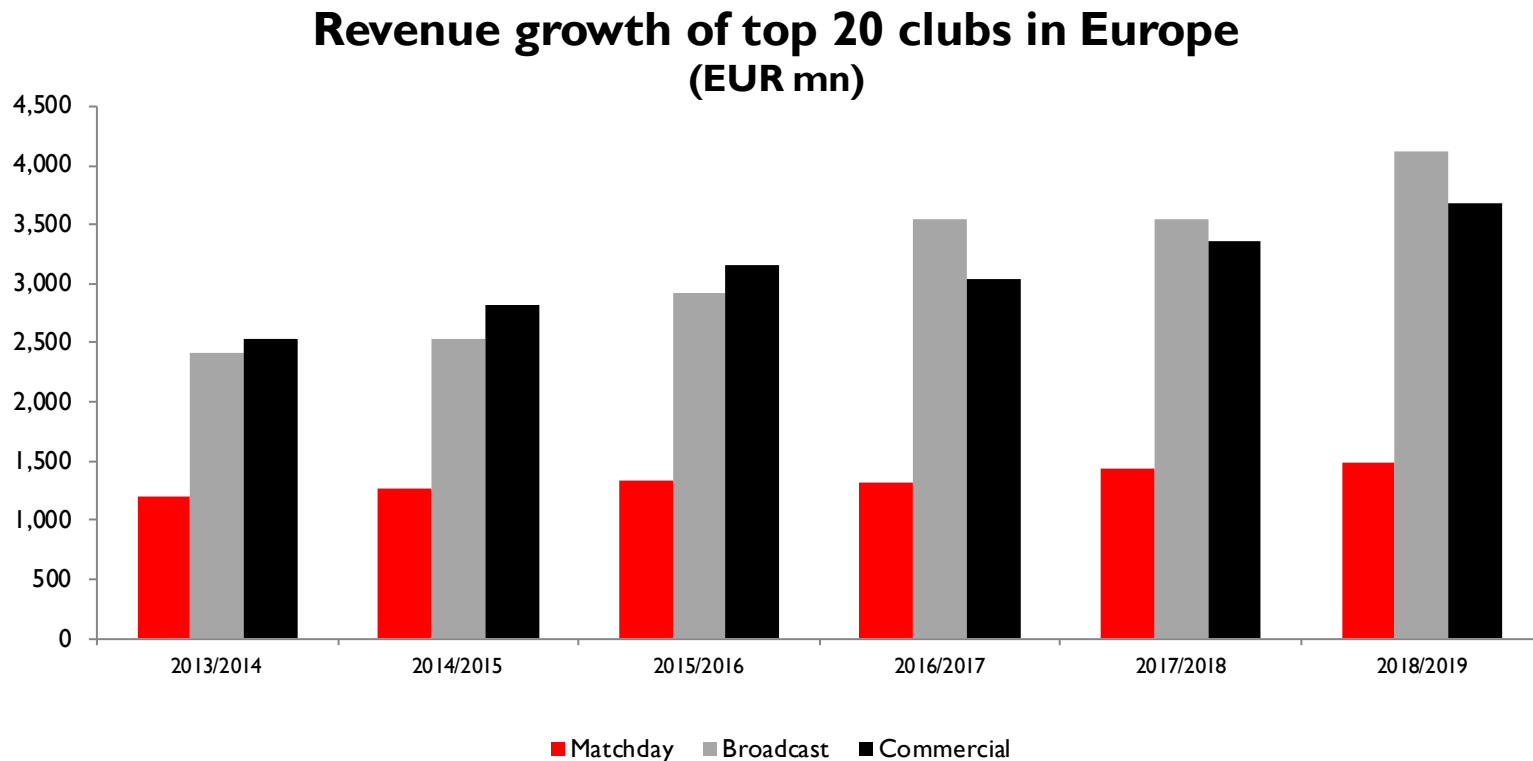
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## Still a lot of room to go : New sources of revenues.

The structure of the revenue stream have been evolving in the recent years, with broadcasting being now the main source of income for big clubs.

