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Trump's Scottish investments

By Steve Clapham, equity analyst at Hardman & Co

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Trump's Scottish investments

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Introduction

Various articles have speculated about Trump's income and asset base

President Trump likes to project himself as a highly successful businessman, but surprisingly little is known about his true financial position. Various articles, including a 2016 in-depth [analysis](#) by *The Wall Street Journal*, have speculated about his income and asset base. All sorts of claims and counter-claims have been made about his wealth – by Trump himself, pitching his fortune at some [\\$9bn](#), and by journalist Timothy O'Brien, [suggesting](#) that it is as “low” as \$150m-\$250m. It is doubtful whether we shall ever know the truth, but we can use Trump's UK corporate filings to gain an insight into his businesses in Scotland.

This article examines the Trump investments there, and asks whether he is as astute as he claims (spoiler – the answer is “no”). We look at the period to the end of 2018, and at the last accounts filed by the two Trump UK holding companies. We do not expect the Trump 2019 accounts to be published before Christmas, as UK companies now have 12 months to file because of COVID-19.

This article compares Trump's two Scottish properties – Trump International in Aberdeenshire and Turnberry – with two established golf resorts – Loch Lomond Golf Club, considered by *cognoscenti* to be one of the finest in the world, and Gleneagles, the famous hotel and golf resort.

Comparing Trump International and Turnberry with two established Scottish golf resorts, Loch Lomond Golf Club and Gleneagles...

Loch Lomond is owned by a Caymans vehicle, and we understand (from a member there) that this belongs to its members. Gleneagles was sold by Diageo in 2015 to Ennismore (the hospitality company founded by [Sharan Pasricha](#)), which previously bought the Hoxton Hotel in Shoreditch. One of the owners of the Hoxton Hotel told me that he was more than pleased with the price he received, so it is quite possible that Gleneagles was a similarly expensive acquisition. The price for Gleneagles was rumoured to be £150m, but our analysis suggests that the purchase price was £139m; given that the business had net cash of £14m, we use a cost of £125m in this article.

How has Trump fared overall?

...assessing Trump's skills in hotel and resort operation

Losses and negative equity at the Trump properties

Trump does not appear to have hedged foreign currency exposure over 2006 to 2018

Our detailed analysis below looks at the four properties, in an attempt to understand Trump's skills in hotel and resort operation. Before drilling down, we do some high-level analysis to assess the returns from these investments.

Profitability

We show below the trends in profit (well, actually, losses) for the two Trump properties in Scotland. At Trump International, accumulated losses to end-2018 were £13m and, with other reserves of £1.7m (mainly an accounting technicality), there is negative equity of £12m. At Turnberry, there are accumulated losses of £44m, and negative equity of £51m. Had Trump charged interest on inter-company loans at either company, the losses to date would have been significantly higher: on our estimates, a 5% rate would have generated an additional £38m of accumulated losses. Had the businesses been run independently, with directors paid for their services (see below) and arm's length financing, the two businesses would have accumulated losses of well over £100m in the period of ownership by Trump.

FX exposure

We examine how the Trump investments have performed in the table below. The first problem is that asset exposure does not appear to have been hedged. The first rule for any investor in overseas assets is to hedge the foreign currency exposure. Trump does not appear to have done so, and looks to have extended sterling loans to the Scottish companies. We estimate that the dollar value of these loans to the ventures have declined significantly.

FX losses on loans			
Resort	Balance due	Period	Loss to date
Trump International	£45m	2006-18	22%
Turnberry	£114m	2014-18	15%

Source: Behind the Balance Sheet

The pound was worth \$1.27 when we did these calculations, and Trump had seen a near-\$40m decline in the value of the loans extended to the two companies. Note that we have included the slither of quasi-equity in this calculation, although the accountants make a technical distinction here. This has arisen because the value of sterling has slumped since Brexit (ironically, a policy that Trump keenly supported).

Our analysis of the losses to date is derived using the estimated sterling amounts extended by Trump and a Trump trust to the two companies, and converting these to dollars at the average rate each year. We then compare the dollar total lent with the current value of the sterling loans accumulated, and the loss totals just under \$40m. These numbers do not tie exactly to the current sterling loan balances.

