THE ANNUAL SURVEY OF FOOTBALL CLUB FINANCE DIRECTORS 2018

IS THE WHOLE PITCH BEING WATERED?

HOW FOOTBALL CLUBS AND INVESTORS ARE RESPONDING TO DEVELOPMENTS IN FOOTBALL FINANCES

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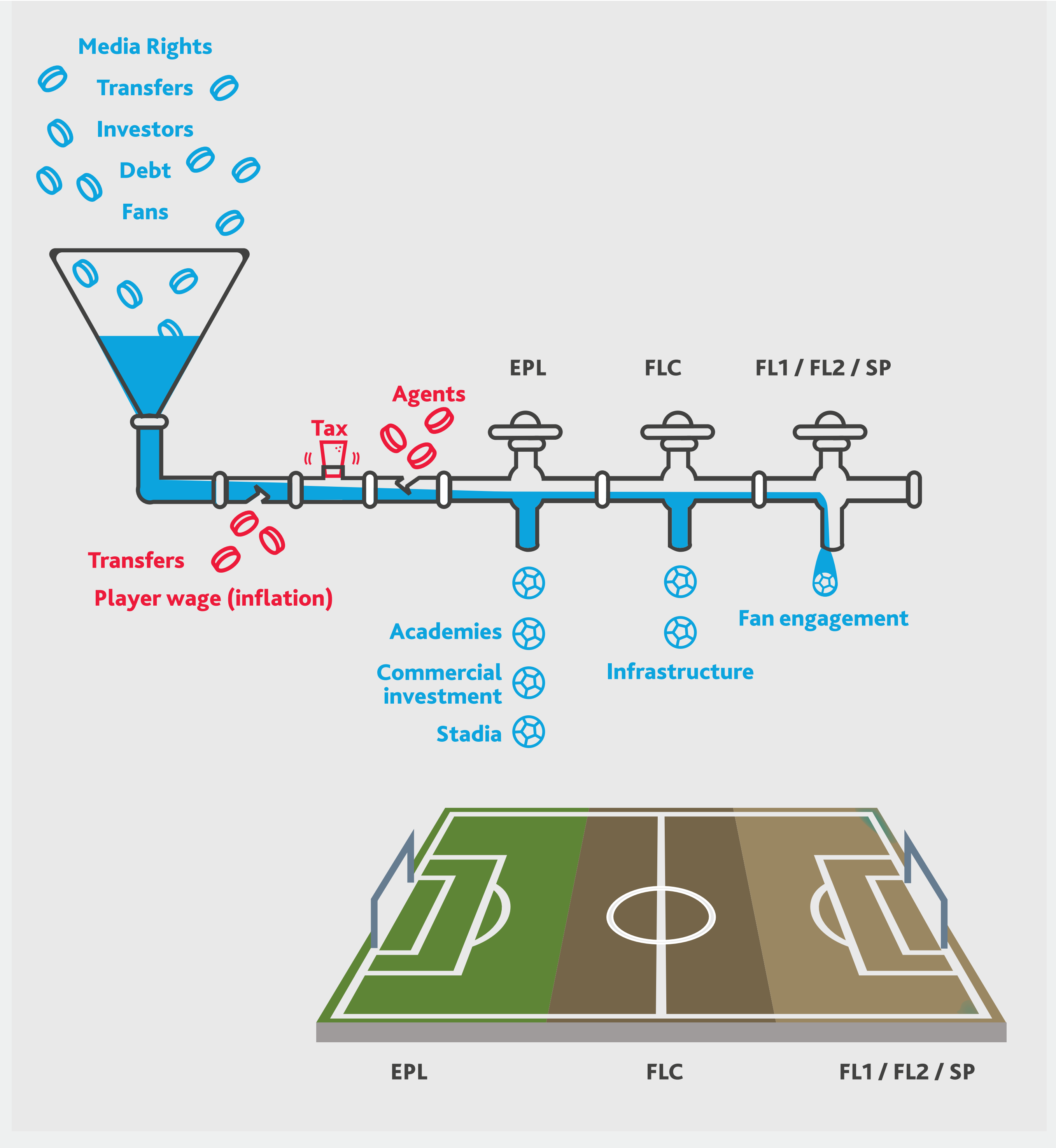
FOREWORD


Media Rights
Transfers
Investors
Debt
Fans
Tax
Agents
EPL
FLC
FL1 / FL2 / SP
Transfers
Player wage (inflation)
Academies
Commercial investment
Stadia
Infrastructure
Fan engagement
EPL
FLC
FL1 / FL2 / SP

IAN CLAYDEN
Partner,
Head of BDO Professional Sports

IS THE WHOLE PITCH BEING WATERED?

As I reflect on the 'strength and stability' reported prior to the start of the 2017/18 season (whilst enduring the 2018 heatwave and an imminent hosepipe ban), I am forced to wonder whether it was naïve to think that pumping more water into the system (of course I am referring to the enhanced EPL media rights) would not expose and in many ways exacerbate some of its embedded leaks and blockages.

£8.3bn of EPL media rights over three years (2016-19) raised the bar somewhat in 2016/17. However, this has inadvertently increased the pressure in the system. One year on, in 2018, only 50% of EPL clubs reported their financial position as 'very healthy', compared to 71% last year, which is no doubt a reflection that EPL clubs may have found it harder to resist the ensuing player wage and transfer fee inflation than they might have hoped. Nonetheless, with 70% and 89% expecting to make profits before and after player trading respectively, for the three-quarters of them who do not consider relegation in their top three concerns, the grass is still very much green – for now at least.

Of course, EPL optimism hinges on future media rights deals matching or exceeding the current packages. We believe media revenues are secure enough for the medium term so, if EPL clubs can keep a check on player wage inflation, they should remain in great financial shape.

Meanwhile, unlike the majority of the consumer-facing industries (retail and hospitality for example), the football sector, and sports sector more generally, are on the whole finding current economic conditions favourable. Our younger generations are increasingly active at the same time as being 'tuned-in' to sports via media channels.

This presents opportunities for all clubs to enhance fan engagement and is a huge draw for media and commercial partners alike.

For the most part, investors have turned their sights away from EPL clubs (no responding clubs received an offer of equity investment this year, albeit none of them were looking for one), no doubt cognisant of current owners' unwillingness to transact for anything less than a price that would give no viable exit for new investors. Investors may also be biding time until they can quantify the full impact of new media rights deals for 2019 onwards.

Investors with medium to long term growth (promotion) ambitions are still drawn to the Football League, and institutional investors now make up the largest proportion of interested parties exploring such opportunities. The vast majority of Football League and SP clubs have been subject to a formal or informal approach in the last 12 months. Far Eastern interest in football club investments has waned somewhat this year (subject to on-off outbound investment restrictions), but has been replaced by US interest (both for investment value potential and cross-franchise operational synergies). It seems in its current financial position, English football is always attracting someone, somewhere.

You may be sensing an 'However'....

...and here it is...

However, from our analysis of the information provided by FDs across all leagues, we are concerned about two major trends which are creating an increasing disparity between the leagues: the first being blockages to funds flowing through the divisions (footballs irrigation system if you will); the other being leakages from the system, which have been exacerbated by the increased wealth pouring into the system itself. Our survey has highlighted the following:

- Fewer clubs are reporting their financial position to be 'very healthy' compared to last year;
- Only one-in-five FLC clubs believe that, two years in, the enhanced EPL media rights have been positive for their club, with no FL2 or SP clubs sharing this view;
- 71% and 64% of FLC clubs are expecting to make losses before and after player trading respectively, which is higher than last year: three-quarters of which are spending more than two-thirds of their revenue on wages;
- No FL2 responding clubs will be profitable before player trading and less than a third will be profitable after player trading, most likely at the expense of strengthening their squads for the future;
- Fewer FL2 clubs (17%) are expecting to be profitable after player trading than was the case in 2016/17 (30%);
- Outside the EPL, over two-thirds of Football League clubs remain dependent on their principal shareholder to finance annual revenue shortfalls or operating losses; and
- Half of FL2 clubs' owners are looking to exit.

FOREWORD

Despite an acknowledgement that the EPL needs to retain most of the media rights it generates in order to stay 'elite' and perpetuate these revenues, there is increased dissatisfaction with the level of filtration of revenues down to the lower leagues, where clubs are indirectly finding themselves subjected to significant wage and transfer fee inflation. Rightly or wrongly, EPL self-interest and fierce competition for European places, or simply the avoidance of relegation, is creating blockages above the Football League. This is a concern for ongoing sustainability and competitiveness for which there is no immediately apparent natural market correction.

These blockages are exacerbated by leaks in the system, as the increased wealth that is being pumped in is being re-directed out of the domestic football system into areas; such as hyper-inflated inbound Premier League transfers, as well as increasing tax compliance costs and ever rising agents' fees.

So what might the solution be: should, and if so how should, football's wealth flow to strengthen the system? Is some level of interventionist correction required?

For Championship clubs, parachute payments are not the answer: I draw the reader's attention to Question 17 for respondents' views on this.

Suggestions that we have heard from our respondents, all of which are predicated on a need to support the wider infrastructure, include:

- requiring the EPL to be profitable with zero allowable losses (which would help stem wage inflation impacting on lower leagues);
- reducing 'leakage' from football clubs and players to agents (largely considered by clubs to be excessive, insufficiently regulated, and a prime example of unnecessary 'leakage');
- increase solidarity payments;
- salary caps that 'encourage' (require) break even or better across all leagues; and
- the EPL to provide long term, heavily discounted loans to EFL clubs for infrastructure development to counter the banks' risk aversion towards this part of the market (and reduce the direct financial pressure on shareholders).

We have acknowledged that Profitability and Sustainability rules are working. They are protecting clubs from excessive spending and, in the current climate, cost inflation. Our view is that these should remain, and evolve to best serve football as a whole. A more widely shared view is that when in place, such rules need to be strenuously enforced to keep the institution of football fair.

This sector is complex. It is also, at times, responsive. There is a symbiotic relationship between the different leagues and whilst there will always be those that resist change, one must conclude that in the long run, the sector and its audience, will benefit from collective health. The playing field cannot and should not be a level one, but the grass does need to be green at both ends.

On behalf of BDO and the readers of this report, thanks to all of our respondents for their trust and generosity in taking the time to complete our 2018 survey.

THE WORLD CUP

NOW THE DUST HAS SETTLED, ONE WOULD HOPE THAT THE SECTOR (ALONG WITH WAISTCOAT SALES) WILL BENEFIT FROM A POSITIVE **‘WORLD CUP EFFECT’.**

THE WORLD CUP

1. Who do you predict will win the 2018 World Cup?

- 15% of our respondents correctly predicted France to win the 2018 World Cup in Russia
- The spread was reasonably narrow with Germany (the most fancied at the start of the finals), Brazil, France and Spain receiving three-quarters of predictions. No-one predicted Croatia.

%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Germany	30%	30%	38%	25%	50%	0%
Brazil	17%	10%	23%	17%	17%	20%
France	15%	10%	23%	25%	0%	0%
Spain	15%	20%	8%	8%	17%	40%
Argentina	7%	10%	0%	8%	17%	0%
Belgium	4%	0%	0%	0%	0%	40%
England	4%	0%	8%	8%	0%	0%
Holland	2%	0%	0%	8%	0%	0%
No Idea	2%	10%	0%	0%	0%	0%
No reply	2%	10%	0%	0%	0%	0%

Base: 46

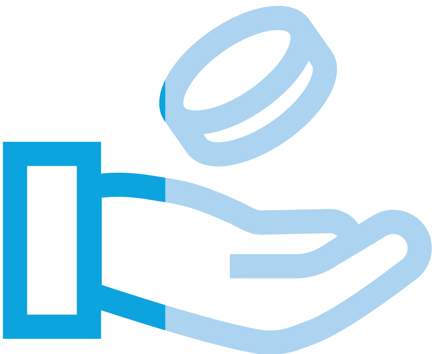
2. Which of the following stages of the World Cup finals do you predict England will progress through?

%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Group stage	11%	20%	8%	8%	0%	20%
Last 32	9%	10%	8%	0%	17%	20%
Last 16	36%	10%	38%	54%	50%	20%
Quarter finals	28%	50%	31%	15%	33%	0%
Semi finals	13%	10%	8%	15%	0%	40%
Final (win)	4%	0%	8%	8%	0%	0%

Base: 47

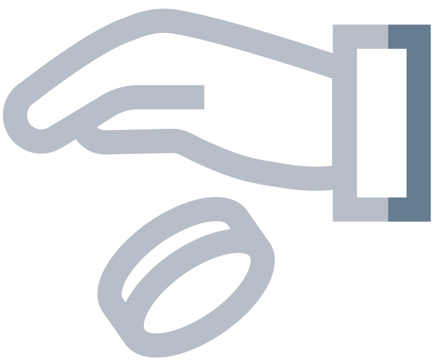
- Nearly three-in-ten respondents correctly predicted that England would progress through the quarter finals, being knocked-out in the semi finals. Half of EPL FDs made this prediction.

3. Do you expect the World Cup to be financially favourable or unfavourable for your club?



38%
FAVOURABLE

10%
UNFAVOURABLE

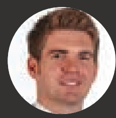


%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Favourable, principally on account of compensation payments for the clubs' participating players	24%	80%	29%	0%	0%	0%
Favourable, showcasing players and therefore increasing potential sales values	14%	10%	36%	0%	17%	0%
Unfavourable. Expected to drive up overall transfer values for international players	10%	10%	0%	8%	17%	33%
Other (please specify)	51%	0%	36%	92%	67%	67%

Base: 49

- With so many EPL players representing their countries in the World Cup, 80% of FDs were most looking forward to the FIFA compensation payments accrued whilst players were participating in the tournament. 29% of FLC respondents held the same view, demonstrating the international strength of this league
- Over one-third of FLC respondents considered the re-sale value benefits of showcasing their players on the world stage as being primarily beneficial. Given the international appeal of the EPL, its players typically don't need the exposure to create value
- FL1, FL2 and SP respondents were expecting the financial impact to be largely neutral, albeit with mixed views on whether a summer of football would increase or decrease interest in the season ahead. A number of commentators considered the performance of the England team as being an important factor in the level of footballing interest next season. Now the dust has settled, one would hope that the sector (along with waistcoat sales) will benefit from a positive 'World Cup Effect'.

FINANCING THE CLUB



SIMON HALL
Director, BDO Corporate Finance

THERE ARE TELL-TALE SIGNS THAT EPL CLUBS ARE BEGINNING TO FEEL SOME IMPACT OF **INFLATED PLAYER COSTS...**

... AND THERE APPEARS TO BE AN INCREASING DISPARITY BETWEEN THE FINANCIAL HEALTH OF CLUBS IN THE EPL AND FOOTBALL LEAGUES.

The enhanced media rights package for 2016-2019 has undoubtedly improved the financial health of top tier clubs over the last two years. However, there are signs that EPL clubs are finding life trickier in 2018, and there is an increasing disparity between the financial health of clubs in the EPL and Football Leagues, with lower league club FDs expressing increasing concern. The reader will note this as a recurring theme within this report.

As in 2017, no EPL clubs rated their financial position as 'in need of attention' or worse, which demonstrates in large part the scale of EPL media rights (clubs now receive minimum receipts of circa £100m each year) and the effectiveness of the FFP regulations, limiting clubs' expenditure. While this is a huge positive, there are tell-tale signs that EPL clubs are beginning to feel some impact of inflated player costs (both the cost of registrations and ongoing salaries). Just 50% of EPL FDs classed their club's health as 'very healthy' this year, compared with 71% last year, and more EPL clubs are turning to debt financing in order to fund player transfers.

Outside of the EPL, more FDs than we have seen since 2014 classify their clubs health as 'a cause for grave concern or on the verge of administration' (15% of FL1 and 17% of FL2). In the FLC, 21% of clubs suggest their financial position is 'in need of attention' (compared with 15% last year) and, as shown in section 6, 7% of the FLC expects to breach Profit and Sustainability Rules for the 2017/18 season, with a further 7% only avoiding breaches through selling players.

The majority of these clubs have highlighted that they are not self-sustaining, instead being reliant on player trading and funding from principal shareholders to finance annual revenue shortfalls or operating losses. 83% of FL2 clubs are looking to additional principal shareholder investment in order to strengthen their club.

Investment trends across the sector are mixed. For the first time in our survey, no EPL clubs surveyed said they were considering an exit in the next 18 months, and none of these have recently been subject to an approach from potential investors. Owners in the EPL appear to be enjoying the benefits of running (now profitable) football clubs, and clubs and investors alike are perhaps waiting to see the final outcome of the new EPL rights for 2019/22.

Outside of the EPL, there is more M&A activity but investors continue to be selective and considerate of clubs' wider potential, including factors such as brand, heritage, fan base, social media potential, location, real estate, and opportunities for tie-ins with their other investments.

When asked in 2017, no FLC club owners were known to be considering a sale, undoubtedly attracted by the lure of promotion to the EPL. However, 14% are now considering a sale, and approaches from outside investors have also increased to 36% (from 25% last year).

In FL1 and FL2, the majority of clubs have been subject to a formal approach from investors. Investors continue to see the highest potential for growth in equity value by seeking promotion out of FL2 or FL1. Interestingly, while few FL1 club owners intend to sell (8%), half of FL2 clubs surveyed said they were seeking a full or partial exit. This is rather telling as these clubs have also been sharing their concerns about their finances and their continued reliance on their shareholders.

Interestingly this year, investment opportunities have come from a wide variety of sources. Institutional investors now make up the largest portion of interested parties, principally in FLC and FL1 clubs, which would have been unheard of five or ten years ago, and we are also seeing sports franchises, in particular in the US, taking opportunities to invest in UK football clubs. The San Francisco 49'ers recent minority investment and tie-in with Leeds United and Wes Edens' (co-owner of Milwaukee Bucks NBA franchise) reported investment in Aston Villa are examples of sports franchises sharing their networks and expertise.