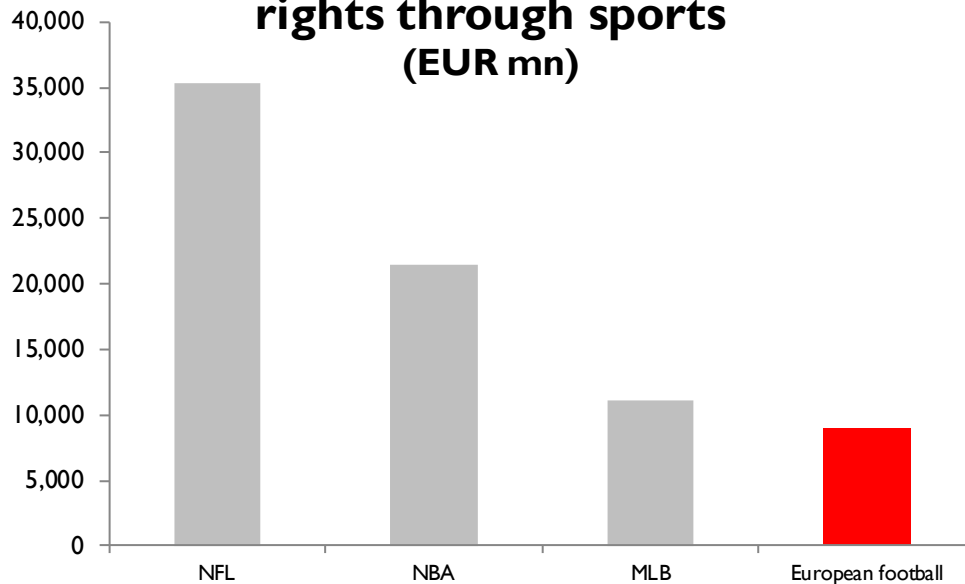


Source: Deloitte.

## Still a lot of room to go: An industry at an early stage.

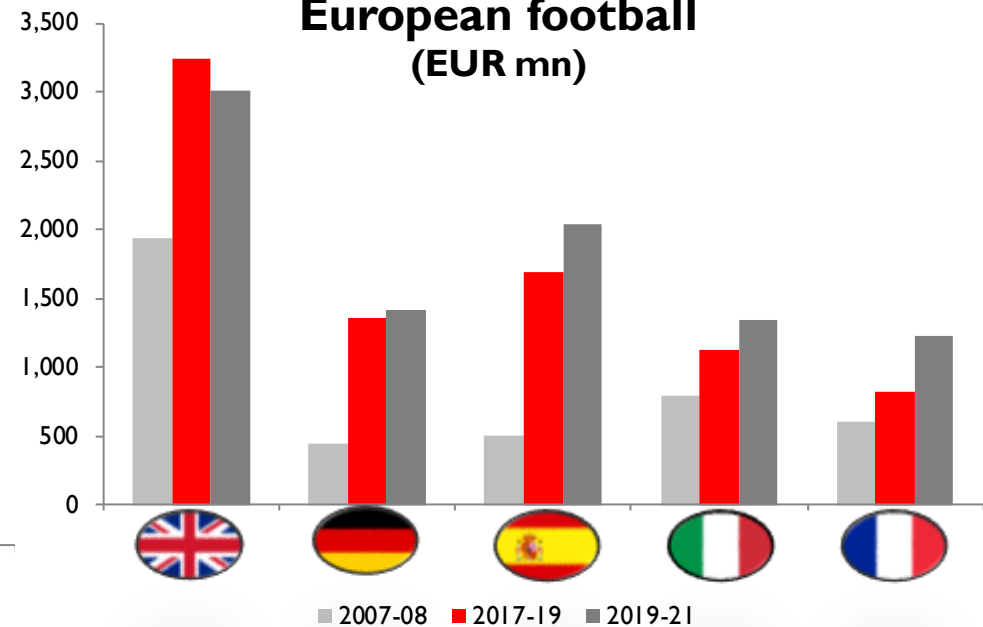
Broadcasting revenues are still far below the NBA, the NFL or the MLB, while the interest in football in the US and China just keeps growing.

**Comparison of broadcasting rights through sports (EUR mn)**



Source: PledgeSports and MAPFRE AM estimates.

