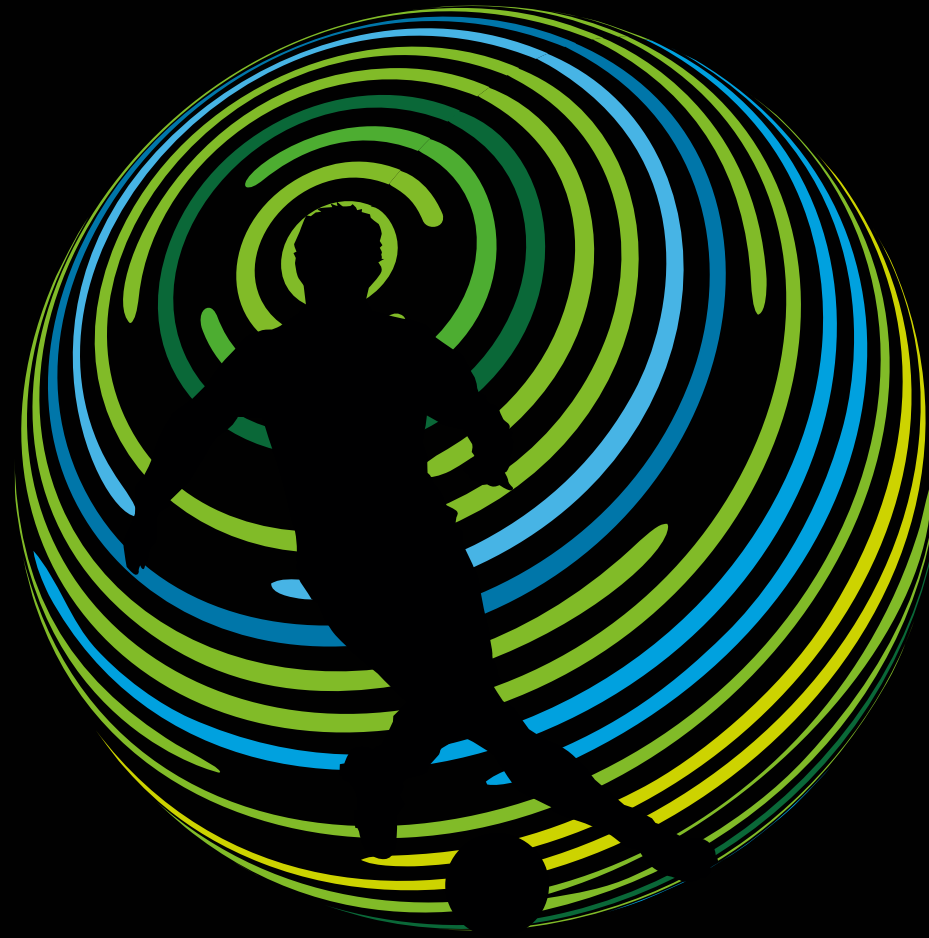


Deloitte.



World in motion
Annual Review of Football
Finance 2019

Sports Business Group
May 2019

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World in motion

Welcome to the Annual Review of Football Finance 2019, the publication that remains the most comprehensive analysis of the financial trends in, and prospects for, the football industry.

This 28th edition charts the latest movements on the ever fluid football finance landscape. Whilst the Premier League retains its leadership in financial terms, the Premier League clubs face challenges to continue to deliver revenue growth and profitability. Meanwhile, Championship clubs are increasingly gambling to reach the top, and strenuous and creative efforts are being made by other European football leagues to enhance their own global appeal and close the gap to the Premier League.

You've got to hold and give

In a Premier League season which saw Manchester City achieve the widest winning points margin in history between first and second place, Premier League clubs were unable to extend their own significant revenue lead in global football, as the German Bundesliga narrowed the revenue gap slightly. Nonetheless, the Premier League comfortably managed to hold its position as the largest revenue generating league in the world.

The Bundesliga benefited from the commencement of a new broadcasting deal, which saw a step-change in the league's broadcast revenue. Whilst the Premier League's closest rivals are seeking to play catch up with recent growth in their respective broadcast deals, the 2019/20-2021/22 Premier League broadcast rights cycle has seen more marginal net increases as international growth compensated for a domestic reduction. For context, it should be remembered that this follows two previous cycles of substantial broadcast revenue growth.

Therefore, it is imperative for Premier League clubs to remain dynamic in the creation of their own revenue, with a focus on matchday and commercial revenues, in order to maintain its substantial revenue advantage.

Tottenham Hotspur's new stadium, which opened its doors in April 2019, is the highest profile example of such dynamism. The stadium has been designed and built with a view to operating not just as a football stadium for 90 minutes, but rather an entertainment

destination, including a 'Sky Walk' and its own microbrewery, as well as a ten-year partnership with the NFL to be the dedicated home of the NFL in the UK.

With regards to commercial revenue, many Premier League and European clubs are looking to continue to utilise and grow their global footprint and popularity created in part through broadcast exposure in order to drive interest, and more importantly value, from their commercial partners. The key to success is connecting with and delivering value to their worldwide fanbase. Four Premier League teams are competing in the Premier League Asian Trophy in Shanghai in July 2019, and pre-season friendlies announced to date cover eight different countries, with China and USA being the most popular destinations, owing to the perceived commercial growth potential in relatively underdeveloped football markets in the world's two largest economies.

A record five teams competing in the UEFA Champions League helped drive the Premier League clubs' record revenue in 2017/18. The lucrative value of this competition to the 'big six', as well as the intensely competitive nature of the division itself, has resulted in clubs spending more of their revenue on wages to obtain and retain the best playing talent. This was clearly evident with two record transfer windows in the

2017/18 season, as well as an increase in the wages to revenue ratio in the Premier League.

Given the onus is now on clubs to generate revenue growth from sources other than broadcast revenue, coupled with the higher levels of wage spend, it may put downward pressure on pre-tax profits from the record breaking levels of recent years.

Commendably, in addition to parachute payments to relegated clubs, each season the Premier League provides contributions to support the wider football pyramid and various charitable causes. This was about £200m in 2017/18, equivalent to almost 7% of the League's total central revenues for the year. Meanwhile, £211m exited the game in payments by Premier League clubs to agents.

As the Premier League and its clubs have enjoyed record revenues, profitability and investment in recent years, there is increased opportunity and pressure to further boost the future level of support to the wider football pyramid, charitable donations and good causes. Additional investment in a range of initiatives could undoubtedly benefit communities and enhance football's role and position in society. For example, more investment to provide pitches and facilities for grassroots football, to help develop the

women's game; to promote anti-discrimination activities; to promote mental health and lifestyle issues; and to support the education and betterment of the next generation.

Don't give up the chase

Beyond the riches of the Premier League, it was a year of records in the Championship, most unenviable, as despite record revenue, record wage levels (in excess of revenue) resulted in record operating losses. Clubs clearly are still willing to invest heavily in playing talent and wages, in excess of their revenues, chasing the dream of the financial promised land of the Premier League.

Parachute payments received by clubs who were unable to maintain their position at the top of English football have been a key driver of revenue growth in the Championship in recent years and this was the case again in the 2017/18 season. Whilst clubs in receipt of parachute payments may have an apparent advantage over their direct competitors when it comes to being able to attract, and afford, the best on-pitch talent, the league table consistently shows many clubs are unable to capitalise on this, perhaps due to legacy issues brought down with them into the division.

We expect that Championship clubs' revenue in the 2018/19 season will remain at similar levels to that of the 2017/18 season. However, with new broadcast rights arrangements due to commence in the 2019/20 season, which provides a reported 35% increase on the value of the current deal, we will then see another boost to the revenue of Championship clubs. Unfortunately, without accompanying

improvement in cost control discipline this will make no meaningful impact on the clubs recurring heavy losses.

To complete the financial picture of the top four divisions of English football, average revenues were static for League 1 and League 2 clubs, whilst wage costs in 2017/18 compared to the previous season were 11% and 9% higher respectively. Across the 72 Football League clubs, combined annual wage costs exceeded £1 billion for the first time in 2017/18. Revenues have yet to break that mark. Average operating and pre-tax losses of League 1 clubs worsened, skewed by significant losses of clubs relegated from the Championship, while average losses of League 2 clubs were quite stable. The majority of clubs in League 1 and League 2 continue to be supported by owner contributions.

Catch me if you can

The continued revenue growth of the Premier League and Football League has contributed to another year of growth in the overall size of the European football market. The 2017/18 season total got a boost from the 2018 FIFA World Cup being held in Russia, as well as revenue growth in all 'big five' leagues.

Whilst the Premier League continues to lead the way, Spain and Germany are engaged in ongoing competition to be second in line. Germany leapfrogged Spain following the commencement of their new four-year broadcast deal. We expect Germany to retain their status as the second highest revenue generating league in the next edition, with La Liga potentially overtaking again in 2019/20.



Given both La Liga and Bundesliga have their domestic broadcast rights locked in until 2021/22 and 2020/21 respectively, commercial growth is key for both leagues. Both are continuing to develop their international footprint in order to lay the foundations for commercial revenue expansion. The Bundesliga opened an office in New York in 2018, and La Liga have now opened nine international offices in eight countries – including two in China.

Despite winning the World Cup, France's domestic League was not able to match that success off the pitch, with limited revenue growth coupled with increased wages. Ligue 1's new domestic broadcast deal commencing in 2020/21 will provide a much needed boost in revenue for the league. By contrast to France, the Italian domestic league fared somewhat better than its national team, seeing revenue growth outpacing wages.

This said, it is pressing for both Italian and French clubs to develop their revenue streams. It is unlikely either league will break the €3 billion revenue barrier in the next few years, and there is a risk that the gap between them and the top three leagues will continue to grow.

Express yourself

With UEFA stating its ambitions to preserve and improve competitive balance in football, some future changes to the regulatory environment and competitions for European clubs can be expected. Both UEFA and FIFA have recently floated ideas with stakeholders about the future of international club competitions. For the future of football, there is an intriguing mix of factors to be first assessed and addressed by the football bodies including the balance between domestic and international club competitions; changes to national team competitions; how to utilise the most favourable slots in the sporting calendar; responding to growing polarisation issues; creating incremental value for the game; providing solidarity mechanisms; and promoting popular competitions with exciting and meaningful matches. The coming months promise important debates and decisions with potentially profound impacts on the game, on and off the pitch.

Arrivederci

Finally, I would like to thank my colleagues, Henry Wong and all those from across the football community who have helped us compile this year's report.

We hope you enjoy this edition.

Dan Jones, Partner

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Commercial rights tender

Assistance with the development and management of a commercial rights tender process.



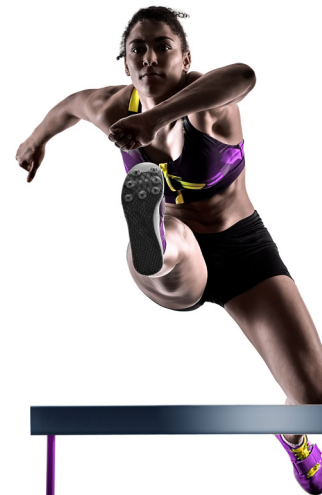
Consulting services

Assistance to FIA and Formula 1 to support the development of the FIA F1 Financial Regulations and supporting regulatory framework.



Economic Impact Studies

Economic Impact Studies for the five races in the inaugural 2019 SailGP Championship.





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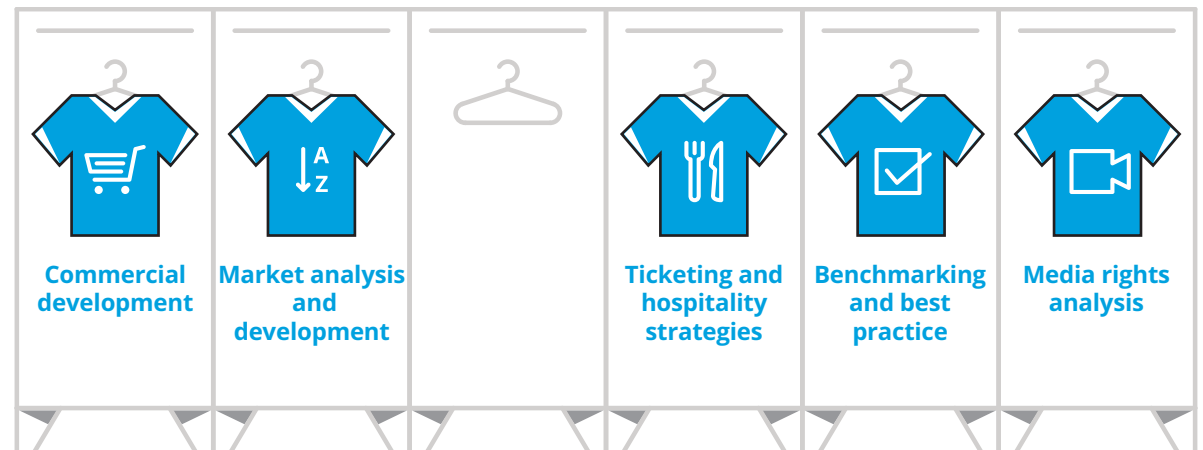
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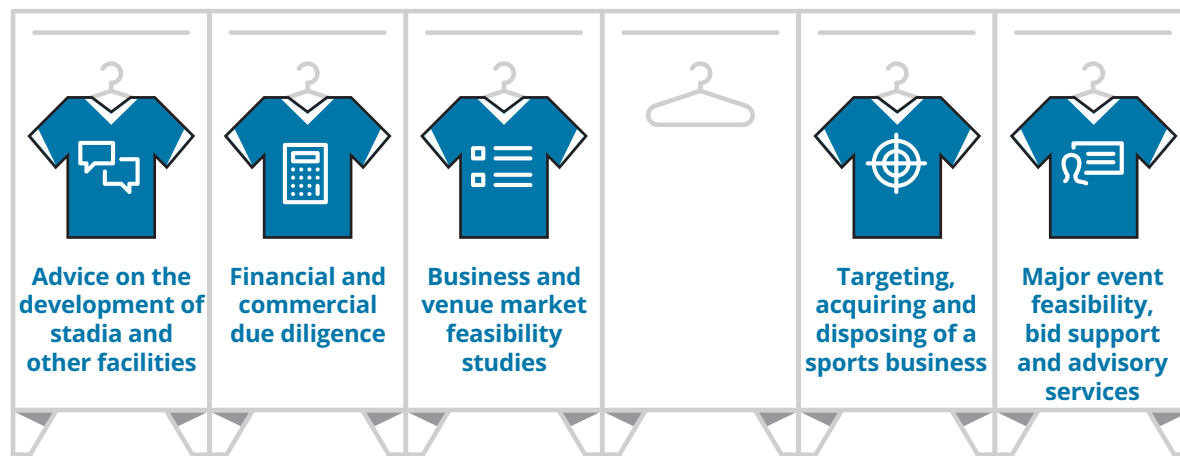
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Europe's premier leagues

The 2017/18 season saw no let-up in the growth of the European football market, despite early indications that coming seasons may not deliver the rapid growth experienced by many of the continent's major competitions over the past decade.

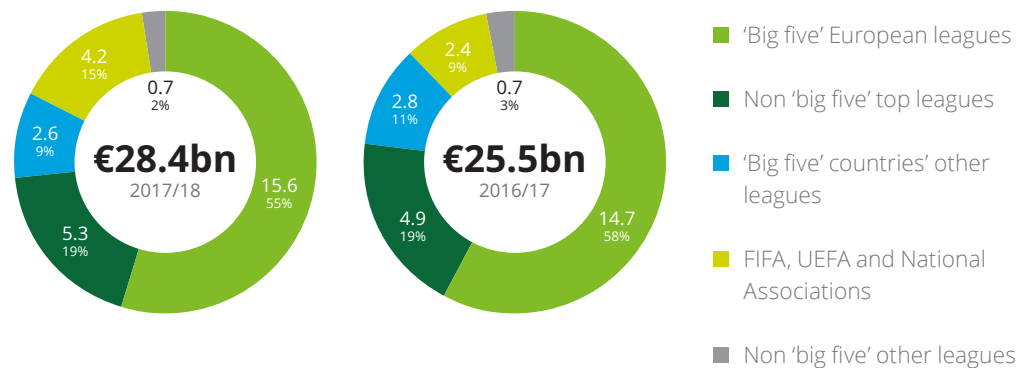
European football market

The overall size of the European football market continues to increase in revenue terms, reaching €28.4 billion for 2017/18.

Excluding the impact of FIFA and UEFA's major international tournament finals, revenue growth has now been seen in each of the 18 years we have calculated the overall size of the European football market. With live football remaining one of the most highly sought after entertainment assets for both attendees and broadcasters, as well as one of social media's hottest topics, we expect this growth to continue.

Whilst this headline market size figure highlights a healthy financial performance and translates to a cumulative net profit position for those clubs competing in the 'big five' European leagues, the topics of polarisation, competitive balance and strengthening the regulatory environment remain near the top of the agenda of the key decision makers in European football.

Chart 1: European football market size – 2016/17 and 2017/18 (€ billion)



Source: Leagues; UEFA; FIFA; Deloitte analysis.

Along with domestic and European club competitions, the success of the Russian-hosted FIFA World Cup in 2018 brought direct and indirect revenue boosts to the market, compounding market growth.

The introduction of UEFA GROW, a dedicated team working to provide strategic assistance to National Associations and clubs around Europe, as well as a third UEFA Club competition from 2021/22 and the development of the UEFA Nations League, are all examples of UEFA looking to safeguard the financial development of football in all its member nations and reduce the impact of financial polarisation, whilst encouraging growth.

Nonetheless, challenges to the current structure of European football have become more apparent in recent months, with continuing reports of new competition formats and entry/participation criteria being considered for leading clubs. It is natural for any governing body to consider how changes to their sports' landscape could be beneficial, but also to be cautious and undertake significant assessment before making changes to the way that the most globally-successful sport operates.

