

# Module 3. Loans, Bonds and Shares in Sport

## Introduction

This course will focus on the many innovative financial approaches that are now occurring in the world of sport. In this reading, we will outline and discuss the following. Firstly, loans in sport and how clubs and organizations can use loans to achieve objectives that they have set themselves.

Having discussed these topics, we will then move into the various ways that the organizations go about raising these finances in modern sport. We will then outline the use of bonds that has been a growing trend within sport in the past few years. Before outlining the continued usage of shares within sport and how that has proved beneficial for organizations within this field for quite some time. Before finally providing some case studies of the way this has been done in practice.

## Raising Finance in Sport

Raising finance in sport plays a crucial role in sport and is fundamental to the success of modern-day sporting entities. Those that can raise, and continue to raise, large amounts of finance are ultimately the ones who are most likely to succeed. There is an almost constant clamour for any form of finance within the sporting field. It underpins the entire operation of a sporting organization, from the day to day to the future proofing of the organization.

Attracting finance, therefore, is a crucial step and one that should not be minimised. It can be accomplished in a multitude of ways, and not always through the same methods or the same people. As you might already know, there are plenty of ways that sporting teams, clubs, and organizations will attract money and investment. Some of this revenue will come in from ticket sales and other fan purchased goods. However, other forms will have to be worked for differently.

It might require specialist teams, such as the marketing team, to bring in forms of sponsorship and forge links with local businesses. They will also aim to bring investors on board, often wealthy individuals who look to reach arrangements to invest huge sums of money over a prolonged period. The motivations for investing can be different in each case, perhaps the investor is looking to give back to the organization in question, they have been successful and wish to share some of that wealth with an organization close

to them. In other cases, it may have to do more with a business arrangement, can the investor get something? A positive image, increased sales, for example, out of making these investments. This does not mean that attracting these investors is easy, it requires many months, sometimes years, worth of work by those working at the clubs to achieve this. We must also think about the attractiveness to the investors of our organization. An investor is unlikely to be excited by owning a lower league club with limited infrastructure. Both of these scenarios are likely to cost a lot of finance to deal with and could set back plans for self-sufficiency or profit of the club. One of the main questions surrounding investment, is how much control the investors are looking to have.

The investor could want to have ultimate control over how the organization operates, which could cause problems for the existing membership and owners, as they grapple with the reality of losing control. When these relationships work, they can be very successful, the ownership of Chelsea by Roman Abramovich was very successful by measures of league and cup wins. But it also showed the frailty of the agreement, as outside factors dictated Abramovich's sale of the club, who were in real danger of losing players, and its standing in the game due to a reduction in costs. Large groups of investors, maybe including the fans, will be covered in the following sections. We will first delve into the work of loans in sport.

### **Loans in Sport**

In this subsection, we will outline briefly what loans are and how they are used in day to day businesses. We will then discuss how they can be useful in sport and why some sporting clubs or organizations might choose to use them in this fashion.

### **Loans in Business**

In simple terms, a loan is a credit vehicle that allows for one party to give money to another in return for future repayments of the original amount (Kagan, 2021). In addition, to the original amount, most organizations that loan money out will also charge a fee for the loan itself and interest on top of the amount over the lifetime of the repayment, which is often several years. How this fee is calculated might rely upon a set amount or be in line with the interest rates of the home country of the loan.

To secure the loan, individuals or businesses must show that they will have the means with which to pay it back. This can come from proving income will arrive in some form over a period of time. Additionally, collateral may also be used to secure the loan, for example, a building, machinery, or another physical item could be signed over to the organization loaning out the finance.



There are many different types of loans that can be used, but let us focus on secured and unsecured. Secured loans are loans that are tied to some form of existing capital, a mortgage, for example, is tied to the property it is financing. Should repayment of the loan not take place, the bank can take the property in an effort to pay off their financial commitments. On the other hand, unsecured loans are not tied to another asset, a good example of this is a credit card. As these loans are unsecured, the interest on these loans is often higher, as the loaning companies will seek to recoup their investment as quickly as possible (Kagan, 2021). It is not hard to see how this facility might be of use to sporting organizations. We shall tackle this topic next.

