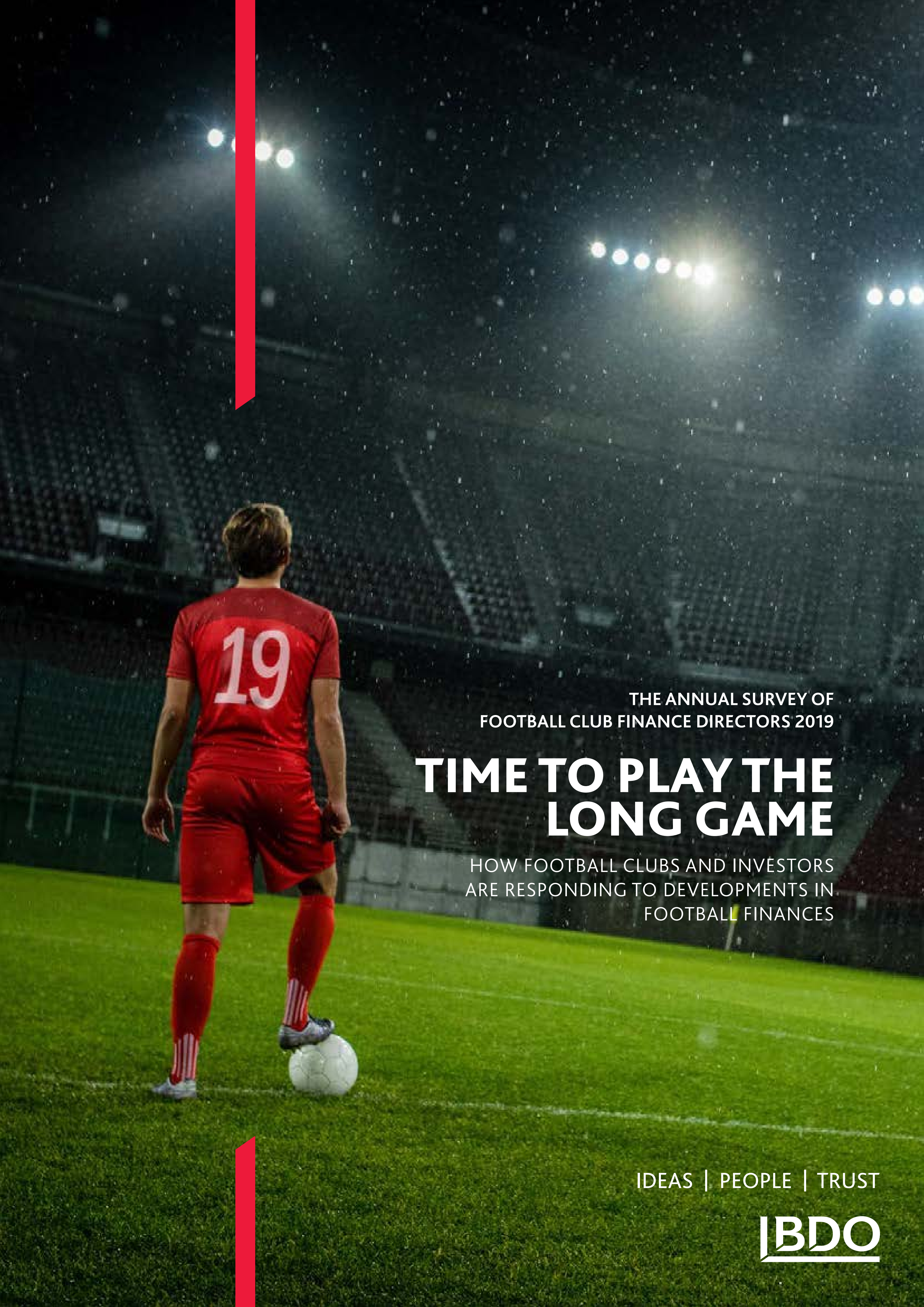

THE ANNUAL SURVEY OF
FOOTBALL CLUB FINANCE DIRECTORS 2019

TIME TO PLAY THE LONG GAME

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

IDEAS | PEOPLE | TRUST

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TIME TO PLAY THE LONG GAME

THE ANNUAL SURVEY OF FOOTBALL CLUB FINANCE DIRECTORS 2019

As the 2019/20 football season kicks off, we once again release our Football Finance Director Survey. This report is about the financial health and operations of football clubs across the English leagues, with an insight into the top priorities and concerns for these football clubs, as well as commentary on how they are responding to developments in the game.

A WORD FROM IAN CLAYDEN

PARTNER,
HEAD OF PROFESSIONAL SPORTS

With enhanced EPL media rights bedded in, and the apprehensive wait for rights renewals for 2019-22 behind us, a relatively neutral outcome may offer a little bit of respite in terms of financial volatility.

However, when we pause and reflect, it is hard to say that football has managed to find its equilibrium. There are clear market disruptors that may threaten long-term stability and, for many, long-term sustainability.

At the heart of the matter is the financial inequality between divisions in the context of a system that, quite rightly, incorporates promotion and relegation. This environment creates an aggressive culture of success above all, without the fortitude of long-term financial architecture.

There is also the disparity of having two upper tiers that are arguably predominantly media businesses, and two lower tiers that are arguably consumer businesses; whereas the governance structure of the two leagues, with the EPL governing the top tier and the EFL governing tiers 2-4, does not reflect this.

Responses to our survey tell us that 75% of EPL clubs are making a profit before player-trading compared to just 17%, 12% and 14% of FLC, FL1 and FL2 clubs, respectively. After player-trading, there is a part reversal with only 42% of EPL clubs profitable compared to, on average, a quarter of Football League clubs.

In short, this means that, with Premiership survival out-ranking cost control, half of EPL clubs are not converting significant incomes into self-sustainability, without the need for shareholder support. Player cost inflation (whether it be wages, transfer fees or agents' fees) is forcing EFL clubs to live hand to mouth, with reliance on player trading as a secondary profit centre - largely at the expense of stability and sustainable growth.

TIME TO PLAY THE LONG GAME

THE ANNUAL SURVEY OF FOOTBALL CLUB FINANCE DIRECTORS 2019

So, in an already unbalanced and financially fragile environment, with somewhat equivocal financial regulation, the impact of disruptors, such as the aggressive short-term promotion strategies of wealthy but often transient owners, employing short-term promotion strategies, or an assertive standpoint from HMRC, an increasing number of clubs are 'playing' with the rules, taking unnecessary financial risks, employing 'creative' accounting and ultimately finding themselves criticised for financial mismanagement.

Arguably, without owners directly sharing governance responsibilities for the leagues (like in certain international models), and an abiding alignment of more altruistic objectives (at least in the context of English football), some majority shareholders, who we know are as diverse as they are wealthy - see section A, will pursue their own short-term interests.

In our 2019 Football FD Survey, there is an underlying sense of rising discontent. Overall, economic conditions are not at all unfavourable, with non-media revenue streams such as ticketing, catering & hospitality and commercial partnerships holding up well compared with the wider consumer markets – see section C. However, confidence in central regulation is waning, trust in all other clubs without exception to 'play fair' is missing, and the application of the fundamentals of good financial governance is, to say the least, inconsistent.

The solution is perhaps as easy to see as it is hard to implement.

Clubs, left to their own devices, will not collectively restrain player cost inflation. Owners, without enforced parameters, will not universally play fair. Long-term sustainability will be sacrificed for short-term gain (or at least the pursuit of it).

So, financial intervention is needed to promote long-termism, and protect a sport whose impact is so far-reaching, and whose stakeholders are so diverse, that it cannot be allowed to have its tail cut and go the way of the high-street. English football clubs need protection from administration and safeguards need to be structural, underpinned by the principle of self-sufficiency. Most of all they need to be credible and robust.

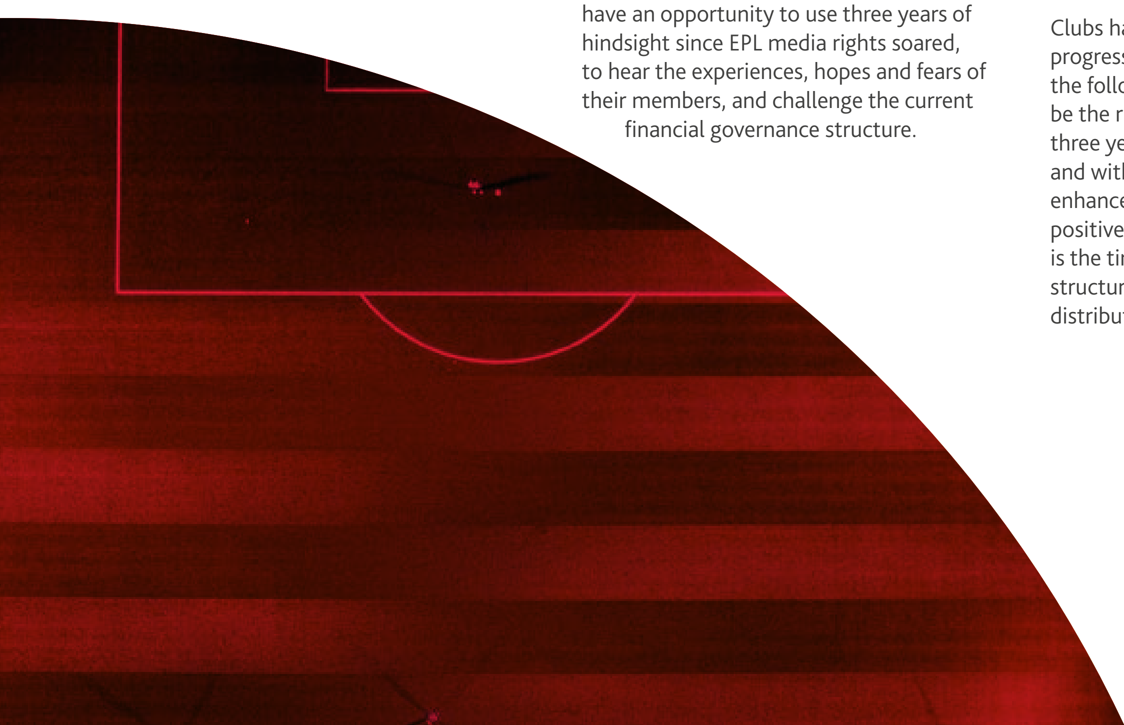
So, as we embark on the next three years, with 2019-22 media rights secured, those holding stewardship of the football leagues have an opportunity to use three years of hindsight since EPL media rights soared, to hear the experiences, hopes and fears of their members, and challenge the current financial governance structure.

It is not wholly unrealistic to project forward to a nirvana situation of long-term stability for all. In fact, despite a seemingly negative tone to this foreword, we have observed an incredibly encouraging level of consistency in the feedback that we have received from FDs.

It is fair to say that a significant proportion of clubs would embrace some change of this nature, and quite simply want to remove some existing barriers to financial fortitude for the good of football's future. It is encouraging that, in amongst all of the media noise, FDs are largely united in recognising that increasing fan engagement, and delivering a first-class consumer experience, remains a top priority for their club.

By and large, improved cost control enforced forcefully and consistently will not unduly constrain clubs. Two-thirds of clubs either have no more money to invest anyway, or believe that the amounts that they are able to invest are quite sufficient. The dissenting minority might be the one-fifth of FLC and EPL clubs who admit that they would undertake 'significant' additional investment in the absence of cost control regulations. However, with appropriate parameters in place, and within reason, this could be accommodated.

Clubs have shared with us a number of progressive ideas, some of which are on the following page. These may or may not be the right solutions but with the next three years of EPL media rights secured, and with only one third of FDs believing enhanced EPL media rights has had a net positive impact on their clubs, perhaps now is the time to consider whether the current structure of English leagues and income distribution requires adjustment.



PROGRESSIVE IDEAS FROM CLUB FDs

- IMPROVED DISTRIBUTION OF INCOME
- SALARY CAPS
- GREATER RESTRICTION ON NON-EQUITY BACKED LOSSES
- A TWO TIER EPL (THIS MAY SOUND RADICAL BUT WE WILL EXPLORE IT FURTHER IN THE COMING MONTHS, INCLUDING CALLING ON FDS TO SHARE THEIR VIEWS
- GREATER PRECISION WITHIN PROFIT AND SUSTAINABILITY LEGISLATION
- IMPROVED ALIGNMENT OF FFP AND STATUTORY FINANCIAL REPORTING, WITH MORE EFFECTIVE TREATMENT (OR DISALLOWANCE) OF UNREALISED/NON-CASH ACCOUNTING GAINS, AND THE OPTION OF INDEPENDENT REVIEW
- PRE-APPROVAL FROM THE EPL / EFL FOR MATERIAL ONE OFF / EXCEPTIONAL ITEMS TO BE CONSIDERED ALLOWABLE FOR FFP
- MORE TIMELY REVIEW OF FINANCIAL REGULATORY COMPLIANCE AND BUDGETARY DISCIPLINE
- FASTER AND MORE ROBUST / PUNITIVE SANCTIONING OF NON-COMPLIANT CLUBS, ENSURING A MORE PROPORTIONATE DETERRENT
- GREATER SCOPE FOR NON-REPAYABLE, NON REDEEMABLE EQUITY INVESTMENT
- MORE RIGOROUS AUDITING

FINANCING THE CLUB

AMIDST A NUMBER OF PUBLICISED FOOTBALL CLUB INSOLVENCY PROCEEDINGS, OVER A QUARTER OF CLUBS ARE TELLING US THEIR FINANCES ARE IN NEED OF ATTENTION OR WORSE, COMPARED WITH 18% LAST YEAR, AND 70% ARE NOW SAYING THEY ARE RELIANT ON SHAREHOLDERS TO FUND LOSSES.

SIMON HALL
Director, BDO Corporate Finance

Last year we noted two very clear trends: firstly, the stark and widening disparity between the financial health of EPL clubs and the lower leagues; and secondly that EPL clubs, despite the majority being profitable on the back of considerable central funding, were feeling the pinch of inflated player costs and were not as financially secure as they thought they might be. This may have surprised people at a time when the general consensus was that the EPL was the richest league in the world. However, converting revenue into profits and profits into positive cash flow is not always so straight forward in football.

This year, the above trends actually appear to be worsening, despite another broadcasting deal having been penned which will yield domestic football more than £9bn between 2019 and 2022.

Amidst a number of publicised football club insolvency proceedings, over a quarter of clubs are telling us their finances are in need of attention or worse, compared with 18% last year, and 70% are now saying they are reliant on shareholders to fund losses. This shareholder reliance rises to 100% for FL2 clubs surveyed. Even in the EPL, 8% of club FDs say their finances are in need of attention and 33% say they are reliant on shareholder funding.

Rising player transfer costs and wages – which are in excess of 75% of revenue for a large number of clubs (see section G) – are the most significant contributing factor to this. For lower league clubs, it is a sign that the lure of promotion may be becoming too much of a gamble in light of the player investment required to get there.

GOING FORWARDS, WHAT ARE CLUBS' PRIORITIES?

In light of the above challenges, clubs' investment plans are evolving. They appear to be realising that they cannot become over-reliant on central funding to sustain their businesses, especially given that there is some uncertainty over the future of media rights beyond 2022.

Outside of promotion and avoiding relegation, growing the domestic fan base remains top of the agenda for most club FDs for a second year running. 21% listed it as their top priority, with the larger clubs also targeting their international fan base as a key area for growth. This is in contrast to just two years ago, where only 8% listed domestic fan base development as their top priority and just 2% were prioritising international growth.

Alongside England women's recent World Cup success, it is pleasing to see that the clubs are also keen to further invest in women's football; 29% of all clubs (and 33% of the EPL) have it in their top four priorities compared with 22% last year and a mere 13% in 2017.

Clubs also appear increasingly concerned about their fan demographic, with capturing younger fans now the main challenge; again, all this with a view to future sustainability. Echoing this, fan engagement is in nearly half of clubs' top three priorities across all leagues.

Alongside England women's recent World Cup success, it is pleasing to see that the clubs are also keen to further invest in women's football; 29% of all clubs (and 33% of the EPL) have it in their top four priorities compared with 22% last year and a mere 13% in 2017.

This doesn't mean clubs have given up on their larger capital investment plans though. Academy and real estate development still remain front of FDs minds, respectively featuring in 27% and 25% of FDs top two priorities across all leagues.

It is no surprise to see academy expansion feature highly in clubs' minds given ever increasing player costs. For some time now, clubs have used player trading to mitigate wage inflation and/or offset operating losses to comply with FFP. Investment in academies to attract or retain talent and turn academies into quasi profit centres is embedded within many clubs' business models.

Clubs are no doubt also keeping a keen eye on Liverpool and Spurs to see how beneficial their respective stadium expansion and developments will be to fan engagement scores and commercial revenue streams.

But, with multiple priorities, each requiring financial investment, as well as relying on shareholders, many clubs are also looking to make better use of bank to debt (see section B).

FINANCING THE CLUB

AND SO IT BECOMES A QUESTION OF BALANCE AND PRIORITIES...

While liquidity remains a challenge, FDs and shareholders have to find the balance between pursuing immediate results or investing in the long term stability of the business. Many clubs' priorities appear to be shifting towards investment in additional, sustainable commercial revenue streams.

This, and further observations made in the FFP section of this report, may provide some clarity to fans who are wondering why their club, unlike more aggressive clubs, have decided against spending £100m+ in the transfer window this year.

WHAT HAS THIS MEANT FOR M&A ACTIVITY IN THE MARKET?

Whether it is the short term certainty of the new broadcasting media rights package or that cash conversion is not giving shareholders the funding respite they hoped for, M&A activity in the sector is on the rise. 23% of club owners are considering an exit, compared with 10% last year, and almost half say they have been approached by potential investors, a little up from 40% last year. An interesting observation here is that demand still outstrips supply.

As for the EPL specifically, anyone who reads the sports section of the papers may be surprised to read that no EPL clubs have told us they are considering an exit, and so are we. However, whilst it is true that the vast majority are not outwardly ‘up for sale’, for the right price, an exit is certainly not off the table.

WHETHER IT IS THE SHORT TERM CERTAINTY OF THE NEW BROADCASTING MEDIA RIGHTS PACKAGE OR THAT CASH CONVERSION IS NOT GIVING SHAREHOLDERS THE FUNDING RESPITE THEY HOPED FOR, M&A ACTIVITY IN THE SECTOR IS ON THE RISE. 23% OF CLUB OWNERS ARE CONSIDERING AN EXIT, COMPARED WITH 10% LAST YEAR, AND ALMOST HALF SAY THEY HAVE BEEN APPROACHED BY POTENTIAL INVESTORS

Notwithstanding this, it is clear that investors remain more drawn to the lower leagues. With the relatively dizzy EPL valuations being touted, even allowing for the ongoing investment required, the potential losses along the way, and the risk of failure, investors stand to gain more from a medium to long-term strategy of buying into the lower leagues and taking clubs through promotion(s)

Whether the increased M&A activity will result in more “completed” deals is unclear, as in our experience there is often a big gap in expectations between buyers and sellers. Sellers’ expectations, more often than not, reflect their desire to recoup their original purchase price and subsequent investment, whereas buyers (who are now increasingly sophisticated investors, franchises and institutions) often seek to apply more conventional valuation techniques to a market that is anything but conventional.

Investors are not entirely club agnostic but we are increasingly observing them cite a number of clubs that meet their investment criteria, rather than one. This will ultimately benefit buyers more than sellers.

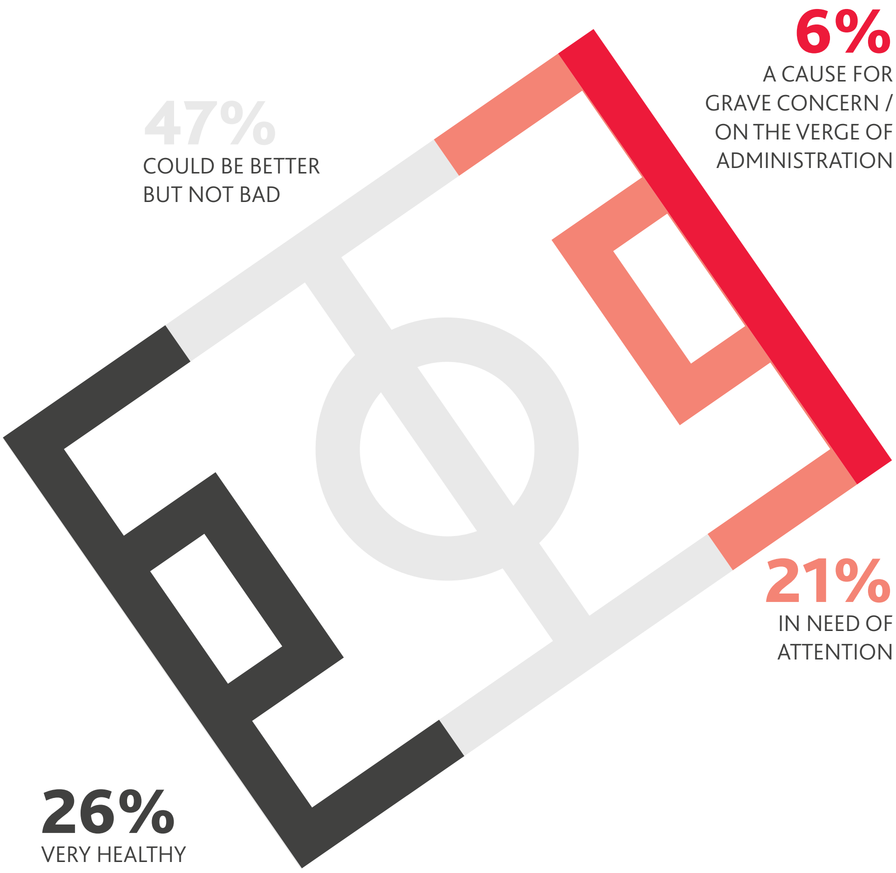
Many theorists point to revenue multiples and discounted cash flow valuation techniques for football clubs but, in reality, relegation remains the key challenge to producing an accurate and robust club valuation. Deferred consideration and ratcheted pricing are ways that sophisticated buyers are seeking to address the uncertainty, but even these do not seem to fully bridge the gap between buyers’ and sellers’ expectations.

FINANCING THE CLUB

1. HOW WOULD YOU RATE YOUR CLUB'S CURRENT FINANCIAL POSITION?

%	ALL LEAGUES	EPL	FLC	FL1	FL2
Very healthy	26%	50%	20%	23%	11%
Could be better but not bad	47%	42%	53%	59%	22%
In need of attention	21%	8%	20%	12%	56%
A cause for grave concern / on the verge of administration	6%	-	7%	6%	11%

Base: 53

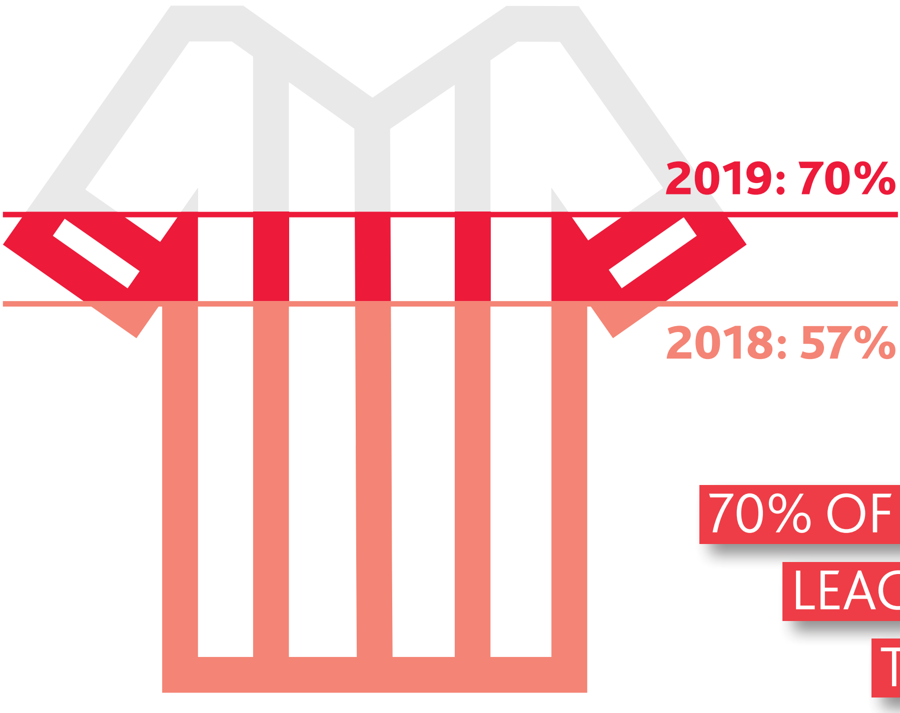


- Over a quarter of FDs surveyed this year said their clubs' finances were in need of attention or worse. This is up from 18% in 2018, and is a continuation of the gradually worsening trend across all leagues from previous years
- For the first time under the enhanced media rights packages, even EPL clubs are feeling the pinch; 8% saying that their finances are in need of attention and an unlikely 42% responding 'could be better but not bad'. That said, once again, half still feel their club's finances are "very healthy"
- 7% of FLC clubs and 6% of FL1 clubs classed their financial position as 'a cause for grave concern or on the verge of administration', which echoes the well documented football club administrations and receiverships in the press
- Perhaps even more alarming are the findings from FL2 where over two-thirds said their finances were in need of attention or worse. All FL2 clubs surveyed also responded in question 2 that they are reliant on their shareholders to fund losses.

