UNIVERSITY OF WATERLOO

Faculty of Mathematics

Economic Impacts of COVID-19 On Soccer Franchises

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Executive Summary

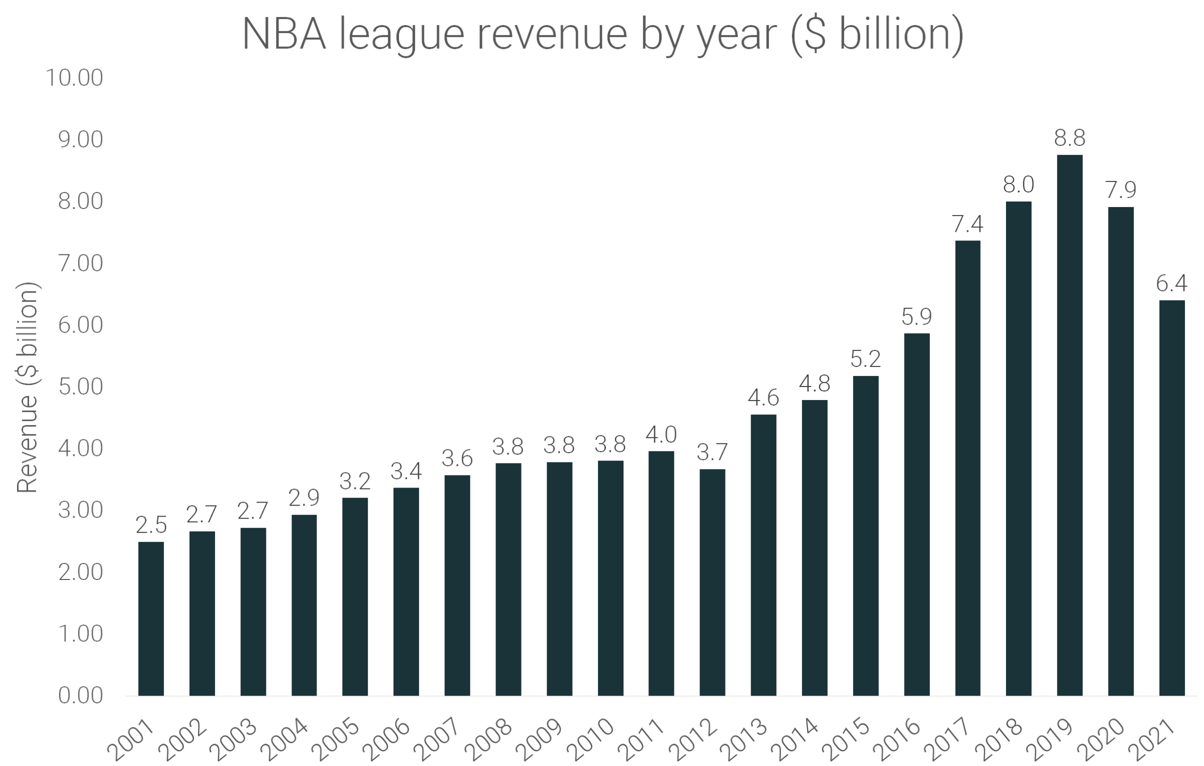
The following report analyses the impact of COVID-19 on Soccer Franchises. The report focuses mainly on bigger European Clubs centred in the English Premier League, which also participated in other European competitions, namely the Champions League and the Europa League.

Data for the report was collected from secondary sources using articles from the University Of Waterloo's online library, the Financial accounts released by the football clubs themselves, and Google.

The report concludes that COVID-19 affected all clubs' finances for the 15 months between March 2020-May 2021. However, the information also contrasts how clubs of roughly similar statures in financial revenue were affected differently.

1.0 Introduction

Football clubs differ from the American-franchise model because football isn't a salary-capped sport. In an American Franchise-Style model, for example, the NBA, the spending is capped, whereas the profits increase year on year by the growing popularity of the sport. This is represented by the local and national broadcast deals signed by the league, which provide even dividends to the ownership groups in the form of pure profits.



Profits made by the ownership groups in Football are, more often than not, minuscule. This is because the nature of competition requires regular large-scale investment into the clubs to meet sporting ambitions. This can be in the form of qualification for European Competitions, achievement in Domestic Cup Competitions, performance in the League, or most cases, all of the above.

