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Sportsology Group

Navigating the Investment Market in European Football

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Navigating the Investment Market in European Football

In this report, the Sportsology Group provides a navigational guide through the minefield of future investment propositions within European football. The report outlines a range of considerations and value propositions necessary to enable would-be investors to identify potential investment upsides in tandem with relevant risk assessments.

Key topics included in the report are:

- Ownership Models and Motives
- The broadcasting landscape
- Sponsorship and Commercial Revenue Dependency
- Stadium Capacity, Utilization, Maintenance, and Growth
- Wages and cost control
- Digital Footprints
- Future Insights, Trends, and Investment Potential

Introduction:
Sport as a New Asset Class

Purchasing a football club, is, for some, the peak of ambition, a childhood romance. For others, it can be a vanity purchase, an investment opportunity to yield dividends or a philanthropist's plaything. It can be all of the above. However, irrespective of the motive, the green light for investment will always require a tick in the box for a variety of practical factors pointing to its future prospects. Is there history? And, critically, what value can be added? Where is the growth potential?

At the strategic level, key factors in decisions to invest include the dominant ownership models prevalent in the market and, perhaps more significantly, the likelihood that regulatory restrictions may in the immediate, medium, or long term be significantly tightened or relaxed. Issues such as Multi-club ownership (MCO), the German 50+1 rule, the British government's introduction of a regulator, the various regulations concerning gambling, the European Super League, the relationship between the governing bodies, federations, leagues, and clubs plus regional and local governmental regulations and myriad other considerations should play into a final purchasing decision.

The Ownership Models

At present, exist four main ownership models within European football;

- **Fan ownership**, prevalent in Germany and lauded around the world, although a model that is problematic if you want to drive revenue growth, and profit. As the Bundesliga is gradually realizing, it is difficult to seduce potential investors without the carrot of control. Nobody pays for 49% of a business without at least the potential of greater control down the line. A change in the 50+1 rule to enable the Bundesliga to compete with the EPL is a definite possibility in the short to medium term although as usual, the devil will be in the detail. However, if/when it comes, expect considerable movement in the acquisitions of German clubs or significant parts thereof.

- **Profit maximization** – typically associated with American owners (e.g., the Glazers at Manchester United), where revenue generation, as opposed to cost control, takes center stage. Such owners seek to run clubs efficiently so that they can extract value over the long term. Remaining competitive, without being the best in class, can enable break-even budgeting. Returns on the investment are rarely realized during the ownership period (although the Glazers have extracted large personal dividends during their ownership) but normally produce a sizable profit on the eventual sale.

- The **trophy asset** hunters, investors with deep pockets who invest in teams to achieve their goals, which might be soft power, sport-washing, or just the joy of winning regardless of the cost. Roman Abramovich's Chelsea was a prime mover in this direction in the early 2000s, but the advent of regulations like Financial Fair Play (FFP) has limited deeper impact on playing performance, perhaps now replaced by Sovereign Wealth funds, principally in the Middle East (e.g., Manchester City, Paris Saint Germain, and Newcastle United and possibly Manchester United in the near future), but with the potential to provide investment from elsewhere, seeking out investments for long term growth and to enable geopolitical legitimacy

- **Equity funds**. Major funds and private equity investment has crept into the game following significant acquisitions in other sports, notably Formula One. Illustrated with cost control, governance reform, management expertise, and revenue generation, these firms place business at the heart of their investment and will always have an exit plan in place to extract their profits. This newer style of ownership is perhaps best illustrated in Clearlake's acquisition of Chelsea FC. Early indications of the application of a very PE-oriented strategic approach are evident, the success (or not) of which is yet to be seen.

Fan Ownership (50+1)

- Usually involves a group of supporters investing the necessary funds to run the football club.
- In Germany, the 50+1 rule is prevalent. Here, fans hold 50% plus one on the voting rights of any football company, thus limiting the power of club's financiers or new investors.
- This system means that, historically, German clubs have been averse to financial takeovers.
- German football has battled with this model in recent years with some suggesting the regulations need relaxing to spur outside investment. Currently the rule is under increasing pressure. A recent DFL statement conceded that there is a need to discuss the rule "to open new investment opportunities". However, any changes need a two-thirds majority agreement at a meeting of the 36 clubs in Germany's top two leagues. As many as 12 of the top 18 clubs are said to want the rule changed to enable foreign investment that could help to close the gap between the Bundesliga and other leagues, with the EPL especially.

Profit Maximization

- Synonymous with the American sporting system and franchise owners in the States.
- Return on investment is the main goal of owners. They may take dividends from the club.
- On-field success remains important to drive revenue but cost control is firmly in mind. Clubs following this model tend to be run more like traditional businesses outside of sport.

Outside Investment

- Crudely referred to historically as 'foreign ownership'.
- Fueled by the global appeal of the modern game. This offers owners the opportunity to be the face of a football club that is known the world over and propels them into a spotlight where they can perhaps leverage other goals that they may have. These goals may often transcend football and link to wider investment objectives.
- It is often cited that these clubs are 'trophy assets' to their owners and that success on the pitch is more important than financial return.

Private equity funds

- An alternative form of private financing, away from public markets.
- Make money by charging management and performance fees through investors in a fund, driving performance improvement through board and governance influence. These can also be debt plays.
- In sport, this can manifest itself as new competition formats, cost control and expansion into new commercial revenue streams.
- Return on investment is again key to this model but is likely to be a longer-term goal.

A fifth model, the multi-club ownership (MCO) model, is able to combine any of the above as is appropriate to the specific location of each club in the group. There are already more than 200 clubs that are, in a variety of ways, attached to this model. The MCO enables, for example, the pyramid City Football Group (CFG) model which effectively has a mother ship that is fed players by the satellite clubs, although few, if any, will make it to the Manchester City first team. In reality, the model exists to feed the other interests, often non-sporting of ownership. Another version favored by John Textor, is more of an escalator system to transport players up the value escalator to a point where they are sold at a premium. That is a model that Textor believes can be floated (IPO'd) at some point in the future.

The current stumbling block for both models is the regulation that clubs owned by the same owner cannot compete in the same European competitions. This rule is under serious consideration by UEFA who are under severe pressure from the super clubs to amend the rule. If/when that happens, subject to whatever Chinese wall regulation is implemented, the floodgates may well open. If they do then what has so far been the underdeveloped elephant in the room, economies of scale, may be unlocked.

> *Professional team sport economics do not always function like regular economic markets. There is often considerable irrationality in this field that may look strange to traditional investors. Yet, sports teams have one benefit not seen in traditional markets, that of unwavering loyalty from a consumer (fan) perspective.*