2. IS YOUR CLUB DEPENDENT ON THE PRINCIPAL SHAREHOLDER(S) TO FINANCE ANNUAL REVENUE SHORTFALLS OR OPERATING LOSSES?

%	ALL LEAGUES	EPL	FLC	FL1	FL2
Yes	70%	33%	80%	71%	100%
No	30%	67%	20%	29%	-

Base: 48



- This year, 70% of clubs across all leagues highlighted their reliance on shareholders to fund losses, up from 57% last year. Clearly, enhanced wealth in the top tier is not filtering through to the EFL
- It is unsurprising given the responses to the previous question that the majority of these are outside the EPL, yet the results are starker than in previous years, especially in FL2
- Even in the EPL, where the minimum media rights incomes are c£100m, one-third said they are reliant on shareholders, compared with 20% last year.

70% OF CLUBS ACROSS ALL LEAGUES HIGHLIGHTED THEIR RELIANCE ON SHAREHOLDERS TO FUND LOSSES

FINANCING THE CLUB

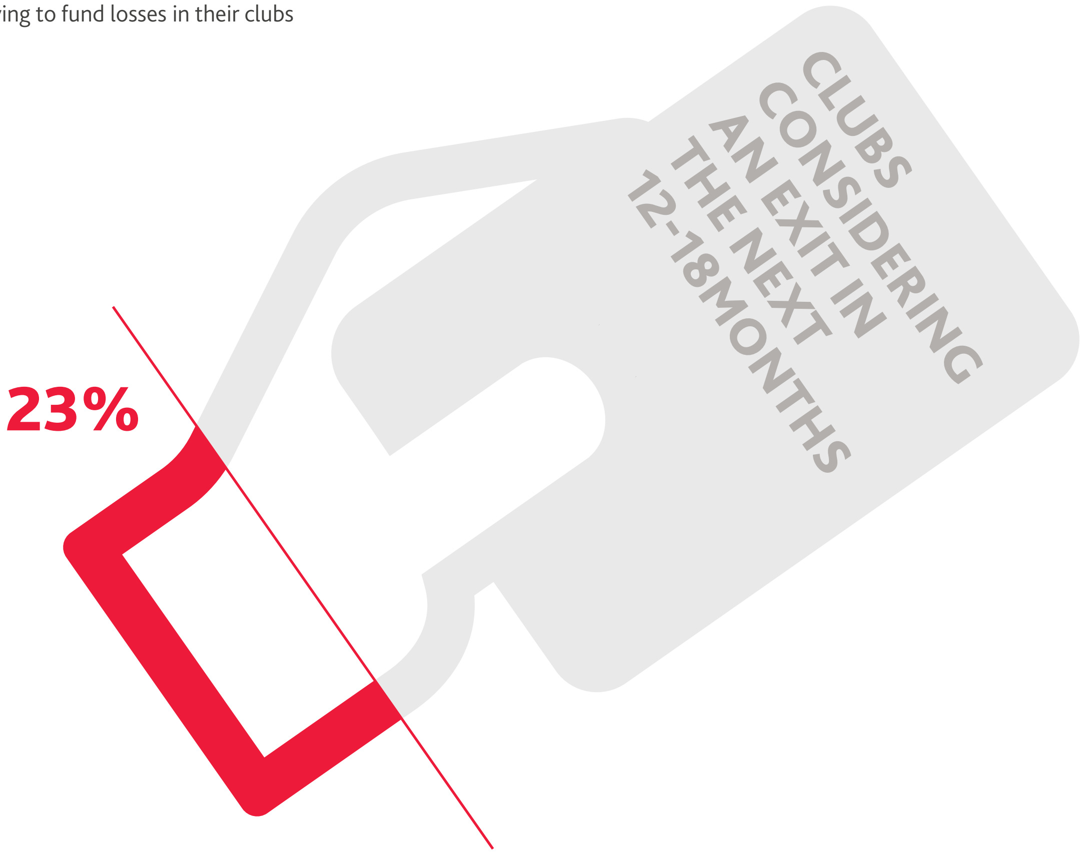
3. ARE THE CURRENT EQUITY OWNERS OF THE CLUB CONSIDERING A FULL OR PARTIAL EXIT WITHIN THE NEXT 12 – 18 MONTHS?

%	ALL LEAGUES	EPL	FLC	FL1	FL2
Yes	23%	-	27%	19%	56%
No	77%	100%	73%	81%	44%

Base: 52

- Almost one-quarter of clubs surveyed said their owners are considering a full or partial exit, which is 10% up on last year, and echoes the increased media coverage over M&A activity in the market
- Once again, it is unsurprising to see a number of owners in the lower leagues seeking an exit, when most are regularly having to fund losses in their clubs
- We were surprised to read that no EPL clubs are considering a full or partial exit considering the number of "potential" takeovers reported in the market at present. Our market intelligence tells us that, at the right price, many clubs are in fact "for sale", but that there is a large gap in valuation expectations between buyers and sellers.

ALMOST ONE-QUARTER OF CLUBS SURVEYED SAID THEIR OWNERS ARE CONSIDERING A FULL OR PARTIAL EXIT



4A. 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
Yes	45%	10%	47%	47%	78%
No	55%	90%	53%	53%	22%

Base: 51

- Approaches from prospective investors are up, year-on-year, across all leagues except FL1
- While a reported 10% of EPL clubs surveyed suggested they had been approached (compared with none last year), it is clear that, in light of EPL owners' valuation expectations, investors remain more drawn to the lower leagues with a view to pushing clubs up through the divisions.

4B. IF YES, HAVE THESE INTERESTED PARTIES BEEN:

%	ALL LEAGUES	EPL	FLC	FL1	FL2
Institutional/investment portfolio investors	32%	100%	64%	17%	15%
Long term supporters of the club	26%	-	9%	33%	36%
Football fans seeking entry into English football	11%	-	9%	-	21%
Other profile building or speculative investors	21%	-	9%	33%	21%
Other professional sport franchises	10%	-	9%	17%	7%

Base: 24

- Nearly one-third of all approaches have been from institutional investors, a continuation of the trend that we highlighted in previous years. Institutions seem increasingly able to manage and justify the risk of relegation, although their approaches have been predominantly targeted at the FLC where they see tangible, medium-term investment returns
- When it comes to lower league clubs, potential investors have come from a variety of sources, but it's no surprise to see supporters continuing to show the most interest, most likely in a move to extend their support of clubs facing financial challenges
- Other sports franchises (many from the US) also appear to have retained their interest from prior years, although this interest has predominantly been in the lower leagues. Given lower league clubs' dependence on commercial revenues to generate profits (in the absence of the significant central funds that the EPL enjoys), collaboration with other franchises could be extremely beneficial in generating new revenue streams and bolstering existing ones.

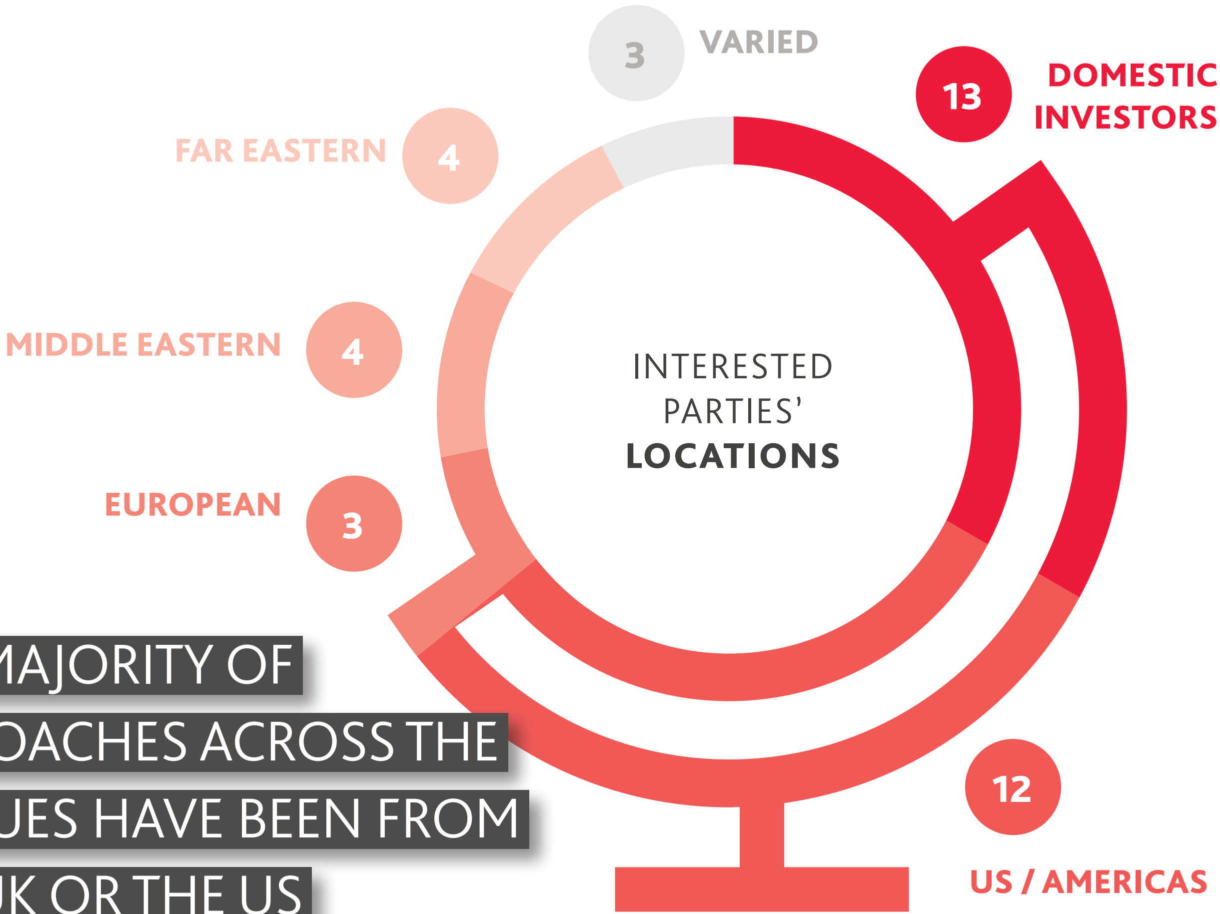
FINANCING THE CLUB

4C. IF YES, HAVE THESE INTERESTED PARTIES BEEN:

	ALL LEAGUES	EPL	FLC	FL1	FL2
Domestic investors	13	-	1	6	6
Overseas investors:					
US / Americas	12	1	5	3	3
European	3	-	1	-	2
Middle Eastern	4	-	3	-	1
Far Eastern	4	-	3	-	1
Varied (more than one apply)	3	-	-	3	-

Base: 23

- The majority of approaches across the leagues have been from the UK or US, albeit UK investors' interest has predominantly been in the lower leagues, and often made up of fans and local investors
- Aside from a few isolated cases, it seems the days of speculative investment dominated by high net worths from Russia, the Middle East and Far East are, for the time being, behind us
- It remains to be seen whether China will re-enter UK football after its central government imposed restrictions over external investment a couple of years ago.



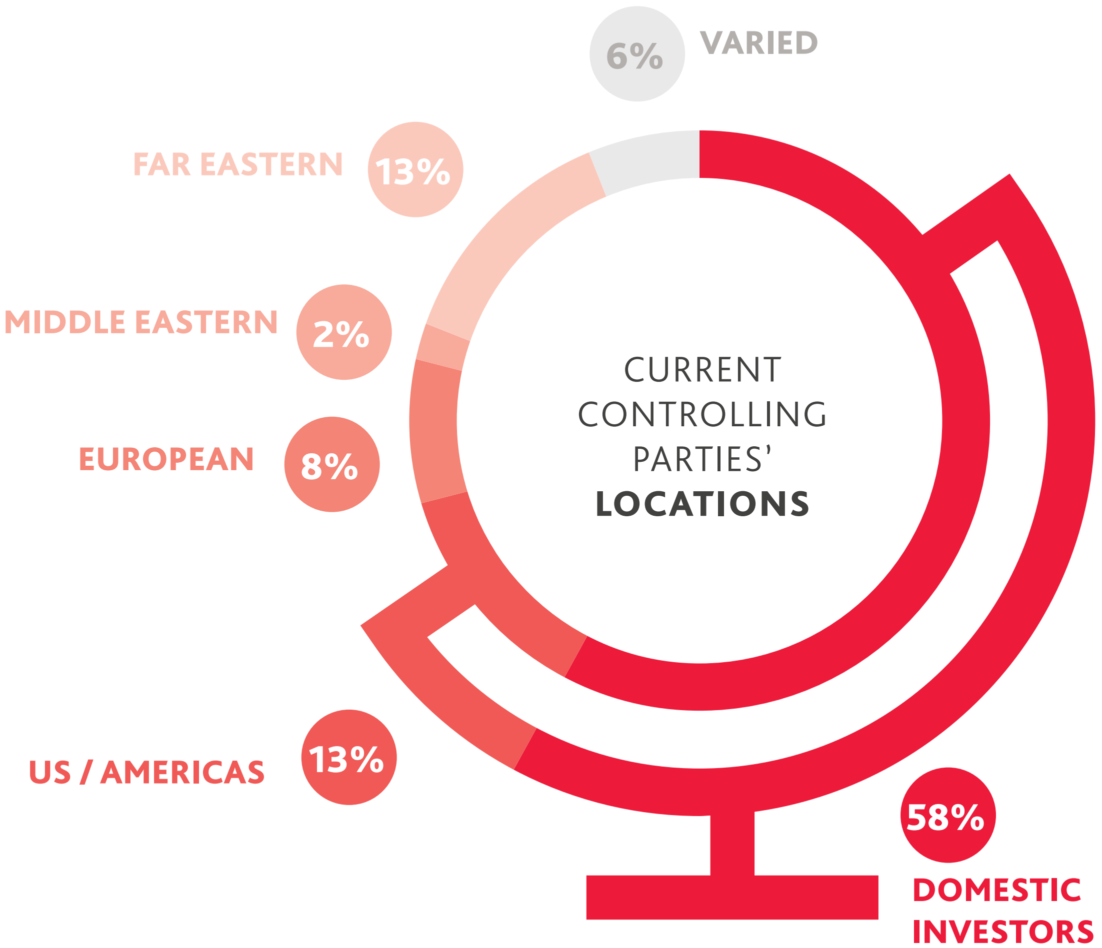
THE MAJORITY OF APPROACHES ACROSS THE LEAGUES HAVE BEEN FROM THE UK OR THE US

4D. ARE THE CLUB'S CURRENT CONTROLLING PARTIES:

%	ALL LEAGUES	EPL	FLC	FL1	FL2
Domestic investors	58%	34%	53%	64%	89%
Overseas investors:					
European	8%	8%	7%	12%	-
Far Eastern	13%	25%	20%	6%	-
Middle Eastern	2%	8%	-	-	-
US / Americas	13%	25%	7%	12%	11%
Varied (more than one apply)	6%	-	13%	6%	-

Base: 53

- Club ownership is much more evenly spread than a few years ago, particularly in the EPL, once again highlighting its global appeal (or perhaps the need to look to a global investor pool to find 20 billionaires!)
- The lower leagues remain dominated by domestic investors and fans, but there is now a US presence in FL1 and FL2 (over 10% of clubs surveyed in both leagues have US ownership, compared with none in 2018).



5. WHAT ARE YOUR KEY STRATEGIES, OTHER THAN PROMOTION AND AVOIDING RELEGATION, FOR DEVELOPMENT / GROWTH IN ORDER TO FURTHER STRENGTHEN THE FOOTBALL CLUB?

%	ALL LEAGUES	EPL	FLC	FL1	FL2
Qualifying for European cup competitions					
1st	7%	25%	5%	-	-
2nd	1%	5%	-	-	-
3rd	-	-	-	-	-
4th	16%	13%	15%	17%	25%
Obtaining additional principal shareholder investment					
1st	11%	5%	16%	12%	14%
2nd	9%	10%	5%	10%	17%
3rd	9%	-	13%	12%	17%
4th	11%	13%	5%	11%	25%
Growing the club's domestic fan base					
1st	21%	10%	32%	15%	27%
2nd	12%	10%	14%	19%	-
3rd	20%	19%	19%	24%	17%
4th	-	-	-	-	-
Growing the club's international fan base					
1st	8%	15%	11%	4%	5%
2nd	8%	19%	5%	5%	-
3rd	7%	13%	13%	-	-
4th	5%	-	-	11%	13%
Diversification into other leisure activities (hotels, restaurants & bars, travel & tourism, retail)					
1st	8%	5%	-	15%	9%
2nd	11%	5%	18%	5%	17%
3rd	-	-	-	-	-
4th	16%	13%	15%	22%	13%
Monetising data sets and exploiting media rights (streaming of club generated content for example)					
1st	5%	5%	-	8%	5%
2nd	13%	10%	14%	14%	17%
3rd	13%	25%	19%	-	-
4th	8%	19%	5%	6%	-
Further investment into women's football					
1st	5%	5%	-	4%	9%
2nd	4%	10%	-	5%	-
3rd	9%	6%	6%	12%	17%
4th	11%	13%	25%	-	-
Development of academy facilities					
1st	10%	5%	5%	15%	14%
2nd	17%	19%	23%	10%	17%
3rd	15%	13%	13%	24%	-
4th	2%	-	-	6%	-
Improving fan engagement and experience (including social and digital media)					
1st	8%	10%	5%	8%	9%
2nd	17%	10%	18%	24%	17%
3rd	20%	13%	19%	24%	33%
4th	18%	19%	25%	11%	13%
Other real estate development / investment / stadium expansion					
1st	17%	15%	26%	19%	9%
2nd	8%	5%	5%	10%	17%
3rd	7%	13%	-	6%	17%
4th	13%	13%	10%	17%	13%

- Growing the domestic fan base remains top of the agenda for most club FDs for a second year running - 21% listed it as their top priority - with the larger clubs also targeting their international fan base as a key area for growth. Just two years ago only 8% listed domestic fan base development as their top priority and only 2% listed international growth, and all of the latter were in the EPL
- In our experience, this trend represents clubs seeking to future-proof their businesses and responding to the need to perpetuate their core customers by attracting more from younger generations. Many clubs are telling us that they are less financially secure than in recent years and are looking to protect core revenues.
- Additionally, while the current domestic and international media rights package is secure until 2022, there is some uncertainty over the future of media rights thereafter, with online platforms seemingly poised to disrupt the market.

#1 STRATEGIES FOR DEVELOPMENT / GROWTH

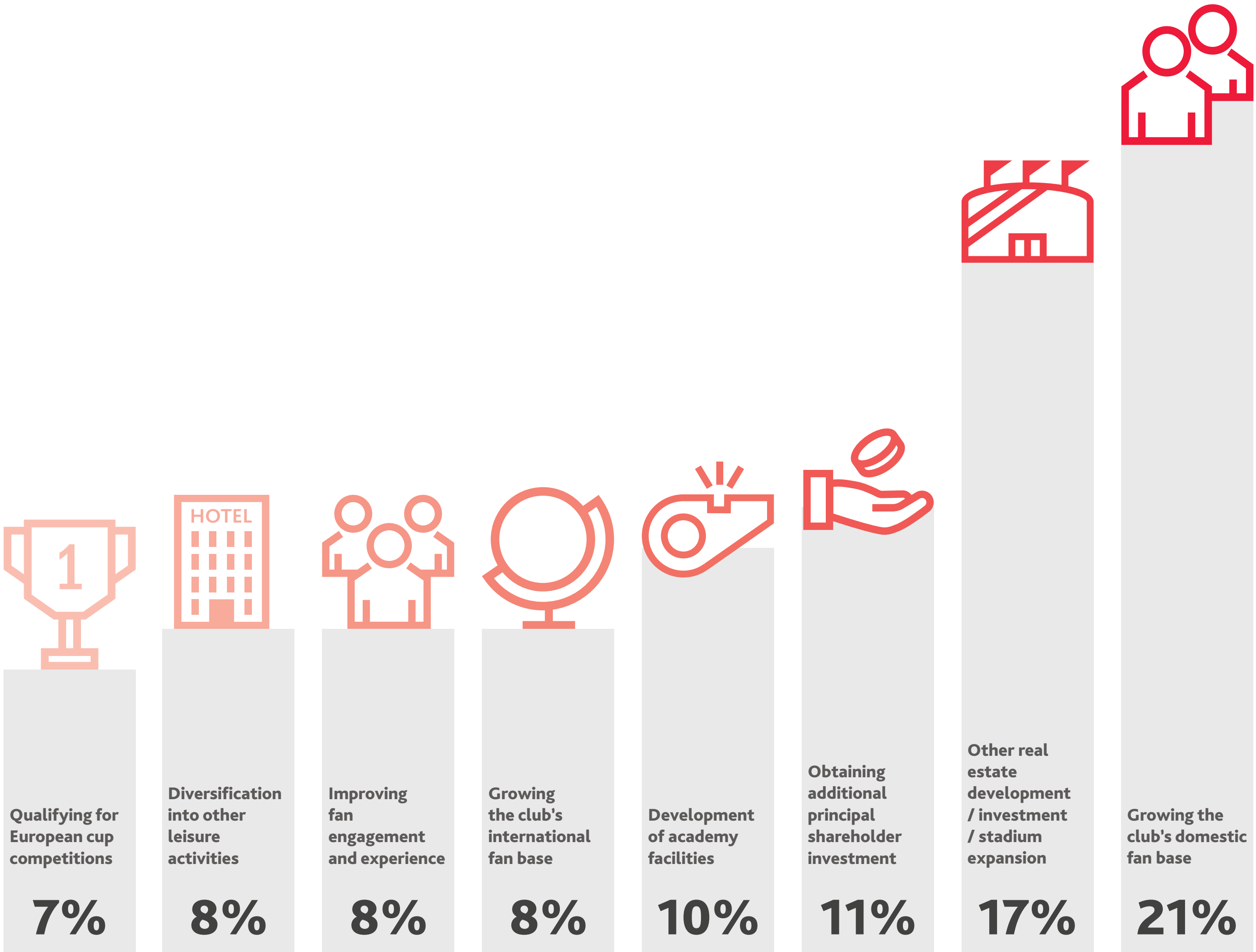
Monetising data sets and exploiting media rights

5%

Further investment into women's football

5%

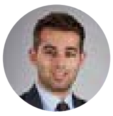
- There has been a subtle change in focus amongst clubs in the EPL this year, with only 30% putting European cup competition qualification in their top two priorities, compared with 40% last year. On the one hand, this is possibly a reflection of the high player investment required to achieve qualification and the potentially adverse financial impact of not being successful. On the other hand, this may represent a desire to avoid any and all distractions from retention of EPL status
- Real estate and academy development still remain high on FDs agendas, especially for EPL clubs. Clubs are targeting capital investment now in order to bolster future income streams. It is no secret that clubs have used their academies and player trading to pass FFP, fund wages and/or offset operating losses. Investment in academies to attract more talent and turn academies into quasi profit centres is now commonplace
- Amidst liquidity challenges, club FDs are turning to their shareholders and, where available, debt (as noted in section B) to fund these plans. Obtaining additional shareholder investment is in the top four priorities for 40% of clubs, compared with just 25% last year
- Having long-since acknowledged the importance of their female fan base, the ever-growing commercial appeal of women's football (as evidenced by the success of the 2019 Women's Wold Cup, and England's performance therein) is fueling clubs' commitment to invest in women's football. 29% of all clubs (and 34% of the EPL) have put this in their top four priorities, compared with 22% last year and 13% in 2017.



SECTION B

DEBT AND INVESTMENT

NOT ONLY HAVE PLAYER TRANSFERS BECOME A KEY PROFIT CENTRE FOR MOST CLUBS, BUT IT IS AFFORDING CLUBS THE ABILITY TO ACCESS THIRD PARTY DEBT BY USING PLAYER TRANSFER RECEIVABLES AS SECURITY.



NICOLAS JACOBSON
Manager, BDO Corporate Finance

Football as we know it is evolving. The importance of performing off the pitch is just as important as performing on the pitch. The requirement to remain financially competitive is driving the transition of football clubs from their core footballing activities towards entertainment company models with truly cosmopolitan brands.

This year, more than ever, clubs across all four leagues are continuing to explore unique and sophisticated ways to diversify their income streams in order to gain a competitive advantage over their rivals.

Development of youth academies remains a key focus for most clubs, with over three quarters of respondents highlighting this as a key investment area. Costs of running academies do not feature in FFP calculations and therefore the ability to bolster squads without reducing FFP headroom is an attractive prospect to most FDs. Even more attractive is the opportunity to take advantage of the inflated transfer market. Not only have player transfers become a key profit centre for most clubs, but it is affording them the ability to access third party debt by using player transfer receivables as security.

Apart from investing in academies, FDs principal investment plans are stadium expansion, real estate development (both residential and commercial) and investment in other commercial ventures (eg hotels and hospitality). Clubs are also targeting strategic alliances with overseas clubs and tie-ins with clubs from other sports (eg American Football, Basketball, Rugby and eSports, to name a few).

It is often quipped that in only one in every 14 days is the stadium actually a football stadium. Nowadays, there is increasing pressure on clubs to become more creative and utilise their existing facilities, which can hold large numbers of people, to generate additional revenue. This could be in the form of redeveloping in and around stadiams to cater for other sporting events, concerts, conferences, weddings, temporary workspaces, gyms and so on, or developing commercial and residential real estate.

Our results are showing that the proportion of clubs, in particular in FLC, FL1 and FL2, who are investing significant sums in non-player capital spend has increased from last year. Given, they do not receive EPL levels of broadcasting rights each season, this is no doubt a reflection of the material returns on investment these other income streams can contribute to their bottom line.