The impact of COVID-19 in financial years 2019/20 and 2020/21 has been undeniably significant. Accounting methods and timing differences meant that the profile of revenue reported in each financial year further hindered comparability and saw clubs move up and down the Money League in a somewhat erratic manner. Perhaps the best way to understand the clubs' individual and collective financial performance over this period of the pandemic is to assess the average revenue generated over the two financial years, which helps to smooth out any reporting issues and allows clubs to be compared more accurately.

2.0 Analysis

2.1 What is the revenue breakdown of football clubs during a non-covid season?

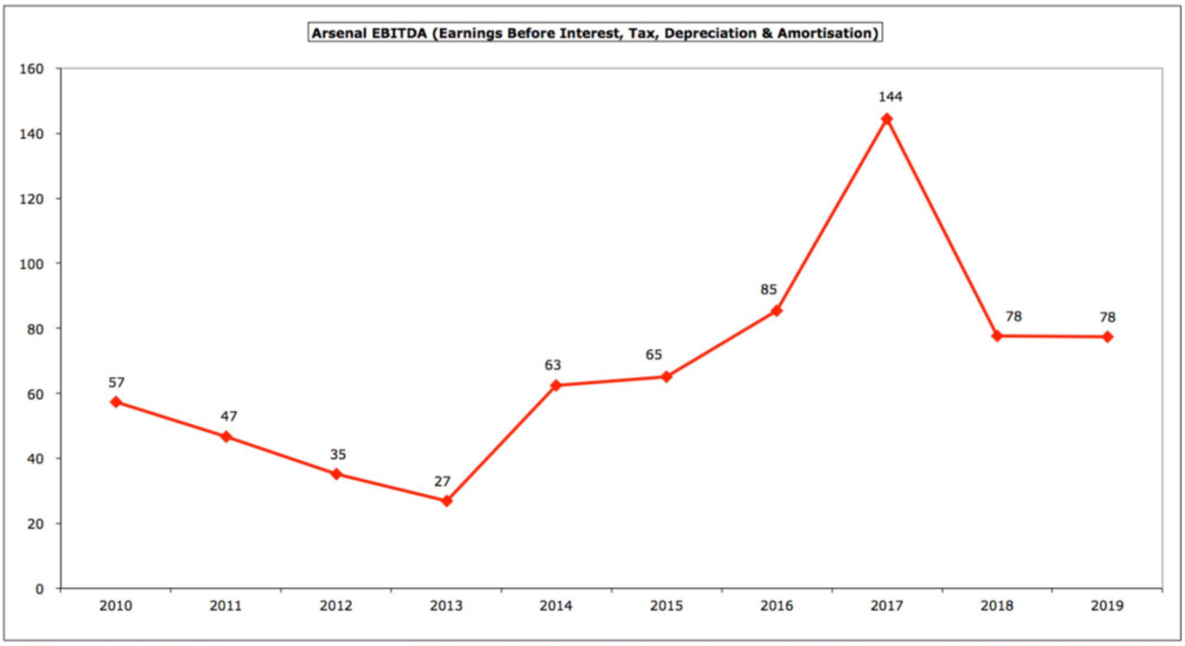
For explanation purposes, we look at the financials of Arsenal Football Club from the 2018/19 English Premier League season. The Premier League is the most-watched footballing league on a year-to-year basis. It generates the highest broadcasting and sponsorship revenue when you consider all 20 participant clubs.

To provide some sporting context, Arsenal is one of the biggest clubs in the Premier League and was perennially in the top 4 in the league, regulars in the Champions League and one of the most decorated in terms of domestic success. Arsenal is an excellent example for this exercise as we will be able to demonstrate how despite the club's high revenues, the lack of achievement in sporting goals leads to significant financial losses, perfectly depicting the fickle economic landscape of Football in a pre-covid society.

Arsenal’s 2018/19 financial results covered a season when they finished 5th in the Premier League while reaching the Europa League final. Arsenal swung from a £70m profit before tax in 2017/18 to a £32m loss in 2018/19, a £102m deterioration, very mainly due to gain on player sales falling by £108m from £120m to £12m, though revenue rose slightly by £7m (2%) to £395m. After-tax, went from £57m profit to £27m loss.

The low player trading profit combined with a second consecutive season in the Europa League meant that Arsenal recorded its first loss since 2002. This is a substantial financial comedown, given that Arsenal has delivered five of the top 20 profits ever registered in the Premier League.

Arsenal's EBITDA(Earnings Before Interest, Taxes, Depreciation, and Amortization) of £78m is the 5th highest in the Premier League. On the one hand, this is less than half of Manchester United's £186m due to United's unique ability to generate cash. Still, on the other hand, it is significantly higher than CFC's £43m due to the Blues' player trading business model.