Of course, we do not know what sophisticated hedging Trump may have engaged in at home. It does seem a bit odd to us, however, not simply to borrow locally with a cross guarantee – but perhaps the UK banks would be less willing to lend. More likely, Deutsche Bank, believed to be his main source of credit, has a bigger loan book in the US, and these loans would be combined with many others.

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2019 may have seen improvement, but
2020 must have seen significant losses

We also assume that the loans are in sterling, which is how it appears from the accounts, but it is possible that some of the loans to the Turnberry operation are in dollars, so it is conceivable that our estimates are too high. These estimates are for the period to December 2018, the latest financial filings. Although 2019 may have seen an improvement, 2020 must have seen significant losses at the properties.

This means that Trump's losses will certainly have increased significantly. The decline in the value of the sterling loans into the two companies, plus cash injections required as a result of COVID-19, must amount to \$50m – and probably significantly more today.

Business values

Of course, these are merely paper losses. If Trump sold the businesses tomorrow, how would his investments fare? That is the more important question. Note that, at Trump International, planning permission was granted last year for a second course, a 500-unit residential village and more. We have not allowed anything for these, as it is unclear what they would be worth, and it would be impossible for us to make any realistic assessment.

Trump would need to recover £164m, plus
\$65m, or roughly £215m, to break even

Trump paid \$65m for Turnberry. Loans at end-2018 amounted to £43m at Trump International and £115m at Turnberry. In addition, there is another £6m of quasi equity. These are loans that are treated as equity because the loans do not bear interest – an accounting technicality. So, overall, Trump needs to recover £164m, plus \$65m, or roughly £215m, in order to break even.

If Gleneagles sold for £125m, and if we considered this to probably be a high price, how would these two businesses compare with Gleneagles? Turnover for Turnberry and Trump International totalled £21m, vs. £55m at Gleneagles, while there was an EBIT loss of £8m vs. a profit of £3.5m (pre-loss on sales of assets) at Gleneagles. Tangible assets are similar, at ca.£95m.

Given that the businesses are loss-making, we can use an EV:sales approach; the companies have significant negative equity, so price:book is not appropriate. Gleneagles changed hands for 2.6x sales and, on that basis, the Trump properties would be valued at just £56m. There may, of course, be additional development value.

Trump was showing significant loss on his
investment before COVID-19 struck

We are not professional hotel valuers, and we do not have enough detail on these properties to do a full valuation. Nevertheless, it is clear that Trump was showing a significant loss on his investment before COVID-19 struck. We do not have enough data to conclude that his £215m investment would be worth ca.£56m at end-2018 but, post COVID-19, it is hard to imagine that his losses to today could be less than, say, 50%. Moreover, there is an opportunity cost to this.

Opportunity cost

We looked at the injections made by Trump each year into the two businesses, including the purchase price, and asked how he would have fared if he had invested in an S&P 500 tracker instead.

Opportunity cost of Trump's investment
in Scottish hotels likely been at least
\$250m

We assumed that, instead of buying the assets, he invested in the S&P at the same time. We also assumed that cash injections made each year into the hotels were, instead, made on 1 January in the following year into the S&P – a conservative basis of calculation.

On this basis, and ignoring dividends for the sake of simplicity (and to be more conservative), we estimate that investing this cash in an S&P tracker would have generated an investment value today of around \$420m. If this cash had been

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invested in a portfolio of tech stocks, like Amazon or Apple, it would likely be worth over \$1bn today.

For Trump, the opportunity cost of his investment in these Scottish hotels has likely been at least \$250m (assuming the hotels were worth \$170m, not our calculated £56m/\$70m) and possibly over \$1bn – that's real money, even if he were worth his claimed \$9bn.

