

Foreword

Welcome to the 19th edition of the Deloitte Annual Review of Football Finance, our analysis and commentary on recent financial developments and future prospects in the world's most popular sport.

Golden Brown

English football's domestic and international profile and deeply rooted supporter commitment has underpinned stellar rates of revenue growth. While not immune, the sport does appear to have proven largely recession resistant. Attendances have remained strong, with Premier League capacity utilisation exceeding 92% and Football League attendances reaching 17m for the first time since the Premier League was formed. The Premier League is one of the UK's most successful exports and its recently concluded broadcasting rights negotiations – which saw international revenues more than double – reconfirmed the success, which had also been recognised by a Queen's Award for Enterprise. Similarly, 2009/10 was the first year of a much enhanced Football League broadcast contract. Commercially we have seen both major English leagues announce extended and improved sponsorship deals, while some clubs have recently increased sponsorship values. Although the economic environment remains challenging football's enduring appeal still suggests a positive outlook in revenue terms.

A key driver of the Premier League's commercial success is that its revenue enables member clubs to attract the world's best players, who in turn help to boost the League's popularity. The challenge has always been controlling the associated costs in order to deliver successful and profitable club businesses. In 1995 we commented that "we believe controlling the wage bill is, long term, football's biggest challenge" and the figures we present here illustrate the extent to which that challenge is becoming a real threat. Comparing 2008/09 with 1992/93, 97% of the annual incremental revenue generated by Premier League clubs has been accounted for by a corresponding increase in wages or other costs, meaning operating margins have been slashed from 16% to just 4%.

In our 2007 Annual Review we illustrated the potential impact of varying levels of Premier League wages restraint in the light of the significant revenue increases which were due to arrive from 2007/08 – speculating that clubs may spend between 50% and 62% of this additional revenue on wages. In fact, 80% of the £450m growth in revenue has been invested in wages and the remainder has been accounted for by other costs, leaving operating profits £16m below those reported in 2006/07. With no sign of a reversal of this trend in 2009/10, in next year's edition we are likely to report operating profitability dropping back to the aggregate levels we last saw in the early 1990s. In the Championship the position is even more concerning, with wage inflation outstripping revenue growth and annual operating losses having trebled in four years.

Final Straw

While a range of on-pitch performance expectations underpin club business models – ranging from regular qualification for the UEFA Champions League to an occasional appearance in the Premier League – the range of funding models appears to be contracting. A model of profit maximisation is now pursued by a very limited number of clubs and, whilst some clubs seek to break-even on a consistent basis, the emerging norm for many Premier League and Championship clubs appears to require significant ongoing benefactor support. As such we appear to be seeing a continuing shift from a sustainable 'not for profit' model towards one with potentially calamitous consistent and significant loss making characteristics.

Some may argue that this trend is well established and that over the past two decades clubs have been able to considerably increase revenues, either through the development of new revenue streams as a result of stadium development, or through increases in broadcasting and other commercial revenues, which has been able to ease the pressure on finances. On many occasions we have hoped that increased revenues would facilitate a move towards a more rational approach but, in a classic example of competitive game theory, clubs are continually driven to maximise wages rather than profitability.

The new Premier League overseas broadcast deals will result in an additional £7m per season for each Premier League club for the 2010/11 season and presents yet another opportunity for clubs to improve their financial position and move towards being more sustainable, profitable businesses. Almost all Premier League clubs, particularly below the Champions League elite, enjoy significant advantages over their European counterparts as a result of larger stadia, higher ticket prices, and larger and more equally shared central broadcast and commercial deals, which mean that the key driver of wages inflation is domestic rather than cross border competition. It is potentially within a dozen or so Premier League club cheque signatories' gift to be game changers in a financial sense. Nevertheless, we fear that history will repeat itself and once again the vast majority of those revenues will quickly flow into the hands of players and their agents. We hope football can prove us wrong.

Losses do not present a major issue for clubs provided they are sustainably funded. Over the years various mechanisms including stock exchange listings, securitisation, bank loans and benefaction, have sustained clubs. However, the startling experience of Portsmouth is an example of how quickly things can unravel. The question therefore is even if clubs continue to grow revenues can they moderate their spending, and if not, where will further financing be found in a credit crunched world?