Note: EBITDA = Operating Profit from Football before amortisation, depreciation, exceptional items & player trading

Despite the slight growth in Arsenal's revenue to £395m, this is still £28m (7%) lower than the £423m reported two years ago. All revenue streams are down since then: broadcasting £16m (8%) due to no Champions League, commercial £6m (5%), match day £4m (4%) and player loans £2m.

Arsenal is the only top 6 club to see revenue fall in the last two years. While they have dropped £30m, others have made tremendous gains, especially Liverpool, up £169m, and Tottenham Hotspur, up £153m. Tottenham Hotspur is now £65m ahead of Arsenal, compared to a £141m shortfall just three years ago.

Arsenal's £395m revenue is now 6th highest in the Premier League, having been overtaken by Liverpool at £533m, Tottenham Hotspur at £459m and Chelsea at £447m in the last two years. The £230m gap to leaders Manchester United’s £627m is substantial, but at the same time, Arsenal is £200m ahead of 7th placed West Ham United with £191m.

The extent of Arsenal’s revenue underperformance compared to other elite clubs is underlined by their Money League trend over the last decade. Their ranking fell from 5th in 2011 to 11th in 2019, while their revenue was £95m higher than the 10th placed club in 2016, but is now £4m lower.

Arsenal’s £142m Premier League TV money was the same as the previous season, as lower facility fees (broadcast live 25 times vs 28) were offset by higher overseas payments. The new TV rights deal will increase revenue in 2019/20, especially overseas sales.