## **Loans in Sport**

Loans in sport can provide a highly useful source of finance for the organization that inhabits this field. This practice can bring in a much-needed financial injection in to an organization from outside the industry sources. Additionally, the repayments can be stretched over a number of years and can be tied to existing club infrastructure, such as stadium buildings, giving the organization a level of certainty for the future years.

Loans may help club progress. Tottenham Hotspur of the English Premier League borrowed heavily, using mostly loans, to finance their new stadium. Hyter sums up the extent of Tottenham's borrowing. "Spurs borrowed £637m from Goldman Sachs, Bank of America Merrill Lynch and HSBC for the £1bn project and the money was due to be repaid by April 2022" (Hyter, 2019).



**Figure 1: Tottenham's stadium, here about to host a Champions League game against Ajax, opened this year**



Source: Hyter, 2019, <https://bit.ly/3LGgOKp>

Tottenham opted for a loan as, firstly, they would not be able to come up with the billion-pound stadium cost if they had not and also to spread the cost over a number of years. While the chairman did note in the article that they would continue to operate in a sensible fashion, they could, should they not wish to spend more, and not be overly limited by the stadium costs.

Not only can loans help club progress, they can also save them. During the COVID-19 pandemic, all sport stopped and then, when it did restart, firstly, at a professional level, there were restrictions on the size of crowds, in some cases, no fans were allowed at all. This public health measure, as you would imagine, severely impacted on some teams and their ability to generate income to pay bills, players, and staff. Some organizations have even gone as far as to offer loans to their member clubs during this period.

The National League, the 5<sup>th</sup> division of English football, was one such organization. At this level of football, the gate receipts are critical to the clubs who are in the league. Therefore, to help member clubs when the spectator ban was in place, they offered loans to cover expected losses and to help the various clubs survive.

**Figure 2: Hampton & Richmond Borough FC**



Source: Clark, (n. d.), <https://bit.ly/3noHgPk>

The loans were not free, although grants did allow for this facility, but the repayment rates were low and flexible terms were on offer to help clubs. “Loans would be managed by Sport England and are repayable over 10 years at an interest rate of 2%, although there is thought to be an option for extensions and a payment break” (Stone, 2021).

### **Benefits and Drawbacks of Using Loans in Sport**

One drawback can be viewed through the lens of the issues experienced at Reading FC. Reading, along with several other English football clubs, took out loans from the Vibarc Corporation, based in the British Virgin Islands. Vibarc’s operating method was that they would loan amounts to sporting organizations that would be offset against future television earnings and parachute payments from the Premier League.

The scheme had worked well for a number of other football clubs, but with Reading there began to be issues. The loan was secured largely against a £10 million parachute payment that Reading would receive for being relegated from the English Premier League (Blake, 2014). When this amount came, Reading still owed Vibarc £1.5 million that they were unable to pay. This led to Vibarc taking de facto control of the club and playing key roles in operation and player sales. It reached a head when Vibarc began engaging with

bidders for the club that included a previous board member of Vibarc. In the end, Vibarc did not take control of Reading, but the club were fined £30,000 for improper ownership structures (Aarons, 2016).

## **Bonds in Sport**

In this subsection, the use of bonds in normal business will be reviewed. Then, as in the previous section on loans, we will talk about how bonds are used within sport and how they can be utilised to their fullest potential, before commenting on the potential benefits and drawbacks of the method.

## **Bonds in Business**

Bonds are used when an organization or government wishes to raise capital to finance infrastructure improvements or other large-scale projects. It is an agreement between a lender and a borrower that outlines the returns in the form of periodic coupon payments (Fernando, 2022). You might see some similarities between bonds and loans, the lending of money from a party to another, for example; however, they are different financial mechanisms. So, how is a bond different from a loan?

One of the main differences between a bond and a loan is that the bond itself is tradeable. It can be sold in special bond markets and the advantage for the bond owner is that they do not have to wait for the bond to reach maturity and be paid off. Loans, on the other hand, are not tradeable and the full term of the loan must be seen out.