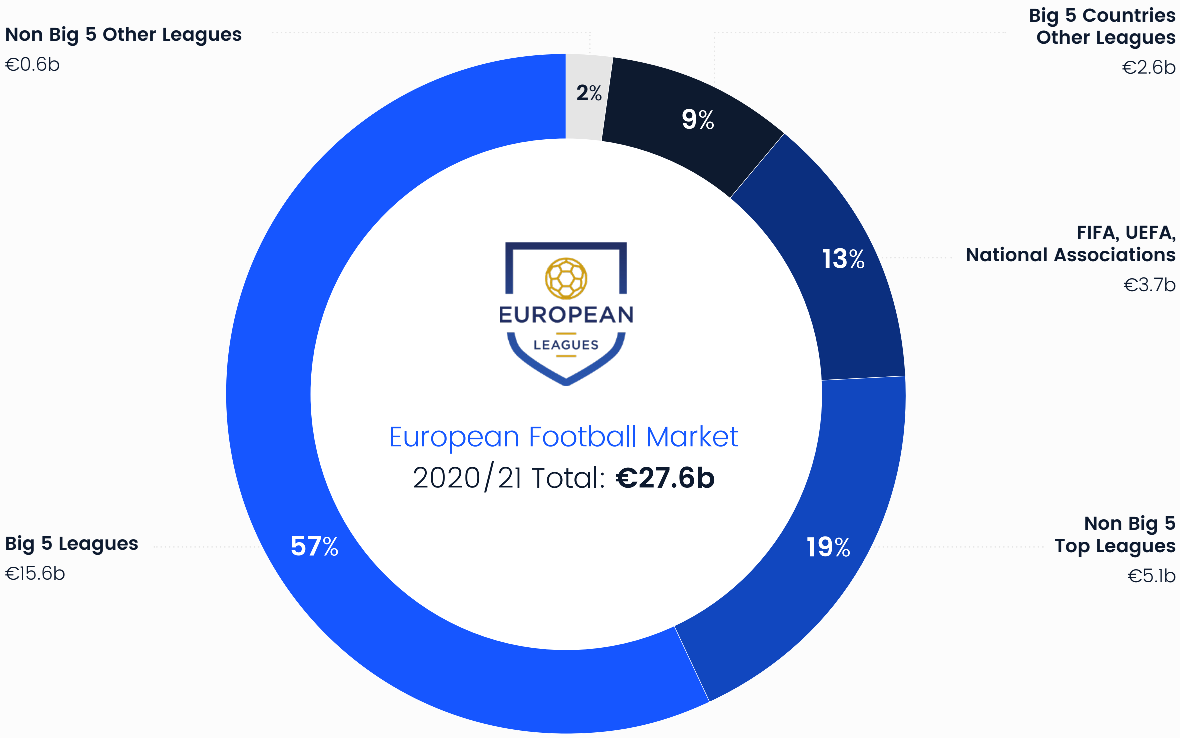
Whatever the model key aspects of relevant markets will always contribute to club valuations. These include broadcasting, sponsorship and commercial revenue dependency, stadium capacity and growth, digital footprint, the financial health of European leagues, and the future trends that will shape the market for investment potential. Professional team sport economics do not always function like regular economic markets. There is often considerable irrationality in this field that may look strange to traditional investors. Yet, sports teams have one benefit not seen in traditional markets, that of unwavering loyalty from a consumer (fan) perspective.

Professional sports teams have a relatively simple mix to consider. Their revenue essentially derives from three main sources: matchday revenue, commercial revenue, and broadcasting revenue. A fourth item, player trading is important but is at the discretion of any individual club at any point in time as a method to generate revenue and as such is viewed as an ancillary rather than core revenue stream, notwithstanding its growing significance.

The Broadcasting Landscape

Currently, the European football market is dominated by 'the big five' leagues, as depicted in Figure 1. The total market is estimated to be worth €27.6bn in revenue terms in 2021 but 57% of that is attributable to the 'big 5 leagues' which are the English Premier League (England), Bundesliga (Germany), La Liga (Spain), Serie A (Italy) and Ligue 1 (France).

Figure 1

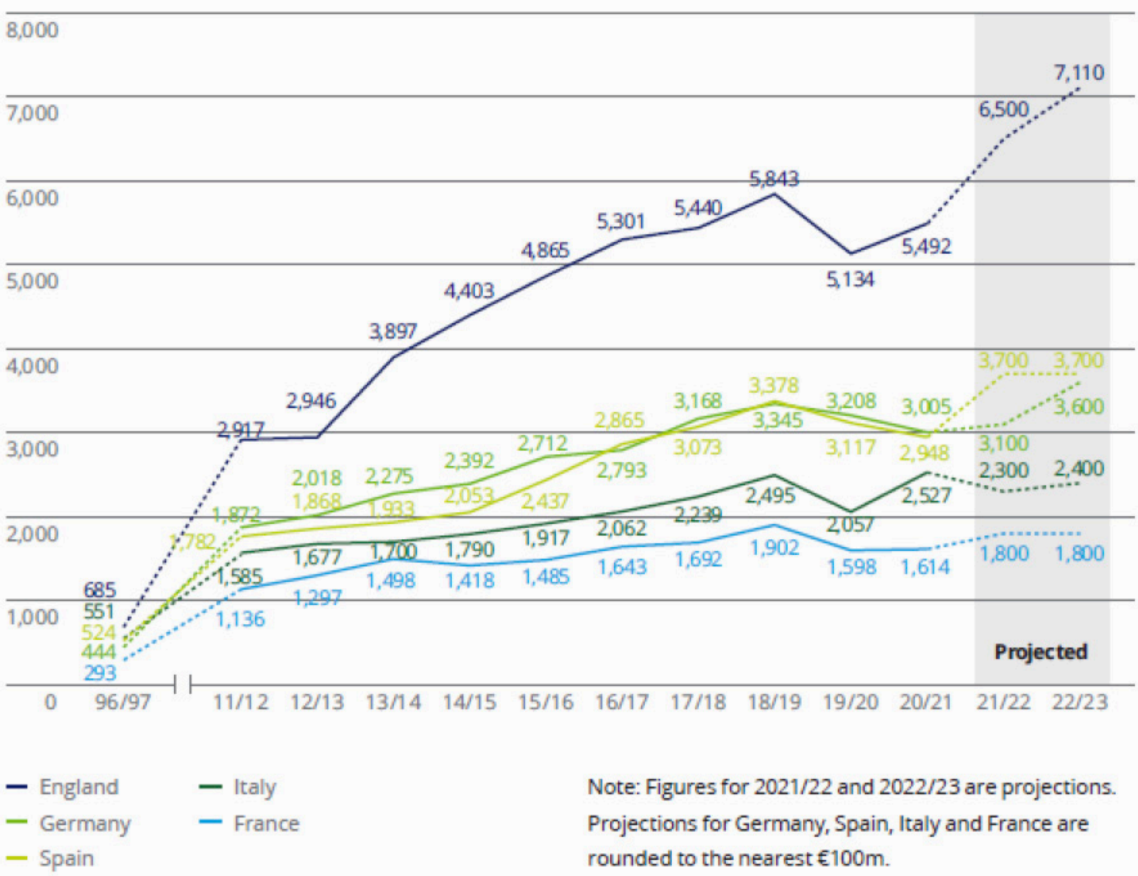


This situation is linked to the broadcasting revenue on offer in those leagues. In the last five years, the EPL has established itself as the clear market leader in revenue terms, primarily driven by broadcasting income. In 2021, the EPL rebounded from the Covid-19 pandemic to post broadcasting income totaling €3.7bn. The four other big leagues in Europe remain €2bn behind at least and this has been a trend that has held firm over the last decade or so. Indeed, Figure 2 shows the relative growth rates of these leagues, in revenue terms, since 2011/12, with figures dating back to 1996/97 provided to showcase the considerable growth. Projections for growth in 2022/23 and 2023/24 are also included as part of this illustration to showcase the upside potential that remains in these.

The EPL has also benefited from its collective bargaining agreement that outlines how broadcasting distribution is split amongst the clubs. It is by no means equal, but it is the most equal of the big five leagues in relation to domestic rights with 50% being shared equally, 25% being awarded based on merit payments (e.g., league position), and 25% being based on facility fees (e.g., number of times a team is shown on television). In the past, other leagues such as Spain and Italy have been hindered by their collective bargaining agreements. As an example, the historical position in Spain saw the two biggest Spanish clubs, Barcelona, and Real Madrid, monopolize the television rights deals for the league through individual selling of rights, which at one stage led to them securing almost half of the total rights value for themselves alone. This position has changed now but it is a risk factor that remains for leagues and clubs in terms of how to position the future distribution of television rights in an expanding market.