**Trend in television rights, European football (EUR mn)**

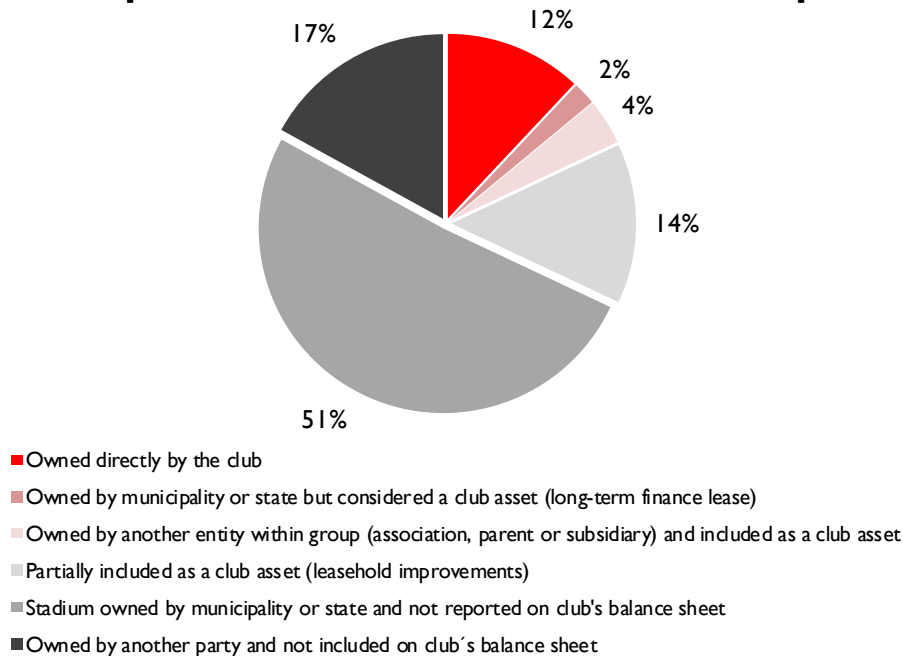


Source: Premier League.

# Still a lot of room to go: An industry at an early stage.

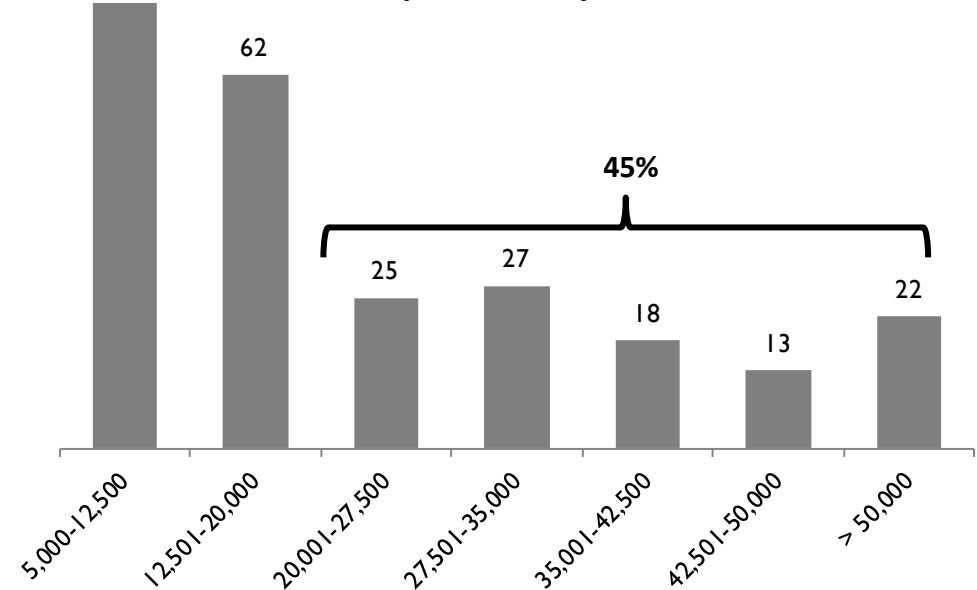
Fewer than 20% of European clubs own their own stadium but this is becoming a very relevant source of income.