Re-tuning

European leagues have seen unprecedented growth over the past decade, driven by the increasing value of broadcast deals. However, values of domestic broadcast deals being negotiated, or already announced, for future cycles for certain leagues appear to show more limited growth, albeit following several cycles of substantial growth. A period of lower domestic growth in the biggest European markets may lie ahead.

As such, the opportunity to drive future growth appears to be in key international markets, where rights values continue to grow. Indeed, international rights values ensured that the Premier League saw 8% growth overall for the cycle beginning in 2019/20, despite an 8% decrease in domestic value.

Both La Liga and the Bundesliga have identified this area as an opportunity to reduce the substantial gap to the Premier League, utilising disruptive strategies with local engagement at their heart to maximise the control, quality, reach and value of broadcasting their content in developing football markets.

The English Premier League continues to deliver record revenues whilst Spain's La Liga and the German Bundesliga continue to hotly contest the race to be the World's second-richest football league.

'Big five' European leagues' revenues

Having been displaced as Europe's second-richest league by La Liga in 2016/17, the commencement of new domestic and international broadcast deals pushed the German Bundesliga's total revenue to almost €3.2 billion; back ahead of its Spanish rivals in 2017/18.

La Liga (7%) and the Bundesliga (13%) outpaced Premier League revenue growth (6%), as both slightly narrowed the gap to the top revenue generating league in the World.

The Bundesliga's new four-year media rights arrangements contributed to an uplift of c.€290m in broadcast revenues, whilst the return of Stuttgart and Hannover 96 to Germany's top flight, at the expense of Darmstadt and Ingolstadt, for the 2017/18 season helped to deliver a boost to attendances, and subsequently matchday revenues, which increased 7% to €538m, after falling in the previous season.

These promoted clubs, along with the likes of Schalke 04 and Eintracht Frankfurt, played key roles in the league achieving steady revenue growth of 4% relating to sponsorship and other commercial activities.

Having seen increases in the value of its television broadcast rights in each of the previous two seasons, the 2017/18 season saw a return to lower, 'mid-cycle', growth for La Liga revenues, which increased 7% (€208m), to €3.1 billion primarily due to commercial revenue growth.

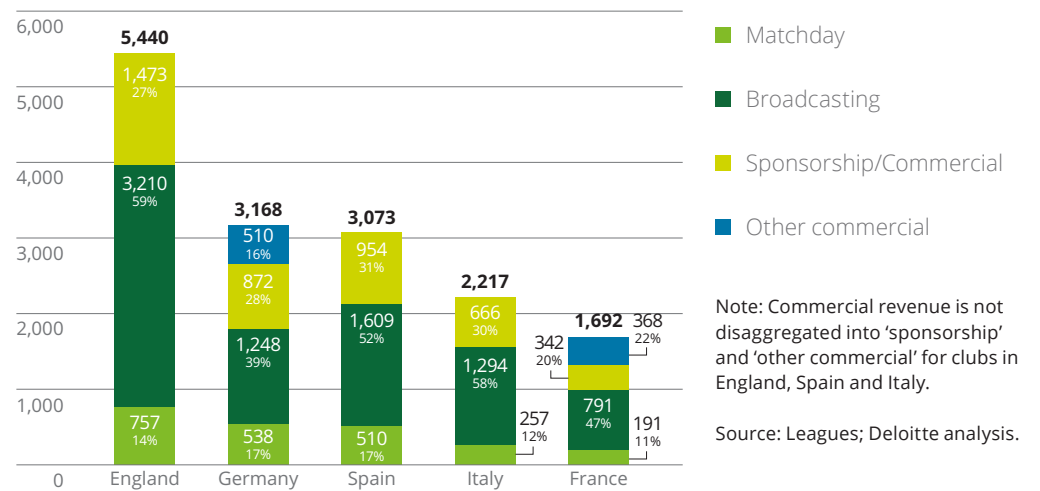
Real Madrid's success in European competition, and FC Barcelona's new four-year shirt front sponsorship with Rakuten, drove the league's commercial revenue growth of 14%, as these powerhouse clubs formed a Spanish one-two at the top of the 2019 Deloitte Football Money League.

The struggles of Serie A to keep pace with the English, German and Spanish top-tier leagues continued in 2017/18, as revenue increases of 8% (to €2.2 billion) failed to narrow the gap. Despite four (up from three) Italian clubs featuring in the top 20 of our 2019 Deloitte Football Money League, not one made the top ten for the first time in the report's history.

Growth in Italy was seen across each revenue stream with rises delivered by increased commercial revenues reported by Internazionale and a boost to broadcast income as AS Roma received the second-highest distribution (€84m) of any European club as reward for their progress to the UEFA Champions League semi-finals.

Impressive matchday revenue growth of 24% was also reported by Italian clubs, primarily reflecting significantly increased attendances at the San Siro for both Milan clubs and AS Roma's additional Champions League fixtures.

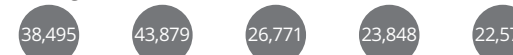
Chart 2: 'Big five' European league clubs' revenue – 2017/18 (€m)



Average revenue per club (€m)



Average match attendance



Stadium utilisation



The French top-tier, Ligue 1, continued to generate the least revenue of Europe's 'big five' leagues (€1.7 billion), with reductions in both broadcast and sponsorship revenue being offset by increases in matchday and other commercial income. PSG dominated once again in 2017/18, both on and off the field, winning a third league and cup double in four seasons, and growing their revenues beyond €500m, over 20 times that of Troyes, as the most stark example of polarisation across the 'big five'.

The 2017/18 season saw the final year of UEFA's previous competition cycle, ahead of some changes to entry procedures and participation requirements. Distributions to clubs participating in its two main competitions, the Champions League and Europa League, grew by 2% to total €1.8 billion, of which €1.2 billion (66%) found its way to clubs in the 'big five' leagues.

Note: Commercial revenue is not disaggregated into 'sponsorship' and 'other commercial' for clubs in England, Spain and Italy.

Source: Leagues; Deloitte analysis.

Whilst 2018/19 marks the beginning of a new UEFA competition rights cycle, delivering a c.40% increase in distributions to the continent's elite clubs, many leagues are considering their future strategies, as the rates of growth provided by traditional broadcast rights sales could potentially slow.

England

International broadcast rights sales for the cycle commencing in 2019/20 have now been completed, and the 30% uplift achieved has offset the slight decline in the value of domestic rights sales for the same cycle, to ensure values will increase by 8% overall – more than enough to ensure the Premier League remains Europe's richest league in the medium term.

A change in leadership following Richard Scudamore's 19 years as Chief Executive and latterly, Executive Chairman, as well as changing market dynamics, may see the Premier League adapt its approach to ensure continued revenue growth and maintain its clear revenue leadership position ahead of its ambitious and innovative challengers from Germany and Spain in the longer term.

Germany

With a new four-year broadcast rights cycle having just begun, the focus of revenue growth over the coming seasons will firmly be on commercial revenues for Bundesliga clubs.

Both the league and some member clubs have established overseas offices, as they look to drive value from untapped international markets through commercial partnerships, engagement and activation with new fans and

through an attentive, engaged approach to international revenue development.

Spain

La Liga is also looking internationally for future growth, and has adopted a similar local office approach to the Bundesliga, but in a greater number of key territories than their German counterpart.

In addition, La Liga's decision to provide Facebook with its broadcast rights in the Indian sub-continent, consideration of games being played outside of Spain and its completion of domestic rights sales for the broadcast cycle commencing in 2019/20, at a c.20% uplift, shows its ongoing strength at home and its global ambitions.

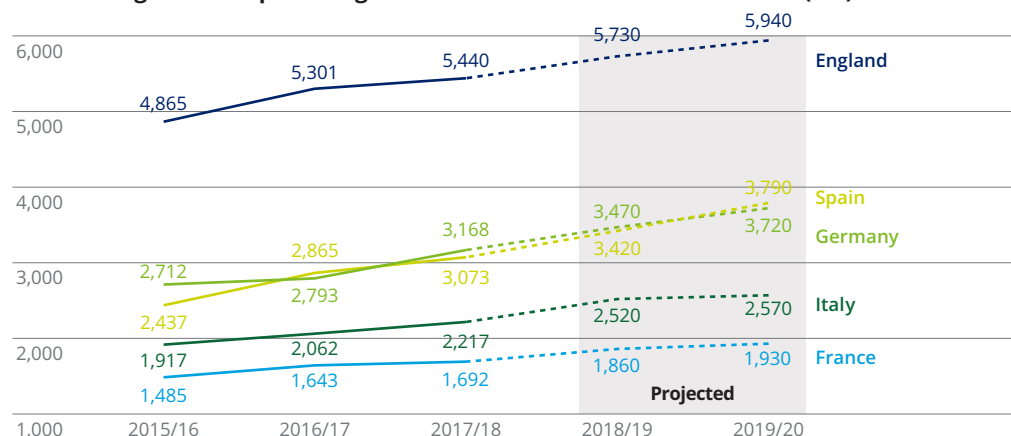
The revenue impact of Real Madrid's failure to retain the UEFA Champions League in 2019 is likely to be outweighed by commercial revenue increases, such as FC Barcelona's restructured technical kit deal with Nike and sponsorship with Beko, amongst other deals. However, we do not expect these increases to be enough for La Liga to financially outperform the Bundesliga in the next edition of this report.

Italy

Following a drawn-out process, Serie A's domestic live broadcast rights for the three-year cycle commencing in 2018/19 were sold to Sky Italia and DAZN, delivering limited growth of c.3% on the preceding cycle.

The sale of international broadcast rights, to IMG, has also not been a smooth process, but is expected to see far stronger growth, providing an incremental €150m per season across the three-year cycle from 2018/19.

Chart 3: 'Big five' European league clubs' revenue – 2015/16 to 2019/20 (€m)



Source: Leagues; Deloitte analysis.

The overall result of this should see growth of over 10% in broadcast revenues for Serie A, and consolidate the league's position as the fourth-highest revenue generating European league. However, many will see this as further ground lost to what is rapidly becoming a 'big three'.

The 'Ronaldo-effect' on Italian clubs' revenues will be seen for the first time in 2018/19 results, with his arrival at Juventus having shown early signs of increasing attendances, boosting social media followings and delivering strong merchandise sales – whether this translates into sustained or significant financial impact remains to be seen.

France

2018/19 marks the commencement of a new international rights cycle for Ligue 1, delivering an incremental c.€50m per season on the previous deal with beIN Sport. Despite this increase, the value of the international rights are less than a third of that received by the Bundesliga and just a quarter of those secured by Serie A.

The league must wait until 2020/21 for its next significant broadcast rights increase, when domestic rights values are set to increase by over 55%, to around €1.2 billion per season, greater than the current domestic rights value of Serie A (€1 billion) and similar to the domestic rights fees currently received by La Liga.

Ligue 1's long-term approach to the sale of broadcast rights has ensured agreements are in place until the end of the 2023/24 season, providing a greater degree of certainty over future revenues than elsewhere in the European football market.

Whilst matchday revenues in Ligue 1 have grown consistently in the past three years, a legacy impact of EURO 2016's infrastructure developments, the short-term growth of Ligue 1 revenues looks to be dependent on the commercial attractiveness and consequent growth of the league's larger clubs.

The wages to revenue ratio across the 'big five' increased to 62% as wages spending outpaced revenue growth, increasing by 13% to total over €9 billion for the first time.

England

Premier League clubs continued to spend the additional revenues received from the latest broadcast cycle, which commenced in 2016/17, with wage costs increasing by 15% to almost £2.9 billion (€3.2 billion).

This increase pushed Europe's biggest spending league to a wages to revenue ratio of 59%, and with lower growth projections for future revenue this is likely to return above 60% in 2018/19 and remain there for the foreseeable future.

Spain

La Liga clubs increased wages spending at double-digit pace (c.20%) for the third consecutive year, far outstripping the growth of the Premier League, as wage costs growth caught up with revenues, following increases in broadcast distributions in both 2015/16 and 2016/17.

Aggregate La Liga wage costs rose above €2 billion for the first time. Of the €340m increase, 44% related to FC Barcelona's wages spending, which rose 40%, to in excess of €500m, due to major contract renewals and transfer activity following the sale of Neymar Jr.

Having dropped below a 60% wages to revenue ratio in the last edition of this report, 2017/18 saw this ratio increase by seven percentage points, to 66%, its highest level in over a decade.

Germany

True to form, Bundesliga clubs retained their record of having the lowest of the 'big five' leagues' wages to revenue ratios (53%), as wage costs grew in line with revenues.

Aggregate spending increased by c.€200m, as clubs reinvested their additional revenues in attracting and retaining on-field talent.

As the league heads into a period of lower growth through the middle years of the four-year broadcast rights cycle, it is likely that the wages to revenue ratio of the Bundesliga will increase to a higher level than has been seen in Germany over the past decade, but remain comparatively low amongst the 'big five' aided by the requirements of the DFL's licensing standards.

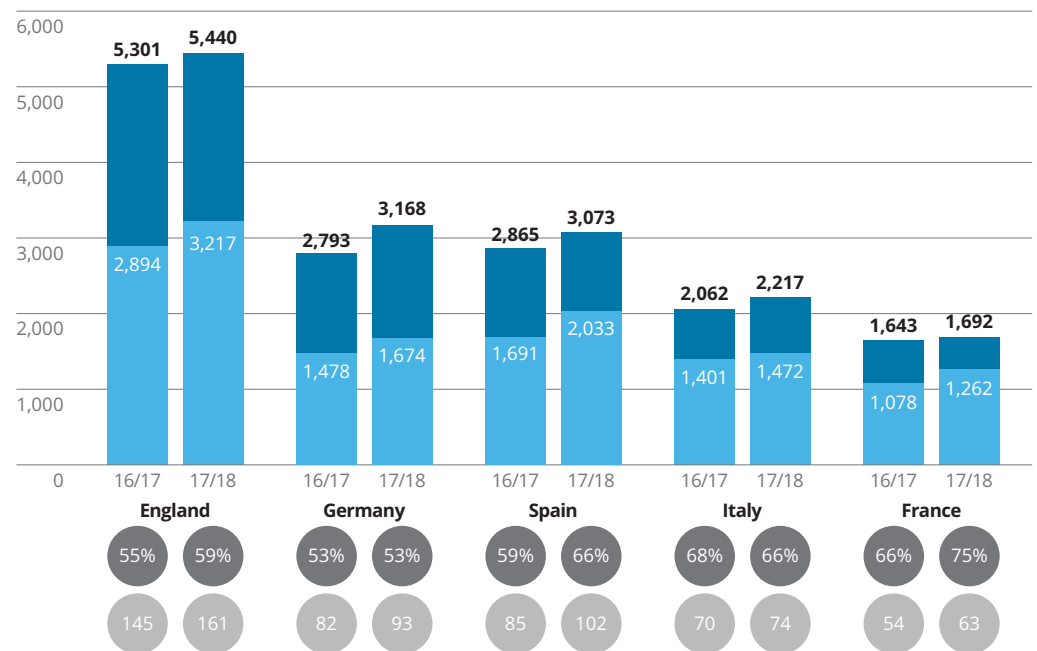
Italy

Serie A wages spending increased at the slowest rate of the 'big five' leagues in 2017/18, as the league's wages to revenue ratio dropped to 66%, its lowest level since 2005/06.

Seven clubs reported a reduction in wages spending in 2017/18 as total spending increased by just 5%. Lazio's wage costs growth of 40% was by far the most significant among Serie A clubs as they chased, and narrowly missed out on, securing Italy's additional UEFA Champions League qualifying berth for the 2018/19 season.

Juventus' acquisition of Ronaldo, and other transfer activity in the 2018 Summer window, is likely to see an increase in Serie A wages spending in the next edition of this report.

Chart 4: 'Big five' European league clubs' revenue and wage costs – 2016/17 and 2017/18 (€m)



■ Revenue ■ Wages/revenue ratio
■ Wage costs ■ Average club wages

Source: Leagues; Deloitte analysis.

France

2017/18 saw Ligue 1 clubs' wage costs increase rapidly, up 17% on 2016/17, as a high-level of receipts from transfers, the impact of recent investment at several clubs and the security of agreed broadcast revenue uplifts from 2018/19, and more significantly, from 2020/21, gave clubs the opportunity to boost wages spending on new talent.

Marseille's wages bill increased by 43% to over €125m, whilst PSG's wage costs increase of c.€60m contributed around a third of overall

growth, due to the high-profile acquisitions of Neymar Jr. and Kylian Mbappé. Monaco also increased their spend by over 30% as these three clubs together accounted for over 70% of the leagues' additional cost.

Worryingly, this saw the average wages to revenue ratio increase by nine percentage points to 75%; significantly in excess of the 70% ratio often considered to be a benchmark for sustainability.

Aggregate operating profits of Europe's 'big five' leagues fell in 2017/18 as wage spending caught up on the significant revenue uplifts generated by new English and Spanish domestic broadcast deals in 2016/17.

England

Despite reducing, Premier League clubs recorded their second-best ever aggregate operating profit of almost €1 billion.

Three clubs announced record operating profits in excess of €100m, despite the Premier League failing to repeat last year's feat of all clubs recording a profit, with 19 of the 20 recording a positive operating result.