Figure 2

'Big Five' European league clubs' revenues - 1996/97 and 2011/12 to 2022/23 (€m)



Note: Figures for 2021/22 and 2022/23 are projections. Projections for Germany, Spain, Italy and France are rounded to the nearest €100m.

Source: Leagues; Deloitte analysis.

In terms of revenue mix, there is an over-reliance on broadcasting to drive revenues at the club level (see Figure 3). In 2021, broadcast income accounted for between 52-70% of league revenues. Commercial revenue was the next highest, hovering around 30% for England, Spain, and Italy but being even higher in Germany (44%) and France (48%) boosted mostly by giants in those leagues Bayern Munich and Paris Saint Germain. Of course, matchday income was virtually non-existent in 2021 because of the

> *The over-reliance on broadcasting revenue puts pressure on clubs to drive up other income streams and in the case of matchday income this is relatively finite depending on stadium capacity.*

Covid-19 pandemic which meant matches were played behind closed doors but even in the last season unaffected by the pandemic (2019), matchday revenue only accounted for 14% of the revenue mix in total across all five big leagues. Proportionally, this presents a risk problem for clubs. The over-reliance on broadcasting revenue puts pressure on clubs to drive up other income streams and in the case of matchday income, this is relatively finite depending on stadium capacity. This will be covered in detail later but clubs need to consider revenue diversification more systematically, while simultaneously strengthening traditional sources of income.

Figure 3

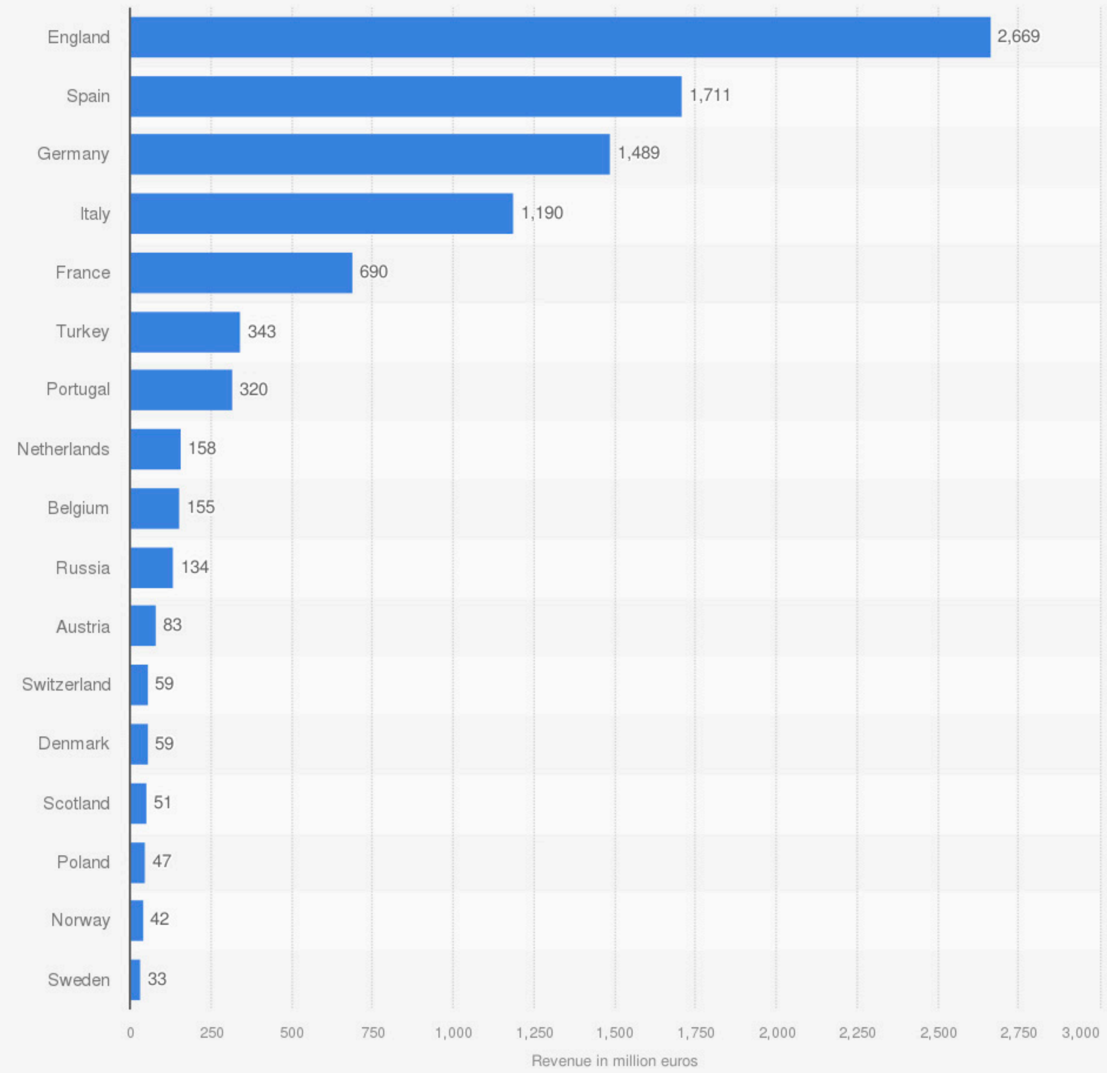
Revenue from broadcasting rights of European football leagues from 2019/20 (€M)

	England	Germany	Spain	Italy	France
Broadcasting	3771	1659	1997	1767	836
% of Total	68.66%	55.21%	67.74%	69.92%	51.80%
Commercial	1686	1324	896	747	770
% of Total	30.70%	44.06%	30.39%	29.56%	47.71%
Matchday	35	22	55	13	8
% of Total	0.64%	0.73%	1.87%	0.51%	0.50%
Total	5492	3005	2948	2527	1614
# of Clubs	20	18	20	20	20
Average Revenue per Club	275	167	147	126	81

While there is considerable data on the big five leagues in Europe, less is available for the rest of the market. However, we can provide an estimation of the broadcast value for some leagues in Europe, by piecing together financially reported data from club accounts (see Figure 4). The gap between the EPL and the other big four leagues is clear, but there is also a considerable gap between the big five leagues and the remaining leagues in Europe. Turkey and Portugal are next on the list at €343m and €320m respectively but then beyond the Netherlands, Belgium, and Russia, no other league in Europe has generated above €100m in broadcasting income. If we use Scotland as an example, with a 12-team league, even if revenue was shared equally, it only amounts to €4.25m per club. Average club revenue in the big five leagues currently ranges from €81m to 275m so the financial gap, in absolute terms between the big five leagues and others, is a chasm driven primarily by broadcasting income.

Figure 4

Revenue from broadcasting rights of European football leagues from 2019/20 (€M)



Source
Deloitte
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Additional Information:
Europe; 2019/20

One possible way in which to bridge the broadcasting gap would be for groups of leagues to combine as has been suggested many times in the past. The proposed Atlantic League, for example, (2002) sought to bring the top teams from the Netherlands, Portugal, Sweden, Scotland, and Belgium together to service a population base of around 50 million that would generate greater broadcasting revenue for each participant than the separate existing deals. Other ideas, along similar lines, included a Belgium/Netherlands league (still a possibility). Any investors in those countries would need to be aware of the potential, should such ventures ever be resurrected, of both the upside and the disruption.

Sponsorship and Commercial Revenue Dependency

In respect of commercial revenue for a professional sports team there are three main areas;

- **Shirt sponsorship;**
- **Kit production and/or licensing; and,**
- **Stadium naming rights.**

Historically, this revenue stream has been dominated by shirt sponsorship deals and kit supplier deals. Outside of the biggest clubs that command shirt sponsor deals with airlines and telecommunication companies, the shirt sponsorship market is dominated by gambling companies in much the same way as was F1 dominated by tobacco companies. This poses a risk in the short term, especially in England where the government is in the final stages of legislation that will ban front-of-shirt sponsorship by gambling companies. Sleeve sponsorship looks as if it may be permitted. However, as with tobacco and alcohol the demise of gambling sponsorship opens the door for other industries such as cryptocurrency or NFT-related sponsorship which has itself come under scrutiny by the authorities. It is our view that the gambling ban will open the sponsorship market to innovative industries as it always has.