SO WHERE DOES ALL THIS LEAVE US?

The feeling in the market is that clubs know what they need to do but it is the ability to fund these investments that are crucial. We have seen a trend over the past few years of mainstream banks becoming more open to lending into the football industry, albeit there is still some way to go before the stigma that surrounds football falls away.

42% of EPL clubs have taken advances against central funding, compared with 20% in 2018, and 20% have factored their player receivables. As well as clubs' need for liquidity during tough periods in their annual cash cycle (typically in the summer, and ahead of media distributions in January and May), this also appears to be driven by the cost of debt becoming cheaper as more high street debt providers have entered the market.

The perceived improvements in the financial stability of EPL clubs in particular has attracted more lenders into the market. However, standard terms are often accompanied with onerous lender demands in terms of covenants and operational oversight. As such, it is not surprising that the majority of lower league clubs have responded that they continue to rely on their shareholders for investment.

External financing across the lower leagues is less common, but this is more likely a reflection of lack of access to debt than less need for it. Interestingly, FDs of FLC clubs responded most positively when asked if they were seeking third party debt finance. However, it is those very same FDs that are experiencing insufficient debt liquidity in the market.

In modern day football, investing and having access to funds to make these investments is essential for clubs to remain financially competitive and commercially relevant. As some clubs look towards building a self-sustaining business model with increased profits generated through commercial revenue streams, others will continue to rely on their shareholders for funding. This will likely continue unless there is a seismic shift in the way that broadcasting rights are distributed and financial performance is regulated, or perhaps a significant restructuring of the leagues, such as a two tiered EPL (suggested earlier).

DEBT AND INVESTMENT

SO WHAT ARE THE MAIN OBSTACLES TO OBTAINING CREDIT/DEBT IN THE MARKET?

1 REPUTATION

There is still a stigma surrounding football clubs about lack of business experience, proper governance and the fact many clubs are loss making entities. Bolton Wanderers and Bury's troubles are acting as real reminders to financial institutions of the risks.

2 LACK OF SECURITY IN LOWER LEAGUES

Lenders are still reluctant to lend into the lower leagues, without EPL funding or parachute payments (both of course backed by the Premier League) to secure debt against. It is these clubs that often need financing the most but do not have access to it.

3 THE "R" WORD

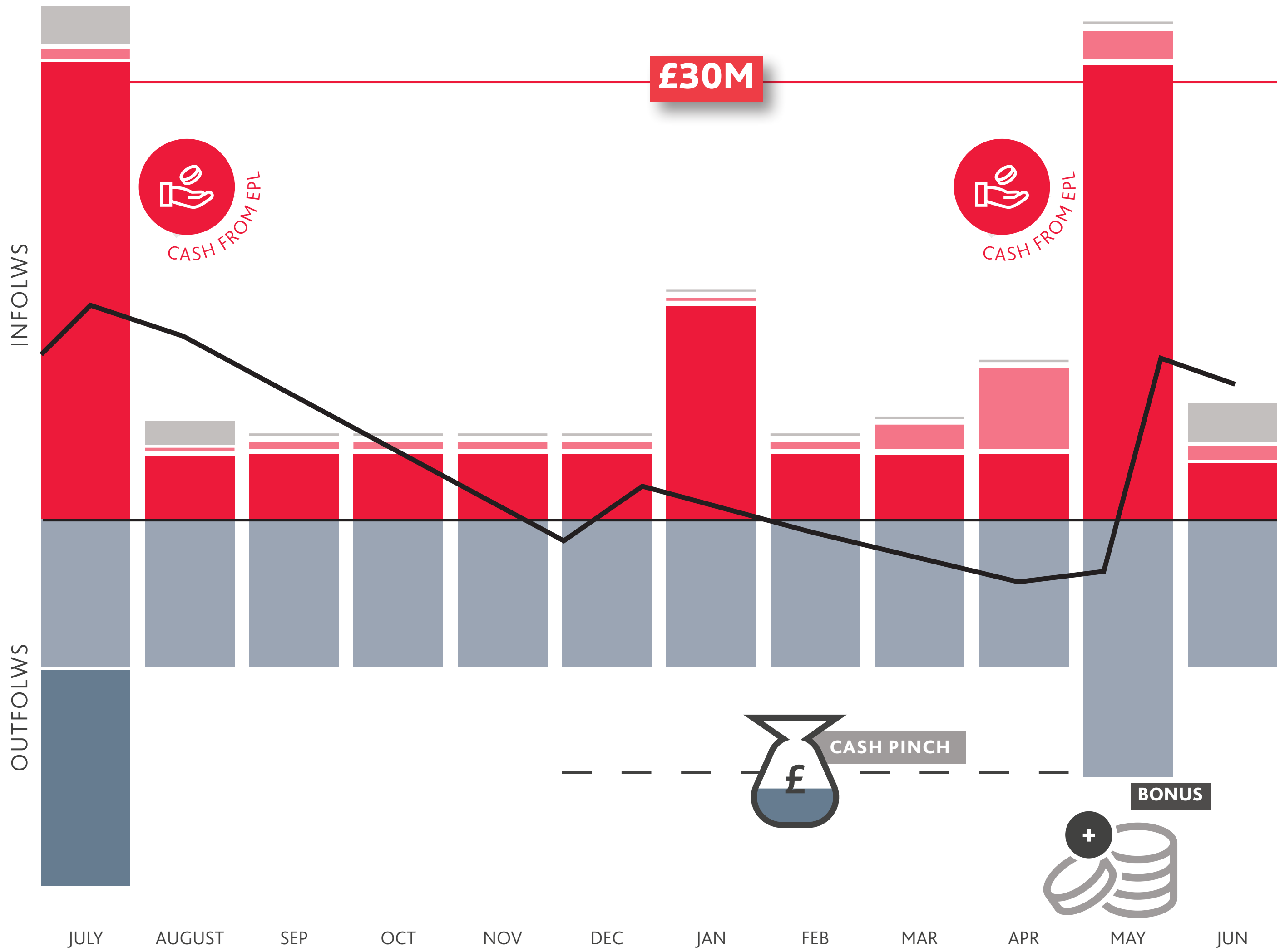
It is no secret that financial institutions rely on predictability of future cash flows and sustainability of returns, both of which are undermined by the risk of relegation.

WHY CASH TIMING IS EVERYTHING…

A REPRESENTATION OF HOW A PROFITABLE EPL CLUB EXPECTING TO RECEIVE IN EXCESS OF £100M IN EPL DISTRIBUTIONS CAN EXPERIENCE CASH CONSTRAINTS.

KEY

- Commercial and other income
- Tickets - season and match-day (season ticket revenue is largely received late spring and early summer).
- EPL distributions
- Cash
- Outgoings (including player wages)
- Net transfers payable (in reality, transfers payables are most often 50% upfront and 50% in 12 months or 1/3, 1/3, 1/3 over 2 years)



SO WHAT DOES THIS SHOW US?

Even our hypothetical club here, with £10m of cash at the start of the financial year, £120m of income forecast from EPL distributions, £30m from tickets and other commercial deals, and a budgeted net profit for the 2019/20 year of c£10m, has clear cash constraints throughout the year.

The challenge our club has is timing…

EPL clubs receive significant income up front, setting them up for the summer transfer window ahead. Season tickets go on sale late spring / early summer and commercial / sponsorship deals are often negotiated with cash received at the start of the season. These are of course eclipsed by EPL distributions in May (mainly merit payments based on the prior season's league position), July (fixed sums for all clubs) and January (facility fees based on how often a club's matches are broadcast in the UK).

However, clubs have large monthly outgoings to consider, most notably player costs, which as we all know are only going in one direction. Many clubs will also pay bonuses at the end of the season, often specific to player performance (eg goals, clean sheets, appearances) or team specific (assuming our mid-table club achieved the target position set for them by club Directors).

Our hypothetical club FD of course knows this. She is carefully planning expenditure for the year ahead accordingly, also building in the risk that the club doesn't achieve its mid-table target (each league position above 20th is worth an additional c£2.5m to the club in May 2020), or worse, gets relegated at the end of the season. Our FD, as with many of the real life respondents to our survey, is therefore feeling concerned about wage inflation and the rising cost of players, is keeping a close eye on interest being shown in academy players (see section G), and is thinking very carefully about how she can improve fan engagement and bolster the variable revenue streams of the business for the years to come (see section A).

It is easy to see then, why many clubs must sell players before they can buy, and also why many are turning to banks in order to accelerate receipts from central distributions or transfer receivables. Clubs will often hold an overdraft facility in reserve just in case they need it at one of their pinch points.

And this is for our hypothetical, profitable, EPL club. If our club was loss making, eg due to excessive wages, the above constraints would be accentuated. Had we presented the above for an EFC club, which is subject to similar income timing but with much lower values, is mostly likely loss-making, and does not have the same access to debt, the picture would be starker still and the need for equity investment income would be obvious.

This is hopefully enlightening to football fans who may have been wondering why their club hasn't spent big in the transfer window following some valuable player sales.

DEBT AND INVESTMENT

6A. ARE YOU CONSIDERING ANY OF THE FOLLOWING AREAS OF NON-PLAYER CAPITAL SPEND IN THE NEXT 12/18 MONTHS?

	ALL LEAGUES	EPL	FLC	FL1	FL2
Investment in other sports, such as e-gaming	6	2	1	3	-
Strategic alliances with overseas clubs	6	1	3	2	-
Strategic tie-ins with clubs from other sports (eg American Football, Rugby, Basketball, eSports etc)	4	1	1	2	-
Investment in other commercial ventures (eg hotels, etc)	12	1	5	6	-
Stadium expansion	18	6	3	7	2
Academy development/expansion	32	9	8	12	3
Residential real estate investment/ development	10	2	4	4	-
Commercial real estate development	12	2	3	5	2
Hotel/restaurant/other commercial property development	8	1	3	4	-
Other (please specify)	5	2	1	2	-

Base: 42

- Once again academy expansion remains by far the top priority of clubs' investment plans, which is not surprising given the potential returns on investment, both in terms of money saved and money earned
- The other key area where clubs are directing their spending is stadium and real estate (both commercial and residential) development and expansion
- This year, based on what we had seen in the market, we enquired as to the appetite for investment in other sports (eg eSports), strategic alliances with overseas clubs and strategic tie-ins with clubs from other sports. Whilst responses were low this year, it will be interesting to see how and if these areas will become more important in future surveys. No FL2 clubs responded that these are part of their investment plans, which highlights their focus, in the short term, on traditional, tried and tested revenue generating assets.

6B. WHAT IS THE PROJECTED LEVEL OF YOUR NON-PLAYER CAPITAL SPEND DURING THE NEXT TWO YEARS?

%	ALL LEAGUES	EPL	FLC	FL1	FL2
< £2.5m	39%	8%	31%	53%	72%
£2.5m-£10m	33%	42%	38%	29%	14%
£10m-£25m	18%	17%	31%	12%	14%
£25m-£50m	2%	-	-	6%	-
£50m-£100m	4%	17%	-	-	-
More than £100m	2%	8%	-	-	-
> £150m	2%	8%	-	-	-

Base: 49

6C. HOW WILL THIS BE FUNDED?

	ALL LEAGUES	EPL	FLC	FL1	FL2
Cash	19	9	2	4	4
Shareholder investment (debt or equity)	32	5	10	12	5
Third party debt	13	2	3	6	2

Base: 49

- The majority of EPL clubs expect to finance their expansion through cash, whilst EFL clubs continue to be reliant on shareholder investment
- As in prior years, it tends to be the minority that use third party debt, which reflects a lack of available and attractive debt funding arrangements for longer term capital investments in the market.

A THIRD OF EPL RESPONDENTS ARE PLANNING TO SPEND IN EXCESS OF £50M. 8% ARE PLANNING TO SPEND OVER £150M

- The proportion of clubs who are investing significant sums into non-player capital spend has increased from last year with 61% of respondents saying they will spend over c£2.5m, compared to 50% last year
- EPL clubs, in particular, are investing significant amounts in capex, principally on academies, stadia and other real estate developments, with a third of respondents planning to spend in excess of £50m. 8% are planning to spend over £150m
- We are seeing increasing amounts being spent in the FLC, and even one club in FL1 targeting expenditure of between £25m-£50m
- What is particularly interesting is that 14% of FL2 clubs are planning to spend between £10m-£25m, all of which is into academy development, stadium expansion and commercial real estate development. In context, these levels of investment may well be in excess of the clubs' current enterprise values.

DEBT AND INVESTMENT

7. HAS YOUR CLUB USED FUNDING FROM A SECONDARY SOURCE (IE NOT MAIN BANKERS) SECURED ON ANY OF THE FOLLOWING IN THE LAST YEAR?

%	ALL LEAGUES	EPL	FLC	FL1	FL2
Advance on Media/Central distributions	15%	42%	13%	-	11%
Advance season tickets- one year	4%	-	-	13%	-
Advance season tickets- two or more years	-	-	-	-	-
Player transfer fee receivables	22%	20%	33%	19%	11%
Bonds	2%	-	7%	-	-
Crowd Funding	-	-	-	-	-
Other receivables	6%	-	-	6%	22%

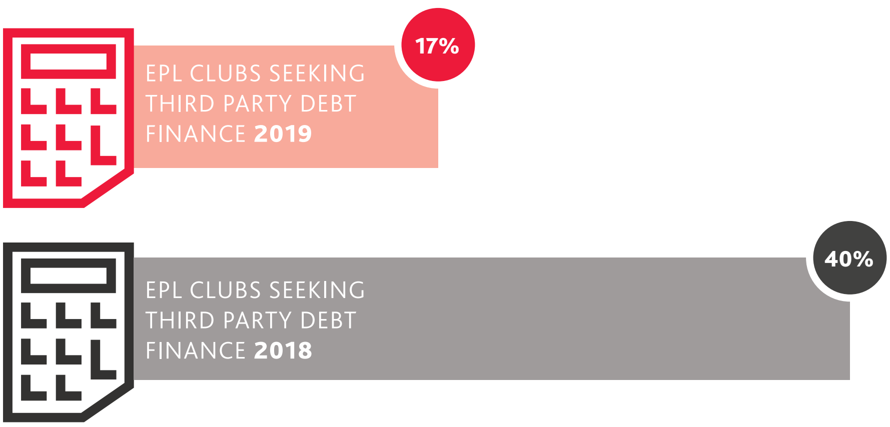
Base: 48

- Once again this year, one-fifth of all clubs surveyed have turned to factoring in order to accelerate player receivables, which (when not factored) are typically received over 12-24 months
- 15% have turned to advance funding against central distributions, up from 9% last year and 6% the year before. The EPL is the key driver of this. 42% of EPL clubs now have debt secured against central funding compared with 20% in 2018 and 21% in 2017. This highlights EPL clubs' increasing need for liquidity and is also a reflection of such funding becoming cheaper as more lenders have entered the market
- It is encouraging to see fewer clubs turning to advances against season ticket receipts (7% in 2018), given this income is not backed by the League and arguably a sign of desperation.

8. ARE YOU CURRENTLY SEEKING THIRD PARTY DEBT FINANCE?

%	ALL LEAGUES	EPL	FLC	FL1	FL2
Yes	19%	17%	31%	13%	14%
No	81%	83%	69%	87%	86%

Base: 48



- In contrast to last year, a higher proportion of FLC clubs are seeking third party debt finance (14% last year), with only 17% of EPL clubs seeking third party debt finance compared with 40% in the prior year
- As you might expect, debt opportunities and liquidity have been limited to certain EPL clubs, given their relative financial strength. However, we have seen FLC clubs improve their governance and back end functions, giving them the ability to attract better debt opportunities
- Further down the leagues, whether due to desire or opportunity, around 1 in 8 FL1 and FL2 clubs are seeking debt finance.

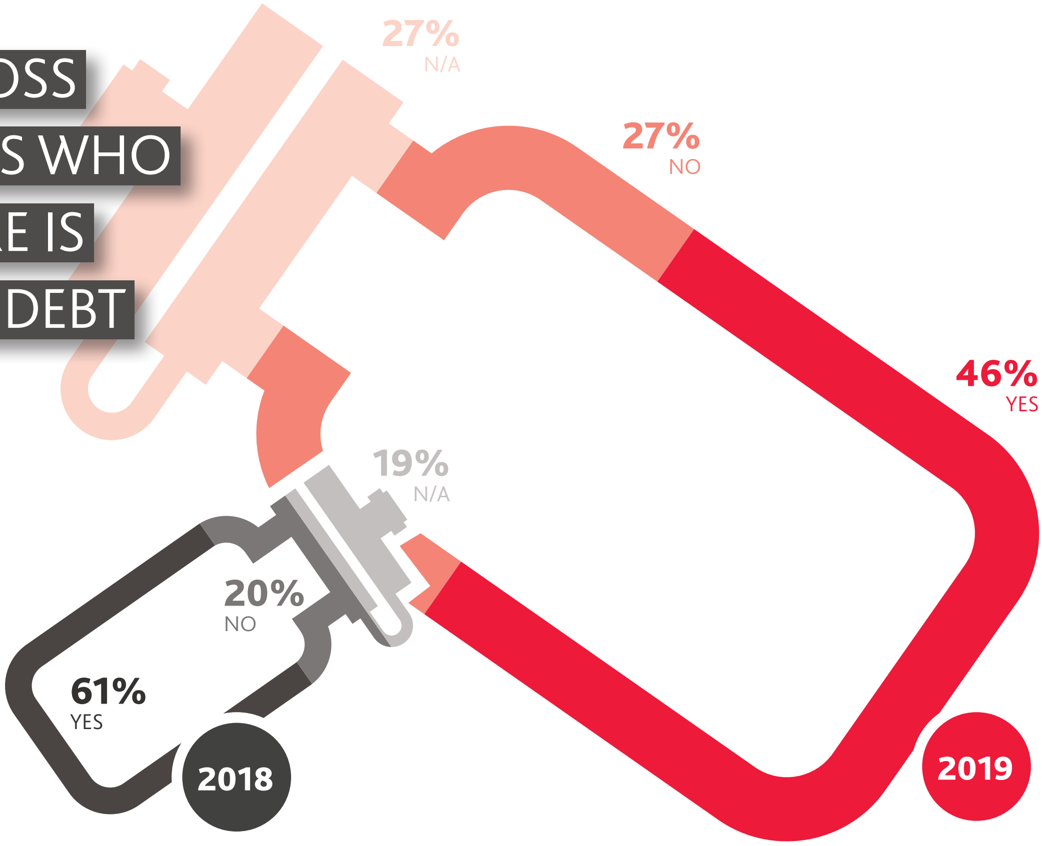
- Across the leagues, only 46% of clubs are telling us that they feel there is sufficient debt liquidity in the market. This is down from 61% last year
- Last year 90% of EPL FDs said that there was sufficient debt available compared to only 50% this year. It is harder to get traditional debts as banks are still afraid of relegation and the EPL is much more competitive with retention of ELP status harder to predict. This of course is in contrast to advances on central distributions and player receivables, which are more commonplace.

9. 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 AND SERVICEABLE?

%	ALL LEAGUES	EPL	FLC	FL1	FL2
Yes	46%	50%	38%	56%	29%
No	27%	25%	31%	19%	43%
N/A	27%	25%	31%	25%	28%

Base: 48

CLUBS ACROSS ALL LEAGUES WHO THINK THERE IS SUFFICIENT DEBT



10A. WHAT DO YOU FEEL ARE THE MAIN OBSTACLES TO OBTAINING CREDIT/DEBT IN THE MARKET?

"Reputation"

FLC RESPONDENT

"The industry reputation and our underlying cashflow which requires significant support from our owner"

FLC RESPONDENT

"Uncertainty over Brexit and the stigma attached to lending to football clubs"

FL1 RESPONDENT

"Lack of security/lack of flexibility of the Football League"

FL1 RESPONDENT

"The demands of lenders in terms of covenants and operational oversight"

EPL RESPONDENT

"Perception of football and poor balance sheets"

FLC RESPONDENT

“Level of losses within the professional game puts off funders and we now have Bolton Wanderers as a real reminder of the risk.”

FLC RESPONDENT

“Priority of Football Creditors scares potential lenders”

EPL RESPONDENT

DEBT AND INVESTMENT

10B. HAS THE AVAILABILITY OF FINANCE AND FINANCING OPTIONS IN THE MARKET AFFECTED YOUR ABILITY TO COMPETE AS A CLUB?

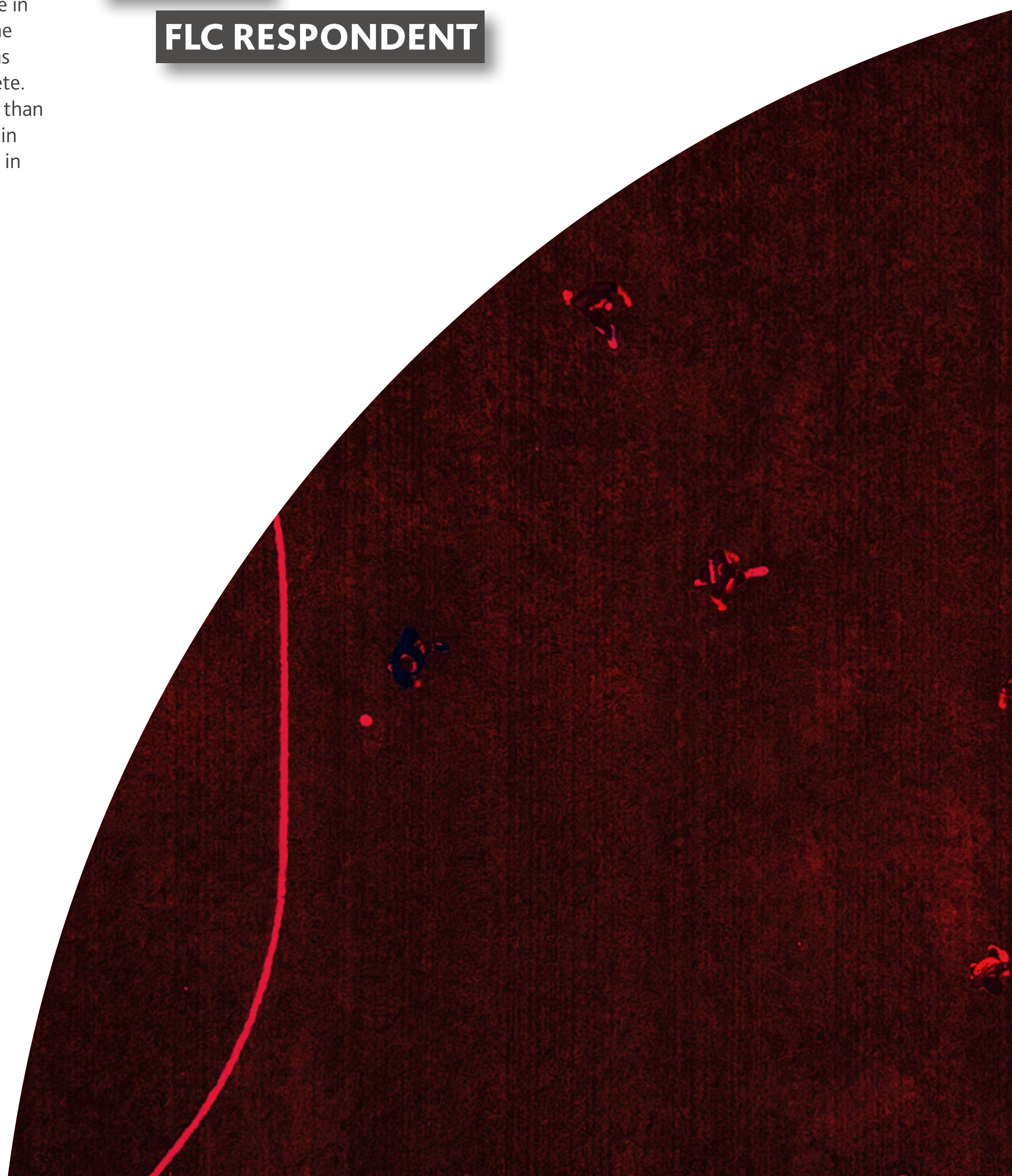
- It was encouraging to see that nine in ten respondents suggested that the availability of financing options has not affected their ability to compete. Many respondents feel that, other than the top few clubs, most clubs within leagues are on a level playing field in this regard.

