Deloitte.

BRITISH OLYMPIC ASSOCIATION | British Paralympic Association

OFFICIAL PARTNER

Revolution
Annual Review of Football Finance – Highlights

Sports Business Group
June 2015

Deloitte Annual Review of Football Finance 2015

Our first football finance report was produced in June 1992, a couple of months ahead of the start of the inaugural Premier League season. For more than 20 years we have documented clubs' business and commercial performance, striving to provide the most comprehensive picture possible of English professional football's finances, set within the context of the regulatory environment and the wider European game.

The Sports Business Group at Deloitte provides an in-depth analysis of football's finances in its 52 page full report, which includes:

Europe's premier leagues
Scale of the overall European football market; Comprehensive data and analysis of trends for clubs in the 'big five' leagues including revenue breakdowns, wage costs, operating results, and match attendances; Factors impacting on clubs' future revenues; Key financial indicators for six more European leagues.

Industry insights
Our perspectives on six topics facing football, including the reasons for continued interest from investors in English football clubs, the challenge of the Europa League, the importance of measuring player academy success, the development of the Indian Super League, the continued strength of premium sports rights and the increased involvement of Middle Eastern investment in football.

Databook
The full report, incorporating a pull-out Databook, includes over 8,000 data items, prepared on the basis of our unique and long-established methodologies.

The following sections of the full report include comprehensive data and analysis of the business drivers and financial trends for clubs in the top four divisions of English football, with a particular focus on Premier League and Championship clubs. The analysis covers through to the end of the 2013/14 season and we also include some pointers to future financial results.

Revenue and profitability
Analysis of matchday, broadcasting and commercial revenue streams; Revenue projections to 2016/17; The financial impact of participation in UEFA club competitions, promotion and relegation; Operating results and pre-tax profits and losses; Average attendances and stadium utilisation in the Premier League and Football League.

Wages and transfers
Analysis of clubs' total wage costs; The relationship between revenue growth and wage costs; Club-by-club analysis of wage costs including rankings, comparison to on-pitch performance, and wages to revenue ratios; Estimated total player wages; Cost control regulatory developments; Player transfer spending; Transfer flows between the top four divisions and to agents.

Club financing and investment
Analysis of the sources of net debt financing, profiling the aggregate net debt position of Premier League and Championship clubs, as well as an analysis of the top ten clubs; Capital investment by clubs in the top four English divisions over the five years to 2013/14, with a focus on the clubs with the highest levels of investment in 2013/14.

Please visit our website at **www.deloitte.co.uk/sportsbusinessgroup** to access/download a free copy of the **Deloitte Annual Review of Football Finance 2015 – Highlights** and/or to purchase a copy of the full report.

Full report price £1,000
Discounted price for students and educational establishments £100.
Half of all profits from sales of the report will be donated to Prostate Cancer UK.
Prostate Cancer UK is a Deloitte National Charity Partner for 2013-16.

Prostate Cancer UK is a registered charity in England and Wales (1005541) and in Scotland (SC039332). Registered company 2653887.

Contents

2 Foreword

4 Delivering results worldwide

6 Distinctive advice to football

7 The Wanted

8 Highlights: Europe's premier leagues & Revenue and profitabilty

11 Visionary leadership

12 Highlights: Wages and transfers & Club financing and investment

14 Sphere of influence

15 It's just not cricket

16 The Academy rewards?

Edited by
Dan Jones

Sub-editor
Adam Bull

Authors
Alex Bosshardt, Matthew Green, Chris Hanson, James Savage,
Chris Stenson and Alexander Thorpe

Sports Business Group
PO Box 500, 2 Hardman Street, Manchester, M60 2AT, UK
Telephone: +44 (0)161 455 8787
E-mail: sportsteamuk@deloitte.co.uk
www.deloitte.co.uk/sportsbusinessgroup

June 2015

Foreword

Welcome to the 24th 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.

New Power Generation

We have chronicled the development of the business of football in England and across Europe for over twenty years. In that time we have seen two consistent trends run in tandem; first, spectacular and relentless revenue growth across Europe's biggest clubs and leagues and second, what we termed "football's biggest challenge" as far back as 1995, an even more rapid increase in player costs. In recent years we've observed and welcomed the development, implementation and subsequent effects of cost control regulations within the game.

We suggested last year that Financial Fair Play could be the most significant development in the football business since the Bosman ruling. Early signs are that this is the case. Indeed the change in club profitability in 2013/14 was more profound than anything we could have forecast. This year's edition may mark a turning point in football finance and the dawn of a new age of significant profitability for Premier League clubs.

England's top division has passed the £3 billion revenue mark for the first time and widened the gap to its nearest rival, the Bundesliga, to over £1 billion. The Premier League now generates more revenue than La Liga and Serie A combined.

The Premier League's virtuous circle of compelling content attracting ever increasing broadcast revenues, which in turn attracts some of the best coaches and playing talent from around the world, complemented by capacity attendances at its stadia is a familiar one to readers of this publication.

Previously, the biggest failing in a business sense of England's top flight was its failure to convert its brand and market leadership into profits. This year changes that, with the Premier League reporting its first pre-tax profit since 1999. This record breaking profitability may move clubs from being seen as exciting and enticing trophy assets to being recognised as businesses capable of delivering consistent profits.

From a costs perspective, UEFA's Financial Fair Play break-even requirement continues to make an impact. In the past two seasons only 31% of revenue growth across Europe's 'big five' leagues has been spent on wages, in the two years preceding that it was 61%.

The path to profit for the Premier League has not been one solely of regulatory led cost control; these factors have coincided with substantial revenue increases across the league. All 20 Premier League clubs are now ranked in the top 40 globally in terms of revenue, with even the smallest still earning enough to rank in the top six of any of the other 'big five' European leagues. This continues to be underpinned by the strength of the Premier League's broadcast deals, driving a 48% uplift in the combined broadcast revenues of Premier League clubs in 2013/14.

Sign of the Times

The scale of the financial superiority of the Premier League is clear and explored in greater detail in **Europe's premier leagues** and **Revenue and profitability**. However, such is the size of the Premier League's financial lead, that it is important to consider what this means for the wider football industry, including other major European leagues as well as the rest of the English football pyramid.