Stadium Naming Rights

A largely untapped source of revenue (in Europe) is stadium naming rights deals. There is some natural resistance from fan groups seeking to protect the cultural heritage provided by iconic stadiums. Naming rights of stadia represent the most prestigious opportunity for businesses to connect with consumers.

> *The number of stadia available to sponsor is relatively few and the competition to sponsor them should be high. Given this, it seems strange that whilst American team sports have embraced stadium naming rights, the practice is less common (and less lucrative) in European team sports.*

We can see from Table 2 that the length of these deals varies from 6-17 years. While there is no real market evidence to suggest that there is a scientific rationale behind the number of years of a stadium naming rights deal, it is our view that deals in the region of 10 years plus are strategically important to maximize the value of the deal. The number of stadia available to sponsor is relatively few and the competition to sponsor them should be high. Given this, it seems strange that whilst American team sports have embraced stadium naming rights, the practice is less common (and less lucrative) in European team sports. There are a minority of stadiums that are named after commercial sponsors but not on the same scale as American sports. Often the deals in European team sports are linked to the owners of the clubs or a partner that provides significant corporate backing. Notable examples include the Allianz Arena in Germany (Bayern Munich); the Etihad Stadium in Manchester (Manchester City); and the Wanda Metropolitano Stadium in Madrid, Spain (Atlético Madrid).

The European football market is underdeveloped in the European top football leagues, apart from the German Bundesliga, 78% of which stadia are sponsored. Regarding all 98 clubs in European football's top five leagues, only 30% of them have stadium naming rights partners. Only a fifth of the stadia are sponsored in the English Premier League, Italy's Serie A, and France's Ligue 1 (all at 20%), followed by the Spanish La Liga (at 15%). Interestingly, Turkey's Süper Lig and England's second tier, the Championship have more venues with a naming sponsor than those bigger leagues. The EFL Championship is in the top ten revenue-generating leagues in European football and the strength in depth that English football possesses in terms of the number of established clubs in the pyramid means that this league commands a position among some top-tier leagues in Europe. Many clubs in this league have significant fan bases, large stadiums, and a historic back story. However, many have also suffered years of neglect and debt that have to be included in any assessment of their financial viability.

Tables 1 and 2 below outline the number of stadium naming rights deals in European football and the top deals in terms of value as of 2020.

Table 1

Number of Stadium Naming Rights Deals in European Football

Country	League	No. of Clubs	% of League Total
Germany	Bundesliga	14	77.8%
America	MLS	20	74.1%
Turkey	Süper Lig	6	30.0%
England	EFL Championship	6	25.0%
France	Ligue 1	4	20.0%
England	EPL	4	20.0%
Italy	Serie A	4	20.0%
Spain	La Liga	3	15.0%

Table 2

Top 5 Stadium Naming Rights Deals in European Football

Club	Sponsor/Industry	Sponsor Origin	Contract Length	Annual Value (€m)
Manchester City	Etihad Airways/Airline	UAE	10 yrs (2011-21)	17.1
Atlético Madrid	Wanda Group/IT	China	6 yrs (2016-22)	9.6
Fenerbahçe	Ülker/Food	Turkey	10 yrs (2015-25)	8
Bayern Munich	Allianz/Banking	Germany	17 yrs (2014-31)	7.3
Beşiktaş	Vodafone/Telecom	UK	15 yrs (2014-29)	6.9

Though clubs like EPL giants Manchester City earn annual revenues of €17.1m from UAE airline Etihad for their stadium naming rights others have been reluctant to sell rights because of the symbol and status of their already iconic venues. Barcelona recently struck a deal with Spotify for the Camp Nou, but this was as much to do with their financial situation and wanting to sign new players as it was a real strategic decision. That is not to say that there is no value in the deal for Spotify and Barcelona will also benefit financially but there is a question mark as to whether the club would have been able to command an even higher fee for stadium naming rights had they not needed to generate revenue quickly or indeed whether they would have even considered selling the rights to such an iconic stadium in the first place. The challenge with sponsoring an iconic stadium is the return on investment. There are names of football stadiums that are well known to fans around the world such as Old Trafford, Bernabéu, San Siro, and Anfield. These stadiums are well-established brands on their own, entrenched in the psyche of fans and the public, that placing a sponsor name would have been difficult because of the historic attachment to the original name of the facility. In reality, memories are short. The old stadiums of Manchester City (Maine Road) and Arsenal (Highbury) were as iconic in their days as are the Etihad and Emirates now. The situation with the naming of Tottenham Hotspur's new ground, replacing the iconic White Hart Lane, is still in limbo four years after the billion-dollar-plus stadium opened for business. If the rumored mega naming deal with Google is completed it may well be the first domino in the European system.

However, there is also some risk with naming rights deals. Indeed, the fragility of stadia naming rights is highlighted by a recent example from the NBA where a decision of a federal bankruptcy court allowed Miami-Dade County, the owner of the Miami Heat's home basketball arena, known commercially as the FTX Arena, to immediately end its naming rights deal with FTX and strip the logo of the beleaguered cryptocurrency exchange from the venue.

At the time, the county argued that continuing the agreement with the failed company would cause "significant hardship" for the county and hamper its efforts to find a new title sponsor for the arena.

The approval of the request will see all FTX branding removed from the arena's roof, basketball court, and entrances, as well as from shirts worn by stadium employees. The move also officially ends FTX's 19-year, $135-million deal for naming rights to the arena struck in 2021. After an initial balloon payment of $14 million, FTX was scheduled to make a $5.5 million payment at the beginning of this month.

Shirt Sponsorship

Naming rights to stadiums may still be a controversial element of corporate team sport financing but this is less so the case with the most traditional form of commercial revenue for a team, namely the shirt sponsor or kit provider. This revenue item has also seen considerable growth and has boosted club revenues in the hyper-commercialized era. The bigger sports and bigger leagues have been best placed to capitalize on this given their phenomenal brand power. Shirt sponsors and kit suppliers have always been a staple element of professional team sports, particularly in Europe. Again, the top of the market for commercial deals is very much centered on the European elite of club football as of 2021 (see Table 3).

Table 3

Top football club shirt sponsorship deals in 2021

League	Club	Sponsor	Total Value ($m)	Contract Length	Value p/Season ($m)
La Liga	Real Madrid	Emirates	413	5 years (17/18 - 21/22)	82.6
EPL	Manchester United	TeamViewer	325	5 years (21/22 - 25/26)	65
La Liga	Barcelona	Rakuten	324	5 years (17/18 - 21/22)	64.8
Ligue 1	PSG	Accor	171	3 years (19/20 - 23/24)	57
EPL	Arsenal	Emirates	280	5 years (19/20 - 23/24)	56
EPL	Liverpool	Standard Chartered	221	4 years (19/20 - 22/23)	55.3
EPL	Chelsea	Three	166	3 years (21/22 - 23/24)	55.3
Serie A	Juventus	Jeep	159	3 years (20/21 - 22/23)	53
EPL	Tottenham Hotspur	AIA	400	8 years (20/21 - 22/23)	50
Bundesliga	Bayern Munich	T-Mobile	283	8 years (15/16 - 22/23)	35.4

It is clear from Table 3 who benefits most from football sponsors, alongside the importance of contract length and value per season (which will have an impact on the ability to spend in the transfer market). Tottenham's shirt sponsor deal with AIA is worth $400m in total but is an 8-year deal so only worth $50m per season, still some way behind their domestic rivals in the EPL. Most clubs, whether it be shirt sponsors or kit suppliers often look for deals between 3-5 years.