Spain

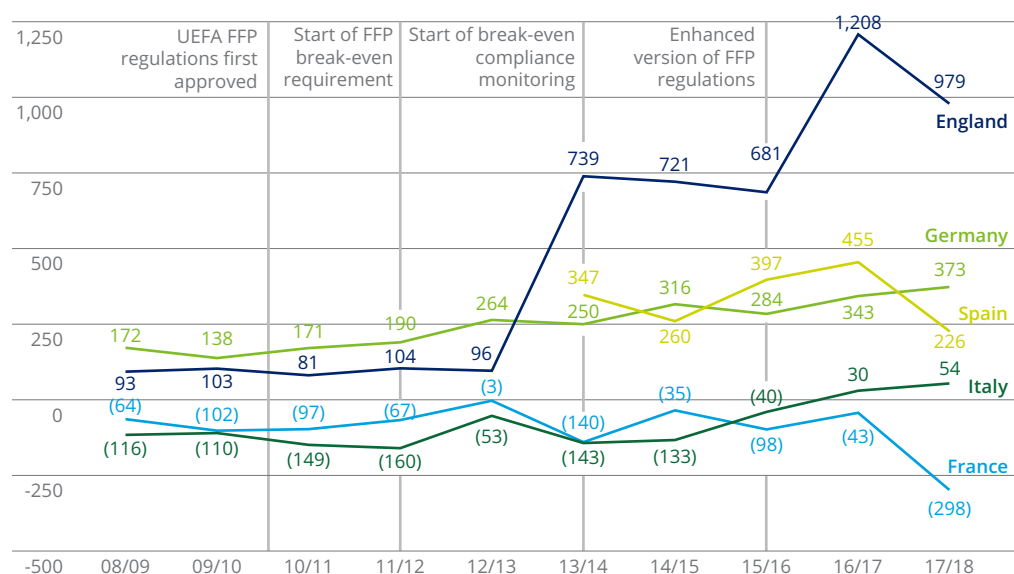
La Liga clubs recorded their lowest aggregate operating profit (€226m) since 2014/15 as wage cost growth outpaced that of revenue in 2017/18.

With Spain's next broadcast cycle not commencing until 2019/20 the next edition of this report may see these profits further reduce.

Germany

Bundesliga clubs continued to deliver on their reputation for balanced economic performance and behaviour, with additional revenues providing an opportunity to increase spending and yet still deliver its best operating result to date; a profit of €373m.

Chart 5: 'Big five' European league clubs' profitability – 2008/09 to 2017/18 (€m)



Italy

2017/18 saw Italian clubs record a combined operating profit of over €50m, their best result in the history of this publication. More than half of all Serie A clubs reported an operating profit, a significant improvement on last year, as the aggregate achievement of profitability demonstrated that Italian club football is capable of achieving combined sustainability, following a long period of financial challenges.

Changes to UEFA competition regulations making increased distributions to Italian clubs likely, coupled with an international broadcast rights uplift from 2018/19 and the regulatory environment in which European club competition participants now operate, may result in this positive operating result being repeated, or bettered, in coming seasons.

Note: The operating result is the net of revenues less wage costs and other operating costs. The operating result excludes player trading and certain exceptional items. Aggregate operating results for Spanish clubs were not available prior to 2013/14.

Source: Leagues; Deloitte analysis.

France

Not only were Ligue 1 clubs the only of the 'big five' leagues to record an aggregate operating loss, they recorded their worst aggregate operating result to date, as increased wages spending and other costs saw the deficit increase to €298m for 2017/18.

Ligue 1's high wages to revenue ratio, coupled with limited opportunities for major revenue growth in the short-term, indicates that operating losses look set to continue, at least until the commencement of a new domestic broadcast rights cycle in 2020/21.

The future of football

UEFA's Financial Fair Play Regulations have contributed towards European clubs' much improved financial results and reduced debt situation since 2012. Enhanced requirements for clubs effective from the 2018/19 season have been somewhat overshadowed by media reports about historic cases and recent appeals. UEFA's new strategy points towards further future changes to UEFA's regulations as times change and new challenges emerge.

Responding to polarisation trends, UEFA's new strategy also identifies competitive balance as a key priority, while preserving financial sustainability, incentivising investment and promoting the growth of European football. In addition to potential regulatory measures, the policies include exploring the potential of new UEFA club competitions to provide more opportunities for more teams to play more meaningful matches from 2024.

Ideas aired as part of the stakeholder consultation process include the top 24 clubs in a 32-club Champions League qualifying automatically for the following season's competition, rather than through performance in their domestic league. Any change in the relationship between domestic and international club competitions and the pursuit of an optimal calendar to facilitate club and national team competitions will generate some challenging discussions amongst the key stakeholders over the next few years.

The announcement of the introduction of a third UEFA club competition, under the working name of 'Europa League 2', commencing in 2021/22, will be seen as an opportunity for more widespread, and less volatile, growth of revenue for clubs in Europe's non 'big five' leagues.

Russia

The Russian Premier League surged ahead of the Turkish Süper Lig to take its place as the sixth-highest revenue generating top-tier league in Europe, driven by a new broadcast rights deal which delivered an increase of c.33%.

In anticipation of the 2018 FIFA World Cup, matchday revenues increased by almost 50% as clubs benefited from stadia and infrastructure developments and increased popularity, which it will be hoped can deliver sustained revenue growth in future seasons.

Turkey

The 2017/18 season also saw the start of a new domestic broadcast rights deal for the Turkish Süper Lig, providing an uplift reportedly worth c.€250m per season over the next five years. The full impact of this increase will be seen for the first time in next year's edition of this report, and we expect this to result in the league reclaiming its position as the sixth-highest revenue generating league in Europe.

Netherlands

Despite 10% revenue growth in the Eredivise, on-field disappointment for Dutch clubs and national sides led to professional football in the Netherlands unveiling a change agenda, with the objective of introducing reforms which can ultimately establish the nation in 8th place of

the UEFA rankings, unlocking additional club competition access, through improved revenue distribution, youth development, competition format, match conditions and commercial growth.

The next edition of this report should see aggregate revenues boosted by increased UEFA distributions as a result of Ajax's progress to the Champions League semi-finals.

Portugal

Driven by increased distributions and matchday revenues, as a result of the UEFA Champions League group stage participation of its top three clubs (S.L. Benfica, FC Porto and Sporting CP) the Portuguese Primeira Liga saw overall revenue growth of 18%, as further polarisation in revenues increased competitive imbalance.

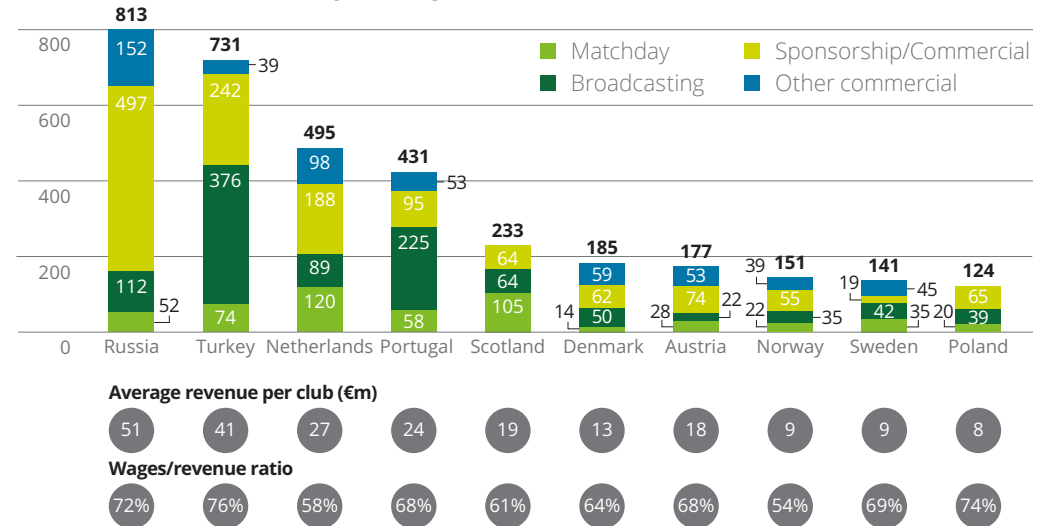
Scotland

Scottish Premiership ('SPFL') revenues increased to £206m (€233m) in 2017/18, driven by matchday revenue growth of 19%, as highest average attendances since 2006/07 aided by the return of Hibernian to the top flight.

Following the termination of the SPFL's previous international media rights agreement with MP & Silva, replacement deals, making the league available to view in 119 territories for two seasons from 2018/19, were agreed with beIN Sports and other broadcasters.

An exclusive five-year domestic broadcast rights deal with Sky Sports will deliver a 20% increase on the existing deal from 2020/21 and despite Celtic winning an 8th successive league title in May 2019, signs of increasing competitive balance, thanks to the improved challenge of Rangers, should help future revenue growth.

Chart 6: Selected other European league clubs' revenue – 2017/18 (€m)



Austria

Red Bull Salzburg's progress to the Europa League semi-final failed to inspire significant growth in the Austrian Bundesliga, as matchday revenue increases were almost entirely offset by decreases in broadcast and commercial revenues.

The Austrian Bundesliga looks set to deliver an improved revenue performance in the next edition of this report as a number of new commercial deals, including Austria Wien's with Gazprom, commenced in the 2018/19 season.

Denmark, Poland, Norway and Sweden

As no representative of Denmark, Poland, Norway or Sweden qualified for the Champions League group stage, these leagues must look to other sources of revenue growth to prevent them falling further behind other non 'big-five' leagues.

Notes: This chart includes a sample of countries ranking below fifth in terms of average top division club revenues for the most recent available financial results. Figures in respect of Turkey, Portugal, Russia and Norway are in respect of FY2017. Figures in respect of clubs in Denmark, Poland and Sweden related to the year to December 2018.

Source: Leagues; Club accounts; UEFA; Deloitte analysis.

The Danish Superliga, having adopted a 14 team split-season format in 2016/17, agreed further reforms in 2018 which will see a return to a 12 team top flight from 2020/21 in an attempt to drive the value of its broadcast and newly aggregated commercial rights.

New broadcast deals, each set to deliver significant growth, are due to commence in Poland and Sweden in 2021 and 2019 respectively, but organic commercial growth appears more challenging without major on-field success.

Live sport and the FAANGs: Still courting

With the increasing shift towards digital, more and more people are choosing to reduce, or even cease, watching content via traditional means (the so-called cord cutters, shavers and cord nevers).

The thrill of the chase

In this context, attracting and retaining audiences has become the priority for media and entertainment companies. The value of compelling content, and exclusive content in particular, has never been higher.

The importance of this is not lost on the major global technology companies, with each of the FAANGs (Facebook, Apple, Amazon, Netflix and Google (Alphabet)) having launched, or announced, some form of content delivery platform, seen as one of the best means of increasing time spent on their respective platforms.

Live sport remains one of the few remaining forms of 'appointment to view' content, unrivalled in its ability to draw a passionate, loyal and engaged fanbase, one that also has a greater propensity to spend both on content and ancillary items.

Sport also provides a rich ecosystem of complementary programming for major technology companies, spanning multiple strands that can be used to increase time spent on their platforms. Beyond traditional non-live rights, behind-the-scenes footage, data visualisation, fantasy sports, esports, e-commerce, gamification and betting data all offer alternative means of extending engagement beyond the match itself.

A combination of expenditure rationalisation, market consolidations, constrained budgets and content-sharing agreements has led to a threat of reduced competition for sports rights among traditional broadcasters, with a consequent impact on values. Set against recent periods of significant rights fees growth, and the more embryonic state of emerging platforms in this market, this pause for breath is perhaps understandable.

Yet these rights owners recognise the shift towards digital and the need to maintain engagement beyond the match itself. Streaming platforms enable delivery of content to a truly global, younger audience in a way that better suits their preferences; all the while learning far more about who these fans are and what they like; insight that heretofore has been very limited through traditional broadcast media.

Uncertainty is natural

Given these factors, premium sports rights owners and the FAANGs seem like natural bedfellows. However, the approach from both is in its early stages and to date has been largely experimental. Despite much speculation and anticipation, we are yet to see a major package of premium sports rights acquired by one of the West Coast giants.

It is wrong to assume that, despite their deep pockets, the FAANGs will simply acquire premium sports rights without an underlying business rationale, and the substantial growth of these companies in recent years has been achieved without any material expenditure on premium sports rights. Similarly, there are also a number of key issues for rights owners that require further consideration (see conversation).



Can they deliver the high-quality, unbuffered broadcast that sports fans have come to expect? Are they worth the potential negative PR from fans?

Premium sports rights owners



How can they ensure that our IP is protected?



Is the rights fee worth destabilising the long-term relationships, trust and know-how built up with traditional broadcasters?



Do these platforms, as rights acquirers, offer the opportunity for casual sports fans to discover and/or passively engage in content?



How integrated into the come home, turn on, lean back experience are these platforms?



Does the lack of dependency on sports rights mean that other distractions may supersede delivering and developing sports content successfully?



Do business objectives align – is global reach more important than growing revenues to satisfy clubs?

Are the risks associated with a failure in streaming premium sports rights worth the potential negative PR and financial ramifications?



Major global technology platforms

What additional technical requirements will we need to develop specifically to deliver live sport successfully?



In addition to the rights fee, how do we manage the (not-insignificant) operational requirements to produce, distribute, promote and market content to the standard expected by sports fans?



Is it a challenge that, more so than other forms of entertainment (with the exception of news), there is a finite limit to the amount of compelling live sports content?



Does the limited shelf life of live sport, and inflexibility in viewing time, make it less suited to core platforms built on snackable, shareable content?



Is live sport best suited to our existing platforms and means of interaction with consumers? Do these rights align with our business models in particular markets? Through what other means can the costs be refinanced?



Does the short-term rights cycles and territorial specificity of premium sports rights make them less attractive than other forms of content, which can be 'owned' for a far greater period of time (including in perpetuity) and across a far greater number of territories?



It takes two to tango

It is therefore understandable that both parties have to date adopted a test/refine approach, with sports rights owners tailoring their tender processes to suit. The FAANGs meanwhile have typically focused on territories that are of wider strategic importance and less risky for rights owners, with content shared on an exclusive and non-exclusive basis.

To complicate the scene a little more, a number of rights owners have opted to launch their own, separate, direct-to-consumer platforms, with La Liga, Serie A and Ligue 1 all having announced or launched platforms to distribute content.

Let's take things slowly

For now it would appear that the most suitable relationship for both premium sport rights owners and the major technology companies is to agree non-exclusive deals for rights, with the goal of this 'freemium model' being the use of freely available content to increase exposure to the sport, engage users through short-form and behind-the-scenes footage, and in due course encourage conversion to subscription services on other platforms.

The challenge for rights owners is to find the right balance between the use of these platforms to broaden exposure to the sport, without endangering relationships with traditional partners; all the while knowing that market competition is required to continue the escalation in premium sports rights fees seen over the last decade.

In the short-term we expect this experimental process to continue, with both rights owners and the FAANGs continuing to learn how sport, and broadcasting of live sport in particular, aligns with their business models and strategic desires.

The Sports Business Group at Deloitte regularly advises sports rights owners and broadcasters on their media and commercial strategies, and provides assistance to investors in sports media businesses.



Premier League clubs

As predicted in last year's edition, Premier League clubs' revenue grew by 6% to a record £4.8 billion in 2017/18, driven by increased UEFA distributions to English clubs as five teams participated in the Champions League for the first time and the impact of significant new commercial deals for a number of clubs.

Premier League clubs' revenue

The average revenue of a Premier League club increased to £241m in 2017/18, an increase of £13m. Average revenue has increased every season since the competition began in 1992/93, highlighting the lasting and continued appeal of Premier League football for fans, broadcasters and sponsors across the world.

The majority (£137m) of the £263m increase in Premier League clubs' revenue in 2017/18 was due to commercial revenue growth, with Chelsea, Liverpool, Manchester City and Tottenham Hotspur together responsible for most of the improvement. Record commercial revenue (£1.3 billion) was generated in 2017/18 and continues to comprise just over a quarter of total revenue. For Chelsea and Spurs, the start of a lucrative new kit deals with Nike enabled commercial growth and demonstrates the continued appeal of the Premier League to partners.

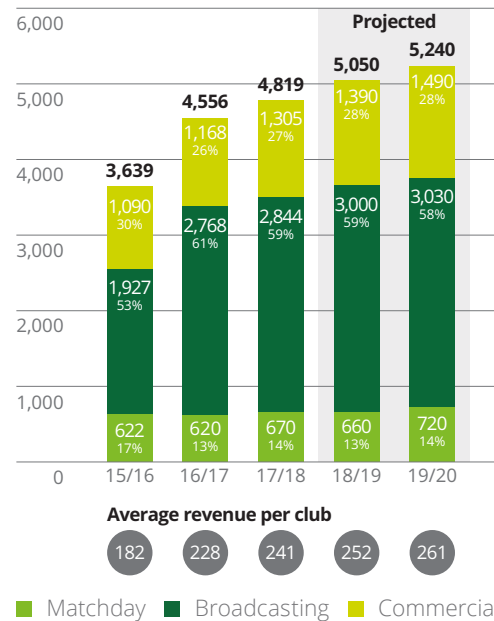
Impact of individual clubs

Of the 17 consistent clubs in both 2016/17 and 2017/18, Manchester United generated the most revenue (£590m), the third highest in world football. Liverpool, Chelsea and Tottenham Hotspur accounted for almost £241m of collective revenue growth in 2017/18. Liverpool's lucrative run to the Champions League Final allowed the club to achieve the highest year-on-year revenue increase (£91m) of any of the top 10 highest revenue generating clubs in the world.

For Chelsea, a return to Champions League football and the start of a new kit deal enabled revenue growth of £80m (22%), whilst Tottenham Hotspur capitalised on its temporary relocation to Wembley Stadium and improved on-pitch performances to secure enhanced commercial deals.

Overall, ten of the 17 consistent Premier League clubs achieved personal record revenue in 2017/18, with Leicester City suffering a 32% (£74m) revenue reduction from their 2016/17 Champions League season.

Chart 7: Premier League clubs' revenues 2015/16-2019/20 (£m)



Source: Deloitte analysis.

