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Reboot
Annual Review of Football Finance 2016

Sports Business Group
June 2016

As the Premier League looks forward to its 25th season, the Deloitte Annual Review of Football Finance has now completed its quarter century of documenting English professional football's business and commercial performance.

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Our 32 page Databook includes over 8,000 data items on the various topics covered in this report, prepared on the basis of our specialist and long-established methodologies.

Foreword

Welcome to the 25th edition of the Deloitte Annual Review of Football Finance, compiling our analysis and commentary on the recent financial developments within, and prospects for, the world's most popular sport.

This scepter'd isle

With the Annual Review of Football Finance completing its quarter century, and the Premier League set to embark on its 25th season, it seems natural to reflect on some of the changes we have chronicled since we first published this review in 1992. This has been a period of unprecedented change and development across the global game, perhaps felt most acutely within the Premier League.

In our first publication the combined revenues of the then English First Division were £170m in 1991/92. In 2014/15 the 20 Premier League clubs generated a combined revenue of £3.3 billion. There were six Premier League clubs in 2014/15 that each generated more revenue than the whole top division did in 1991/92.

This revenue growth has been of incredible pace; as recently as 2008/09 the total Premier League clubs' revenue was less than £2 billion. The £3 billion mark was passed in 2013/14 and Premier League clubs' aggregate revenue is likely to exceed £4 billion for the first time in 2016/17.

A constant theme throughout the 25 years we have monitored the game has been the key role football's symbiotic relationship with broadcasters has played in its financial development. The Premier League has epitomised this, with mutually beneficial relationships with broadcasters that have contributed to the stunning and continued escalation in broadcast rights values.

The 2016/17 season will see the start of a new three year cycle of broadcast rights for the Premier League, delivering significant revenue increases across the league and wider English football pyramid. Each Premier League match broadcast live in the UK will be worth £10.2m in domestic broadcast revenue. When we started our review the 22 First Division clubs combined generated a total of £15m in broadcast revenue across the whole season. Looked at another way, by half-time of the second Premier League game that is televised domestically in 2016/17, more broadcast revenue will have been generated than by all the First Division matches combined 25 years ago.

These changes have not been limited to purely financial or commercial areas but the nature of how and where fans interact with the game has changed markedly during the last 25 years. Matchday revenue in 1991/92 was the largest income source for Premier League clubs, by 2014/15 it had become the smallest, with broadcast being the clear dominant contributor. This has raised, and will continue to raise, a number of issues regarding ticket pricing and we have seen recent moves, both centrally and at individual clubs, to try to make certain ticket prices more affordable.

There is still significant debate over this topic and we would expect it to remain a key agenda item for the years to come. Clubs remain committed to developing their stadia and improving the matchday experience, with 2014/15 seeing a record level of capital expenditure by English clubs on infrastructure and facilities.

All the world's a stage

The last quarter century has also been a period of change in terms of club ownership, including the coming, and largely going, of stock market listings. One steady trend that continues in leagues across Europe is the increasingly international nature of European football club owners. Of the 20 Premier League clubs in the 2015/16 season, more than half, including the newly crowned champions, are either partly or wholly owned by overseas investors.

We remarked two years ago that China was yet to be represented in the ownership of a Premier League club, but expected that "situation to change soon". That changed in December 2015 with the acquisition of a minority stake in City Football Group by China Media Capital, one of many recent Chinese investments across European football. The volume of activity and interest from China in football has been one of the major stories of this year and is set to remain a key part of football's development in the years to come, with further football club acquisitions across Europe seemingly inevitable.

By half-time of the second Premier League game that is televised domestically in 2016/17, more broadcast revenue will have been generated than by all the First Division matches combined 25 years ago.

To thine ownself be true

The continued growth of the game globally is not without its challenges. As is the case with many sports, as the drive for commercial growth has continued football's financial progress has not always been matched with the requisite governance off the pitch.

This year has seen significant change at the highest levels of the game with the promise of a new era of governance. How immediate and effective these changes will be in terms of policy and culture remains to be seen, but football now has a chance for real, substantive and lasting improvement in terms of how it is governed. The game must seize this opportunity to add transparent, effective and professional governance to the plethora of other positive stories we have seen develop over the years.

There is precedent for effective change within the game, as we have seen with the introduction of financial fair play measures across Europe and domestically within leagues. These changes continue to contribute to improving the longer term financial sustainability of football.

Such stuff as dreams are made on

The focus of this review, on the finances of the 2014/15 season, helps highlight one of the most remarkable stories in the history of club football. In 2014/15 Leicester City had the 12th highest revenue in the Premier League, the third smallest wage bill and narrowly escaped relegation. Twelve months later they were crowned Premier League champions, only the sixth club to have achieved such status. While this is a remarkable achievement in itself it also serves to highlight a key element of the Premier League's appeal and growth, namely the ability of any team to beat any other. This story will only serve to inspire clubs throughout the league, and those in the Championship, that financial advantage does not, even in this commercial age, guarantee on-pitch success.

No other answer make but thanks

Finally, I would like to thank my colleagues, both past and present, as well as all those from the football community who have contributed to 25 years of this publication. We have greatly enjoyed charting this remarkable journey during that time and look forward to doing so for many more years, as the global game continues to grow.

We hope you enjoy this edition.

Dan Jones, Partner
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Economic impact study
Study regarding the economic impact of the NFL International Series on London and the UK.

Bid to host Rugby World Cup
Support to Ireland's bid to host the Rugby World Cup in 2023.

Tournament financial review
Financial review and benchmarking of the men's professional tennis tour tournaments.

Strategic Programme Management
Assistance to the British Olympic Association in its preparations for the Olympic Games in Rio 2016.

Economic impact study
Economic impact study of the Furusiyya FEI Nations Cup™ Jumping Final 2015 in Barcelona.

Impact assessment
Assessment of the impact of the inaugural European Games hosted by Baku in 2015.

Governance review
Assistance to the Saudi Pro League on a range of organisational and governance related matters.

Broadcast and commercial review
Review of the broadcast and commercial potential of the FA Cup.

Participation Strategy
Assessment of the current tennis facilities landscape in Great Britain.

Track Cycling strategic review
Review of track cycling.

Competition format
Financial modelling and risk assessment for the new international hockey calendar.

The leading team in football

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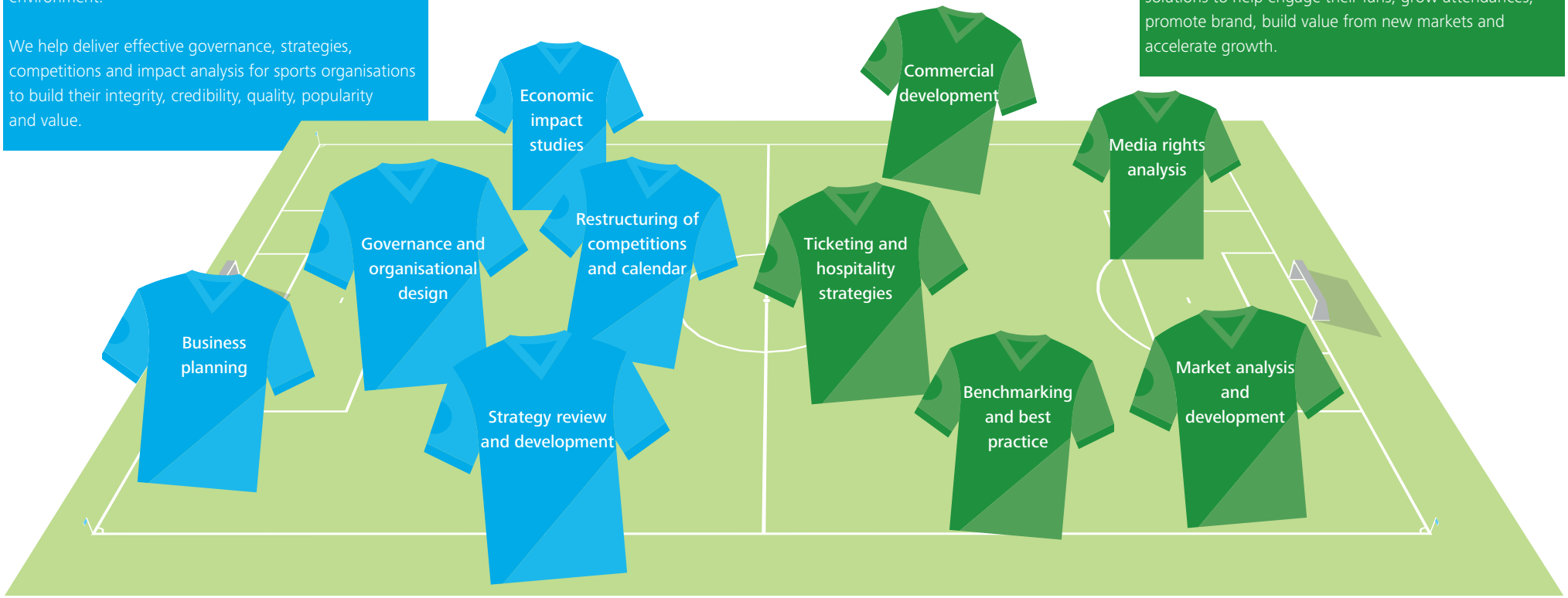

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Europe's premier leagues

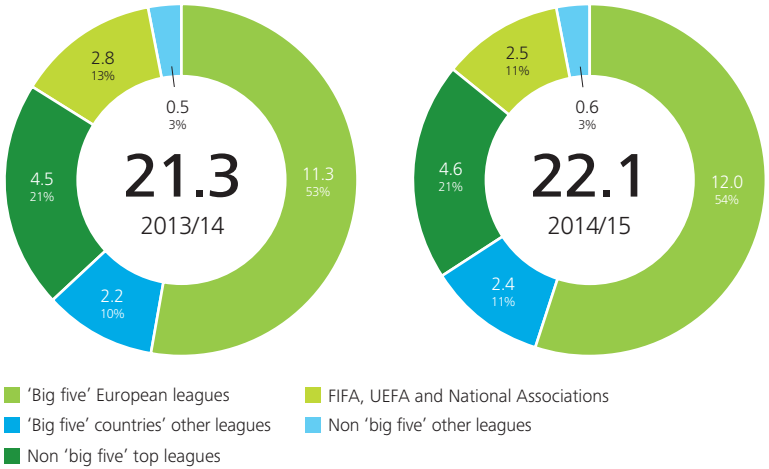
The 2014/15 season provided further evidence of the continued appetite of broadcasters and commercial partners for premium sports properties, and association with elite football clubs in particular, as the 'big five' European leagues drove European football market revenues beyond €22 billion.

European football market

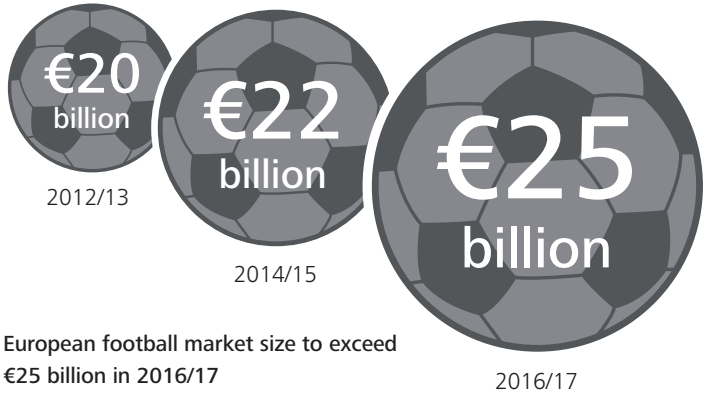
Cumulative revenues of the 'big five' European leagues grew to represent 54% (€12 billion) of the European football market, thanks to increased broadcast revenues and strong commercial growth from Spain's highest profile clubs, as well as new commercial deals for some of the largest Premier League clubs. Four of the 'big five' European leagues recorded positive revenue growth, with the notable exception being Ligue 1, due to a significant decline in commercial revenues following the non-renewal of Monaco's sponsorship agreement with AiM.

UEFA enjoyed a 21% increase in total revenues driven by the sale of broadcast rights to the European Qualifiers, which were marketed centrally for the first time in 2014/15. In contrast, FIFA revenues dropped, given the absence of revenues from marketing rights and hospitality associated with the 2014 World Cup tournament.