"Yes. Private finance used to build stadium could have been invested in players"

FLC RESPONDENT

"Yes. Lower wage bill as a result"

FL1 RESPONDENT



"No.
It seems the same for all
clubs in our league"

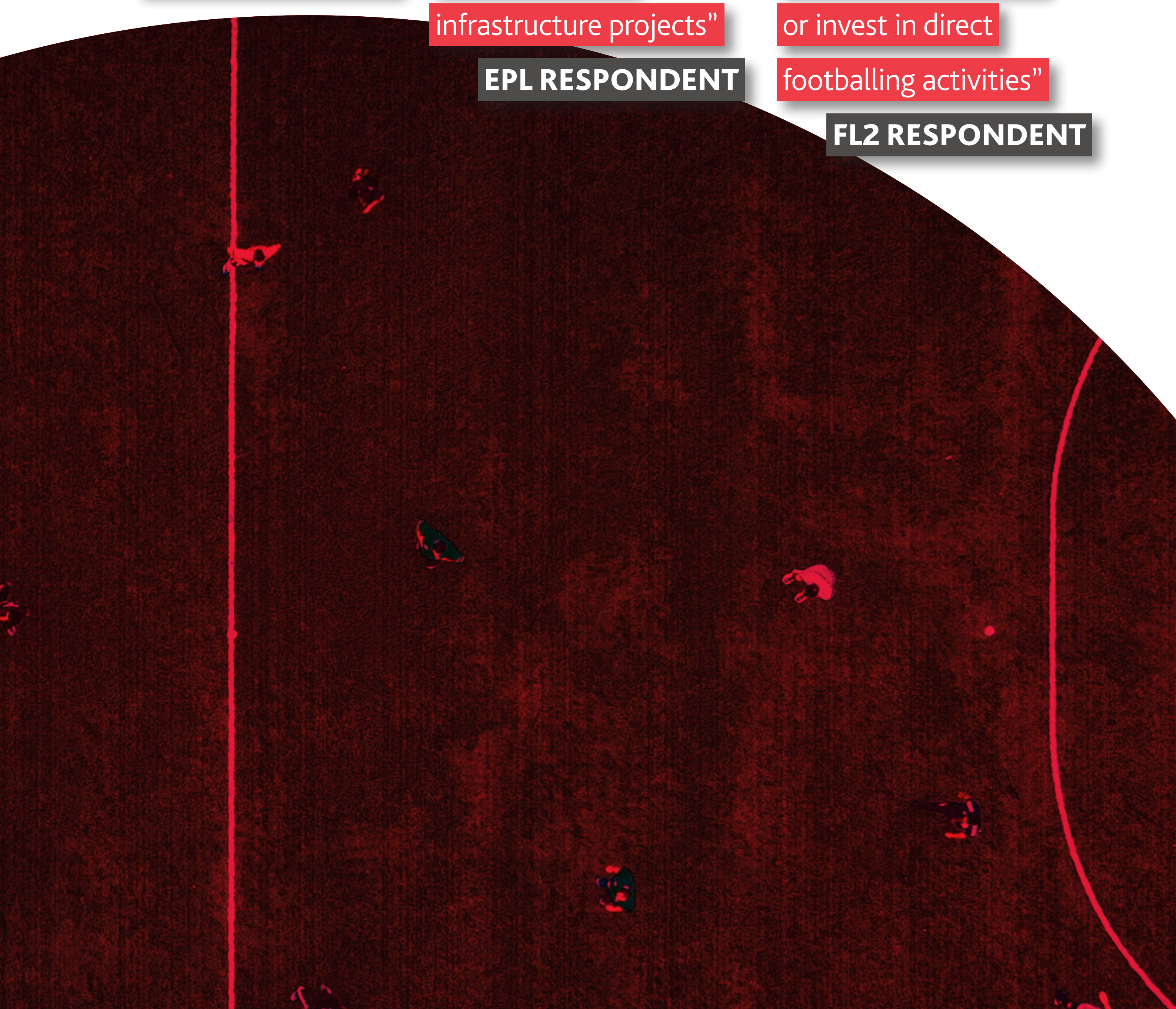
FL1 RESPONDENT

"Yes.
We would consider
loan funding to
complete larger
infrastructure projects"

EPL RESPONDENT

"No.
We wouldn't access
finance to operate in
the transfer windows
or invest in direct
footballing activities"

FL2 RESPONDENT



DEBT AND INVESTMENT

10C. HOW COULD THE FOOTBALL LEAGUES IMPROVE THE WAY ACCESS TO FINANCE IS FACILITATED AND CONTROLLED IN ORDER TO SUPPORT DEVELOPMENT, SUSTAINABILITY AND COMPETITION?

- It is widely accepted by our respondents that there is little the Football League can do to improve access to finance and many share the view that it is each club's own responsibility to ensure the club is run in a sustainable manner. Some respondents have called for greater support from the Football League to promote a better understanding of football as an investment with financial institutions, as well as better timing of central funding being released to clubs to help cash flow in leaner times (ie weighting towards the end of the season, and/or more even monthly receipts). However, it would appear that the key to access long-term funding for long-term investment projects is financial sustainability, which brings us back to a centrally controlled, strong overarching financial governance structure for clubs.

"It is important to remember that clubs are businesses and should be run as such. As a result, it is their responsibility to ensure they are a run in a sustainable manner. There is no credit given to those clubs that are run in a sustainable way but why should there be? This should be the minimum expectation. I accept the argument for greater punishment of those clubs who don't operate within their means, but then it is the fans who suffer most. It is a tough balancing act and one where there is no quick fix. There still appears to be a good deal of competition within the Football League, unlike the Premier League, but, with time, this will dissipate. It is hard to see how a competitive balance will be retained as some teams get exponentially richer than others but that, sadly, is how football works"

FL1 RESPONDENT

"Problem is UK banks for the smaller clubs do not see a commercial business and are very negative towards football clubs"

FL1 RESPONDENT

"Not sure the Football League can - it's down to each club"

EPL RESPONDENT

"Promote a better understanding of football as an investment with financial institutions"

FL1 RESPONDENT

"They cannot really. Each club has such individual needs and circumstances there is no 'broad' approach which could work"

FL2 RESPONDENT

"More flexibility on security available without embargo"

FL1 RESPONDENT

"Ensure robust financial controls and oversight from the EFL perspective to avoid the risk of clubs going into administration as has occurred recently"

FLC RESPONDENT

"I don't believe it is a football league responsibility, unless promotion/relegation is removed"

EPL RESPONDENT

"More backing should a club fall into administration. Currently the default is to worsen the clubs position making survival beyond administration even more difficult. This may allow finance providers more confidence when lending (not suggesting the EFL should take on the debt)"

FL2 RESPONDENT

"Better timing of central funding being released to clubs to help with cashflow in leaner times (ie June/July)"

FL2 RESPONDENT

SECTION C

REVENUE, PROFITABILITY AND CLUB OPERATIONS

DESPITE A GENERAL RECOVERY IN PRE PLAYER-TRADING RESULTS ON THE PRIOR YEAR AND A HUGELY SUCCESSFUL YEAR FOR EPL CLUBS IN MAJOR EUROPEAN COMPETITIONS. IT IS CONCERNING THAT ONLY 42% OF EPL CLUBS EXPECTED TO TURN A PROFIT IN 2018/19 COMPARED WITH 89% AS SURVEYED IN 2017/18.

SOPHIE MAKEPEACE
Senior, BDO Consumer Markets

In the final year of the 2016-2019 enhanced media rights deal, our survey results indicate ongoing inconsistencies in commercial performance across the football sector.

Despite an improved commercial environment, only 30% of clubs across the leagues expect to make a profit after player-trading and amortisation for the 2018/19 financial period, compared with 43% in 2017/18. Given that EFL results are only half as good as this before player-trading, it is clear that selling valuable assets is becoming increasingly important for clubs below the EPL. This is not a particularly good sign for clubs with ambitious aspirations but we know many are seeing this as giving them some temporary respite from operating losses.

Despite a general recovery in pre-player trading results on the prior year and a hugely successful year for EPL clubs in major European competitions, where prize money distributions span into many millions, it is concerning that only 42% of EPL clubs expected to turn a post player-trading profit in 2018/19 compared with 89% as surveyed in 2017/18.

Wages-to-turnover ratios remain a widely used key performance indicator across the football leagues. However, where 19% of clubs in 2017/18 reported a target ratio of <50%, this statistic has now fallen to just 6% as clubs across the leagues increasingly reference rising player salaries and trading costs as a key concern.

More than three-quarters of FLC clubs reported an actual wage-to-turnover ratio of over 75%, far in excess of even their own targets. In the context of increasing revenues year on year, this indicates that market forces no longer retain adequate control over rising costs and additional intervention may be required.

Any waterfall effect down from the EPL has fallen short of club's expectations in the three years since the commencement of the enhanced EPL media rights deal in 2016 with many critics pointing to an increasing gap between the EPL and the other leagues.

Despite a relatively even split of clubs reporting a positive, neutral or negative impact of the enhanced media rights deal overall, it is apparent that inflated player costs have largely offset any revenue benefit. However, this response is distorted by the EPL, of course, with only 16% reporting a net negative impact. Clearly this will be increasing the perceived need for promotion and indeed the fear of relegation among clubs, in particular around the top of the FLC and bottom of the EPL.

The growing disparity in earning potential between the leagues against a constantly increasing cost base has raised concerns among clubs about their ability to operate within applicable Financial Fair Play frameworks and stay competitive.

Attitudes towards the current parachute "payments" system have also deteriorated over the season as clubs call for fairer distribution of income amidst concerns over the number of clubs showing signs of financial distress.

Unsurprisingly, two-thirds of EPL clubs agree with the current parachute system, with one-quarter believing payments to be too low in fact. Conversely, the majority of clubs outside of the EPL believe that payments are too high and that the current system is anticompetitive.

CLUBS ACROSS THE LEAGUES EXPECTING TO MAKE A PROFIT AFTER PLAYER TRADING AND AMORTISATION

43% 2017-18

30% 2018-19

REVENUE, PROFITABILITY AND CLUB OPERATIONS

SO, HOW ARE CLUBS PERFORMING IN THE CURRENT ECONOMIC CLIMATE?

For the EPL, current economic conditions are generally ok, in particular with regard to sponsorships, merchandising, match tickets and season tickets. EPL clubs also hold high expectations for sponsorship revenue growth next season.

The FLC's main commercial upsides for 2018-19 were in sponsorship and corporate entertaining, most likely reflecting the perceived improved quality of football on show. FLC clubs do not expect this to continue however.

Throughout the leagues we have generally witnessed the ongoing impact of MIFID II (imposing increased corporate restrictions on higher valued corporate entertaining and hence making EPL entertaining less accessible for some).

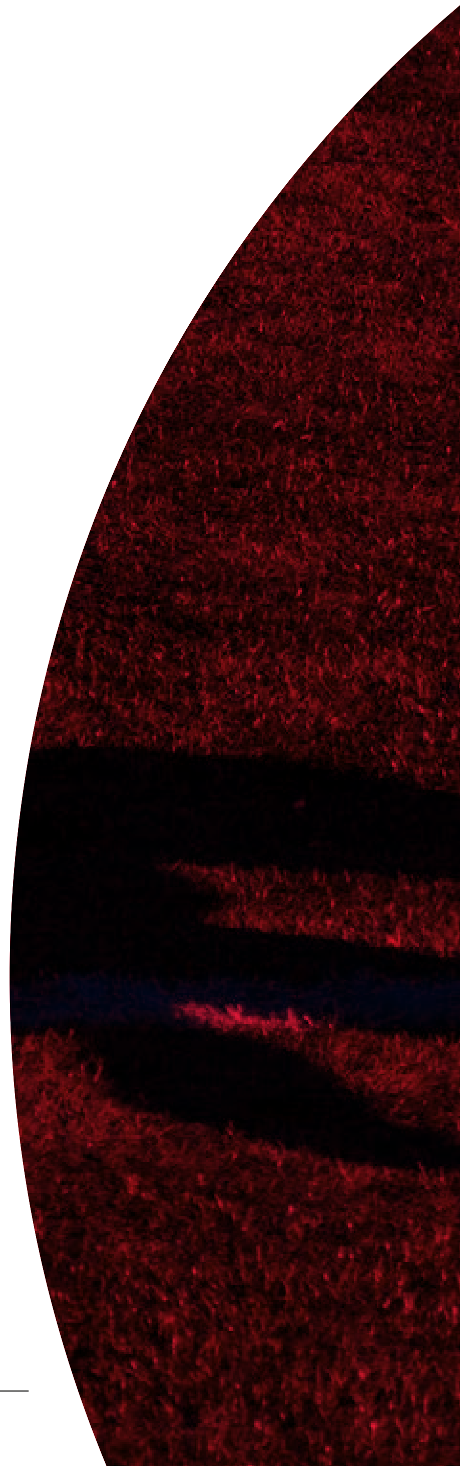
Once again, clubs are telling us that sponsors and commercial partners are becoming harder to find, yet successful sponsorship arrangements are increasing in value. More than half of clubs across the EFL have reported increased revenues from sponsorship and key commercial contracts. In the EPL in particular, 92% of clubs have reported increasing revenues from these streams. On average, only 10% of clubs across the EFL report attracting/retaining sponsorship as a key concern for the 2019/20 season. Increasing player costs is a much more prevalent concern.

Unlike the EPL and FLC, FL1 and FL2 clubs are seeing net declines in sponsorship, largely because sponsors are increasingly looking for international appeal.

As betting companies dominate sponsorship deals, clubs may find themselves exposed to some downward pressure on sponsorship revenues if regulatory controls are placed on online gaming advertising. This is certainly a current political issue and one where we may see changes going forward. Football clubs would be well advised to at least have this on their radar.

Fan engagement revenues are somewhat inconsistent between the different divisions. At the poles, EPL and FL2 clubs have seen overall improvements in season ticket and match day ticket revenues, but one suspects for very different reasons. EPL clubs may now see fans less sensitive to price increases than they were shortly after new media revenues were announced in 2015. FL2 clubs may well be more aggressive on pricing given the relative importance of such revenues streams. FLC and FL1 clubs are not following suit.

Increasing costs, amongst other factors, have fuelled emerging negativity towards Brexit in the 2018/19 season with almost half of the clubs surveyed anticipating some form of negative impact. Freedom of movement of players remains a concern, despite increased efforts to improve grassroots player development across the leagues.



MORE THAN THREE-QUARTERS OF FLC CLUBS ARE REPORTING A WAGE-TO-TURNOVER RATIO OF OVER 75%, FAR IN EXCESS OF EVEN THEIR OWN TARGETS. IN THE CONTEXT OF INCREASING REVENUES YEAR ON YEAR, THIS INDICATES THAT MARKET FORCES NO LONGER RETAIN ADEQUATE CONTROL OVER RISING COSTS AND ADDITIONAL INTERVENTION IS REQUIRED

REVENUE, PROFITABILITY AND CLUB OPERATIONS

11. DO YOU EXPECT TO MAKE A PROFIT **BEFORE** PLAYER TRADING AND AMORTISATION IN YOUR 2018/19 ACCOUNTING PERIOD?

%	ALL LEAGUES	EPL	FLC	FL1	FL2
Yes	29%	75%	17%	12%	14%
2018 Yes*	31%	70%	29%	23%	-
No	71%	25%	83%	88%	86%

Base: 48

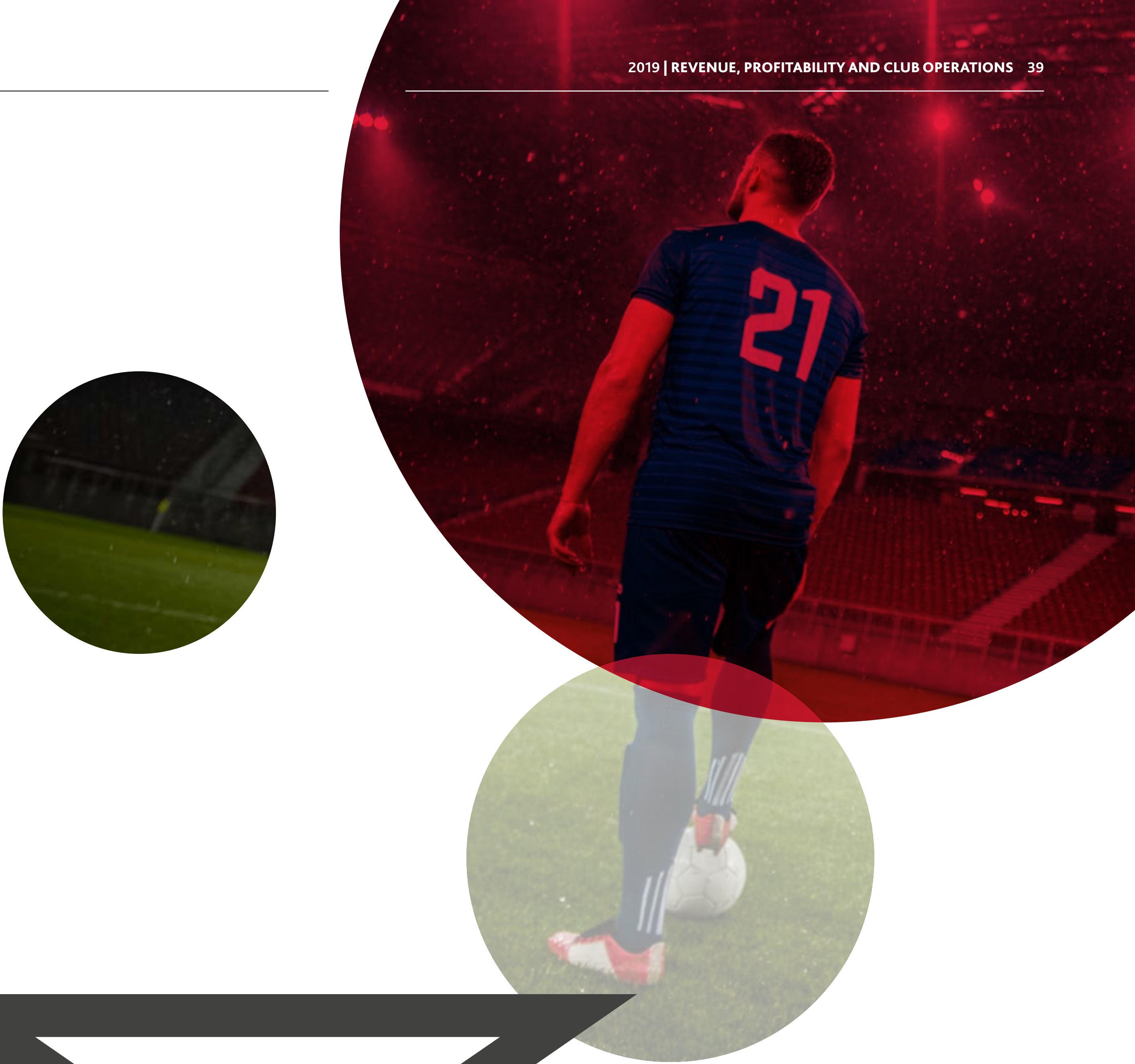
12. DO YOU EXPECT TO MAKE A PROFIT **AFTER** PLAYER TRADING AND AMORTISATION IN YOUR 2018/19 ACCOUNTING PERIOD?

%	ALL LEAGUES	EPL	FLC	FL1	FL2
Yes	30%	42%	33%	25%	14%
2018 Yes*	43%	89%	36%	31%	17%
No	68%	50%	67%	75%	86%
Don't know	2%	8%	-	-	-

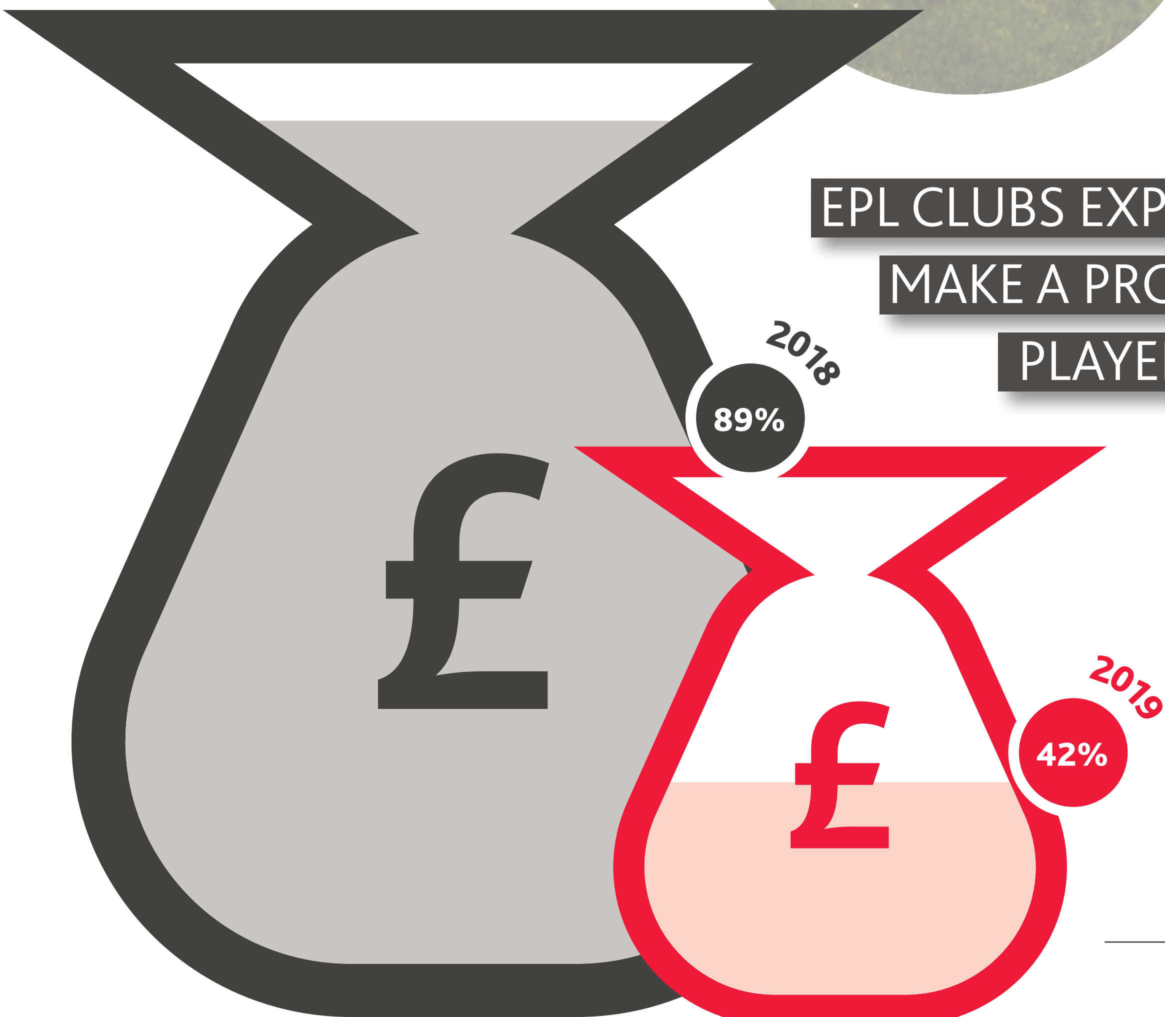
Base: 47

ACROSS THE LEAGUES, MORE THAN TWO-THIRDS OF CLUBS DO NOT EXPECT TO BE PROFITABLE AFTER PLAYER-TRADING AND AMORTISATION. THIS RISES TO THREE-QUARTERS WHEN LOOKING AT THE EFL IN ISOLATION

- In the final year of the 2016-19 enhanced media rights we are seeing an improvement in pre-player-trading results for EPL clubs compared with 2017/18
- However, there are fewer EPL clubs expecting to be profitable after player-trading. Only 42% expecting to turn a post player-trading profit (2017/18: 89%)
- Across the leagues, more than two-thirds of clubs (68%) do not expect to be profitable after player-trading and amortisation. This rises to three-quarters when looking at the EFL in isolation
- Profitability (under both measures) continues to fall in FLC and FL1. Increasing player wages continue to restrict profitability, despite additional revenues generated. The number of profitable clubs in FLC and FL1 doubles after player-trading, highlighting the need for clubs in these divisions to be net sellers of players
- FL2 clubs are experiencing a slight turnaround in 2018/19 with 14% of clubs expecting to be profitable before and after player-trading and amortisation (2017/18: 0%). However, this is still a very small percentage and calls their overall sustainability into question.



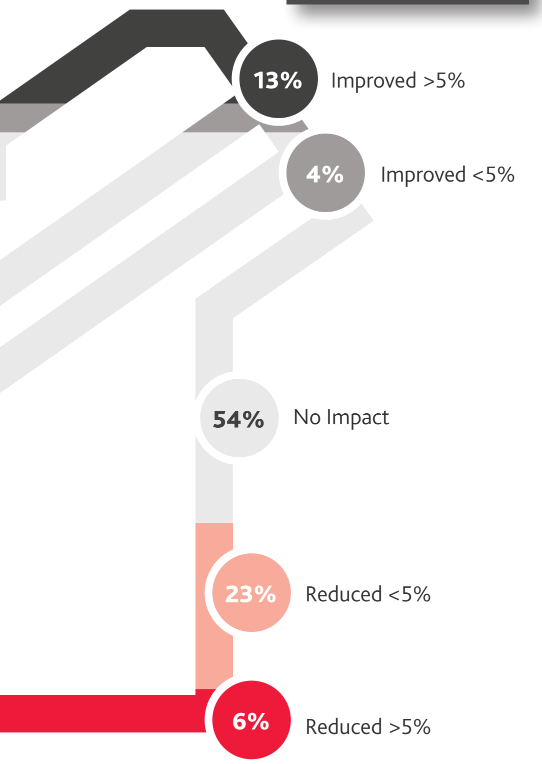
EPL CLUBS EXPECTING TO MAKE A PROFIT **AFTER** PLAYER-TRADING



REVENUE, PROFITABILITY AND CLUB OPERATIONS

13. WHAT HAS BEEN THE IMPACT OF THE CURRENT ECONOMIC CONDITIONS ON THE FOLLOWING REVENUE STREAMS IN THE CURRENT FINANCIAL YEAR?