The 2017/18 season was also the first that allowed shirt sleeve sponsorship and the additional commercial inventory appears to have had a positive effect for most clubs, with 12 of the 17 who participated in the previous Premier League season generating an increase in commercial revenue.

Broadcast revenue increased by £76m (3%) to £2.8 billion, with distributions from UEFA increasing by 25% due to a record number of English clubs in the UEFA Champions League, along with improved performances in the competition compared to the previous season.

Matchday revenue increased 8% (£50m) to £670m, and represents a marginally improved share of total revenue (14%) having represented a record low of 13% in 2016/17. Tottenham Hotspur were responsible for more than half (£26m) of the increase.

Future revenue growth

Revenue increases in the 2018/19 season are expected to be driven by those clubs competing in UEFA competitions, with this being the first season of their new broadcasting deals. An all-English final between Liverpool and Tottenham Hotspur coupled with a London derby in Baku for the UEFA Europa League title will drive revenue upwards. This coupled with increases in matchday and commercial leads us to estimate that Premier League revenue will rise to over £5 billion for the first time when the results of the 2018/19 season are known.

Whilst the relatively equal distribution mechanism for central Premier League revenues, relative to other 'big five' leagues, has been a persistent strength of the competition, there has been a noticeable widening of average revenue generated by the largest clubs compared to the rest. The 'big six' clubs earned an average of £461m each in 2017/18, an increase of 11%, compared to an unchanged average of £147m for other clubs.

Premier League clubs' revenue levels

All Premier League clubs ranked in the top 40 revenue generating clubs in the world in 2017/18, with all of the Premier League's 'big six' featuring in the top ten for the first time. Spain remains the only other country with more than one club in the top ten, with Real Madrid and FC Barcelona the two highest revenue generating clubs in the world.

The average revenue of Premier League clubs participating in the Champions League increased by 35% to £475m in 2017/18. This was due to an increase in the number of 'big six' clubs participating in the competition (from three to five), as Manchester United, Chelsea and Liverpool all returned to the competition, replacing Leicester City and Arsenal. This had a knock-on effect on average revenue for UEFA Europa League clubs (Arsenal and Everton), which fell 9% (£27m) to £289m.

The three relegated clubs in 2017/18 had average revenue of £127m, with all three clubs receiving a parachute payment of over £40m in 2018/19. For the ten clubs who avoided relegation and did not participate in UEFA

After the watershed

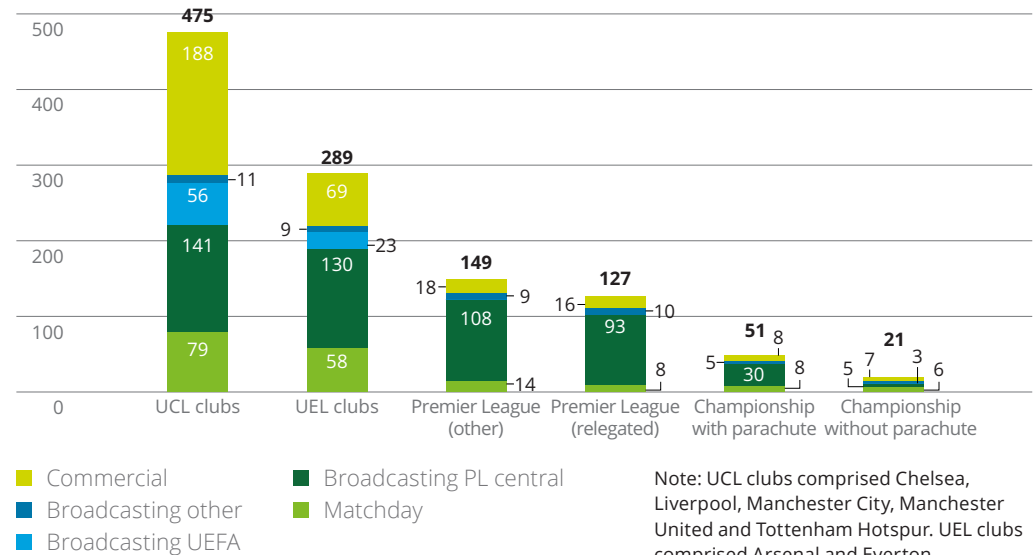
The 2018/19 season was the last season of the current broadcast rights arrangements. The new deals will deliver an increase overall in media revenues, but at a lower scale compared to the substantial growth achieved in the two previous cycles

The Premier League has recognised the need to continue to embrace innovation, as shown by Amazon obtaining a package of two rounds of games for the 2019/20 season onwards, as well as to continue to expand its international appeal, with the international broadcast rights offering a greater growth opportunity than the domestic market. The Premier League faces strong competition from other 'big five' leagues, who are also looking to appeal to, and monetise, a global audience.

UEFA's new broadcasting contracts from 2018/19 will provide revenue increases for those clubs who are able to obtain a place in its competitions, however, for those clubs who cannot consistently compete at this level, the focus for revenue growth must now turn closer to home to commercial revenues.

competitions, average revenue was £149m. Across this population of clubs the ratio between highest and lowest revenue was 1.4, highlighting the relatively balanced nature of the Premier League club finances beyond the 'big six'.

Chart 8: Premier League and Championship clubs' average revenues – 2017/18 (£m)



Note: UCL clubs comprised Chelsea, Liverpool, Manchester City, Manchester United and Tottenham Hotspur. UEL clubs comprised Arsenal and Everton.

Source: Premier League; UEFA; Deloitte analysis.

Transfer fee slowdown

In last year's report it was noted how 2017/18 was a record year for transfers, with £1.9 billion spent by Premier League clubs who utilised their additional broadcast revenue. However, gross transfer spend of Premier League clubs fell to £1.4 billion in 2018/19, making the most recent season the first since 2011/12 in which there has been such a year-on-year reduction.

The decrease is attributable to a combination of factors including reduced activity by the 'big six' clubs, a perceived lack of value in the

transfer market and improved financial stability for Premier League clubs reducing the need to sell their best talent. The relatively limited increase in the global value of the Premier Leagues broadcast rights from 2019-2022, compared to the two previous cycles, also appears to have moderated clubs' desire to spend as significantly in the transfer market.

With no imminent collective revenue increases on the horizon, the transfer spending record of £1.9 billion may remain intact in the short term.

Premier League clubs' wage costs grew by 15% in 2017/18, reaching a record level of almost £2.9 billion. This marks a return to trend for Premier League clubs whose revenue growth had outstripped wage increases in 2016/17. As a result, the wages/revenue ratio has increased, but remains below 60% for only the fifth time in the last 20 years.

Premier League clubs' wage costs

In 2017/18, increased spending by Premier League clubs resulted in the wages/revenue ratio rising to 59% as the financial consequences of record breaking transfer activity in 2016/17 filtered through. However, this ratio is the fourth lowest since 1998/99 such has been the positive impact on clubs' revenue from the start of the broadcast rights cycle that commenced in 2016/17.

Only two clubs saw a year-on-year reduction in wage costs, Swansea City and promoted club Newcastle United. The increase in the wages/revenue ratio is an indication of the competitive nature of the division, with the top clubs competing for financially lucrative places in UEFA competitions, and clubs lower down the division competing to remain in the Premier League itself.

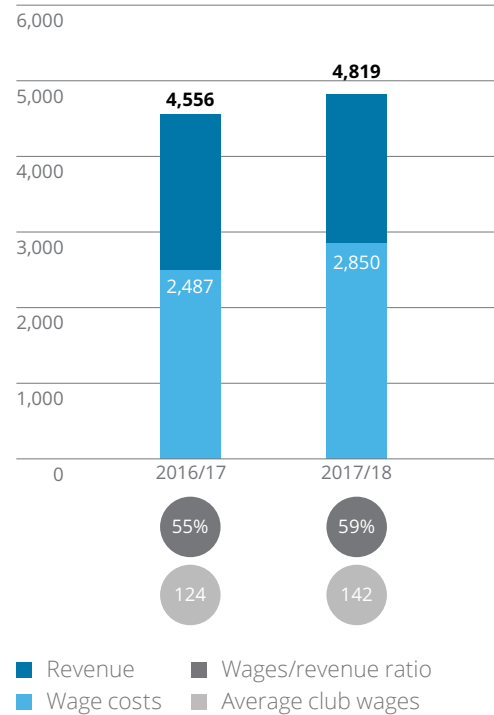
Impact of individual clubs

The number of clubs paying more than the league's average wage costs (£142m) increased to seven in 2017/18, as Everton reported a 53% (£55m) increase in wage costs to £160m to join the 'big six' at the top of the wages table. This population of seven clubs were responsible for 57% of total wage costs.

Manchester United (£296m) continued to be the division's highest wage payers, but whilst wages increased by more than £30m the club continues to have a relatively favourable wages/revenue ratio (50%). Only two clubs recorded a wages/revenue ratio of less than 50% in 2017/18. Promoted club Huddersfield Town spent the least (£63m) and were rewarded for showing relative restraint as they narrowly avoided relegation to the Championship.

Tottenham Hotspur (39%) became only the third club to spend less than 40% of its revenue on wages since 1998/99, but this was not detrimental to on-pitch performance as the club qualified for the Champions League once again, and subsequently reached the final in Madrid.

Chart 9: Premier League clubs' revenues and wage costs – 2016/17 and 2017/18 (£m)



Source: Deloitte analysis.

Manchester United (£296m) continued to be the division's highest wage payers, but whilst wages increased by more than £30m the club continues to have a relatively favourable wages/revenue ratio (50%).

£2.1 billion

Contributed by English professional football to Government in taxes in 2017/18



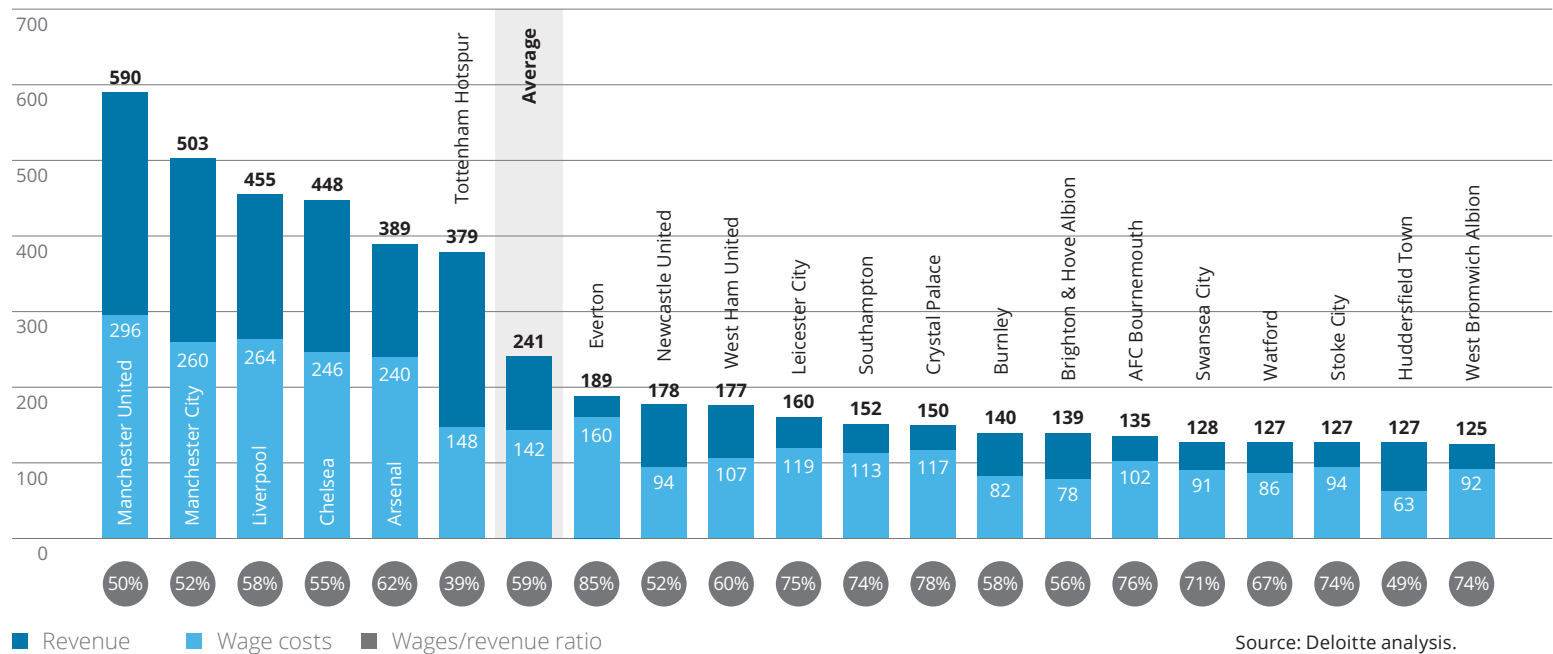
Eight Premier League clubs reported a wages/revenue ratio in excess of the 70%, the indicative warning level used by UEFA as part of their Financial Fair Play Regulations. This represents a considerable increase on the previous season in which only two clubs reported a ratio above this threshold.

Correlation between wage costs and league position

The Spearman's rank correlation coefficient, which measures the relationship between league position and wage costs rank, reduced marginally to 0.75 in 2017/18 (0.81 in 2016/17). 11 clubs finished within two places either side of the ranking of their wage costs, once again highlighting that the greater relative wages spend is likely to result in a higher finishing position in the league. At the top of the table, the alignment between finishing position and wage spend is particularly noticeable. Six of the seven highest wage spenders finished in the top seven places.

However, all three of the lowest wage spending clubs out-performed their relative wage rankings to avoid relegation. Two of the three promoted clubs (Brighton and Huddersfield Town) had the lowest wage costs yet both avoided relegation, whilst Burnley were the most notable over-achievers, outperforming their wages rank by 11 places to finish seventh as the Premier League continued to prove itself to be a fiercely competitive league capable of surprise.

Chart 10: Premier League clubs' revenues and wage costs - 2017/18 (£m)



Source: Deloitte analysis.

Future wages trends

Whilst the ratio has worsened slightly in 2017/18 there is still a noticeable improvement since 2012/13 when the average ratio climbed as high as 71%.

With the six highest wage spenders in 2017/18 finishing in the top six places in the 2018/19 season and Huddersfield Town relegated, a strong correlation between wage costs and league position seems to be being maintained. A notable emerging trend is that it is the 11 non promoted, non 'big six' clubs who have tended to increase wages at

a more rapid rate than revenue, or even by a greater absolute amount. This reflects the ferocity of competition to stay up and the fear of relegation.

Nonetheless, whilst wage costs have increased every year since 2004/05, and we expect a continued trend of greater year-on-year spending, general uncertainty amongst clubs regarding the timing and scale of the next big increase in central shared revenue should mean that these increases are not at a level that would threaten the collective profitability of Premier League clubs.

Six of the seven highest wage spenders finished in the top seven places.

Whilst Premier League clubs recorded lower levels of profitability in 2017/18, collective operating and pre-tax profits were the second highest in the history of the league, and only one club reported an operating loss. The recent trend towards profitability at the highest level of football in England appears set to continue for the near future, at an operating level at least, as owners and investors are reaping the financial rewards of running a top-flight football club in the world's most lucrative league within an environment of enhanced cost control regulations.

Premier League clubs' operating profits

Having broken the £1 billion barrier for the first time in 2016/17, Premier League clubs' operating profits (which excludes player trading, amortisation of player transfer fees and finance costs) fell 16% (£171m) to £867m in 2017/18. This remains more than 70% greater than the operating profitability reported in the 2015/16 season (£509m) such has been the impact of greatly increased broadcasting revenue and the cost control measures.

Of the 17 clubs that also participated in the Premier League in 2016/17, 16 reported an operating profit but only six (including four of the 'big six' clubs) recorded a year-on-year increase, such was the level of increased wage expenditure in the 2017/18 season. Only Everton recorded an operating loss, with a £37m (149%) drop in profitability highlighting the financial risks of attempting to break into the 'big six'.

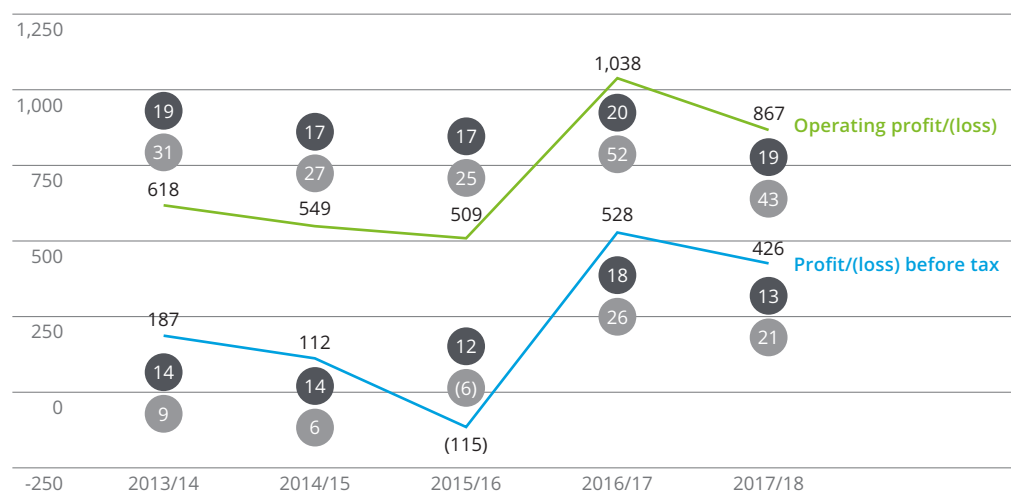
Three clubs, Manchester United (£166m), Tottenham Hotspur (£144m) and Manchester City (£113m), together generated almost half (49%) of total operating profits. It was the first time in the history that three clubs have achieved profitability of over £100m in a single season. The three promoted clubs generated combined operating profits of £130m, which represents a £237m turnaround on their collective operating loss of £107m in the 2016/17 Championship and underlines the transformative impact of the aggregate £433m they received in central Premier League distributions in their first season after promotion.