Much has been made in the press of the high levels of M&A activity from profile building investors over the last few years, in particular from the Far East. Indeed, they made up one-third of all approaches to clubs surveyed last year. This year, however, they accounted for only 13% of approaches to clubs across all leagues, with only six coming from the Far East. Demand from the Far East was curtailed on the back of reported restrictions over outbound investments from China, and recent press reports suggests restrictions are tightening rather than loosening.

It remains to be seen whether these investors will return on the back of the new media rights deal for 2019/22.

We have raised questions in the past about the slightly fickle nature of certain investor groups and the impact this fluidity could have on club values in the future. At the moment, when one group loses interest another presents itself. Logic dictates that if ultra high-wealth groups do not keep recycling interest, there could be a tipping point where values fall. However, this seems some way off.

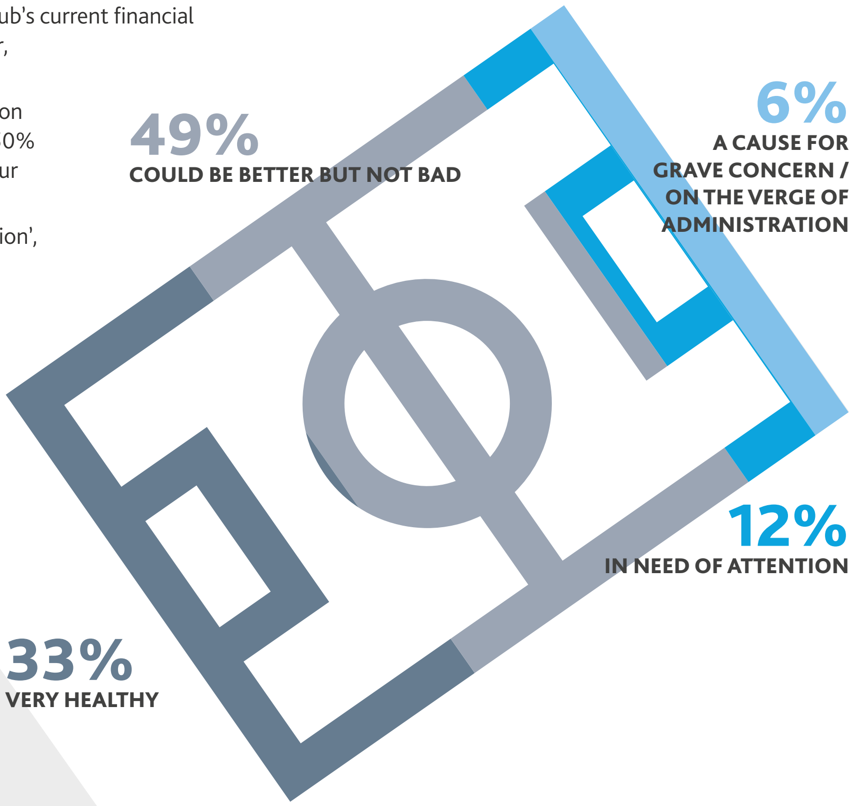
FINANCING THE CLUB

4. How would you rate your club's current financial position?

%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Very healthy	33%	50%	14%	38%	17%	50%
Could be better but not bad	49%	50%	64%	46%	33%	33%
In need of attention	12%	0%	21%	0%	33%	17%
A cause for grave concern / on the verge of administration	6%	0%	0%	15%	17%	0%

Base: 49

- More than four in five FDs asked, classified their club's current financial position as either 'very healthy' or 'could be better, but not bad'
- As in 2017, no EPL clubs rated their financial position as 'in need of attention' or worse. However, only 50% responded 'very healthy', compared with 71% in our 2017 survey
- In the FLC, one-fifth of clubs are 'in need of attention', a reflection of the high cost of maintaining competitiveness in one of the world's most challenging leagues. 15% of FL1 and 17% of FL2 FDs responded that their club's finances were a 'cause for grave concern'
- In FL2, half of the clubs surveyed said that their finances are 'in need of attention' or worse.

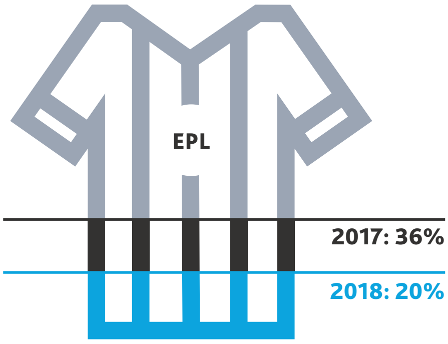


5. Is your club dependent on the principal shareholder(s) to finance annual revenue shortfalls or operating losses?

%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Yes	57%	20%	79%	62%	83%	33%
No	43%	80%	21%	38%	17%	67%

Base: 49

- Given the responses to Q4, it is no surprise to see that 80% of EPL clubs are self-sustaining, whereas the vast majority of clubs in the FLC, FL1 and FL2 are reliant on their shareholders to fund revenue shortfalls and operating losses
- Of the clubs surveyed in the SP, only 17% responded that their financial position was 'in need of attention', and only 33% were reliant on shareholders.



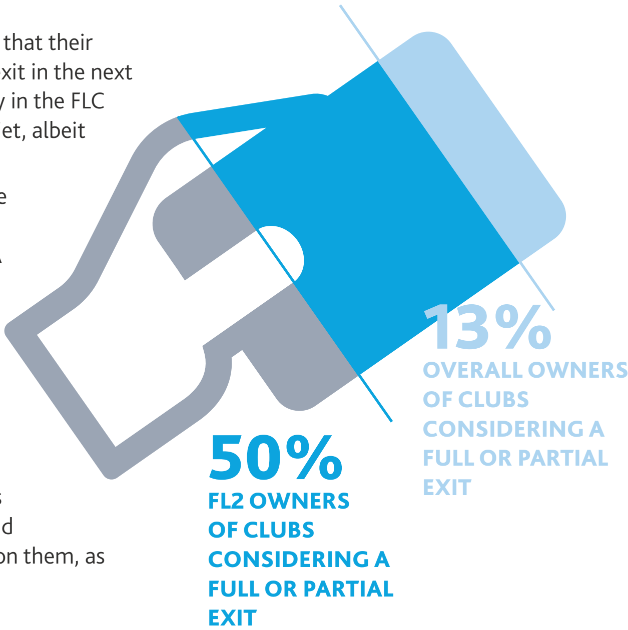
6. Are the current equity owners of the club considering a full or partial exit within the next 12 – 18 months?

%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Yes	13%	0%	14%	8%	50%	0%
No	88%	100%	86%	92%	50%	100%

Base: 48

NO EPL CLUBS RESPONDED THAT THEIR OWNERS ARE CONSIDERING AN EXIT IN THE NEXT 18 MONTHS.

- No EPL club FDs responded that their owners are considering an exit in the next 18 months, and sale activity in the FLC and FL1 is also relatively quiet, albeit a little up on last year
- While we are aware of some takeover speculation in the market, it is clear that M&A activity in football is quieter than we have seen for a number of years
- Rather tellingly, 50% of FL2 owners are seeking a full or partial exit, which could be driven by concerns over their clubs' finances and their continued reliance upon them, as highlighted above.



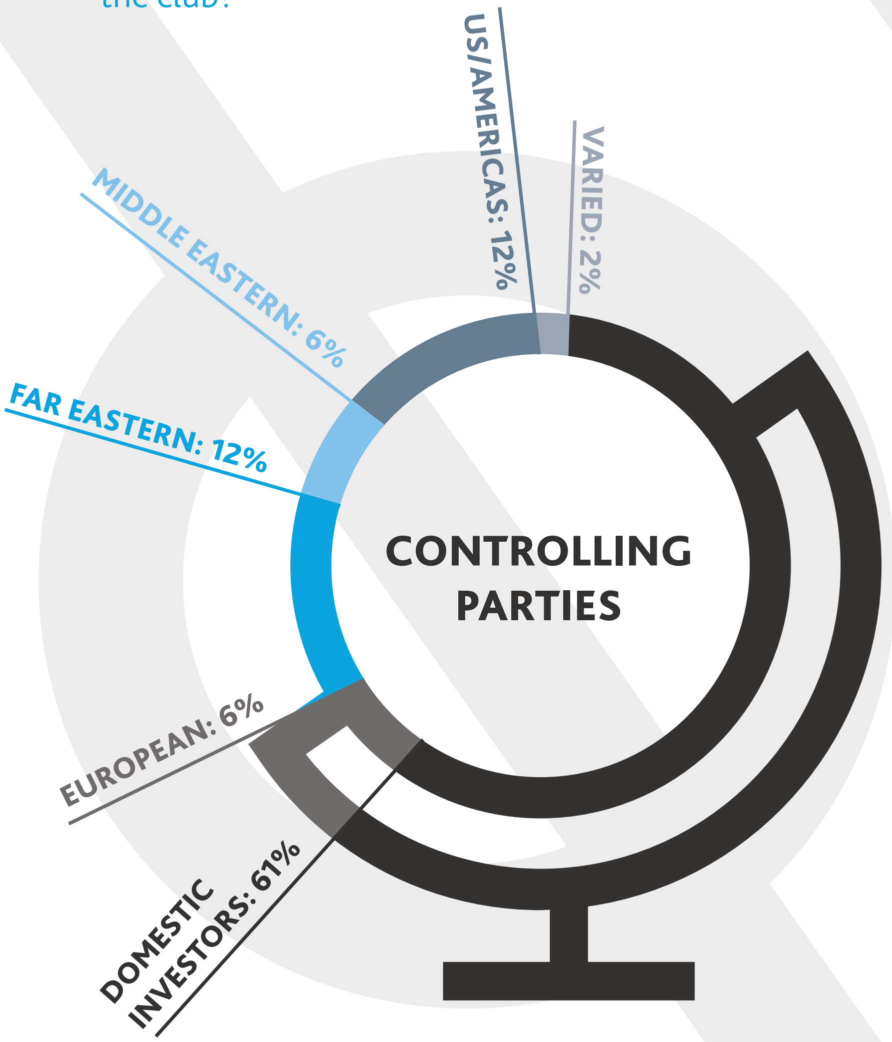
FINANCING THE CLUB

7a. As far as you are aware, within the last 12 months has the club been subject to an informal or formal approach from prospective investors with a view to taking an equity stake in the club?

%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Yes	40%	0%	36%	69%	50%	33%
No	60%	100%	64%	31%	50%	67%

Base: 48

- While fewer owners are considering a sale, 40% were subject to an approach from potential investors in the last 12 months. Interestingly, none of these clubs were in the EPL, which suggests too big a gap between what sellers want and what buyers are willing to pay. It is also likely that investors were/ are waiting to assess the final implications of the 2019-22 EPL rights deal once international rights have been concluded
- Further down the leagues is where investors appear to see the highest potential for growth in equity value, principally by seeking promotion from FL2 or FL1.



WE ARE ALSO SEEING SPORTS FRANCHISES, IN PARTICULAR IN THE US, **TAKING OPPORTUNITIES TO INVEST IN UK** FOOTBALL CLUBS.

7b. If yes, have these interested parties been:

- Continuing the upward trend of previous years, institutional investors now represent over a quarter of all formal approaches to football clubs, more than any other. There is particular appetite for FL1 clubs
- Last year, profile building investors, in particular from the Far East, made up one-third of all approaches to clubs surveyed. This year profile building investors accounted for only 13% of approaches to clubs across all leagues, with only six coming from the Far East
- We are also seeing sports franchises, in particular in the US, taking opportunities to invest in UK football clubs.

%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Institutional/investment portfolio investors	27%	0%	20%	36%	13%	33%
Long term supporters of the club	20%	0%	20%	7%	25%	67%
Football fans seeking entry into English or Scottish football	17%	0%	0%	21%	25%	0%
Other profile building or speculative investors	13%	0%	20%	14%	13%	0%
Other professional sport franchises	13%	0%	20%	14%	13%	0%
Other (please specify)	10%	0%	20%	7%	13%	0%

Base: 17

7c. If yes, have these interested parties been:

COUNT	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Domestic investors	9	-	1	4	3	1
Overseas investors:						
US / Americas	*10*	-	*2*	*5*	*2*	*1*
European	*2*	-	-	*2*	-	-
Middle Eastern	*5*	-	*1*	*2*	*2*	-
Far Eastern	*6*	-	-	*6*	-	-

Base: 17

7d. Are the club's current controlling parties:

- Overseas ownership remains most pronounced in the EPL and FLC, with FL1, FL2 and the SP being substantially dominated by domestic investors
- The share of EPL ownership attributable to European investors reduced slightly in favour of more Far East investors, which appear to be largely on the back of relegations from, and promotions to, the league as opposed to significant M&A activity. EPL ownership otherwise remains considerably diverse, which reflects its huge global appeal.

%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Domestic investors	61%	30%	43%	77%	100%	83%
Overseas investors:						
European	*6%*	*10%*	*14%*	*0%*	*0%*	*0%*
Far Eastern	*12%*	*20%*	*21%*	*8%*	*0%*	*0%*
Middle Eastern	*6%*	*10%*	*0%*	*15%*	*0%*	*0%*
US / Americas	*12%*	*30%*	*14%*	*0%*	*0%*	*17%*
Varied (more than one apply)	*2%*	*0%*	*7%*	*0%*	*0%*	*0%*

Base: 49

FINANCING
THE CLUB

8a. Other than promotion and avoiding relegation, what are your key strategies for development / growth in order to further strengthen the football club?

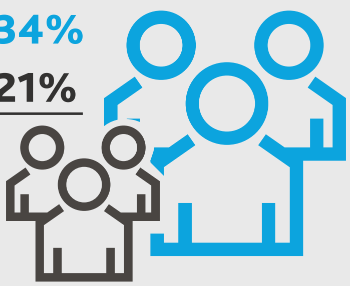
- Excluding promotion and relegation, growing the club's domestic fan base is by far the most common priority for FDs. 34% cited it as their top priority; 67% included it in their top four. Premier League club FDs appear to have set their sights broader, and this percentage is lower than average (46% of FDs included it in their top four) as they otherwise prioritise growing their international fan bases (48% included this in their top four)
- Alongside this, the good news for football fans is that improving fan engagement through marketing and communication featured highly (57% of clubs included it in their top four priorities).

%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Qualifying for European cup competitions						
1st	10%	29%	0%	0%	0%	18%
2nd	3%	11%	0%	0%	0%	0%
3rd	0%	0%	0%	0%	0%	0%
4th	5%	0%	10%	6%	0%	0%
Obtaining additional principle shareholder investment						
1st	7%	0%	0%	6%	50%	0%
2nd	0%	0%	0%	0%	0%	0%
3rd	3%	5%	0%	7%	0%	0%
4th	15%	23%	10%	6%	33%	20%
Creation of an international football group						
1st	3%	14%	0%	0%	0%	0%
2nd	0%	0%	0%	0%	0%	0%
3rd	3%	9%	0%	0%	0%	0%
4th	8%	15%	10%	6%	0%	0%
Growing the clubs domestic fan base						
1st	34%	21%	64%	38%	17%	18%
2nd	21%	11%	19%	25%	50%	20%
3rd	9%	14%	0%	13%	17%	0%
4th	3%	0%	0%	0%	17%	20%
Growing the clubs international fan base						
1st	3%	0%	14%	0%	0%	0%
2nd	13%	28%	10%	8%	0%	0%
3rd	9%	5%	24%	7%	0%	0%
4th	7%	15%	10%	0%	0%	0%
Diversification into other leisure activities (hotels, restaurants & bars, travel & tourism, retail)						
1st	7%	0%	0%	6%	17%	18%
2nd	8%	6%	10%	17%	0%	0%
3rd	8%	5%	6%	7%	17%	20%
4th	15%	15%	14%	19%	17%	0%

GROWING THE CLUBS DOMESTIC FAN BASE

1ST 34%

2ND 21%



8a. Continued

PREMIER LEAGUE CLUBS ARE ACUTELY AWARE THAT KEY TO BROADENING THEIR FAN BASE AND INCREASING FAN ENGAGEMENT IS **QUALIFICATION FOR EUROPE.**

QUALIFYING FOR EUROPEAN CUP COMPETITIONS

%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Monetising data sets and exploiting media rights (streaming of club generated content for example)						
1st	2%	0%	7%	0%	0%	0%
2nd	13%	6%	19%	25%	0%	0%
3rd	11%	23%	0%	7%	0%	20%
4th	7%	8%	10%	0%	0%	20%
Further investment into women's football						
1st	3%	7%	0%	0%	0%	9%
2nd	2%	0%	5%	0%	0%	0%
3rd	12%	14%	18%	13%	0%	0%
4th	5%	0%	5%	6%	17%	0%
Development of academy facilities						
1st	10%	7%	0%	19%	17%	9%
2nd	18%	17%	14%	17%	17%	40%
3rd	14%	5%	18%	20%	0%	40%
4th	13%	8%	14%	19%	17%	0%
Improving fan engagement and experience (communicating with fans, SMS, emails and other digital content)						
1st	7%	7%	0%	6%	0%	18%
2nd	15%	22%	14%	0%	17%	20%
3rd	20%	9%	24%	20%	67%	0%
4th	15%	0%	19%	25%	0%	20%
Other real estate development / investment / stadium expansion						
1st	15%	14%	14%	25%	0%	9%
2nd	8%	0%	10%	8%	17%	20%
3rd	11%	14%	12%	7%	0%	20%
4th	8%	15%	0%	13%	0%	20%

Base: 49

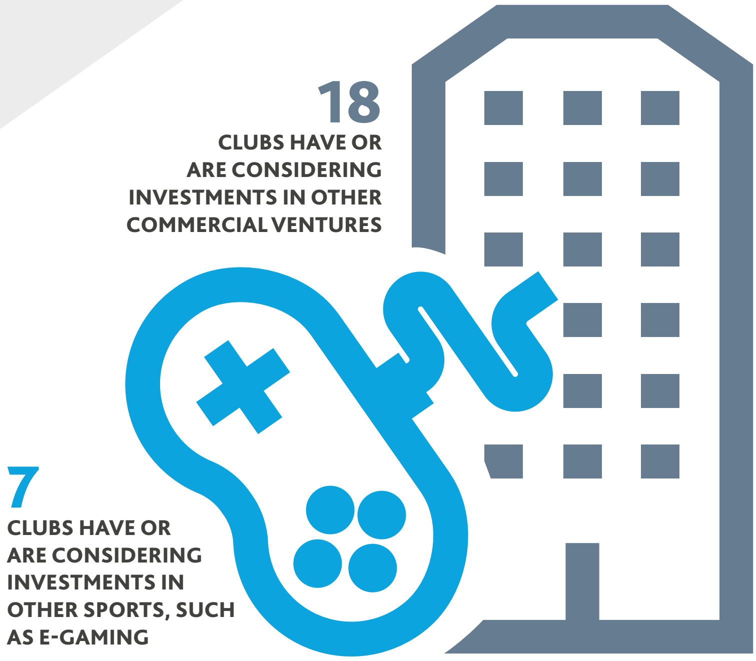
- 40% of EPL clubs cited qualifying for European cup competitions in their top two priorities, a higher priority than any other
- With considerable player cost and salary inflation, clubs are also looking to broaden their profit centres in order to diversify and drive growth and profitability. Development of academy facilities featured in 55% of clubs' top four priorities, other real estate development featured in 42%, and diversification into other leisure activities (eg hotels, restaurants & bars, etc.) featured in 38%, albeit weighted towards the lower leagues.

