

# Highlights

## Europe's premier leagues

- The total European market grew to €13.6 billion in 2006/07, a €1 billion increase in revenue on the previous year.
- Revenue for the 'big five' European leagues exceeded €7 billion for the first time in 2006/07, up €402m (6%) to €7.1 billion. The increase in revenue was achieved despite a €236m reduction in Italian Serie A revenues in 2006/07, which was primarily due to the relegation of Juventus into Serie B. Total revenue for the other four 'big five' European leagues increased by €638m (12%) in 2006/07.
- The English Premier League clubs' revenue totalled €2.3 billion in 2006/07 (up 11%). Premier League total revenue was €0.9 billion (65%) higher than that reported by its nearest challenger, the German Bundesliga (€1.4 billion). For the first time since 2001/02, the Premier League has reported the highest revenue from each of the three main sources – matchday, broadcast and commercial – amongst the 'big five' European leagues.
- Germany's Bundesliga and Spain's La Liga achieved the highest percentage increases in revenue – both up 15% – which helped these two leagues overtake Italy's Serie A in 2006/07. Juventus's return to Serie A in 2007/08 should result in a close race for second place in next year's edition, behind England's Premier League.
- In four of the 'big five' European leagues, the wages/turnover ratio was in the relatively narrow range 62%-64% in 2006/07, with the German Bundesliga proving to be the exception with a much lower ratio of 45%. Despite a €184m increase in revenue in 2006/07, Bundesliga wage costs only increased by €12m, which bucks a trend seen elsewhere in the 'big five' leagues where increases in revenues have historically largely flowed through to increased wage costs.
- Total wage costs for the 'big five' leagues increased by €260m (7%) in 2006/07, primarily driven by a €171m (13%) increase in English Premier League clubs' wages to over €1.4 billion. Premier League clubs' wages were more than €0.6 billion (75%) higher than in Spain's La Liga (€0.8 billion) and double the total wage costs paid by any of the other 'big five' leagues.

- For the first time since our analysis began, the English Premier League has been knocked off the top spot in terms of operating profits amongst the 'big five' European leagues. With an impressive €168m (206%) increase in operating profits to €250m in 2006/07, the German Bundesliga generated €109m more in operating profits than England's Premier League (€141m), its closest rival. Bundesliga clubs' operating margin was 18%, three times as high as the 6% for Premier League clubs.
- The improvement in Bundesliga clubs' profitability has not been matched by recent on-pitch success. During the five seasons from 2003/04 to 2007/08, no Bundesliga clubs have reached the semi-finals of the UEFA Champions League. In contrast, the English Premier League has provided three semi-finalists in both 2006/07 and 2007/08 and at least one finalist every season since Liverpool's success in 2004/05.

## Revenue and profitability

- The overall revenues of the top 92 professional clubs exceeded £2 billion for the first time in 2006/07.
- Premier League clubs' revenues increased by 11% (£151m) to £1,530m in 2006/07. Average Premier League club revenues exceeded £75m for the first time.
- Championship club revenues increased by 3% (£11m) to £329m in 2006/07. League 1 revenues were unchanged at £102m whilst League 2 revenues increased by 3% (£2m) to £63m.
- The key components in Premier League clubs' revenue growth in 2006/07 were matchday revenues, which increased 19% (£87m) and commercial revenues which increased by 15% (£52m). Broadcasting revenues were relatively flat in the year, increasing by 2% to £592m. We estimate that broadcasting revenues increased by just under 50% in 2007/08.
- The £87m increase in 2006/07 was a record for matchday revenue growth in a single year. Arsenal was the main contributor, reporting a 105% matchday revenue increase from £44m to £91m for their first season in the Emirates Stadium. Other key contributors were Manchester United, Chelsea and Tottenham Hotspur with increases of £21m, £17m and £15m respectively.