They are also more flexible than loans and are seen as less risky to pay into than a traditional loan, all of which makes them attractive for those lending and those borrowing money through the bonds, particularly those within sport. So, how do we use bonds in sport, and how do we use them effectively?

## **Bonds in Sport**

The usage of bonds has been used in sport for some time as a way of raising funds, often for large-scale capital products. In 2013, the Jockey Club, the British horse racing governance organization, launched a bond scheme to help raise £15 million towards improvement of facilities at one of their racecourses. The motivation for using this method over, say a traditional loan, is that, firstly, the rate at which the payments to investors would be made was a lot lower than a loan method. Secondly, they can strengthen connections between the organization and their customers. With large mailing lists, the Jockey Club were able to directly appeal to their existing customers to invest in this initiative and foster positive relationships between the two parties.



But it is not just corporations and sporting organizations that are finding bonds attractive, it is the fans themselves. The fans are investing in bonds in their chosen organizations in ever-increasing numbers. The bond is explained as follows: It is open to the public who can invest sums of between £2,000 and £100,000. Interest payments will be worth 7.75% gross per annum and will be split between cash and a racing rewards programme.

However, the fans of a team, as one might suspect, have different motivations than other investors. They do not do it so that they can realise returns, which is the main objective for most other traditional investors. They invest so that they can support the club financially as an extension of being a fan. It is an emotional investment rather than one based on financial aims alone, a heart overhead investment (Huth, 2020).

The connection between the fans and their club as a motivation for investing in bonds is an idea that we will explore further in the case studies section.

### **Benefits and Drawbacks of Using Bonds in Sport**

As with any form of investment, there are also benefits and drawbacks to using bonds.

Fans are keen to buy bonds and any release of them is likely to generate a large amount of publicity, and due to the relationship the fans have with their club, it is likely the sale will be oversubscribed. If the bonds are bought by the fans, the clubs can be relatively assured that they are not after the financial rewards that others might be.

There is also a risk that the bonds might default. This means that the payments scheduled to be made to the investor and, in some cases, their original investment, do not materialise. This is usually the sign of financial problems at the organization that has received the bonds, and given the sometimes precarious nature of sports finances, and football in particular, this is something that those investors need to be aware of. And yes, some investors are fans and might not be motivated by earning from their bonds, but no one likes losing money even to a club they support.

We did note in the previous subsection that fan bonds often have a high-level of demand, and they are likely to sell out or be oversubscribed, and while this is true on most occasions, it is not always the case. There have been bonds that have not been as successful, for example, fan bonds launched in Germany by 1860 Munich and Hansa Rostock have experienced poor demand. The issue for the sporting organization, in this case, is that plans or investments they have aimed for will have to be scaled back or no longer take place at all (Huth, 2020).

## **Shares in Sport**

In this subsection, mirroring the format of the two previous sections, the use of shares in everyday business will be sketched out. We will then go into more depth regarding the use of shares in the sport and the successful role that these have played in funding sport.

## **Shares in Business**

Shares are a unit held in a business by an individual, a group of individuals, or another company. They can be sold, bought and traded and their value fluctuates depending on marketing conditions, external factors, and the performance of the organization the shares are owned in. They have grown to become a popular method of raising finance, and the biggest share issues involving some of the world's biggest companies going public have garnered large amounts of media attention.

As well as being able to trade in shares, the investors in this type of market can also receive dividends. When an organization has had a good financial year, they might pay out dividends to their shareholders, in effect, rewarding them for their initial investment. However, there is no obligation for the organization to pay these out, whereas some do not, especially when, financially, times are hard. This perhaps makes the practice more risky than other forms of investment, as the share price and dividend payment can be unpredictable. Even so, this has not stopped them from being used in sport.

## **Shares in Sport**

Shares can also be used in sport. This is not surprising as many sports companies, those producing sporting equipment, for example, need to attract funding for a range of normal business tasks including research and development and marketing. Shares have also begun to play a role in sporting clubs and teams, as their appetite for further funds shows no sign of slowing down.