Pre-tax profits...and losses

Premier League clubs generated a collective total of £426m in pre-tax profits in the 2017/18 season. This was a reduction of 19% on the previous record of the 2016/17 season of £528m. The previous pre-tax profit club record of £92m set by Leicester City in the 2016/17 season was beaten twice, with £139m pre-tax profit generated by Tottenham Hotspur and £120m by Liverpool.

Although the average pre-tax profit for the 2017/18 season was £21m, the number of clubs making a pre-tax profit reduced by five to 13 from 18 in the 2016/17 season. Worryingly, of the seven clubs who returned a pre-tax loss, three (Stoke City, Swansea City and West Bromwich Albion) were relegated, and therefore will need to manage their costs effectively to ensure their financial positions do not significantly worsen in the Championship (despite the receipt of parachute payments).

Chart 11: Premier League clubs' profitability – 2013/14-2017/18 (£m)



Premier League clubs' economic impact

Whilst our Annual Review of Football Finance focuses on the financial results and position recorded in clubs' own accounts, what may often be overlooked is the wider economic and social impact generated by Premier League clubs' community activities and sporting events.

The Deloitte Sports Business Group recently reported how the activities of Liverpool FC during the 2017/18 season boosted the Liverpool City Region economy by almost £500m through its range of commercial relationships and supply chains, the visitor economy and fiscal contributions. We also reported that events at Wembley Stadium, in the tenth anniversary of its opening, contributed £150m to the local economy of Brent, £424m to London and £615m to England.

- Number of clubs reporting operating profit/pre-tax profit
- Average club operating result/pre-tax result

Note: The operating result is the net of revenue less wage costs and other operating costs. The operating result excludes player trading and certain exceptional items, which are included in the pre-tax result, along with other costs such as financing costs.

The 2015/16 pre-tax result includes one-off costs of £67m at Chelsea (in respect of termination of sponsorship deal) and £45m at Aston Villa (impairment of tangible fixed assets).

Source: Deloitte analysis.

Premier League clubs' net debt increased by almost £1 billion on the summer 2017 position to stand at almost £3 billion at the end of the 2017/18 season, its highest level since the summer of 2009. At that time, net debt represented 167% of Premier League revenues, now in 2017/18 it is 61%. Over two-thirds of the increase in 2017/18 was within soft loans from club owners and heavily driven by the three promoted clubs.

Premier League clubs' net debt

Soft loans – clubs' borrowings on interest-free terms typically from their owners – increased in 2017/18 by £679m (46%). The majority of this movement was driven by club mix, as the clubs promoted to the Premier League for 2017/18 contributed a combined soft loans balance of over £700m as at summer 2018. Soft loans remain the largest component of clubs' net debt, accounting for 73% of the total, a marginal decrease on the summer 2017 position (76%).

Net debt, excluding soft loans, stood at £792m in 2017/18, an increase of £316m (66%) on 2016/17 levels. This was heavily influenced by a reduction in clubs' net cash/bank borrowings position of £258m (41%), with a £280m increase in bank loans and £99m reduction in cash balances at Tottenham Hotspur being partially offset by other clubs.

Other loans – being borrowings from financial institutions, other parties and interest-bearing owner loans – marginally increased by £58m (5%) in 2017/18.

Individual club analysis

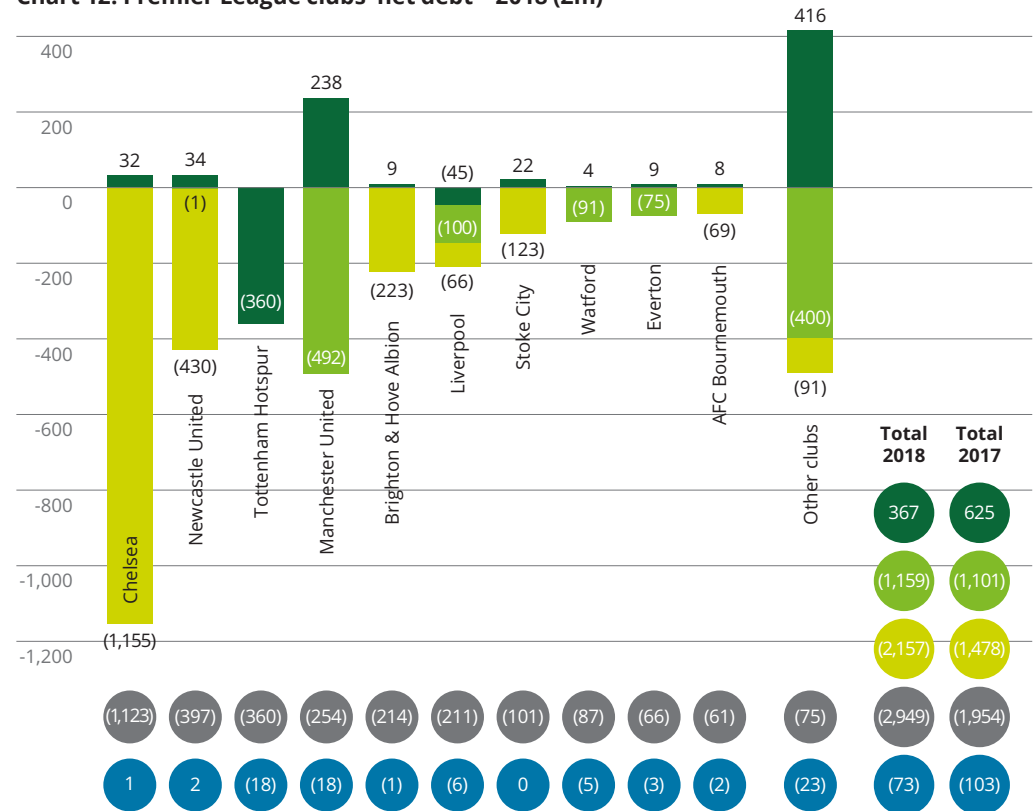
Six of the 17 consistent Premier League clubs in the Premier League reported an improved net debt /funds position in 2017/18. The largest improvement was at Arsenal, by £59m to a net funds position of £38m, following an increase in cash balances of £51m.

The top ten most indebted clubs accounted for 97% of Premier League clubs' total net debt. The largest increase in net debt was at Tottenham Hotspur, contributing over 60% of the consistent Premier League clubs' increase in net debt, as a result of financing the new Tottenham Hotspur Stadium.

Five clubs ended 2017/18 in a net funds position, these being Arsenal, Burnley, Leicester City, Southampton and West Bromwich Albion. Only Burnley and Southampton improved on net funds positions from the prior year, with only Arsenal (aforementioned) crossing into a net funds position from a net debt position year-on-year. Both Leicester City and West Bromwich Albion remained in net funds positions despite large falls in cash balances of £25m and £30m respectively.

The net finance costs for Premier League clubs have decreased £30m year-on-year, from £103m to £73m. Despite the slight fall in clubs' profitability levels, net finance costs continued to be covered almost twelve times by aggregate operating profits in 2017/18.

Chart 12: Premier League clubs' net debt – 2018 (£m)



Premier League clubs' net debt increased by almost £1 billion to stand at almost £3 billion at the end of the 2017/18 season.

- Net cash/bank borrowings
- Other loans
- Soft loans
- Net debt
- Net finance costs

Note: Net debt for Newcastle United is based on figures disclosed in financial statements of Newcastle United Ltd and St. James Holdings Ltd.

Source: Deloitte analysis.

Shaping the future of women's football

The last few years have seen the popularity of women's football build momentum, and in recent months the business side of the game has accelerated, with several landmark commercial deals.

Introduction

This summer, the expanded FIFA Women's World Cup (increased to 24 teams from 16) is expected to smash attendance and viewership records and propel women's football into the limelight. With most women's professional football leagues and clubs in their early stages of development, the profile from the 2019 World Cup provides a significant opportunity for rights holders and brands to shape the future of the sport. Now is the moment to take stock, assess the landscape and consider and act upon the opportunities the women's game presents.

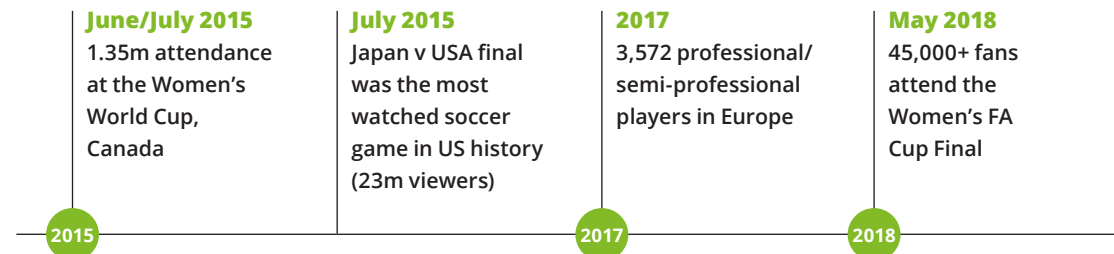
These opportunities will only be fully realised if appropriate infrastructure is built now. Successful sports competitions need solid foundations, and four of these (competition structure, governance and regulations, media rights and sponsorship strategy) are considered below.

Competition structure

Competition structure can have a crucial effect on the overall popularity and success of a competition. It needs to deliver meaningful matches and a compelling narrative that draws in both fans and commercial partners. Achieving the optimal competition structure requires careful balancing of many factors such as duration, calendar, competitors, events, venues and format.

Recent examples of competition reform or the creation of a new competition include:

- Fédération internationale de basket-ball's (FIBA) expansion of the World Cup from 24 to 32 teams and an introduction of a new hosting year for the tournament to prevent it overlapping with the FIFA World Cup (the 2014 FIBA World Cup will be followed by the 2019 FIBA World Cup);
- Fédération Internationale de Hockey's (FIH) introduction of a new Home and Away league (FIH Pro League) in 2019 for both men's and women's teams;



Recent developments in women's football

- International Table Tennis Federation's (ITTF) reform of their World Championships to expand the event to include regional and continental qualifiers from 2021;
- Netball Australia and TV network Channel Nine entered a revenue-sharing partnership creating the Suncorp Super Netball League in 2017; and
- The Indian Premier League (IPL) was established in 2008 and is now one of the highest revenue generating leagues globally.

All of these examples have one common theme – to increase the appeal of their events to fans, media and sponsors. Whilst some competitions are well established, making it harder to reform or create new competitions, women's professional football is in its early stages of

development and has a great opportunity to adapt its competition structure, and to create an exciting product that will increase the attractiveness of the game.

Regulations and governance

To be financially sustainable and encourage competitive balance, competitions need to have appropriate governance and regulations in place. The most successful club competitions have clear rules on cost control (often including a salary cap), but also on division of commercial rights between teams and leagues, and generation and distribution of revenues from any collective rights. Establishing appropriate regulations in the women's game now will help to ensure financial sustainability, reduce the likelihood of club insolvencies and optimise competitive balance. Good governance and financial security will also assist in attracting investors and sponsors to the game further emphasising the importance of good governance.

2019

<p>Sept 2018 FA Women's Super League (WSL) becomes fully professional</p>	<p>October 2018 FIFA publish first ever strategy for women's football</p>	<p>March 2019 Mediapro/Primera División TV rights deal (€3m per season, 2019/20 to 2021/22)</p>	<p>March 2019 Nike sign as a main sponsor of UEFA women's football in a seven year deal</p>	<p>March 2019 Women's club match World Record attendance – 60,739 attended Atlético Madrid Femenino vs FC Barcelona Femení</p>	<p>March 2019 Barclays sign a multi-million pound deal to become title sponsor of the FA WSL</p>	<p>March 2019 39,000 sell-out crowd at Juventus v Fiorentina</p>	<p>April 2019 Boots sign as a main sponsor of all four home nations and the Republic of Ireland</p>
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Media rights

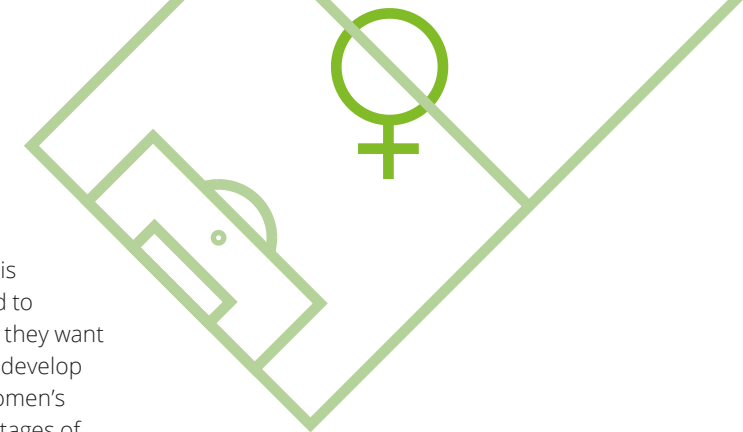
Media exposure and revenue is an essential element of any successful sports league or competition. To attract, retain and grow the fanbase, the competition needs to be visible and easily available for people to consume. As a result, there is a trade-off between free-to-air (FTA) and Pay TV platforms. Pay TV broadcasters are more likely to pay higher rights fees, but FTA broadcasters have a much greater viewership thus increasing the opportunity to grow interest in the game and deliver greater value to sponsors. A media rights deal that encompasses both FTA and Pay TV is a potential compromise. For example, MediaPro's €3m per season for the rights to broadcast Spain's top tier of women's football will show some games on FTA and some on Pay TV. As consumption trends move towards OTT and social media, these platforms are increasingly important for rights holders to attract and retain fans and should also form a core role within any media rights strategy.

Sponsorship strategy

Clubs are in fierce competition when it comes to commercial deals, as they tend to be sold on a club-by-club basis. This model may seem advantageous for certain clubs as it provides an opportunity to obtain a competitive advantage over other teams. However, collective selling of rights has the potential to generate significantly higher overall commercial returns and high quality brand consistency, a strategy common in US sports including the National Women's Soccer League (NWSL), which has a kit sponsorship with Nike that covers all teams. Whilst this close collaboration would be alien to other industries (in which competitors do not depend on each other for success), joint sponsorship deals are possible in the sports industry and could lead to higher overall commercial revenues for women's football.

The future

As women's football continues to receive greater interest from fans, media and sponsors, rights holders have an opportunity to seize this moment and use it as a catalyst for growth. To maximise this opportunity, key stakeholders need to have a clear vision and define what they want the women's game to become and develop a strategy to achieve this vision. Women's professional football is in its early stages of development and through working together and learning from the experiences of men's football and other sports, stakeholders of women's football (clubs, players, competition organisers, sponsors and the media among others) have an opportunity to shape its future trajectory so that women's football becomes the world's leading professional women's sport.



The Sports Business Group at Deloitte has worked with rights holders across multiple sports and geographies to assist them in developing the key foundations of their competition including competition structure, regulations and governance, media rights and sponsorship strategy.

Football League clubs

2017/18 saw a fifth successive season of revenue growth in the Championship. Clubs generated record revenues of £749m, a 4% rise on 2016/17. The increase was largely driven by an increase in parachute payments as the re-structured payment schedule moved into its second season. It is estimated that revenue remained relatively static in the 2018/19 season. A new broadcast rights deal is starting in the 2019/20 season, reportedly providing a 35% increase in value on the current deal, which will provide the next boost to Championship revenues.

Football League clubs' revenue

Consistent with 2016/17, broadcast revenue (including parachute payments) accounted for over 50% of total revenue, with matchday and commercial revenue making up 23% each in 2017/18. Aston Villa was the highest revenue generating club in the Championship and reported £66m with over 50% coming from parachute payments.

Parachute payments in respect of recent relegation from the Premier League accounted for 32% of total revenue in 2017/18 in the Championship. Eight Championship clubs were in receipt of parachute payments, ranging from £17m to £42m and totalling £243m, the highest total amount ever paid in a single season.

For Hull City, parachute payments accounted for 75% of total revenue. The impact on the other two newly relegated clubs, Middlesbrough and Sunderland, was still significant, accounting for over 65% of total revenue for both clubs.

A league of its own

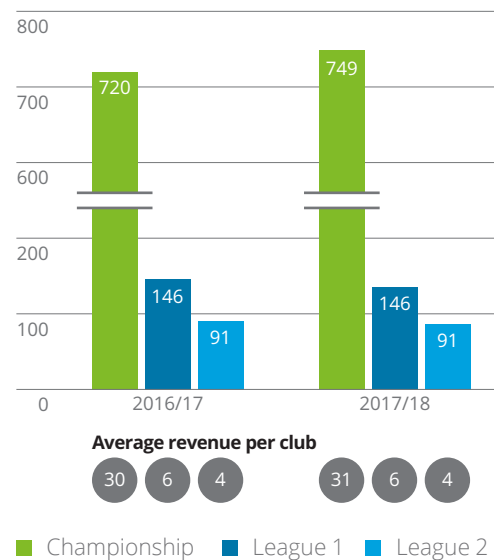
While parachute payments create financial polarisation amongst the Championship, the revenue gap goes beyond the division, and is increasing both from the top of the Championship to the bottom of the Premier League and from the bottom of the Championship to the top of League 1. The gap between the average revenue for a relegated Premier League club and a promoted Championship club has increased from £43m in 2012/13 to £94m in 2017/18, while the gap between the average wage bill for a relegated Championship club and promoted League 1 club has increased from £13m to £21m across the same period. This potentially makes it more challenging for promoted clubs to become established in the Premier League and Championship without further investment.

By contrast, Leeds United was the most successful Championship club at generating matchday and commercial revenue (c.£16.5m in each category), accounting for just over 80% of its total revenue.