On a continental level, it is difficult to see any of the other 'big five' European leagues closing the gap to the Premier League in the near term, let alone catching up with them.

Unsurprisingly, the growth of England has caused European peers to cast their eyes across the Channel to see how this financial success has been achieved. There is clear evidence emerging in some leagues of change in areas that have traditionally hindered the sort of league wide growth English clubs have benefited from. For example, Spain's La Liga is closer than ever to moving to the collective selling of broadcast rights, intended to deliver more equal and increased revenues across the league. Meanwhile in Italy, Juventus continue to demonstrate the benefits that could be achieved for Serie A clubs through investment in, and improvement of, clubs' matchday facilities. More recently in Germany, leading football figures have commented on their desire to see more competition in, and hence more revenue from, the broadcast market.

Nonetheless, while there are undoubtedly areas of potential further growth for Europe's top leagues, this year's report reconfirms that the Premier League has cemented its place as the "world's favourite league." The Premier League and its clubs have gained first mover advantage in becoming the leading imported league in a number of key foreign markets, leaving other leagues with the difficult task of not only competing against the Premier League but also domestic football properties as well as the UEFA Champions League for the hearts and minds of broadcasters, sponsors and fans alike.

Diamonds and Pearls

The most obvious threat for these leagues from England's increased wealth is in the global arms race for playing talent. With relatively few barriers to movement for players, particularly within Europe, England's increased means clearly gives Premier League clubs a greater purchasing power than ever before.

There are of course very notable exceptions to this broad picture of market leadership for England; while the general observation that Premier League clubs have greater financial firepower than ever compared with their continental peers is true, it is still the case that after both the 2012/13 and 2013/14 seasons the PFA Player of the Year ultimately left the Premier League for La Liga. Therefore the battles for the greatest talents will still rage amongst Europe's elite clubs, but the Premier League's resources will continue to allow it to have an unmatched level of strength in depth, as demonstrated by the fact it provided more players than any other league for the 2014 FIFA World Cup, as we expect it will again at both Euro 2016 and the next World Cup.

Despite this, Europe's other leagues can boast of beating the Premier League's finest where it really matters. While the Premier League appears in rude financial health relative to its European peers, this has not been reflected by performances in Europe on the pitch by its clubs. 2014/15 is the third consecutive season in which no Premier League team has featured in the UEFA Champions League final. Similarly the competition where the Premier League's purchasing power should arguably be of greatest advantage, the Europa League, has only had one winner and two other English finalists in the last ten years.

Under the Cherry Moon

While the emergence of the Premier League clubs into profit is of both continental, and even global significance, this year's numbers again bring into sharp focus the impact the league has domestically. The size of the Premier League prize grows ever greater and this year again demonstrates that the desire to reach the league, by those clubs in the Championship has never been greater. While we saw all bar one of the Premier League clubs achieving operating profits, only three Championship clubs were able to achieve this. With wage costs still exceeding revenues across the division as a whole, only increases in Premier League parachute payments were able to stop the league from having a truly disastrous financial picture. For all the dreams that have been turned to reality at Bournemouth, The Football League is right to be trying to prevent dreams turning to nightmares at other clubs through overspending.

The Beautiful Experience

We have previously remarked that "despite the general lack of profitability, investors continue to be attracted to European football clubs". The transformation of Premier League club profitability reported here will fuel even greater global investor interest in Premier League clubs. With significant future revenue growth already secured through the recently agreed domestic broadcast rights deals from 2016/17 to 2018/19, as well as the success of cost control regulations, the risks associated with investment in Premier League clubs seem to be diminishing. However, as other investors have found to their cost, there are no guarantees. It is a fact that 15% of Premier League clubs will be relegated each year and while parachute payments ensure the fall should not be fatal there is no guarantee of a rapid return to the riches of the Premier League.

For You

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

We hope you enjoy this edition.

Dan Jones, Partner
www.deloitte.co.uk/sportsbusinessgroup

Delivering results worldwide

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

Economic impact study
Study regarding the economic impact of the NFL International series on London and the UK.

Feasibility of hosting a major event
Feasibility study of Ireland hosting Rugby World Cup 2023.

Sports media strategy
Support in developing ITN's strategy within sport.

Tender process assessment
Assistance with the ECB's design of a tender process for the award of Major Matches.

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 2014 FIBA Basketball World Cup in Spain.

Economic impact study
Economic impact study of the Alltech FEI World Equestrian Games™ 2014 in Normandy.

Strategic advice
Support to FIBA on strategic projects.

Stakeholder consultations
Assisting the International Cycling Union with its wide-ranging stakeholder consultation programme, "A Bright Future for Cycling".

Organisational benchmarking
Provision of consultancy services for FC Zenit regarding governance and organisational structure.

Major event feasibility study
Financial feasibility study of a European Games.

Due diligence
Commercial due diligence to support the acquisition and re-financing of Infront Sports & Media.

Commercial planning
Assistance with the Russian Olympic Committee's commercial strategy post Sochi 2014.

Organisational structuring
Assistance with the design of the optimum organisational structure for the Saudi Arabian Football Federation .

Deloitte has a unique focus on the sports sector, in the UK and across the world. Our experience, long-standing relationships and understanding of the industry mean we bring valuable expertise to any project from day one.

For over 20 years we have worked with more sports organisations than any other advisers.

Our specialist Sports Business Group at Deloitte provides consulting, business advisory and corporate finance services including:

- Business planning
- Revenue enhancement and cost control
- Market analysis and benchmarking
- Strategic review
- Economic impact studies
- Venue feasibility and development services
- Sports regulation advice
- Due diligence
- Corporate finance advisory
- Business improvement and restructuring
- Forensic and dispute services

Deloitte are also audit and tax advisers to many sports businesses.

For further details on how Deloitte can add value to your project and your business, visit our website www.deloitte.co.uk/sportsbusinessgroup or contact Dan Jones.
Telephone: +44 (0)161 455 8787
Email: sportsteamuk@deloitte.co.uk

Distinctive advice to football

Deloitte bring an unparalleled breadth of services, expertise and experience to support our clients in the football business.