**Top-division clubs' stadium ownership**



Source: UEFA

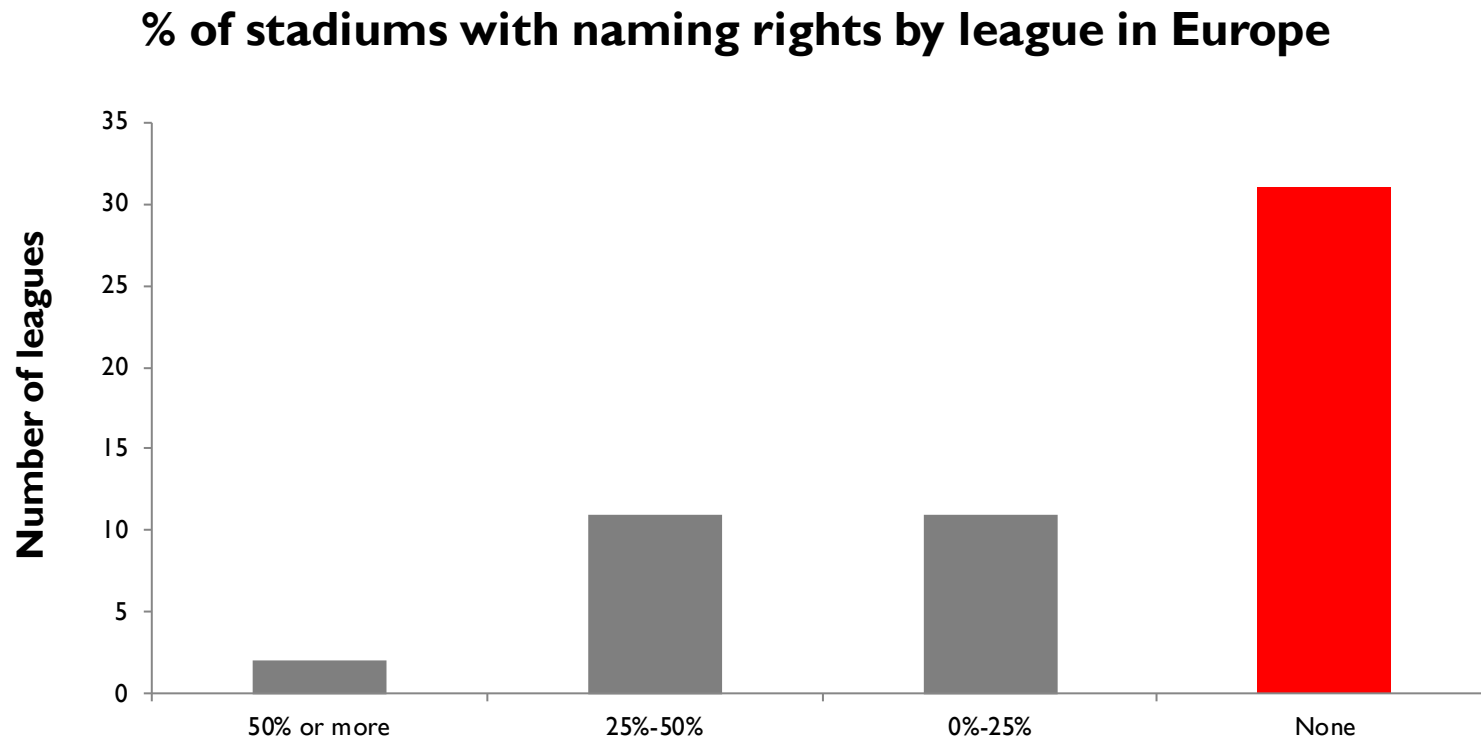
**Stadium projects by capacity (2020-2019)**



Source: UEFA

## Still a lot of room to go: An industry at an early stage.

Only 15% of all top-division clubs have stadium naming rights partners, so there is room to increase clubs' revenues in this front.