The 18 consistent Championship clubs from the 2016/17 season saw revenue fall by £25m, largely due to parachute payments either ending (Reading) or tapering (QPR and Norwich) and the hole not being filled by other revenue streams.

Parachute payments continue to be the key factor in driving revenue differentials across the Championship. The average revenue of a club in receipt of parachute payments was £51m compared to £21m for those not in receipt. Revenue generated by League 1 clubs remained static at £146m and this was also the case in League 2 with revenue stable at £91m.

Chart 13: Football League clubs' revenues - 2016/17 and 2017/18 (£m)



Source: Deloitte analysis.

The value of promotion

As the new Premier League broadcast rights cycle begins in the 2019/20 season, the value of broadcast distributions to clubs will remain reasonably static with parachute payments unlikely to see any significant growth. Gaining promotion to the Premier League will generate a revenue uplift similar to the 2017/18 season of at least £170m, based on Premier League distributions and guaranteed parachute payments if relegated, rising to at least £300m if the promoted clubs survive more than one season.

Championship clubs' record revenue was coupled with record wage costs of £795m in the 2017/18 season, a 12% increase on the 2016/17 season. The wages/revenue ratio also increased from 99% to 106%, highlighting the increasing level of financial risk that Championship clubs are willing to take in order to chase promotion to the Premier League. In the Football League as a whole wages rose above £1 billion for the first time. The worsening (from an already poor position) of Championship wage control dates back to the 2012/13 season, the first year after the vast increase in Premier League broadcast revenues for 2013/14 was announced.

Football League clubs' wage costs

Aston Villa had the highest wage costs in the Championship in 2017/18 of £73m, more than seven times that of Burton Albion (which recorded the lowest wages spend, at just under £10m). Aston Villa's wages bill was the third highest ever recorded in the Championship, behind Newcastle United's £112m in 2016/17 and Queens Park Rangers' £75m in 2013/14. The average wages spend per club was £33m, an increase from £30m in 2016/17.

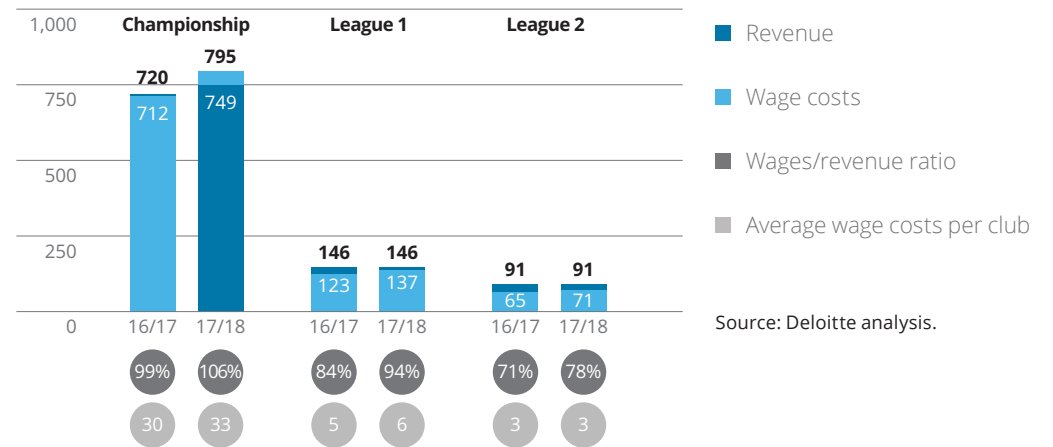
Only three of the 18 consistent Championship clubs from 2016/17 reported a decrease in their wages spend in 2017/18, the remainder increasing by an average of 37% (£10m). This demonstrates the scale and widespread nature of the financial outlay being made in a bid to reach the Premier League.

In the mixer

Despite the overall Spearman's rank coefficient only indicating a moderate positive correlation between wages and final league position, there is a stronger relationship amongst the top six and bottom three of the league. The top six teams in the league all came from the top seven highest wage spenders, and whilst heavy promotion bonus payments will skew promoted clubs towards also being higher spenders this is still a notable correlation. Barnsley and Burton Albion, both relegated, were the two lowest wage spenders in the division although Sunderland was a significant outlier, finishing 24th with the eighth highest wage spend. The remaining 15 league places actually showed a negative correlation between wage spend and final league position, i.e. the more clubs spent, the lower they finished. This indicates that wage spend is highly related to finishing in the top six or in the relegation positions, but unrelated to finishing position in the remaining league positions.

12 clubs had a wages spend greater than total revenue in 2017/18, with three nearing a wages/revenue ratio of 200% (Birmingham City (194%), Wolverhampton Wanderers (192%) and Reading (186%)). In Wolverhampton Wanderers case this risk paid off as the club gained an automatic promotion. In contrast, during the 2018/19 season, Birmingham City has been sanctioned by the Football League for breaching profitability and sustainability rules.

Chart 14: Football League clubs' revenues and wage costs – 2016/17 and 2017/18 (£m)



Source: Deloitte analysis.

A moderate positive correlation between wages and final league position was evident in 2017/18. The Spearman's rank coefficient for the Championship is 0.47, down slightly from 0.5. This further demonstrates that the default setting for almost all Championship clubs to spend on wages in pursuit of success is not reliably rewarded by on-field performances.

2017/18 saw League 1 clubs' wages rise 11% to £137m and the wages/revenue ratio from 84% to 94%, eclipsing the previous high of 93% seen in 2011/12. League 2 wages rose 9% to £71m in 2017/18, causing the wages/revenue ratio to rise to 78%, the highest since the 2000/01 season. The Salary Cost Management Protocol regulations have been credited with keeping wage spending under control in recent years but there are signs that clubs, especially in League 1, are pushing the boundaries more than has been seen in recent years.

Gambling on going up

Excluding Newcastle United, the wages/revenue ratio was 95% in 2016/17, a tentative indication that the Championship may be edging towards a more stable and sustainable future. However, 2017/18 has seen a wages/revenue ratio of 106% as clubs continue to increase wage spend as they seek promotion. Cardiff City had the sixth highest wage spend in 2017/18 as it gained automatic promotion to the Premier League, while also disclosing £23m in bonuses and other commitments due following promotion. Looking forward, this type of heavily incentivised wage structure may be a more responsible and sustainable way for Championship clubs to control their wage spending, ensuring that if the club does not gain promotion it is not left with potentially unsustainable levels of wage expenditure.

Given record wage spending, it is no surprise that Championship clubs recorded record operating losses for the third successive season, increasing significantly by 25% to £361m. Championship clubs pre-tax losses increased by 54% to £320m, the second highest level ever recorded.

Football League clubs' losses

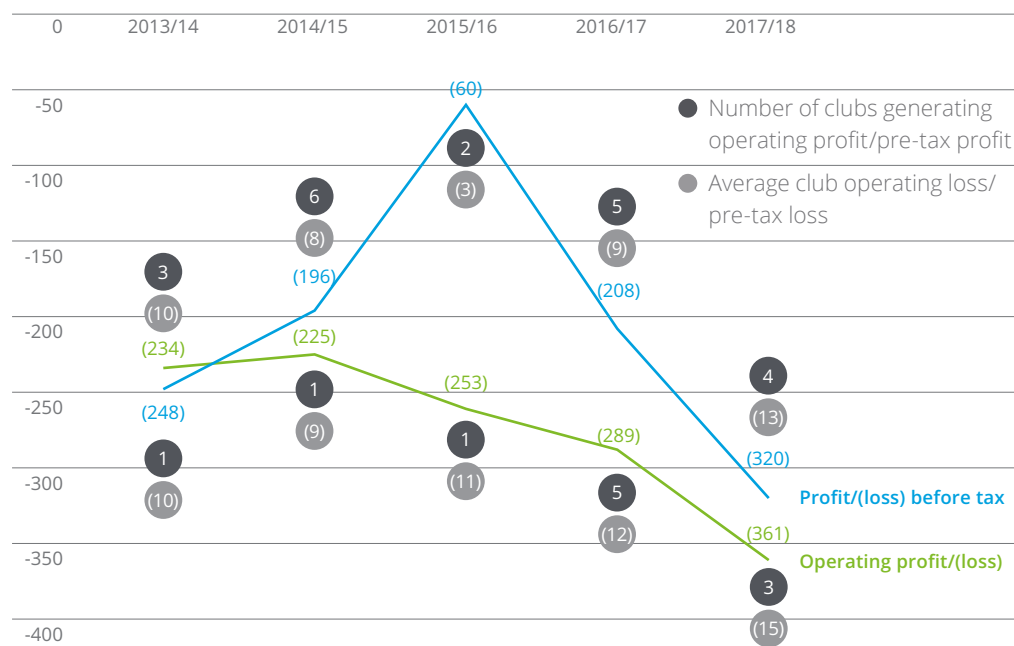
Only two Championship clubs (Burton Albion and Hull City) reported both operating and pre-tax profits. Only three other clubs reported profits on either measure in 2017/18. 12 clubs reported operating losses of over £10m with the average operating loss across the league being £15m, highlighting the financial risks that clubs are willing to take to gain promotion to the Premier League.

Wolverhampton Wanderers recorded both the highest operating loss (£49m) and highest pre-tax loss (£57m) in the Championship. Combined with Cardiff City and Fulham, the other two promoted clubs, these accounted for 31% of the Championship clubs' total operating losses and almost half of pre-tax losses.

Hull City reported the highest pre-tax profit in the division of £24m, largely as a result of a £31m profit on player transfers.

Norwich City also reported a pre-tax profit of £18m despite generating operating losses of £7m as a result of a £50m profit on player transfers. All but two of the Championship clubs that reported generated a profit on sale of player registrations, but that profit was balanced out across the division as a whole by amortisation of player transfer fees meaning a net nil contribution to profits from player trading.

Chart 15: Championship clubs' losses – 2013/14 to 2017/18 (£m)



Analysis of Championship clubs' cash flow statements also shows they were net spenders as a whole over the season.

2017/18 has seen League 1 clubs' pre-tax losses more than double, from £36m in 2016/17 to £81m. This has largely been driven by club mix with Blackburn Rovers and Wigan Athletic entering the league and generating combined losses similar in size to the League 1 total from 2016/17. However, pre-tax losses amongst the 17 consistent League 1 clubs also rose, more than doubling to £37m, underpinned by Charlton Athletic reporting an £11m increase. League 2 clubs' pre-tax losses decreased to £10m from £18m in 2016/17, over 50% of this decrease being due to club mix.

Notes: The operating result is the net of revenues less wage costs and other operating costs. The operating result excludes player trading and certain exceptional items, which are included in the pre-tax result, along with other costs such as financing costs.

The 2013/14 pre-tax loss included a one-off credit of £60m at Queens Park Rangers. The 2014/15 pre-tax loss included one-off credits of £26m at Cardiff City and £11m at Reading. The 2015/16 pre-tax loss included one-off credits of £170m at Bolton Wanderers, £18m at Nottingham Forest, £12m at Derby County, and £10m at Cardiff City. The 2016/17 pre-tax loss included a one-off credit of £40m at Nottingham Forest. The 2017/18 pre-tax loss included one-off credits of £40m at Derby County, £8m at Sunderland, and £5m at Nottingham Forest.

Source: Deloitte analysis.

That Golden Rule

In 2016 we noted that the Championship's Financial Fair Play Rules, first implemented from the 2013/14 season, had helped clubs to limit their losses. We also urged the changes to be effective from 2016/17 season, as part of a wider agreement between the Football League and the Premier League, whereby the Championship clubs would instead be subject to the more thinly constructed and untested Profitability and Sustainability (P&S) Rules that allow clubs to have higher losses.

In 2019 Birmingham City became the first club to be deducted points for its failure to comply with the P&S Rules, given excessive spending over the three financial years covering the 2015/16 to 2017/18 seasons. Given the reported losses of other clubs in the Championship in 2017/18 and/or 2018/19, it appears that several clubs will require profit-generating transactions in their financial year ending in 2019 in order to achieve technical compliance with the P&S Rules.

Consternation has been expressed amongst the clubs about some aspects of the P&S Rules. Effective cost control regulations in the top two divisions of English football, will in the future require an holistic approach to implement robustly defined rules and an overall regulatory framework to facilitate, monitor and enforce compliance by clubs.

Perhaps surprisingly in light of the previous analysis, 2017/18 saw Championship clubs' aggregate net debt fall significantly, down 47% to £963m, bringing Championship net debt below £1 billion for the first time since the summer of 2012. The impact of clubs promoted to and relegated from the Championship, coupled with significant debt to equity conversions at a number of clubs, accounts for the vast majority of this reduction. Interest-free soft loans from shareholders constituted 78% of total net debt, the same level as at the end of the 2016/17 season, highlighting the fact that Championship clubs continue to be heavily funded by their owners.

Football League clubs' net debt

Of the total net debt amongst Championship clubs, 82% (£786m) is held by ten clubs, with Reading, Ipswich and Middlesbrough all reporting net debt in excess of £100m. After its previous owner waived £170m of soft loans in 2016, Bolton Wanderers' net debt was lower than the vast majority of Championship clubs. Its financial struggles in 2018/19 stem more from its operating cash outflows and insufficient supplementary funding.

Bank loans continue to be a relatively uncommon form of financing in the Championship, and only three clubs have this form of debt. Total bank loans increased slightly to £58m from £56m at summer 2017, Bristol City's bank loans still form the vast majority of this total with just under £50m.

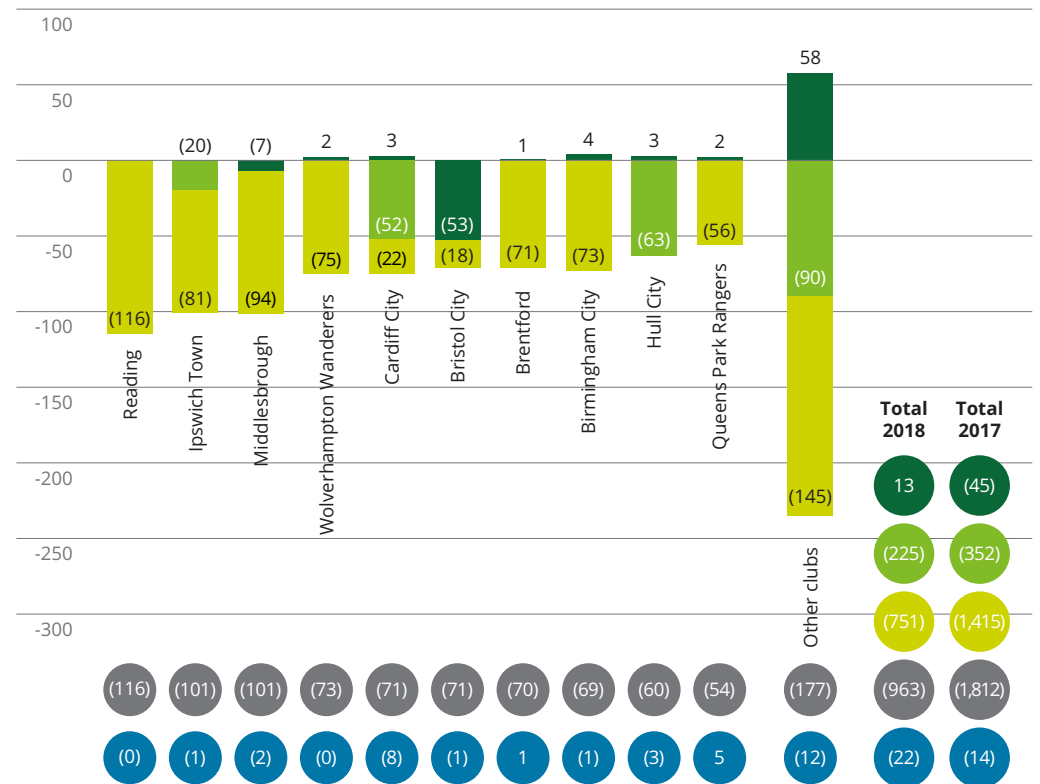
Total cash reserves have increased from £11m to £71m at the end of the 2017/18 season, largely driven by changes in club mix which account for £49m of the £60m increase. Of the consistent Championship clubs, Norwich City increased its cash reserves by £16m, in part due to the success of the innovative Canaries Bond that invited supporters and investors to financially contribute to the construction of a new academy, raising £5m.

Owners' actions

Behind the scenes, the English Football League continues to monitor clubs' finances and use the interventionist measures at its disposal. A number of clubs have been on the brink, and in May 2019 Bolton Wanderers became the first Football League club to enter Administration since Aldershot Town in 2013.

Owners' actions have contributed to some frantic times for fans of other clubs such as Blackpool, Bury, Charlton Athletic and Coventry City. Evolution of the rulebooks and more positive communication about the regulation of clubs will be required to enhance perceptions of English football's governance.

Chart 16: Championship clubs' net debt - 2018 (£m)



2017/18 saw Championship clubs' aggregate net debt fall significantly, down 47% to £963m.

Source: Deloitte analysis.

Player transfers

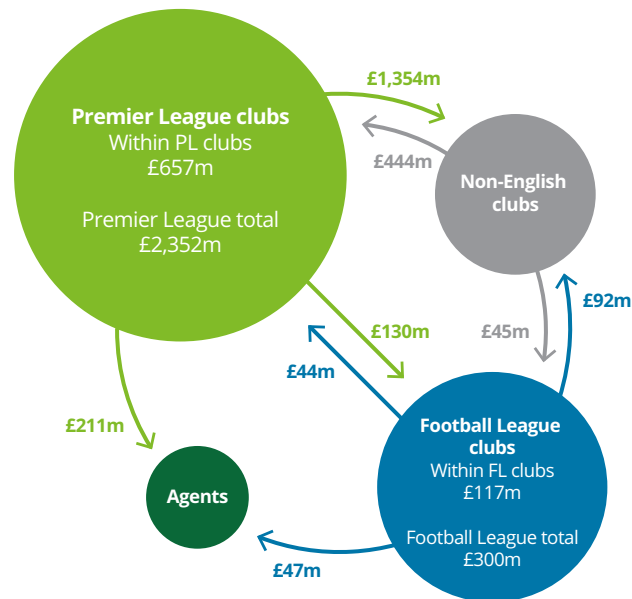
Two record transfer windows in 2017/18, driven predominantly by Premier League clubs who spent a record £2.4 billion, outweighing the reduction in transfer expenditure by Football League clubs, resulted in a record of £1.2 billion leaving English clubs in relation to transfers, with clubs paying premiums to import foreign talent.