Our clients

- Clubs
- Leagues
- National associations
- Broadcasters
- Confederations
- Investors, owners and financiers
- Sponsors and commercial partners
- Sports marketing businesses
- Local and national government

Our services

- Business planning and strategy
- Governance and organisational design
- Financial budgets and projections
- Benchmarking and best practice advice
- Financial and commercial due diligence
- Ticketing and hospitality strategy
- Customer data analytics and fan surveys
- Club licensing and cost control regulations
- League and competition restructuring
- Advice on the development of stadia and training facilities
- Economic impact studies
- Business and venue feasibility studies
- Acquisition, disposal and debt advisory

Their results

- Well informed investment decisions
- Greater commercial income
- Improved cost management
- Powerful information to influence key shareholders
- Increased matchday and non-matchday revenues
- Effective league structure, operation and competition
- Improved governance and risk management
- Higher ticket sales, stadium utilisation and attendances
- Competitive advantage from better data and industry insights
- Sound broadcast and commercial rights strategies
- Superior business performance
- Smooth transition to new investment and financing

The Wanted

Investors have consistently been attracted to Premier League football clubs, with two-thirds of the 2014/15 season's top flight clubs having had a change of majority ownership in the last decade. This attraction has often been based on the prestige of owning a Premier League football club, seen by many as a global trophy asset, providing enhanced business profile and access to important relationships. However, where potential investors have tried to justify an acquisition with a rational business case, most have been left disappointed, or at least reliant on profiting on the sale to another investor, as despite the annual record revenues, the losses have also continued to grow.

It is likely that the list of interested investors, in both Premier League clubs and Championship clubs with aspirations of promotion, will have grown significantly following the announcement that – for the first time in 15 years - Premier League clubs generated a collective profit in 2013/14. Particularly as this profit was spread across the clubs, with all but one making operating profits and once player trading, net interest charges and the amortisation of player contracts have been accounted for, 14 making a pre-tax profit.

Investor interest will have been strengthened further by the knowledge that the factors required for this profit to be achieved on a consistent basis are already in place, both in terms of revenue generation and cost control.

The 2013/14 profit was predominantly driven by the first year of the much improved three year domestic and overseas Premier League broadcast contracts. The next deals will commence in the 2016/17 season, with the value of the live domestic element already confirmed to be 70% higher than the current deal. This gives investors certainty that this is not a bubble about to burst; the opposite is true with demand from broadcasters continuing to grow.

Equally important to many investors are the financial regulations, introduced by UEFA at a European level and by the Premier League and Football League domestically, which encourage a more substantial balance between clubs' costs and revenues. Whilst these rules do allow some overspend on the income generated, and actively encourage investment in facilities and youth development, they also provide some limitations on the amount investors may be expected to lose. This is especially useful during negotiations with players and agents and in helping to set fans' expectations of the owners' spending.

Given the increasingly global nature of Premier League football many of these interested suitors will be investors from overseas. With matches broadcast to 645 million homes across 212 territories, appearances by players from over 50 countries and the majority of clubs with main sponsors from overseas, it is unsurprising that more than half of the 2014/15 Premier League clubs have a majority owner born outside the UK. Improved financial results will only serve to increase global interest, so this number is likely to rise.

Whilst the attraction for investment is clear, the associated risks are often less obvious and recent history provides many examples of vendors and acquirers suffering unpleasant surprises in the process or aftermath of a change in ownership. Given the increasing scale of the numbers at stake, not understanding what is being acquired and having a clear plan is likely to be an expensive oversight.

The Sports Business Group at Deloitte regularly provides assistance to parties looking to sell or acquire an English or European football club.

Adam Bull
Senior Consultant

The Global Game – 2014/15 Premier League clubs with owners born outside the UK

Club	Majority shareholder	Place of birth	Nationalities in 25 man playing squad	Origin of shirt sponsor
Arsenal	Stan Kroenke	USA	11	Dubai
Aston Villa	Randy Lerner	USA	13	Philippines
Chelsea	Roman Abramovich	Russia	10	South Korea
Hull City	Assem Allam	Egypt	13	Philippines
Leicester City	Srivaddhanaprabha family	Thailand	13	Thailand
Liverpool	John W. Henry	USA	11	UK
Manchester City	Sheikh Mansour	Abu Dhabi	10	Abu Dhabi
Manchester United	The Glazer family	USA	10	USA
QPR	Tony Fernandes	Malaysia	12	Malaysia
Southampton	Katharina Liebherr	Switzerland	15	UK
Sunderland	Ellis Short	USA	11	South Africa

Note: The 25 man playing squads are as at 4th February 2015 and exclude Under-21 players.

Highlights

Europe's premier leagues

- Cumulative revenues of the 'big five' European leagues rose by 15% to €11.3 billion in 2013/14, with all five leagues reporting record revenues for the third successive year, driving the total European football market beyond €20 billion.

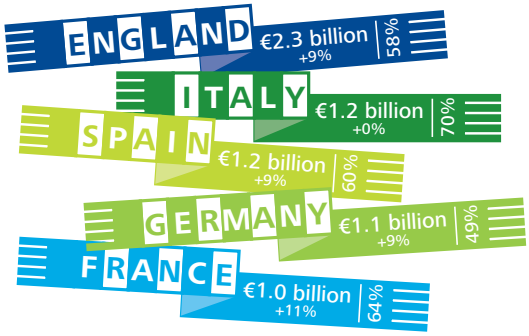
- A revenue increase of 29% (£735m) in 2013/14 saw the Premier League further extend its lead as the highest revenue generating league in the world.

- In 2013/14 Premier League clubs' broadcast revenues alone were worth €171m more than the total revenues of the member clubs of La Liga, €405m more than Serie A clubs and €606m higher than Ligue 1.

- Bundesliga revenue increased by 13% (€257m), consolidating second place amongst the 'big five' leagues. A key driver of this growth was the new set of domestic broadcast rights contracts, yet the value of these rights remains the lowest across the 'big five' leagues.

- La Liga clubs collectively grew revenue by €65m (3%) in 2013/14. All of this growth was attributable to the two Madrid clubs, with the other 18 clubs' aggregate revenues down on the prior year.