Drilling down into the businesses

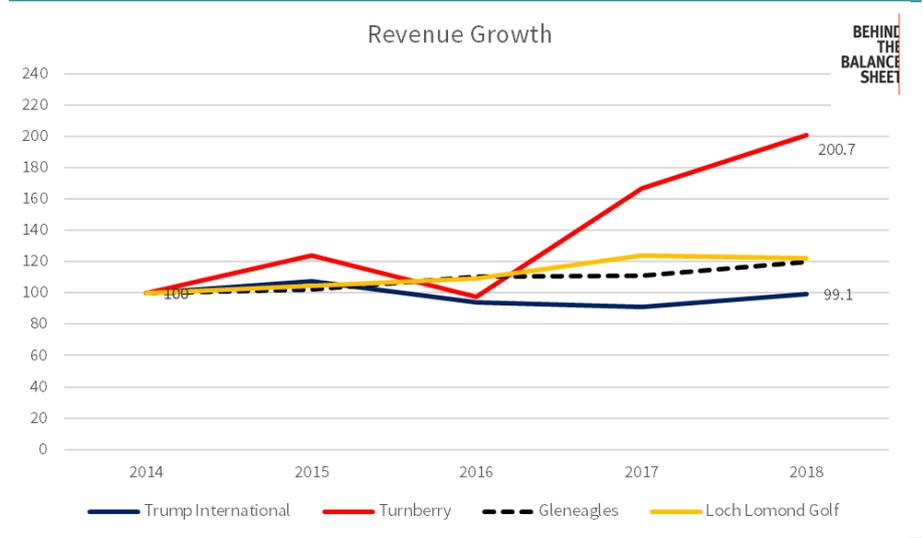
Looking at operational performance of two businesses in context of peers

We now examine the operational performance of Trump's two businesses in the context of the peer group. We begin, as we would if reporting on a quoted stock, with revenue growth. Before detailing our analysis, we highlight that we have not consulted any of the companies concerned, that the analysis has been entirely desk research of filed accounts, and that these are simply our estimates – do your own research and please do not rely on this for any financial or other decisions. See our full disclaimer [here](#).

Revenue growth

Revenue at Turnberry increased from £11.4m in 2015 to £18.5m in 2018, an impressive percentage increase, but less so relative to the investment made – capex has totalled £56m in the first five years of Trump's ownership. A BBC [article](#) suggested that Trump claimed he would invest £200m, and that his company said that £150m had been invested in 2016. This would not have been money well spent – with nearly £8 being spent to generate £1 of additional revenue in a loss-making business.

Indexed revenue growth at the four Scottish properties, 2014-18



Source: Behind the Balance Sheet

The doubling of revenue at Turnberry in the chart is slightly exaggerated, because its 2014 accounts covered February to December. Adjusting for this pro rata (unrealistic, as January is a low month for revenues) would yield an increase of 78%; the 2015-18 increase was 62%, still much higher than peers.

Profitability

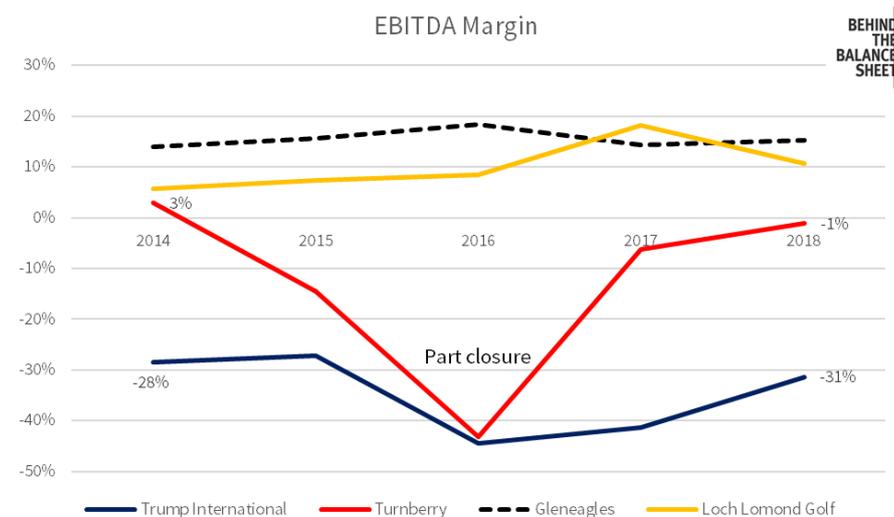
We show below that the Trump companies have clearly been less profitable than the established Scottish golf courses. In addition, growth at the latter looks to have been fairly limited – this probably reflects the fact that they are already full, and additional income is dependent less on filling vacant golf capacity and more on attracting visitors to alternative activities. Also, let's face it, Scotland is pretty, but the weather is unreliable and, even when it's nice, there are midges. Trump could conceivably be successful in creating a large new market, but it looks like a long shot.