Premier League clubs' transfer activity

The Premier League saw a transfer expenditure record of £2.4 billion, a substantial increase of 47%. The central distributions from the Premier League afford clubs the ability to acquire talent at premiums that can only be matched by a relatively small number of clubs internationally.

Of the 17 clubs in the Premier League in both the 2016/17 and 2017/18 seasons, the average transfer expenditure per club increased by £42m, with the three promoted clubs also seeing an a year-on-year average increase of £33m as they invested in talent in an attempt to secure their position at the top of English football. Manchester City set a new Premier League record for expenditure in a single season, spending £328m in the 2017/18 season, beating the previous record of £205m (Manchester United in the 2016/17 season) by 60%.

Chart 17: Premier League and Football League clubs' player transfer payments – 2017/18 (£m)



Note: Arrows represent the flow of transfer payments, with players moving in the opposite direction. The estimated fees in respect of the transfer of player registrations refer to amounts committed in 2017/18, rather than actual cashflows. The sources for the amounts in the chart relate to periods that are not necessarily coterminous.

Source: Premier League; Football League; Football Association; Deloitte analysis.

Player agents have benefitted from the marked increase in expenditure, with amounts paid to agents increasing from £174m to £211m.

Football League clubs' transfer activity

Football League clubs saw their combined gross transfer expenditure fall by 9% to £300m from the 2016/17 season figure of £328m. Championship club Aston Villa, who spent £88m

in 2016/17, spent only £2m in the 2017/18 season, which contributed to the overall reduction.

In the Championship, there was a clear disparity in expenditure between the eight clubs in receipt of Premier League parachute payments and those not, with clubs receiving said payments spending an average of £18m in 2017/18 compared with £9m by clubs who did not.

Reforms to the transfer system

Football's stakeholders are currently working together on major reforms to the player transfer system to increase its transparency, protect its integrity and reinforce solidarity mechanisms.

Proposed future changes include creating a clearing house for transfer money flows, introducing electronic transfer and registration systems at national level, a return to licensing of agents, capping agents' fees, restrictions on player loans, solidarity contributions to apply to domestic transfers with an 'international dimension', and introducing a luxury tax on 'excessive' transfer spending. This also presents an opportunity for FIFA to help the football sector to address financial crime risks which could result in both corporate and personal liability under a growing body of laws and regulations.

Investing in the future

Changes of ownership are more prevalent amongst English football clubs than in any other European market.

There have been over 50 changes of majority ownership amongst Premier League and Championship clubs since 2005. Contributing to this churn, English football attracts more foreign interest than elsewhere. At the end of the 2018/19 season around 60% of clubs in the top two divisions had a foreign owner.

The attraction for investors

The Premier League's multi-billion broadcast rights arrangements are a key driver for investors' interest. From 2019/20 these rights will generate around £3 billion per season for the Premier League. Not only do these rights deliver substantial and secure annual revenue for clubs, they also give access to a global television audience eager to watch the star clubs and players competing for ten months each year in what many consider to be "the world's most exciting league". For some owners, matches broadcast to one billion homes across 190 countries provides a global opportunity that can be exploited through new marketing and commercial arrangements. For others, owning such a trophy asset may provide them with useful media and business exposure, access

to important corporate, personal and political relationships, and excitement and emotional returns if on-pitch results go well.

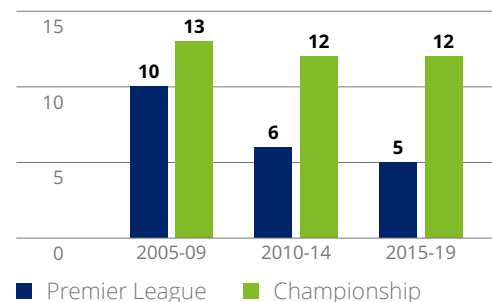
With all Premier League clubs ranking in the world's top 40 for club revenues, they are economically strong participants in the global transfer market to bring-in some of the world's top football stars and, at the top end, capable of competing strongly in UEFA club competitions as clearly demonstrated in the 2018/19 season.

Some investors target clubs lower down the pyramid, given football's deep history in communities across England and the prospect of promotion to the top division. However, whilst the initial cost of investment is much lower, owner injections can add up over seasons striving for promotion with no guarantee of success.

Evolving global investor interest

The transactions history and observed investor interest in English football has been, and continues to be, particularly strong from US-based investors, including those with existing ownership interests in sports teams. Chinese investment in European football was prevalent in 2016/17, including acquisitions of six English clubs. However, Chinese investor interest in football has diminished since efforts to curb capital flight from the country emerged in late 2016.

Changes of majority ownership of Premier League and Championship clubs



Note: Covers transactions in the period from 2005 to May 2019.

Source: Deloitte analysis.

Alongside the prospect of capital appreciation of football clubs' values, the remarkable turnaround in profitability of Premier League clubs since 2013/14, influenced by UEFA's cost control regulations as well as revenue growth, has also sparked greater interest from more profit-orientated investors. Nonetheless, the potential financial implications of a club's poor on-pitch performance, in particular relegation, remains an off-putting risk. In respect of other sports there is a growing attraction for investors to exert greater control of broadcast and commercial rights, for example in rugby, motorsports and tennis. So far, similar reported ideas in respect of European or World football have not come to fruition.

Making informed decisions

Based on the transaction history we have tracked and been involved in over the past 15 years, the enterprise value of Premier League and Championship club transactions (being the aggregate value of equity plus net debt, commonly used to describe the takeover value of a club) has typically been at a multiple of 1.4 to 1.8 times a club's annual revenue. In every case there are unique buy-side and sell-side circumstances in respect of each change of ownership and a consequent mix of economic and emotional drivers of enterprise value.

With sustained global interest from fans, broadcasters and commercial partners, there will continue to be significant investor interest in English clubs. Amidst the haste and high emotion of a transaction, we advise potential investors to understand the commercial realities of their proposed investment, ensure no unpleasant surprises, and have a clear funding and strategic plan for the club's future.

The Sports Business Group at Deloitte has been involved in around 100 Financial Advisory projects in the world of sport over the past 15 years.

Stadia

Total attendance for the Premier League and Football League clubs nudged up to 32.9m in 2018/19 following 32.8m in 2017/18 which was the highest total attendance across the four divisions in almost 60 years. However, the same cannot be said of each individual division. League 1 attendance grew by 11%, League 2 and Premier League attendance remained stable and Championship attendance fell by 2%.

Premier League clubs' attendances

For the 2018/19 season total attendance remained stable at 14.6m. Tottenham Hotspur's average attendance decreased compared with the previous season with the club moving to their new stadium later than expected, meaning they continued to play home matches at Wembley Stadium.

However, the extension to their deal with Wembley National Stadium Ltd meant that from 24 November 2018 they had to play most of their home domestic games at a reduced capacity of 51,000 (Wembley's full capacity is 90,000). The last five home Premier League games were played at their new stadium with a capacity of 62,062.

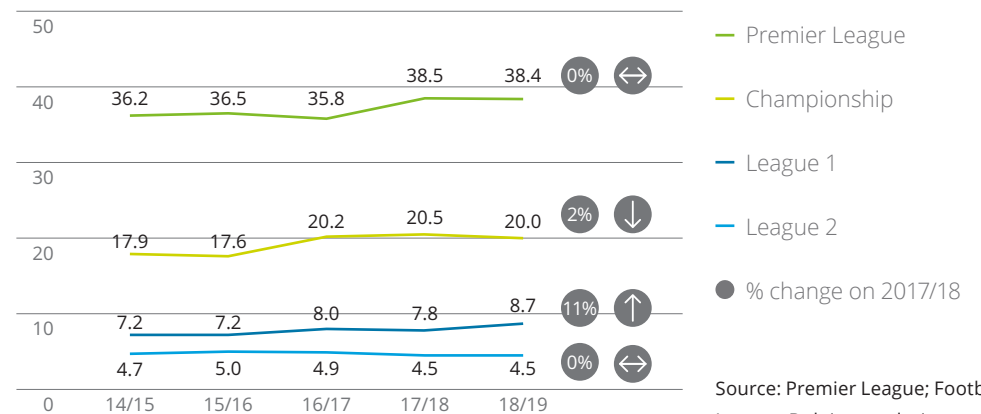
Six clubs (Manchester United, Arsenal, West Ham United, Tottenham Hotspur, Manchester City and Liverpool) each had a total attendance of over 1m across their 19 home Premier League games. Together their attendance represents 46% of total Premier League attendance. Despite finishing sixth and recording their lowest total attendance since 2005/06, Manchester United continue to outperform other clubs in terms of total attendance.

Of all 20 Premier League clubs, the three promoted clubs saw the greatest increases in average attendance: Cardiff City (up 56%), Fulham (up 18%) and Wolverhampton Wanderers (up 10%) showing the draw of the world's leading football league. Whilst overall attendance was slightly lower than the previous season, average stadium utilisation nudged slightly up 1% to 97%, resulting in an average matchday attendance of just over 38,000.

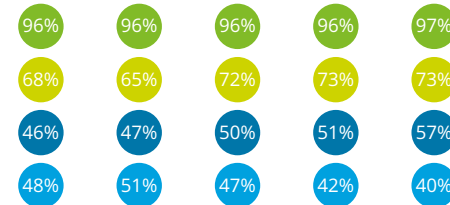
Championship clubs' attendances

Total attendance (excluding play-off matches) reduced by 2% to 11.1m in 2018/19 compared with the previous season resulting in an average attendance per game of 20,047. The main driver of this was the departure of Wolverhampton Wanderers (promoted) and Sunderland (relegated) at the end of the 2017/18 season with those teams having the third and fourth highest attendance respectively in the Championship in 2017/18.

Chart 18: Premier League and Football League clubs' average matchday attendances – 2013/14 to 2018/19 (000s)



Stadium utilisation



Average stadium utilisation was similar to 2017/18 (both 73%) although there was a significant range amongst the 24 clubs. In 2018/19 Hull City had the lowest stadium utilisation (45%) and Norwich City (Championship winners) achieved the highest with 95%.

Source: Premier League; Football League; Deloitte analysis.

League 1 and League 2 clubs' attendances

Total attendance in League 1 increased by 11% to 4.8m driven by the arrival of Sunderland, Barnsley and Coventry City all of whom were in the top five for attendance in League 1 in 2018/19. Sunderland achieved the highest aggregate attendance (739,605) averaging 32,157 per game. This was significantly greater than the next highest club Portsmouth who achieved an average attendance of 17,392.

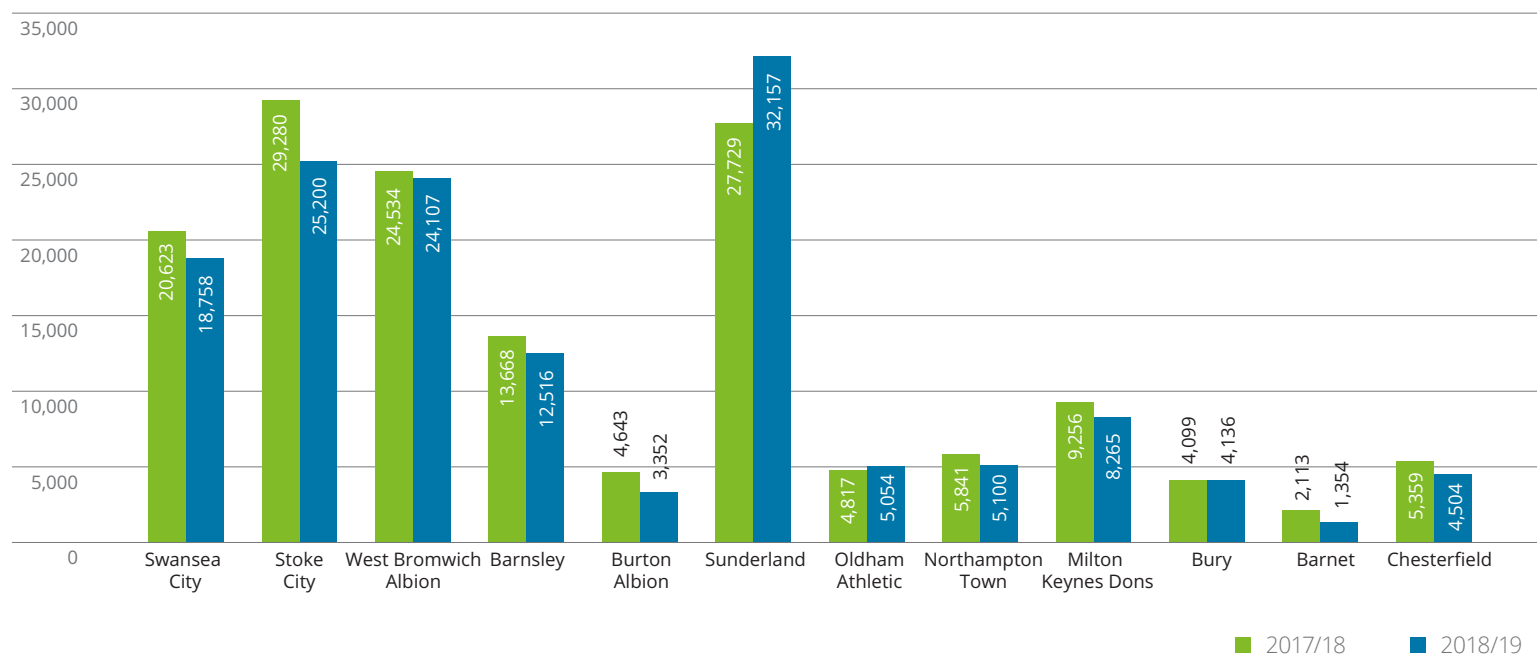
Total attendance in League 2 was 2.5m, remaining stable compared to the prior season. Whilst Coventry City (highest attendance in 2017/18) were promoted to League 1 for 2018/19, League 2 saw the arrival of Milton Keynes Dons (relegated from League 1) and Tranmere Rovers (promoted from National League) both of whom achieved strong attendances in 2018/19.

Stadium utilisation of League 1 and League 2 clubs was 57% and 40% respectively, significantly lower than the Championship (73%) and the Premier League (97%).

Impact of relegation

Of the clubs relegated at the end of the 2017/18 season, all bar three clubs (Sunderland, Oldham Athletic and Bury) recorded a fall in attendance the following season. Barnet FC (relegated from League 2) recorded the greatest proportionate fall in attendance (down 36%), closely followed by Burton Albion (relegated from the Championship) with a reduction in attendance of 28%. Sunderland's 16% increase in attendance following relegation due to their significantly improved results in 2018/19, finishing fifth after a number of difficult seasons.

Chart 19: Impact of relegation on attendances for Premier League and Football League clubs



European attendances

The Bundesliga achieved the highest attendance of the 'big five' European Leagues in 2018/19 with an average attendance of over 43,000, 13% higher than the Premier League. Borussia Dortmund had an average attendance of nearly 81,000, the highest of any of the clubs in the 'big five' European Leagues.

The other three 'big five' leagues had lower average attendances than the Bundesliga and the Premier League. Ligue 1 and La Liga attendances remained stable compared to the previous season at c.22,500 and c.27,000 respectively. Serie A average attendance increased, to over 25,000, a figure not achieved since 2003/04. Juventus experienced a 7%

Of the clubs relegated at the end of the 2017/18 season, all bar three clubs (Sunderland, Oldham Athletic and Bury) recorded a fall in attendance the following season.

Note: Clubs shown in order of finishing position in 2017/18.

Source: Premier League; Football League; Worldfootball.net; Deloitte analysis.

increase in average attendance, most likely due to the arrival of Cristiano Ronaldo, however, Fiorentina and Lazio recorded the greatest increases in attendance with both clubs recording over 120,000 more fans throughout.

Capital expenditure

A record £629m was spent by Premier League clubs on capital expenditure in 2017/18, a 59% increase on the amount spent in 2016/17. Unsurprisingly, Tottenham Hotspur led the way as they continued to invest heavily in the construction of their new stadium, which officially opened on 3 April 2019 in a Premier League match against Crystal Palace. Tottenham's expenditure of £514m represented 82% of the total capital expenditure across the Premier League clubs.

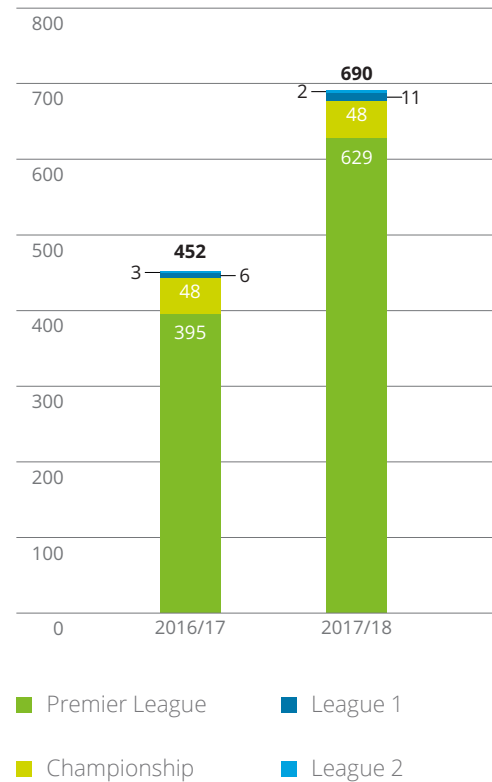
Unsurprisingly, Tottenham Hotspur led the way as they continued to invest heavily in the construction of their new stadium.