Top division clubs' total wages and ratio to revenue 2013/14



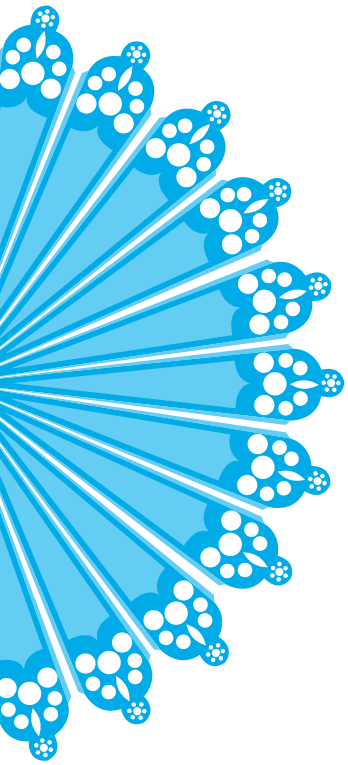
Top division clubs' revenue 2013/14

- In May 2015, the Spanish Ministry of Sport announced by Royal Decree that from 2016/17, the rights to domestic Spanish football will be sold on a collective basis, with the hope that this will generate at least €1 billion from the sale of league broadcast rights.

- A marginal €22m (1%) increase in total revenue for Serie A clubs in 2013/14 masked significant movements in the financial performance of Italy's more illustrious clubs, which were all greatly impacted by the extent of their participation in European competition, evidence of the reliance on broadcast revenue inherent in Italian football.

- Total revenue for Ligue 1 grew by €201m (15%), led by PSG's revenue growth of €75m. Total revenue from sponsorship and other commercial sources rose by €223m (42%), driven by the commercial revenues of PSG and Monaco.

- The gap between the 'big five' leagues and other leading European leagues continued to widen in 2013/14. A number of leagues have entered into longer term arrangements with broadcast partners, to support the development of competitions and to provide more financial certainty for clubs.



The increase in wage costs for La Liga outstripped the 3% (€65m) rise in total revenues

- For the first time since 2006/07, each of the 'big five' European leagues reported a wages/revenue ratio at or below 70% and on average, less than one-third of revenue increases in 2013/14 went towards wages.

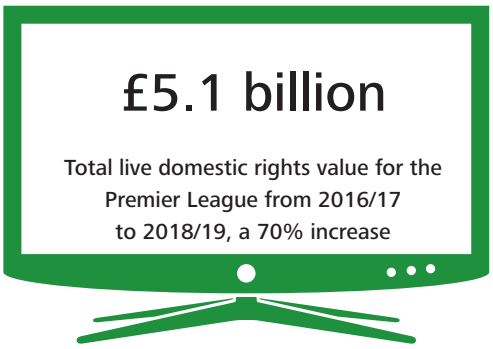
- The overall wages/revenue ratio fell to 59% across the 'big five' leagues, it's lowest level since 1999/00.

- The wages/revenue ratio for the Bundesliga fell below 50% for the first time since 2006/07 and remains the only league to have done so since 1996/97.

- La Liga's wages/revenue ratio increased to 60%. Whilst wage costs for the 'big two' Spanish clubs grew less than revenues, many of the other clubs recorded a sizeable increase in wages in excess of revenue growth.

- The Premier League's operating profit of £614m was almost treble the previous record set by the Bundesliga in 2012/13, which was the only other 'big five' league to report an operating profit.

Manchester United recorded the largest operating profit (£117m)



Revenue and profitability

- In 2013/14 the total revenues of the 92 clubs in the top four divisions of English football fell just £23m short of £4 billion.

- The 2013/14 season saw the most remarkable turnaround in the profitability of Premier League clubs. The new broadcast deal, coupled with the impact of financial regulation, drove significantly improved profitability at operating and pre-tax levels.

- Record Premier League revenue of £3.26 billion represented a £735m (29%) increase on that recorded in 2012/13. Within the Premier League total, revenues ranged from £433m (Manchester United) to £83m (Cardiff City).

- The significant increase in revenue is due to 2013/14 being the first year of the current broadcast rights packages, totalling £5.6 billion. 78% (£569m) of the revenue increase from 2012/13 was attributable to broadcast revenue.

- Broadcast revenue reached £1,760m in 2013/14, accounting for 54% of the league's total revenue – the highest proportion from any revenue stream in the history of the division.

- Commercial revenue increased by £135m to £884m, comprising 18% of the total increase. The four UEFA Champions League clubs plus Liverpool and Tottenham Hotspur contribute 78% of the Premier League's commercial revenue.

- Matchday revenue increased by 5% to £616m, and for the first time in the history of the league made up less than fifth of total revenue. The change in composition of clubs in the division contributed to a 2% rise in average attendance. Average matchday revenue per attendee increased marginally, from £35 to £36.

- The value of the domestic rights for the next broadcast cycle, which will cover the 2016/17 to 2018/19 seasons, was announced in early 2015, totalling over £5.3 billion. Overseas rights are yet to be announced but if they rise as anticipated the total value for the three year agreement is likely to exceed £8 billion. If the increase matched that of the live domestic rights (70%) the total value would exceed £9 billion.

- Operating profits increased by £532m (649%) to £614m – smashing the previous record by nearly £430m. 19 of the 20 clubs recorded an operating profit, 13 clubs recorded their highest ever operating profit.

Record Premier League revenue of £3.26 billion represented a £735m (29%) increase on that recorded in 2012/13

- Pre-tax profits of £187m were the first since 1998/99 and almost four times the previous record of £49m in 1997/98.