Chart 1: European football market size – 2013/14 and 2014/15 (€ billion)



Source: Leagues; UEFA; FIFA; Deloitte analysis



European football market size to exceed €25 billion in 2016/17

'Big five' European leagues

Broadcast revenues across the 'big five' European leagues increased by 8% in 2014/15, and at €5.8 billion represented 48% of total revenues. The Premier League now generates more than twice the broadcast revenues of the Italian top tier and three times that of the 18 Bundesliga 1 clubs.

Revenue from sponsorship and other commercial sources increased by 5% to reach €4.2 billion. The Premier League contributed €1.3 billion in commercial revenue and became the highest revenue generating league across all three revenue streams.

Future growth driven by the 'big five'

The 'big five' European leagues will continue to dominate the overall profile of European football in years to come: 2015/16 was the first year of a new collective broadcast rights deal in Spain and the start of a new Serie A broadcast rights cycle. In addition, a step-up in UEFA distributions will further assist those clubs participating in European competitions. These increases will be followed and over-taken by the record-breaking Premier League broadcast rights deals coming into effect in 2016/17.

The financial performance of each of the 'big five' European leagues in 2014/15 was heavily influenced by a small collection of globally pre-eminent clubs. These benefitted from additional revenues generated from participation in Europe's highest-profile club competitions, as well as from commercial partners who seek access to their global profile.

Commercial revenue growth

Premier League clubs' commercial revenues increased by 10% (£88m), which was the main driver behind total revenue growing to €4.4 billion.

La Liga's 8% (€45m) commercial revenue growth was largely due to a slate of new partnerships at Atlético de Madrid, Barcelona and Real Madrid, who together accounted for 86% of Spanish clubs' total commercial revenues in 2014/15.

In Germany, a 5% (€117m) increase in cumulative revenues was predominantly attributable to sponsorship and commercial partnerships, with revenue from this source representing 48% of total Bundesliga revenue. German football is interwoven with a strong association with corporate partners, and the last few years have seen commercial partners strengthen their relationships through the acquisition of equity interests in leading clubs.

Italy

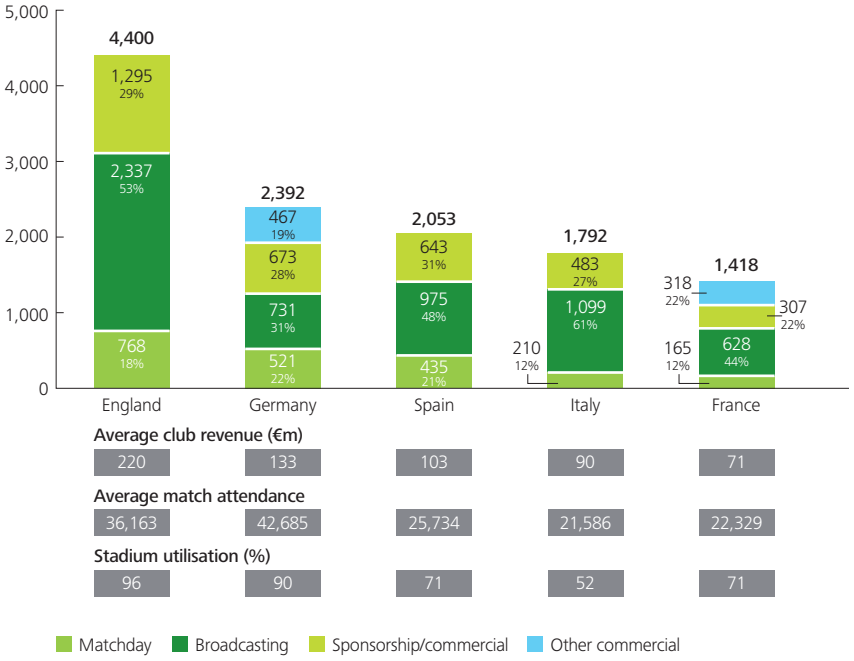
It was a similar story to 2013/14 in Italy, with the 5% (€92m) revenue growth recorded by Serie A masking significant changes in the financial performance of the highest profile clubs. Overall, the 'big six' Italian clubs of AC Milan, AS Roma, Fiorentina, Juventus, Internazionale and Napoli recorded total revenue growth of just €6m (7% of the total for Italian clubs). Within that, AS Roma and Juventus increased total revenues by a combined €98m, whilst AC Milan and Napoli had an aggregate decrease of a similar amount. This compared with €86m revenue growth across the other 14 clubs, largely driven by Lazio and Sassuolo.

France

In recent years the financial performance of Ligue 1 has been heavily influenced by the two highest revenue generating clubs; Paris Saint-Germain and AS Monaco. In 2014/15, Monaco's sponsorship revenue decreased by €124m, the same as the total commercial revenue movement recorded by the league as a whole.

PSG's revenue of €481m was over four times greater than Monaco's €117m, and more than the combined total of 14 other Ligue 1 clubs. Almost half of the aggregated revenues from sponsorship and other commercial sources were generated by PSG.

Chart 2: 'Big five' European league clubs' revenues – 2014/15 (€m)



More encouragingly, matchday revenues rose by €21m (15%) as a raft of stadia redevelopments were completed in the run up to UEFA Euro 2016, albeit PSG alone accounted for 47% of total matchday revenues across Ligue 1 clubs in 2014/15.

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

Source: Leagues; Deloitte analysis

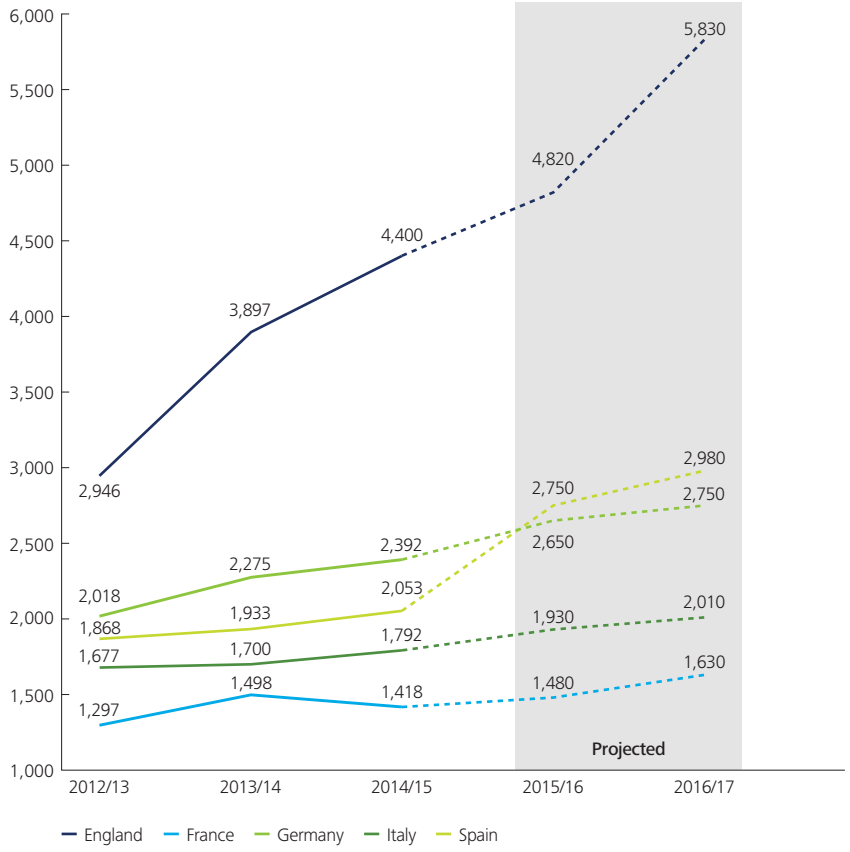
Collective revenues of the 'big five' European leagues are expected to exceed €15 billion in 2016/17, as new broadcast rights deals in each of the leagues come into effect across the 2015/16 and 2016/17 seasons. The greatest growth in 2015/16 will come from La Liga thanks to the move to collective selling, yet the Premier League's broadcast rights deals, worth almost £3 billion per season from 2016/17, will be worth more than the revenues from this source for the Bundesliga, La Liga and Serie A combined.

Germany

In the two years after 2014/15, Bundesliga clubs' aggregate revenues are expected to grow by 15% to over €2.7 billion, thanks to continued high demand from corporate partners, with at least half of the Bundesliga clubs having announced new major sponsorship deals which will come into effect in that period.

In contrast to the other 'big five' European leagues, broadcast rights will only contribute a small part to this increase, despite the new international broadcast rights deals beginning in 2015/16. The DFL has recently launched a tender covering the top two Bundesliga leagues' media rights for the four seasons from 2017/18, from which point sales cycles of both domestic and international rights will be aligned. A number of changes have been introduced, including a 'no single buyer rule' for domestic live rights and new game windows, with the reported objective of increasing the total revenue generated to €1.1 - €1.5 billion per season, almost double what is generated in the current cycle.

Chart 3: 'Big five' European league clubs' revenues – 2012/13 to 2016/17 (€m)



Note: For 2014/15, English Premier League clubs' revenues increased 3% in UK Sterling terms, compared to an increase of 13% as denominated in euros due to change in exchange rates.

Source: Leagues; Deloitte analysis

Spain

The move to collective selling of broadcast rights is expected to drive 45% growth in total La Liga revenues over the two years to 2016/17, surpassing the Bundesliga to become the second highest revenue generating league in the world. The one year transitional deals in 2015/16, followed by the introduction of a three year rights cycle from 2016/17 are expected to contribute over 70% to total revenue growth. From 2016/17 the combined rights are estimated to be worth €1.56 billion per season, double their value in 2014/15. It is hoped that the move to collective selling will improve the competitive balance within the league.

Italy

Serie A clubs' revenues are expected to increase by 12% (€218m) by 2016/17. Almost all of this growth is in 2015/16 due to new domestic and international media rights deals worth c.€180m more than under the previous agreement, partially offset by reduced revenues from 15 fewer games in European competitions in 2015/16. Broadcast revenues are expected to represent almost two thirds of total revenues.

France

A new three year deal for domestic broadcast rights starting in 2016/17 is the largest factor behind Ligue 1 clubs' projected 15% revenue growth between 2014/15 and 2016/17, with domestic rights being worth c.€120m more than under the present deal. French clubs are also expected to benefit from the legacy of hosting the UEFA EURO 2016 tournament in new and redeveloped stadia.

Aggregate wage expenditure of the 'big five' European leagues increased by 10% to surpass €7.4 billion in 2014/15. This increase resulted in the average wages/revenue ratio rising from 60% to 62%, still well below the 70% threshold that is used by UEFA to monitor clubs' financial sustainability.

England and Germany

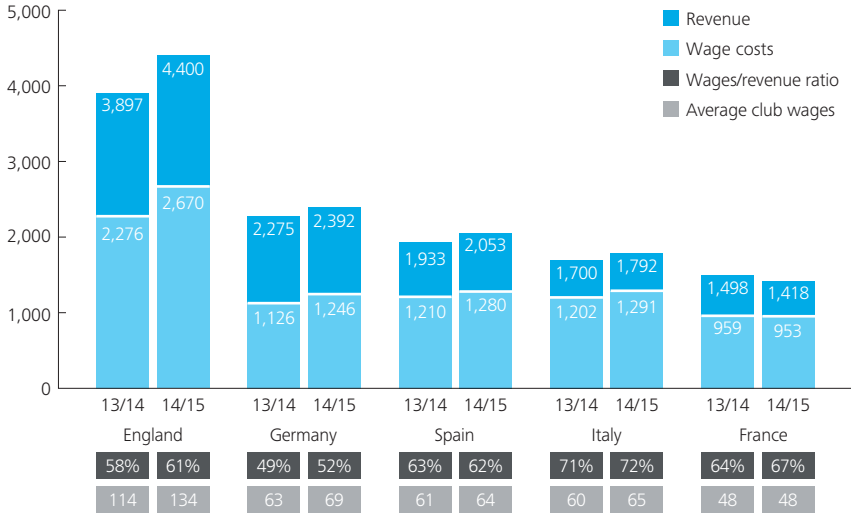
Premier League wages increased by 7% to £2 billion, more than the total spent by Bundesliga and La Liga clubs combined and a consequence of the significant revenue advantage that Premier League clubs enjoy over their European competitors.

An 11% (€120m) increase in Bundesliga wage costs saw the German clubs narrow the gap to Serie A in terms of total wage expenditure as all of the revenue increase went towards additional wage costs.