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Move over Darling

In the short term a combination of external pressures may combine to force action to be taken. We now know the value of the next broadcasting deal and while stadium expansion opportunities exist for some clubs, funding is a limitation in the current climate. Banks appear to be hardening their stance regarding their exposure to football clubs, and hence this option is increasingly closed to clubs. In addition, tax authorities are becoming more aggressive in their pursuit of clubs with unpaid debts. With limited appetite for funding football clubs among financial institutions, attention is therefore strongly focussed on the benefactor.

The benefactor model delivers returns in either economic or emotional terms, and some more recent arrivals at the club ownership table have raised and/or invested huge sums to secure their ownership and, in some cases, to support their clubs' ambitions. It now takes very deep pockets to fund an ambitious Premier League club. Although owners may – in the long term – achieve substantial returns on disposal of their clubs, as some predecessors did, and other sports franchise owners do elsewhere, in the interim the funding requirements appear to be increasing. Furthermore, there remain a number of clubs who have been in the market for investment for some time. In the current economic climate there appear to be fewer potential investors attracted to buy a Premier League club, and the chill wind of relegation can freeze even that limited interest. Might the lack of available finance force clubs to change their strategy and focus on improving business performance – notably managing costs – which we have been advocating for many years?

The alternative to self-regulation is intervention and – in response to similar challenges across Europe – we have seen moves by UEFA to seek agreement on the introduction of a financial fair play concept for the well-being of European football. The cornerstone is break-even requirements which seek, as a consequence, to limit inflationary pressure on player salaries and transfer fees. Those sceptical about the ability of regulatory measures to deliver a real impact may consider the recent experience of the Melbourne Storm rugby league club, which received real and draconian penalties for systematic salary cap breaches. These illustrate that, given real power, regulation can work. Although regulation may not universally be welcomed, firm and



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consistent implementation of the new requirements can help improve the stability and financial health of European club football. Certainly it is intriguing to non-football people to see an industry's participants sceptical about regulation aimed at increasing, not decreasing, their profitability.

Deloitte Annual Review of Football Finance

The sections of this year's Annual Review cover all the key areas to form an overview of football's financial situation. In addition to our analysis of trends up to the end of the 2008/09 season, where possible we include pointers to prospective future performance. **Europe's premier leagues** provides a detailed review of current trends in European football. We then focus on the English situation, with the familiar **Revenue and profitability** and **Club financing** sections which form the core of our analysis of the domestic financial situation. **Wages and transfers** examines the primary area of expenditure for clubs while **Stadium development and operations** discusses a key area where English clubs continue to maintain a competitive advantage over their European neighbours. Sprinkled within the sections are a number of feature articles, where we discuss and comment on relevant topics and trends in the industry.

The **Appendices** continue to provide the most comprehensive collection of financial, statistical and reference data available anywhere. It is often said that football is more than a game. On the opposite page in **90 minutes and counting** we illustrate this using a snapshot of the wide-ranging impact of English football.

The Annual Review addresses clubs' business and commercial performance in financial terms and strives to provide the most comprehensive picture possible of English professional football's finances. The basis of preparation, and some notes on the limitations of reliance on published financial information, are set out on the inside front cover. Guidelines for interpreting the Appendices are provided on the inside front cover of that document.

A review of this nature cannot provide detailed answers to your football business issues. If a commercial, business, financial, tax or accounting issue arises, we suggest you consult professional advisers. Details for some members of our specialist Sports Business Group are set out on the back cover. All of us are dedicated to full time work in the sports industry and would be delighted to help you. More detail on our team, services and clients can be found at www.deloitte.co.uk/sportsbusinessgroup

We would like to thank all the clubs who sent us their accounts and, in England, The Football Association, the Premier League and The Football League for their assistance. Outside England thanks are due to the Liga Nazionale Professionisti ('Lega Calcio'), Deutsche Fußball Liga ('DFL'), Ligue de Football Professionnel ('LFP'), Liga de Fútbol Profesional ('LFP'), Koninklijke Nederlandse Voetbalbond ('KNVB'), Pro League (Belgium), Österreichischer Fußball-Bund ('ÖFB'), Svenska Fotbollförbundet ('SVFF') and UEFA.

My colleagues, as always, also deserve a huge thank you – the co-authors, named on the inside cover, Henry Wong for his phenomenal support, and Jo Daly who continues to be essential to the success of this publication and the Sports Business Group in general. We all put in a great deal of hard work.

We hope you enjoy this edition. We hope even more that when we next write we will be celebrating a double success for England in South Africa in July and Zurich in December.

Dan Jones
Partner, Sports Business Group