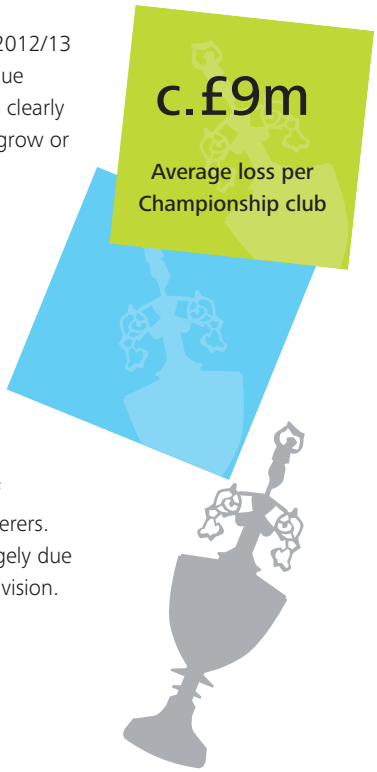
- Manchester United recorded the largest operating profit (£117m), and Tottenham Hotspur the largest pre-tax profit (£80m). Both were the highest ever recorded in the division.

- Championship revenue increased by £54m (12%) to a record of £491m. This was driven by an increase of £57m in parachute payments, due mainly to their values increasing but also in part to the number of clubs receiving such payments rising from seven to eight.

- For the 18 clubs in the Championship in both 2012/13 and 2013/14, matchday and commercial revenue increased by a combined £6m. However, it has clearly been challenging for Football League clubs to grow or maintain revenue from these sources.

- The slight (7%) reduction in Championship clubs' operating losses to total £222m in no way obscures the fact that they remain a significant issue. Pre-tax losses were £247m in 2013/14, an average per club of £10m.

- League 1 revenue rose by £28m (24%) to £148m, the second highest level in the division's history, boosted by over £19m of parachute payments to Wolverhampton Wanderers. League 2 revenues declined to £78m (9%), largely due to the change in composition of clubs in the division.



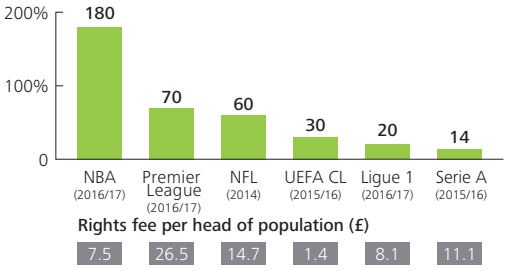
Visionary leadership

Austin Houlihan
Director

The sheer size of the Premier League's new three year £5.136 billion domestic live rights deals surprised many, focussing attention on the League's remarkable growth story. In 2016/17, the first year of the new deals, Sky and BT will pay a combined £1.7 billion a season, an increase of over £1.1 billion compared to just four years previously.

The Premier League is not the only sports competition to secure substantial rights fee uplifts. Rival 'big five' European leagues, the UEFA Champions League, and major US sports leagues, have all recently secured substantial double digit percentage increases. In an increasingly fragmented media landscape, broadcasters recognise that premium sports content is unique in drawing live, loyal, social audiences.

Rights fee uplifts (%)



Note: Season in brackets is first season of new rights cycle for each property. Source: Competition organisers; Deloitte analysis.

The Premier League has now exceeded £10m per game in domestic live rights fees, well above that of rival European leagues, which make all games available for live broadcast. Yet even this is dwarfed by the £18m per game generated by the NFL. The popularity of NFL in the US, the scale of the domestic market, and the limited number of matches (267), drives such a premium fee.

It is its attractiveness in international markets that sets the Premier League apart from both other European and US leagues. England's top-flight currently generates around £750m per season (c.€1 billion) from international (non-domestic) markets, substantially higher than the next highest European league, La Liga, at c.€200m per season.

In the new cycle, growth is expected in a number of markets. Securing over £1 billion a season (or €1.4 billion) is within sight, which could surpass the total broadcast revenue generated by the Champions League in its new cycle from 2015/16.

The benefit of the new deal for the wider English game is substantial, with the Premier League announcing that £1 billion will be redistributed to the wider game. For a club, the already substantial financial rewards are set to increase. Even in the current cycle, the lowest earning Premier League club (Cardiff City: £58m (2013/14)) earns more from central broadcast distributions, than all bar five European clubs – Real Madrid, FC Barcelona, Juventus, and the two Milan clubs – do from their corresponding domestic league deals. Under the new deals, the lowest earning club will likely earn over £85m (€120m), surpassing the total revenues earned from all sources by such storied European clubs as Ajax.

So what of the future? Commentators continue to speculate on whether technology companies such as Netflix, Apple, and Google will emerge as serious competitors for live rights. This threat has yet to emerge.

In Europe, relatively short term rights cycles, coupled with escalating rights fees mean a viable business model for live rights has perhaps yet to be identified for such players. Indeed, established pay platforms are embracing new technology through multi-platform delivery of content, whilst telco operators such as BT have emerged to compete for sports content as a means to drive their multi-platform services. In the US, leagues have tied themselves to lucrative long-term network deals. The NFL's core deals run to 2022, and the NBA's until 2025.

Yet such new media platforms play an increasingly important role, augmenting live coverage and distributing additional content, such as highlights and special features, as well as match coverage where a traditional broadcast partner is not available or desired. With established pay platforms or US networks paying ever increasing rights fees to secure premium sports content, there is no obvious sign of disruption to the existing rights model. Indeed, we see no sign of the premium live sports media rights market cooling.

The Sports Business Group at Deloitte provides media strategy, benchmarking, and due diligence advice to sports rights owners, broadcasters, agencies and investors.

Wages and transfers

- Total Premier League wages rose by £119m to £1.9 billion in 2013/14. This represented a 7% increase on 2012/13, despite a revenue increase of 29% (£735m). It is the first time since 2007/08 that wage costs have increased at a slower rate than revenue.

- For the first time in 2013/14 clubs were subject to the Premier League's Short Term Cost Control measure and some clubs were also subject to UEFA's Financial Fair Play break-even requirement. It appears that these new regulations have had a dampening effect on the wage costs at some clubs.

- Six Premier League clubs had total wages above the average of £95m, and all finished in the top seven positions in the table.

- The wages to revenue ratio fell dramatically from 71% to 58%, the lowest level since the 1998/99 season. 13 of the 20 Premier League clubs had wages to revenue ratios at 60% or lower, in 2012/13 only one club was below 60% and 11 clubs were above 70%.

- With the UEFA Financial Fair Play requirements continuing and the Premier League's Short Term Cost Control measure currently in force for 2014/15 and 2015/16, the wages to revenue ratio should remain close to or below the 60% threshold.