Distribution of Premier League Funds 2018/19

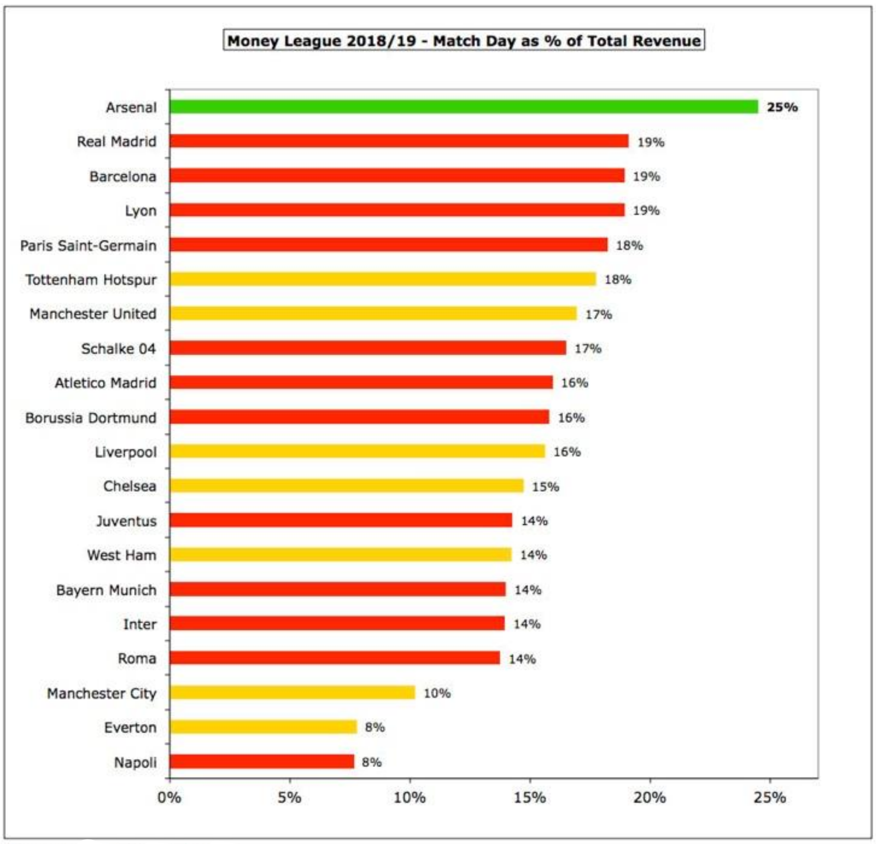
TV Money	£ mlns	PL Place	Live Matches	Equal Share	Facility Fees	Merit Payment	Overseas TV	Commercial Revenue	**Total Payment**	**2017-18 Payment**	**B/(W) 2017-18**
				50%	25%	25%	100%	100%			
1	Liverpool	2	29	34.4	33.5	36.5	43.2	5.0	**152.4**	145.9	6.5
2	Manchester City	1	26	34.4	30.1	38.4	43.2	5.0	**151.0**	149.4	1.5
3	Chelsea	3	25	34.4	29.0	34.5	43.2	5.0	**146.0**	141.7	4.3
4	Tottenham Hotspur	4	26	34.4	30.1	32.6	43.2	5.0	**145.2**	144.4	0.8
5	Manchester United	6	27	34.4	31.2	28.8	43.2	5.0	**142.5**	149.8	(7.3)
6	**Arsenal**	**5**	**25**	**34.4**	**29.0**	**30.7**	**43.2**	**5.0**	**142.2**	**142.0**	**0.2**
7	Everton	8	18	34.4	21.2	24.9	43.2	5.0	**128.6**	128.0	0.6
8	Wolves	7	15	34.4	17.8	26.9	43.2	5.0	**127.2**	4.5	122.6
9	Leicester City	9	15	34.4	17.8	23.0	43.2	5.0	**123.3**	118.2	5.2
10	West Ham	10	16	34.4	18.9	21.1	43.2	5.0	**122.5**	116.1	6.4
11	Newcastle United	13	19	34.4	22.3	15.3	43.2	5.0	**120.1**	123.0	(2.9)
12	Crystal Palace	12	12	34.4	14.4	17.3	43.2	5.0	**114.2**	114.3	(0.1)
13	Watford	11	10	34.4	12.2	19.2	43.2	5.0	**113.9**	106.3	7.6
14	Bournemouth	14	10	34.4	12.2	13.4	43.2	5.0	**108.1**	111.2	(3.1)
15	Burnley	15	11	34.4	13.3	11.5	43.2	5.0	**107.3**	119.8	(12.4)
16	Brighton & Hove Albion	17	13	34.4	15.6	7.7	43.2	5.0	**105.7**	107.7	(2.0)
17	Southampton	16	10	34.4	12.2	9.6	43.2	5.0	**104.3**	107.2	(2.9)
18	Cardiff City	18	12	34.4	14.4	5.8	43.2	5.0	**102.7**	16.6	86.1
19	Fulham	19	13	34.4	15.6	3.8	43.2	5.0	**101.9**	16.6	85.3
20	Huddersfield Town	20	10	34.4	12.2	1.9	43.2	5.0	**96.6**	102.4	(5.8)
	Memo: Arsenal in Previous Seasons										
	2017/18	*6*	*28*	*34.8*	*32.7*	*29.0*	*40.8*	*4.8*	***142.0***		
	2016/17	*5*	*25*	*35.3*	*29.4*	*31.1*	*39.1*	*4.8*	***139.6***		
	2015/16	*2*	*27*	*21.9*	*21.5*	*23.6*	*29.4*	*4.5*	***101.0***		
	2014/15	*3*	*25*	*22.0*	*20.0*	*22.4*	*27.8*	*4.4*	***96.5***		
	2013/14	*4*	*25*	*25.9*	*19.7*	*21.0*	*26.3*		***92.9***		
	2012/13	*4*	*22*	*13.8*	*11.5*	*12.9*	*18.9*		***57.1***		
	2011/12	*3*	*19*	*13.8*	*10.1*	*13.6*	*18.8*		***56.2***		
	2010/11	*4*	*22*	*13.8*	*11.6*	*12.9*	*17.9*		***56.2***		
	2009/10	*3*	*23*	*14.6*	*12.6*	*14.4*	*10.1*		***51.7***		
	2008/09	*4*	*19*	*13.9*	*10.0*	*12.9*	*9.6*		***46.5***		
	2007/08	*3*	*23*	*13.5*	*11.4*	*13.1*	*9.6*		***47.5***		
	2006/07	*4*	*21*	*8.9*	*7.7*	*8.3*	*4.1*		***28.9***		
	2005/06	*4*	*21*	*8.9*	*7.5*	*8.3*	*4.0*		***28.7***		

Note: Facility Fees based on number of times club shown live (minimum payment based on 10 games)

The difference between the European competitions is vividly seen in the new UEFA coefficient payment (based on performances in Europe over ten years). The highest-ranked English team in the Champions League received €31m, while Arsenal only got €3m in the Europa League.

Arsenal's match-day income fell from £3m to £96m, despite staging the same number of home games and expanding club level. This is the second highest in the Premier League, only below Manchester United's £111m; others are catching up through various stadium developments (Liverpool at £84m and Tottenham Hotspur at £82m).