08b. Have you undertaken or are you considering any areas of expansion/ growth for your club?

COUNT	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Investment in other sports, such as e-gaming	7	2	3	2	-	-
Strategic alliances with overseas clubs	9	4	2	2	1	-
Strategic tie-ins with clubs from other sports (eg American Football, Rugby, Basketball, etc.)	11	1	5	3	1	1
Investment in other commercial ventures (eg hotels, etc)	18	5	6	4	1	2
Other (please specify)	2	1	-	1	-	-

Base: 30

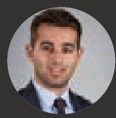
- Just under two-thirds of our sample are considering expansion into entirely separate commercial operations entirely; 20 responsdees cited tie-ins with overseas clubs or other sports, with 18 considering other commercial ventures such as hotels. In addition to broadening clubs' revenue streams, this has the added benefit for EPL clubs of increasing their salary cap (a £1 increase for every £1 in revenue from new operations, subject to certain conditions)
- The emergence of e-gaming over the last few years undoubtedly created a stir in domestic football, with Manchester City and West Ham examples of clubs that have set up their own e-sports teams in recent years. However, FDs appear largely cautious about following suit, with e-gaming only featuring in seven clubs' plans, two of which are in the EPL.



THE EMERGENCE OF E-GAMING OVER THE LAST FEW YEARS UNDOUBTEDLY CREATED A STIR…

… HOWEVER, CLUBS APPEAR LARGELY CAUTIOUS, WITH E-GAMING ONLY FEATURING IN SEVEN CLUBS' PLANS.

DEBT AND INVESTMENT



NICOLAS JACOBSON
Manager, BDO Transaction Services

WHILE CLUBS PRINCIPAL INVESTMENT FOCUS REMAINS - AS IT WAS LAST YEAR - ON DEVELOPING ACADEMIES, JUST AS MANY CLUBS ARE ALSO **CONSIDERING STADIUM EXPANSION**

In efforts to expand their revenue streams, it is evident that clubs are looking broader than core footballing activities. Clubs have targeted strategic alliances with overseas football clubs and other sports franchises, and even expansion into other commercial ventures such as hotels, restaurants and leisure centres.

Closer to home, as player transfer costs and salaries continue to soar, FDs' principal investment focus remains - as it was last year - on developing youth academies. As well as being a cost effective way of contributing new talent to the first team squad, clubs are seeing them become profit centres in themselves; augmenting profits and cash flows for EPL clubs, or being used to offset operating losses (and perhaps avoid FFP sanctions) in the FLC and lower leagues. We hope this is also positive news for the Home Nations as sights turn to the next wave of domestic talent ahead of the 2020 European Championship and 2022 World Cup.

One surprise this year is that just as many clubs as six-in ten clubs are also considering stadium development. Clubs are telling us that this is not just about increasing capacity, but also a focus on improving the technology and facilities within Stadia in order to improve fan engagement and better utilise social media. Spurs' new Stadium is being heralded as the next benchmark for this. This is good news for fans but also important for clubs wanting to future-proof their live spectator base.

Funding this investment, lower league clubs are predominantly relying on shareholder investment, whereas EPL clubs are now more able to attract debt funding in addition to free cash.

It is evident from our survey that the debt market for football clubs is evolving, albeit we would caution that there is some way to go. The improved financial stability of EPL clubs over recent years has attracted recognised financial lenders to the market. This has been further aided by the Profitability and Sustainability rules, the preferred football creditor rule, and eligibility criteria enforced by the EPL over lenders.

That said, financial institutions rely on sustainability of returns, and predictability of future cash flows, both of which are undermined by the risk of relegation. As a result, lending is predominately short-term and leveraged on secure, contracted income streams like EPL distributions, EPL parachute payments and player transfer receivables.

We have seen banks becoming more flexible with their terms, for example, by granting variable overdrafts and building ratchets based on league position and relegation, but we predict it will be some time (if ever) before we see more standard debt facilities and medium-to-long term loans becoming commonplace in football.

There is also a clear disparity between the EPL, and the SP and Football Leagues. The smaller clubs that arguably need financing the most in order to expand, don't appear to have enough access to it, due to lack of predictable and secure profits. The FLC and EFL clubs surveyed are largely echoing the same themes, that they feel the sector is finding it difficult to shake off its bad reputation with banks.

Unless there is a material change in the way media rights distributions flow to lower leagues, clubs will continue to be reliant on shareholder funding to fund investment plans.

THE SMALLER CLUBS THAT WOULD MOST BENEFIT FROM EXPANSION FINANCE, DON'T APPEAR TO HAVE ENOUGH ACCESS TO IT, DUE TO **LACK OF PREDICTABLE AND SECURE PROFITS**

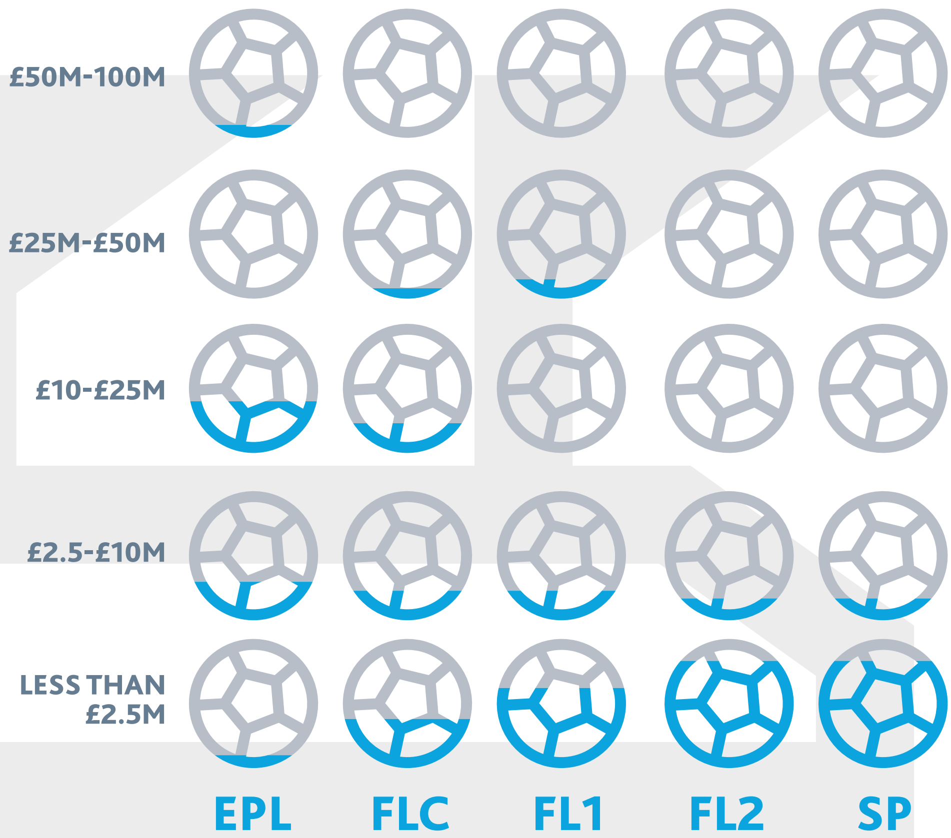
DEBT
AND INVESTMENT

09. What is the projected level of your non-player capital spend during the next two years?

%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Less than £2.5m	50%	10%	38%	62%	83%	83%
£2.5-£10m	23%	30%	23%	23%	17%	17%
£10-£25m	15%	40%	23%	0%	0%	0%
£25m-£50m	6%	0%	8%	15%	0%	0%
£50m-100m	2%	10%	0%	0%	0%	0%
Other	4%	10%	8%	0%	0%	0%

Base: 48

- As expected, EPL clubs are investing significant amounts in capex, principally on stadia, with 20% of respondents spending in excess of £50m (one of which spending in excess of £100m). However, we are seeing similarly significant amounts being spent in the FLC, and even one club in FL1 spending between £25m - £50m.



10. Are you considering any of the following areas of investment/ commercial expansion in the next 12/18 months?

COUNT	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Stadium expansion	28	7	7	8	3	3
Academy development/ expansion	28	4	8	9	3	4
Residential real estate investment/development	11	2	3	3	1	2
Commercial real estate development	12	2	3	4	1	2
Hotel/restaurant/other commercial property development	17	4	6	4	2	1
None of the above	6	2	1	-	2	1

Base: 49

ONLY SIX CLUBS ACROSS ALL LEAGUES ARE NOT CONSIDERING SOME FORM OF INVESTMENT OR COMMERCIAL EXPANSION.

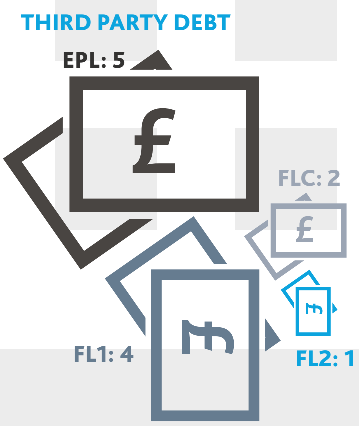
- Only six clubs across all leagues are not considering some form of investment or commercial expansion, which highlights the desire of clubs to constantly grow and develop
- Once again, academy expansion features at the top of clubs' expansion plans, but is this year joined by stadium development. Where 28 clubs are considering stadium developments, compared with 17 last year.

11. How will this be funded?

COUNT	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Cash	22	6	3	7	2	4
Shareholder investment (debt or equity)	25	2	11	6	3	3
Third party debt	12	5	2	4	1	-

Base: 41

- Clubs expect to finance their expansion principally through cash and shareholder investment.



DEBT AND INVESTMENT

12. Has your club used funding from a secondary source (i.e. not main bankers) secured on any of the following in the last year?

%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Advance on Media/Central distributions	9%	20%	15%	0%	0%	0%
Advance season tickets - one year	7%	0%	0%	25%	0%	0%
Advance season tickets - two or more years	0%	0%	0%	0%	0%	0%
Player transfer fee receivables	22%	11%	38%	8%	33%	17%
Bonds	4%	0%	8%	0%	0%	17%
Crowd Funding	4%	0%	0%	8%	17%	0%
Other receivables	5%	11%	0%	0%	17%	0%

Base: 47
(Note: does not add to 100% as only includes the 'yes' response).

- With the ever-increasing cost of signing players, it is no surprise to see the factoring of player transfer fee receivables as the most popular source of external finance. This is largely inevitable with the vast majority of transfers having deferred payment terms. Player transfer fees are typically settled in tranches (50% up front and 50% in 12 months, or three payments over 18 to 24 months). Clubs, particularly in the FLC, are choosing to realise receivables as soon as possible, to be immediately deployed for investment in new players and investment activities, or to fund operating losses
- Media distribution advances (typically central distributions for EPL clubs or EPL Parachute payments for FLC clubs) remain the second most popular source of debt financing
- As well as being contracted, predictable income sources, EPL media distributions and player transfers to and from EPL clubs have the added benefit of being backed by the Premier League, which makes them lower risk for financial institutions.

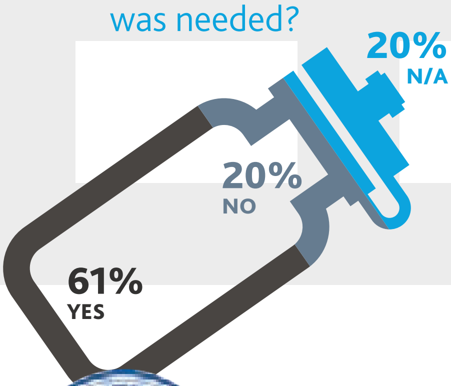
13. Are you currently seeking third party debt finance?

%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Yes	18%	40%	14%	15%	17%	0%
No	82%	60%	86%	85%	83%	100%

Base: 49

- When compared with the other leagues, a higher portion of EPL clubs are currently seeking debt finance, as you might expect given the debt opportunities and liquidity available to them
- Further down the leagues, fewer than one-quarter of all clubs are seeking debt finance
- The continued support of shareholders (often interest free or at heavily discounted rates); the comparably high cost of debt offered to football clubs (reflecting perceived risk), and the lack of third party debt below the EPL.

14. Do you feel there is sufficient debt liquidity in the market, such that your club could obtain third party debt finance if it was needed?



%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Yes	61%	90%	69%	58%	33%	20%
No	20%	0%	0%	25%	50%	60%
N/A	20%	10%	31%	17%	17%	20%

Base: 46

- Across the leagues, only 61% of clubs are telling us that they feel sufficient debt liquidity is available (noting that 20% are not seeking debt). This is up from 55% last year
- It is the EPL that has benefitted most over the last year, as for the first time in our survey's history, all EPL clubs said that there was sufficient debt availability in the market. The main challenge EPL clubs face is the types of finance available, as traditional term loans are still extremely rare in the marketplace because of the risk of relegation
- A selection of club quotes are below.

THERE IS SUFFICIENT FINANCE AVAILABLE FOR EPL CLUBS...

RELEGATION IS THE KEY RISK.

THE **REPUTATION** OF FOOTBALL IS THE **BIGGEST OBSTACLE** TO OBTAINING FINANCE AT COMPETITIVE RATES.

PURE FOOTBALL FUNDING REMAINS **VERY DIFFICULT** WITH BANKS APPEARING LESS AND LESS KEEN TO WORK WITH ANY CLUBS **OUTSIDE THE PREMIERSHIP.**

REVENUE AND PROFITABILITY

IAN COOPER
Partner, BDO Corporate Finance

Whether through self-control or well-positioned regulatory control (Profitability and Sustainability measures), two years into the enhanced 2016-19 media rights deal, EPL clubs appear to have protected themselves from wage inflation to the extent that 70% and 89% are expecting to make profits before and after player trading respectively.

EPL clubs have absolute limits imposed on player wages under Short Term Cost Control (STCC) rules, albeit these can be flexed with increased commercial income, so this drives their wages KPI result. A similar number of EPL clubs are spending less than 55% of their turnover on wages as in 2016/17 where 55% of responding clubs were in this range. No EPL clubs are spending in excess of 65% of turnover on wages, compared to one-in-ten clubs last year, and 57% of EPL clubs are spending less than 55% of their turnover on wages.

However, we are seeing increased dissatisfaction with the way revenues generated at the highest level are filtering through to the lower leagues.

The FLC has experienced some indirect up-side with player transfer inflation giving clubs profits on disposal of players acquired in previous seasons. However, 71% and 64% are expecting to make losses before and after player trading respectively and only one-in-five clubs believe the enhanced media rights have had a positive impact on their club. Two-in-five clubs believe that wage inflation has exceeded revenue growth - clearly a concern when three-quarters of clubs spend over two-thirds of their revenues on wages and more than half spend more than three-quarters of their revenues on wages.

This level of losses (albeit allowable within the parameters of FFP) increases further in FL1 and FL2, despite relatively well controlled spending on wages as a proportion of turnover. It is a concern of ours that fewer FL2 clubs (17%) are expecting to be profitable after player trading than was the case in 2016/17 (30%). Previously we expected the waterfall impact of enhanced EPL media rights to create higher 'feeder-club' wealth for lower league clubs. This is not yet the case for FL2 clubs and the impact on the FLC and FL1 is not yet meaningful. One contributing factor to this is clubs finding it relatively more economical to look overseas for new talent.

In response to an open question regarding the one change that FDs would like to see to the financial structure of English and Scottish football, we noticed an overwhelming call for a more equal distribution of income to improve competitiveness and bridge the gap between leagues. Coming from the FDs themselves it is hard to overlook this appeal for change.

Notwithstanding the above income distribution debate, Football League and SP clubs are making the best of current economic conditions, generating favourable year-on-year trends in season ticket sales, merchandising, match-day catering, corporate entertaining, and sponsorship. This trend is expected to continue into 2018-19.

There are some inconsistencies in commercial performances between divisions but, on balance, football, along with other sports, is holding the consumer's attention and, as other sectors such as retail, restaurants and bars experience difficulties, the sports sector is showing resilience. Our younger generations are increasingly healthy and active and this is a trend to be capitalised on by football clubs who promote such behaviours and play an active role in their communities.