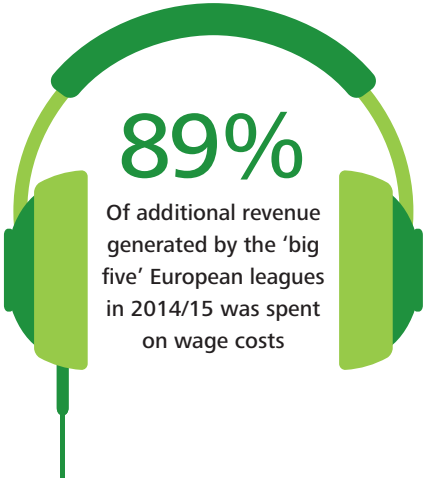
Spain

Total wages across the 20 La Liga clubs increased by 6% (€70m). This increase was entirely driven by the Spanish 'big two' of Barcelona and Real Madrid, who increased wages by a combined €112m and, together with Atlético de Madrid, represented 61% of total wage expenditure.

Chart 4: 'Big five' European league clubs' revenues and wage costs – 2013/14 and 2014/15 (€m)



Source: Leagues; Deloitte analysis



Italy

Almost all of the €92m increase in Serie A clubs' revenues went towards increased wage costs. This increase was driven by four clubs; AS Roma, Fiorentina and Juventus, who all significantly increased their wage expenditure in line with their participation in European competition, and Sassuolo, who invested heavily having narrowly avoided relegation in 2013/14. Of greater concern, ten clubs recorded a wages/revenue ratio above 75%.

France

In contrast to the other 'big five' European leagues, cumulative wage expenditure across the 20 Ligue 1 clubs dropped slightly, albeit the wages/revenue ratio rose to 67% as a result of the decline in aggregate revenues. PSG alone were responsible for over 25% of total wage expenditure, and the correlation between league position and wage cost rank rose to 0.89 in 2014/15, demonstrating a very strong relationship between on-pitch performance and wage expenditure.

Future wage growth

We anticipate further increases in wage costs in the coming years, as clubs in Italy, Germany and Spain (all 2015/16) and England and France (2016/17) will benefit from improved broadcast revenues. These increases are however likely to be tempered by domestic and European cost control regulations.

Whilst there is early evidence that financial regulations at both a European and domestic level are beginning to take effect, in 2014/15 two of the 'big five' European leagues still recorded an aggregate operating loss.

England and Germany

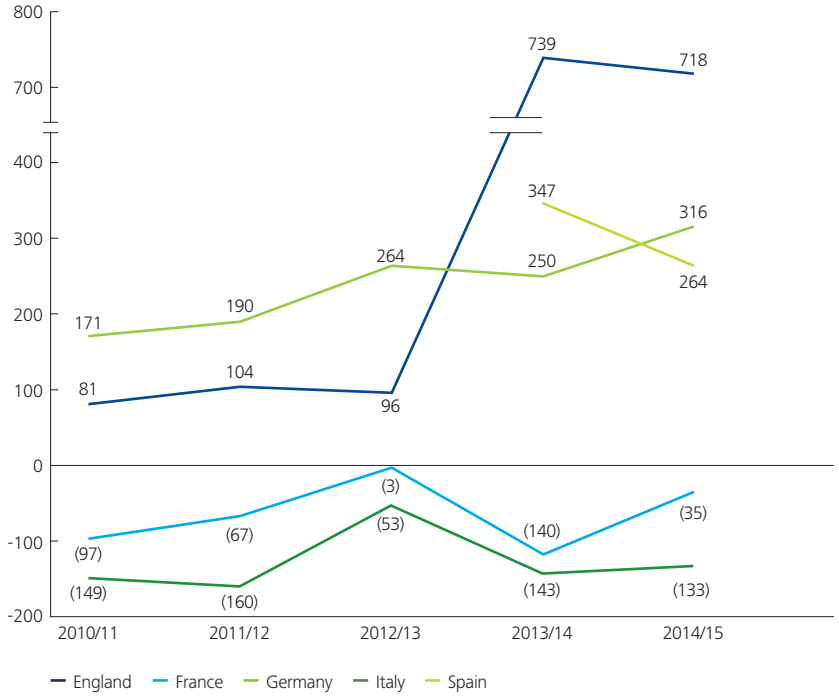
Whilst not reaching the record profitability levels of 2013/14, Premier League clubs' combined operating profits once again exceeded £500m, with 17 of the 20 clubs recording an operating profit.

Notwithstanding the increase in wage expenditure, Bundesliga clubs' financial prudence was once again evident, with operating profits rising by 26% (€66m) to a new record, and 11 of the 18 clubs recording an operating profit (albeit down from 13 in prior year).

Spain

As a demonstration of the improvement in financial transparency and cost control, we are able to show that La Liga clubs generated aggregate operating profits in both 2013/14 and 2014/15, albeit the 'big two' Spanish clubs together accounted for almost 80% of this in the latter season. In a further step towards increasing transparency, from 2016/17 the league has announced that it will introduce a rating system for clubs based on their financial performance.

Chart 5: 'Big five' European league clubs' profitability – 2010/11 to 2014/15 (€m)



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.

Aggregate operating results for Spanish clubs were not available prior to 2013/14.

Source: Leagues; Deloitte analysis

France

Despite the decline in cumulative revenues, lower costs (most notably the other expenses arising in 2013/14 relating to AS Monaco's contractual arrangement with AiM) and a collective effort to control expenditure saw Ligue 1 clubs significantly reduce operating losses, which fell by 75% (€105m). The remaining deficit is largely due to four clubs, all of whom had losses exceeding €10m.

Future profitability

Whilst historically this section has focused on the inability of the majority of European clubs to operate in a financially sustainable manner, the second consecutive year of profitability by Premier League clubs, coupled with the significant move towards profitability by French clubs, suggests that the application of financial regulations, particularly at a European level, are having an impact. Indeed, UEFA's latest benchmarking report found that combined net losses of European clubs have reduced by 70% since 2011 to €487m.

The new wave of broadcast rights deals due in each of the 'big five' European leagues over the 2015/16 to 2016/17 seasons provide the opportunity for there to be operating profitability in each of the 'big five' European leagues.

Given the smaller economic profile of the non 'big five' European leagues, competing in UEFA club competitions continues to have a greater impact on the financial performance of certain clubs, who in turn can have a significant impact on their domestic league's cumulative revenues.

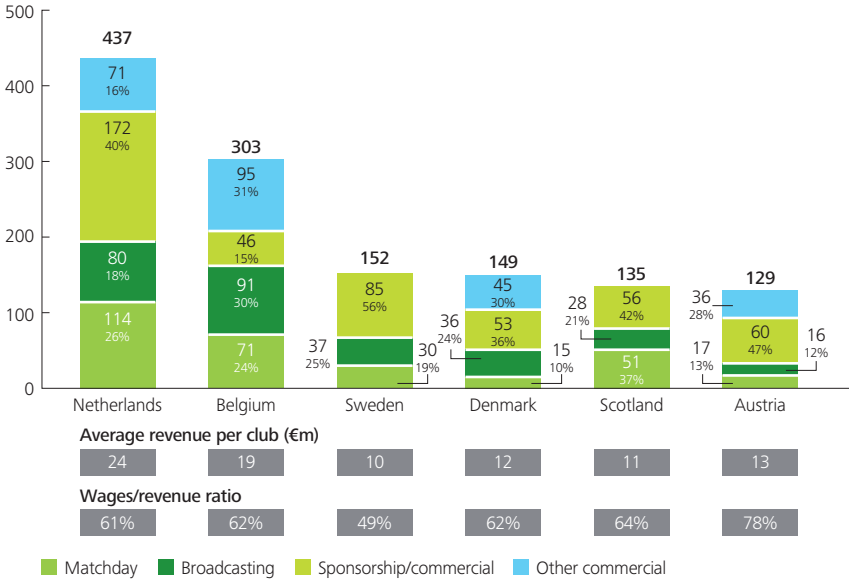
Scotland

Celtic's failure to qualify for the UEFA Champions League Group stages contributed to a fall in Scottish Premiership clubs' aggregate revenues of 9% (€13m). Despite this, Celtic represented 50% of total league revenues as they won the league for a fourth consecutive season. The new league format introduced in 2013/14 is proving attractive to partners, with 2014/15 marking the start of a nine year agreement with MP & Silva to market the international (non-EEA) rights to the SPFL, which is now shown in over 100 countries.

Sweden

Malmö's participation in the UEFA Champions League group stages was the largest contributory factor to the 14% (€19m) increase in revenues across the 16 Allsvenskan clubs. The club, who also participated in the group stages of the 2015/16 competition, accounted for over one-quarter of top tier Swedish club revenues, demonstrating the impact that consistent inclusion in Europe's premier continental club competition can have.

Chart 6: Other European league clubs' revenues – 2014/15 (€m)



Note: Figures in respect of clubs in Sweden relate to year to December 2014.

Source: Leagues; Deloitte analysis

Combined revenues generated by Russian Premier League clubs in 2014, the sixth highest in European football

Austria

Aggregate revenues across the ten Austrian Bundesliga clubs fell by 20% (€32m) in comparison with 2013/14, a season in which Austria Wien reached the UEFA Champions League Group stages. The absence of significant UEFA distributions was the largest contributor to this decline in revenues, which resulted in the wages/revenue ratio reaching 78%.

Future growth

The next two editions of this publication will reflect new broadcast rights deals in Austria, Denmark, Scotland and Sweden, all of which are likely to result in revenue increases, albeit at a much more modest rate than that of the 'big five' European leagues. In addition, the new UEFA broadcast rights cycle beginning in 2015/16 will mean that their member clubs' participation and performance in European competitions will have an increasingly significant role in the financial profile of these non 'big five' European leagues.

Encouragingly, with the exception of Austria, each of the non 'big five' European leagues profiled here recorded a wages/revenue ratio below 65%, providing more evidence that UEFA's Financial Fair Play regulations are having an impact across European football.

What's the big deal?

European club football's remarkable revenue growth is set to continue, and in some cases accelerate, over the next five years, fuelled by continuing increases in media rights fees for top-tier domestic leagues and UEFA's top club competitions.

Commentators have regularly questioned whether this media rights growth can continue, but again nearly every major domestic league's negotiations for the next rights cycle resulted in substantial revenue growth. What is as marked as overall media rights growth, is the difference in media rights revenues being generated by domestic leagues.

The Premier League enjoys a vast revenue advantage through its domestic rights deals led by Sky and BT which will deliver over double the value of the next highest generating leagues, Serie A and La Liga.

Even more than domestic rights though, it is the Premier League's earning potential through international markets which sets it apart.

Global dominance

The £1.1 billion per season that the Premier League will generate from international (non-UK) markets for the three seasons from 2016/17, makes the league comfortably the world's highest earning sports league from media rights in non-domestic markets. This is well over double the revenues generated by the next highest league, Spain's La Liga, which itself concluded vastly increased deals for the three seasons from 2015/16. The major US leagues don't come close in terms of media rights revenues from international (non-US) markets.

Regional gains

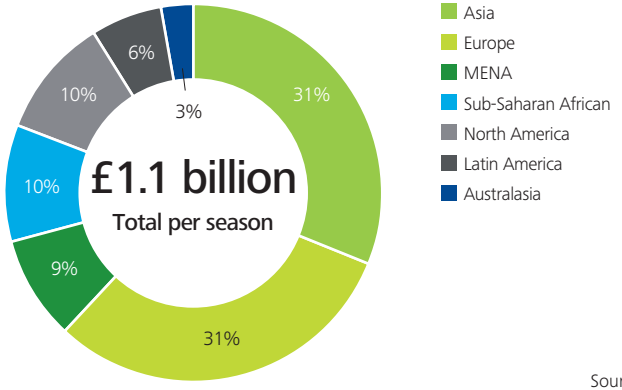
As interesting as the overall growth itself, is the regions which are driving this growth.

All regions delivered double digit revenue growth in the most recent negotiations. The Premier League's popularity in Asia remains huge, and the region continues to be a key market in contributing revenues. But whereas Asia fuelled overall rights fee growth in previous cycles, with growth from territories such as Singapore, Malaysia and Thailand, these markets have slowed somewhat, and – whilst they still remain core – another crop of markets are driving growth, some in Asia and some elsewhere.

