

Highlights

Europe's premier leagues

- The European football market grew to €12.6 billion in 2005/06, a €1 billion increase on the previous year with the revenue growth of the 'big five' European leagues, which represents 53% of the market, and the impact of the 2006 World Cup being the major drivers of this growth.
- Combined revenues of the 'big five' European leagues totalled €6.7 billion in 2005/06, a €430m (7%) increase on the previous season.
- Whilst the English Premier League continues to generate the greatest revenues, which at €2 billion in 2005/06 were almost €600m above the next highest earner, the French Ligue 1 showed the largest absolute and relative growth in 2005/06, as we predicted last year, with an increase of €214m (31%) driving revenues to €910m.
- Although Italian Serie A revenues grew in 2005/06, the problems affecting Italian football are having a detrimental impact on many revenue streams, in particular matchday, leading to an unhealthy reliance on broadcasting income. Serie A is likely to lose its status as the second highest earning league when we report on the 2006/07 season.
- Looking forward, English Premier League revenues are set to exceed €2.5 billion in 2007/08, the first year of new broadcasting deals, which is likely to be €1 billion above the next highest earning league. This is a phenomenal contrast with Italy given the two leagues' revenues were almost equal at the turn of this millennium.
- UEFA Champions League revenues generated from centrally negotiated broadcasting and sponsorship deals totalled €610m in 2005/06, with €437m (72%) distributed to the 32 clubs participating in the group phase, over seventeen times the level distributed to clubs in 1992/93, the competition's inaugural season.
- Four of the 'big five' European leagues had increased wage costs in 2005/06, with the Spanish Primera Liga and French Ligue 1 showing double digit growth, whilst the Italian Serie A decreased wage costs for the fourth successive season. The improvements in cost control made in recent years by clubs in most leagues is emphasised by only two leagues now having wage/turnover ratios over 60%. Two years previously every one bar the German Bundesliga was over that level, and had been for four successive seasons.

- The English Premiership (€200m) and German Bundesliga (€72m) were joined by the French Ligue 1 (€37m) in recording operating profits in 2005/06. This is the first time that the French Ligue 1 has achieved a profit since 1999/2000. It is testament to the sensible management of French football's new TV monies. A precedent for other leagues? The Italian Serie A continued to sustain the improvements in operating results shown in recent years by breaking even for the second year running.
- Whilst non 'big five' leagues tend to have a different revenue profile compared to the 'big five', they continue to show growth. Outside the 'big five', the Dutch Eredivisie generates the next highest revenues of any top-tier domestic league with income of €355m in 2005/06.

Revenue and profitability

- The top 92 English clubs' revenues increased by 4% (£66m) to £1,860m in 2005/06, with revenue increases in all four divisions.
- Premier League clubs' revenues increased by 3% (£45m) in 2005/06 to set another European record at £1,379m, an average of £69m per club.
- Championship clubs' revenues grew by 4% (£12m) to reach a new high of £318m in 2005/06, an average of £13m per club. League 1 clubs' revenues topped £100m for the first time since 2001/02, up £6m to £102m, whilst League 2 clubs' revenues also increased, up £3m to £61m.
- The average revenue of the 'big four' Premier League clubs in 2005/06 was £144m, almost three times the £50m average for the other 16 Premier League clubs.
- Looking forward, Premier League clubs' revenues will exceed £1.4 billion for the first time in 2006/07 and are projected to rise to £1,765m in 2007/08 in the first season of the Premier League's new three year broadcast deals.
- The value of the Championship Play-Off Final in May 2007 will increase to around £60m due to the new Premier League broadcast deals – the biggest financial prize ever for a single game in world football.
- The gap between the average Premier League and Championship club's revenue was a record £56m in 2005/06 and is likely to increase to over £70m in 2007/08. Even the lowest Premier League club revenue figure is expected to increase to around £45-£50m in 2007/08 (from £35m in 2005/06).