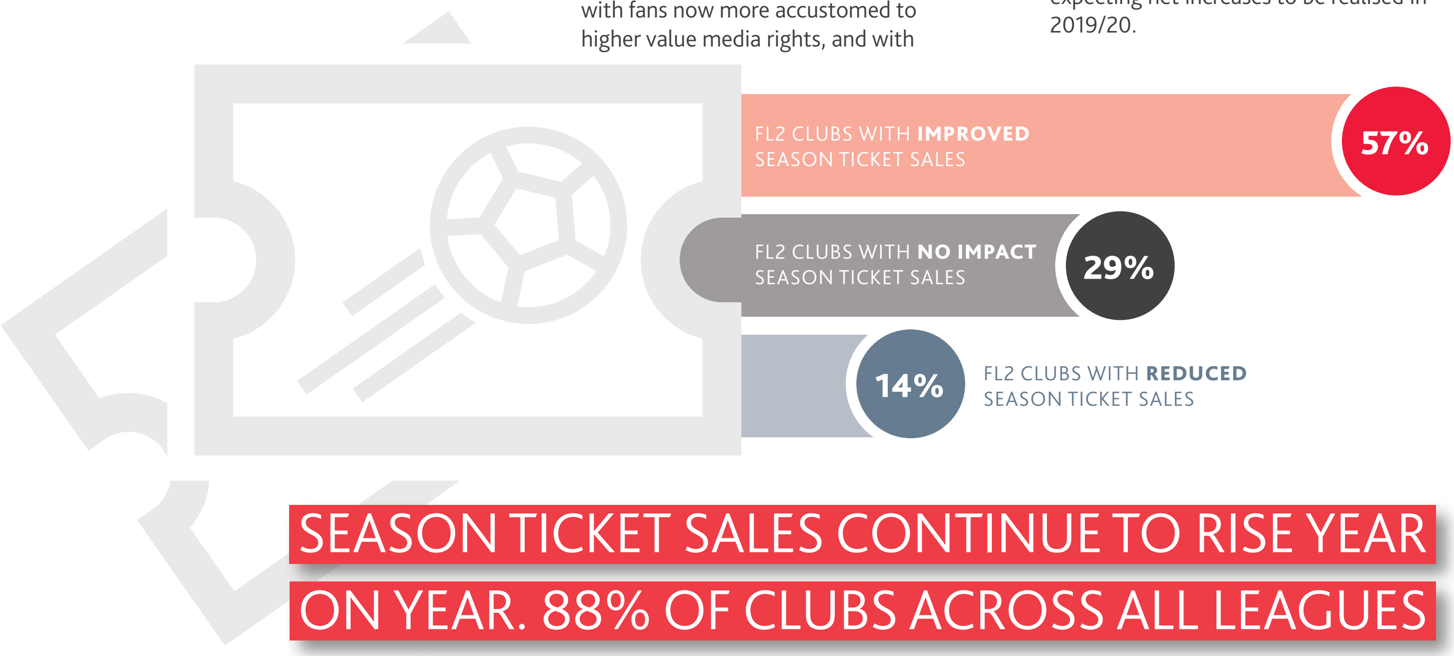
IMPACT OF THE CURRENT ECONOMIC CONDITIONS ON MERCHANDISING REVENUE



%	ALL LEAGUES	EPL	FLC	FL1	FL2
Season ticket sales					
Improved >5%	15%	25%	-	6%	43%
Improved <5%	6%	-	17%	-	14%
No Impact	67%	67%	67%	82%	29%
Reduced <5%	4%	8%	8%	-	-
Reduced >5%	8%	-	8%	12%	14%
Match tickets					
Improved >5%	13%	25%	-	12%	14%
Improved <5%	6%	-	17%	-	14%
No Impact	67%	67%	67%	71%	57%
Reduced <5%	8%	8%	8%	6%	14%
Reduced >5%	6%	-	8%	12%	-
Merchandising					
Improved >5%	13%	25%	-	6%	29%
Improved <5%	4%	-	8%	6%	-
No Impact	54%	58%	58%	59%	29%
Reduced <5%	23%	17%	25%	18%	43%
Reduced >5%	6%	-	8%	12%	-
Match day catering					
Improved >5%	8%	17%	-	6%	14%
Improved <5%	8%	-	25%	6%	-
No Impact	63%	67%	67%	65%	43%
Reduced <5%	15%	17%	8%	12%	29%
Reduced >5%	6%	-	-	12%	14%
Corporate entertaining packages					
Improved >5%	10%	17%	8%	6%	14%
Improved <5%	8%	-	25%	6%	-
No Impact	60%	75%	58%	53%	57%
Reduced <5%	10%	8%	8%	18%	-
Reduced >5%	10%	-	-	18%	29%
Sponsorships					
Improved >5%	15%	33%	-	12%	14%
Improved <5%	6%	-	18%	6%	-
No Impact	62%	67%	82%	59%	29%
Reduced <5%	9%	-	-	12%	29%
Reduced >5%	9%	-	-	12%	29%

Base: 48 for each, except for Sponsorships 47

- Despite declining merchandising, match day catering and corporate entertaining revenues compared with 2017/18, strong economic conditions in the industry continue to support overall revenue growth across English football in 2018/19
- Season ticket sales continue to rise year on year. 88% of clubs across all leagues have reported either an increase or no change in the current financial year. 57% of FL2 clubs reported an increase. This is echoed in match day ticket sales where 85% of clubs across the leagues reported an increase or no change
- When clubs were asked last year about the 2018/19 season, 28% and 26% of clubs across all leagues expected a reduction in season ticket sales and match day sales respectively. This is compared with actual reductions in 12% and 14% of cases
- Merchandising income largely declined in the lower leagues for the current financial year. The largest change was in FL2, with 29% of clubs reporting an increase in revenues compared with 43% of clubs reporting a decrease. FLC clubs were, on the whole, negatively impacted with 33% of clubs reporting a reduction compared with only 8% reporting an improvement
- Reductions in match day catering spend has impacted 24% and 43% of FL1 and FL2 clubs respectively. Whilst the FLC showed net year on year improvements with 25% of clubs up and only 8% of clubs down
- Improved commercial management across EPL clubs has yielded increases across both merchandising and match day catering revenues, despite recent years of only limited improvement. Historically, this has been in part due to conservative pricing in response to higher media rights receipts. However, with fans now more accustomed to higher value media rights, and with the renegotiation of rights for the next three years being less news-worthy than three years ago, this may no longer be the case
- Demand for FLC corporate hospitality continues to rise, even with the impact of MIFID II still to be fully realised. Despite FDs expectations for this not to continue, we feel that this represents an ongoing opportunity for this division
- EPL and FLC clubs have either maintained or improved sponsorship revenues this year, despite sponsorships becoming harder to find (see question 17). Where clubs have international reach, and an ability to effectively activate partnership relationships, sponsors remain willing to pay a premium
- However, FL1 and FL2 clubs are more reliant on local sponsors, and are experiencing a net decline in sponsorship revenues. Clubs still remain optimistic though (question 14), expecting net increases to be realised in 2019/20.



SEASON TICKET SALES CONTINUE TO RISE YEAR ON YEAR. 88% OF CLUBS ACROSS ALL LEAGUES HAVE REPORTED EITHER AN INCREASE OR NO CHANGE IN THE CURRENT FINANCIAL YEAR

REVENUE, PROFITABILITY AND CLUB OPERATIONS

14. WHAT EFFECT DO YOU EXPECT ECONOMIC CONDITIONS TO HAVE ON YOUR 2019/20 REVENUE STREAMS COMPARED WITH THE SEASON JUST ENDED?

- Following on from a strong year of season ticket sales in 2018/19, EPL and FL2 clubs are more reserved in their expectations for 2019/20
- Again, despite sponsorship and key commercial contract partners seemingly becoming harder to find (question 17), the value of sponsorships and associated revenue is expected to continue to grow year on year. FL2 clubs in particular are largely optimistic that sponsorship deals will bounce back, although FL1 clubs are less so
- Otherwise, the overall outlook from FDs is that there are no strong head or tail-winds forecast for English football clubs in relation to these commercial revenue streams. In the context of the wider economy, and clubs' generally negative views towards Brexit, this relative stability will be welcomed.

EPL AND FL2 CLUBS ARE MORE RESERVED IN THEIR EXPECTATIONS FOR 2019/20

%	ALL LEAGUES	EPL	FLC	FL1	FL2
Season ticket sales					
Improved >5%	10%	17%	-	12%	14%
Improved <5%	10%	-	17%	12%	14%
No Impact	54%	67%	50%	53%	43%
Reduced <5%	17%	8%	33%	12%	14%
Reduced >5%	8%	8%	-	12%	14%
Match tickets					
Improved >5%	10%	17%	-	18%	-
Improved <5%	6%	-	17%	-	14%
No Impact	67%	67%	67%	65%	71%
Reduced <5%	13%	8%	17%	12%	14%
Reduced >5%	4%	8%	-	6%	-
Merchandising					
Improved >5%	10%	17%	-	6%	29%
Improved <5%	8%	-	8%	12%	14%
No Impact	58%	67%	67%	59%	29%
Reduced <5%	13%	8%	17%	12%	14%
Reduced >5%	10%	8%	8%	12%	14%
Match day catering					
Improved >5%	10%	8%	-	12%	29%
Improved <5%	4%	-	8%	-	14%
No Impact	69%	75%	75%	76%	29%
Reduced <5%	13%	8%	17%	6%	29%
Reduced >5%	4%	8%	-	6%	-
Corporate entertaining packages					
Improved >5%	10%	8%	-	12%	29%
Improved <5%	6%	-	8%	12%	-
No Impact	58%	67%	58%	53%	57%
Reduced <5%	19%	17%	33%	12%	14%
Reduced >5%	6%	8%	-	12%	-
Sponsorship					
Improved >5%	15%	8%	-	18%	43%
Improved <5%	13%	17%	17%	6%	14%
No Impact	56%	67%	83%	47%	14%
Reduced <5%	8%	-	-	18%	14%
Reduced >5%	8%	8%	-	12%	14%

Base: 48 for each, except for sponsorships 47

15. NOW THAT WE HAVE COME TO THE END OF THE FIRST 3 YEAR TERM OF ENHANCED MEDIA RIGHTS, AND ENTER INTO THE NEXT TERM, WHAT IMPACT HAS THESE ENHANCED (2016/17 TO 2018/19) EPL TELEVISION RIGHTS HAD ON YOUR CLUB?

%	ALL LEAGUES	EPL	FLC	FL1	FL2
Overall positive, the increased revenues are filtering through the leagues improving profitability	33%	58%	33%	18%	29%
2017/18 reported impact	37%	80%	21%	45%	-
2016/17 reported impact	49%	57%	54%	36%	50%
2016 expectations	55%	78%	23%	64%	55%
Neutral, any additional revenues is being matched by additional player costs	38%	25%	25%	53%	43%
2017/18 reported impact	22%	20%	21%	27%	20%
2016/17 reported impact	36%	36%	31%	36%	40%
2016 expectations	21%	11%	38%	18%	18%
Overall negative, player wage inflation exceeds revenue increases	15%	8%	17%	18%	14%
2017/18 reported impact	20%	-	43%	18%	20%
2016/17 reported impact	6%	7%	-	18%	-
2016 expectations	-	-	-	-	-
Overall negative, the increasing gap between the EPL and the Football Leagues is financially detrimental	15%	8%	25%	12%	14%
2017/18 reported impact	21%	-	14%	9%	60%
2016/17 reported impact	9%	-	15%	9%	10%
2016 expectations	22%	11%	31%	18%	27%

Base: 48

- Enhanced media rights have, on balance, improved EPL clubs' finances over the three years to 2018/19 with 58% of EPL clubs reporting increased profitability as a result of increased media rights revenues (albeit one might have expected a higher percentage than this). Only one in four EPL clubs reported neutrality with additional revenues being matched by additional player costs
- Only one-third of FLC clubs have reported an overall positive impact of enhanced EPL media rights over the last three years. Of the 42% reporting a net negative impact, 25% of FLC club respondents attribute this to an increasing gap between the EPL and the Football Leagues, and 17% reference player inflation offsetting any increases in revenues
- FL1 and FL2 clubs are somewhat divided, with almost as many clubs experiencing a net positive impact as those experiencing a negative impact, and the majority reporting neutrality. This may well be true of their own financial position but the gap between them and the two top tiers is undoubtedly becoming harder to bridge without new equity
- The response overall therefore appears to be a broadly even split in which a third of clubs appear to have benefited from enhanced media rights, a third neutral and a third negative. So, on the face of it, no net financial benefit for English football clubs, but this re-emphasises the gap between leagues and increased desire for promotion among clubs.

ACROSS THE LEAGUES, THE OVERALL IMPACT OF ENHANCED MEDIA RIGHTS HAS FALLEN SHORT OF FDS REPORTED EXPECTATIONS SINCE THE ANNOUNCEMENT IN 2015

REVENUE, PROFITABILITY AND CLUB OPERATIONS

16. ARE YOUR REVENUES FROM KEY COMMERCIAL CONTRACTS, SUCH AS SPONSORSHIP:

%	ALL LEAGUES	EPL	FLC	FL1	FL2
Increasing	57%	92%	58%	38%	43%
Largely unchanged	36%	-	42%	56%	43%
Falling	6%	8%	-	6%	14%

Base: 55

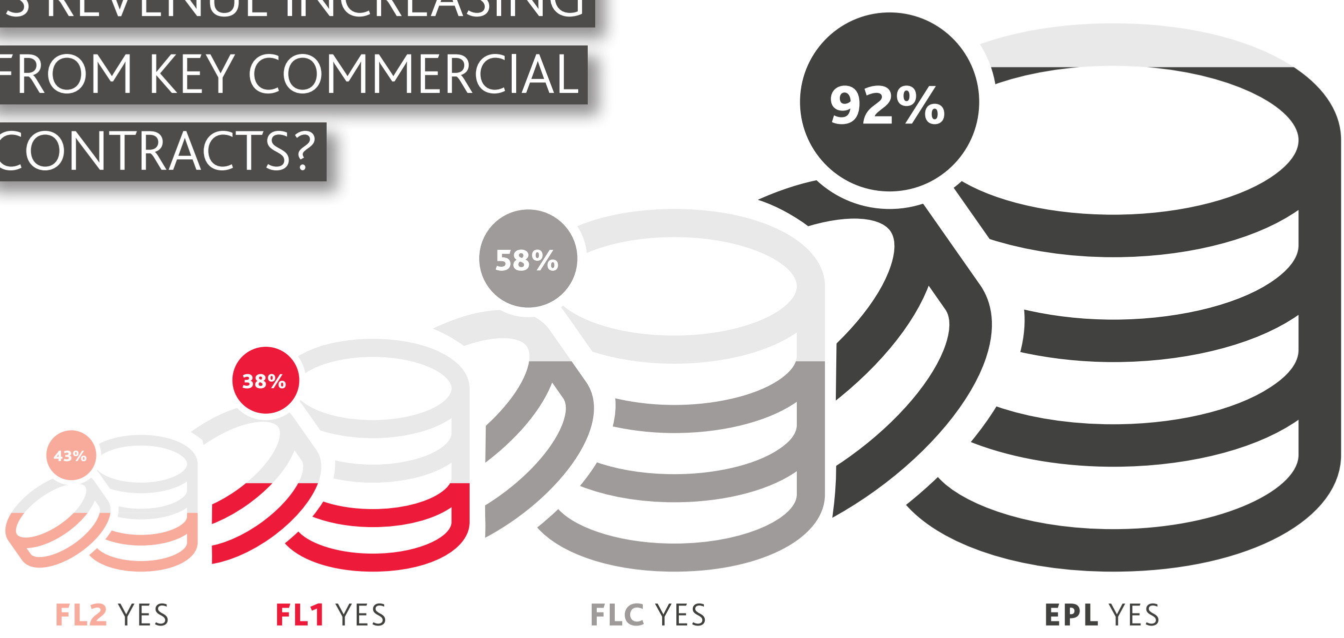
17. DO YOU THINK SUITABLE SPONSORS AND OTHER COMMERCIAL PARTNERS ARE:

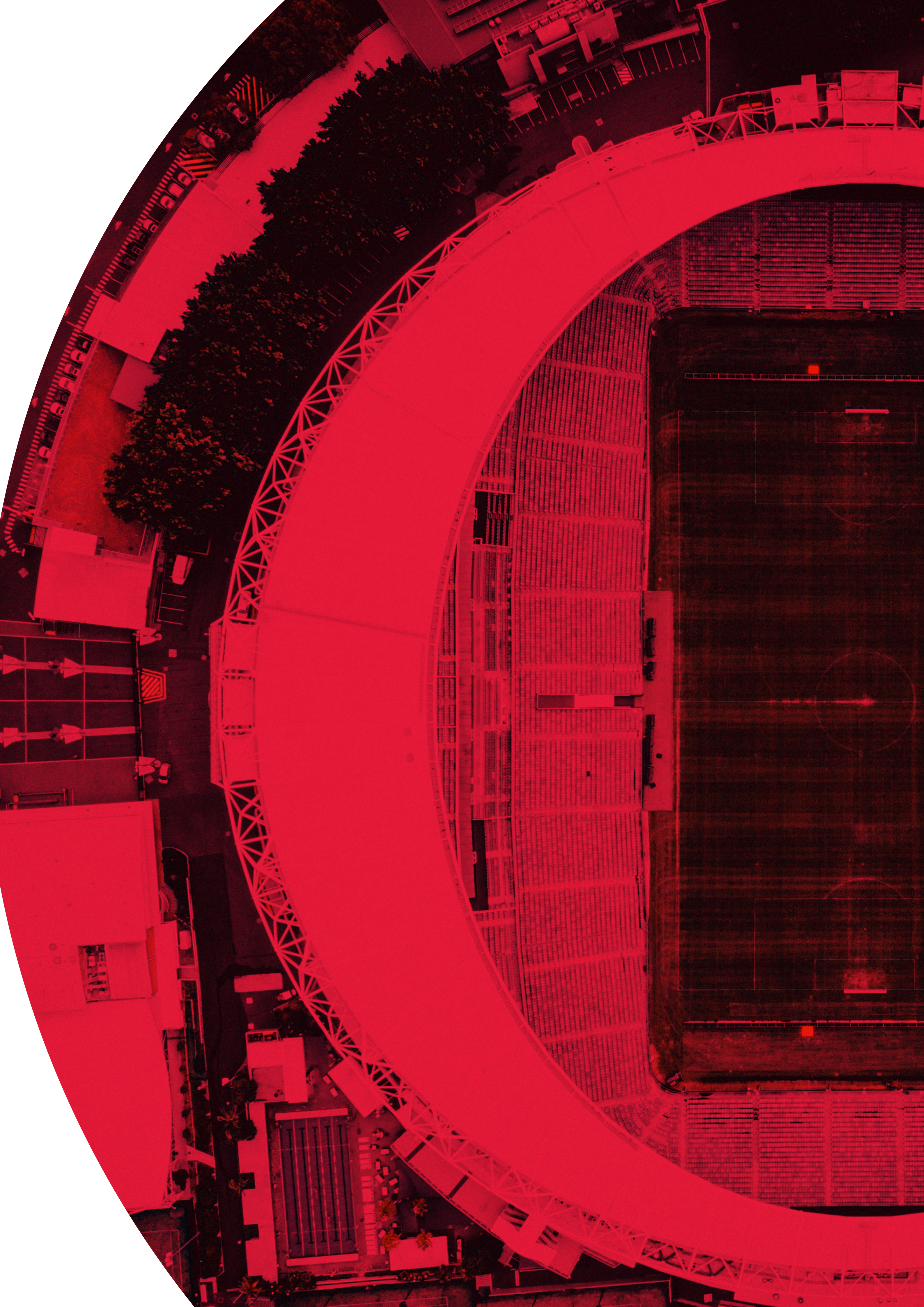
%	ALL LEAGUES	EPL	FLC	FL1	FL2
Becoming easier to find	15%	27%	8%	18%	-
Becoming harder to find	45%	18%	50%	59%	43%
No real change	40%	55%	42%	24%	57%

Base: 55

- Across the leagues as a whole, there is a more positive outlook in 2018/19 towards securing additional revenues from key contracts and sponsorship, with only 6% of clubs reporting falling revenues from these streams compared with 21% in 2017/18
- In particular, 92% of EPL clubs continued to generate increased revenues from key commercial contracts in 2018/19 (2017/18: 80%) and 27% of clubs noted that sponsors and commercial partners are becoming easier to find. Comparatively, only 58% of FLC clubs are experienced increasing revenues from key commercial contracts and only 8% claims these to be easier to find
- FL1 and FL2 clubs continue to face a challenging landscape. Sponsorship values are largely holding up but these are clearly becoming harder to find. Without the support of dedicated marketing personnel, lower league clubs will find this revenue stream increasingly difficult to exploit.

IS REVENUE INCREASING FROM KEY COMMERCIAL CONTRACTS?





REVENUE, PROFITABILITY AND CLUB OPERATIONS

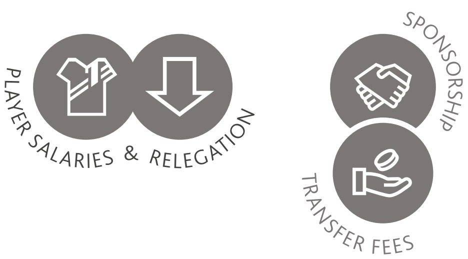
18. WHAT ARE YOUR BIGGEST CONCERNS FOR YOUR CLUB OVER THE NEXT 12 MONTHS?

EPL BIGGEST CONCERNS

FLC BIGGEST CONCERNS

FL1 BIGGEST CONCERNS

FL2 BIGGEST CONCERNS



%	ALL LEAGUES	EPL	FLC	FL1	FL2
Relegation					
1st	30%	35%	43%	23%	21%
2nd	7%	-	-	9%	20%
3rd	12%	-	-	30%	-
4th	5%	6%	-	7%	-
Potential fall in TV income					
1st	4%	5%	7%	-	7%
2nd	13%	14%	21%	14%	-
3rd	8%	19%	-	9%	-
4th	8%	6%	-	10%	17%
Ability to attract/retain sponsorship					
1st	9%	5%	7%	9%	14%
2nd	17%	14%	21%	14%	20%
3rd	10%	13%	8%	13%	-
4th	5%	6%	-	3%	17%
Increasing players' salaries					
1st	26%	15%	21%	41%	21%
2nd	23%	36%	21%	18%	20%
3rd	10%	6%	31%	4%	-
4th	5%	-	-	3%	33%
Increasing player transfer fees (general player cost inflation)					
1st	19%	30%	7%	18%	14%
2nd	12%	14%	14%	14%	-
3rd	12%	13%	23%	4%	13%
4th	13%	6%	27%	14%	-

%	ALL LEAGUES	EPL	FLC	FL1	FL2
Ability to raise new capital					
1st	4%	5%	-	5%	7%
2nd	7%	7%	-	9%	10%
3rd	7%	6%	8%	-	25%
4th	19%	24%	18%	21%	-
Season ticket pricing					
1st	-	-	-	-	-
2nd	7%	7%	-	5%	20%
3rd	13%	13%	8%	17%	13%
4th	6%	12%	-	7%	-
Falling attendances due to current economic environment					
1st	3%	-	-	5%	7%
2nd	7%	-	7%	9%	10%
3rd	13%	19%	-	17%	13%
4th	13%	6%	36%	7%	17%
Compliance with financial fair play regulations					
1st	4%	-	14%	-	7%
2nd	3%	-	7%	5%	-
3rd	12%	6%	23%	-	38%
4th	16%	24%	18%	14%	-
Tax issues					
1st	1%	5%	-	-	-
2nd	5%	7%	7%	5%	-
3rd	3%	6%	-	4%	-
4th	11%	12%	-	14%	17%

- Relegation remains the primary concern for one-third of clubs across all leagues, particularly in the FLC where 43% of club respondents identified this as their number one concern
- Rising player costs continue to underpin concerns with over a quarter of clubs across the leagues noting increasing player salaries as their primary concern for 2019/20. In FL1, in particular, clubs efforts to retain their best young players has placed inflationary pressure on salaries
- Concerns around clubs' ability to operate within the FFP framework have resurfaced in 2018/19. 62% of FLC clubs noted this as a top four concern (14% considered this their primary concern). Elsewhere, 30% of EPL, 19% of FL1 and 45% of FL2 clubs included this within their top four concerns
- Clubs remain optimistic over future season ticket pricing and attendances over the 2019/20 season, echoing predictions for financial performance over the next 12 months (question 13)
- In contrast to this, FL2 clubs are more concerned than other divisions about their ability to attract/retain sponsorship and raise new capital in the year ahead.

RELEGATION REMAINS THE PRIMARY CONCERN FOR ONE-THIRD OF CLUBS ACROSS ALL LEAGUES

REVENUE, PROFITABILITY AND CLUB OPERATIONS

19. WHAT LEVEL OF IMPACT DO YOU ANTICIPATE BREXIT HAVING ON THE UK FOOTBALL SECTOR?

%	ALL LEAGUES	EPL	FLC	FL1	FL2
Highly negative impact	5%	-	-	7%	17%
Moderately negative impact	42%	62%	70%	21%	17%
No net impact	45%	38%	30%	58%	49%
Moderately positive impact	8%	-	-	14%	17%

Base: 55

- Finally, we are seeing something other than ambivalence towards Brexit. However, the trend is increasingly negative, with 47% of clubs anticipating some negative impact compared to 25% in 2017 / 18 and only 8% now expecting a moderately positive impact. Positivity is confined to FL1 and FL2 clubs, perhaps driven by anticipated restrictions on European players and increased demand for their academy graduates.