Asia media revenues increased c.10%, whilst other regions enjoyed higher rates of growth. European revenues increased by c.75%, and now contribute a similar proportion of the PL's overall international media rights value to Asia, at around a third. Substantial increases were achieved in Scandinavia and France in particular.

Elsewhere, the US (NBC) and Sub-Saharan African (Supersport) license values grew rapidly, and are now amongst the top five licensees by revenue contribution, the former through a six year deal through to 2021/22.

Premier League international rights fees 2016/17 to 2018/19



Source: Deloitte analysis

Virtuous circle

Certain fundamentals remain key to the Premier League's global appeal, and underpin not only its media rights growth, but also the virtuous circle that maintains its advantage over other leagues.

The League is hugely competitive throughout the 20 clubs. Any club can beat any other, and does so regularly. This uncertainty of outcome drives value. This is highlighted by the 2015/16 season with Leicester crowned champions, whilst West Ham United and Southampton also threatened and outranked some of the established elite.

The Premier League does not have it all its own way. Its clubs have not enjoyed success in the Champions League in recent seasons, and at the top end are challenged by a small

handful of elite clubs for the truly top global talent, but the clear financial lead the Premier League clubs enjoy over continental rivals means that they compete for, and sign, top talent from all around the world.

The multinational nature of clubs' playing squads, and increasingly clubs' coaches, owners, sponsors and investors spurs the global interest, and audience, for the League.

With these fundamental pillars in place, and the virtuous circle existing, in many ways one could be tempted to say the competition could sell itself. However, the League is not complacent and promotes itself to international markets in many ways, including kick-off scheduling conducive to driving audiences in key markets and an effective rights sales process which aims to optimise value.

Premium competition

Established Pay-TV platforms in many markets remain aggressive in competing for, where possible exclusive, premium audience driving content. Whilst the rights fee outlay can't necessarily be refinanced through subscriptions and advertising for sports content alone, the fact that these operators are willing to fund the cost through other parts of their business, underlines the important of top-tier domestic league football to their business models.

In more recent years, telecommunication companies have identified top sports content as a means to drive their consumer platform offerings, and to retain their customer base, and emerged as competitors to established Pay platforms, driving rights fee growth to premium sports properties. The UK, France, Spain, Australia and Portugal are all examples of markets where such companies have competed strongly for premium sports content.

In certain markets, particularly with dominant single Pay operators and/or limited competition subscriber, OTT subscription services have also emerged to offer an alternative platform for broadcasting sports content.

New world order?

An open question remains – how might live premium sports content owners evolve their relationship with global media platforms such as YouTube, Twitter or Netflix? These corporations remain largely in the shadows in terms of acquiring premium live sports rights.

Continuing and growing appetite for live rights from established players keeps driving rights fees upwards. In such a climate rights owners may be less inclined to experiment and these major alternative new platforms less inclined to commit large amounts, despite having substantial resources, to acquire such content unless they can see a clear route to a return on investment.

However, partnership and experimentation will continue. The NFL will broadcast ten Thursday night matches per season through Twitter from 2016, which will be available worldwide. This is to a certain extent a financially derisked project as rights to the same ten matches have already been sold to established US networks NBC and CBS for

An open question remains – how might live premium sports content owners evolve their relationship with global media platforms such as YouTube, Twitter or Netflix?

$450m per season. Established rights owners and/or licencees have recently taken to supplementing coverage through their own broadcast platforms, with live coverage through YouTube, such as BT and BeIN Sport's coverage of the UEFA Champions League final.

Rights owners also continue to use such platforms to deliver non-live content including highlights, clips, features and archive in efforts to expand audience reach and interest.

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

Premier League clubs

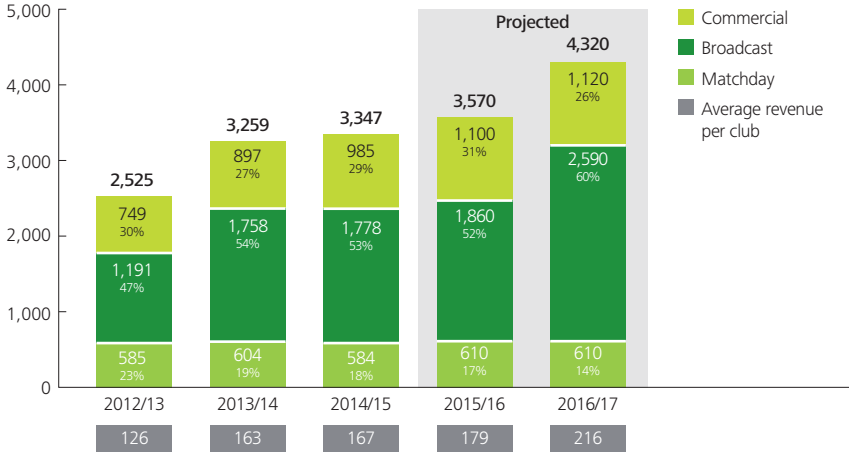
Premier League clubs' revenues rose by 3% to £3.3 billion in 2014/15, another new record continuing a sequence of growth every year since the competition began. The relatively modest increase was expected in the middle of the three year broadcast rights cycle.

Premier League clubs' revenues

An increase in commercial revenue was the key driver of growth, due to new sponsorship deals at some of the largest clubs. This continues the trend seen in recent years, of most commercial growth being attributable to the leading clubs who are able to offer sponsors a globally recognised brand and profile through which to access customers. These clubs have also pioneered new strategies, including segmenting the market by both product category and geography, in order to maximise commercial potential.

The average revenue of a Premier League club was up 65% compared to just five years ago (£102m in 2009/10), during which time commercial revenue has more than doubled. Over the same period, broadcast revenue has grown by 71%, thanks largely to BT Sport's entry into the domestic market in 2013, providing competition to BSkyB and consequent inflationary pressure on rights fees. Conversely, matchday revenue has grown by less than 10% during this period, and it is now at its lowest level (18%) as a proportion of overall revenue in the history of the Premier League. The consistently high capacity utilisation (96%) achieved across the division leaves limited room for growth in the absence of stadium redevelopments.

Chart 7: Premier League clubs' revenues – 2012/13 to 2016/17 (£m)



Source: Deloitte analysis

Impact of individual clubs

Of the 17 clubs that were in the Premier League in both 2013/14 and 2014/15, the two with the largest revenue movements in either direction were Liverpool (£42m increase) and Manchester United (£38m decrease), highlighting the importance of UEFA Champions League participation for both clubs. The North London duo of Arsenal and Tottenham Hotspur achieved the next largest revenue increases, mainly due to new commercial deals with Puma and AIA respectively, whilst there were four other clubs who suffered declines, albeit marginally, in revenue.

Future revenue growth

A combination of new commercial deals at several leading clubs – most notably the adidas kit manufacturer deal at Manchester United – as well as increased distributions for those clubs competing in Europe under a new UEFA broadcast rights cycle, is expected to deliver further revenue growth in 2015/16. More significantly, the start of the Premier League's next broadcast rights cycle in 2016/17, generating almost £3 billion per season (over 50% up on the previous deals), will drive another step change in clubs' revenues.

There is a significant variance in revenue levels between groups of clubs within the Premier League and whilst participation in the UEFA Champions League remains a key revenue differentiator, the importance of the UEFA Europa League is also growing.

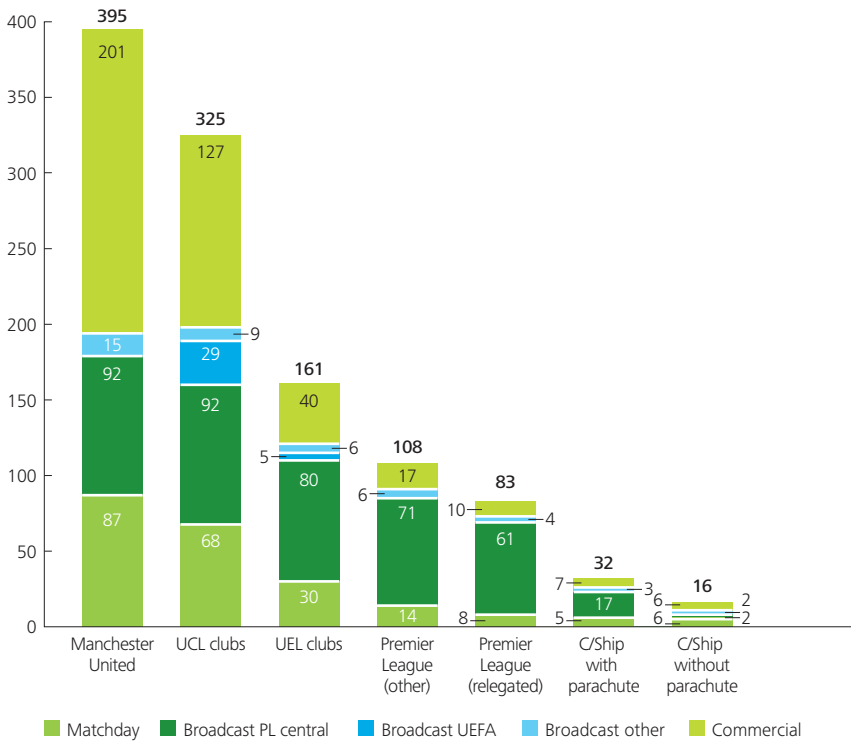
Premier League clubs' revenue levels

As well as the additional revenue generated through UEFA distributions and incremental gate receipts, the Champions League offers participating clubs increased exposure and global profile, which together enhance their attractiveness to sponsors. The four Champions League clubs plus Manchester United generated 72% of the division's commercial revenue. The fact that the latter remained the highest earning club, despite a lack of European football, is evidence of its particular strength in this area.

Despite offering lower financial rewards, the Europa League has recently taken on heightened significance due to the route it offers the winner to the Champions League, particularly with qualification via the Premier League becoming increasingly competitive. UEFA has also reduced the ratio between financial distributions for the two competitions from 2015/16, from 4.3:1 to 3.3:1.

Whilst there is a substantial revenue gap to the other Premier League clubs, these clubs still enjoy an advantage over their European peers, with all being amongst the top 40 revenue-generating clubs in the world. This revenue supremacy allows them to attract high quality players and drive the overall competitiveness of the division.

Chart 8: Premier League and Championship clubs' average revenues – 2014/15 (£m)



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

Source: Premier League; UEFA; Deloitte analysis

Parachute payments for relegated clubs

In the Championship, the average parachute payment for recipient clubs is greater than the average revenue of the other Championship clubs. The average revenue of Premier League clubs finishing in the relegation zone is over 5x that of these other Championship clubs, which is up from 4x just two years previously. This disparity in revenues demonstrates why the desire to reach the top division is so great, and goes some way to explaining the financial losses incurred in the Championship as outlined later in this section.

The value of future Champions League qualification

The traditionally strong correlation between the highest revenue-generating clubs and qualification for the Champions League has started to weaken in recent years, no more so than in 2015/16 with Leicester City and Tottenham Hotspur qualifying and Chelsea, Liverpool and Manchester United missing out. Such participation, coupled with the commencement of the Premier League's new broadcast cycle, is likely to see Leicester City's revenue rise to at least £175m in 2016/17, and could climb to over £200m depending on performances domestically and in Europe.

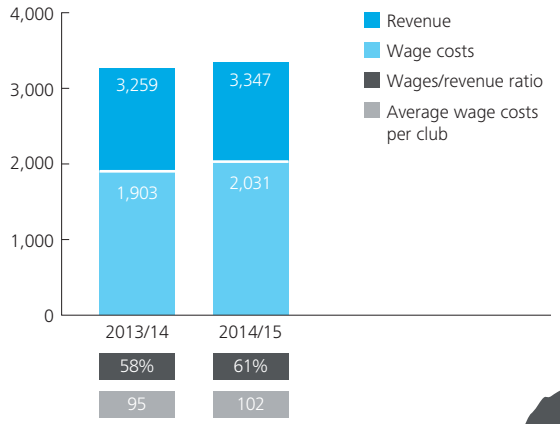
Premier League clubs' wage costs exceeded £2 billion for the first time in 2014/15, an increase of 7%. Despite this, cost control regulations at a domestic and European level continue to yield encouraging results, with clubs having a more sustainable balance between costs and revenues.

Premier League clubs' wage costs

In a return to the historical trend, wage costs grew at a faster rate than revenues in 2014/15. As a result, the division's wages/revenue ratio rose to 61%, although this represents the second lowest level since 2004/05 and is ten percentage points lower than in 2012/13.