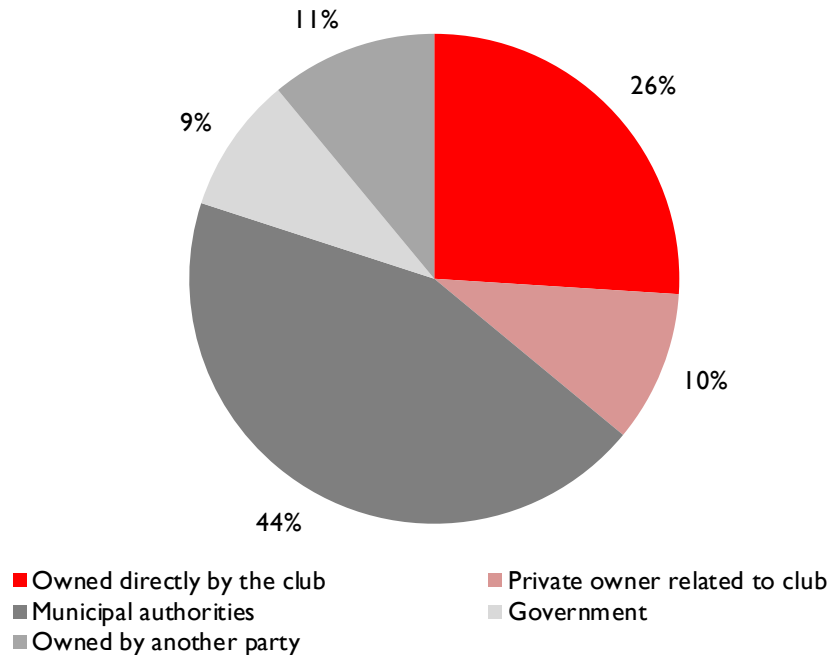
Source: UEFA



## Still a lot of room to go: An industry at an early stage.

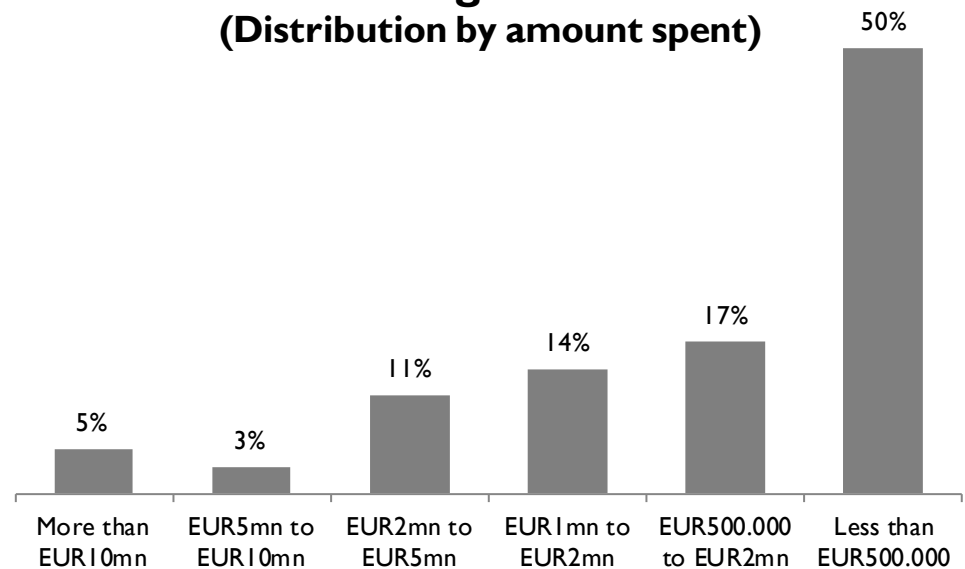
Just over a third of clubs own their main training facilities, which will be another area of investments in the coming years.

**Ownership of clubs' training facilities**



Source: UEFA

**Last improvement work on training facilities**  
(Distribution by amount spent)



Source: UEFA

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# Why do we invest in Ajax, Lyon and Dortmund?

What kind of clubs are we looking for? Let's use the same criteria that we apply to other companies in our portfolio. We are interested in clubs that...