Excluding Tottenham Hotspur, capital spending for the other 19 Premier League clubs in 2017/18 was £115m, down 34% from £175m in 2016/17. Three other clubs spent more than £10m during 2017/18: Liverpool (£16m), Manchester City (£11m) and Manchester United (£11m).

Championship clubs spent £48m, a similar total to 2016/17. Construction of Brentford's new stadium commenced in April 2018 resulting in the club reporting the highest capital expenditure in the Championship (£10m). Fulham were the second highest spenders (£6m) as they continued to develop plans for the BBC sports ground (anticipated to be used as a satellite training ground for their U23 and U18 teams) purchased in June 2017 and for the redevelopment of the Riverside Stand at Craven Cottage.

League 1 clubs spent a combined £11m, up 84% on the previous year and League 2 clubs spent £2m, down on the previous year. Portsmouth were the biggest spenders in League 1, spending £3m including investment in the infrastructure at Fratton Park, the training ground facility at ROKO Health Club and investing in a new club shop and a large screen digital scoreboard. In League 2, Plymouth Argyle is re-developing its Archibald Leitch-style grandstand which is due to be completed by the end of 2019.

Chart 20: Premier League and Football League clubs' expenditure on stadia and other facilities – 2016/17 and 2017/18 (£m)



Source: Deloitte analysis.

Future capital expenditure

Given the significance of Tottenham Hotspur's new stadium to the overall capital expenditure figure it is expected that next season will see a reduction in overall capital expenditure by Premier League and Football League clubs.

However, there are a number of clubs undergoing or planning significant stadium or training ground projects. Construction of Liverpool's new training facility at Kirkby to co-locate the first team and academy (reported cost of £5m) commenced in September 2018 and is due to be completed for the start of the 2020/21 season. Crystal Palace are planning to build a new Main Stand at Selhurst Park which will see capacity increase from 26,000 to 34,000 at an expected cost of between £75m and £100m. Everton has acquired Bramley-Moore Dock (an iconic location on the banks of the River Mersey) and are intending to submit a planning application in the second half of 2019 to build a new stadium.

It is not only Premier League clubs planning significant stadia investment, Luton Town's plans for their new town centre stadium (reported capacity of 23,000) were approved in January 2019.

Stadium arcadium

Stadia of major clubs are significant revenue generating assets that can increase commercial and matchday revenue, if they adapt to evolving consumer demands and diversify activities.

They are visitor attractions, rather than simply existing to host football matches, catering for the needs of football and non-football fans through their facilities and all-year round events.

Transcending

Tottenham Hotspur's multi-purpose stadium was designed with a retractable pitch and NFL-sized dressing rooms, with a ten-year partnership with the NFL enabling the club to host a minimum of two matches per year. Deloitte's economic impact studies show that less frequent, marquee events held at football stadia such as NFL matches and major music concerts often generate greater expenditure per spectator than Premier League matches.

These events attract a different catchment of fans, often from further afield, who spend more than a typical Premier League season ticket holder. The pull of an iconic stadium enables a club to work with local tourism agencies to encourage longer stays and wider economic legacies. A recent Deloitte study found that 94% of attendees at Liverpool matches who originated from outside the local region said they would recommend others to visit, with more than a quarter of attendees likely to return to visit the city itself.

Higher ground

Tottenham Hotspurs' new stadium includes a 'Sky Walk' and its own microbrewery. These innovative features may help encourage tourists to include Tottenham on their London itinerary, generating commercial revenue on the 300+ non matchdays each year. Liverpool have recently adapted Anfield to allow for concert equipment to be transported in and out of the ground, whilst Schalke's Veltins Arena hosts the World Team Challenge, an annual biathlon competition, during the Bundesliga's winter break. These facilities and events attract a different profile of visitor and generate additional income for clubs.

Hard to concentrate

Clubs are concerned that younger audiences, more accustomed to smartphone, tablet and social media usage, are less likely to attend or watch a full football match than older generations. The competition for viewing time is not only with other football clubs, but with eSports, the internet and a myriad of other forms of entertainment. The expectations of younger generations are changing, and an enhanced broader matchday experience may be needed to attract them to, and engage them

at, the stadium. The Mercedes-Benz Stadium in Atlanta includes more than 2,200 HD TV screens to ensure every second of a game can be viewed when not seated, whilst free wi-fi throughout the stadium enables uninterrupted access to player stats, social media and internet browsing.

FC Barcelona announced their intention to become the world's first stadium with a dedicated 5G network. The speed, capacity, latency, and penetration of 5G should further redefine the fan experience, both inside and outside the stadium, with cameras able to capture 360-degree images from within team buses and dressing rooms, providing greater access to players and managers. Clubs will be able to create deeper personal connections with fans on a matchday, with associated commercial benefits from enhanced engagement and personalisation.

Mobile apps that interact with stadia can identify what is important to a visitor and improve the customer experience. Apps can deliver personalised content, for example, providing digital signage that directs fans to kiosks with shorter queues or gives real-time updates on available car parking. Through personalising and streamlining the matchday experience, clubs can learn more about their customer base, offering price promotions or product recommendations based on consumer habits.

Readymade

There are, however, substantial barriers to improving the matchday experience, increasing the number of events held and developing the stadium as a visitor attraction. Constructing or adapting ultra-modern stadia is costly. Some leading clubs have ageing facilities of variable quality, with limited capacity or are constrained by challenges involving transport or local residents. Planning permission will be required for stadium redevelopment and even to increase the number of events held. Some clubs do not own their stadium and clubs may not have the appropriate level of expertise and experience in-house. Clubs need to prioritise and plan, through calculating return on investment and identifying 'must-have' versus 'nice-to-have' (or even superfluous) features in terms of the fan and visitor experience.

The Sports Business Group at Deloitte work closely with clubs and stadium owners on solutions including stadium and event feasibility assessments, economic impact studies and stadium business plans. We conduct extensive market research with fans to understand perceptions, opportunities for product development, optimum product price points and assist with venue strategies.

Commercial reality

With domestic broadcast rights values across Europe’s ‘big five’ leagues looking unlikely to grow at a similar rate to that we have seen previously in the short-term, the emphasis is now on clubs to drive their own revenue growth predominantly from matchday and commercial sources.

Growth in matchday revenue is generally limited by the size and use of a club’s stadium. Therefore, the most likely source of revenue growth and differentiation for clubs is through the successful exploitation of commercial opportunities.

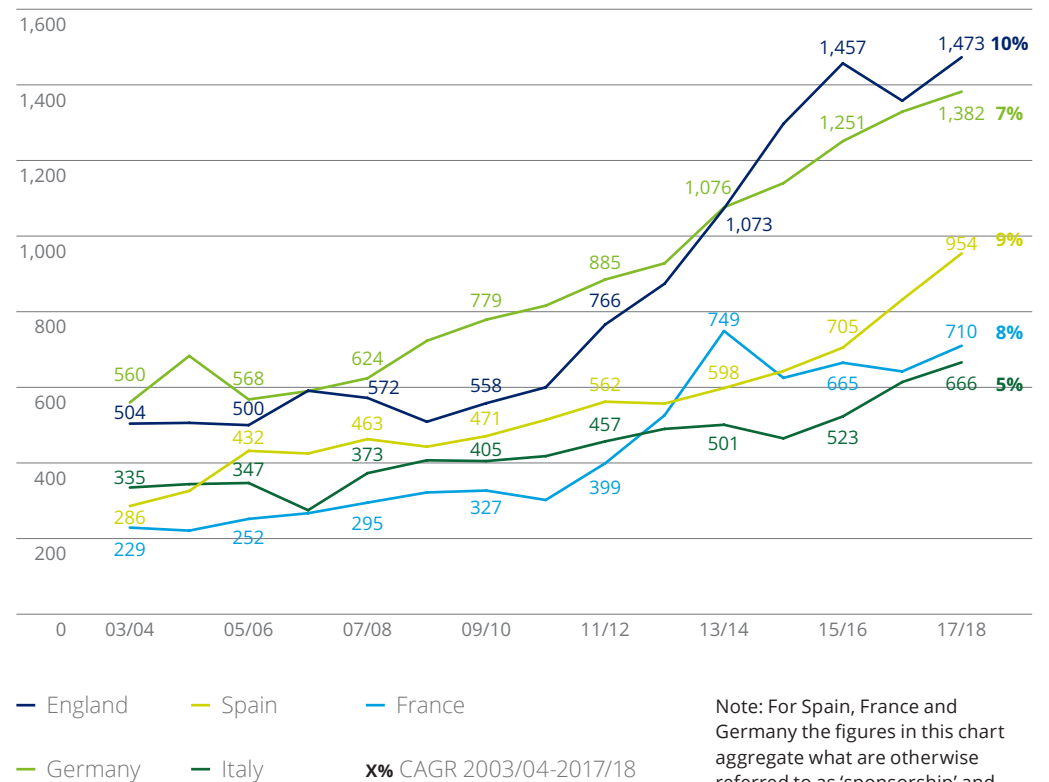
Commercial market dynamics

Commercial revenue growth across the ‘big five’ leagues has been considerable and consistent over the last 15 years. Commercial revenue is also now the primary source of revenue for the top six clubs in our Money League. Sport, and football in particular, retains an ability to drive an emotional connection with the public like few other genres or activities. Sponsorship of a football club, therefore, remains a highly attractive tool for potential partners to utilise in order to reach, connect and build affinity with target audiences.

As a result of an increasingly cluttered commercial market, potential partners are becoming more selective of the properties, and also the platforms and channels, which they use to reach audiences. In particular, the proliferation of digital channels and development of the use of social media has provided them with a growing number of options. However, the fragmentation of audiences across these platforms does create greater complexity for commercial partners in reaching target audiences.

Therefore, a club’s understanding of, and ability to engage, monetise and activate, its fanbase is critical to a successful commercial partnership and is a key factor in driving sponsorship rights value. As mentioned in last year’s edition, providing commercial partners with access to fan data such as age, gender, interest and purchase history is one way of opening the football market to a new group of sponsors and allowing for more valuable insights and meaningful relationships between parties.

‘Big five’ leagues’ commercial revenue 2003/04 to 2017/18 (€m)



Note: For Spain, France and Germany the figures in this chart aggregate what are otherwise referred to as ‘sponsorship’ and ‘commercial’ revenue streams.

Source: Deloitte analysis.



Additionally, recognising that a commercial partnership goes far beyond a monetary transaction and aligning a club's propositions with the needs and values of a potential partner is a fundamental part of a successful commercial strategy in such a competitive market. Brands are adopting increasingly sophisticated methods in order to seek return on their investment.

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Approach of football clubs

In recent years, many clubs have become more adaptive and responsive to the demands of the market and have broadened the horizons of their commercial strategy, particularly in respect of some of the following key market themes:

 **Innovation** – the creation of innovative partnerships, such as Paris Saint-Germain's co-branding initiative with Air Jordan, which has seen the iconic 'Jumpman' logo appear on a football shirt for the first time in 2018/19, can be a key driver of commercial revenue growth. For those clubs outside of Europe's elite, innovative arrangements can be key to delivering enhanced commercial growth and a source of differentiation in a heavily congested market.



Digital technology – linked to innovation above, continuing advancements of technology present many potential opportunities for clubs in opening up new markets and sponsors. Effective use of technology can also enhance the level of engagement with fans via social media and other digital platforms. For example, Bayern Munich's using augmented reality within the FC Bayern App, whilst the evolving market of esports can also expand the audiences and provide stronger activation for clubs and sponsors.



Globalisation – international markets remain a key source of growth for many of Europe's elite clubs. Many of these clubs have sought to capitalise on their international popularity and have prioritised building their presence in overseas markets, particularly in Asia and the United States.



Maximising value of existing partnerships – the ability to understand and adapt to the needs of existing commercial partners to provide greater value can be beneficial for clubs. Building on existing relationships and satisfying existing commercial partners may provide the best source of commercial growth upon contract renewals.



Maximising value of existing assets – understanding the catalogue of inventory available to package into propositions and partnerships, is key in managing and driving value across the overall portfolio. In particular, recognising the impact of high-profile players on a club's commercial profile has proved lucrative for a number of clubs in recent years, including Paris Saint-Germain (Mbappé and Neymar) and Juventus (Ronaldo).

With reference to the above market trends and dynamics, implementing a clear coherent long-term strategy is key for football clubs and sports rights holders alike.

The Sports Business Group at Deloitte are assisting various stakeholders in sport to deepen their understanding of the commercial sports market and develop their commercial strategies.

Basis of preparation

Sources of information

The financial results and financial position of English football clubs for 2017/18, and comparisons between them, has been based on figures extracted from the latest available company or group statutory financial statements in respect of each club – which were either sent to us by the club or obtained from Companies House. In general, if available to us, the figures are extracted from the annual financial statements of the legal entity registered in the United Kingdom which is at, or closest to, the ‘top’ of the ownership structure in respect of each club. The vast majority of English clubs have an annual financial reporting period ending in May, June or July.

The financial results and financial position of clubs in various non-English leagues, and comparisons between them, has been based on figures extracted from the company or group financial statements in respect of each club, or from information provided to us by national associations/leagues.

If financial statements were not available to us for all clubs in a division, then aggregate divisional totals have been estimated for all clubs for comparison purposes (from year to year or between divisions).

This publication contains a variety of information derived from publicly available or other direct sources, other than financial statements.

We have not performed any verification work or audited any of the financial information contained in the financial statements or other sources in respect of each club for the purpose of this publication.

Comparability

Clubs are not wholly consistent with each other in the way they record and classify financial transactions. In some cases we have made adjustments to a club's figures to enable, in our view, a more meaningful comparison of the football business on a club by club basis and over time. For example, where information was available to us, significant non-football activities or capital transactions have been excluded from revenue.

Some differences between clubs, or over time, may arise due to different commercial arrangements and how the transactions are recorded in the financial statements (for example, in respect of merchandising and hospitality arrangements), due to different financial reporting perimeters in respect of a club, and/or due to different ways in which accounting practice is applied such that the same type of transaction might be recorded in different ways.

Each club's financial information has been prepared on the basis of national accounting practices or International Financial Reporting Standards (“IFRS”).

The financial results of some clubs have changed, or may in the future change, due to the change in basis of accounting practice. In some cases these changes may be significant.

The number of clubs in the top division of each country can vary over time. In respect of the ‘big five’ leagues for 2017/18, each division had 20 clubs except for Germany (18 clubs).

The figures for some comparative years have been re-stated compared to previous editions of this report due to changes in estimates arising from additional information available to us and/or due to the actual restatement by clubs of their annual financial statements.

Financial projections

Our projected results are based on a combination of upcoming figures known to us (for example, central distributions to clubs) and other, in our view, reasonable assumptions.

In relation to estimates and projections actual results are likely to be different from those projected because events and circumstances frequently do not occur as expected, and those differences may be material. Deloitte can give no assurance as to whether, or how closely, the actual results ultimately achieved will correspond to those projected and no reliance should be placed on such projections.

Key terms

Revenue includes matchday, broadcast, sponsorship and commercial revenues. Revenue excludes player transfer fees, VAT and other sales related taxes.

Matchday revenue is largely derived from gate receipts (including general admission and premium tickets). Broadcast revenue includes distributions received from participation in domestic league and cups and from European club competitions. Unless sponsorship revenue is separately disclosed, commercial revenue includes sponsorship, merchandising and other commercial operations. Where identifiable from a club's disclosures, distributions received in respect of central commercial revenues are included in commercial revenue, or otherwise included in broadcast revenue.

Wage costs includes wages, salaries, signing-on fees, bonuses, termination payments, social security contributions and other employee benefit expenses. Unless otherwise stated, wage costs are the total for all employees (including, players, technical and administrative employees).

Operating profit/loss is the net of revenue less wage costs and other operating costs, excluding amortisation of player registrations and other intangible assets, profit/loss on player disposals, certain disclosed exceptional items, and finance income/costs.

Pre-tax profit/loss is the operating result plus/minus amortisation of player registrations and other intangible assets, profit/loss on player disposals, certain disclosed exceptional items, and finance income/costs.

Under UK GAAP and IFRS, the costs to a club of acquiring a player's registration from another club should be capitalised on the balance sheet within intangible fixed assets. Generally, the capitalised amount is subsequently amortised over the period of the respective player's contract with the club. The potential market value of ‘home-grown’ players is excluded from intangible fixed assets as there is no acquisition cost. Amortisation of player registrations is as disclosed in a club's accounts, increased by any provisions for impairment of the value of player's registrations.

Net debt/funds is as disclosed in financial statements (where shown) or is an aggregation of certain figures from the balance sheet. The net debt/funds figure in the financial statements has been adjusted in some cases to aid comparability, such as the inclusion of related party debt. Net debt/funds includes net cash/ bank borrowings, other loans, and soft loans.

Bank borrowings is debt advanced by lenders in the form of term loans, overdrafts or hybrid products, net of any positive cash balance. Other loans includes securitisation and player finance monies, bonds and convertible loan stock, intercompany loans and loans from related parties that are not otherwise soft loans. Soft loans includes amounts from related parties with no interest charged.

Exchange rates

For the purpose of the international analysis and comparisons we have converted the figures for 2017/18 into euros using the average exchange rate for the year ending 30 June 2018 (£1 = €1.13); for years prior to 2017/18 comparative figures as extracted from previous editions of this report; and the figures for years since 2017/18 converted into euros using the average exchange rate for the 10 months ending 30 April 2019 (£1 = €1.13).



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