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Trump companies have been less profitable than the established Scottish golf courses

We show both the EBITDA margins (the statistic beloved of private equity) and the potentially less comparable EBIT margins in the following charts. Turnberry made a small positive EBITDA contribution in the first partial year of Trump's ownership but, in spite of the significant increase in revenues, the contribution at this level remains negative. Losses are much higher at the EBIT level, which includes depreciation. Turnberry was partly closed in 2016, with the investment programme, and hence this has resulted in higher-than-normal losses.

EBITDA margin at the four Scottish properties, 2014-18



Source: Behind the Balance Sheet

Both Gleneagles and Loch Lomond make small positive margins at the EBITDA level, but profits are slim once depreciation is taken into account. It is possible that this reflects a deliberate policy by Loch Lomond's member owners.

Trump's Scottish holding company boards

Trump International Golf Club Directors

Mr D Trump Jnr

Mr E Trump

Mr A Weisselberg (Trump's CFO, in his 70s)

Turnberry Directors

Mr E Trump

Source: Behind the Balance Sheet

Donald Trump resigned from the Trump International Board on 19 January 2017, before he took office, and he does not appear to have been on the board of the Turnberry vehicle. Ms I Trump is a former director of the Trump International Golf Club vehicle.

When comparing profit margins, Trump's companies have an unconventional board structure, and directors do not charge the Scottish companies for their services. Hence, the margins are slightly flattered compared with companies whose directors charge fees. At Gleneagles, directors took home £659k in 2018, and the parent imposed a management charge of £2m. Without these, margins in the last two years would have increased from 3.7%-3.8% to 8.7%. Directors of Loch Lomond Golf Club, including the City grandee Chairman, Sir Nigel Rudd, do not charge fees.

EBIT margins are before FX gains or losses were reported.

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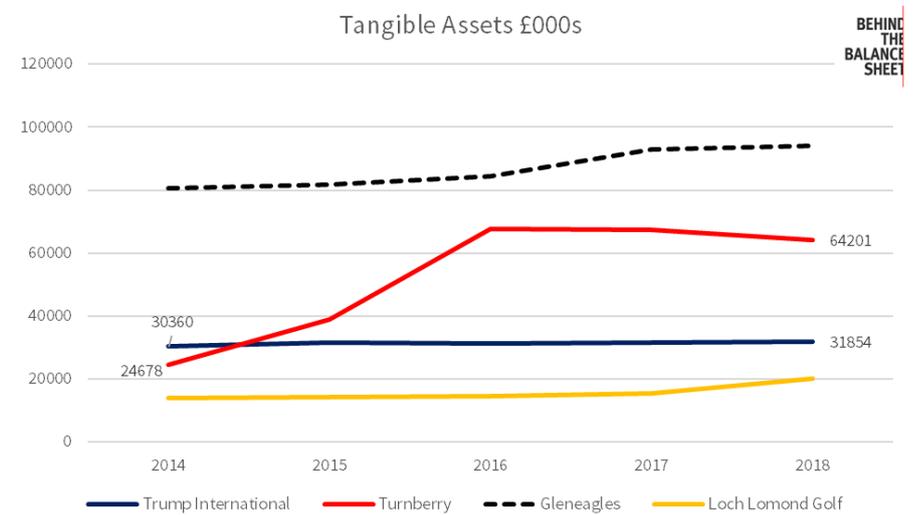
The Trump companies have not recognised over £10m of tax assets on their balance sheets. In order to recognise the asset, the directors have to establish that there is a reasonable likelihood of the company making sufficient profit to take advantage of the tax losses. Perhaps that would be too much, even for Trump, to hope for.

Investment

Largest asset base is at Gleneagles

Gleneagles has the largest asset base, with land and buildings at a cost/valuation of over £100m. This reflects the values conferred upon purchase, and the same is true for Turnberry, which has seen £56m of capex, vs. £3m for Trump International in the last five years (the main investment was earlier). Gleneagles has enjoyed an investment of £37m, and Loch Lomond £10m. Clearly, this investment is related directly to expansion plans and the state of the infrastructure, and, for this type of business, we would expect a fairly flat asset profile.