The best approach with deals of this length, in our opinion, would be to structure the deal so it is split across the years of the contract and to include break clauses to react to changing market conditions. However, there has been a trend in kit suppliers recently to move to longer-term contracts (see Table 4) of between 10-15 years in length. This is because there are only two or three main providers of kit and the big three Nike, Adidas, and Puma have the market cornered. The EPL is also ahead of its rivals here as well with the top four deals being signed by EPL clubs. The Chelsea deal with Nike is the highest reported overall value but still does not top the per-season value of the Manchester United deal with Adidas owing to the strength of the Red Devils brand. Similarly, there are reports that Liverpool's deal with Nike can be worth much more than the $39.5m per season base fee due to various additional payments linked to the contract based on sporting outcomes, such as UEFA Champions League success. As with Manchester United's Adidas deal, these additional revenue opportunities will also have stringent penalty clauses attached for failure to achieve sporting targets.

> *The use of brand alignment (for both the clubs and sponsors) is vital to build and extract brand value and therefore sales growth of replica kits and other merchandise. The goal is to use this brand alignment to build identity through commercial partnerships that can also extract value from the fanbase for both parties.*

Table 4

Top football club Kit Supplier deals in 2021

League	Club	Kit Supplier	Total Value ($)	Contract Length	Value p/Season ($m)
La Liga	Real Madrid	Adidas	1.48b	10 years (2020-30)	148
La Liga	Barcelona	Nike	1.35b	10 years (2018-28)	135.3
EPL	Liverpool	Nike	1.01b	10 years (2020-30)	101.5
EPL	Manchester United	Adidas	1.01b	10 years (2015-25)	101.5
EPL	Manchester City	Puma	879m	10 years (2018-28)	87.95
EPL	Chelsea	Nike	1.22b	15 years (2017-32)	81.18
EPL	Arsenal	Puma	410m	5 years (2019-24)	81.18
Serie A	Juventus	Adidas	500m	8 years (2019-27)	62.24
La Liga	Atlético Madrid	Nike	610m	10 years (2016-26)	61
Bundesliga	Bayern Munich	Adidas	860m	15 years (2015-30)	57.5

Stadium Capacity, Utilization, Maintenance, and Growth

As previously stated, matchday income currently presents a challenge for European football clubs. For some, it remains their financial lifeline. For others, it is only a small proportion of revenue but has the potential to grow in the future if managed correctly. Demand to watch live football in Europe has rebounded completely post Covid-19. The EPL is the 5th highest sport in the world in terms of matchday income closely followed by La Liga (Spain) and Bundesliga (Germany). Major League Soccer (MLS) in America, Serie A (Italy) and Serie A (Brazil) complete the top 10. The next 5 places are also filled by European football leagues further exposing football's dominance in the elite professional sport industry.

The definition of matchday revenue appears relatively simple. It is the sum of all the tickets sold to fans that attend any given game over the course of the season. However, there is much that sits underneath the surface here. What about the number of season tickets versus casual walk-in trade? How many seats does the stadium have? What about corporate hospitality packages and how does the price of those compare to a 'regular' seat? How do you determine the price of a ticket? Over the last two decades, ticket prices have risen exponentially. Clubs have built new stadiums with increased capacities as they know that demand exceeds supply. You can only fit 75,731 fans inside Old Trafford (the home stadium of Manchester United FC) but if the club had the space, they could fill that stadium several times over with fans from all over the world. Hence, despite matchday income being 'earned' by the clubs, there will be a finite level to it unless you either keep raising ticket prices or build a new bigger stadium, or both. There are also significant opportunities to build fan engagement strategies that can monetize followings via digital collectibles offered by companies such as Sorare, or in the metaverse, as explored later.

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Many clubs have done or are looking to do just that. In addition to Tottenham Hotspur's new stadium, Chelsea is looking to acquire new land in London to build a new Stamford Bridge although the difficulties involved are pushing them towards reinvigorating the existing stadium as a preferred option. Everton is in the middle of completing a new stadium built in the docks in Liverpool. Suitors for Manchester United expect to spend a great deal on refurbishing Old Trafford and Real Madrid has been expanding and modernizing the Bernabéu for a few years now. Likewise, Barcelona with the Camp Nou. Those that have plans (and funds) to invest are seeing new stadia as key to growing matchday income. This can also help with the stadium naming rights problem. For any investor, focusing on matchday income, the age of the stadium, and the ability to expand it or build a new one will be vital in the future as teams at the top of the market move at a pace to invest in long-term infrastructure which can help future-proof revenues. Such ventures complicate already complicated purchasing processes. The never-ending discussions between the clubs and the municipal and regional authorities in Milan, over the building of a new shared stadium, is a case in point. Acquiring an asset is not as simple as agreeing a price and paying it.

Wages and cost control:
The other side of the coin

European football clubs have undoubted capability to generate revenue and it is our view that this will remain so in the future. However, this is only one side of the equation. Cost control has been a huge issue in European football over the last thirty years, most notably due to player salaries and player transfer fees. The big five leagues, in this regard, are better placed than others from a cost control perspective (see Table 5) with wages-to-turnover ratios holding at around 70-80% in 2020 and 2021 for England, Spain, Germany, and Italy. Ligue 1 in France recorded slightly higher ratios of 89% and 98% for those two years but we must factor in PSG as a caveat here whose wage bill far outstrips the rest of the league. UEFA recommends a ratio of 70% in their Financial Sustainability Regulations introduced in 2022. Interestingly, the much-maligned proposed European Super League settled on a player salary and transfer fee cap of only 55 percent of revenues.

Figure 5

Big 5 Revenue/Wages - 2020/21 (€m)

	England		Germany		Spain		Italy		France	
	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21
Revenue	5123	5492	3208	3005	3114	2948	2057	2527	1598	1614
Wages	3742	3902	1807	1952	2102	2186	1611	2082	1416	1586
Wages/Revenue Ratio	73%	71%	56%	65%	68%	74%	78%	82%	89%	98%
# of Clubs	20	20	18	18	20	20	20	20	20	20
Avg. Revenue	256	275	178	167	156	147	103	126	80	81
Avg. Wages	187	195	100	108	105	109	81	104	71	79

Ultimately, this wage pressure can lead to profitability issues. Over the last ten years, the EPL and Bundesliga clubs have generally been profitable at a league level, but other leagues have struggled to post profits (see Figure 6). Financial Fair Play (introduced in 2011) has gone some way to rectifying this trend but there remain profitability problems at a majority of clubs within the ecosystem.