RIGHT  
PEOPLE



Have great  
management  
teams

CAPITAL  
ALLOCATION



Make net profits  
in the transfer  
market

BALANCE  
SHEET



Have low  
financial  
leverage

GOOD  
ASSETS



Own a stadium,  
preferably  
multiuse

AT A  
DISCOUNT

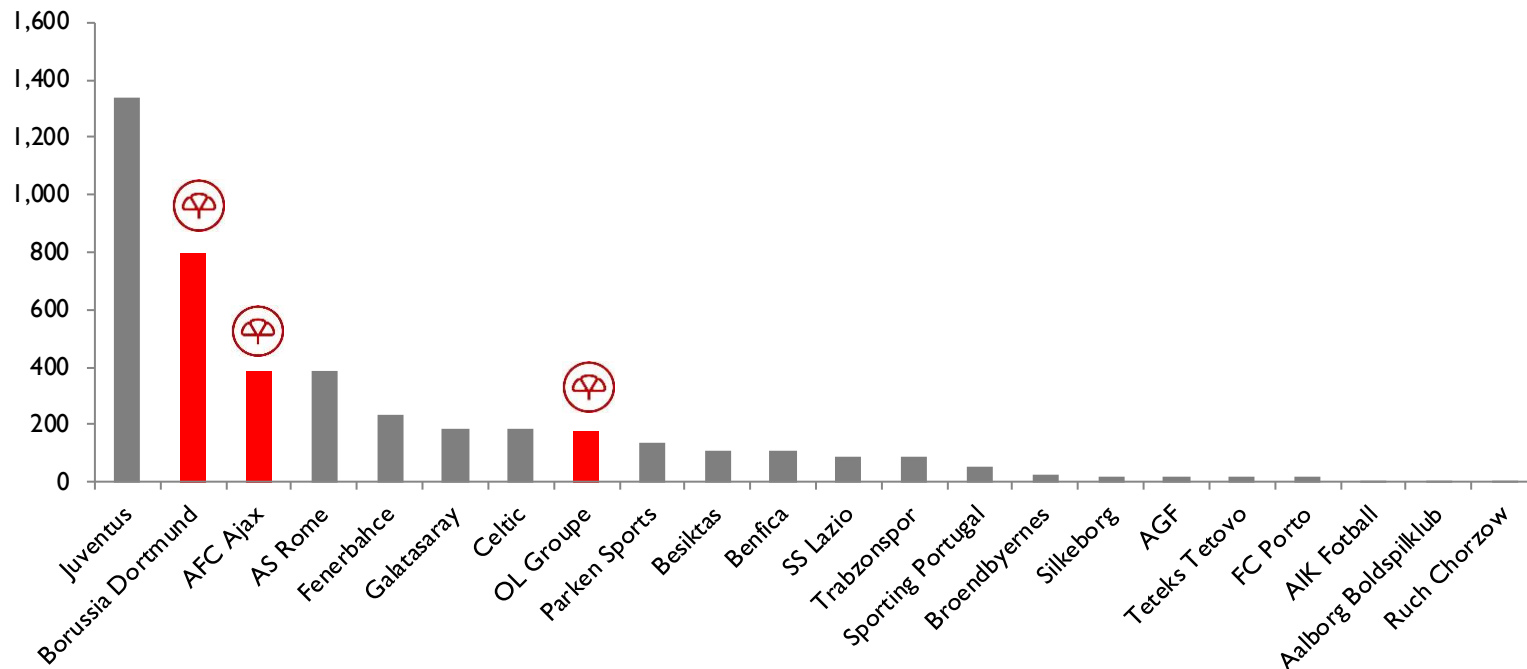


Are significantly  
undervalued by  
the market

# Why do we invest in Ajax, Lyon and Dortmund?

The are currently just 22 football clubs listed in European stock exchanges. Ajax, OL and Borussia Dortmund are the ones that better fit our criteria.

**Market cap of listed clubs in European exchanges  
(EUR mn)**



Source: Bloomberg.

## Why do we invest in Ajax, Lyon and Dortmund?

Both clubs share a series of common characteristics: net-sellers in the players' transfer market, solid balance sheets and great management.



5.5%



2.5%



2.0%

# Thank you

**MAPFRE** AM