Clubs and teams will use shares to raise funds that allow them to maintain a level of financial health and compete in the increasingly hostile market of professional sport. Those who invest in the club can have different motivations for doing so, for example, some individuals and groups do so solely for the financial benefit that they might receive. They will hope that the value of the club goes up, due to perhaps on-field performance, and therefore, when they come to sell shares, they will be able to make capital gains on that sale. Much like bonds, fans of the particular club or team might be tempted to invest because they want to support their preferred club and feel closer to the action.

## **Benefits and Drawbacks of Using Shares in Sport**



We have highlighted some of the benefits earlier in this piece of work, the way of raising capital for the organization issuing the shares and the possibility of capital gains and dividends from the shares. In addition, in the same way as bonds, investments can be carried out by the fans who can then form connections with their clubs and, of course, while making more money. As always, with benefits also come drawbacks, which we will now consider.

As anyone can purchase shares, the question can then become who is in control of your club? There is very little protection for a sporting organization that do offer themselves out to shareholders. Anybody can buy shares, and sometimes they can buy enough to have a real influence on the procedures and operations of the club. This might be fine if the shareholders operate in a way that is of benefit to the club; however, sometimes they do not, and they operate in a way which is against the wishes of the fans. But they can do nothing.

Furthermore, from an investor standpoint and a club, there are the same considerations. Change can be forced through rapidly with shares, fans, or other investors buying in large amounts, impacting stability. Also, investors in the sports industry should realise that they are unlikely to see any dividends from their shares and the only way to see some form of return is to sell shares that are increasing in value. Football clubs, for example, rarely, if ever, pay dividends on shares as the money is routinely invested back into the club, not the sort of investment for someone keen to see large-scale returns. To give some context to the reading, let us now think about some case studies that have shown exactly how these methods can be used.

## **Case Studies**

We will now look into case studies where these methods, loans, shares, and bonds have been used as a way of financing sports organizations. The case studies that we will focus on are Manchester United, Real Oviedo, and Queens Park Rangers.

### **Manchester United**

Manchester United, nicknamed the Red Devils, are one of the most successful football teams of recent times, winning numerous English league titles and European Champions League crowns. Not only are they successful, but also wildly popular.

Manchester United are one of the biggest sporting organizations on the planet, attracting millions upon millions of fans from all over the world. Along with these fans, they are often

put among the top earning sports organizations year-on-year. But below the seemingly impressive financial output and status, there is more than meets the eye.

Manchester United again hit the headlines in 2005, but this time for different reasons, as they were taken over by the Glazers (Critchley, 2022). The Glazers, fronted by Malcolm but also involving his sons Joel and Avram, had taken an interest in Man Utd from 2003, but gradually increased their share holdings to take full control in 2005. Their ownership got off to a rocky start, as fan protests were observed in the first years of the takeover. Another club, FC United of Manchester, was started as a way for fans to register their displeasure at the sale of their club.

The protests against the ownership have been an ever present among the fan base, though they have fluctuated throughout the years, often depending on title success or player purchases. However, the main issue that the fans appear to have with the owners is the financial running of the club.

**Figure 3: The Glazers & Manchester United**



Source: Mercer, 2022, <https://bit.ly/3AEgIwP>

The Glazer's did not buy Manchester United outright, they instead used a clever financial system (Mercer, 2022). These included taking out several loans to finance the purchase, so large that the rumoured interest was said to be around £60 million a year. They also used the highly risky PIK loans (payment in kind loans) which were sold to hedge funds. All of these loans were secured against the club's assets, which led the fans to question if the Glazer's really had the best interests of the club at heart and what would happen if they defaulted on these loans.

Furthermore, the Glazer's began paying themselves dividends on the profits made by the club, one of only a few club owners to do so. Against a backdrop of falling league positions and issues with their Old Trafford stadiums, the fans again became unhappy. While everything the Glazer's have done is not only legal, but extremely efficient, using the various financial options available to them, the trust between them and the fans has become lost, which has resulted in violent protests, namely after the proposals for the European Super League. The fans view their actions, which include the continual payment of dividends to themselves, as undermining the financial stability of the club, while at the same time overseeing an unsuccessful period on the field.