This demonstrates the relative restraint in wage spending by clubs since the Premier League's Short Term Cost Control rules were introduced in 2013/14, as well as the continued application of UEFA's Financial Fair Play Regulations. In the last two years, only 30% of revenue increases have been consumed by wage growth, whereas in the five years to 2012/13 this figure was 99%.

Chart 9: Premier League clubs' revenues and wage costs – 2013/14 and 2014/15 (£m)



Source: Deloitte analysis

In the last two years, only 30% of revenue increases have been consumed by wage growth, whereas in the five years to 2012/13 this figure was 99%.

Impact of individual clubs

The 17 clubs present in both the 2013/14 and 2014/15 Premier League seasons increased wage costs by an average of £8m each. Arsenal (£26m) and Chelsea (£25m) had the largest increases. As a result, Chelsea overtook Manchester United, who, of the consistent clubs, were one of only three (along with Manchester City and Newcastle United) who reduced their wage bill in 2014/15, as the division's highest wage payers.

Crystal Palace had the largest increase in relative terms (49%) aside from promoted club Leicester City. Such wage inflation is a common feature of clubs in their second season in the Premier League following promotion from the Championship – as was the case with Crystal Palace – as they attempt to cement their status by offering existing players improved new deals and strengthening squads through recruitment.

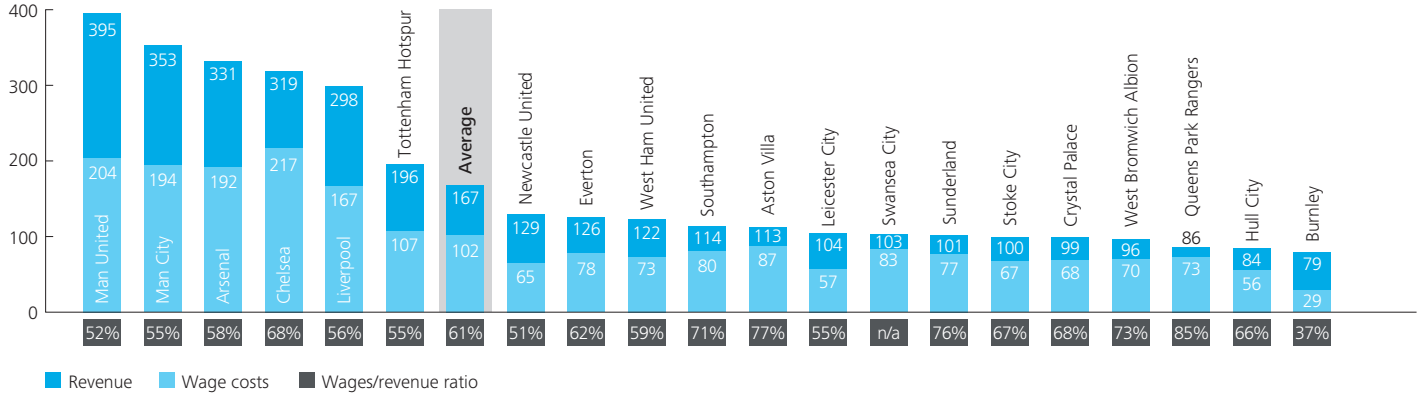
Six clubs had a wages/revenue ratio in excess of 70%, the indicative threshold level used by UEFA as part of their Financial Fair Play Regulations. Although this is an increase from two clubs in 2013/14, it is still a big reduction from the 11 which exceeded this level in 2012/13. Promoted club Burnley's wages/revenue ratio of 37% was the lowest in the Premier League since Manchester United recorded 33% in 1998/99.

Correlation between wage costs and league position

The Spearman's rank correlation coefficient, which measures the relationship between league position and total wage cost rank, was 0.74 in 2014/15, with ten clubs finishing within one place either side of where one would expect given their wage bill. This was up from 0.67 the previous season, and such a high coefficient indicates that wage spending has generally delivered on-pitch success. The most notable departures from this were Stoke City, who finished seven places higher than their wage cost rank of 16 and Aston Villa who finished ten places lower than their wage ranking of seventh.

Burnley had by far the lowest wage costs in the Premier League (only just over half the size of the next lowest, Hull City), an indication of the prudent approach adopted by the club's management upon their return to the Premier League. Whilst some will point out that such conservatism ultimately ended in failure in the form of relegation, Burnley were able to make the transition back to the Championship with relative ease, and subsequently regained promotion – as champions – at the first attempt.

Chart 10: Premier League clubs' revenue and wage costs – 2014/15 (£m)



Note: Swansea City figures are for a 14 month period to July 2015.

Source: Deloitte analysis

Five year wage costs to 2014/15 for Manchester City

£1 billion

and Manchester United

£0.9 billion

Future wages/revenue ratio

In the final year of the previous broadcast cycle, Premier League clubs' wage costs grew at twice the rate of the previous year as clubs spent in anticipation of the extra revenue from the upcoming deal. Whilst we do not expect such a high level of increase in 2015/16, there may be a further deterioration in the division's wages/revenue ratio. However, the agreement by Premier League clubs to continue the Short Term Cost Control rules into the new cycle, albeit under a slightly revised format, will help to restrict wage inflation and should lead to another marked improvement in the ratio in 2016/17, as seen three years previously.

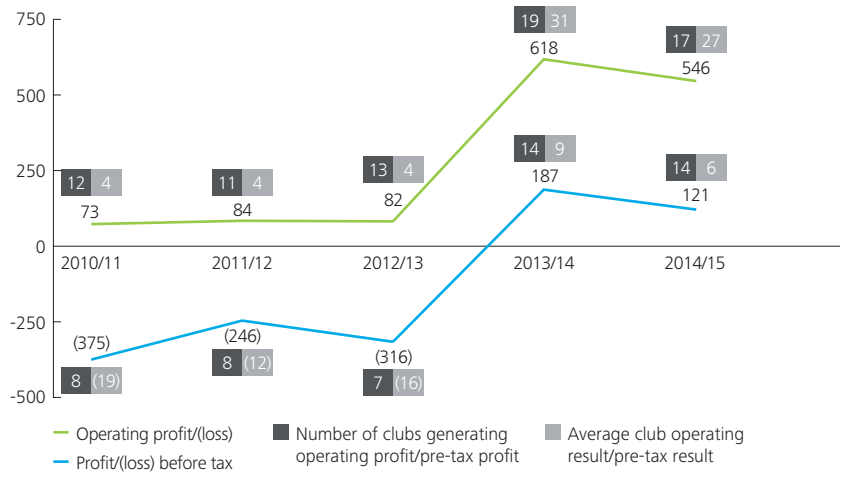
For the first time this century, Premier League clubs recorded a second consecutive year of aggregate pre-tax profits, generating £121m in 2014/15. Following the unprecedented transformation of financial results in 2013/14, and with the promise of significant broadcast revenue increases from 2016/17, the clubs appear to be grasping the opportunity to create a new era of ongoing profitability.

Premier League clubs' operating profits

Premier League clubs generated combined operating profits (which excludes player trading, net interest charges and the amortisation of player contracts) of £546m, the second highest ever. Despite being lower than the level achieved in 2013/14, the first year of the current broadcast rights cycle, it is almost seven times greater than the average of the five years to 2012/13.

In contrast to 2013/14, where every club bettered their result from the previous season, 11 clubs suffered a reduction in operating profitability in 2014/15. Despite this, 17 clubs recorded an operating profit, the largest being generated by Manchester United (£109m) followed by Manchester City (£74m). Chelsea suffered the most severe decrease in operating profitability – of £46m – which resulted in an operating loss of £5m.

Chart 11: Premier League clubs' profitability – 2010/11 to 2014/15 (£m)



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, which are included in the pre-tax result, along with other costs such as financing costs.

Source: Deloitte analysis

When the enhanced new broadcast deals commence in 2016/17, operating profits could rise as high as £1 billion.

Premier League clubs' pre-tax profits

At pre-tax level, which includes the impact of player trading and finance costs, profits were £121m. As with operating profits, this is the second highest ever following the previous season's record. The largest pre-tax profit was achieved by Liverpool (£49m), driven by a £54m net profit on player trading due to the sale of Luis Suarez to Barcelona. Six clubs recorded pre-tax losses, the highest being Queens Park Rangers (£46m).

Future investor interest

In the decade to the 2012/13 season, Premier League clubs had accumulated combined pre-tax losses of over £2.5 billion, with ever-increasing revenues being consumed by wage inflation. However, the substantial revenue injection brought about by the last broadcast deal, coupled with the continued application of financial regulations, have been the catalyst for a long awaited improvement in the financial balance of Premier League clubs. Clubs will be presented with another golden opportunity to increase profitability even further when the enhanced new broadcast deals commence in 2016/17, which could see operating profits rise as high as £1 billion.

This new era of sustained profitability is inspiring a new wave of investor interest, with clubs viewed as genuine business propositions capable of generating consistent profits rather than merely as prestigious 'trophy assets'.

Net debt for Premier League clubs stood at £2.4 billion at the end of the 2014/15 season, unchanged on the previous year. Most clubs recorded increases in their cash reserves following a second year of profitability, however, whilst some clubs have improved their debt position, other clubs have offset the cash increase with further soft loans.

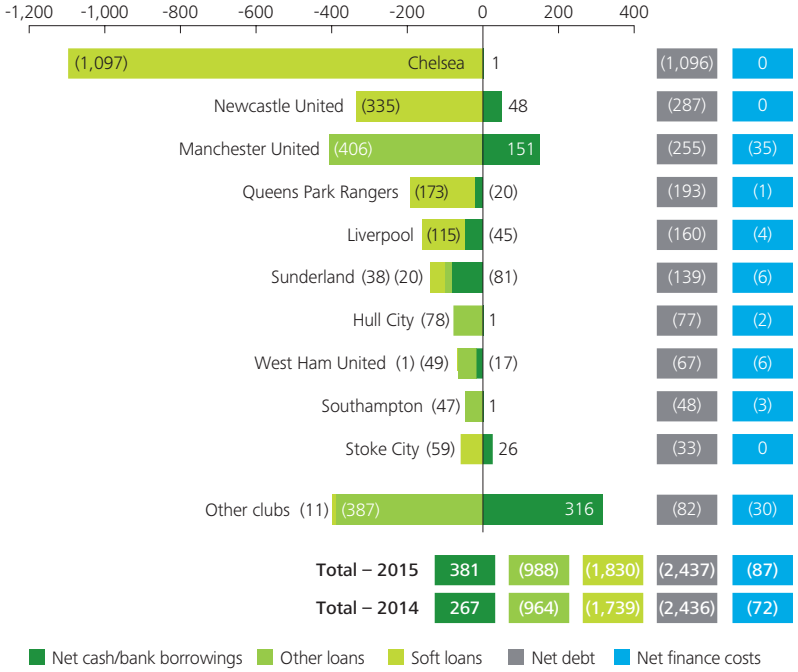
Premier League clubs' net debt

Soft loans – clubs' borrowings typically from their owners on interest-free terms – increased in 2014/15 by £91m (5%), and still remains by far the largest component of clubs' net debt, accounting for 75% of the total. Excluding soft loans, net debt in 2014/15 is £607m, down from £697m in the previous year.

Other loans – being borrowings from financial institutions, other parties and interest-bearing owner loans – have remained broadly constant, albeit beneath the headline number, a decrease of £100m as a result of club mix (Fulham had other loans totalling £103m) has been offset by increases at a number of clubs, most notably Manchester United (£70m) and Sunderland (£20m).

The net finance costs for Premier League clubs have increased year on year from £72m to £87m. However, net finance costs were covered over six times by aggregate operating profits.

Chart 12: Premier League clubs' net debt – 2015 (£m)



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

Individual club analysis

Eleven of the 20 clubs in the Premier League improved their net debt/funds position in 2014/15. The largest reduction was from Aston Villa, by £75m to £31m, following an £85m conversion of parent undertaking borrowings to equity.

The top ten most indebted clubs accounted for 97% of the overall net debt in the league. Chelsea, Manchester United and Newcastle United 's combined net debt of £1.6 billion accounted for two thirds of the overall total.

Burnley, Crystal Palace, Manchester City and West Bromwich Albion were the only four clubs in the Premier League in a net funds position at the end of the 2014/15 season. Manchester City recorded a £54m increase in cash reserves, driven by a cash injection from an £84m share issue in the year, which pushed them into a net funds position.