- We believe that in years to come 2013/14 will be seen as a turning point in Premier League club finances, not a blip. The continuation of cost control regulations beyond the 2015/16 season will help to ensure that this is the case.

- Total Championship wage costs exceeded £500m for the first time; rising by £56m to £518m in 2013/14, a 12% increase. Over the same period revenue rose by £54m to £491m (12%),

- The wages to revenue ratio was at 105%, the second consecutive season with a ratio of over 100%, and only the third occasion that this has been recorded in English football.

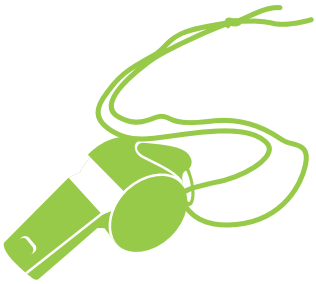
- Almost half the clubs in the Championship had wage costs greater than revenue and only three clubs had a ratio below 70%.

- League 1 wages increased by 14% to £124m, but the division's wages to revenue ratio decreased by seven percentage points to 84%, the second consecutive season of the ratio decreasing.

- League 2 wages decreased by 2% to £58m, but with revenues decreasing by 9% the wages to revenue ratio for the division rose by five percentage points to 74%.

- Total transfer spending across all 92 English league clubs in 2013/14 rose by £209m (25%) to exceed £1 billion for the first time, exceeding the previous record of £830m of 2010/11.

- Premier League clubs spent a combined gross total of £964m, a 34% increase on the £722m of 2012/13; with a record spend across the two transfer windows in the summer of 2013 and January 2014. This record will not last for long however, given the activity in the summer and January transfer windows of 2014/15.



Clubs were subject to the Premier League's Short Term Cost Control mechanism for the first time in 2013/14

Total Premier League wages in 2013/14

Club financing and investment

- The combined level of debt of all clubs in English football's top two divisions has fallen marginally, by less than 1%, since 2013.

- Premier League clubs' aggregate net debt reduced by £148m (6%) to £2.4 billion in 2014, with record levels of cash now present in balance sheets. This is thanks, in large part, to the Premier League's new broadcast deals.

- Soft loans – clubs' borrowings from their owners on interest-free terms – of £1.7 billion (2013: £1.6 billion) remain the largest component of Premier League clubs' net debt, accounting for 74% of the total.

- Nine Premier League clubs improved their net debt/funds position over the course of the 2013/14 season, most notably Arsenal, Aston Villa and Tottenham Hotspur who, together, reduced net debt by £205m.

- Aggregate net annual finance costs totalled £71m in 2014 (2013: £118m), and were covered almost nine times by aggregate operating profits of £614m. The equivalent ratio last season was 0.7. This statistic is the starkest illustration of the transformation of Premier League clubs' credit-worthiness in 2013/14.

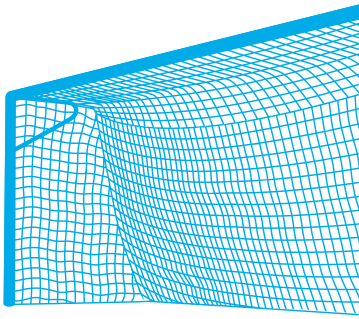
- Chelsea became the first club to record net debt of over £1 billion, with an increase of £57m in soft loans owed to Roman Abramovich during the 2013/14 season.

- Championship clubs' aggregate net debt increased by 12% to £1.1 billion at summer 2014. This is equivalent to more than twice the aggregate revenue of the clubs for 2013/14 and, as at summer 2014, only Blackpool were in a net funds position.

- 2014 represented the first calendar year since 1996 in which there were no insolvency events in the Football League, an indication that – helped by financial fair play regulations – clubs are now becoming more accustomed to 'living within their means'.

- 2013/14 was the first season since 2004/05 in which no new stadia were opened by Premier League or Football League clubs. In spite of this, the overall level of expenditure on capital facilities by England's 92 professional clubs in the season, of £280m, was the highest of all time.

- Capital investment by Premier League clubs totalled £212m in 2013/14, the highest annual spend since the Premier League began, and an increase of £76m (56%) on 2012/13. Spending was led by Manchester City (£94m) on the expansion of the Etihad Stadium and the City Football Academy project, with Southampton's new training ground and Tottenham Hotspur's ongoing stadium redevelopment project delivering a further £37m in capital expenditure.