- The £52m rise in commercial revenues in 2006/07 was also the biggest increase in that revenue stream ever recorded. Again, some of the largest clubs had significant growth in commercial revenues, with Chelsea recording the biggest increase (£14m).
- Revenue growth was focussed amongst the 'big four' clubs. On average, 'big four' club revenues increased by 24% (£34m) to £178m, while the rest of the Premier League clubs had average revenues of £50m in 2006/07.
- We estimate that total Premier League clubs' revenues were £1.9 billion in 2007/08 based on the new broadcasting deals. If Premier League clubs maintain growth from both matchday and commercial revenues then an annual total in excess of £2 billion should be reached before the end of the decade.
- Increases in both wages and other operating costs have led to a fall in operating profits for the Premier League clubs for the second consecutive year after five years of growth. Operating losses amongst Championship clubs increased for the third successive year, but the gap in operating performance between the average Premier League and Championship club decreased from £9.1m to £7.9m.
- In 2005/06, 16 Premier League clubs recorded operating profits. In 2006/07 half that number – eight clubs – recorded an operating profit. These were five long standing, well supported, Premier League clubs; Manchester United, Arsenal, Tottenham Hotspur, Liverpool and Newcastle United and the three promoted clubs; Reading, Sheffield United and Watford.
- Manchester United shattered their own record for operating profits set in 2003/04 (£52m), with operating profits of £66m in 2006/07.
- We expect that operating profits will have been boosted in 2007/08 by increased broadcasting revenue. The question is how much of the increased revenues have already been spent and will continue to be spent on wages and transfers. We expect that 2007/08 operating profits for the Premier League clubs will have exceeded the 2004/05 record of £162m, and could have doubled from 2006/07 levels of £95m to exceed £200m for the first time.
- Aggregate operating losses for Championship clubs increased from £53m to £75m; in excess of £3m per club in 2006/07. Increased parachute payments and solidarity payments from the Premier League in 2007/08 should help arrest this decline.
- Total taxes contributed by the top 92 professional clubs were at a record high of £710m in 2006/07, up 11% on 2005/06. As a result, total taxes paid to the Exchequer by the clubs from the top four divisions over the years since 1992/93 are in excess of £5.5 billion.

### Wages and transfers

- After the unprecedented fall in wage costs in 2004/05, Premier League clubs' wage costs increased by 13% to £969m in 2006/07, a second consecutive year of growth. Premier League clubs' total wages will have exceeded £1 billion for the first time in 2007/08, an average of more than £50m per club.
- The key performance indicator – wages/turnover ratio – has increased to 63% in 2006/07, which in general remains a reasonably comfortable level for the finances of clubs in England's top division.
- All 20 Premier League clubs have reported an increase in wages in 2006/07, the first time this has happened since 1999/2000, whereas only 12 clubs reported an increase in revenue.
- The largest increases in wages in 2006/07 were reported by Chelsea (£19m), West Ham United (£13m), Portsmouth (£12m), Newcastle United (£10m) and Liverpool (£9m), with West Ham United and Portsmouth investing significantly in their playing squads following the arrival of new owners.
- Excluding the revenue and wages increases of the top five finishers and the three newly promoted clubs, the remaining Premier League clubs, who were competing to qualify for Europe or avoid relegation, reported an aggregate increase in wages of £61m, despite an £18m reduction in their revenue in 2006/07. This will have made significant inroads into spending the c.£300m of incremental annual revenue from 2007/08 from the new broadcasting agreements.
- Despite the increase in wage costs, the surplus of revenue over wages for the Premier League clubs has increased again from £525m to £561m (7%) in 2006/07.
- The significantly enhanced broadcast rights revenue in 2007/08 will provide Premier League clubs with the opportunity to address the League's record high wages/turnover ratio of 63%.