Tangible assets (£000) at the four Scottish properties, 2014-18



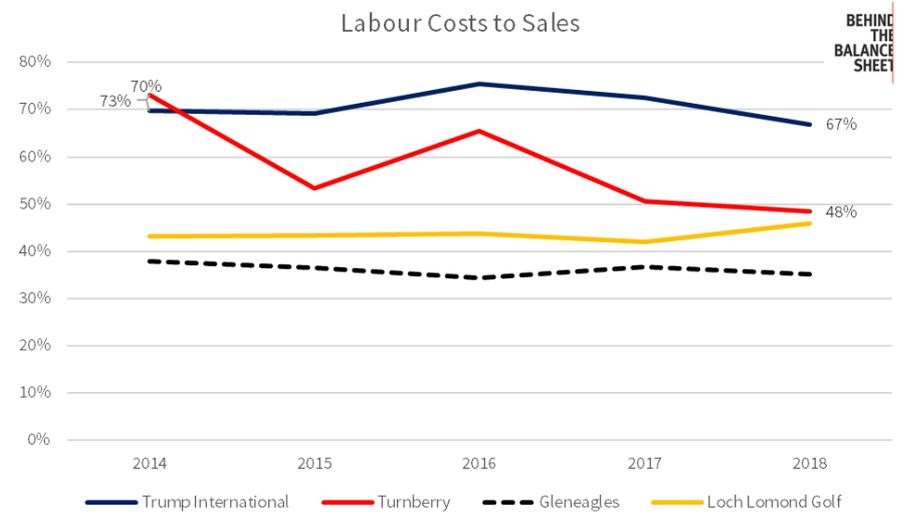
Source: Behind the Balance Sheet

Employment

Labour, as cost element, much higher for Trump resorts

Labour is a significant cost element for all these businesses, but it is much higher for the Trump resorts. The ratio of labour costs to sales for Turnberry has been falling closer to the two independent companies here, as sales and employment numbers have doubled, while the average salary has fallen. Gleneagles is by far the most efficient but, clearly, the mix of business may be significantly different.

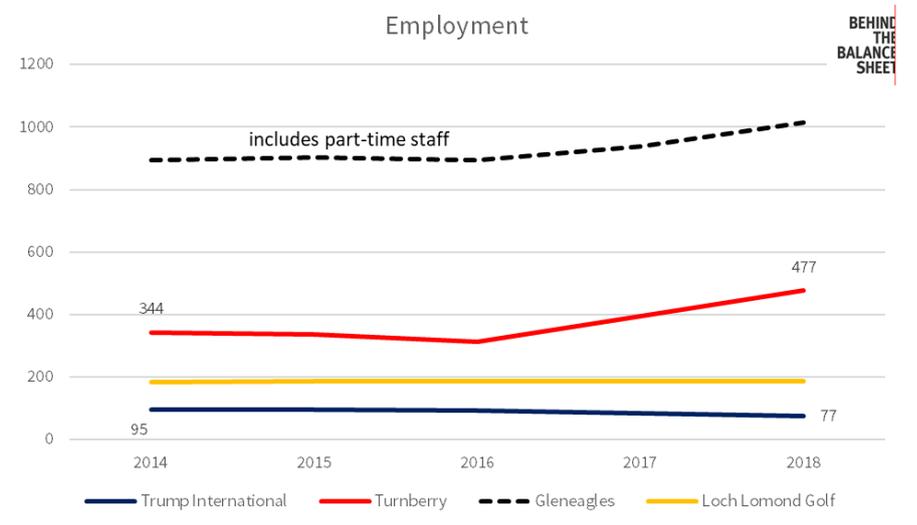
Labour costs to sales at the four Scottish properties, 2014-18



Source: Behind the Balance Sheet

The following employment ratios include part-time staff for Gleneagles. It appears that the full-time equivalent is disclosed but, as mentioned earlier, we have not consulted the company directly for this article (one of the problems we face when doing analysis of this type).