And finally, within the football sector, there is virtually no financial optimism associated with Brexit. A quarter of respondents anticipate a negative impact - most likely driven by the impact on freedom of movement - whilst nearly three-quarters expect no net impact.

INTERESTINGLY, **PARACHUTE PAYMENTS ARE NOT CONSIDERED TO BE PART OF THE ANSWER TO FAIR DISTRIBUTION OF WEALTH.** ACROSS THE EFL, NO RESPONDENTS CONSIDER PARACHUTE PAYMENTS TO BE TOO LOW - RATHER AT LEAST HALF CONSIDER THEM TO BE TOO HIGH AND ANTI-COMPETITIVE, WITH CLUBS USING THEM AS A PLATFORM FROM WHICH TO PUSH FOR PROMOTION.

REVENUE AND PROFITABILITY

15. Do you expect to make a profit **before** player trading and amortisation in your 2017/2018 accounting period?

%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Yes	37%	70%	29%	23%	0%	67%
2017 Yes	*43%*	*93%*	*23%*	*18%*	*30%*	*33%*
No	61%	30%	71%	77%	100%	17%
Don't know	2%	0%	0%	0%	0%	17%

Base: 49

- In the second year of the 2016-19 enhanced media rights we are observing a counter-intuitive movement in pre-player trading results for EPL clubs.
- 70% of EPL respondents are expecting to make a profit for 2017/18, down from 93% in 2016/17. That said, this is still a level of profitability not seen prior to 2016/17 and is therefore positive for the highest level of English football
- FLC and FL1 clubs are showing modest reductions in the number of clubs expecting to make a loss before player trading. This might suggest that some wealth is indirectly flowing down from the EPL. Below we will see that this appears to be true for FL1 clubs but for FLC clubs this is not widely considered to the case. In the FLC two-fifths of clubs are experiencing wage inflation in excess of revenue growth and one-fifth are seeing wage inflation match revenue growth. More likely within the FLC this moderate improvement can be accredited to improved commercial management
- With no FL2 clubs respondents expecting to be profitable before player trading, this raises serious questions over sustainability in the lower leagues.

1 IN 5 CLUBS ARE SEEING INCREASED REVENUES BEING MATCHED BY WAGE INFLATION.

16. Do you expect to make a profit **after** player trading and amortisation in your 2017/18 accounting period?

%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Yes	44%	89%	36%	31%	17%	50%
2017 Yes	*41%*	*57%*	*38%*	*27%*	*30%*	*67%*
No	54%	11%	64%	69%	83%	33%
Don't know	2%	0%	0%	0%	0%	17%

Base: 49

- In 2016/17, fewer EPL clubs (57%) were profitable after player trading than before it (93%). This has reversed in 2017/18 with 89% profitable after player trading against 70% profitable before it. In addition to the impact of increased player wages restricting pre player trading profits, this trend suggests that an overall inflationary impact of media rights on player transfer values is bedding-in with historic player purchases now generating higher profits on their way out
- FLC and FL1 clubs are more likely to be profitable after player trading for the same reasons. However, in the passage of time, unless transfer values continue to rise this may reverse
- Fewer FL2 clubs (17%) are expecting to be profitable after player trading than was the case in 2016/17 (30%).

17. What has been the impact of the current economic conditions on the following revenue streams in the current financial year?

- Commercially, current economic conditions have been favourable for football clubs, certainly more so than other areas of the consumer facing economy. In particular, FLC clubs have seen overall favourable trends in season ticket sales, merchandising, match-day catering, corporate entertaining, and sponsorships
- Conversely, the EPL has not generally seen improvements in these areas. We know that for a number of clubs this is in part due to more conservative pricing in response to higher media rights receipts
- Improved season ticket sales across the English Football League and SP was, based on our 2016/17 survey results, not entirely expected but is hugely encouraging and a credit to the level of club and fan engagement in these leagues
- There is clearly still appetite for corporate entertaining as demonstrated by a relatively net neutral position when looking at the leagues as a whole. However, spend is migrating away from the EPL towards the FLC. Ever increasing competitive football in the FLC is certainly making hospitality more attractive but other factors such as MIFID II, a European Parliament directive on conduct of business that includes guidelines on hospitality, is thought to be having an adverse impact on high-end hospitality. and may well be benefiting FLC clubs at EPL clubs' expense
- Sport and sponsorship remain inseparable and EFL and SP clubs have benefited in this area this year whilst there has been little change in the EPL. Sponsors are increasingly demanding with regard to 'activation' of sponsorship ('partnership arrangements') and fan engagement, and clubs are increasingly sophisticated in their delivery of this. It is worth noting that the gulf between EPL and EFL sponsorship values remains significant and this exacerbates the financial impacts of promotion or relegation.

COUNT	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Season ticket sales						
Improved >5%	20%	0%	43%	15%	33%	0%
Improved <5%	22%	10%	21%	23%	33%	33%
No Impact	41%	70%	21%	46%	17%	50%
Reduced <5%	12%	20%	7%	15%	17%	0%
Reduced >5%	4%	0%	7%	0%	0%	17%
Match tickets						
Improved >5%	14%	0%	29%	8%	33%	0%
Improved <5%	16%	20%	7%	15%	17%	33%
No Impact	33%	50%	29%	38%	17%	17%
Reduced <5%	24%	30%	21%	31%	17%	17%
Reduced >5%	12%	0%	14%	8%	17%	33%
Merchandising						
Improved >5%	16%	0%	36%	8%	33%	0%
Improved <5%	8%	0%	0%	8%	33%	17%
No Impact	51%	40%	50%	69%	17%	67%
Reduced <5%	20%	60%	14%	8%	17%	0%
Reduced >5%	4%	0%	0%	8%	0%	17%
Match day catering						
Improved >5%	13%	0%	29%	0%	17%	17%
Improved <5%	19%	20%	21%	17%	17%	17%
No Impact	50%	70%	29%	67%	33%	50%
Reduced <5%	10%	0%	14%	17%	17%	0%
Reduced >5%	8%	10%	7%	0%	17%	17%
Corporate entertaining packages						
Improved >5%	17%	10%	31%	15%	0%	17%
Improved <5%	15%	0%	15%	8%	67%	0%
No Impact	40%	60%	31%	38%	0%	67%
Reduced <5%	19%	20%	23%	23%	17%	0%
Reduced >5%	10%	10%	0%	15%	17%	17%
Sponsorships						
Improved >5%	27%	0%	36%	31%	50%	17%
Improved <5%	18%	20%	29%	15%	0%	17%
No Impact	35%	60%	21%	31%	17%	50%
Reduced <5%	10%	20%	0%	15%	17%	0%
Reduced >5%	10%	0%	14%	8%	17%	17%

Base: 49 for each, except for Matchday catering and Corporate entertaining 48

REVENUE AND PROFITABILITY

18. What effect do you expect economic conditions to have on your 2018/19 revenue streams compared with the season just ended?

- The current trends (on the previous page) are broadly expected to continue over the forthcoming season.
- Corporate entertaining is expected to continue to migrate away from the EPL, towards the EFL. EFL clubs and SP clubs are broadly speaking looking forward to ongoing loyalty from fans and sponsors alike.

CORPORATE ENTERTAINING IS EXPECTED TO **CONTINUE TO MIGRATE AWAY FROM THE EPL,** TOWARDS THE EFL.

COUNT	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Season ticket sales						
Improved >5%	24%	0%	36%	23%	50%	17%
Improved <5%	8%	0%	0%	8%	17%	33%
No Impact	39%	70%	29%	54%	0%	17%
Reduced <5%	20%	20%	29%	15%	17%	17%
Reduced >5%	8%	10%	7%	0%	17%	17%
Match tickets						
Improved >5%	18%	0%	29%	8%	50%	17%
Improved <5%	12%	0%	7%	23%	17%	17%
No Impact	43%	60%	43%	54%	0%	33%
Reduced <5%	20%	30%	14%	15%	33%	17%
Reduced >5%	6%	10%	7%	0%	0%	17%
Merchandising						
Improved >5%	18%	10%	29%	15%	17%	17%
Improved <5%	10%	0%	7%	15%	33%	0%
No Impact	49%	60%	36%	62%	17%	67%
Reduced <5%	16%	20%	21%	8%	33%	0%
Reduced >5%	6%	10%	7%	0%	0%	17%
Match day catering						
Improved >5%	18%	0%	21%	8%	50%	33%
Improved <5%	10%	0%	21%	8%	17%	0%
No Impact	49%	70%	29%	77%	0%	50%
Reduced <5%	14%	10%	21%	8%	33%	0%
Reduced >5%	8%	20%	7%	0%	0%	17%
Corporate entertaining packages						
Improved >5%	14%	0%	21%	8%	33%	17%
Improved <5%	24%	10%	21%	38%	33%	17%
No Impact	37%	60%	29%	38%	0%	50%
Reduced <5%	14%	0%	21%	15%	33%	0%
Reduced >5%	10%	30%	7%	0%	0%	17%
Sponsorships						
Improved >5%	27%	0%	36%	31%	50%	17%
Improved <5%	22%	20%	14%	31%	17%	33%
No Impact	29%	50%	29%	23%	0%	33%
Reduced <5%	12%	10%	7%	15%	33%	0%
Reduced >5%	10%	20%	14%	0%	0%	17%

Base: 49

19. Are your revenues from key commercial contracts, such as sponsorship:

%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Increasing	67%	80%	79%	62%	50%	50%
Largely unchanged	12%	0%	7%	15%	17%	33%
Falling	20%	20%	14%	23%	33%	17%

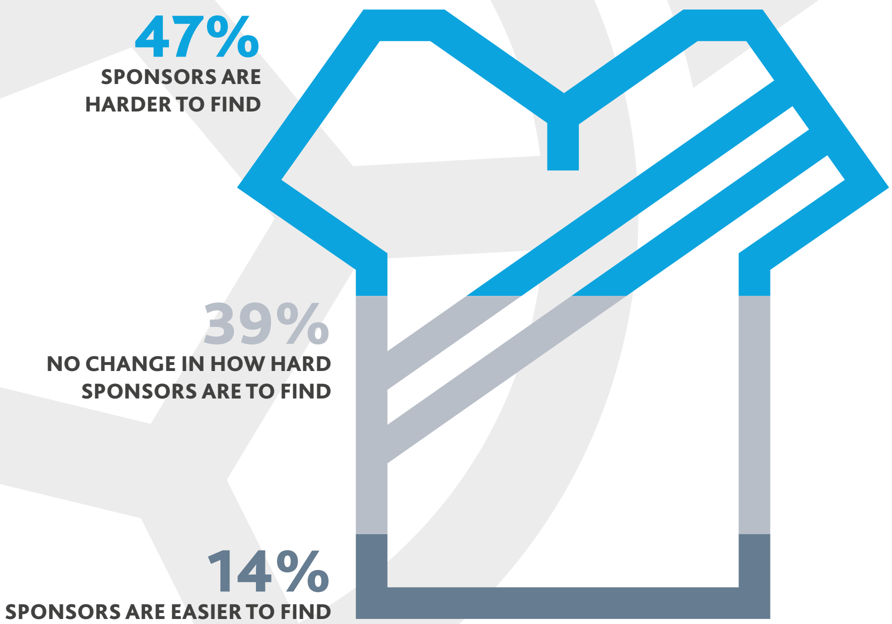
Base: 49

20. Do you think suitable sponsors are:

%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Becoming easier to find	14%	20%	29%	8%	0%	0%
Becoming harder to find	47%	50%	29%	46%	83%	50%
No real change	39%	30%	43%	46%	17%	50%

Base: 49

SPONSORS ARE INCREASINGLY DEMANDING WITH REGARD TO **'ACTIVATION' OF SPONSORSHIP** AND FAN ENGAGEMENT, AND CLUBS ARE INCREASINGLY SOPHISTICATED IN THEIR DELIVERY OF THIS.

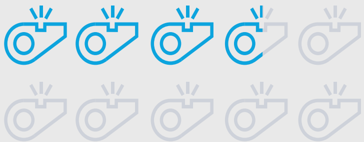


REVENUE AND PROFITABILITY

21. What are your biggest concerns for your Club over the next 12 months?

TOP CONCERN

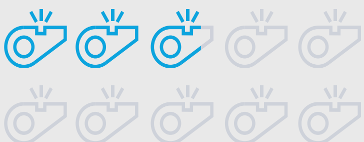
RELEGATION



POTENTIAL FALL IN TV INCOME

ABILITY TO ATTRACT/RETAIN SPONSORSHIP

INCREASING PLAYERS' SALARIES



INCREASING PLAYER TRANSFER FEES (GENERAL PLAYER COST INFLATION)

%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Relegation						
1st	36%	27%	33%	31%	50%	67%
2nd	0%	0%	0%	0%	0%	0%
3rd	5%	0%	0%	15%	17%	0%
4th	10%	20%	9%	8%	17%	0%
Potential fall in TV income						
1st	7%	13%	11%	0%	0%	0%
2nd	8%	11%	7%	7%	0%	14%
3rd	5%	5%	14%	0%	0%	0%
4th	3%	10%	0%	0%	17%	0%
Ability to attract/retain sponsorship						
1st	8%	0%	11%	13%	0%	17%
2nd	27%	33%	21%	20%	33%	29%
3rd	14%	16%	7%	8%	33%	14%
4th	12%	0%	9%	25%	17%	11%
Increasing players' salaries						
1st	28%	20%	28%	31%	50%	17%
2nd	22%	22%	36%	13%	0%	29%
3rd	19%	11%	7%	23%	50%	29%
4th	5%	0%	9%	8%	0%	0%
Increasing player transfer fees (general player cost inflation)						
1st	11%	33%	6%	6%	0%	0%
2nd	20%	17%	21%	20%	33%	14%
3rd	10%	0%	29%	8%	0%	14%
4th	12%	10%	18%	8%	0%	11%

- Relegation continues to be such a critical driver of football revenues that this remains the biggest concern for one-third of all clubs, rising to half of FL2 clubs and two-thirds of SP clubs. Given how concentrated the bottom half of the EPL tends to be post Christmas, and how much is at stake, it is perhaps surprising that only a quarter of EPL clubs have this as their primary concern
- On the whole, most clubs are confident that high media rights will continue. However, there is an increasing concern that player wage inflation will go unchecked. This is a particular concern in the FLC where two-thirds of clubs have this as their highest or second highest concern
- By comparison, transfer fees are much less of a concern (having less direct impact on FFP) but half still rank this in their top four worries, rising to three-quarters of FLC clubs.

21. Continued

%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Ability to raise new capital						
1st	0%	0%	0%	0%	0%	0%
2nd	8%	6%	7%	13%	17%	0%
3rd	10%	11%	7%	15%	0%	14%
4th	12%	10%	18%	8%	0%	11%
Season ticket pricing						
1st	0%	0%	0%	0%	0%	0%
2nd	2%	6%	0%	0%	0%	0%
3rd	8%	16%	0%	15%	0%	0%
4th	10%	20%	9%	0%	0%	22%
Falling attendances due to current economic environment						
1st	2%	0%	0%	6%	0%	0%
2nd	8%	0%	7%	20%	0%	14%
3rd	15%	16%	21%	8%	0%	29%
4th	17%	10%	5%	25%	50%	22%
Compliance with financial fair play regulations						
1st	3%	0%	11%	0%	0%	0%
2nd	3%	0%	0%	7%	17%	0%
3rd	8%	16%	7%	8%	0%	0%
4th	7%	10%	5%	8%	0%	11%
Tax issues						
1st	5%	7%	0%	13%	0%	0%
2nd	2%	6%	0%	0%	0%	0%
3rd	5%	11%	7%	0%	0%	0%
4th	12%	10%	18%	8%	0%	11%

Base: 49

- Consistent with the results observable in the tax section of this report, despite the press hype around this subject matter, only a quarter of clubs rank tax matters in their top four concerns
- An incredible 61% of all clubs are concerned about their ability to attract or retain sponsorship. However, this aggregated result is somewhat distorted by FL2 and the SP who rely more heavily on this form of income. That said, even half of EPL clubs have this in their top three concerns which may surprise many readers.

REVENUE AND PROFITABILITY

23. Two years in, what impact has the enhanced (2016/17 to 2018/19) EPL television rights had on your club?

%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Overall positive, the increased revenues are filtering through the leagues improving profitability	36%	80%	21%	45%	0%	0%
Neutral, any additional revenues is being matched by additional player costs	25%	20%	21%	27%	20%	50%
Overall negative, player wage inflation exceeds revenue increases	23%	0%	43%	18%	20%	25%
Overall negative, the increasing gap between the EPL and the Football Leagues is financially detrimental	16%	0%	14%	9%	60%	25%

Base: 44

- Unsurprisingly the EPL is benefiting from enhanced media rights revenues with only one-in-five clubs seeing additional revenues being matched by additional player costs. This may counter the views of many commentators who expected to see a more direct flow through of media rights to wage inflation
- Responses are mixed within the FLC, which is unsurprising given the complexities of this division. On balance, the impact on wage inflation is considered negative, or neutral with only one-in-five clubs experiencing an overall positive impact. Wage inflation arguably presents a significant risk to many clubs in the FLC
- Experiences are more positive in FL1, than the FLC, where any filtering through of additional revenues are not matched by pressure to pay higher wages when the prospect of the reaping the rich rewards of promotion to the EPL are more remote. Rather, the financial benefits that are flowing through allow clubs to have more control over their financial situation. We also note that the level of additional wages that may be affordable are not enough to make a meaningful difference to promotion prospects
- FL2 clubs see very little of the enhanced media revenues so will be inclined to be impacted more by the increased financial gap between them and higher division clubs
- The SP experience is far from positive with clubs only feeling the downside of player wage inflation and a widening of the gap between English and Scottish football.