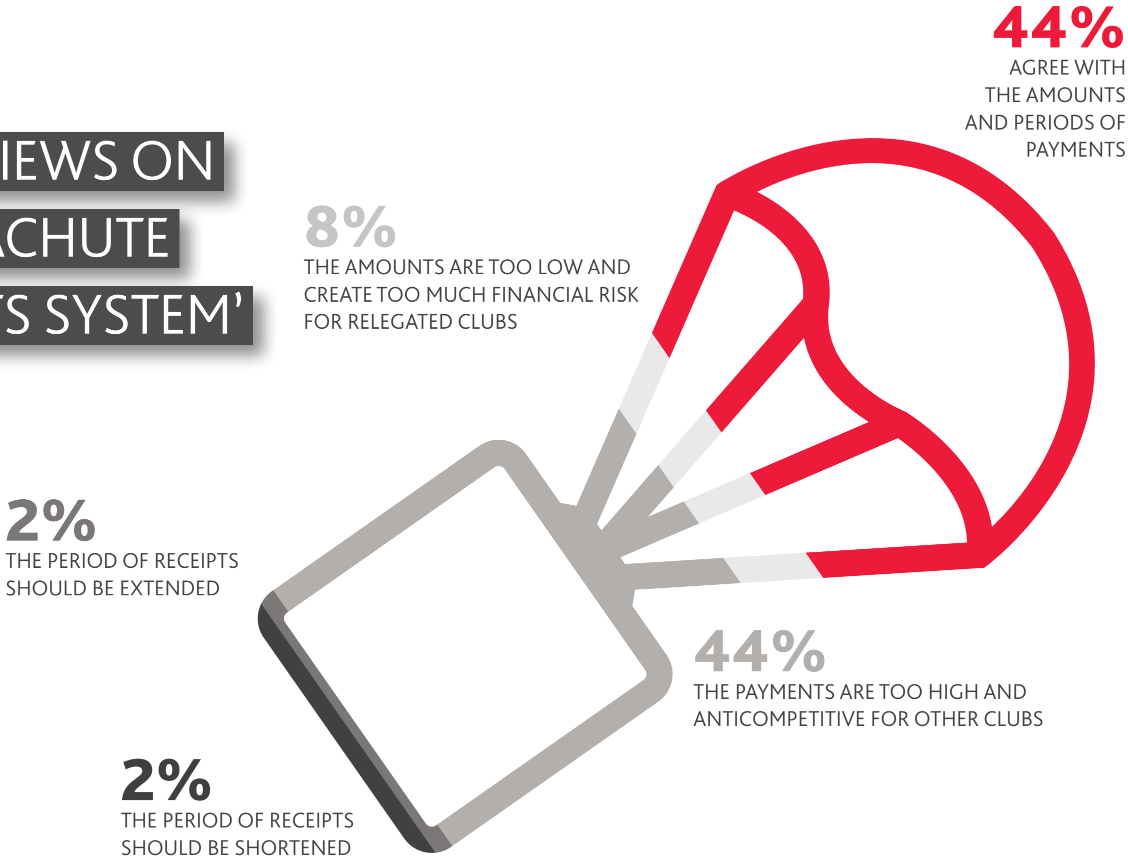
20. DO YOU AGREE WITH THE CURRENT PARACHUTE PAYMENTS SYSTEM FOR CLUBS RELEGATED FROM THE EPL?

%	ALL LEAGUES	EPL	FLC	FL1	FL2
Yes, I agree with the amounts and periods of payments	44%	67%	33%	29%	57%
No, the amounts are too low and create too much financial risk for relegated clubs	8%	25%	8%	-	-
No, the payments are too high and anticompetitive for other clubs	44%	8%	51%	65%	43%
No, the period of receipts should be extended	2%	-	8%	-	-
No, the period of receipts should be shortened	2%	-	-	6%	-

Base: 55

- Two-thirds of EPL clubs agree with the amounts and timing of parachute payments across the three year period. One-quarter of EPL clubs, concerned about the financial risk of relegation, would prefer to see them increased
- However, the majority of EFL clubs believe that parachute payments are too high and anticompetitive. None of this is a surprise.

'CLUBS' VIEWS ON THE PARACHUTE PAYMENTS SYSTEM'



REVENUE, PROFITABILITY AND CLUB OPERATIONS

21A. 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
Yes	62%	58%	58%	65%	71%
No	38%	42%	42%	35%	29%

Base: 55

21B. IF 'YES' WHICH RANGE IS YOUR TARGET IN?

%	ALL LEAGUES	EPL	FLC	FL1	FL2
< 50%	6%	14%	-	-	20%
51% - 55%	19%	44%	-	9%	40%
56% - 60%	33%	14%	12%	55%	40%
61% - 65%	16%	14%	12%	27%	-
66% - 75%	13%	14%	38%	-	-
>75%	13%	-	38%	9%	-

Base: 55

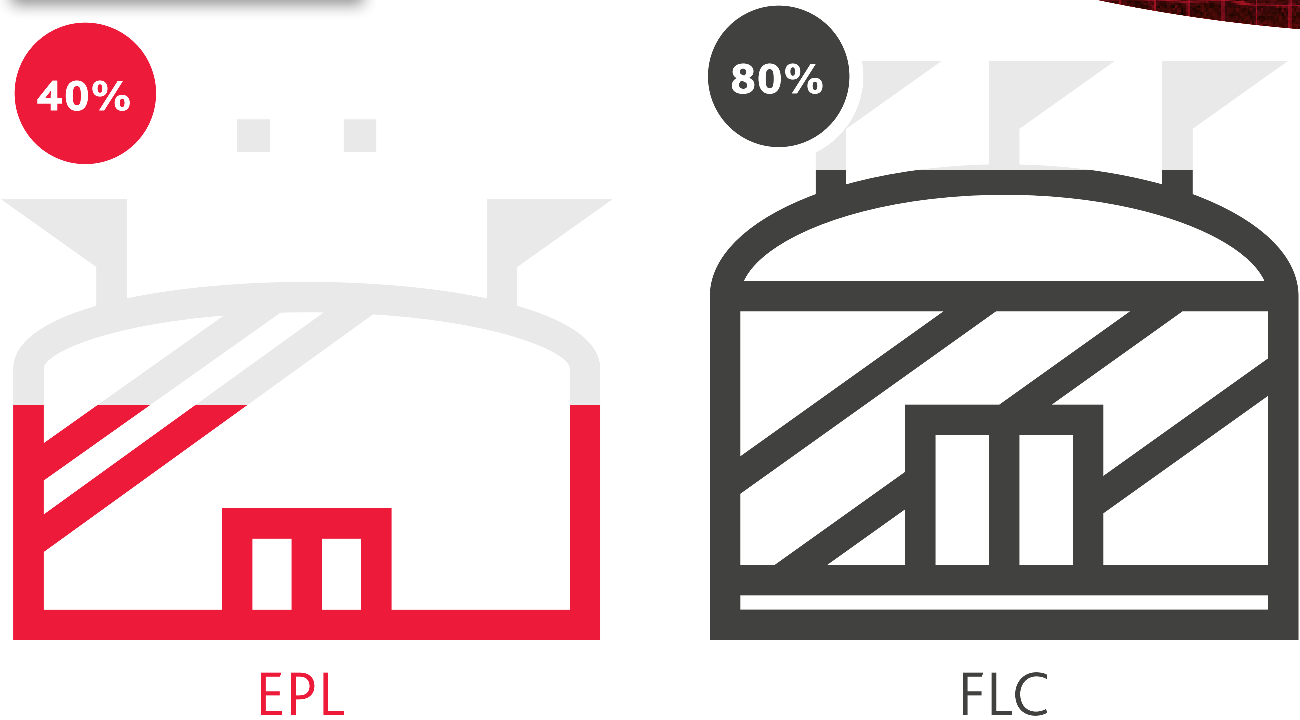
22. WHAT WAGES TO TURNOVER RATIO RANGE DO YOU CURRENTLY OPERATE IN?

%	ALL LEAGUES	EPL	FLC	FL1	FL2
< 50%	5%	10%	-	-	20%
51% - 55%	10%	10%	-	7%	40%
56% - 60%	31%	30%	10%	51%	20%
61% - 65%	13%	10%	10%	21%	-
66% - 75%	15%	30%	-	14%	20%
>75%	26%	10%	80%	7%	-

Base: 55

- Clubs appear to be moving away from this ratio as a key performance indicator in 2018/19 with six in ten clubs using the ratio compared to seven in ten in the prior year
- This is largely driven by movements in EPL responses there the salary cap has been removed from Short Term Cost Control regulations.
- 19% of clubs in the prior year reported a wages-to-turnover ratio target of less than 50%. This has fallen to 6% this year
- Target ranges in EPL, FL1 and FL2 typically sit around 55-65%. However, 41% of clubs exceed this
- The majority of FLC clubs set comparably high targets of over 65%, and with a staggering 80% of club respondents reporting an actual ratio of over 75%, they are largely unable to achieve them. EPL clubs are also not meeting their targets.

CLUBS WITH A WAGES TO TURNOVER RATIO OF OVER 65%



REVENUE, PROFITABILITY AND CLUB OPERATIONS

23. IF YOU COULD MAKE ONE CHANGE TO THE FINANCIAL STRUCTURE OF THE ENGLISH FOOTBALL LEAGUES, WHAT WOULD IT BE AND WHY?

"Fairer distribution of income between the leagues"

FL1 RESPONDENT

"Increase the Premier League monetary input"

FL2 RESPONDENT

"Reduce the amount of money and time for parachute payments"

FL1 RESPONDENT

"A fairer distribution of prize money"

EPL RESPONDENT

"Introduce a second tier Premier League (i.e. PL 1 with 20 clubs and PL 2 with 20 clubs) and distribute money between both leagues rather than the current massive gap between PL and championship"

FLC RESPONDENT


16
adidas

TAXATION

IT IS PERFECTLY POSSIBLE TO IMPLEMENT A COMPLIANT IMAGE RIGHTS ARRANGEMENT AS LONG AS THE CORRECT PROCEDURES ARE FOLLOWED. IT REMAINS TO BE SEEN WHETHER A RECENT SUCCESS FOR HMRC IN AN IMAGE RIGHTS CASE WILL PROMPT FURTHER SPECIFIC REVIEWS.

SHAWN HEALY
Principal, BDO Employment Tax

HMRC continues to undertake a significant level of activity in the football sector with: two-thirds of EPL and FLC reviews ongoing or completed; nine out of ten FL1 reviews ongoing or completed, and all of FL2 being put on notice of a pending review.

Two-fifths of completed HMRC reviews of FL1 clubs have, in the view of FDs, not been resolved to their satisfaction. Bearing in mind there will be complex reasons for why some ongoing reviews are not yet complete, one would expect this level of dissatisfaction to increase. With well-publicised intentions of visiting all EPL and FLC clubs over a three year period, HMRC appears to be experiencing resource constraints that are contributing to the time taken for these reviews to be concluded. This will not be helping the level of confidence in the system.

Typically, image rights, player loan arrangements, agents' fees and player compensation payments are areas of particular interest to HMRC.

Unsurprisingly, our survey suggests that it is only in EPL clubs that image rights are still regularly in use (over half of respondents). Such clubs tell us that they are confident that these payments are tax compliant. It is perfectly possible to implement a compliant image rights arrangement as long as the correct procedures are followed. It remains to be seen whether a recent success for HMRC in an image rights case will prompt further specific reviews.

As all clubs will be aware, the current HMRC approach is to examine any payment of agent's fees where a 50:50 split is not in place. Given that more than half of EPL clubs do not always align with this structure, it is perhaps understandable that HMRC continues to focus on this issue. That said, one-third feel they are able to justify their position. Detailed and up-to-date records for every transaction with an agent will be a key factor in withstanding any HMRC challenge on this point. Conversely, we see that very few FLC clubs deviate from HMRC's preferred 50:50 position. Agents fees will continue to remain under the HMRC spotlight for the foreseeable future.

Loan fees and compensations payments are often complex areas of employment tax and should be well considered on a case by case basis as they are very much dependent on individual circumstances.

HMRC has made public statements about the number of players it is investigating – currently over 170 – and this level of activity has led to three-quarters of EPL clubs and three-fifths of FLC clubs being drawn into the picture. Whilst HMRC information requests can vary, each should be treated carefully and responses should be prepared with professional advice. Co-operation with HMRC is often prudent as it has the legislative powers to require clubs to provide information in many circumstances. However, clubs should also be mindful of follow-up questions based on information provided.

Given the level of HMRC activity in the sector, it is perhaps surprising that clubs largely perceive HMRC as having a low understanding of the sector. Playing devil's advocate for the moment, the complex blend of tax statute and case law, and its application to sometimes intricate employment activity and contracts, does not naturally lend itself to a comprehensible and transparent system. Disagreement is therefore somewhat inevitable. The reality is that navigating certain lines of tax enquiry to arrive at the 'right' position requires a high level of tax proficiency on both sides.

Premiership respondents are evenly split on their view of the HMRC approach, but the majority of remaining respondents appear united in their view that the HMRC's approach lacks pragmatism. This perhaps aligns with the level of understanding it is felt HMRC is displaying. However this does raise the question as to whether this is a difference in perception; on the one hand, how clubs think the tax system should apply to the sector, and on the other, how HMRC perceives the overall level of tax compliance in the sector.

In our view, a more transparent framework is required if both sides are to effectively and consistently fulfil their responsibilities.

TAXATION

24. TARGETING OF FOOTBALL CLUBS AND PAYMENTS TO PLAYERS BY HMRC APPEARS TO BE ON THE RISE. HAS YOUR CLUB:

%	ALL LEAGUES	EPL	FLC	FL1	FL2
Been approached by HMRC but has not yet commenced a review	30%	33%	30%	9%	100%
Commenced an HMRC review that has not yet completed	30%	45%	30%	27%	-
Completed an HMRC review on a basis the Club found satisfactory	30%	22%	40%	37%	-
Completed an HMRC review on a basis the Club found unsatisfactory	10%	-	-	27%	-

Base: 33

- Following HMRC's public announcement that it would review all EPL and FLC clubs tax affairs over a three year period (where we are around two years in), it appears that four-fifths of EPL club's reviews have not yet completed. In fact, one-third have not yet started. Those that have completed, have done so satisfactorily. The pattern is similar in the FLC, but with a higher proportion of completed reviews
- FL1 club experiences have been less positive. One-third are yet to complete, and of those completed, two-fifths of FDs have found the outcome unsatisfactory
- It appears that FL2 have something to look forward to!

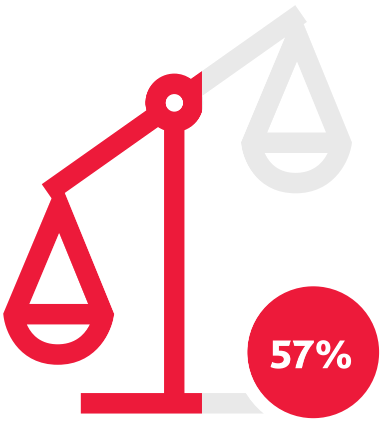
25. WILL THE HMRC SUCCESS IN THE RECENT IMAGE RIGHTS CASE:

IMAGE RIGHTS DO NOT REALLY FEATURE IN FLC, FL1 AND FL2

%	ALL LEAGUES	EPL	FLC	FL1	FL2
Have no impact as you believe your image rights payments are still tax compliant	16%	56%	-	13%	-
Have no impact as you do not make image rights payments	82%	44%	92%	87%	100%
Stop you making image rights payments altogether	2%	-	8%	-	-

Base: 44

- Image rights do not really feature in the EFL. However, half of EPL clubs make image rights payments and those that do believe they are doing so in a tax compliant manner. The overall trend appears to be away from image rights arrangements. It will be interesting to see whether this trend continues.



ALWAYS REFLECT A 50:50 SPLIT WHEN AN AGENT ACTS FOR BOTH PLAYER AND CLUB IN THE SAME TRANSACTION

26. HMRC IS AGAIN FOCUSING ITS ATTENTION ON AGENTS FEES, DOES THE CLUB:

%	ALL LEAGUES	EPL	FLC	FL1	FL2
Always reflect a 50:50 split when an agent acts for both player and club in the same transaction	57%	45%	83%	47%	57%
Feel that it is able to agree with agents that fees are apportioned correctly to reflect the commercial reality of the service they provide to a player and the club	17%	36%	-	18%	14%
Neither statement applies	26%	19%	17%	35%	29%

Base: 47

- In FL1 and FL2 approximately half of clubs are reflecting a 50:50 split, which rises to over 80% in the FLC. This suggests that HMRC's focus on agents fees in the EPL is perhaps understandable, given their starting point of a 50:50 split is applied in less than half of EPL cases
- It is interesting to note that over one-third of EPL clubs feel able to agree an appropriate allocation of services provided. Given the complexity of many player transactions, one would hope that these clubs are maintaining a robust paper-trail to support their position under HMRC challenge.

27. HAS THE CLUB BEEN APPROACHED BY A PLAYER, HIS AGENT OR HMRC FOR ASSISTANCE REGARDING THE PLAYER'S PERSONAL TAX POSITION?

%	ALL LEAGUES	EPL	FLC	FL1	FL2
Yes	36%	73%	58%	12%	-
No	64%	27%	42%	88%	100%

Base: 44

- HMRC has made public statements about the number of players it is investigating - currently over 170 - and this level of activity has led to three-quarters of EPL clubs and three-fifths of FLC clubs being drawn into the process.

TAXATION

28A. 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
Yes	35%	40%	20%	38%	50%
No	65%	60%	80%	62%	50%

Base: 37

28B. DO YOU FEEL HMRC HAS TAKEN A PRAGMATIC APPROACH?

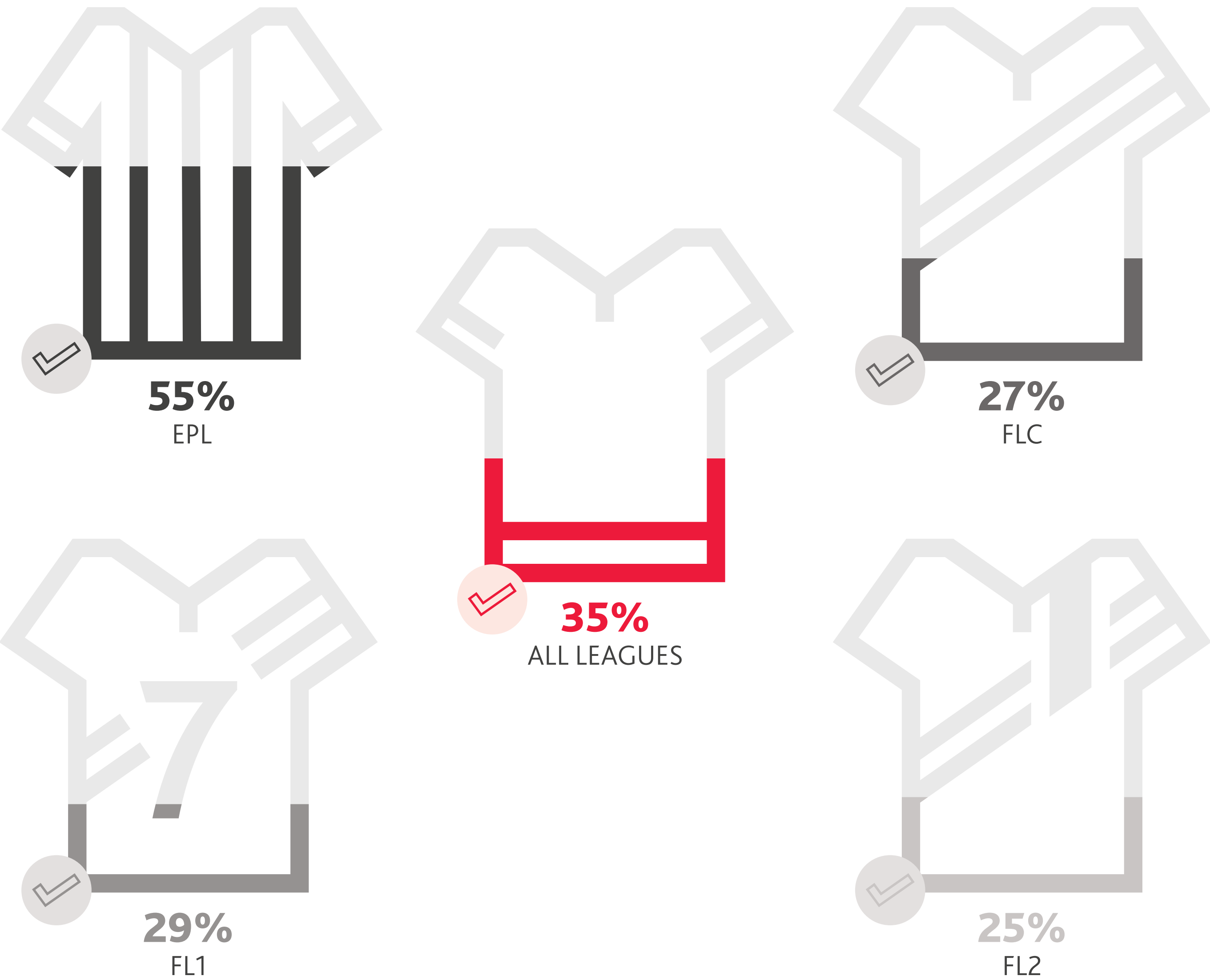
%	ALL LEAGUES	EPL	FLC	FL1	FL2
Yes	35%	55%	27%	29%	25%
No	65%	45%	73%	71%	75%

Base: 40

EPL RESPONDENTS ARE SPLIT ON THEIR VIEW OF THE HMRC APPROACH

- Two-thirds of club FDs believe that HMRC does not understand the football sector
- Two-thirds of clubs found HMRC not to be pragmatic in its approach, with this statistic rising to over 70% in the EFL.

DO YOU FEEL HMRC HAS TAKEN A PRAGMATIC APPROACH 'APPROACH TO THE TAXATION IN THE SECTOR?



FINANCIAL FAIR PLAY

(PROFITABILITY AND SUSTAINABILITY RULES)

THE ONLY APPARENT CONSISTENCY AT PRESENT IS THE VIEW THAT SOMETHING MUST CHANGE IN ORDER FOR THE FFP REGULATIONS TO DELIVER SUSTAINABILITY AND ULTIMATELY ACHIEVE THEIR OBJECTIVES

JULIEN RYE
Partner, BDO Business Assurance

This year we've seen an improvement in expected compliance. In fact, all respondents say they complied with FFP for the 2018/19 season, compared with 93% last year. However, this doesn't tell the full story.

While all clubs complied, nearly one-fifth relied on player-trading or significant non-player transactions.

In the FLC, 42% of clubs relied on player-trading to comply, with most clubs accepting that to compete in the league it is a case of gambling with higher wages for the season ahead to achieve promotion, then selling players to comply with FFP at the period end if they don't succeed. This is, of course, unsustainable and in theory creates a 2-3 year cycle of squad investment and divestment as clubs pick the year they want to challenge for promotion.

Despite clubs achieving full compliance (albeit for some this may have required some significant one-off transactions such as stadia sale and lease-backs), there is a general feeling of discontent across the leagues. Only a quarter of respondents feel that the FFP regulations are meeting their objective of promoting sustainability, and two-thirds of clubs believe the rules are: (i) widening the gap between divisions; (ii) not being applied consistently within divisions; and (iii) not being appropriately enforced.

The level of dissatisfaction is particularly felt amongst FLC respondents. There is a shared view that some clubs are benefiting from the lack of clarity and application of sanctions, and the misuse of exceptional transactions within statutory financial statements. The only apparent consistency at present is the view that something must change in order for the FFP regulations to deliver sustainability and ultimately achieve their objectives.

With the term 'Financial Fair Play' no longer on-mode, superseded by 'Profitability & Sustainability' which talks more directly to the desired objectives of central financial intervention, it is telling that there is a strong sentiment that 'fair' is becoming an absentee from the system and needs higher prominence. To be clear, fairness is about clubs competing with integrity within a clear and consistent set of parameters, not about financial equality.

WE ASKED FOOTBALL FDS WHY APPROPRIATE ENFORCEMENT OF THE RULES APPEARS TO BE FALLING SHORT OF MANY CLUBS' EXPECTATIONS. COMMON VIEWS INCLUDE:

PENALTIES LACK THE SEVERITY REQUIRED TO ACT AS A DETERRENT

Too many clubs are willing to risk the less than proportionate sanctions given the potential financial advantage gained.

PENALTIES ARE OCCURRING TOO LATE

Interventions should happen earlier when clubs start to show signs of financial difficulty.

NO CONSISTENCY

There are too many grey areas and loopholes.

LACK OF TRANSPARENCY IN APPLICATION

Greater consistency is required around disclosure of financial performance and treatment of exceptional items.

FINANCIAL FAIR PLAY
(PROFITABILITY AND SUSTAINABILITY RULES)

RESPONDENTS' RECOMMENDATIONS FOR IMPROVEMENT INCLUDE:

- Salary caps to be set more effectively, controlling spending and rewarding clubs who develop their own talent pool
- Greater funding commitments from owners – in irredeemable equity rather than debt
- Clubs to be monitored more regularly and rigorously to ensure compliance
- Pre-approval from the EPL/EFL for the treatment of material one-off / exceptional items
- Incentives for clubs to act in the spirit of the regulation, including flexibility for the leagues to refer to the spirit of the regulation when considering compliance.