Future financing trends

Increasingly, club owners have been making debt-to-equity conversions to improve net debt positions and using soft loans to invest funds. After the preferred choice of investing via equity, these actions are the next best options for the game and with the next broadcast deals coming into effect in the 2016/17 season, we would expect the trend of reducing net debt (excluding soft loans) to continue.

Great call of China

One of the most notable developments in global football in the last 12 months has been a marked increase in the level of interest of Chinese stakeholders in the game.

This has been driven in large part by the Chinese Government's explicit commitment to football. Xi Jinping, the Chinese President, is an ardent football fan and the launch of a 50 point plan for the development of Chinese football has accelerated domestic interest in the game, with one of the stated long term aims being hosting a FIFA World Cup.

This commitment to football has also triggered investment of c.£200m in playing talent by Chinese Super League Clubs in the 2016 winter transfer window, highlighting the scale of intent of CSL owners to develop the domestic league.

Club football elsewhere is also feeling the effects of increased Chinese interest. While the ownership of Premier League clubs by overseas investors is not new, indeed not since 2003/04 has the title been won by a club with domestic ownership, investors from the world's most populous nation have been conspicuous by their absence. This has changed with China Media Capital's acquisition of a minority stake in City Football Group in 2015. Recently relegated Aston Villa announced their sale to China's Recon Group in May 2016. These follow several others recent investments in European football.

The ownership of a successful European club has long been seen by many as a global trophy asset, providing owners with an enhanced business profile and access to important relationships. This, considered with the additional political goodwill towards football within China, will no doubt further increase the attractiveness of Europe's clubs to Chinese investors.

Where these attentions will be focussed will undoubtedly be influenced by the continued financial health of the Premier League. With the announcement of a second consecutive year of pre-tax profitability in 2014/15 and a further 50% increase in the value of Premier League broadcast rights for the 2016/17 to 2018/19 cycle, the English top flight is clearly appealing. Equally, Championship clubs aspiring to promotion may also be an attractive investment prospect.

An investment in a club can be aligned with the growth of the sport as a whole in China via the sharing of knowledge, expertise and best practice.

Population of China relative to the combined total of those countries who have previously won the FIFA World Cup

Note: Each figure represents 100m people.

Source: The Economist Intelligence Unit; The Office of National Statistics

The Premier League also has an appeal within China that would allow investors to leverage their overseas investment domestically. An investment in a club can be aligned with the growth of the sport as a whole in China via the sharing of knowledge, expertise and best practice as well as obvious commercial opportunities.

However, any investment must be treated with due caution and rigour, as there are numerous examples of unexpected and unwanted risks in the aftermath of a change of ownership. Robust diligence and planning should be a critical part of any acquisition.

Deloitte regularly advises clients in respect of their interest in investing in European club football.

Giving back to the community

Engaging locally, inspiring globally

An often unheralded aspect of Premier League clubs is the off-pitch impact they make within their local communities. Supported by the Premier League, clubs (or the charity associated with a club) are more often than not the hubs at the heart of their communities; forging effective partnerships that support the delivery of a wide range of activities, including for the most vulnerable people in society. The work of clubs in their communities tends to focus on three main areas:

Investing in Facilities and Grassroots – from providing playing kit for school teams, to state-of-the-art changing facilities and 3G artificial grass pitches in high need areas, where the community will benefit the most.

Inspiring Sports Participation – funding a range of football and other sports participation programmes, designed to encourage people to get active and develop a sporting habit for life.

Supporting Education and Skills – using the popularity of the professional game to motivate young people to maximise their potential, and providing them with educational opportunities.

The uplift in the new Premier League broadcast deals from 2016/17 will give rise to an extremely significant growth in financial distributions to clubs to invest in community work, and as a result, additional scrutiny of how funds are allocated and distributed.

People played sport at Premier League community funded sites in 2014/15

Young people on Premier League funded projects in 2014/15

Schools with Premier League sport and education programmes in 2014/15

Artificial grass pitches funded via the Football Foundation in 2014/15

Premier League, Football League and Conference clubs supported through Premier League community

Source: Premier League

Amid such increasing scrutiny, there is an onus on Premier League clubs to apply rigorous governance to their community work, where the reputation of both the clubs and the Premier League itself are displayed widely throughout communities. Whilst the quality and impact of the community work enabled by Premier League clubs is unquestionable, there also needs to be the same quality in terms of professionalism and governance practices of those community schemes.

The high standards that clubs, their community organisations and the Premier League pride themselves on will need to be retained through future work, with best practice governance and operations allowing community organisations to embed quality and provide services with a greater depth and impact than ever before.

Deloitte have assisted Everton in the Community with developing their organisational structure and quality framework. We have also provided advisory services to Vi-Ability, a Social Enterprise that helps communities to develop thriving and financially stable sports clubs through the provision of education programmes.

The Premier League supports its 20 clubs, the 72 Football League and 69 National League clubs' community programmes.

Football League clubs

Championship clubs generated combined revenues of £548m in 2014/15, 12% up on the previous year and a new record. The division's revenue continues to be heavily influenced by parachute payments and solidarity distributions from the Premier League.

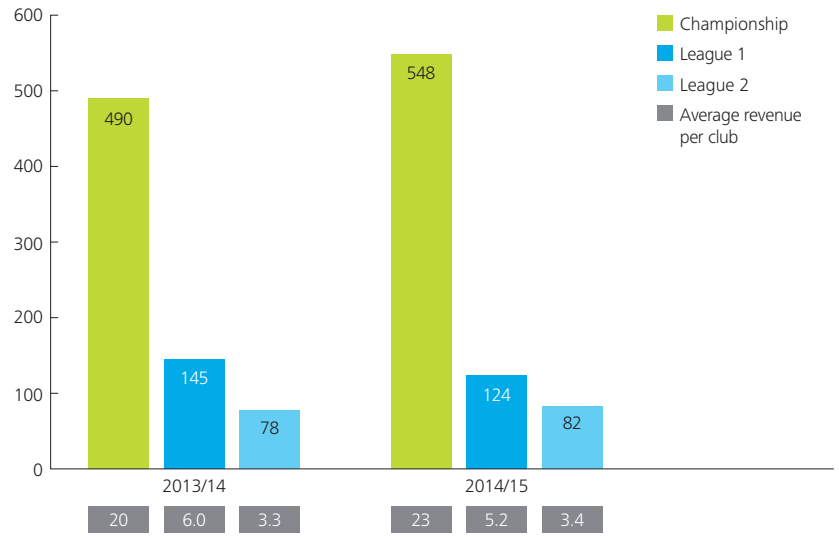
Championship clubs' revenues

A change in composition of clubs in the division – and the resulting impact of parachute payments – drove the revenue uplift. The number of Championship clubs receiving parachute payments increased from eight to ten, which led to a £26m increase in these amounts (to £166m). Larger matchday and commercial revenues at the six clubs who replaced those promoted and relegated from the Championship in 2013/14 also contributed to the uplift.

Across the ten clubs in receipt of parachute payments (ranging from c.£10m – £25m each), these amounts comprised over half of their combined total revenue. However, their revenue advantage did not manifest itself on the pitch in 2014/15, with only one of the top six places taken by a parachute-recipient club and five finishing in the bottom eight, including two clubs that were relegated.

Including solidarity payments, distributions from the Premier League account for almost £200m (36%) of total Championship clubs' revenue.

Chart 13: Football League clubs' revenues – 2013/14 and 2014/15 (£m)



Source: Deloitte analysis

Future incremental revenue for a non-parachute club promoted from the Championship in 2015/16

League 1 and League 2 clubs' revenues

A 14% fall in League 1 revenues was primarily due to the absence of Wolverhampton Wanderers, whose revenue comprised 22% of the division's total in the previous season. The 17 clubs present in League 1 in both 2013/14 and 2014/15 grew combined revenues by 6%. League 2 clubs' revenues were 5% higher than in 2013/14.

The impact of future parachute payments

Despite the theory that increased revenue from parachute payments should lead to an on-pitch advantage, historically this has not been the case. Of the 15 clubs relegated from the Premier League in the five seasons to 2013/14, only three gained promotion back to the top flight within two seasons.

Changes are being made to the parachute payment system from 2016/17, such that clubs relegated in 2015/16 (and onwards) will receive payments for three seasons following relegation, unless they have only been in the Premier League for one season, in which case they will receive two years of parachute payments. However, the quantum is increasing due to the new broadcast deals, and relegated clubs can now expect to receive parachute payments of up to c.£90m over three seasons compared to the current c.£65m over four seasons.

Given this significant increase from 2016/17, it remains to be seen whether more clubs in receipt of them will be consistently finishing in the promotion places.

Championship clubs' wage costs rose by 4% to £541m in 2014/15. Despite a reduction in the overall wages/revenue ratio, clubs spent almost as much on wages as they generated in revenue, which remains an unsustainable level of spending without the support of owner funding.

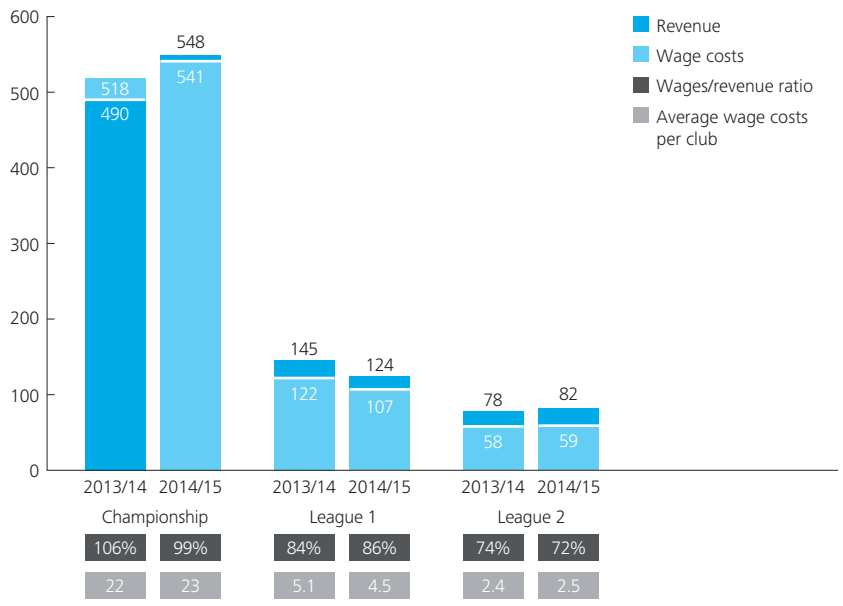
Championship clubs' wage costs

The aggregate wage costs of Championship clubs dropped below total revenue such that the wages/revenue ratio reduced to 99%, following two seasons in which it exceeded 100%. However, this still represents the fourth highest ratio ever.

Wage costs were greater than total revenue at nine clubs, with AFC Bournemouth (234%), Nottingham Forest (186%) and Brentford (164%) having the largest wages/revenue ratios. Only two clubs reported a ratio below 70%. Such a level of spending provides an indication of the desire for clubs to gamble on achieving promotion to the Premier League, as the financial rewards for reaching the top division are greater than ever. It also reveals why Championship clubs are so reliant on owner support, and are left vulnerable should that support no longer be available.

The average Championship club wage cost was £23m, with the three clubs relegated from the Premier League the previous season – Cardiff City, Fulham and Norwich City – the highest spenders. All three received £25m in parachute payments.

Chart 14: Football League clubs' revenues and wage costs – 2013/14 and 2014/15 (£m)



Source: Deloitte analysis

Correlation between wage costs and league position

There has traditionally been a weaker correlation between league position and wage cost rank in the Championship compared with the Premier League, and this was again evident in 2014/15, although notable for how much weaker the correlation was. Its Spearman's rank correlation coefficient was 0.24, considerably lower than the 0.74 in the Premier League. Only two of the eight highest wage payers finished in the top third of the division, with four of them finishing in the bottom third. This demonstrates the opportunity that exists for Championship clubs to achieve success without necessarily incurring the highest wage costs, which perhaps offers hope for restraint in future spending within the division.

League 1 and League 2 clubs' wage costs

Despite a 12% fall in League 1 clubs' wage costs in 2014/15, the division's wages/revenue ratio increased to 86%, the previous season's results having been skewed by Wolverhampton Wanderers. League 2 clubs' wage costs marginally increased in 2014/15, but the division's wages/revenue ratio remained below 75% for the 14th consecutive season, aided by the continued application of the Salary Cost Management Protocol regulations.