22. What level of impact do you anticipate Brexit having on the UK football sector?

%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Highly negative impact	2%	0%	7%	0%	0%	0%
Moderately negative impact	23%	44%	7%	31%	33%	0%
No net impact	72%	56%	86%	62%	67%	100%
Moderately positive impact	2%	0%	0%	8%	0%	0%

Base: 47

2017
39% PESSIMISTIC

2018
25% PESSIMISTIC

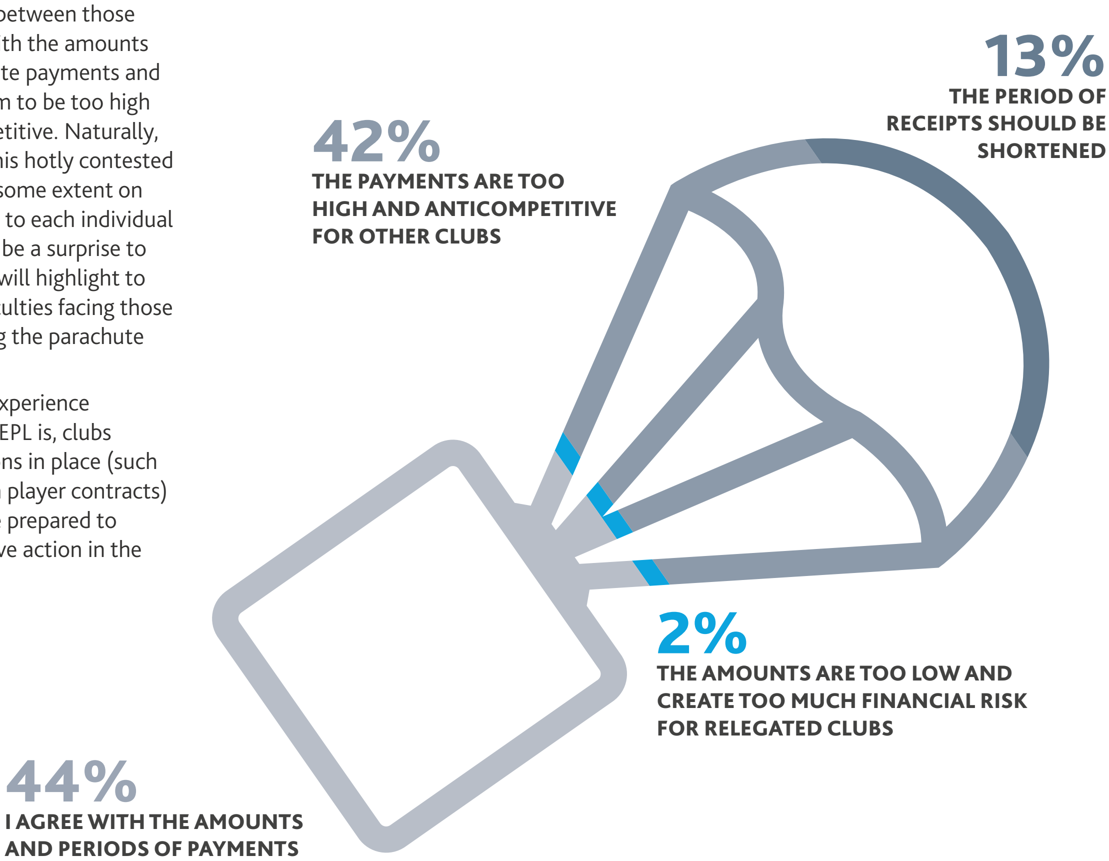
- The level of pessimism concerning the impact of Brexit has lessened slightly (39% anticipated a negative impact this time last year). However, Brexit optimism remains virtually non-existent in English football; which one would expect to be largely driven by the impact on freedom of movement of European players.

24. Do you agree with the current parachute payments system for clubs relegated from the EPL?

- The results opposite are extremely interesting. Across the EFL, no respondents consider parachute payments to be too low and thereby creating too much financial risk for relegated clubs
- There is an equal spilt between those FLC clubs that agree with the amounts and periods of parachute payments and those who believe them to be too high and thereby anticompetitive. Naturally, the position taken in this hotly contested debate will depend to some extent on the resources available to each individual club. This is unlikely to be a surprise to the EPL or the EFL but will highlight to many readers the difficulties facing those charged with governing the parachute payments system
- As uncomfortable an experience as relegation from the EPL is, clubs generally have provisions in place (such as relegation clauses in player contracts) to manage this and are prepared to respond with affirmative action in the transfer market.

%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Yes, I agree with the amounts and periods of payments	44%	70%	50%	31%	17%	40%
No, the amounts are too low and create too much financial risk for relegated clubs	2%	0%	0%	0%	0%	20%
No, the payments are too high and anticompetitive for other clubs	42%	10%	50%	54%	50%	40%
No, the period of receipts should be shortened	13%	20%	0%	15%	33%	0%

Base: 48



REVENUE AND PROFITABILITY

25a. Do you use the wages to turnover ratio as a key performance indicator of the club's financial health?

%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Yes	70%	80%	67%	69%	67%	67%
No	30%	20%	33%	31%	33%	33%

Base: 47

25b. If 'yes' which range is your target in?

%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
< 50%	22%	14%	0%	13%	75%	50%
51% - 55%	25%	43%	11%	13%	25%	50%
56% - 60%	22%	29%	22%	38%	0%	0%
61% - 65%	9%	14%	11%	13%	0%	0%
66% - 75%	9%	0%	22%	13%	0%	0%
>75%	13%	0%	33%	13%	0%	0%

Base: 32

26. What wages to turnover ratio range do you currently operate in?

%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
< 50%	21%	14%	0%	10%	50%	60%
51% - 55%	18%	43%	0%	10%	17%	40%
56% - 60%	15%	14%	9%	30%	17%	0%
61% - 65%	15%	29%	18%	10%	17%	0%
66% - 75%	10%	0%	18%	20%	0%	0%
>75%	21%	0%	55%	20%	0%	0%

Base: 39

- Overall we can report a further 10% increase in the number of FDs using the wages to turnover ratio as a KPI for their club
- FL1 has a wage to turnover cap (Salary Cost Management Protocol) of 60% so a high level of use of this metric is entirely expected. However, three-in-ten clubs not using it is a surprise (albeit most likely because they are well within the cap). Current spending at the higher levels still exceeds clubs' targets, but year-on-year we have observed a 50% fall in the number of clubs spending in excess of 75% of turnover on wages
- The proportion of clubs in FL2 using this metric has increased from 50% last year which suggests continued improvements in financial management. This is further evidenced by no responding clubs paying in excess of 55% of turnover on wages.
- EPL clubs have absolute limits imposed on player wages under Short Term Cost Control (STCC) rules, so this drives their wages KPI result
- A similar number of EPL clubs are spending less than 55% of their turnover on wages as in 2016/17, where 55% of responding clubs were in this range. Most notably, no EPL clubs are spending in excess of 65% of turnover on wages, compared to one-in-ten clubs last year. This is further evidence that, with appropriate cost controls in place, enhanced media rights are not wholly translating into wage inflation
- The FLC has no wage restrictions outside of their overall permitted loss limits. It is encouraging therefore that the use of this KPI has increased from less than 50% in 2016/17 to 67% in 2017/18
- The profile of FLC clubs paying higher than 65% and 75% has improved year-on-year, where in 2016/17 we observed 82% of clubs spending in excess of 75% of revenues on wages. However, the high risk pursuit of promotion continues with half of clubs still spending in excess of 75%. Clearly this is expected to have an impact on the number of clubs potentially breaching FFP allowable losses.

27. What impact do you expect growth in international leagues such as in the US and China to have on the domestic football market?

- On the whole the growth in international leagues is seen as a positive for English and Scottish football clubs, with only 22% seeing the potential for wage inflation as an overriding concern
- We have reported previously on the international appeal of English football and this remains a commercial competitive advantage for our clubs.

%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Overall positive, driven by an increased international fan base for UK clubs (and related media rights)	39%	50%	31%	42%	33%	40%
Overall negative, driven by a reduced international fan base for UK clubs (and related media rights)	4%	0%	0%	8%	0%	20%
Overall positive, driven by an increase in international supply of players	13%	10%	8%	17%	17%	20%
Overall negative, driven by player transfer fee and wage inflation	22%	10%	38%	17%	33%	0%
Other (e.g. multiple answers)	22%	30%	23%	17%	17%	20%

Base: 46

28. If you could make one change to the financial structure of the English football leagues, what would it be and why?

- By some margin, the most consistent response to this question across all divisions is a call for a more equal distribution of income to improve competitiveness and bridge the gap between leagues
- This response was balanced, however, and there is clearly an acknowledgement that it is the wealth and therefore quality of the EPL that generates the lion's share of media rights revenues. The balance between the commercial appeal of elite performance and protecting the competitiveness of the wider domestic football structure is a delicate one. In support of a fair distribution of wealth, one might argue that the origin of the England squad this summer highlights the importance of the development of players through the lower leagues.

MAKE THE EFL **TRULY PROFITABLE AND SUSTAINABLE** WITH NO ALLOWABLE LOSSES AND CAPS ON WAGES AND AGENTS FEES.

TAXATION

SHAWN HEALY
Principal, BDO Human Capital

After the high profile reports relating to Newcastle United and West Ham United last year we expected to be reporting this year on how the cases were progressing, if not on the outcomes. However, as yet it would appear no further developments have been reported other than HMRC being vindicated by the Courts that it had reasonable grounds to launch its review.

It remains to be seen how this case will pan out, but it is certain that HMRC's interest in agents fees will continue. This is by no means certain however that HMRC will be successful in Court. It lost its appeal in the Crouch case and whilst the impact of that decision will be curtailed by the change in legislation for termination payments brought in from 6 April this year, it does demonstrate that the football industry has some unique aspects to consider in relation to tax. The Courts will not always accede to the HMRC view. Clubs should perhaps consider this as only a hiatus. It's doubtful we will be in this position next year.

The lack of progress in the above-mentioned cases may have impacted our survey this year as respondents appear, overall, to be in a relatively relaxed mood about potential HMRC interventions. This may be a result of an increased internal focus on compliance matters driven by work undertaken to ensure compliance with the Corporate Criminal Offence legislation, or the industry having other priorities to consider. Again, it will be interesting to see whether this mood continues in future years.

THERE APPEARS TO BE A CLEAR CONSENSUS AMONGST RESPONDENTS THAT A VISIT FROM HMRC **DOES NOT RAISE UNDUE CONCERN.**

TAXATION

29. There appears to be a hiatus in the HMRC targeting of football clubs and payments to players. Are you:

%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Not concerned, the tax position on payments to our players is robust and very defendable	51%	11%	50%	83%	33%	67%
Somewhat concerned that a sizeable challenge could create a problem	4%	0%	7%	8%	0%	0%
Somewhat uncertain given the pace of change of HMRC enquiries	40%	67%	43%	8%	67%	33%
Very concerned that a sizeable challenge would create a problem	4%	22%	0%	0%	0%	0%

Base: 47

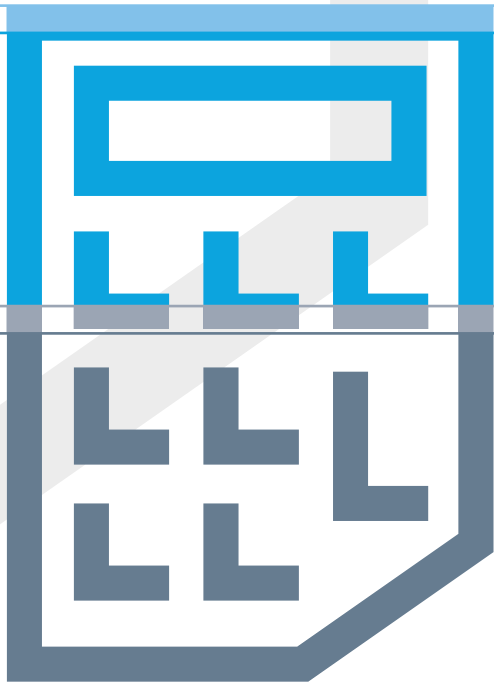
- There appears to be marked fluctuations in the level of concern, dependent on league. 22% of EPL clubs are very concerned that a sizeable challenge would create a problem and two-thirds of EPL clubs and nearly two-thirds of FL2 clubs are concerned about the pace of change in how HMRC is making its enquiries, whilst less than 10% of FL1 clubs share that view
- Opinions are divided in the FLC with 50% confident in their tax position and 50% not
- Interestingly, it is only in the EPL that some clubs feel that a sizeable challenge would create a problem.

4%
VERY CONCERNED THAT A SIZEABLE CHALLENGE WOULD CREATE A PROBLEM

40%
SOMEWHAT UNCERTAIN GIVEN THE PACE OF CHANGE OF HMRC ENQUIRIES

4%
SOMEWHAT CONCERNED THAT A SIZEABLE CHALLENGE COULD CREATE A PROBLEM

51%
NOT CONCERNED, THE TAX POSITION ON PAYMENTS TO OUR PLAYERS IS ROBUST AND VERY DEFENDABLE

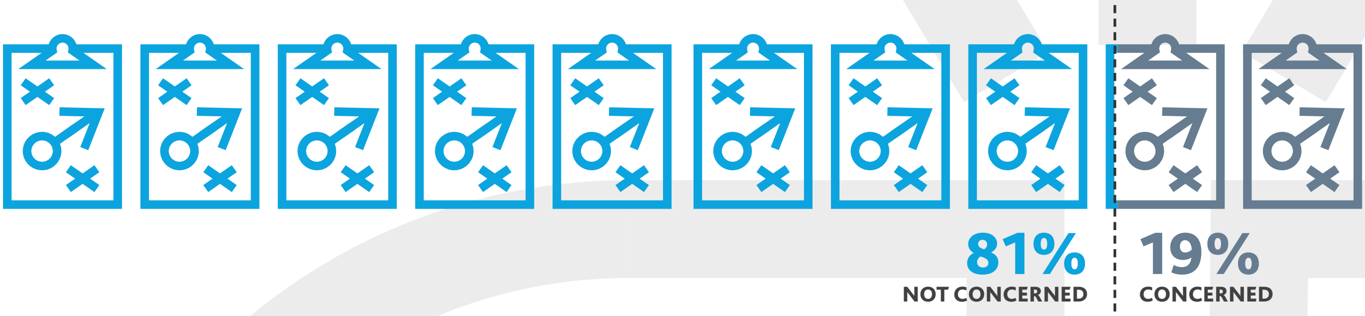


30a. Is the club concerned about the HMRC plan to visit all Premier League, EFL Championship and Scottish Premiership clubs over a three year period?

%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Yes	19%	20%	29%	8%	33%	0%
No	81%	80%	71%	92%	67%	100%

Base: 48

- The majority of respondents are not concerned about the prospect of a visit from HMRC. This perhaps reflects a general acceptance across the industry that HMRC is stepping up its compliance activity. Given the profile of the game, and some of the player tax issues that have arisen in Europe, it is unsurprising that HMRC is looking closely at compliance issues
- That said, football clubs pay high wages, and with it high employment taxes to HMRC, and many believe that the approach of HMRC should be measured and proportionate to other sectors.



30b. Will the outcome of the 'Crouch' case* and the new rules on employee termination payments impact how you will treat players leaving the club this season?

%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Yes	32%	10%	38%	67%	17%	0%
No	68%	90%	62%	33%	83%	100%

Base: 47

- Only FL1 respondents expect to be (or need to be) responsive to this case and changes to legislation on termination payments. Any termination payments now being made are likely to see a greater PAYE/NIC liability arising following the introduction of new rules from 6th April 2018. It is our experience to date that they are complex to administer.

* In the Crouch case the Club made a payment from which it deducted tax (over the first £30,000) and did not account for NICs as it treated it as a termination payment. HMRC contended that it instead arose from the players contract and PAYE/NIC was due on the full payment. The Courts agreed with the Club.

TAXATION

31a. The Corporate Criminal Offence of failure to prevent the facilitation of tax evasion was introduced in September 2017. This can lead to unlimited fines, a public conviction record and significant reputational damage. Is your club aware of the implications of this offence?

%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Yes	87%	100%	93%	70%	83%	83%
No	13%	0%	7%	30%	17%	17%

Base: 46

- It would appear there is a high level of awareness of the new Corporate Criminal Offence (CCO) legislation across all respondents. This is good to see as the potential impact of CCO on areas such as agents fees and image rights payments may be considerable, both in financial and reputational terms for clubs.

31b. If yes, has the club carried out a risk assessment to minimise any potential exposure?

%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Yes	61%	90%	54%	55%	60%	40%
No	39%	10%	46%	45%	40%	60%

Base: 44

- It is perhaps unsurprising to see that EPL respondents have taken steps to minimise the potential impact of CCO, as they are perhaps at the greatest risk of review.

31c. If yes, has the club made appropriate changes to its policies and procedures?

%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Yes	45%	70%	36%	20%	75%	33%
No - not yet	24%	30%	18%	40%	0%	0%
No - not considered necessary	32%	0%	45%	40%	25%	67%

Base: 38

- Given the response to the question on risk assessments it is perhaps surprising that nearly half of the respondents in the FLC and FL1 do not feel any changes are required. Once the CCO legislation has bedded in and HMRC is reviewing compliance against it, it will become more apparent whether this assessment is right.

32a. If you have had interactions with HMRC over the last year, do you feel it understands the football sector?