- Operating profits in the Premier League fell for the first time since 1999/00 to £138m (down 15%) and the number of Premier League clubs reporting operating losses increased from two in 2004/05 (Chelsea and Fulham) to four in 2005/06 (Aston Villa, Charlton Athletic, Chelsea and Fulham).
- Manchester United's top ranked operating profits of £41m in 2005/06 were up from £33m in 2004/05 and were more than double those of second ranked Liverpool (£20m), but below their own record of £52m in 2003/04.
- Looking forward, the new Premier League broadcast deals will enable Premier League clubs' operating profits to break through £200m – an average of £10m per club – for the first time in 2007/08. Indeed, a level of £300m may be achievable with relative restraint in respect of wages growth.
- Operating losses in the Championship increased from £42m to £53m in 2005/06, an average of just over £2m per club. Losses in Leagues 1 and 2 (£15m and £5m respectively) also increased slightly.
- The number of Premier League clubs that reported pre-tax profits fell from 14 in 2004/05 to nine in 2005/06. Excluding Chelsea, the other 19 Premier League clubs' pre-tax profits fell from £62m in 2004/05 to £11m in 2005/06. Chelsea's pre-tax losses improved from £140m to £80m in 2005/06.
- Championship clubs' pre-tax losses improved from £65m to £47m and three of the overall top ten clubs ranked by pre-tax profits were Championship clubs in 2005/06 (Cardiff City, Leicester City and Norwich City).
- Having more than quadrupled in the last ten years from £149m in 1995/96, a record £647m in taxes were levied on English professional football clubs in 2005/06, up 8% (£46m) from 2004/05. Premier League clubs account for around 75% (£480m) of this total.
- Around 80% of the total tax take comes from employment taxes, with both PAYE (up 10% to £333m) and National Insurance Contributions (up 7% to £179m) increasing in 2005/06. VAT increased by £8m (7%) to £118m in 2005/06, whilst there was a 19% (£4m) reduction in corporation tax to £17m.

Wages and transfers

- Premiership clubs' total wage costs for 2005/06 increased by 9% (£69m) to £854m. This contrasts with the situation in 2004/05 when the clubs' total wage costs reduced (by 3%), for the first time in the history of the Premier League.
- The wages/turnover ratio, a key performance indicator, increased to 62% in 2005/06, which in general remains a comfortable level for the finances of clubs in England's top division.
- There continue to be five English clubs incurring total wages costs each season greater than £50m. The pack is led by Chelsea (£114m), with Manchester United (£85m) and Arsenal (£83m) narrowing the gap compared to 2004/05. Liverpool (£69m) and Newcastle United (£52m) are also in the top five payers, still well ahead of sixth placed Tottenham Hotspur (£41m).
- Whilst five Premier League clubs managed to reduce their wages costs in 2005/06 – in particular Fulham (down £3.8m) and Manchester City (down £3.3m) – that was outweighed by increases amongst the top five payers and at a number of clubs where a decision was made to "significantly invest in the playing squad". These clubs included Tottenham Hotspur (up £7.5m), Everton (up £6.1m), Charlton Athletic (up £5.3m) and Aston Villa (up £5.1m).
- Looking forward, the significant increase in broadcasting rights revenue to Premier League clubs will fuel significant increases in wage costs over the short/medium term, albeit there may be relative restraint compared to the past. We expect that Premier League clubs total wage costs will exceed £1 billion for the first time in 2007/08.
- We expect the average annual gross annual earnings for a Premier League player in 2007/08 will be in the region of £1.1m (2005/06: £0.9m). During the timeframe of the new broadcasting rights deals there may be English football's first player to earn £10m per annum from a club, equivalent to £200,000 per week.
- Championship clubs' total wage costs for 2005/06 increased by 5% to £228m with the overall wages/turnover ratio remaining relatively stable at 72%.
- In the Championship, in 2005/06 four clubs had a wages/turnover ratio in excess of 100%. However, for two of these clubs the ratio was pushed over 100% due to significant performance bonuses to players and management for securing promotion to the Premiership – Sheffield United (£2.3m) and Watford (over £3m). There continues to be significantly less correlation between total wage costs and final league position in the Championship than in the Premier League.