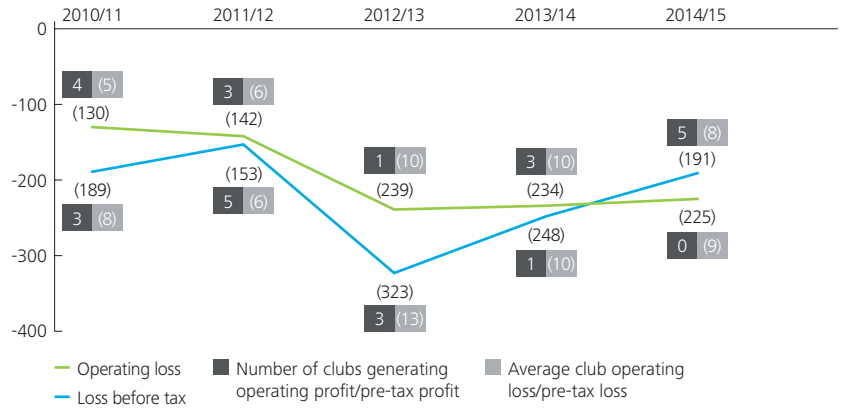
Championship clubs suffered total pre-tax losses of £191m in 2014/15. This represented a 23% improvement compared with 2013/14, largely due to significant profits from the sale of player registrations.

Championship clubs' losses

Up until 2012/13, Championship clubs had suffered a general trend of increasing losses at both operating and pre-tax level for over a decade, commonly due to its clubs either having difficulty in adjusting to the impact of relegation from the Premier League or pushing their financial limits in their attempts to gain promotion. Cumulative pre-tax losses exceeded £1.2 billion in the ten seasons to 2012/13.

In the past two seasons, the scale of pre-tax losses has reduced significantly compared to aggregate loss of £323m in the 2012/13 season. Nevertheless, eight Championship clubs had a pre-tax loss of £10m or more in 2014/15. In aggregate, these eight clubs with the largest losses accounted for 82% of the division's overall loss and included Blackburn Rovers, AFC Bournemouth, Fulham, Millwall, and Nottingham Forest who, along with Bolton Wanderers, Cardiff City and Leeds United, have all been subject to sanctions under the Championship's Financial Fair Play Rules. Championship clubs have, however, struggled to make any significant overall improvement on their operating profit performance with none reporting an operating profit in 2014/15.

Chart 15: Championship clubs' losses – 2010/11 to 2014/15 (£m)



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.

Source: Deloitte analysis

League 1 and League 2 clubs' profitability

The average pre-tax loss per club across League 1 and League 2 was £1.7m and £0.5m respectively in 2014/15. These are deficits which need to be covered by the clubs' owners in most cases.

The impact of changing regulations

A new set of 'Profitability and Sustainability' regulations, which bring the Championship's Financial Fair Play approach more in line with that used by the Premier League, will first apply from 2016/17. Under the new rules, clubs will be permitted to lose up to £15m over a three season timeframe, or up to £39m and be subject to additional regulation including providing financial projections and evidence of secure owner funding. The rules allow certain costs – such as expenditure on infrastructure and youth development – to be excluded from the loss figures that are regulated.

Given the level of allowable losses will be greater than under the old rules, it is disappointing that the new rules may struggle to reduce Championship clubs' losses in future seasons.

Championship clubs' aggregate net debt increased by £108m (10%) in the 2014/15 season to £1.2 billion. This total is more than double the clubs' revenues. However, this may not be cause for as much alarm as the size of the figure suggests, as £0.9 billion (or 76%) of the total net debt is in the form of interest free soft loans from shareholders.

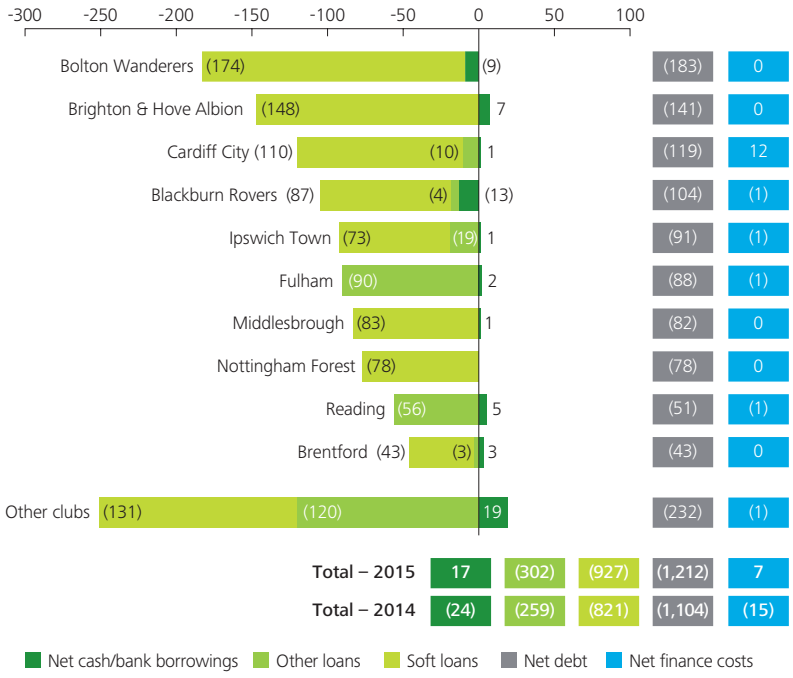
Championship clubs' net debt

Bank loans only account for 1% of the division's total net debt having reduced by £52m (77%) during the year. There were only four clubs in the Championship (Bolton Wanderers, Brentford, Charlton Athletic and Wigan Athletic) with bank loans as a form of finance on their balance sheet.

Conversely, soft loans saw an increase of £106m (13%) to £927m, and accounted for 76% of the total Championship net debt.

Cash reserves at clubs fell by £11m (25%) in the season, however, clubs in the division in both years achieved a combined cash uplift in the year. Other loans increased by £43m (17%), with the mix of clubs in the division being the main driver.

Chart 16: Championship clubs' net debt – 2015 (£m)



Note: Net debt for Bolton Wanderers as per financial statements at 30 June 2014 (2015 not available).

Source: Deloitte analysis

Individual club analysis

The top ten most indebted clubs in the Championship account for 81% of the overall debt in the division, with the top five clubs accounting for over half of the total debt. Nottingham Forest saw the largest increase in their net debt, due to a £31m increase in soft loans in the 2014/15 season.

Bolton Wanderers had the largest net debt in the Championship (30 June 2014 figures) at approximately £183m. However, following their change of ownership in March 2016, it is reported that this balance has been significantly reduced.

Several clubs noted equity injections or converted debt-to-equity in the 2014/15 season, the most significant being Fulham who issued £50m of new equity in the year. This is becoming an increasingly common theme in the Championship.

Future insolvency risk

The 2015/16 season is the third consecutive season where there have been no insolvency events in the Football League. This is due to a combination of a reduction in traditional finance, partly due to a lack of availability, in favour of soft loans and equity as well as the impact of a variety of financial regulations. Whilst there remains a risk of the odd club insolvency case, given the more stable environment, thankfully we will not see the frequency of club crises suffered 10-15 seasons ago.

Player transfers

In the 2014/15 season the Premier League and Football League clubs spent a record £1.2 billion on acquiring new players. The value of, and distribution mechanism for, broadcast revenues, coupled with relative restraint in increasing wage costs, enabled Premier League clubs to commit to record transfer spending whilst remaining profitable.

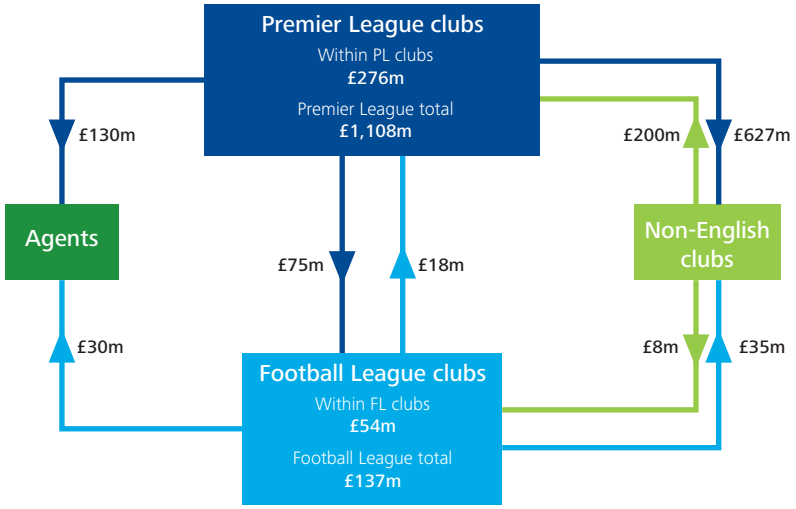
Premier League clubs' transfer activity

Premier League clubs' combined gross expenditure to acquire players was a record-high of £1.1 billion in the 2014/15 season, of which 57% was spent with overseas clubs. This investment in playing talent has helped make the Premier League the world's most watched football league broadcast to 725 million homes in 185 countries.

The biggest gross spenders were Manchester United (£151m) and Liverpool (£135m). 16 of the 20 Premier League clubs had a gross spend in excess of £25m (2013/14: 12 clubs). This strength in depth for competing in the international player market is assisted by the Premier League's revenue distribution mechanism (the ratio of top to bottom earning clubs' distribution in 2014/15 was 1.53:1). The Premier League clubs' gross transfer spending in 2014/15 was more than double that of any other European league.

Premier League clubs' net player transfer spending of around £0.5 billion in 2014/15 helps fund clubs outside of England (net outflow of £427m) and in the Football League (net outflow of £57m). In addition, about 12% of clubs' gross spending goes to agents.

Chart 17: Premier League and Football League clubs' player transfer payments – 2014/15 (£m)



Note: The arrows represent the flow of payments, whilst the players transfer the opposite way. The estimated amount of fees in respect of the transfer of player registrations refer to amounts committed in 2014/15, 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; Deloitte analysis

Football League clubs' transfer activity

In 2014/15 Football League clubs' net transfer income was around £30m. This was cancelled out by the £30m the clubs spent on payments to agents.

In the Championship, the clubs relegated from the previous season's Premier League were the three biggest gross spenders in the transfer market and also had the three highest wage bills. Whilst Fulham incurred significant net player spending, Cardiff City and Norwich City generated proceeds from player sales in excess of their spending on new players.

The summer transfer window in 2016

The upcoming increase in central Premier League distributions for the 2016/17 season of around £30-50m per club is likely to fuel a new record high of over £1 billion for gross player transfer spending by Premier League clubs in the 2016 summer transfer window. Whilst transfer speculation will be rife throughout the summer, encouraged by the shop window of UEFA EURO 2016, the majority of the big-money transfers will likely conclude in the second half of the window.

Building good governance

Good governance builds the integrity, credibility, quality, popularity and value of a sport. However, in recent times various structural weaknesses have been exposed around the world of sport which necessitate governance repairs and improvements.

Sport leaders face critical challenges to design a practical process for change, to create the architecture of governance structures, rules and processes, and thereafter to ensure effective implementation in practice. In recent years a multitude of wisdom about what comprises good governance has been espoused by voices encouraging reform of traditionally closed sport bodies and their activities. Here we provide an overview of the key steps for how a sport organisation can effectively develop and implement good governance, what governance can cover, and why good governance makes business sense.

Circumstances vary between sport organisations and over time, such that a project to review and change governance can be wide-ranging or more narrowly focused on specific parts. Whichever route is chosen, sport leaders should maintain a strategic watch on the strengths, weaknesses, threats and opportunities for their organisation and their sport.

Amongst the range of reasons why good governance makes sense, it provides the foundations for growing the economic value of a sport through attracting stakeholders' support and monies:

- Athletes keenly acting as ambassadors for a sport;
- Increasing the public's pride in playing a sport and in being a fan at events and through television and other media;
- Increasing broadcasters' desire to pay for the rights to broadcast sport events and build audience numbers;
- Avoiding damaging media coverage;
- Positive association with a sport for sponsors;
- Governments leveraging the power of sport for benefiting society by providing support and public funding.