**Figure 4: Manchester United fans protest at dividend payments**



Source: BBC, 2021, <https://bit.ly/44htIGg>

What this story demonstrates is that even when the owners make the most of the financial mechanisms available to them, it might not be enough to convince their fans of their intentions. This example also shows that it is not just sporting organizations that can benefit from the use of loans, owners and perspective owners can as well. But while the Glazers' used these resources for their own benefit, in the next example we will discuss the individuals did not and used the financial mechanism for communal good.

### **Real Oviedo**

Real Oviedo are a Spanish football club based in the city of the same name, and currently play in the Segunda División, the second tier of the Spanish league system. However, things have not always been so positive for the club, as we will find out.

In the 2012/13 season, with the club struggling in the third division and the money running out with nowhere seemingly to turn, their president was consulting legal experts on how to prepare and carry out liquidation of the club and its assets (Lowe, 2012). The club was in a perilous financial position and “needed €1.9m immediately to avoid a winding-up order, €2.5m to make it to the end of the season and €4m to secure the club's medium-term future” (Lowe, 2012). No small amount for a team that had been subject to takeover after takeover, with no real inroads to success made.

The plan this time was not to rely on one individual to ride to their rescue, but many. The club would sell shares for €10.75, giving football fans the chance to buy into the club, whether they supported Oviedo. The scheme proved instantly popular with shares being bought from all over the globe. The popularity was helped by the purchasing of shares by former and then current English Premier League players Michu (Swansea City), Juan Mata (Chelsea) and Santi Cazorla (Arsenal) all purchasing shares and contributing to the fundraising effort. Even fellow clubs and opposition players bought shares, notably Real Madrid, who purchased €100,000 and gifted it to the local council and their C team, scheduled to play Oviedo, purchased more shares before the fixture itself. Purchases by social media stars, not just from Spain, further promoted the share issue, including English YouTuber Spencer FC.

Figure 5: How to be a Football Club Co-Owner



Source: Spencer FC, 2015, <https://bit.ly/3NqQohk>

In just over two weeks, the final total stood at €1.93m and shares were purchased by more than 20,000 people in over 60 countries (Lowe, 2012) and the club was saved. But this was not the end of the story. The buzz around the club had been so large that it attracted further investment from wealthy individuals. The club has been able to stabilise after large amounts of shares were taken up by business owners, once again the club is looking upwards not downwards.

### Queens Park Rangers

In 2021, London-based club Queens Park Rangers, like Reading, playing in the English Champion (the second division), entered the bond market to raise funds for a new training ground. They were hoping to raise £20 million overall that would help them, in their view, compete at the top of the English club game. Due to the terms of the bond, they were restricted to raising only £6.8 million from the bonds and the scheme was run not by themselves, but by Tifosys Capital and Advisory. Tifosys did have some experience of running similar schemes, helping Norwich City to raise money for new academy facilities in 2018 (Hastings, 2021).

The club had hoped that with 5% gross interest annually and an additional 3% gross in club credit that was redeemable on Football Tickets and merchandise purchased from the club would be enough to attract interested parties. Furthermore, if the club were promoted to the English Premier League during the lifetime of the bond, then those who had invested would be able to benefit from a one off 25% bonus. There were also different perks on offer depending on the level of investment, as can be seen below.

**Figure 6: QPR Club Bond Perks**



Source: Tifosy, 2021, <https://bit.ly/3LrSznzk>

The bond issue was very successful in this instance and raised the maximum of £6.8 million for QPR, which is currently the largest amount raised in this fashion (Queens Park Rangers, 2021). The bond scheme was taken up by over 1,500 fans and investors from 38 countries around the world. What this showed was that these schemes can be an extremely successful way for a sporting organization to raise capital. In this case, QPR were able to move forward with plans that will enhance the club that they would not have been able to afford normally. It is not only about the club, as fans jumped on this bond scheme and, in some way, made those fans feel closer to their club than perhaps they would have done previously.