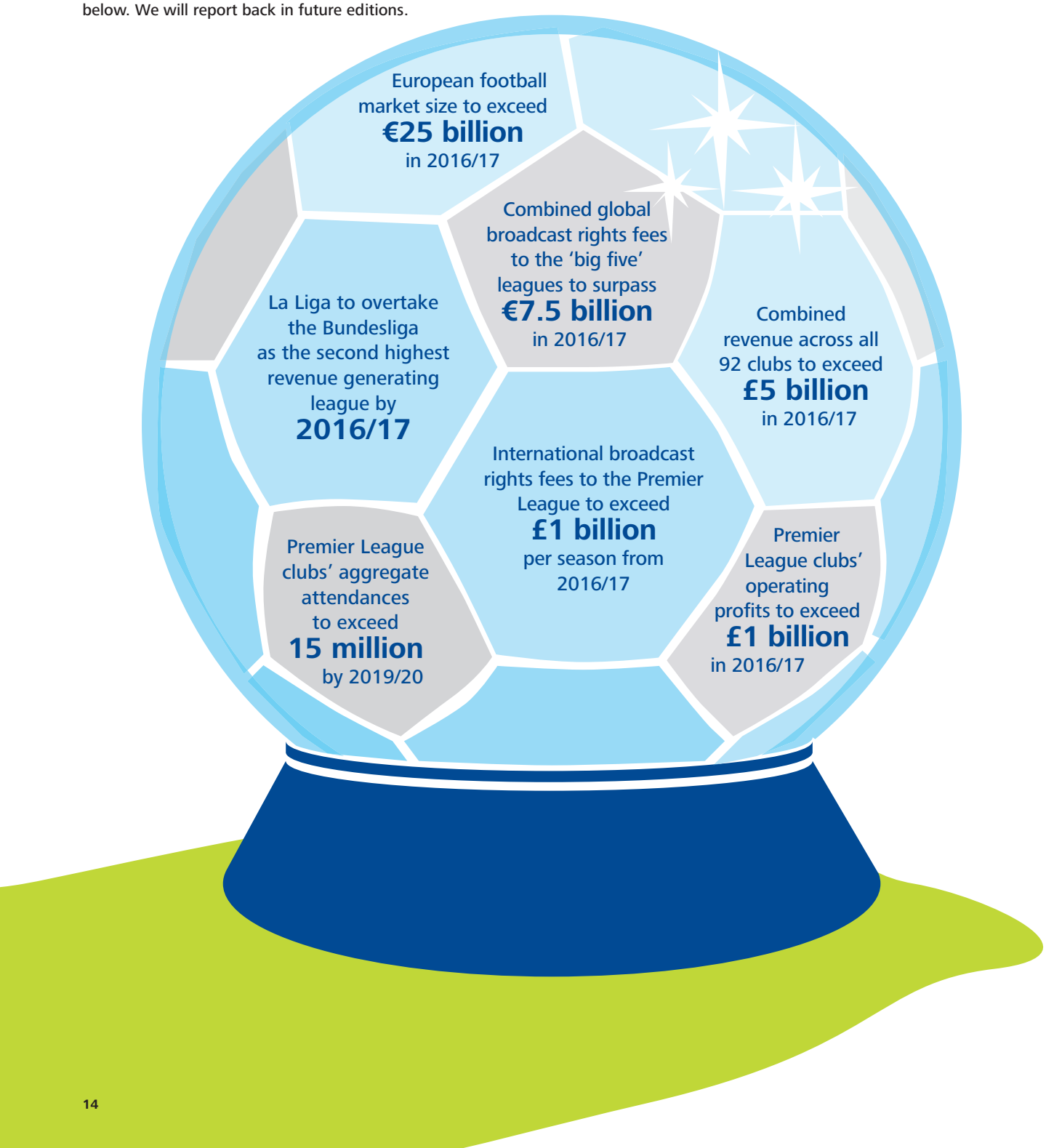


£2.4 billion

Aggregate net debt for the Premier League clubs

Sphere of influence

One of football's most appealing and valuable characteristics is its unpredictability, and two decades ago no-one foresaw its current riches. Nonetheless, we offer some hostages to fortune below. We will report back in future editions.



It's just not cricket

Richard Battle
Consultant

India is a country with a population in excess of 1.2 billion, and a football team that in early May 2015 ranked 147th in the world – just ahead of Curaçao. Such statistics are on occasion used to make the case that India is 'not a football country'.

Cricket is India's biggest sport, and India cricket's biggest market. By definition this makes the Indian Premier League (IPL), an eight team Twenty20 cricket tournament launched to much fanfare in 2008, a unique proposition. In terms of its profile, its commercial scale and the stature of the players it attracts it is unquestionably the world's biggest annual cricket competition.

The IPL's dominance has not stopped competitions of a comparable format being introduced in other sports, and nor should it. Whilst it is a vanishingly remote possibility that another sport could match or overhaul cricket's supremacy in India in any foreseeable future, such is the scale of the market that being in second place could nevertheless prove very valuable.

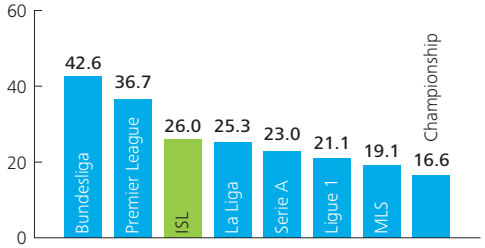
A new dawn

One such competition, The Indian Super League (ISL), was launched in 2014. From October, when the tournament kicked-off in front of a stadium packed with 65,000 fans, to December eight teams played a round robin tournament before the top four progressed into semi-finals. Atlético de Kolkata were crowned champions with a 1-0 win over Kerala Blasters in the final in Mumbai.

The competition is a venture between IMG, Reliance and Star. The involvement of Bollywood stars and cricketing icons in the ownership and management of franchises served to mitigate any risk that football was not culturally significant enough to capture the imaginations of the Indian population. Names such as Sachin Tendulkar, MS Dhoni and Ranbir Kapoor coupled with those of Alessandro Del Piero, David Trezeguet and Elano provided sufficient stardust to ensure the competition got the coverage it required.

As was the case for IPL, the inaugural season exceeded expectations. Total attendances reached almost 1.6m, at an average per match of 26,030. The tournament, which was broadcast in five different languages in India, was reportedly watched by 426m individual viewers.

Average attendance of ISL and selected global leagues (000s)



Note: ISL and MLS attendances are for the 2014 season; other attendances are for the 2013/14 season.
Source: IMG; ESPN; Deloitte analysis.

The road ahead

The above is testament to the scale of the opportunity for football in India, and will serve to place the tournament and its franchises in a strong position as they head into year two.

Short term focus for some may be on driving commercial values following a successful year one, but the medium to long term growth of the league will be dependent on a strategic approach to facilities, player recruitment and engaging with local and national markets.

In 2014 some clubs established partnerships with European football clubs, as they sought to import football-specific skills and knowledge from Western Europe. The opportunity and incentive to seek expertise from abroad remain; the success of such ventures will depend on the ability of ISL clubs to align their longer term interests, be they sporting or commercial, with those of their European counterparts.

We anticipate that in due course the market for the world's biggest sport in the world's second most populous country could support a commercially strong competition of more than eight teams. Expansion is likely to come with time, but for the immediate future the focus will be building on the existing foundations.

The Sports Business Group works closely with Deloitte member firms and clients around the world.

The Academy rewards?