%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Yes	53%	44%	62%	50%	50%	60%
No	47%	56%	38%	50%	50%	40%

Base: 43

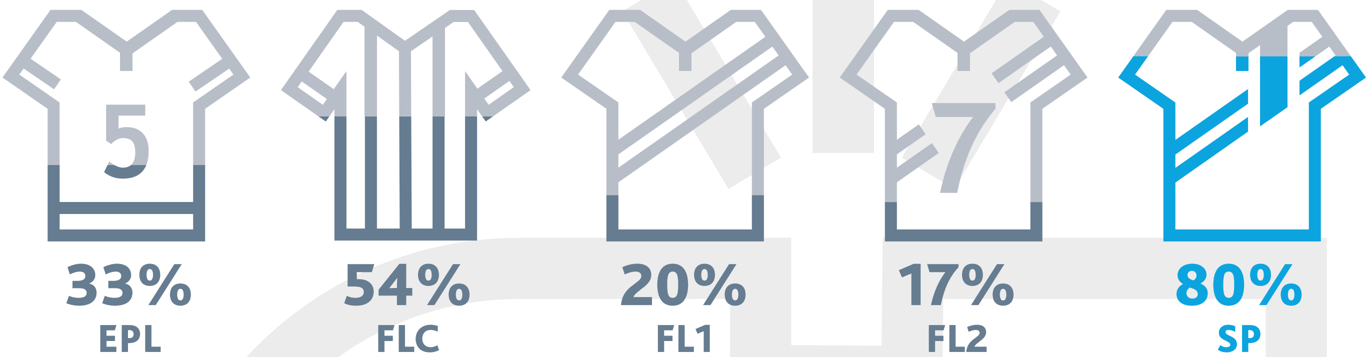
- Opinion is clearly divided on this issue. HMRC is seeking to understand a wide range of sectors in more detail so it can target its resources more appropriately to increase the compliance yield. Arguably, both sides could benefit from a higher level of clarity over many areas of tax legislation that become very complex in the context of this unique sector.

32b. Do you feel it has taken a pragmatic approach?

%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Yes	40%	33%	54%	20%	17%	80%
No	60%	67%	46%	80%	83%	20%

Base: 43

- North of the border, it would appear that HMRC staff are engaging well with clubs and taking a pragmatic approach, but this would not seem to be an experience shared by their counterparts in England and Wales
- It is concerning that four out of five respondents in FL1 and FL2 have the opposite view; especially as their financial position in many cases is likely to be more comparable to the SP than the EPL. Again, in the EPL, which has a more complex tax landscape and a significantly higher potential yield from an HMRC perspective, it is perhaps no surprise to see two-thirds of clubs are perhaps not experiencing the level of pragmatism that they would like to see.



FINANCIAL FAIR PLAY

JULIEN RYE
Partner, BDO Business Assurance

'Fair' has not historically been a helpful word in the context of the Profitability and Sustainability Rules in football as the underlying intention has always been to promote sustainability rather than fairness.

However, over the passage of time, the imbalance between the costs of an FFP breach and benefits of taking a financial advantage over peer group clubs, in particular for FLC clubs seeking promotion to the EPL, has prompted many to raise concerns over fairness. So much is at stake for clubs in the FLC (and those at the lower end of the EPL) that clubs are voicing significant dissatisfaction with the application of FFP rules and sanctions.

SO MUCH IS AT STAKE FOR CLUBS IN THE FLC (AND THOSE AT THE LOWER END OF THE EPL) THAT CLUBS ARE VOICING **SIGNIFICANT DISSATISFACTION WITH THE APPLICATION OF FFP RULES** AND SANCTIONS.

In an open question to football Finance Directors regarding the principles that should be applied to the FFP system, common suggestions included:

- greater financial responsibility imposed on owners, including a call for owners to effectively underwrite future salary liabilities for players for the length of their contracts and 'make-good' losses with irredeemable equity, not debt
- stronger enforcement of sanctions, including a punitive 'luxury tax' imposed on excess spending, which would be distributed to other clubs
- a salary cap, set at a level that facilitates a break-even performance, across all divisions
- a degree of control over the use of parachute payments to prioritise sustainability over a promotion push.

Given the concern over the widening of the gap between the EPL and the FLC, surely financial restrictions that have an impact on a club's ability to cross the divide must be enforced in way that is commensurate with the opportunity cost for compliant clubs who are unfairly disadvantaged by other clubs' over-spending.

The question remains as to how allowable losses over rolling three year periods of £105m and £39m in the EPL and FLC, respectively, promotes 'stability', that is unless there are appropriate shareholder commitments in place that give a club the time and flexibility to respond to major disruptions such as relegation or shareholder exit.

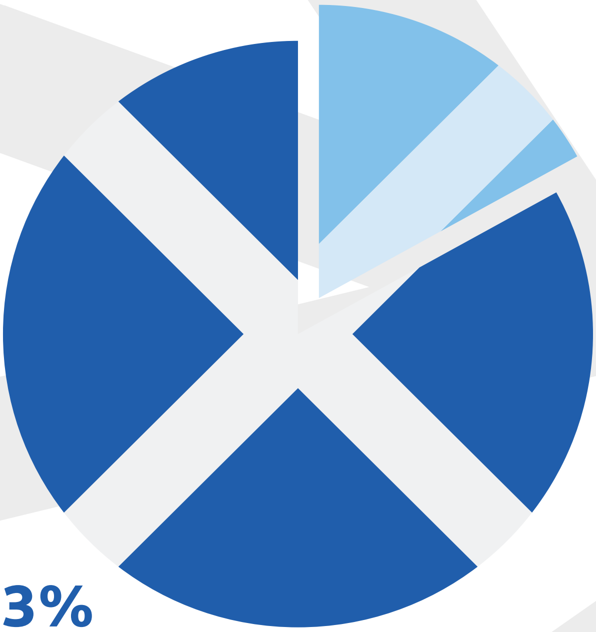
FINANCIAL FAIR PLAY

33. (Scottish Premiership clubs only) Financial sustainability rules are now in force in UEFA club competitions and the top 4 tiers of English football and many consider these to have been broadly successful. Do you believe that similar rules should be introduced by the SPFL?

%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Yes, similar rules	63%	100%	100%	0%	0%	50%
Yes in principle, but with different terms	25%	0%	0%	0%	0%	33%
No	13%	0%	0%	0%	0%	17%

Base: 8

- The majority of SP clubs are in favour of financial sustainability rules and half are in favour of similar rules to those in place in English leagues
- Given the responses below, it is hard to argue that such financial regulation would not be beneficial in Scotland if structured appropriately.



17%
OF SP CLUBS NOT IN FAVOUR OF FINANCIAL SUSTAINABILITY RULES

83%
OF SP CLUBS IN FAVOUR OF FINANCIAL SUSTAINABILITY RULES

34. Did your club comply with the requirements of applicable (Domestic and European) financial fair play / profitability and sustainability rules in the 2017/18 season?

%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Yes	87%	78%	86%	92%	100%	83%
Yes but required net positive income from player trading	11%	22%	7%	8%	0%	17%
No	2%	0%	7%	0%	0%	0%

Base: 46

35. With regard to domestic and / or UEFA financial fair play rules, do you expect that for next season your club will

%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Comply with these rules with minimal change to the business model	93%	100%	86%	92%	100%	100%
Only manage to comply by making significant changes to the business model	4%	0%	7%	8%	0%	0%
Not comply and have not yet addressed the steps necessary to become compliant	2%	0%	7%	0%	0%	0%

Base: 45

- Only 7% of FLC club respondents breached FFP / Profitability and Sustainability rules in 2017/18. The same number anticipate a breach for the season ahead. In our survey last year, we anticipated a higher level of breach
- All respondents in all other leagues expect to comply in both 2017/18 and 2018/19.

FINANCIAL FAIR PLAY

36a. Do you believe that the FFP regulations are meeting their principal objective of promoting sustainability?

%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Yes	42%	44%	14%	50%	80%	60%
No, but this is moving in the right direction	36%	44%	43%	25%	20%	40%
No, there are better ways to ensure sustainability	22%	11%	43%	25%	0%	0%

Base: 45

- Despite the responses above, only four-in-ten club respondents believe that FFP regulations are meeting their principal objective of promoting stability, compared to six-in-ten this time last year
- In particular, only 14% of FLC clubs believe this objective is being met. It is relevant to note that the FLC is the only one of the four English leagues in our survey that do not have a Wage Cap / Salary Cost Management Protocol.

36b. If yes, Do you feel this has widened the gap **between** divisions?

%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Yes	59%	22%	86%	67%	60%	33%
No	41%	78%	14%	33%	40%	67%

Base: 46

36c. Do you feel this has widened the gap **within** divisions?

%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Yes	52%	44%	57%	60%	60%	33%
No	48%	56%	43%	40%	40%	67%

Base: 44

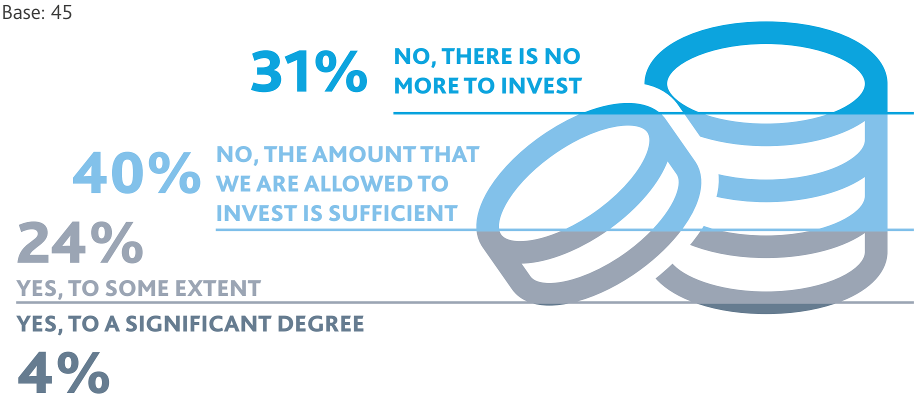
- Member clubs of the EFL have mixed views on whether the current FFP rules are widening the gap between, and within, divisions.

37. In the absence of FFP regulations, would you or your owner invest more money into trying to realise the clubs ambitions?

%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Yes, to a significant degree	4%	0%	15%	0%	0%	0%
Yes, to some extent	24%	22%	31%	17%	20%	33%
No, the amount that we are allowed to invest is sufficient	40%	67%	38%	33%	40%	17%
No, there is no more to invest	31%	11%	15%	50%	40%	50%

Base: 45

- The majority (71%) of clubs (2016/17: 70%) continue to proclaim that they would not invest more money in trying to realise the club's ambitions in the absence of FFP regulations
- The FLC is the only league where a number of respondents (15%) thought they would invest significantly more. Almost half of FLC clubs admit that they would invest more.

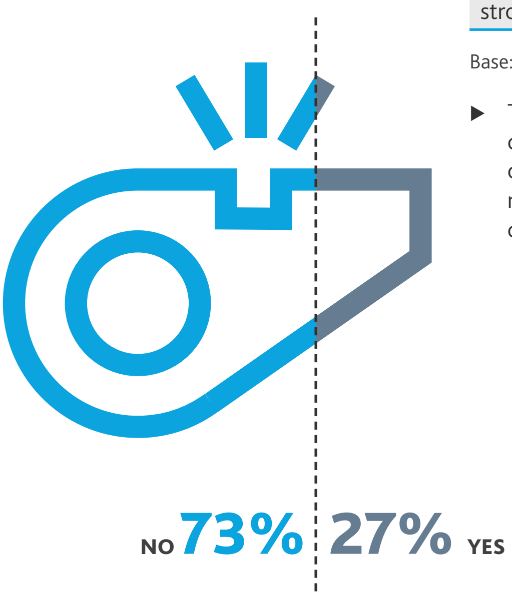


38. Do you feel that FFP sanctions are being appropriately enforced?

%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Yes	27%	13%	23%	56%	20%	17%
No, they are enforced too strongly	2%	13%	0%	0%	0%	0%
No, they are not enforced strongly enough	71%	75%	77%	44%	80%	83%

Base: 41

- The results above are a clear statement of the domestic football community's lack of confidence in the Premier and Football Leagues application of sanctions to clubs in breach of FFP. We note that in 2017 only 47% of respondents thought that sanctions were not being enforced strongly enough - this has risen to 71% in 2018. This is reasonably consistent across all divisions.



YOUTH DEVELOPMENT

HARRIET RICHARDS
Manager, BDO Business Assurance

Clubs have made continuous investment into academies and youth development (an emerging profit centre of its own), demonstrated by nearly two-thirds of EFL respondents increasing youth budgets each year over the past few years and over two-thirds of all respondents having a higher budget for youth development next season (including 80% of EPL clubs). However, there is still wide-spread debate on whether home-grown players are struggling to break into first teams as, inevitably, the wealth of the EFL makes 'ordering in' the easy option.

It should be noted, that the increased investment into academies and youth development over the past few years is not expected to yield overnight success, but rather in the longer term we should start to see a more structural improvement in the prospects of these younger players at the top level.

The Elite Player Performance Plan (EPPP) operates a four-tier academy system. 64% of respondents are intending to increase investment in their youth academies over the next few years, which shows intent to retain or improve on their current tier in order to maximise returns from their youth academy.

However, the tiered academy system has caused debate amongst the different leagues as it allows clubs with the highest rated academies, who typically have the most money to invest in their academies, to sign the best players and command the largest sell on fees.

The EPPP also places a financial burden on clubs which makes running academies less attractive. This recently resulted in certain club(s) closing their academies entirely. 6% of respondents (comprising 20% of the EPL and 7% of the FLC) intend to decrease investment in their youth academies over the next few years.

However, no respondents in FL1, FL2 or SP intend to reduce their investment in their youth academies over the next few years. With an inflated transfer market, player transfers have become a key revenue source for lower league clubs, as many are realising the benefits of finding talented youth who can be sold on for significant profits.

There have been calls for more protection for smaller clubs across all the leagues, as larger clubs have been accused of cherry picking young talent without paying appropriate compensation. For example, one of our respondents commented "Make it more difficult for clubs to poach players under 18 and/or require enhanced compensation for under 18 players".

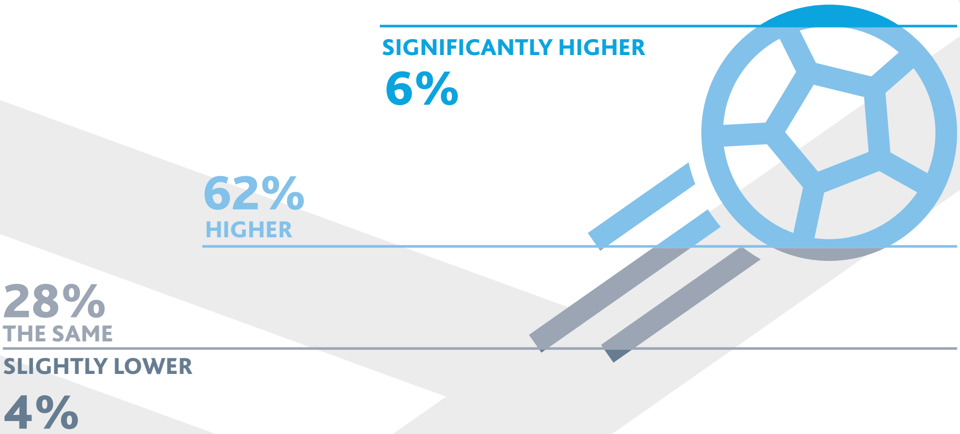
THERE HAVE BEEN CALLS FOR **MORE PROTECTION FOR SMALLER CLUBS** ACROSS ALL THE LEAGUES.

YOUTH DEVELOPMENT

39. For financial year 2018/19, how does your youth development budget compare to financial year 2017/18?

%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Significantly higher	6%	0%	0%	17%	0%	17%
Higher	62%	80%	64%	58%	40%	50%
The same	28%	10%	29%	25%	60%	33%
Slightly lower	4%	10%	7%	0%	0%	0%

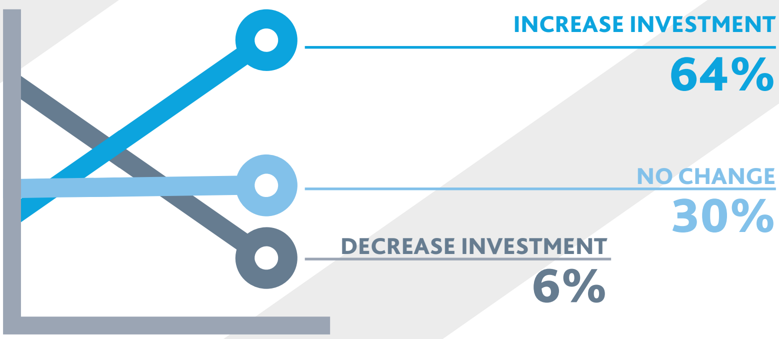
Base: 47



40. What are your current intentions for your youth academy in the next few years?

%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Increase investment in it	64%	60%	50%	75%	40%	100%
Decrease investment in it	6%	20%	7%	0%	0%	0%
No change	30%	20%	43%	25%	60%	0%

Base: 47



41. With increasing costs of running academies, high levels of international player mobility and relatively low conversion rates to the first team, what alternatives to the current youth system would you like to see take effect?

MAKE IT MORE DIFFICULT FOR CLUBS TO POACH PLAYERS UNDER 18 AND/OR **ENHANCED COMPENSATION** FOR UNDER 18 PLAYERS.

LEICESTER CITY

WE HAVE **HIGH CONVERSION RATES** FROM ACADEMY TO FIRST TEAM; WE **WELCOME MORE INITIATIVES** SUCH AS AN EFL FUTURES SYSTEM AND SIMILAR.

WALSALL

LIMITATION OF INTERNATIONAL PLAYERS TO ALLOW INCREASE IN LOCAL TALENT POOL / DEVELOPMENT OPPORTUNITIES.