**Figure 7: QPR Bond Success**



Source: Queens Park Rangers, 2021, <https://bit.ly/42ffkwp>

## Summary

In this section, we have covered the need and reasons for being able to raise finance in the modern world of sport. In addition, we have outlined the following financial mechanisms: loans, bonds, and shares, and how each of them plays a vital role in the financing of sports organizations. We have also discussed the benefits and drawbacks of each approach and where they might find the most success in their use. To round up the readings, we have produced three case studies focusing on each area to further explain the use of different financial mechanisms in the real world.

Finally, whatever method a sporting organization uses, it is important that they make sure they are operating in a proper fashion and keeping up with any repayments or legal obligations. As we have shown in this reading, a failure to do so might result in not only financial and legal issues for the organizations, but a loss of trust from their fans, something that can be hard to win back.

## References

Aarons, E. (2016, December 29). Philip Green, Vibrac and Riverdance: the mystery of Everton's 'shadow investor'. *The Guardian*.

<https://www.theguardian.com/football/2016/dec/29/vibrac-jg-funding-riverdance-everton-shadow-investor-mystery>

- BBC. (2021). European Super League: Manchester United fans protest against Glazer family. *BBC*. <https://www.bbc.co.uk/sport/football/56870465>
- Blake, M. (2014, September 24). An Explanation Of How Football Clubs Use Forward Funding. *Law in Sport*. <https://www.lawinsport.com/topics/item/an-explanation-of-how-football-clubs-use-forward-funding>
- Clark, T. (n. d.). COVID-19 and the impact on non-league side Hampton and Richmond Borough FC. *Sports Gazette*. <https://sportsgazette.co.uk/covid-19-impact-non-league-side-hampton-richmond-borough-fc/>
- Critchley, M. (2022, August 22). Manchester United and the Glazers' debt explained. *The Independent*. <https://www.independent.co.uk/sport/football/manchester-united-glazers-debt-explained-b2145746.html>
- Fernando, J. (2022, March 9). Bond: Financial Meaning With Examples and How They Are Priced. *Investopedia*. <https://www.investopedia.com/terms/b/bond.asp#toc-what-is-a-bond>
- Hastings, K. (2021, September 30). English football team issues bond to build training ground. *International Adviser*. <https://international-adviser.com/english-football-team-issues-bond-to-build-training-ground/>
- Huth, C. (2020). Who invests in financial instruments of sport clubs? An empirical analysis of actual and potential individual investors of professional European football clubs. *European Sport Management Quarterly*, 20(4), 500-519. <http://dx.doi.org/10.1080/16184742.2019.1684539>
- Hyter, D. (2019, September 9). Tottenham refinance £637m stadium debt but purse strings will not loosen. *The Guardian*. <https://www.theguardian.com/football/2019/sep/20/tottenham-refinance-stadium-debt-purse-strings-not-loosen-daniel-levy>
- Kagan, J. (2021, April 19). What Is a Loan, How Does It Work, Types, and Tips on Getting One. *Investopedia*. <https://www.investopedia.com/terms/l/loan.asp>
- Lowe, S. (2012, November 29). Real Oviedo – the remarkable story of a club the world united to save. *The Guardian*. <https://www.theguardian.com/football/blog/2012/nov/29/real-oviedo-spain-premier-league>
- Mercer, D. (2022). Manchester United: How 'scavenger' Glazers bought club - and left Old Trafford 'rusting' and in a 'mess'. *Sky News*. <https://news.sky.com/story/manchester->



[united-how-scavenger-glazers-bought-club-and-left-old-trafford-rusting-and-in-a-mess-12752952](#)

Queens Park Rangers. (2021). QPR Bond raises £6.8m – the largest online bond in British football. *QPR*. <https://www.qpr.co.uk/news/club-news/qpr-bond-181021/>

Tifosy. (2021). QPR Bond Perks. *Tifosy*. <https://www.tifosy.com/raises/invest-in-the-qpr-bond>

Spencer FC. (2015, May 1). How to be a Football Club Co-Owner [Video]. *YouTube*. <https://www.youtube.com/watch?v=7LrPgYX3-iE>

Stone, S. (2021, January 20). National League: Loans or a suspended season are club options due to Covid-19 pandemic. *BBC*. <https://www.bbc.co.uk/sport/football/55742903>