Employment at the four Scottish properties, 2014-18

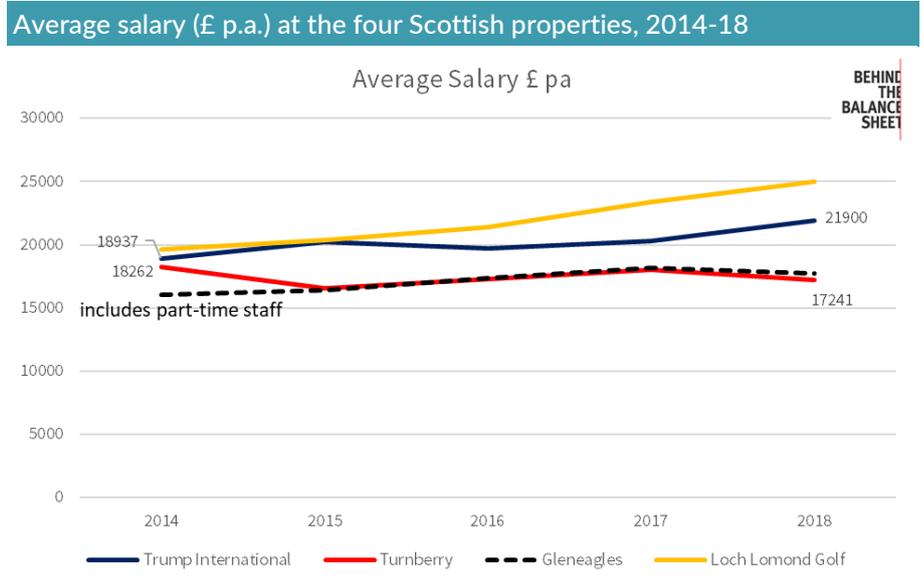


Source: Behind the Balance Sheet

Average salary has been lowest at Gleneagles but, as it has grown, Turnberry has dipped below it (this could be more lower-paid staff – cleaners, etc. – to cater for the growth). What is unquestionable, given the generally remote nature of these companies, is their positive impact on the local economies – even little Loch Lomond has a wage bill of £5m and, although it is close to Glasgow, it is likely that there is significant local employment. The impact will be much greater for Turnberry, with a wage bill of £8m in a small rural area, and especially for Gleneagles, with its £18m

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wages bill in the countryside. For Trump International, the wage bill is lower, but the influx of tourists is also helpful for all these local communities. Tips are a major part of the wage bill – Loch Lomond's guests contributed ca.£6k per week last year.



Source: Behind the Balance Sheet

Conclusions

Hard to see how Trump will extract return from Scottish investments...

It is hard to see how Trump will extract a return from his investments in Scotland. It may be possible to stem or slow the losses, but there is a large amount invested, and generating a return on that investment will be difficult. One tailwind now may be a weakening dollar, although the pound has not been in favour, and we have the consequences of Brexit to come. Two factors may come to Trump's rescue:

- ▶ The further proposed developments at Trump International could be lucrative but, given the track record, this seems unlikely.
- ▶ Perhaps, by "magic", there will be another golf-loving billionaire with Scottish blood, whose appetite will match Trump's, but this looks even more of a long shot.

...and losses, to date, likely to have been well over \$50m

We have explained, in this article, that Trump lost ca.\$40m to the end of 2018, and this must have risen by now. Even if 2019 was a better year, 2020 must have been extremely difficult. Losses to date are likely to have been well over \$50m, as explained. We shall learn more when the 2019 accounts are filed at the end of the year, but we will need to wait until this time in 2021 to gain a fuller picture.

About the author



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Steve is the founder of [Behind the Balance Sheet](#), an investor training consultancy. He has been an investment analyst for the last 25 years, working on the sell side for a number of investment banks covering the transport, utilities and conglomerates sectors. In 2005, he moved to the buy side, where he was a partner at Toscafund Asset Management LLP, and then Head of Research at Altima Partners LLP.

Steve was part of the group of investors that acquired Hardman & Co in late 2012. He holds a degree in Technology and Business Studies, and is a member of the Institute of Chartered Accountants of Scotland.

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