- An increase of £31m (14%) in 2006/07 means that Championship clubs' wages growth has exceeded revenue growth (£11m) resulting in an increase in the wages/turnover ratio to 79%, breaking the recent trend shown in the previous three years of around 72%.
- Premier League clubs invested a record £492m on total gross transfer spending in 2006/07. This record was then beaten in 2007/08 with Premier League clubs spending in excess of £600m in reported gross transfer fees in the summer 2007 and January 2008 transfer windows.
- The majority of Premier League clubs' transfer spending continues to be with overseas clubs with £275m spent in 2006/07 (up from £256m in 2005/06). Once Football League clubs are considered, the net transfer spending leaving English football (to non English clubs and agents) has increased by 15% to a record £277m.
- No Premier League clubs reported a cash inflow on player transfers in 2006/07, which compares with two clubs with net transfer receipts in 2005/06 (Charlton Athletic and Manchester City). Transfer activity now almost always represents a net cash outflow for Premier League clubs which will therefore need to be funded by operating profits or borrowings.
- Total player costs for the top four divisions – being the aggregate of wage costs and net transfers spending – increased to a record high of £1.2 billion in 2006/07, a 12% increase on 2005/06.
- Football League clubs' total transfer expenditure has increased by 79% from £48m to a record £86m with spending on buying players from the Premier League clubs doubling from £11m to £22m. The most significant net spenders in 2006/07 were the three clubs who subsequently managed to secure promotion to the Premier League: Sunderland, Birmingham City and Derby County – money ultimately well spent.

### **Stadia development and operations**

- Total attendances across the four divisions of English football of 29.9m for 2007/08 are the highest since the 1967/68 season.
- Average attendance at 36,144 and total attendances of 13.7m for 2007/08 represent records for the Premier League.
- 2007/08 was the tenth consecutive season of average attendances over 30,000 and the eleventh consecutive season of utilisation over 90% in the Premier League.
- In terms of total attendances in 2007/08, the Championship is now the fourth biggest football league in the world eclipsing Serie A in Italy and Ligue 1 in France and pushing La Liga in Spain very close for third place.
- Revenue per attendee in the Premier League has more than doubled in a decade and sustains the dominance of the Premier League in matchday revenue generation in European football.
- Despite the predicted slowdown in development spending, stadia investment levels across the top 92 clubs were over £100m for the eleventh consecutive season with £161m invested in total in 2006/07. Almost £2.4 billion has now been invested by clubs since the Premier League began.
- Football League clubs invested £34m in 2006/07 – their highest amount since 2002/03.

### **Club financing**

- Capital employed by Premier League clubs – being the aggregate of debt financing and shareholders funds – continued the rise of recent years to reach over £2.2 billion at the end of the 2006/07 season.
- The Premier League clubs' net debt figure at summer 2007 increased by 19% to £2,469m. It is sometimes commented that "football is not like a normal business"; the net debt figure includes around £900m which is of a non-interest bearing 'soft loan' nature from club owners.

- The net debt figure includes £605m in relation to Red Football Shareholder Limited (the UK parent company of Manchester United) and £620m in respect of Chelsea Limited (the parent company of Chelsea).
- By the end of the 2006/07 season, Roman Abramovich had injected around £575m of new money into Chelsea, through a combination of debt and equity. This represents by far the largest contribution to a football club from any single funder.
- Around £1.4 billion has changed hands in respect of almost 20 changes of ownership of English clubs in the top two divisions since the start of 2005. For the majority of these transactions it is too early to assess the overall financial impact on the clubs themselves.
- Premier League clubs incurred aggregate net interest charges from finance providers of £144m in 2006/07. The non-interest bearing nature of other loans at a number of clubs help to keep the Premier League clubs' aggregate net debt service charge at under 6% of the overall debt balance.
- Based on the available information, the Championship clubs had aggregate net debt at the end of the 2006/07 season of £289m. Ten Championship clubs had filed accounts showing net debt at the end of the 2006/07 season in excess of £10m. In general, a Championship club can only hope to significantly reduce its net debt in the short/medium term via either promotion to the Premier League or an injection of equity funding from its owner.
- Below the top two divisions, managing the club's financial position remains a challenge from one season to the next. Legacy debt issues and the risks taken by some boards of directors will, without correction, inevitably lead to a continuing flow of insolvency cases in the seasons to come. ●