SOUTHEND UNITED

PLAYER COSTS

JONATHAN HICKMAN
Tax Partner, BDO Corporate Finance

The average weekly wage in the EPL has reportedly passed £50,000 this season, although this average is heavily influenced by the level of wages paid by the top six clubs. Obviously this is significantly more than the FLC, FL1, FL2 and SP, where players are on far less (FLC average is c£8,000 per week, with the average in the other three divisions below £2,000 per week). Accordingly, 57% of respondents from the EPL said they would reduce salaries by over 40% in the event of relegation, which highlights the substantial loss of income expected if EPL status cannot be maintained.

While the loss in revenue is not as significant upon relegation from other divisions, over three-quarters of respondents in the FLC, FL1, FL2 and SP have clauses in their senior squad contracts that would reduce their wages in the event of relegation.

As in previous years, clubs are accommodating wage inflation by reducing first team squad sizes - as noted by 47% of all respondents (with 43% keeping squad sizes the same). This rises to 67% in FL1 and 80% in FL2. Despite reduced squads, 43% will be spending more on their payroll costs next season and 21% will be spending the same.

Interestingly, 70% of EPL clubs and 50% of FLC clubs will maintain the same squad size while at the same time, the same percentages will be increasing their player budget.

In this year's survey, we asked football club FDs to describe the actions/regulation/deregulation that they would like to see introduced.

While there have been calls for greater regulation to be imposed on various areas of football, including player trading and player wages, the majority of our respondents focused their concerns for tighter regulation to be brought in to control agent fees.

EPL clubs reportedly paid agents £211m in the past year, an increase of £37m (21%) on the 2016/17 season. FLC clubs spent £42.1m in the past year, compared to £42.4m in 2016-17, which was an increase of 62% on the previous season.

Respondent opinions were concentrated around restricting agent fees to a cap and percentage level, with one respondent suggesting 'agents fees should be paid entirely by the player'. There are also concerns over 'dual representation' which raises conflict of interest issues, whereby an agent can legally represent the player and the club during a transaction and results in clubs paying the agents directly for both services. Our respondents suggested that controls are needed to remove some of the 'power' agents have in deciding were players will go. Some other respondents believe greater control will be impossible to enforce.

While there is growing frustration amongst clubs in the direction of agents, it must also be noted that players need good representation to prevent exploitation by clubs, and whilst payments to agents have continued to rise over the years, this has to be considered against player wage and transfer inflation.

Nonetheless, as demonstrated by the significant number of responses regarding agent fees, it is apparent that greater regulation or transparency of payments is required. Some respondents have suggested that agents should be qualified, similar to the new rules implemented in Italy, whereby all agents must pass a qualifying test to register. This would be welcomed by the more established agents and agent bodies who believe the low barriers to entry in the industry has allowed under qualified intermediaries to enter and taint the industry.

THERE HAVE BEEN CALLS FOR **GREATER REGULATION** TO BE IMPOSED ON VARIOUS AREAS IN FOOTBALL, INCLUDING **PLAYER TRADING** (I.E TRANSFER FEES), **PLAYER WAGES** (I.E CAPS) AND IN PARTICULAR **AGENT FEES.**

PLAYER COSTS

42a. What percentage of players in your senior squad have clauses in their contracts stipulating that their wages will be cut if the club is relegated?

%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
<25%	11%	22%	7%	8%	0%	17%
26-50%	2%	11%	0%	0%	0%	0%
51–75%	2%	0%	0%	8%	0%	0%
>75%	31%	11%	36%	25%	75%	33%
100%	53%	56%	57%	58%	25%	50%

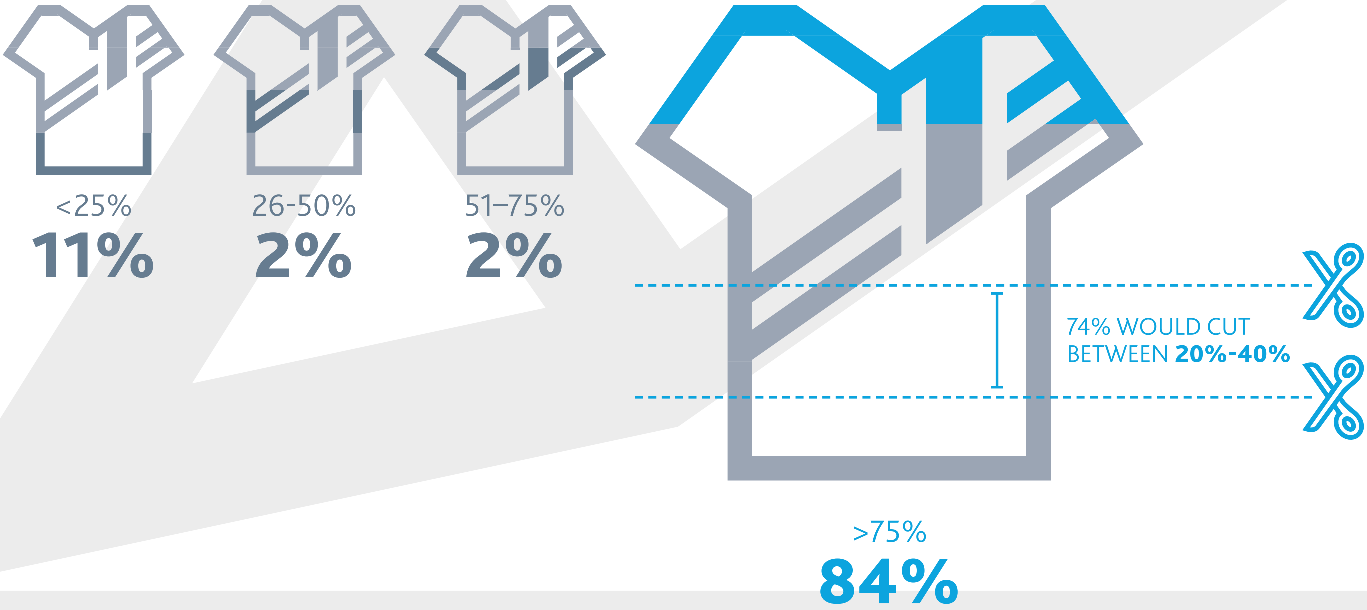
Base: 45

42b. What is the range of the percentage reductions?

%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
<20%	5%	0%	8%	0%	25%	0%
20-30%	51%	14%	38%	83%	75%	40%
30-40%	22%	29%	23%	17%	0%	40%
40-50%	15%	43%	15%	0%	0%	20%
>50%	7%	14%	15%	0%	0%	0%

Base: 41

- 84% of respondents say that more than 75% of the players in their senior squad have clauses in their contracts stipulating that their wages will be cut if the club is relegated. This rises to 93% of FLC respondents and 100% of FL2 respondents
- Within this population almost three-quarters of respondents would reduce their player salaries between 20% and 40% in the event of relegation. In the EPL, over half of clubs would reduce player salaries by more than 40%.



43a. In your budget for 2018/19 will your first team squad size be bigger, the same or smaller than the season just ended?

%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Bigger	11%	10%	7%	8%	20%	17%
Same	43%	70%	50%	25%	0%	50%
Smaller	47%	20%	43%	67%	80%	33%

Base: 47

43b. In your budget for 2018/19 will you spend more, the same or less on the payroll cost of the first team squad than the season just ended?

%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
More	43%	70%	50%	17%	40%	33%
Same	21%	10%	14%	33%	20%	33%
Less	36%	20%	36%	50%	40%	33%

Base: 47

43c. To what extent has this decision been driven by the financial fair play/ sustainability rules?

%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Not at all	73%	70%	62%	73%	100%	83%
To some extent	22%	30%	31%	18%	0%	17%
To a considerable extent	4%	0%	8%	9%	0%	0%

Base: 45

- The majority of FL1 and FL2 respondents are planning to reduce both the first team squad size and maintain or reduce payroll costs
- Nearly three-quarters (73%) of respondents said these decisions were not driven by the financial fair play/sustainability rules.

44. There have been calls for greater regulation to be imposed on various areas in football, including player trading (i.e transfer fees), player wages (i.e caps) and agent fees. Please describe the actions/regulation/ deregulation that you would like to be introduced?

CUT AGENT FEES, PARTICULARLY ON FEES FOR RE-SIGNING PLAYERS.

THE LEAGUES ARE **NOT PROFITABLE AND SUSTAINABLE** WITH MORE AND MORE MONEY GOING TO PLAYERS/ AGENTS. NORMAL STAFF CONTINUE TO BE ON LOWER COMPARATIVE WAGES, WITH NONE OF THE UPSIDE OF MORE CASH FLOWING THROUGH THE LEAGUE.

PLAYER TRANSFERS

DAWN REGISTER
Partner BDO Tax Dispute Resolution

Liquidity across divisions and within divisions, except for FL2 and SP, is generally either unchanged or improving. In the top three leagues, increased buying power of clubs is continuing to have a positive impact on outbound transfers and the ability to replace first team players from lower leagues or overseas.

A reported record £1.9 billion was spent by English teams across the 2017/18 season, once again shattering previous records. Record breaking signings, such as the £198m Neymar transfer from Barcelona to Paris Saint-Germain has been hailed as a catalyst for further nine figure deals to be agreed in the current transfer window. We asked all our respondents to give us their prediction of what the highest transfer fee will be for any one player in or out of any of the English Leagues this summer, with approximately two-thirds suggesting it will be a nine figure sum.

Despite this, only 17% of respondents say that they will increase their transfer budgets. This is a marked decrease on last year (where 33% said they would increase their transfer budgets) which is largely due to a shift within FLC respondents.

Last year 64% of FLC clubs said they would increase their transfer budgets reflecting FLC clubs willingness to spend in the hope of promotion, compared to only 29% this year. In fact, 50% of FLC clubs are planning to reduce their transfer budget this summer. This suggests that FLC transfer fees have plateaued, restricted by a blend of FFP restrictions, shareholder concerns over financial stability (as referred to on Q4 and Q5 of this report), and the growing risks of losing the promotion gamble as the position of clubs within leagues is becoming harder to predict and promotion is becoming harder to 'buy'.

Due to the value of broadcasting rights distributed throughout the EPL, it is expected that inflated transfer fees and salaries in the international market would give these clubs an advantage against other European clubs, as responded by 90% of EPL respondents and over 60% of respondents from FLC, FL1 and FL2.

83% of SP respondents feel the level of player transfer fees gives them a disadvantage against other European clubs and 100% believe the current level of player transfer fees is not sustainable, suggesting that SP clubs are not benefitting from the increased monies being pumped into English football.

A critical statistic here is that over two-thirds of club FDs believe current levels of player transfer fees are unsustainable.

OVER **TWO-THIRDS OF CLUB FDS** BELIEVE CURRENT LEVELS OF **PLAYER TRANSFER FEES** ARE **UNSUSTAINABLE.**

PLAYER TRANSFERS

45. Is liquidity in the transfer market

%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Improving	22%	40%	8%	33%	20%	0%
Worsening	15%	0%	8%	8%	40%	50%
Unchanged	63%	60%	85%	58%	40%	50%

Base: 46

- Mixed results (especially in FL2 and SP), suggest some very different experiences within divisions depending on the relative size and financial position of clubs (including the 'need' to sell players).

46a. Will you increase/ reduce your transfer budget for 2018/19?

%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Increase	17%	20%	29%	8%	20%	0%
Reduce	36%	30%	50%	42%	40%	0%
It will remain the same	47%	50%	21%	50%	40%	100%

Base: 47

- Only 17% of clubs will increase their transfer budget for 2018/2019. This is down from 33% last year.

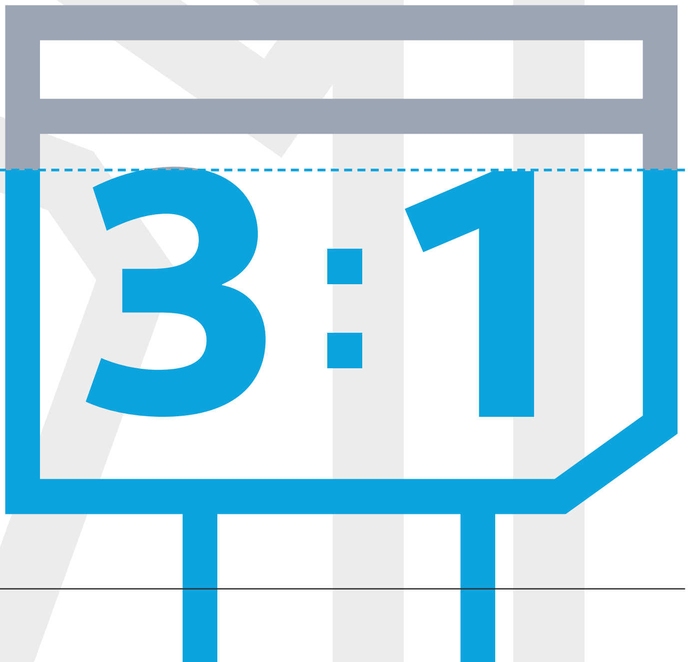
46b. If you answered 'Reduce' or 'Remain the same', to what extent has this decision been driven by the financial fair play rules?

%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Not at all	76%	75%	56%	73%	100%	100%
Yes to some extent	18%	25%	33%	18%	0%	0%
Yes to a considerable extent	5%	0%	11%	9%	0%	0%

Base: 38

- Over three-quarter (76%) of respondents said the decision to 'reduce or 'remain the same' is not driven by financial fair play rules.

76%
NOT DRIVEN BY FINANCIAL FAIR PLAY RULES

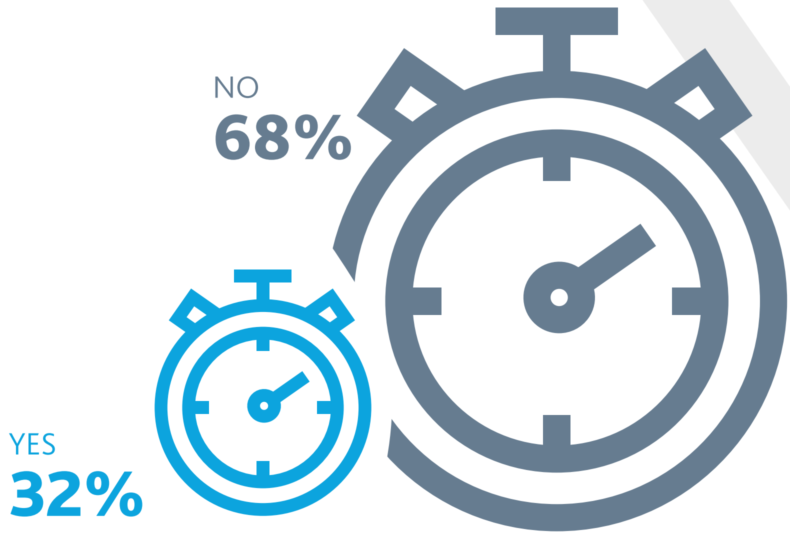


47. Do you feel that the current levels of player transfer fees is sustainable for domestic football clubs?

%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Yes	32%	30%	50%	25%	40%	0%
No	68%	70%	50%	75%	60%	100%

Base: 47

- 68% of clubs feel that the current level of player transfer fees is not sustainable for domestic football clubs. This rises to 70% of EPL respondents and 75% of FL1 respondents.



48. Do you feel that current levels of player transfer fees and salaries gives domestic football clubs an advantage or disadvantage against other European leagues?

%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Advantage	68%	90%	79%	67%	60%	17%
Disadvantage	23%	10%	14%	8%	40%	83%
Other (please specify)	9%	0%	7%	25%	0%	0%

Base: 47

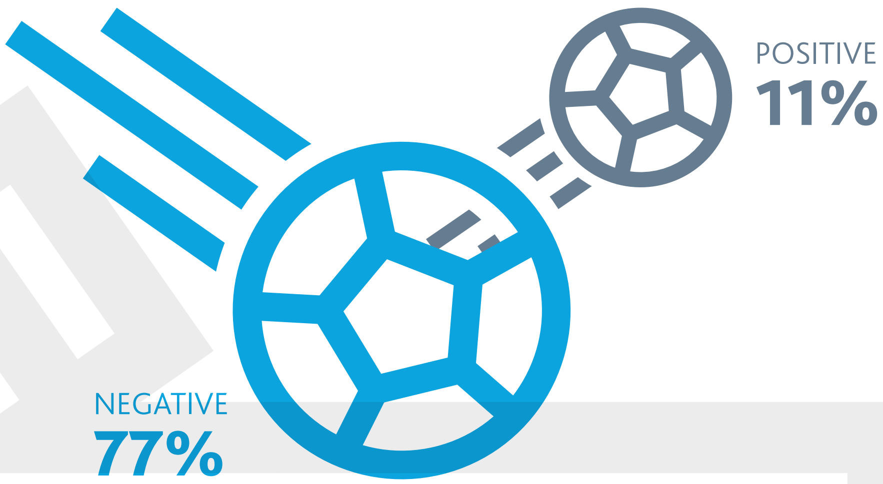
PLAYER TRANSFERS

49. Do you feel that has a positive or negative impact on domestic players and the home nations' international teams?

%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Positive	11%	10%	7%	8%	0%	33%
Negative	77%	80%	71%	75%	100%	67%
Other (please specify)	13%	10%	21%	17%	0%	0%

Base: 47

- Over three-quarters (77%), feel that inflated player transfer fees and salaries are having a negative impact on domestic players and home nations' international teams.