ONLY A QUARTER OF RESPONDENTS BELIEVE THAT FFP REGULATIONS ARE MEETING THEIR PRINCIPAL OBJECTIVE OF PROMOTING SUSTAINABILITY

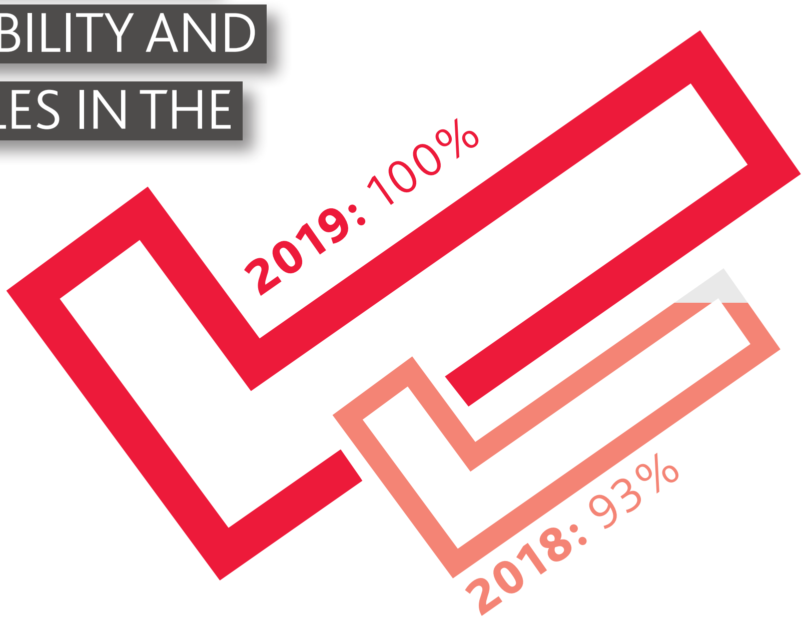
29. DID YOUR CLUB COMPLY WITH THE REQUIREMENTS OF APPLICABLE (DOMESTIC AND EUROPEAN) FINANCIAL FAIR PLAY / PROFITABILITY AND SUSTAINABILITY RULES IN THE 2018/19 SEASON?

%	ALL LEAGUES	EPL	FLC	FL1	FL2
Yes	83%	92%	58%	94%	86%
Yes but required net positive income from player-trading	15%	8%	42%	6%	-
Yes but required significant one-off non player-trading transactions	2%	-	-	-	14%
No	-	-	-	-	-

Base: 47

- No club respondents breached FFP / Profitability and Sustainability rules in 2018/19, albeit 15% overall and 42% of FLC club respondents only complied due to net positive income from player-trading
- The 100% compliance is an improvement on the 2017/18 season which saw 7% of FLC club respondents breaching and anticipating to breach again in 2018/19
- We wait to see what happens in practice once all submissions are completed and reviewed.

CLUBS WHO COMPLIED WITH THE REQUIREMENTS OF APPLICABLE (DOMESTIC AND EUROPEAN) FINANCIAL FAIR PLAY / PROFITABILITY AND SUSTAINABILITY RULES IN THE 2018/19 SEASON



FINANCIAL FAIR PLAY
(PROFITABILITY AND SUSTAINABILITY RULES)

30. 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
Comply with these rules with minimal change to the business model	87%	92%	75%	100%	71%
Only manage to comply by making significant changes to the business model	11%	8%	18%	-	29%
Not comply, but plan to be compliant within the next 2-3 years	2%	-	7%	-	-

Base: 47

- Expectations for next season show a marginal year-on-year decline in overall compliance, with 11% of club respondents anticipating significant changes to their business model will be required in order to achieve compliance. This prospect is most stark in FL2 and FLC where 29% and 25% respectively will require significant changes.

3 IN 10 FL2 CLUBS WILL REQUIRE SIGNIFICANT CHANGES

31A. DO YOU BELIEVE THAT THE FFP REGULATIONS ARE MEETING THEIR PRINCIPAL OBJECTIVE OF PROMOTING SUSTAINABILITY?

%	ALL LEAGUES	EPL	FLC	FL1	FL2
Yes	26%	25%	-	38%	43%
No, but this is moving in the right direction	32%	42%	25%	31%	29%
No, there are better ways to ensure sustainability	36%	8%	75%	31%	28%
Regulation is not necessary	6%	25%	-	-	-

Base: 47

- Only 26% of respondents believe that FFP regulations are meeting their principal objective of promoting sustainability, compared with 42% this time last year and 58% two years ago
- No FLC club respondents believe this objective is being met, and only 25% believe that it is moving in the right direction. As noted in our survey last year, 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, albeit this is being removed from the EPL going forwards (with Profitability and Sustainability loss restrictions considered to be sufficient).

31B. DO YOU FEEL THIS HAS WIDENED THE GAP **BETWEEN** DIVISIONS?

%	ALL LEAGUES	EPL	FLC	FL1	FL2
Yes	66%	58%	67%	69%	71%
No	34%	42%	33%	31%	29%

Base: 47

- The majority of club respondents believe that the current FFP rules are widening the gap between divisions
- The gap is felt in particular by EFL clubs, although it is also important to note that 58% of EPL club respondents feel the gap has been widened by the FFP rules, compared with only 22% in our survey last year.

31C. DO YOU FEEL THIS HAS WIDENED THE GAP **WITHIN** DIVISIONS?

%	ALL LEAGUES	EPL	FLC	FL1	FL2
Yes	49%	42%	58%	50%	43%
No	51%	58%	42%	50%	57%

Base: 47

- Club respondents are evenly divided on FFP's impact on the gap within divisions. This view is consistent across the different leagues.

FINANCIAL FAIR PLAY

(PROFITABILITY AND SUSTAINABILITY RULES)

32. DO YOU BELIEVE THAT FFP REQUIREMENTS ARE BEING APPLIED CONSISTENTLY BY THE CLUBS IN YOUR LEAGUE?

%	ALL LEAGUES	EPL	FLC	FL1	FL2
Yes	35%	42%	17%	47%	29%
No	65%	58%	83%	53%	71%

Base: 46

- The majority of EFL member clubs, in particular FLC clubs, believe that the current FFP rules are not being applied consistently by clubs within their league
- As expected, a significant proportion, (four-fifths) of FLC clubs are expressing their discontent with the application of Profitability & Sustainability rules. This is interesting in the context that all FLC clubs expect to comply with FFP for the 2018/19 season.

33. IN THE ABSENCE OF FFP REGULATIONS, WOULD YOU OR YOUR OWNER INVEST MORE MONEY INTO TRYING TO REALISE THE CLUB'S AMBITIONS?

%	ALL LEAGUES	EPL	FLC	FL1	FL2
Yes, to a significant degree	11%	18%	25%	-	-
Yes, to some extent	24%	36%	25%	19%	14%
No, the amount that we are allowed to invest is sufficient	41%	36%	25%	62%	29%
No, there is no more to invest	24%	10%	25%	19%	57%

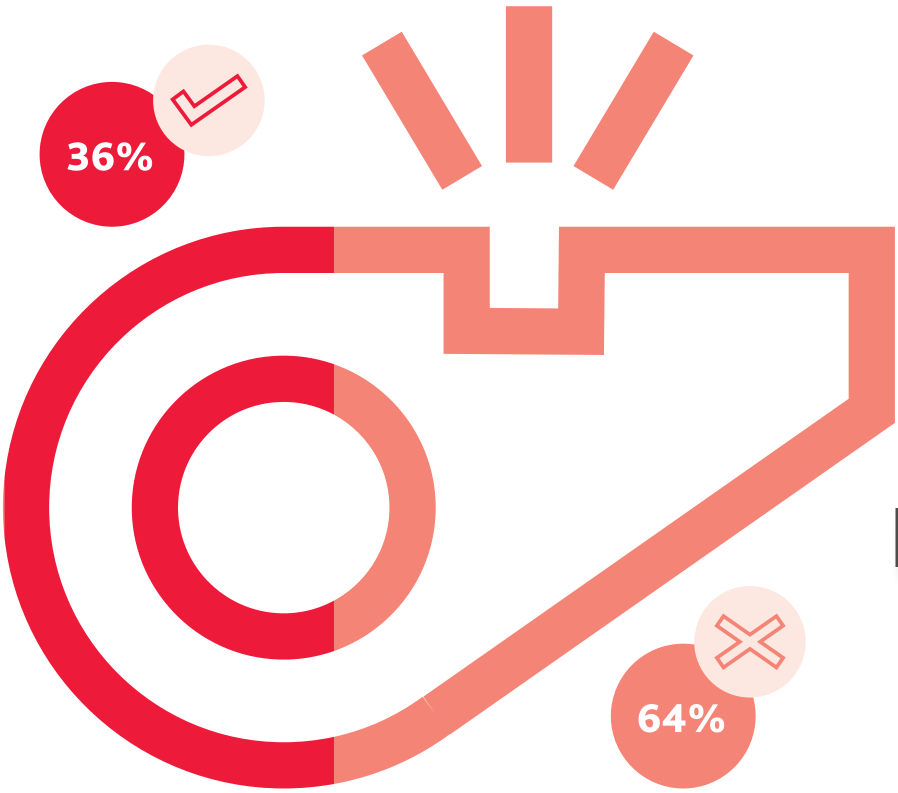
Base: 46

- The majority (65%) of clubs (2017/18: 71%) continue to proclaim that they would not invest more money in trying to realise the club's ambitions in the absence of FFP regulations
- However, the top tiers are more open to investment now than this time last year. 54% of EPL club respondents and 50% of FLC club respondents admit that they would invest more, with one in four FLC club respondents saying they would invest significantly more.
- 18% of EPL respondents would also consider significant incremental investment, whereas none responded in this way last year (most likely not expecting it to be necessary).

34. DO YOU FEEL THAT FFP SANCTIONS ARE BEING APPROPRIATELY ENFORCED?

%	ALL LEAGUES	EPL	FLC	FL1	FL2
Yes	36%	36%	18%	40%	57%
No, they are enforced too strongly	2%	-	9%	-	-
No, they are not enforced strongly enough	62%	64%	73%	60%	43%

Base: 44



- The majority (64%) of clubs (2017/18: 73%) feel that the FFP sanctions are not being appropriately enforced. The continued lack of confidence in the Premier and Football Leagues' application of sanctions is obvious
- There are some signs that the enforcement of sanctions is improving, with 36% of EPL club respondents (2017/18: 13%) and 57% of FL2 club respondents (2017/18: 20%) feeling the sanctions are now being appropriately enforced. However, a staggering majority (three-quarters) of FLC club respondents (2017/18: 77%) continue to feel that appropriate enforcement is missing
- Anecdotally, over the last 12 months, there have been more questions raised over the compliance behaviour of clubs in the FLC than any season we can remember.

ARE FFP SANCTIONS BEING APPROPRIATELY ENFORCED?

YOUTH DEVELOPMENT

THERE IS A WELL-OILED MARKET FOR LOWER LEAGUE CLUBS TO SELL THEIR OWN HOME-GROWN PLAYERS UPWARDS AT HIGH VALUES, AND THIS IS AN OBSERVABLE PROFIT CENTRE FOR MANY EFL CLUBS. HOWEVER, ON A CLUB-BY-CLUB BASIS THIS IS UNPREDICTABLE AND CREATES FINANCIAL VOLATILITY

HARRIET RICHARDS
Senior Manager, BDO Business Assurance

Clubs continue to invest in their youth academies, with youth development budgets continuing on an upward trajectory. There is no doubting clubs' ambitions to continue to increase investment in youth squads. However, the question remains as to whether this investment will pay dividends to first team football, or if experience and large price tags will continue to play to the first team manager's sense of risk aversion when immediate results are being demanded.

The development of a successful youth academy undoubtedly brings significant financial advantages, such as the avoidance of inbound transfer fees and significant value growth that can be realised on the sale of a player's registration.

However, often the top-tier clubs are stockpiling the best, young talent, buying them from lower tier- clubs then loaning them out for experience.

This perpetuates the wealth divide as the lower league clubs, having sold some of their best young talent to balance their books, have to fix short-term playing squad needs, which they pay the higher league club for before returning a more experienced, higher value player.

Admittedly, there is a well-oiled market for lower league clubs to sell their own home-grown players upwards at high values, and this is an observable profit centre for many EFL clubs. However, on a club-by-club basis this is unpredictable and creates financial volatility, and across the leagues it is only viable long term if the top clubs don't retain a disproportionate number of the young talent pool. Common recommendations from respondents in response to this include placing caps on the number of youth players that top clubs can register, higher compensation payments and the restructuring of quotas for home-grown players.

Clubs are also looking for a greater variety of coaching methods and FLC clubs in particular are looking at overseas academies as a potential cost-effective solution to improving their talent development programmes. There have also been calls to return to the reserves system rather than the U23 system, offering players greater opportunities.

It did not go unnoticed by our recipients that the 2019 Europa League final contested by Arsenal and Chelsea had no English players in the starting line ups. It highlights the issue on the biggest stage, and some have called for imposing a minimum limit of players from the Home Nations (ideally from academies) to be included within EPL first team squads. The future prospects of our national team will also be called into question if our most talented young players are not getting opportunities at the highest level.

The 2019/20 EPL season will be one that sparks a unique perspective into the ability of youth players to make the transition to the top flight. Given their transfer ban, Chelsea are more likely than most of the top clubs to call up some of their academy players. We will observe with intrigue from the side-lines how a top club, when its position is somewhat forced, is able to transition academy players into its first team, and how quickly (if at all) the talent and experience gap can be bridged. Optimistically, this could even reset the risk barometer for top-flight professional football managers. Good luck, Mr Lampard - no pressure!

THE QUESTION REMAINS AS TO WHETHER INVESTMENT INTO YOUTH DEVELOPMENT WILL PAY DIVIDENS TO FIRST TEAM FOOTBALL

YOUTH DEVELOPMENT

WHAT IS SUPPRESSING FIRST TEAM CONVERSION RATES?

There is a general feeling that the gap between playing academy and first team football is too vast, particularly in the EPL. The pressure for results, fan expectations and the requirement to achieve instant success means that managers are not willing to take the risk on younger, less experienced players

The disproportionate wealth of larger clubs allows them to register larger numbers of the best young players and loan them to lower leagues, or feeder clubs, who will take the risk of giving them first team football

The size of the existing squads leaves very limited opportunities to break through, even for the strongest academy players

Any divide between first team management and academy management will restrict development plans and opportunities. Regularly changing first team managers will further postpone opportunities for player transition to the first team

Academies must produce quality. To turn around an underachieving academy takes years, and a medium/long term outlook is required. This requires financial and emotional investment.

STORIES OF SUCCESSFUL GRADUATION TO THE FIRST TEAM ARE VERY POPULAR WITH FANS AND ARE A GOOD MARKETING TOOL.

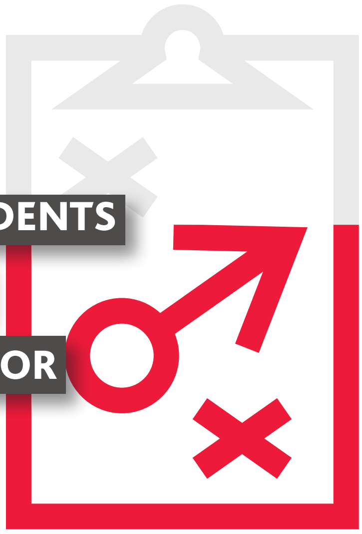
YOUTH DEVELOPMENT

35. FOR FINANCIAL YEAR 2019/20, HOW DOES YOUR YOUTH DEVELOPMENT BUDGET COMPARE TO FINANCIAL YEAR 2018/19?

%	ALL LEAGUES	EPL	FLC	FL1	FL2
Significantly higher	13%	8%	25%	-	29%
Slightly higher	45%	58%	33%	44%	43%
The same	42%	34%	42%	56%	28%

Base: 47

58% OF ALL CLUB RESPONDENTS HAVE INCREASED YOUTH DEVELOPMENT BUDGETS FOR THE UPCOMING SEASON



- 58% of club respondents have increased youth development budgets for the upcoming season, demonstrating the importance placed on youth academies as a way to defend against, or capitalise on, ever-increasing transfer fees. One in four FLC clubs have significantly increased their budgets for the upcoming season. Given clubs apparent need to generate net positive results from player-trading in order to simply turn a profit and/or comply with FFP rules, this is hardly a surprise
- In comparison to last year, a larger percentage of clubs have kept their youth development budget the same rather than increasing it. However, this is in the context of 68% of club respondents increasing their budget last year
- No clubs have reduced their budget.

36. WHAT ARE YOUR MEDIUM TO LONG TERM INTENTIONS FOR YOUR YOUTH ACADEMY?

%	ALL LEAGUES	EPL	FLC	FL1	FL2
Increase investment in it	57%	83%	42%	56%	43%
Decrease investment in it	2%	-	-	-	14%
No change	41%	17%	58%	44%	43%

Base: 47

- The increased investment this year is representative of clubs' medium to long-term intentions for their youth academies, with 57% of all respondents looking to increase investment going forwards
- This is particularly prominent in the EPL, with 83% of respondents intending to increase investment over the medium to long-term
- A very small number, in FL2 only, expect to reduce their investment into their youth academy.

37A. ARE YOU EXPECTING TO INCREASE YOUR ACADEMY PLAYER TO FIRST TEAM CONVERSION RATE IN THE 2019/20 SEASON?

%	ALL LEAGUES	EPL	FLC	FL1	FL2
Yes	67%	58%	67%	80%	57%
No	33%	42%	33%	20%	43%

Base: 46

- Given the increased budgets and plans for investment, it is no surprise that the expectation of 67% of club respondents is to increase their academy player to first team conversion rate in the 2019/20 season
- There has been a particular shift in FLC club respondents' expectations - moving from 50% last year to 67% for the upcoming season
- It is noteworthy that, in the case of EPL clubs, a greater percentage (83%) are intending to increase investment in their youth academy than are expecting to see this translate to first team conversion (58%).

37B. WHAT ARE THE OPPORTUNITIES AND CHALLENGES THAT YOU FACE IN PROGRESSING ACADEMY PLAYERS INTO YOUR FIRST TEAM?

"Academy players are just not good enough because the Premier League players are just so good. The gap is so big and unless an academy player plays for a junior England team, they will not bridge that gap so they have to get experience on loan"

EPL RESPONDENT

"It's down to the manager who wants immediate results and is unlikely to have time to test players out in the first team"

FLC RESPONDENT

YOUTH DEVELOPMENT

38. DO YOU CURRENTLY OPERATE AN OVERSEAS ACADEMY AND/OR FEEDER SYSTEM?

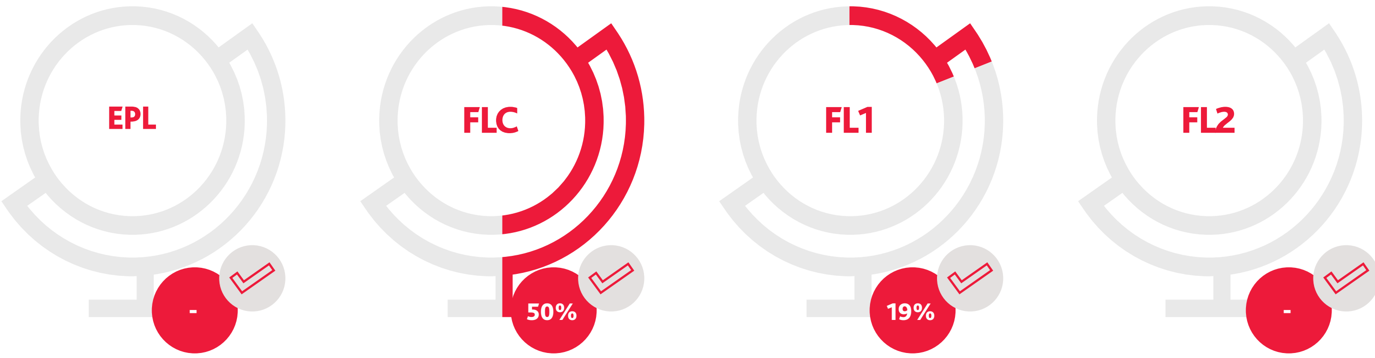
%	ALL LEAGUES	EPL	FLC	FL1	FL2
Yes and we are looking to expand further	2%	-	-	6%	-
Yes we already have one (or more)	2%	-	8%	-	-
No, but we are looking for one (or more)	15%	-	42%	13%	-
No and we are not intending to invest in this area	81%	100%	50%	81%	100%

Base: 47

- 50% of the FLC club respondents either have an overseas academy or are looking for one (8% and 42% respectively)
- 19% of the FL1 club respondents are either looking to expand their existing overseas academy (6%) or are looking for an overseas academy (13%)
- However, outside of the FLC and FL1, there does not appear to be interest in operating overseas academies. We suspect this strategy will be deployed more widespread over the coming years as clubs see if others are benefiting. No doubt, access to debt and capital investment will be a driver here as the initial set up costs and ongoing time commitments are high.

THE ARSENAL VS CHELSEA EUROPA LEAGUE FINAL HAD NO ENGLISH PLAYERS IN THE FIRST TEAM STARTING LINE UPS.

CLUBS THAT OPERATE AN OVERSEAS ACADEMY AND/OR FEEDER SYSTEM OR ARE INTENDING TO INVEST IN THESE AREAS



39. WHAT ALTERNATIVES TO THE CURRENT YOUTH SYSTEM WOULD YOU LIKE TO SEE TAKE EFFECT?

- Given overseas academies do not seem to be a focus for the majority of clubs, other amendments to the current youth system are suggested by respondents:
  - More protection for U16 players to stop clubs warehousing players and giving them no chance to advance
  - Limits on the number of youth registrations (especially in the EPL) to stop them from stockpiling players
  - Greater variety of coaching methods - possibly a partner scheme with other nations where youngsters can go abroad and benefit from learning about different styles of football and learn a few life skills from being away from the comfort of home
  - Fees (compensation) need to be more equitable
  - A quota system for match day squads
  - A return to the reserves system, not the U23 system. Also make the top age range for youth teams U19, not U18.

SECTION G

PLAYER COSTS

RESPONDENT OPINIONS RANGED FROM STRONG CALLS FOR A SALARY CAP TO EQUALLY STRONG VIEWS THAT FOOTBALL IS A COMPETITION AND SHOULD BE A FREE MARKET.

IAN COOPER
Partner, BDO Corporate Finance

Football club salaries are increasing. This has been an obvious and undeniable trend over recent years and looks set to continue. It is evidenced by only 6% of respondents saying their first team squad would increase in size in 2019/20, but 38% saying that their wage bill would increase.

Increasing salaries are not, in themselves, a problem. Few would argue that if there is more money coming into the game, primarily through TV revenues, then at least some of this should go to the players. Problems arise when income and salary costs are not proportionate and when they filter into leagues without increased TV revenues.

UEFA guidance for a club's financial health is that salaries should be a maximum of 70% of turnover. EPL clubs effectively set the top percentiles of player salaries so this benchmark is well within their control – even if they chose to exceed it. However, outside of the EPL, and in particular in the FLC, pressure from players and agents, competition for talent, and the unrelenting desire to reach the top tier, raises salaries to an unsustainable proportion of revenues. There are countless examples of salary costs being greater than 100% of revenue as clubs spend to achieve success or are caught out with over-inflated wage bills following relegation.

80% of FLC clubs are currently operating with a wage/turnover percentage in excess of 75%, compared to 10% of EPL clubs and 7% of FL1 clubs.

With the massive drop off in revenue as clubs move down the leagues, it is no surprise that the vast majority (82%) of clubs across all leagues have over 75% of their first-team players with relegation-related salary-reduction clauses. This protects clubs to some extent, but does not reduce the wage bill as fast as revenues plummet. In fact, it is often the case that maintaining a high cost playing squad, thinking that the pre-existing squad will bounce the club back up again, puts the club under significant financial pressure.

There are a range of differing viewpoints with regard to salaries (and transfers) and whether additional regulations should be imposed. From those respondents that mentioned agent fees – and there were many – there is a consensus that these should either be capped or paid by players rather than clubs. But in relation to a salary cap there was no such consensus. Respondent opinions ranged from strong calls for a salary cap, to equally strong views that football is a competition and should be a free market. These views were tempered, however, by an acknowledgement that even if regulation is a good idea in theory, the extreme and divergent views on this make it very hard to implement in practice.

Salary caps are prominent in other sports. In the USA, the NFL and NBA have collective bargaining agreements aimed at controlling costs and maintaining parity. Within these agreements are salary caps and floors, setting minimum and maximum levels for each team to spend. The NBA also has a luxury tax, where teams are charged if they significantly exceed the salary cap.

In England, Premiership Rugby introduced it's Salary Cap in 1999 in order to ensure financial viability and to provide a level playing field for clubs. The Salary Cap is set at a level proportionate to the annual net central distributions to the clubs from Premiership Rugby, and each club has two excluded players whose salaries can sit outside the cap. Clubs are required to submit copies of contracts and each year have to certify their salary spend in the prior year, with an independent audit of each club in accordance with the salary cap regulations.

As we know, football is unique and, dare we say, that most of us don't want club wealth parity. As as long as we demand sustainability and fairness (not equality), and as long as salaries represent the epicentre of football finance, salary control, in some form, should be on the central agenda.

IN PARTICULAR IN THE FLC, PRESSURE FROM PLAYERS AND AGENTS, COMPETITION FOR TALENT, AND THE UNRELENTING DESIRE TO REACH THE TOP TIER, RAISES SALARIES TO AN UNSUSTAINABLE PROPORTION OF REVENUES.

PLAYER COSTS

40A. WHAT PERCENTAGE OF PLAYERS IN YOUR FIRST TEAM HAVE CLAUSES IN THEIR CONTRACTS STIPULATING THAT THEIR WAGES WILL BE REDUCED IF THE CLUB IS RELEGATED?

%	ALL LEAGUES	EPL	FLC	FL1	FL2
<25%	10%	10%	-	6%	29%
26-50%	4%	10%	-	6%	-
51–75%	4%	20%	-	-	-
>75%	33%	20%	42%	44%	14%
100%	49%	40%	58%	44%	57%

Base: 45

40B. WHAT IS THE RANGE OF THE PERCENTAGE REDUCTIONS?