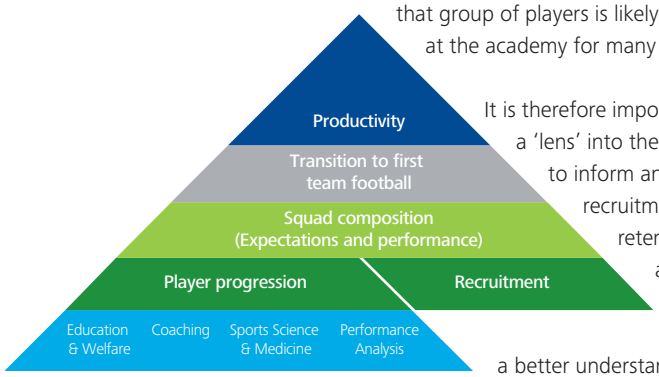
Andy Shaffer
Consultant

A strong youth system helps a club to achieve its desired categorisation under the Elite Player Performance Plan ("EPPP") and to attract talent and develop Home Grown Players for the benefit of the first team. It can also provide a financial return, something which is always welcome at a football club.

Since the Premier League introduced EPPP in 2012, clubs across the four English divisions have invested significant amounts in youth development. We estimate that Premier League clubs spend on average c.£5m each year on the academy, making it the second largest cost centre for most clubs, behind senior player costs. The multi-disciplinary approach which EPPP encourages has driven clubs to implement best practice across all areas of the academy. However, measuring the success of these inputs on the progression of players already in the academy, and the ability to recruit the right players to supplement the squads, remains a challenge. We believe that there is scope to supplement the progress brought about by EPPP with an additional framework, which can help to form the basis of discussion on the overall and on-going performance of the academy within the academy management team and with senior management from the wider club beyond the training ground.

Measuring sporting performance

Each academy will have a 'productivity' aim, e.g. to produce players who have a career in professional football. Whilst this is rightly the ultimate measure of an academy's success, it is inherently backward-looking. If players of the right standard do not emerge at around the age of 18, by then it is too late to act. The core of that group of players is likely to have been at the academy for many years.



It is therefore important to find a 'lens' into the academy to inform and support recruitment and retention decisions, and provide accountability. This includes a better understanding of the players at each age group, including squad composition and expected outcomes for each player, as well as their progress through the academy and transition to the first team. By doing so, the areas of strength/weakness within the academy can be identified, and it can support succession planning and recruitment needs, the effectiveness of which can also be better understood.

Measuring financial performance

Given the growing investment made by clubs into their academies, it is becoming increasingly important to be able to assess whether the academy is contributing value to the wider club, i.e. delivering a return on investment. It is commonly accepted that transfer and loan fees generated by academy products are one measure of this, but analysis rarely stretches beyond comparing these with overall academy expenditure.

It is also pertinent to consider, as some clubs do, the net cost of academy products once they make the first team in comparison to the net cost of players recruited from elsewhere and to do so in the context of their respective contributions to first team performance. As well as transfer and loan fees paid/received, this approach can also incorporate the wage costs of academy players compared with those of players recruited from elsewhere, and in doing so, provides a more accurate assessment of the financial value of an academy. The analysis can be extended to incorporate the overall running costs of the academy, such that they are effectively spread across the small proportion of academy products that reach the first team.

Our experience

Our recent work with clubs has been to develop a range of club specific key performance indicators to measure their respective academies' performance across the areas outlined above, which can be used as the basis to report progress and performance to a club's Board.

It provides a platform for academy managers to articulate the success of their academy, and for senior management to provide constructive challenge. It can also help to focus and direct investment into particular areas of the academy such that they generate better returns, i.e. identify areas with the greatest potential to achieve more value through incremental investment.

The Sports Business Group at Deloitte has provided assistance to Blackburn Rovers and Everton in the development and implementation of a framework to monitor the performance of the academy.

Basis of preparation

Basis of preparation
Our review of the financial results and financial position of English football clubs, 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 clubs 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.

Our review of the financial results and financial position of clubs in various European leagues, and comparisons between them, has been based on figures extracted from the company or group financial statements or from information provided to us by national associations/leagues.

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.

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.

Availability of financial information regarding football clubs
For the 2013/14 season there were several Football League clubs for which financial statements were not available to us at June 2015.

Divisional totals have been 'grossed up' to represent an estimate of the full divisional total for comparison purposes (from year to year or between divisions). Where necessary, the aggregate divisional totals for European leagues have been 'grossed up' in a similar manner.

Limitations of published information
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, are due to different commercial arrangements and how the transactions are recorded in the financial statements; or due to different ways in which accounting practice is applied such that the same type of transaction might be recorded in different ways.

The 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.

The aggregated results shown in this publication for the clubs in the top four divisions of English football are not a true consolidation exercise because transactions between clubs, such as the transfer of player registrations, are not eliminated.

Wage costs
The published financial statements of clubs rarely split wage costs between playing staff and other staff. Therefore, the great majority of references in this publication to wages relate to the total wage costs for a club/division, including playing and non-playing staff.

Exchange rates
For the purpose of our international analysis and comparisons we have converted all figures into euros using the average exchange rate for the year ending 30 June 2014 (£1 = €1.1958).

Contacts

Sports Business Group
Dan Jones, Paul Rawnsley, Alan Switzer, Austin Houlihan and Adam Bull
Telephone: +44 (0)161 455 8787
PO Box 500, 2 Hardman Street, Manchester, M60 2AT, UK
E-mail: sportsteamuk@deloitte.co.uk
www.deloitte.co.uk/sportsbusinessgroup

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited ("DTTL"), a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.co.uk/about for a detailed description of the legal structure of DTTL and its member firms.

Deloitte LLP is the United Kingdom member firm of DTTL.

This publication has been written in general terms and therefore cannot be relied on to cover specific situations; application of the principles set out will depend upon the particular circumstances involved and we recommend that you obtain professional advice before acting or refraining from acting on any of the contents of this publication. Deloitte LLP would be pleased to advise readers on how to apply the principles set out in this publication to their specific circumstances. Deloitte LLP accepts no duty of care or liability for any loss occasioned to any person acting or refraining from action as a result of any material in this publication.

© 2015 Deloitte LLP. All rights reserved.

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London EC4A 3BZ, United Kingdom.
Tel: +44 (0) 20 7936 3000 Fax: +44 (0) 20 7583 1198.

Graphic design: www.heliographic.co.uk