Figure 6
Big 5 Profitability - 2020/21 (€m)

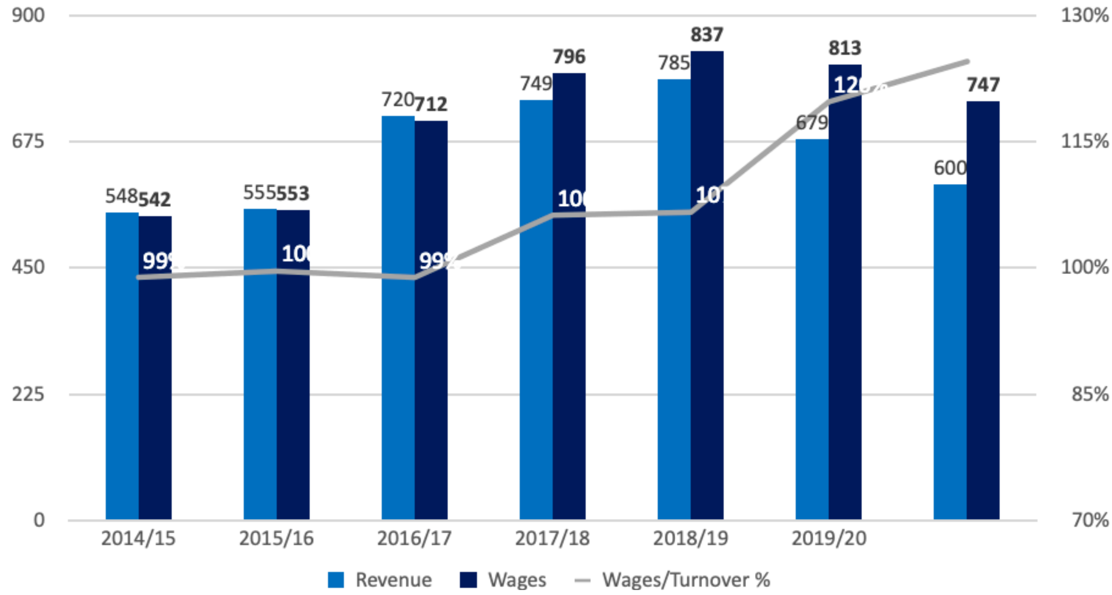
	England	Germany	Spain	Italy	France	Note:
2012	104	190		-160	-67	*Start of FFP Break Even Requirement*
2013	96	264		-53	-3	
2014	739	250	347	-143	-140	*Start of Break Even Compliance Monitoring*
2015	721	316	260	-133	-35	
2016	681	284	397	-40	-98	*Enhanced Version of FFP Regulations*
2017	1208	343	455	30	-43	
2018	979	373	226	59	-298	
2019	950	394	455	-17	-306	
2020	55	215	170	-271	-575	*Covid-19 Pandemic*
2021	541	62	-77	-264	-622	

Indeed, this situation is more desperate in leagues outside the elite. To underline this point, we provide an example from the English Football League Championship in England (tier 2 in English football). The problem of cost control and profitability is characterized perfectly in the Championship where many clubs are desperate to reach the riches of the EPL which can mean an increase of more than £100m in revenue overnight. Only three clubs can reach the promised land of the Premier League every season and staying there is not a simple (or cheap) task. Those clubs that mortgage their future on the hope of promised land riches and do not achieve the objective often spiral out of control down the leagues. The vagaries of the promotion/relegation pitfalls of the European market are especially difficult for many foreign investors to understand. Many purchasers agree to highly punitive arrangements regarding debt repayment should relegation occur without truly understanding its probability.

Figure 7 charts combined revenue and wages in the Championship from 2014/15 to 2020/21. During this time, total combined revenues for all clubs in the Championship had increased from £548m in 2014/15 to £785m in 2018/19. This dropped slightly in 2019/20 and 2020/21 due to the Covid-19 pandemic but it is the cost side of the graphic that is of greater concern to us. During the same time, the single biggest cost increase for clubs has been in player wages. In some years, this has outpaced revenue growth. Total combined wage costs were £837m in 2018/19, £813m in 2019/20 and £747m in 2020/21 giving total wage-to-turnover ratios of 107%, 120%, and 125% in those two seasons.

Figure 7

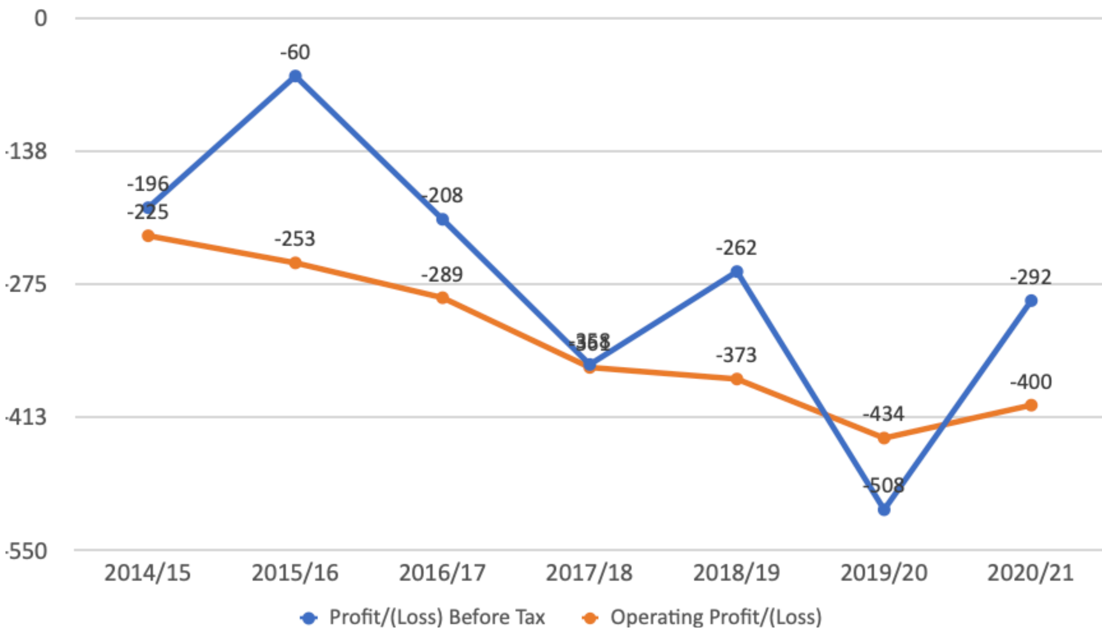
Championship Revenue and Wages 2014/15 -2020/21 (£m)



Naturally, such increases in wages led to cost control issues, and the most recent figures for 2020/21 show an overall cumulative operating loss of £400m across all Championship clubs equating to an average operating loss of £16.7m per club (see figure 8). Alarmingly, this has been a trend in this league for the last seven seasons and there are relatively few occurrences of individual clubs posting profits in this league due to the substantial operating costs and pressure to compete with other bigger teams in the league. This is symptomatic of other leagues across Europe where the financial gap between leagues is considerable and clubs attempt to gamble on financial sustainability through the chasing of revenue riches based on promotion.

Figure 8

Championship Losses (Before-Tax and Operating) 2014/15 - 2020/21



Digital Footprints

Using digital indicators, we can see a demonstrable step up from the top four divisions and the remaining top ten (see figure 9). Search data collected from the previous 12 months estimates that 84.29% of all searches relating to clubs within those divisions is related to the EPL, La Liga, Serie A & Ligue 1.

Search intent is a strong indicator of mass consumer interest. Annually, we can measure almost 7.5 billion (7,495,823,09) annual searches relating to the top 10 European divisions, with at least 1.9 billion searches for primary search terms relating to Premier League sides alone.