The importance of match-day revenue to Arsenal is evident, as shown by 25% of their total revenue coming from this category, well ahead of Real Madrid, Barcelona and Lyon, all 19%. It could be a big hit for Arsenal to fail to qualify for Europe.



Arsenal’s wage bill rose £9m (4%) from £223m to £232m (excluding exceptional payments) due to new signings and contract extensions, though no Champions League bonuses. This means wages have risen £32m in the last two years, while revenue has fallen £28m.

Arsenal’s player amortisation, the annual charge to expense transfer fees over the length of a player’s contract, rose 5% (£4m) to £90m. These expenses doubled in the last five years from £40m in 2014. Impairment charge, reducing player values, was down from £6m to £1m. The player amortisation of £90m is the 5th highest in the Premier League, but still a long way below Chelsea’s £168m, Manchester City’s £127m and Manchester United’s £126m. Also behind Everton’s £95m and may be overtaken by Liverpool, who sit at £77m.

2.2 How the gate revenues were impacted.

Total revenue of Premier League clubs dropped by well over half a billion pounds in the 2019/20 season (-13%) to £4.5 billion as the average revenue per Premier League club reduced by £33 million to £225 million. This was the first drop in total revenue in Premier League history and the lowest whole revenue level since 2015/16, with the financial impact of Covid-19 felt by all clubs.

Matchday revenue – which accounts for 13% of total revenue – decreased by £84 million (12%) to £599 million. As expected, matchday revenue was significantly impacted by Covid-19 as stadia closed to fans from game week 30 in March 2020 and remained closed once matches resumed concluding the season in the summer of 2020 after many clubs' financial year ends.

It should be considered that this edition of Deloitte's report only represents the financial impact of the first three to four months of Covid-19, with clubs generating matchday revenue for the majority of the season. The report's next edition will reveal the full impact of Covid-19 on financials, incorporating the effects of empty stadia throughout the vast majority of the 2020/21 season and the re-evaluation of commercial partnerships.

The next edition of Deloitte's 'Annual Review of Football Finance' report will be launched months before Qatar's 2022 FIFA World Cup.

2.3 How the TV and Broadcast revenue impacted.

As gate revenue fell for all premier league clubs, the Broadcast revenue saw a notable trend. There was an initial shortfall, as all clubs had to pay a rebate to the TV broadcasters upon the League's suspension for three months from March to June. This created a significant hole in the coffers of several clubs. However, this was short-lived.

With the pandemic still raging at the beginning of the premier league season, the decision was taken to hold all games behind closed doors. This caused a significant financial impact, as highlighted in the previous point.

However, this unique scenario meant every single game Premier League game would be broadcasted live to national and international audiences. This was a significant change, as the UK traditionally had a Saturday 3:00 p.m. TV blackout that saw several games not broadcasted, and in general, not every one of the ten games played on a match week was not picked for national telecast. This was no longer the case for the 2020/21 season. It led to an impromptu renegotiation of the TV deal set to expire in 2022 to account for the increased number of broadcasted games and the revenue share the clubs were selected to receive.

This difference can be noted through the following figures, looking at the broadcast revenue of Manchester City in the financial year of 2020 and the financial year of 2021.

Manchester City's total revenue saw a 17% increase because of the new TV deal and the fact that they played the most games of a Premier League team during the 2020/21 season.

3.0 Conclusion

The 15-month period that includes the final third of the 2019/20 season and the entirety of the 2020/21 season created much financial instability in the Premier League. We can conclude and reiterate the importance of gate revenues to Premier League clubs. We have seen an immediate response to this, as several clubs now see investment in new stadiums, repairs, and new in-ground facilities as a worthwhile expenditure that will benefit them in the long term.

We also saw that the sport's popularity is boundless, and as a result, the Broadcasting revenue will exponentially continue to increase despite the surrounding financial circumstances. Premier Clubs saw a 932 million euro loss due to the rebates they had to pay at the end of the 2019/20 season. However, considering the renegotiated Broadcasting deal for 2020/21 and the projected numbers for the Broadcasting rights from 2022/23 onward, the loss due to the pandemic begins to look inconsequential.

Despite this, clubs have had to make wholesale changes to their business structure. This has been a long time coming, as the pandemic accelerated the time-scale of this footballing apocalypse. The spending was already on its way to an unsustainable level. However, the pandemic has made even the most prominent clubs rethink their strategies.

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