%	ALL LEAGUES	EPL	FLC	FL1	FL2
<20%	2%	-	-	-	14%
20-30%	29%	20%	17%	44%	29%
30-40%	22%	30%	25%	19%	14%
40-50%	16%	30%	25%	6%	-
>50%	2%	-	8%	-	-
Other	29%	20%	25%	31%	43%

Base: 45

- 82% of respondents say that more than 75% of the players in their first team squad have clauses in their contracts stipulating that their wages will be cut if the club is relegated. This is in line with the response last year, where 84% of respondents said the same thing. Thankfully, this rises to 100% of respondents in the FLC
- Within this population, over 87% of respondents contract for a reduction of between 20% and 50%. The EPL and FLC have higher average reductions than FL1 and FL2, with the FLC containing the only respondent with percentage reductions in excess of 50%. In last year's responses, there were more answers in excess of 50% from EPL and FLC clubs; more evidence of accelerating player power perhaps.

82% OF RESPONDENTS SAY THAT MORE THAN 75% OF THE PLAYERS IN THEIR FIRST TEAM SQUAD HAVE CLAUSES IN THEIR CONTRACTS STIPULATING THAT THEIR WAGES WILL BE CUT IF THE CLUB IS RELEGATED.

PLAYER COSTS

41A. IN YOUR BUDGET FOR 2019/20 WILL YOUR FIRST TEAM SQUAD SIZE BE BIGGER, THE SAME OR SMALLER THAN THE SEASON JUST ENDED?

%	ALL LEAGUES	EPL	FLC	FL1	FL2
Bigger	6%	-	8%	13%	-
Same	56%	75%	42%	37%	86%
Smaller	38%	25%	50%	50%	14%

Base: 47

41B. IN YOUR BUDGET FOR 2019/20 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
More	38%	50%	50%	25%	29%
Same	17%	17%	-	19%	42%
Less	45%	33%	50%	56%	29%

Base: 47

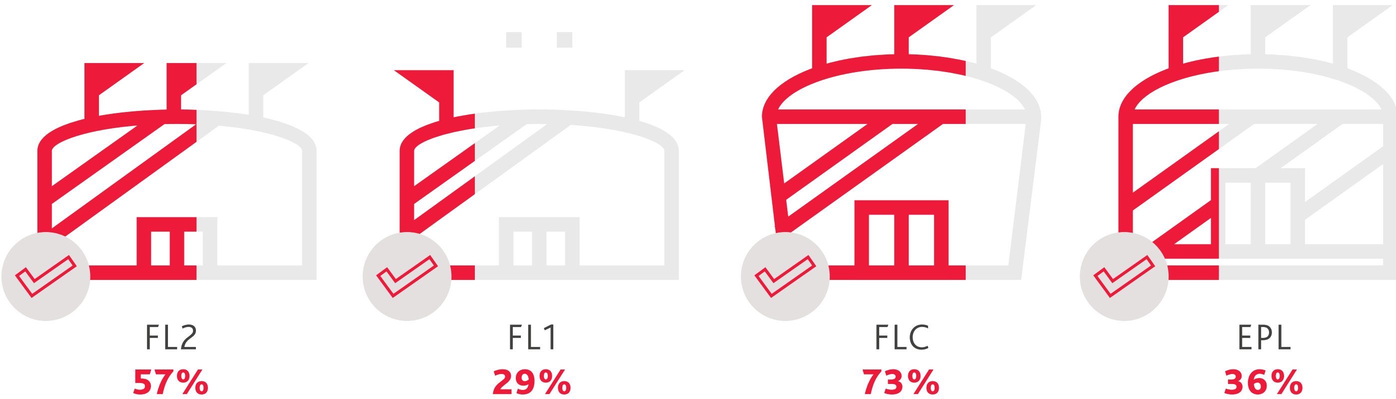
41C. TO WHAT EXTENT HAS THIS DECISION BEEN DRIVEN BY THE FINANCIAL FAIR PLAY/PROFITABILITY AND SUSTAINABILITY RULES?

%	ALL LEAGUES	EPL	FLC	FL1	FL2
Not at all	53%	64%	27%	71%	43%
To some extent	40%	27%	64%	29%	43%
To a considerable extent	7%	9%	9%	-	14%

Base: 43

- 94% of respondents said their first team squads would either remain the same size or be smaller in 2019/20, and 55% said their payroll would be the same or higher. So, whilst only 6% of respondents said their first team squad would be bigger, 38% said that they had budgeted more for payroll costs. These results tell us that there must be an acceptance that salary costs per head will continue to rise
- As was the case last year, the majority of FL1 and FL2 respondents are planning to maintain or reduce both their squad size and payroll costs. Financially, we may instinctively be hoping for this to be true. However, in the context of player cost inflation, this is a reflection of the income constraints of lower league clubs and will contribute towards the growing gap between higher and lower divisions
- Whereas last year 73% of clubs said that financial fair play/sustainability rules had no impact on squad size or payroll, this year that reduced to only 53%. Over half of FLC and FL2 clubs said that financial fair play/sustainability rules have had an impact.

WHILST ONLY 6% OF RESPONDENTS SAID THEIR FIRST TEAM SQUAD WOULD BE BIGGER, 38% SAID THAT THEY HAD BUDGETED MORE FOR PAYROLL COSTS.



CLUBS THAT SAID THEIR BUDGETS ARE TO SOME EXTENT DRIVEN BY THE FINANCIAL FAIR PLAY/ PROFITABILITY AND SUSTAINABILITY RULES

PLAYER COSTS

42. THERE HAVE BEEN CALLS FOR GREATER REGULATION TO BE IMPOSED ON VARIOUS AREAS IN FOOTBALL, INCLUDING PLAYER TRADING (IE TRANSFER FEES) AND PLAYER WAGES (IE CAPS). PLEASE DESCRIBE THE ACTIONS/REGULATION/ DEREGULATION THAT YOU WOULD LIKE TO BE INTRODUCED?

"We would like to see action taken to cap player wages in all English Football Leagues to enable clubs to operate within their means and without the need for owners to significantly distort the market. However, even then clubs may work out ways to remunerate players outside the system, so strong controls will be required"

FL1 RESPONDENT

"There should be an external audit of declared values to ensure consistency in how these are calculated. Premiership rugby use salary cap auditors to review declared spend, why can't this level of review be introduced in football?"

FLC RESPONDENT

"Salary cap but realise this is impractical."

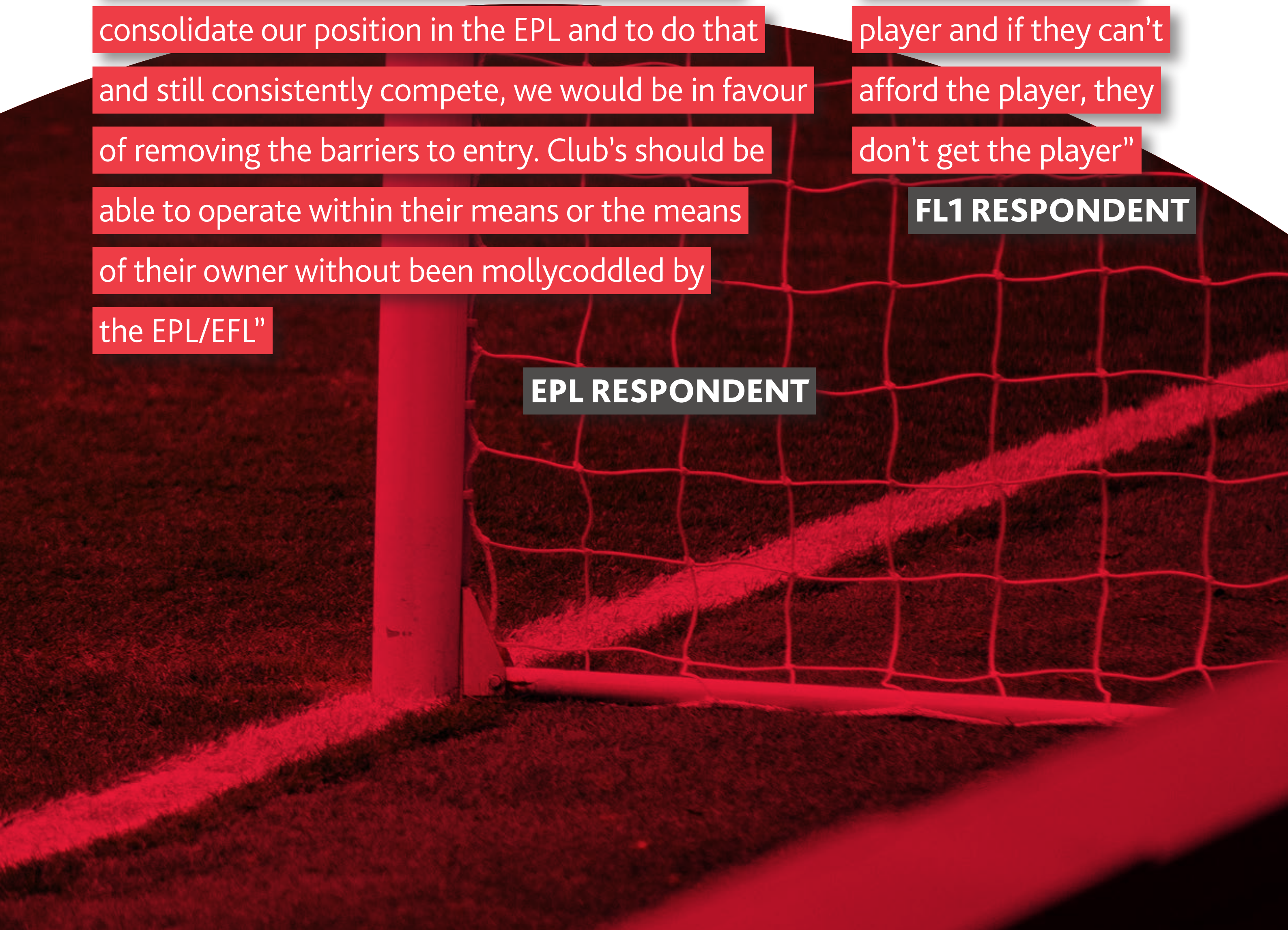
FLC RESPONDENT

"Ultimately we would like to run in a self sustaining break-even position not requiring owner funding. However, to get to that position we would need deregulation. To get to there, we would need to consolidate our position in the EPL and to do that and still consistently compete, we would be in favour of removing the barriers to entry. Club's should be able to operate within their means or the means of their owner without been mollycoddled by the EPL/EFL"

EPL RESPONDENT

"It's a competition and an open market - clubs should be able to negotiate with each player and if they can't afford the player, they don't get the player"

FL1 RESPONDENT



PLAYER TRANSFERS

THREE-QUARTERS OF RESPONDENTS SAID THAT THEY CONSIDERED THE CURRENT LEVELS OF TRANSFER FEES TO BE UNSUSTAINABLE, AND THE OVERWHELMING FEEDBACK HAS BEEN THAT HIGH TRANSFER FEES AND SALARIES HAVE ONLY SERVED TO WIDEN THE GAP BETWEEN LARGER AND SMALLER CLUBS.

DAVID ROGERS
Associate Director,
BDO Forensic and Valuation Services

The average transfer fee in the EPL has grown from under £1m when the competition started in 1993 to a high of £19m in 2017/18, with a slight drop off in 2018/19, down to £16m. The record transfer fee paid by an English club stands at the £89m paid by Manchester United for Paul Pogba in 2016.

The transfer record in all leagues, except FL2, was set within the last three years. FLC and FL1 records have trebled since 2009/10, now standing at £16m and £3m respectively, with the EPL record more than doubling in this time.

FL2 is an anomaly because the transfer record goes back to 2009/10 during a period in which Notts County had an influx of ambitious foreign investment, even appointing ex-England manager Sven-Göran Eriksson.

Micro-economic factors such as player age, quality, comparables, remaining registration period will naturally cause spikes in transfer fees, but overall will not necessary drive a trend.

Macro-economic factors, those that impact the transfer market more generally, include domestic and global media activity, general economic prosperity and political initiatives either restricting or relaxing current movements. The 2016/19 and more recent 2019/22 Premier League TV rights deals created a step change in transfer fees both in the EPL and below. The Neymar transfer to Paris Saint-Germain in 2017 saw the world record increase from £89m to £198m, and changed the threshold for what was considered to be a big transfer fee, being followed by a rush of transfers in excess of £100m.

It's not surprising anymore to see that four out of five respondents predicted the highest transfer fee for any one player in or out of the English Leagues this summer to be over £100m.

That said, we could be approaching a rare period of transfer fee stability given that as many clubs are reducing their 2019/20 transfer budget as are increasing it.

FLC clubs are the most polarised in terms of transfer budgets, with 45% saying they would increase budgets and 45% planning to reduce them. This reflects the nature of the FLC where there is a divide between those currently investing heavily to reach the EPL and those currently consolidating their position in the league whilst cutting spend to stay afloat.

The decision to cut or control spend for EPL and FLC clubs has, to a large extent, been driven by FFP, with 57% of EPL and 100% of FLC clubs that are not increasing transfer budgets, saying this is in order to comply with FFP. The influence of FFP on transfer budgets seems far more pronounced this year compared to previous years.

Two of the biggest factors impacting EPL clubs are the amount of TV money, which leads to an expectation of high transfer fees, and the Home-Grown Player Rule. EPL teams are allowed a maximum of 17 non home-grown players in each club squad of 25. This means each is required to have eight home-grown players who must have been registered with an English or Welsh team for three years before the age of 21. As there are a limited number of EPL standard home-grown players, their transfer values are artificially forced up.

Three-quarters of respondents said that they considered the current levels of transfer fees to be unsustainable, and the overwhelming feedback was that the high transfer fees and salaries have only served to widen the gap between the bigger and smaller clubs. Smaller clubs cannot afford the high transfer fees and salaries, without making sales of their own, because they would otherwise struggle to comply with FFP requirements.

While clubs may like to spend less to keep the books balanced, there is a lot of inertia and first-mover risk. In fact, unsustainable or otherwise, only 32% of respondents are planning to reduce transfer budgets in 2019/20.

IT'S NOT SURPRISING ANYMORE TO SEE THAT FOUR OUT OF FIVE RESPONDENETS PREDICTED THE HIGHEST TRANSFER FEE FOR ANY ONE PLAYER IN OR OUT OF THE ENGLISH LEAGUES THIS SUMMER TO BE OVER £100M.

PLAYER TRANSFERS

43. IS LIQUIDITY IN THE TRANSFER MARKET:

%	ALL LEAGUES	EPL	FLC	FL1	FL2
Improving	14%	18%	10%	20%	-
Worsening	37%	27%	40%	53%	14%
Unchanged	49%	55%	50%	27%	86%

Base: 43

- There is a clear trend that liquidity is not improving, with 86% of respondents saying it is unchanged or worsening. Responses show a downward trend against last year, where 63% said there had been no change and 15% said it was worsening.

THERE IS A CLEAR TREND THAT LIQUIDITY IS NOT IMPROVING, WITH 86% OF RESPONDENTS SAYING IT IS UNCHANGED OR WORSENING.

44A. WILL YOU INCREASE/REDUCE YOUR TRANSFER BUDGET FOR 2019/20?

%	ALL LEAGUES	EPL	FLC	FL1	FL2
Increase	27%	27%	45%	27%	-
Reduce	32%	45%	45%	27%	-
It will remain the same	41%	28%	10%	46%	100%

Base: 44

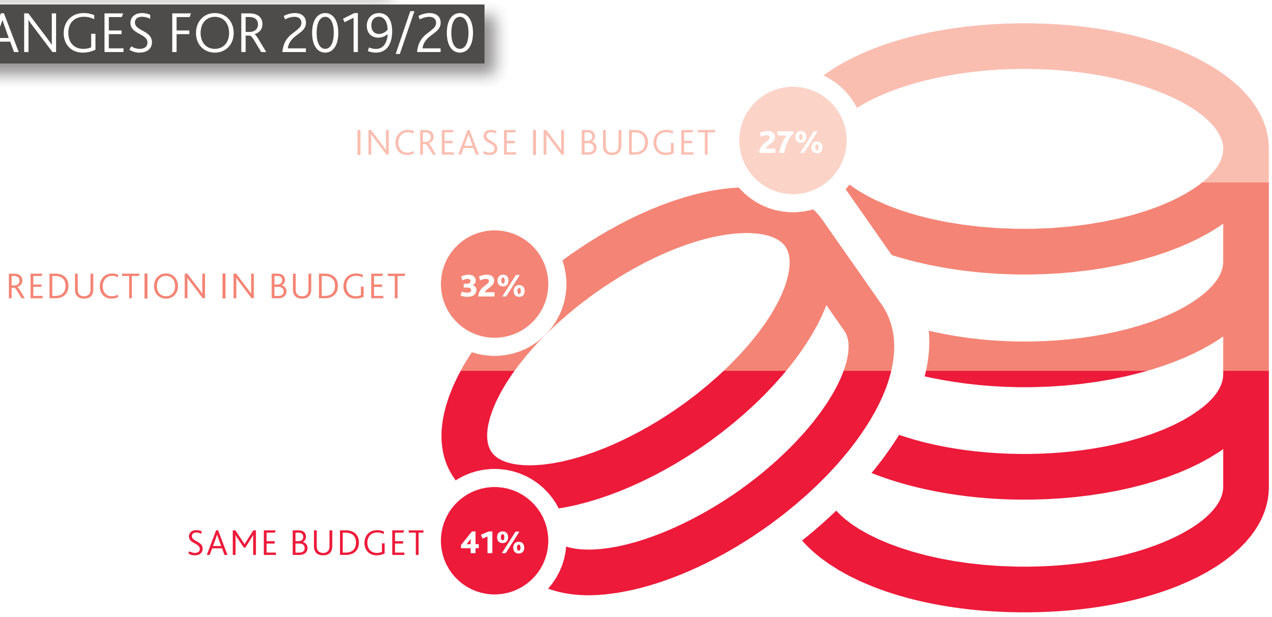
44B. IF YOU ANSWERED 'REDUCE' OR 'REMAIN THE SAME', TO WHAT EXTENT HAS THIS DECISION BEEN DRIVEN BY THE FINANCIAL FAIR PLAY RULES?

%	ALL LEAGUES	EPL	FLC	FL1	FL2
Not at all	65%	43%	-	100%	100%
Yes to some extent	25%	43%	71%	-	-
Yes to a considerable extent	10%	14%	29%	-	-

Base: 31

- Similar to last year, the most common response was for transfer budgets to remain the same with almost three-quarters of clubs responding they would not be increasing their transfer budgets
- Almost two-thirds of respondents said their decision not to increase their transfer budget was not driven by financial fair play rules, although this was mainly influenced by FL1 and FL2 respondents, whereas, 57% of EPL clubs and 100% of FLC clubs have been influenced in some way by FFP
- Only 10% of clubs said that FFP rules had a considerable impact on their transfer budget, albeit this rises to 29% for FLC clubs in isolation.

TRANSFER BUDGET CHANGES FOR 2019/20



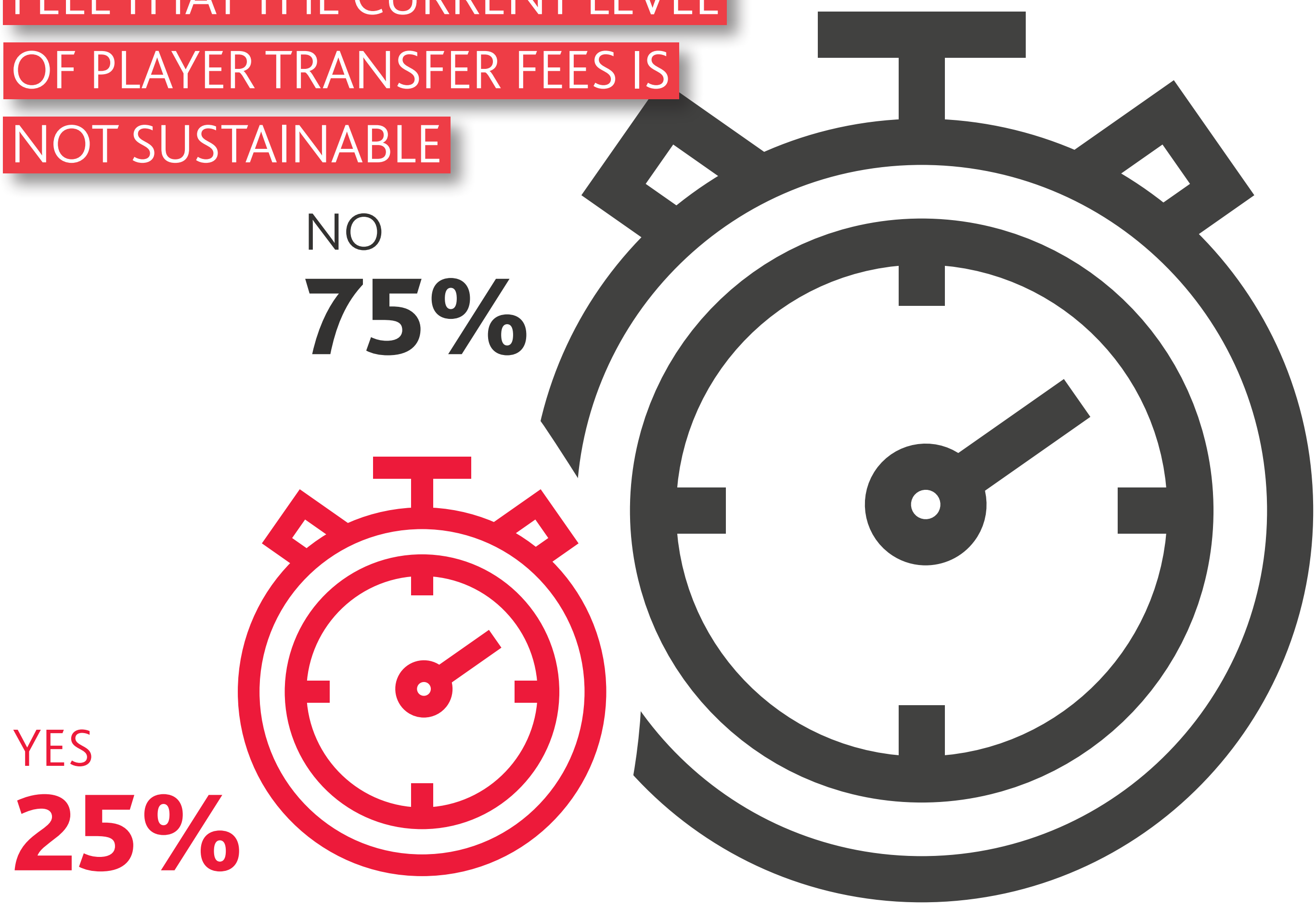
PLAYER TRANSFERS

45. DO YOU FEEL THAT THE CURRENT LEVELS OF PLAYER TRANSFER FEES IS SUSTAINABLE FOR DOMESTIC FOOTBALL CLUBS?

%	ALL LEAGUES	EPL	FLC	FL1	FL2
Yes	25%	33%	18%	21%	29%
No	75%	67%	82%	79%	71%

Base: 44

THREE-QUARTERS OF CLUBS FEEL THAT THE CURRENT LEVEL OF PLAYER TRANSFER FEES IS NOT SUSTAINABLE



46. HOW DO YOU FEEL THE CURRENT LEVELS OF PLAYER TRANSFER FEES AND SALARIES ARE IMPACTING:

A) DOMESTIC LEAGUES

B) EUROPEAN CLUB COMPETITIONS

C) HOME NATIONS' INTERNATIONAL TEAMS

Main trends identified are:

- Increasing gaps between the big clubs and smaller clubs, and between EPL and the rest
- FLC clubs forced to overspend to compete and get into the EPL
- Spending in the EPL is improving the quality of teams and improving European competitiveness. However, having more overseas players harms Home Nations' international teams
- Smaller clubs are being forced to sell players for financial sustainability, or if big clubs offer a lot of money.

"Financial sustainability is almost impossible without player sales and wealthy owners"

FLC RESPONDENT

"Large fees and salaries are pricing smaller teams from being competitive"

FL2 RESPONDENT

"The current rules mean only the large clubs can spend large fees and comply, this creates a closed shop at the top of the domestic & European competitions"

EPL RESPONDENT

"Domestic transfer fees are increasing due to the homegrown requirements of the league, therefore resulting in a higher demand for them"

FL1 RESPONDENT

PLAYER TRANSFERS

47. 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?

- The range of responses is between £70m and €250m (£225m)
- The English club outgoing player record is still Coutinho to Barcelona - £106m (globally the most expensive ever was Neymar to PSG for £198m)
- The highest English club outgoing player transfer this year to date was Hazard to Real Madrid - £88.5m (globally the most expensive this year was Joao Felix to Atletico Madrid for £114m).

48. PLEASE GIVE US YOUR PREDICTION OF WHAT THE HIGHEST REPORTED WEEKLY WAGE WILL BE FOR A PLAYER IN THE ENGLISH LEAGUES IN 2019/20:

CURRENT TOP EPL EARNERS

PAUL POGBA, ALEXIS SANCHEZ AND MESUT ÖZIL >£300,000 PER WEEK.

- The range of responses is between £200k and £1m
- Current top EPL earners include Paul Pogba, Alexis Sanchez and Mesut Özil, all reported to be earning in excess of £300,000 per week.

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