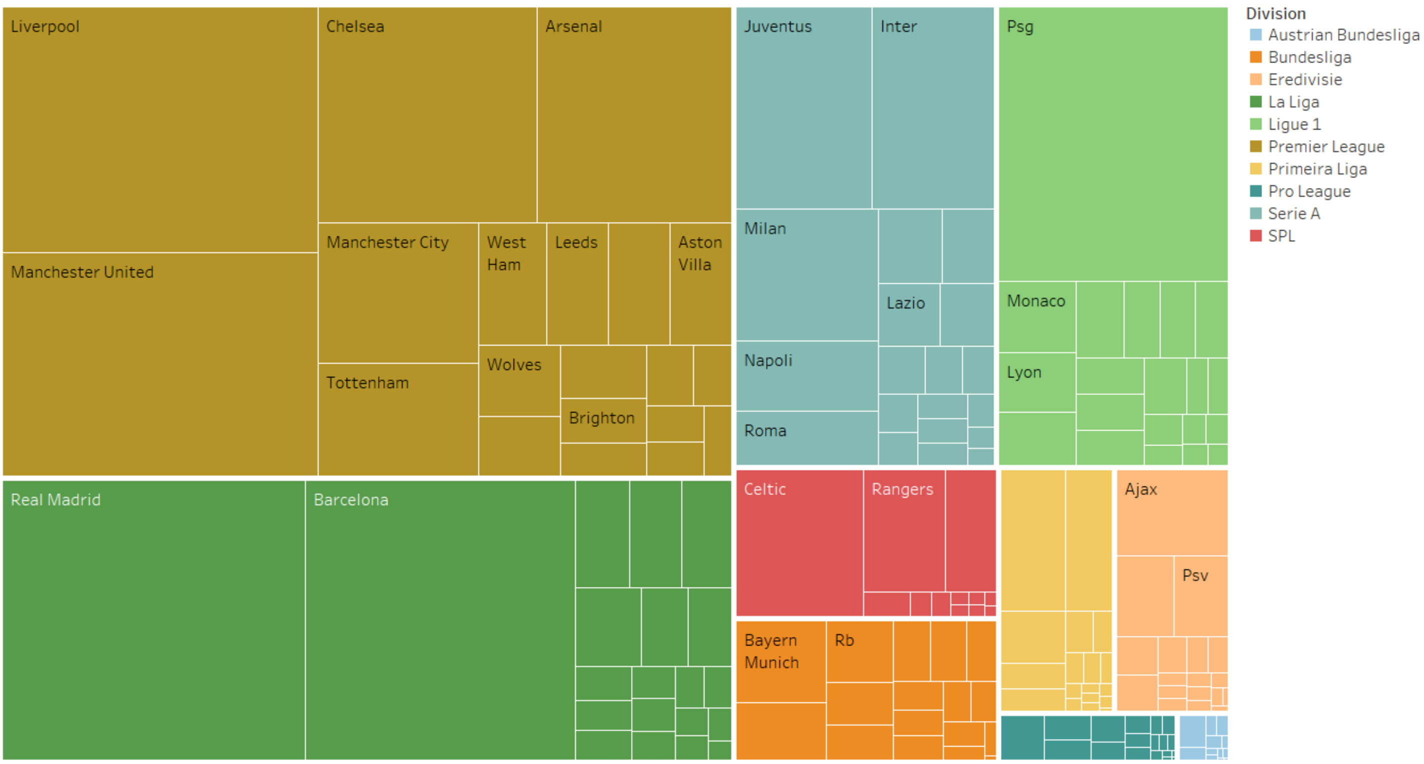
Figure 9
Internet Searches

Division	Total Annual Worldwide Searches	% of Total Worldwide
Premier League	1,957,107,000	37.24
La Liga	1,175,324,500	22.36
Serie A	686,402,500	13.06
Ligue 1	611,303,500	11.63
SPL	226,282,700	4.31
Bundesliga	214,404,300	4.08
Primeira Liga	160,964,100	3.06
Eredivise	159,862,300	3.04
Pro League	49,419,100	0.94
Austrian Bundesliga	14,767,090	0.28

The success of the Premier League as a global commodity is clear to see. Consumer interest is far beyond the realm of any other domestic league in terms of sheer numbers. No doubt other leagues, such as La Liga and Serie A with their aggressive advances into new markets will aid their own growth but unseating the already established EPL as the primary league in regions such as the middle and far east will be unlikely in the short term.

Figure 10

Proportionality of digital searches



Proportionally this shows that over a quarter of all searches relating to the Top Ten divisions go to the premier league, with La Liga performing significantly better than the remaining 8 divisions with only two significant sides drawing public significant competition to any premier league side (see figure 10).

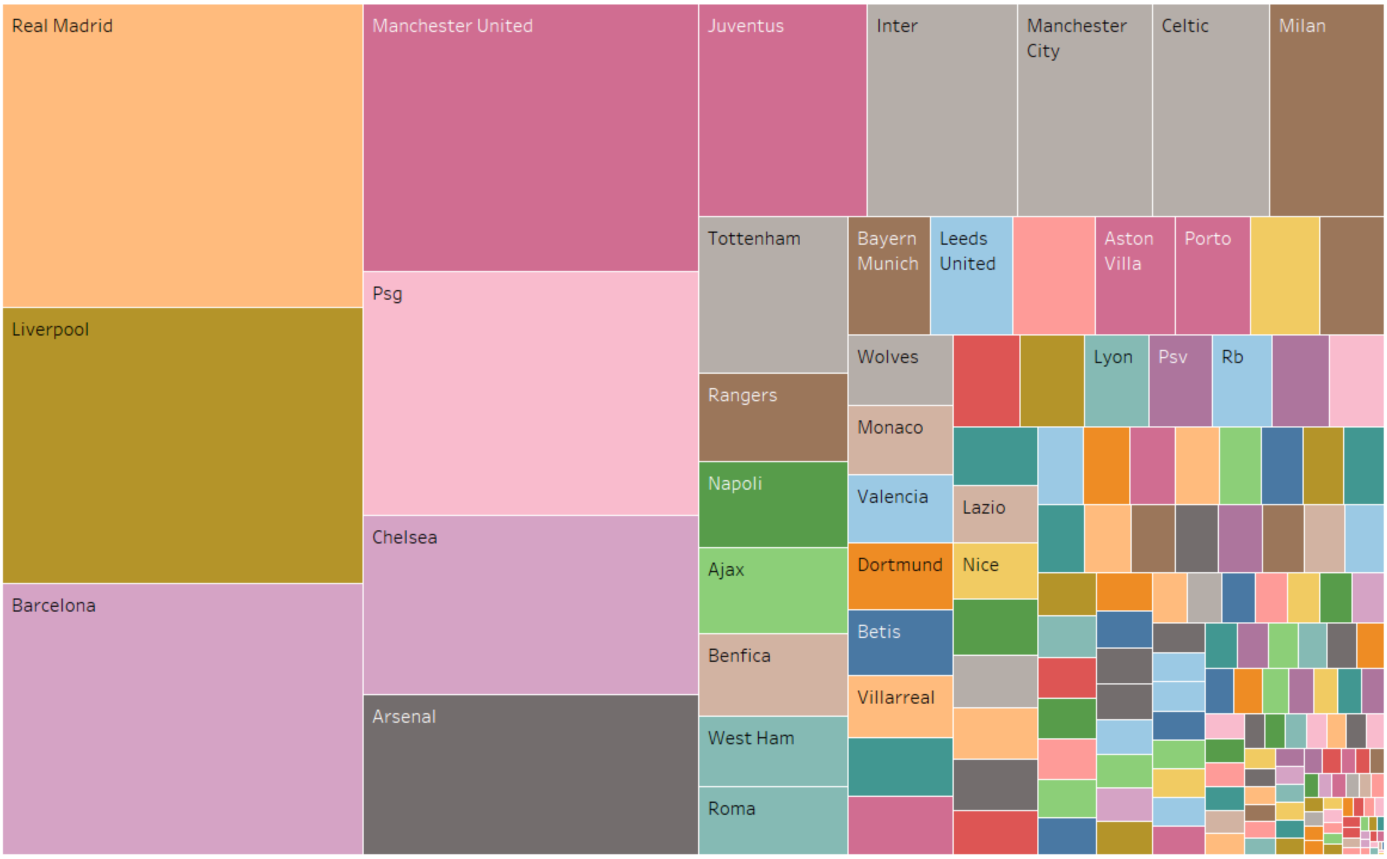
Below (figure 11) is a comparison of all sides' annual search volume and, interestingly, the EPL's strength is the diversity of its club portfolio. At present, clubs like Real Madrid, Barcelona, Bayern Munich, and Juventus command a huge Online following and global audiences, but their dominance versus their domestic rivals seemingly damages their wider digital growth.