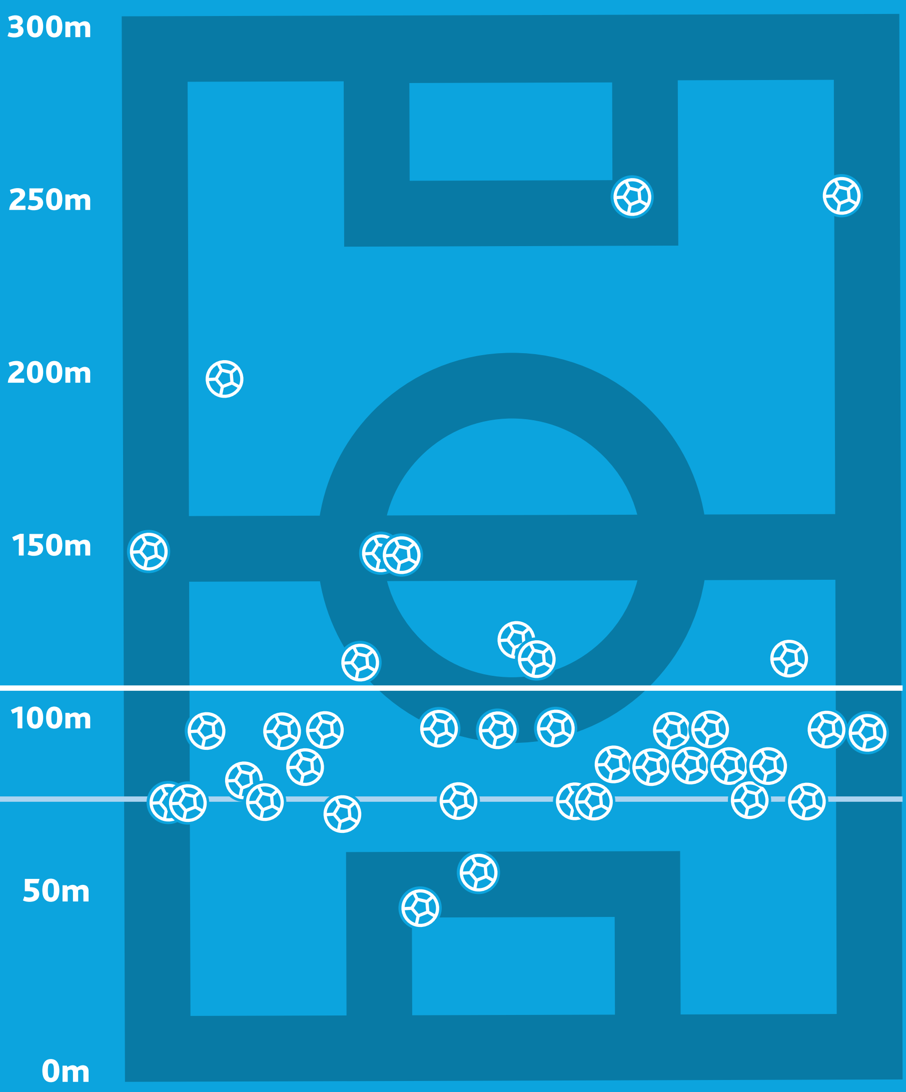


50. Do you feel the leagues would benefit from further restrictions over the number of overseas players allowed in squads?

%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Yes	64%	60%	64%	60%	100%	50%
No	36%	40%	36%	40%	0%	50%

Base: 45

51. Please give us your prediction of what the highest transfer fee will be for any one player in or out of any of the English Leagues this summer?



CURRENT RECORD
PHILIPPE COUTINHO
LIVERPOOL > BARCELONA
£106M~ JANUARY 2018

BIGGEST TRANSFER SUMMER 2017
ROMELU LUKAKU
EVERTON > MANCHESTER UTD
£75M JULY 2017

GOVERNANCE AND PROPRIETY

STUART LISLE
Partner, BDO Corporate Tax

More often than not, football clubs believe they are applying a higher level of governance to their operations than comparable businesses in other sectors. Examples include: the use of an audit committee; the pro-active management of reputational risk in the context of heightened press-worthiness of football clubs; high levels of stakeholder communications; and the voluntary adoption of community welfare responsibilities.

MORE OFTEN THAN NOT FOOTBALL CLUBS BELIEVE THEY ARE APPLYING A **HIGHER LEVEL OF GOVERNANCE** TO THEIR OPERATIONS THAN COMPARABLE BUSINESSES IN OTHER SECTORS.

In an open question to football Finance Directors regarding constructive criticism of and recommendations for their club, the sector, or governing bodies, common FD responses included:

- a call for governing bodies to raise their game and set the standard in areas such as diversity and inclusion, transparency and consultation
- the issue of agents/intermediaries fees (causing a leakage of money from the sport) to be addressed with capping and more stringent regulation
- consistency of application of accounting standards by clubs, supporting further consistency of FFP reporting.

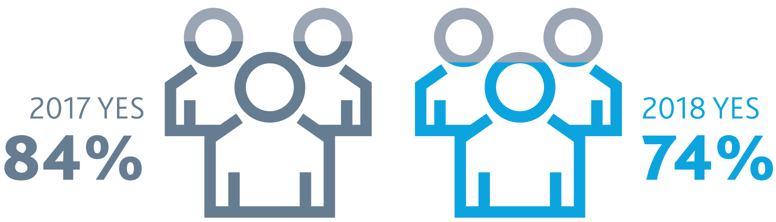
GOVERNANCE AND PROPRIETY

52. Does your board include remunerated non-executive independent directors?

%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Yes	26%	20%	36%	33%	20%	0%
No	74%	80%	64%	67%	80%	100%

Base: 47

DOES YOUR BOARD INCLUDE REMUNERATED NON-EXECUTIVE INDEPENDENT DIRECTORS?

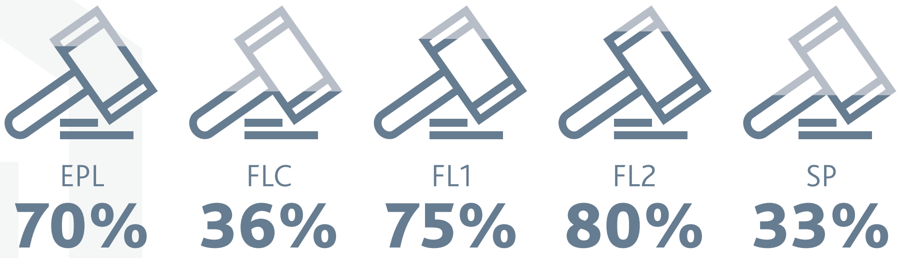


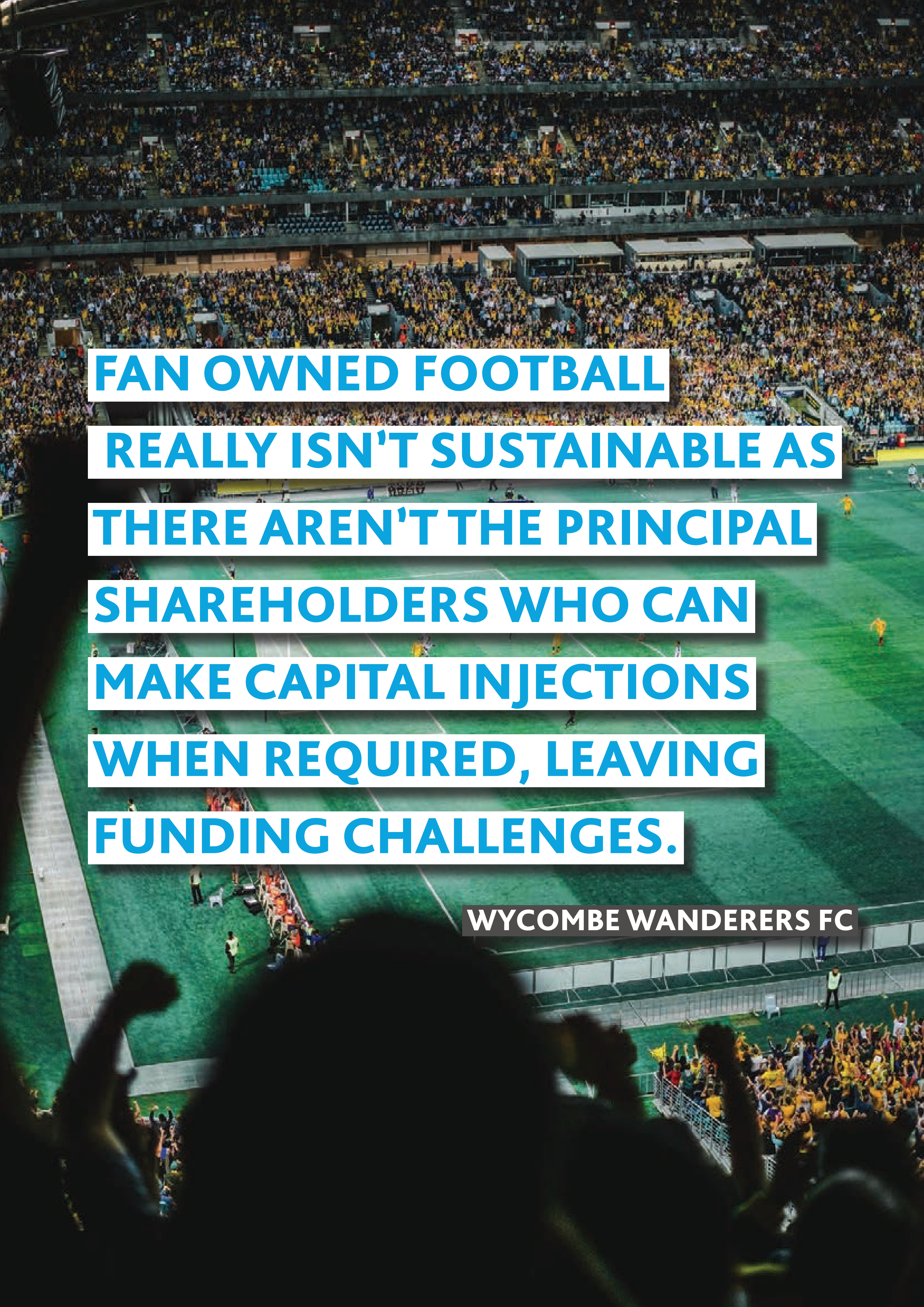
53. Does the level of public interest in your club lead you to manage the club with heightened corporate governance in comparison to similar sized companies outside of the football sector?

%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Yes	57%	70%	36%	75%	80%	33%
No	43%	30%	64%	25%	20%	67%

Base: 47

- In 2017, 78% of clubs considered that the level of public interest in their club led them to manage the club with heightened corporate governance. This has fallen to 57% this year with the highest movement being in the FLC, down from 77% in 2017 to 36% this year.





FAN OWNED FOOTBALL REALLY ISN'T SUSTAINABLE AS THERE AREN'T THE PRINCIPAL SHAREHOLDERS WHO CAN MAKE CAPITAL INJECTIONS WHEN REQUIRED, LEAVING FUNDING CHALLENGES.

WYCOMBE WANDERERS FC

COMMUNITY PARTICIPATION AND INVESTMENT

ANDREW GROAT
Senior Manager, BDO Business Assurance

Its clear that the importance of being part of the local community is core to the culture and strategy of football clubs. Our survey this year records a 50% increase in the number of respondents who are active in football and community care projects; three-quarters of clubs are community focussed.

Sadly, it would appear to be a continuing trend that this aspect of the industry does not receive the media attention it deserves.

It is encouraging to see that the number of EPL and FLC clubs investing £1m+ in community activities has increased this year, albeit only marginally.

It would be wrong however to measure community involvement in just financial terms.

Respondents continue to invest thousands of man hours from playing and other staff to support projects in the local community.

IT IS IMPOSSIBLE TO PUT A PRICE ON THE CONTRIBUTION MADE BY FOOTBALL TO THE LIFE OF **BRADLEY LOWERY.**

COMMUNITY
PARTICIPATION AND INVESTMENT

55a. Does your club invest in the following?

%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
Community participation (in football) projects	24%	30%	29%	18%	40%	0%
Community care projects	4%	10%	7%	0%	0%	0%
Both of the above	72%	60%	64%	82%	60%	100%

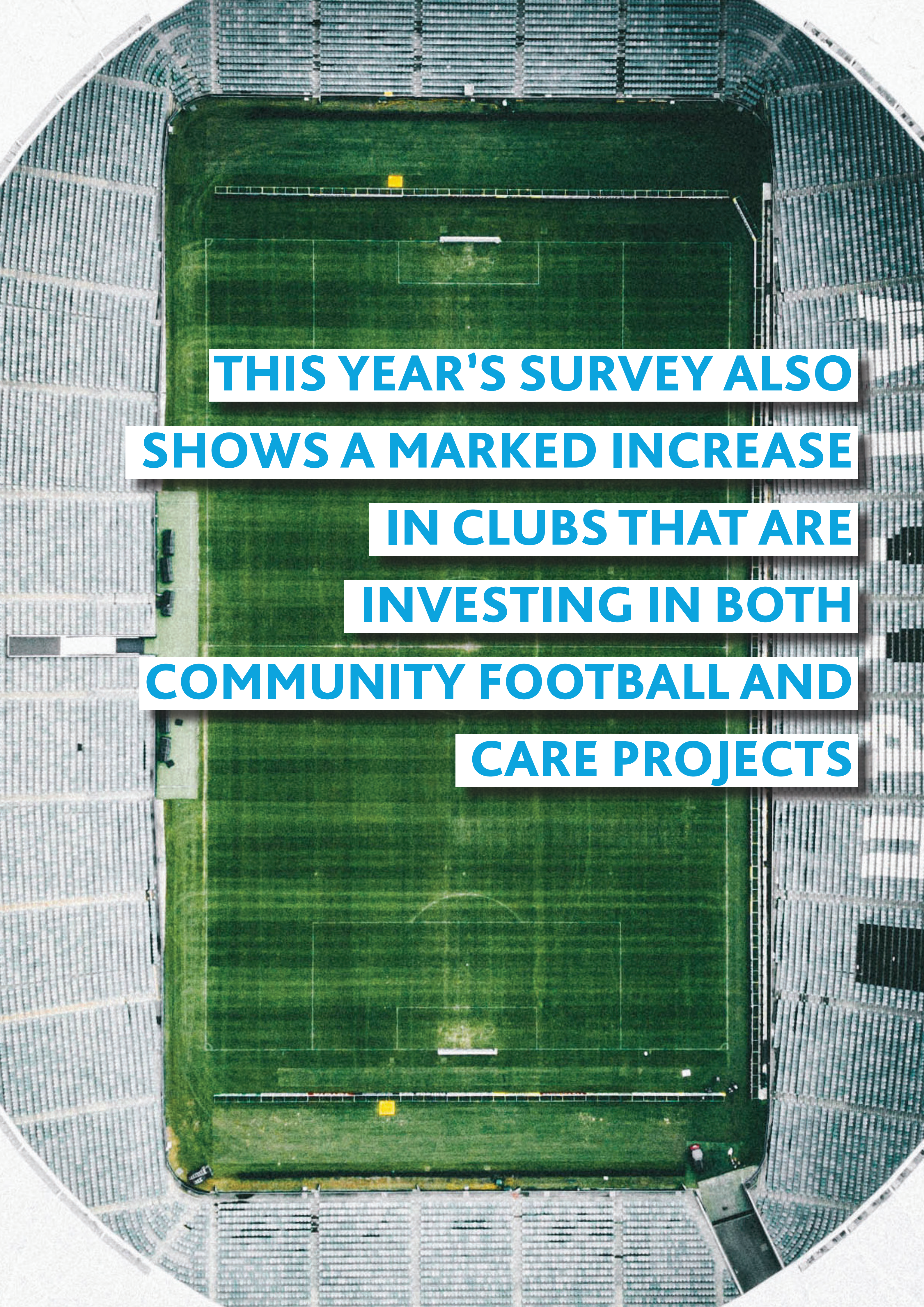
Base: 46

55b. If yes, what level of financial investment did you make into community projects in 2017/18?

%	ALL LEAGUES	EPL	FLC	FL1	FL2	SP
< £50,000	42%	40%	23%	45%	80%	50%
£50,000 - £100,000	24%	10%	23%	45%	20%	17%
£100,000 - £500,000	18%	10%	31%	9%	0%	33%
£500,000 - £1m	4%	10%	8%	0%	0%	0%
£1m +	11%	30%	15%	0%	0%	0%

Base: 45

- It is clear that all respondents take community participation seriously. This years survey also shows a marked increase in clubs that are investing in both community football and care projects, up from 54% last year to 72%, which is to be applauded. The number of clubs investing £1m+ has also increased by 5% in the EPL and 6% in the FLC compared to last year.



THIS YEAR'S SURVEY ALSO SHOWS A MARKED INCREASE IN CLUBS THAT ARE INVESTING IN BOTH COMMUNITY FOOTBALL AND CARE PROJECTS

56. How would you describe your clubs attitude towards community participation and investment and what advice if any would you give to non-footballing businesses in your community?

WE CONSIDER BEING EMBEDDED IN OUR COMMUNITY AS A **KEY REASON WHY WE ARE HERE**. IF WE SUCCEED, SO DOES OUR LOCAL COMMUNITY. WE WOULD LIKE OTHER ORGANISATIONS TO SHARE OUR APPROACH.

WE ARE EXTREMELY ACTIVE. IT IS **VERY IMPORTANT** TO HAVE THE CLUB BRAND SEEN IN A **POSITIVE LIGHT** AROUND OUR LOCAL COMMUNITY FOR ALL AGE GROUPS.

NON-FOOTBALLING BUSINESSES **MIGHT BE SURPRISED** BY THE **SYNERGY** BETWEEN **THEIR EFFORTS** AND THOSE OF THE **FOOTBALL CLUBS.** IT MIGHT BE WORTH EXPLORING AND INVESTIGATING THE ACTIVITIES OF FOOTBALL CLUBS WITH A VIEW TO COMBINING EFFORTS AND ACTIVITIES.

WE HAVE **VERY STRONG** TIES WITH THE COMMUNITY, WITH **EVEN MORE** INITIATIVES IN 2018-19.

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