Key steps:

1. Principles
Set good governance values and principles to guide culture and behaviour

2. Parts
Identify the scope of what parts of governance will be subject to change

3. Process
Put in place a roadmap for stakeholders to develop options and agree improvements

4. Politics
Build trust amongst stakeholders and a consensus for change

5. Policies
Define the detailed structures, rules and policies to be implemented

6. People
Attract and retain high calibre people to strategically lead and administer the sport

7. Police
Monitor behaviour and sanction non-compliance

The building blocks for a sport organisation's good governance:

In turn, a sport's growth enables a virtuous circle of higher levels of investment and improvement in good governance structures, facilities for athletes and spectators, athlete development, and societal activities.

Deloitte regularly help our clients to improve their governance design and practice. In recent years we have worked with various international and national organisations across a range of sports including football, basketball, cricket, cycling, hockey, horseracing, rugby union, and tennis.

Stadia

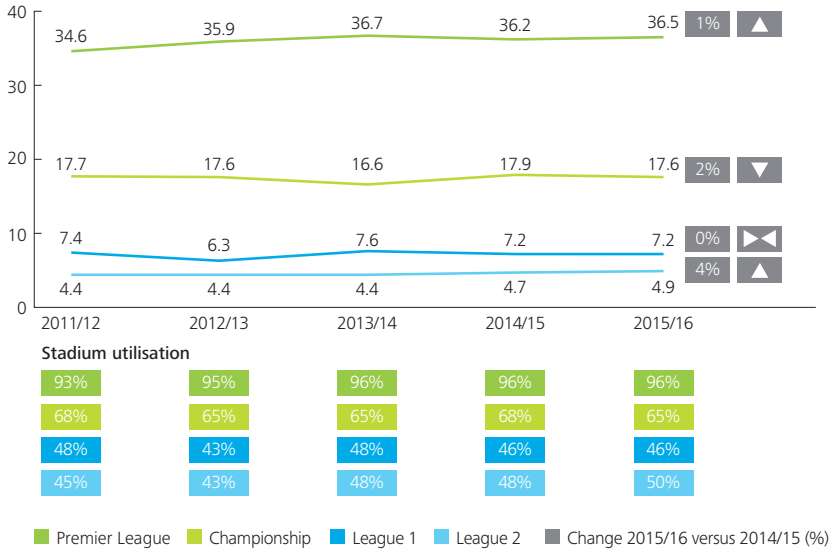
Attendances for Premier League and Football League clubs remained relatively stable for the 2015/16 season. Total attendances for Premier League clubs were almost 14 million, and stadia capacity utilisation impressively remained over 95% for the fourth consecutive season. Total attendances across the 72 Football League clubs exceeded 16 million for the tenth time in the past 12 seasons.

Premier League clubs' attendances

For the 2015/16 season, the average attendance for Premier League clubs rose by 1% to 36,481 and average stadium capacity utilisation remained at 96%, with 16 clubs achieving utilisation of over 95%. This is a testament to the continued popularity of the competition, the clubs, the modern matchday experience, and the clubs' ticket price balancing act to help retain fans' loyalty. As well as enhancing the atmosphere and drama for those attending, a full and passionate stadium also provides an exciting back-drop for TV viewers around the world.

Only two clubs had stadium utilisation below 90% – Aston Villa (79%) and Sunderland (88%), who both endured a difficult season on the pitch. Premier League average attendances remain the second highest in world football, behind the German Bundesliga which enjoyed an average attendance of almost 43,000 in 2015/16 inside their overall higher capacity stadia (average utilisation level was around 91%). The German Bundesliga has nine clubs with a stadium able to host over 50,000 spectators.

Chart 18: Premier League and Football League clubs' average matchday attendances – 2011/12 to 2015/16 (000s)



Source: Premier League; Football League; Deloitte analysis

Aggregate attendance for Premier League and Football League matches in 2015/16 season

Football League clubs' attendances

In the 2015/16 season, the average attendance for Championship clubs decreased by 2% to 17,582. Six clubs generated an average attendance over 20,000, topped by Derby County with an average close on 30,000.

League 1 clubs' attendances remained steady at 7,166, headed by Sheffield United (close on 20,000). League 2 clubs' attendances increased 4% to 4,904, with promotion-chasing Portsmouth achieving an impressive average crowd of over 16,000.

Future attendances

Premier League clubs will need to continue to work hard to ensure that as many fans as possible have the opportunity to enjoy the live match experience. For the 2016/17 season, the list of Premier League clubs with stadia capacity over 50,000 will expand to five, as Arsenal and the two Manchester clubs will be joined by Liverpool and West Ham United. Therefore, despite losing Aston Villa and Newcastle United to the Championship, for 2016/17 the average attendance for Premier League matches is likely to be similar to, or even slightly higher than, 2015/16.

Away from the ubiquitous media coverage of all things Premier League, attendances at League 1 and League 2 clubs continue to hold up well. This local community vibrancy for football is still evident well below level four of the English football pyramid – for instance, watch out for some big crowds in National League North in 2016/17.

Capital expenditure by Premier League and Football League clubs exceeded £300m in a single season for the first time in 2014/15 (£305m).

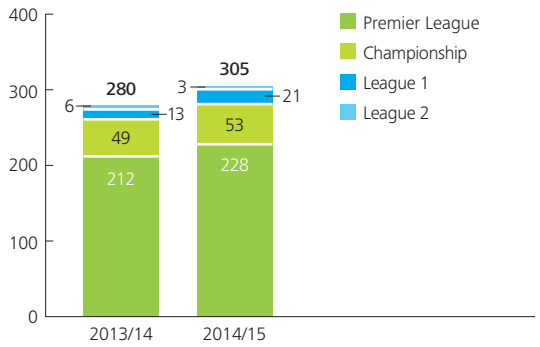
Premier League clubs' capital expenditure

It was another strong year of capital investment in the Premier League with a record total spend of £228m in the 2014/15 season, an increase of £16m (8%).

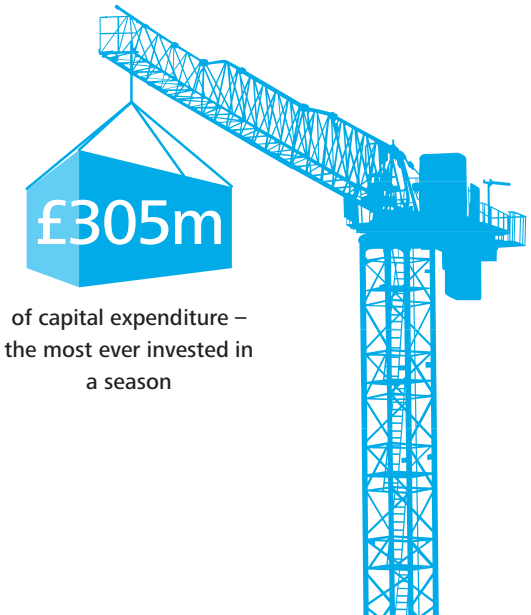
Manchester City (£62m) were the largest capital spenders for the third successive season, as they continue to develop their facilities in and around the Etihad Stadium. Tottenham Hotspur (£43m) invested the second most, with their stadium development project, which includes plans for a 61,000 seat stadium finalised in December 2015.

Other significant expenditure in the 2014/15 season included Liverpool (£36m), who continue to redevelop Anfield as part of a wider project of economic regeneration, and Chelsea (£33m) who have announced plans to build a 60,000 capacity stadium at its Stamford Bridge site.

Chart 19: Premier League and Football League clubs' expenditure on stadia and other facilities – 2013/14 and 2014/15 (£m)



Source: Deloitte analysis



of capital expenditure – the most ever invested in a season

Football League clubs' capital expenditure

Total capital expenditure in the Championship increased by 8% in 2014/15 to £53m. Brentford had the highest capital expenditure, spending £16m on their proposed new stadium "Brentford Community Stadium", which has a projected capacity of 20,000. Watford (£6m) were the second largest spenders in the Championship, with work completing in the season on a new 3,000+ stand at its Vicarage Road stadium.

Of the £21m of capital expenditure in League 1, three-quarters relates to the £16m investment Bristol City have made for the redevelopment of Ashton Gate.

£3m was spent on capital expenditure by League 2 clubs, almost half (£1.3m) in relation to Portsmouth's new training base in the city.

Future capital expenditure

With record profits in the Premier League and utilisation of Premier League stadia at 96% in 2015/16, we envisage that clubs will continue to look to facilities and stadia investment as a way of investing in their future. We expect more clubs will increase their capital expenditure in the coming seasons, taking the opportunity to increase the capacity of their stadium, as well as investing in their training facilities in an attempt to attract players and gain competitive advantage over their rivals.

Tickets please?

Clubs in the Premier League and other 'big five' European leagues are pushing on with stadia development at a time when ticket prices are under increasing scrutiny. It means a delicate balancing act for clubs when deciding on ticketing strategy and pricing, and realistic assessment of the financial viability of developments.

Over half of Europe's top 20 clubs are either actively considering or undergoing stadium redevelopment/relocation or have recently completed a stadium upgrade (see **Deloitte Football Money League** February 2016). Looking just at the Premier League, Manchester City have increased capacity to 55,000 (up 8,000) and Liverpool's redeveloped main stand is due to open at the start of the 2016/17 season, bringing total capacity to 54,000. Chelsea have submitted planning for a redeveloped 60,000 capacity stadium, Tottenham Hotspur are progressing with their new 61,000 capacity stadium project and West Ham will move to the 60,000 seat Olympic Stadium for the 2016/17 season.

But what is driving clubs to increase capacity? Matchday revenue now only represents an average of around a fifth of total revenue for leading clubs, with broadcast and commercial contributing the vast majority. In fact, in 2016/17 matchday revenue is projected to contribute only 14% of Premier League clubs' income. However, the stadium remains a key revenue area directly under a club's control. It also provides the most direct and tangible link between a club and its fans, shaping their experience of live football and the match atmosphere that is communicated in broadcasts. Premier League average capacity utilisation stood at 96% in 2015/16 and so a larger stadium – as long as utilisation is maintained – can therefore provide a direct competitive advantage against rivals.

In February 2016, thousands of Liverpool fans walked out of Anfield in the 77th minute of the match against Sunderland, beneath the soaring framework of the new main stand. Protesting at planned ticket prices for the 2016/17 season – especially a top-priced general admission ticket of £77 – the walkout neatly illustrated the potential dilemma facing clubs increasing capacity to boost revenue to fund the development whilst also keeping fans on-side. Clubs run the risk of alienating fans and being seen as greedy at a time when broadcast rights revenues have continued to increase rapidly. In the case of Liverpool, the headline figure of £77 caused outrage (even though the club had explained that this price would only have applied to 200 seats for the six top category games per season).

There is increasing scrutiny of ticket prices from fans, the media and politicians. The proliferation of online shopping and price comparison sites means consumers are used to greater price transparency and now expect the same from their football club. Clubs have responded, for example Liverpool revised their strategy and removed the £77 ticket, West Ham committed to season ticket price cuts in the first season at its new stadium and Premier League clubs have agreed to cap away tickets for fans to £30 for three seasons (2016/17 to 2018/19).

The stadium provides the most direct and tangible link between a club and its fans, shaping their experience of live football and the match atmosphere that is communicated in broadcasts.

A 'build it and they will come' approach to stadium development – based on hope as much as evidence – is a risky approach that we have always advised against. Clubs must equally be wary of a 'build it and they will pay' assumption in respect of new stadia driving average revenue per seat. Ensuring financial viability for a stadium (re)development is therefore key to ensure schemes are cost effective, with realistic assumptions about achievable ticket prices, return period and the balancing act of filling the new stadium, maximising revenue and being attractive to fans on pricing.

We expect these new and expanded stadia will provide clubs with an advantageous revenue boost and also expect clubs to make use of more sophisticated approaches to assess fan sentiment and develop pricing strategies.

The Sports Business Group at Deloitte continues to advise sports clubs and venues on feasibility and business planning for new developments, as well as on ticket and fan engagement strategies.

Basis of preparation

Sources of information
The financial results and financial position of English football clubs for 2014/15, 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 2014/15, 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, 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, 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 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 securitization 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 2014/15 into euros using the average exchange rate for the year ending 30 June 2015 (£1 = €1.31); for years prior to 2014/15 comparative figures as extracted from previous editions of this report; and the figures for years since 2014/15 converted into euros using the average exchange rate for the 10 months ending 30 April 2016 (£1 = €1.35).

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