> *A lack of on-pitch competitiveness may lead to a saturation point for the historically successful, domestically dominant, and European elite outside the Premier League.*

In essence, for their Online growth, support for their rivals Online is required to bolster their league's image. It could be speculated that a lack of on-pitch competitiveness may lead to a saturation point for the historically successful, domestically dominant, and European elite outside the Premier League.

Figure 11

Annual search volume



Future Insights, Trends & Investment Potential

The future holds an unimaginable range of disruptive forces for the world's global game. These come in the form of breakaway leagues, over-the-top (OTT) broadcasting platforms, governance, regulators and ownership reform, cryptocurrency, NFTs, and the emergence of the metaverse. We will also see law and policy change – the upcoming UK ban on gambling sponsorship, also prevalent across the continently European game, new tax rules to secure greater revenue for government departments, and changes to image rights, league structures, and revenue sharing – all influenced by government intervention. The biggest one, of course, being the European Super League (football).

While the ESL idea might have fallen at the first fence it appears that its main jockeys, Andrea Agnelli and Florentino Perez were back on the horse. The breakaway clubs have been appeased somewhat by having faced no severe sanctions for their attempts to break away, but also by the new format of the Champions League which is likely to benefit them in the medium term. Problem solved for now, perhaps, but the talk of a European Super League does remain a critical governance issue for several domestic leagues and their clubs and is likely to resurface at some point in the future. Of course, money is usually at the heart of these conversations, and this will be no different in the future. Competition structures are already evolving in Africa, there is state control of media production in China and a risk of piracy of broadcast content.

> *There will be a shift to hyper-personalization through data collected on what users want versus what producers think they want.*

What the ESL has done is to galvanize UEFA into consolidating its role as the sole competition/events organizer for European football. It has effectively absorbed the European Club Association (ECA) into its orbit by means of a joint venture (JV) for the exploitation of commercial opportunities such as media rights. In reality, the ECA is being fully taken over. The ECA already derives almost all of its €10m revenue from the surplus of UCL revenue. OTT broadcasting platforms will also be critical to future revenue generation at both club and league level. The way in which people consume sport (digitally) is changing almost daily. 'On demand' TV companies and social media have a huge role to play in shaping the future landscape. There will be a shift to hyper-personalization through data collected on what users want versus what producers think they want. This links to 'pull v push' viewing experiences with the viewer pulling the content that they want from a central platform. Golf is already a good example of this. You can now watch every shot live from the PGA tour, not just what the broadcasters choose to show on traditional networks. Going direct to the consumer is key to this model (e.g. La Liga TV or NFL Game Pass) and we have seen some high-profile examples like the Amazon All or Nothing documentaries or the Formula 1 Drive to Survive series on Netflix. We expect that clubs will want to own as much of this content as possible and retain a significant portion of revenues generated, but this might put them at odds with league or competition organizers, as evidenced already through the Super League proposal.

This will link to governance reform across the European game. Governing bodies and league organizers will have a critical role to play here. We have recently seen UEFA ditch FFP and change to new Financial Sustainability Regulations (FSRs). This will entrench the competitive order of the European game and make it harder for clubs outside of the elite to break into it. In England, there are calls for independent financial regulation in the game and a closer look at the Owners and Directors Test. If this comes to pass, then that will shake up the landscape of English football in a way not seen since the introduction of the EPL in 1992. We expect the bigger clubs to keep opposing this at every turn.

UEFA's new Financial Sustainability Regulations (FSRs)

In 2022, UEFA launched the biggest reform of financial regulations in European football since it first introduced Financial Fair Play in 2010. Now, FFP is no more, and it has been replaced with FSRs. These regulations have three key pillars at their core:

Solvency: The No Overpayment Rule means clubs' accounts will be checked every quarter to make sure all bills are being paid on time.

Stability: The Football Earnings Rule will allow clubs to lose €60m over three years - double what was permitted under Financial Fair Play. Clubs will be allowed to sustain an extra €10m in losses a year if they are deemed to be "in good financial health".

Cost Control: As part of The Squad Cost Rule spending on wages (players and head coaches), transfers and agent fees will be capped at 70 per cent of a club's revenue. This will be assessed over a calendar year and not a season, so spending in the summer transfer window will be included in the calculations.

The new rules came into force in June 2022, but they will be implemented gradually over three years to give clubs time to adapt to the new regulations. For example, in relation to pillar three (cost control), the squad cost rule will be set at 90% in 2023/24 before reducing to 80% in 2024/25 and 70% in 2025/26.

UEFA will have pre-agreed financial and sporting punishments ready to impose on clubs who break the rules. Clubs could be prohibited from using specific players signed during an assessment year and they could be forced to play with a smaller squad. UEFA will also have the power to deduct points. A more stringent penalty of relegation as a sanction was also discussed but it has not been approved as a punishment to date. These regulations will again shift the landscape of European football and we anticipate some challenges ahead while clubs adapt to the new rules.

This may have an impact on the way clubs are financed and ultimately owned. Recent years have seen private equity come to the head of the market and despite the challenges facing the industry, it is our view that this area will continue to grow. However, it will also continue to shift dramatically in the coming years. Return on investment will be firmly in mind and competition structures and club ownership may shift to fit with the objectives. Big sports around the world are already moving their goalposts to align with this movement. For example, the NBA has recently opened team investment to pension and sovereign wealth funds for the first time ever.

In part, we argue that one of the key factors in this model exists because football clubs still present an opportunity for future growth and return on investment. This is encapsulated in the final point we make here in terms of what happens next in the industry. The emergence of cryptocurrency, NFTs, digital collectibles, gamification and the Metaverse has the potential to generate significant revenue returns with an ever lower cost of entry. We have already seen some movement in this space. The Staples Arena in LA is now the crypto.com arena. Liverpool FC raised over £1m from their first NFT sale. Sorare are partnering with multiple clubs in this space to offer digital collectibles that have a utility value to fans much like traditional sticker collections used to in the physical sense. The Metaverse will be something else entirely. Just what, we don't know yet but the destination is virtual rather than physical – a digital twin to an in person experience, perhaps. Market reports suggest that we are hurtling towards greater participation in simulated worlds that even more limitless than our real one.

> *The Metaverse will be something else entirely. Just what, we don't know yet but the destination is virtual rather than physical – a digital twin to an in-person experience, perhaps*

Manchester City has gained first mover advantage here in the EPL, signing a three-year deal with Sony to help build a virtual Etihad Stadium. Why sell out one physical stadium when you can sell out virtual ones around the world? The revenue potential here is almost endless if clubs embrace and harness the technology effectively.

Understanding the external landscape is vital in this regard and it will continue to push on and change at a fast pace. The wider tech trend will be disruptive for sure. Whether we like what we see or not, we will want to be a part of it. Professional sports teams know that. They know they have us - whether that be as fans, partners, sponsors, investors, or broadcasters - interested. Historically, the interest has never waned. We would predict similar in the future. Indeed, the more things seem to change, the more they stay the same.

The one thing of which we can be certain is that the future will be dominated by the growth of the human/machine relationship in all aspects of our lives and sport will not be exempt. Understanding, or at least estimating, where that relationship is headed will be a key intangible for investors as they make their next bets in the European Football market.

About Sportsology Group

Maximizing growth of elite sporting organizations

Sportsology Group specializes in providing premium knowledge, insight, strategic advisory and operational support to franchise owners, global leagues and federations, and Institutional Investors driving success and accelerating transformation. We help empower sports organizations to create and own their future.

Notes on data

All data are accurate at the time of writing. They are derived from Sportsology's own research and/or data from Deloitte's Annual Review of Football Finance and other open sources.

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