- Total player costs for the top 92 clubs in English football exceeded £1 billion for the second time. Overall gross player wages were up 5% to £806m and net transfer fees to overseas clubs and payments to agents were up to £240m.
- Overseas clubs continued to be financial beneficiaries of the Premiership's success. Net transfer fees leaving the English game were £187m.
- Fees to agents from Premier League and Football League clubs in 2005/06 were estimated to be over £50m.
- The monies redistributed to Football League clubs from the Premier League increased to £48m in 2005/06 (2004/05: £28m); the highest level since the Premier League began.
- Whilst there are already a large number of good quality stadia, with many clubs having completed major relocations or redevelopment projects, there is still a good proportion – up to 50% – of Premier League clubs who have publicly stated that they would like to undertake further significant investment in their stadium.
- Both Premier League clubs' average attendance (34,360) and capacity utilisation (93%) for the 2006/07 season are up on the previous year. 12 clubs in the Premier League operated at a utilisation of 96% or above, and 70% of Premier League clubs were over 90% full for home games.
- In the Championship total attendances grew to over 10m in 2006/07 (average attendance of 18,213), the first time the 10m barrier has been achieved since 1951/52. This is a huge achievement. Half of the Championship clubs had average attendances over 20,000.

Stadia development and operations

- At the headline level, 2005/06 represented the highest spending year since our analysis of stadium investment began (in 1992/93) with £233m being invested by English clubs.
- Manchester United and, more particularly, Arsenal were responsible for almost 85% (£171m) of the £204m invested by Premier League clubs. Arsenal have comfortably been the biggest spenders in the Premier League on stadia for four consecutive seasons now and have been responsible for over 60% of total Premier League clubs' investment between 2002/03 and 2005/06.
- Although it was just below £2 billion this time last year cumulative stadia investment by English clubs since 1992/93 is now well into its third billion (£2.2 billion). Premier League spending over the period accounts for over three-quarters of total stadium investment.
- In cumulative terms, 2005/06 was the season in which Football League clubs' investment exceeded the £500 million mark.
- It may surprise some people that over the past decade the top 92 professional clubs have each year, on average, spent £20m more on stadium investment than they have on net player transfer fees.
- Premier League clubs have spent over 15% of revenue generated since 1992/93 on improving their facilities whereas Football League clubs have spent over 12%. These are impressive amounts and again illustrate the fact that stadium investment, and the on-going financial benefits it can deliver, is a significant element of a successful football business strategy.

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 £1.5 billion at the end of the 2005/06 season.
- The financial gearing ratio for Premier League clubs increased to 220% (2005: 134%), being the ratio of debt (£1,035m) to shareholders' funds (£469m).
- The Premier League clubs' net debt figure at summer 2006 of £1,035m (2005: £674m) comprises net bank borrowings of £345m, other loans of £646m and finance leases of £44m.
- The Premier League clubs' net debt figure of £1,035m excludes the debt of the parent companies of Manchester United of £604m at 30 June 2006. Distinct from other clubs, this debt originally arose to help finance the acquisition of the club in 2005 by the Glazer family, rather than to provide new financing for the club itself.
- The increase in net debt was largely due to significantly more net debt at Arsenal (up £109m) and a reduction in Manchester United's net funds (down £59m). Some accounting reclassifications of balances (of £99m) from shareholders' funds to debt also increased the balance compared to previous years.

- Arsenal's borrowing arrangements for their new 60,000 capacity Emirates Stadium have significantly increased the club's overall level of debt in recent years. By the end of the 2005/06 season Arsenal's net debt was £262m, ahead of Chelsea (£180m), Fulham (£167m) and Manchester City (£94m).
- By the end of the 2005/06 season, Roman Abramovich had injected around £485m of new money into Chelsea, through a combination of debt and equity. This represents by far the largest contribution to football from any single benefactor.
- Three Premier League clubs other than Manchester United finished the 2005/06 season with net funds rather than net debt – Birmingham City, Charlton Athletic and Tottenham Hotspur.
- For the Premier League clubs in aggregate in 2005/06, net interest charges from finance providers were £52m (2004/05: £48m). Interest cover reduced to 2.7 times from 3.4 times. This excludes the interest costs of Manchester United's parent companies of £87m in 2005/06 (plus £28m debt issue costs written off).
- Clubs such as Blackburn Rovers, Chelsea and Fulham each have significant debt (included in other loans) the majority of which does not have an associated interest charge, as it is from a benefactor and more akin to shareholders' funds than debt.
- Total shareholders' funds reduced to £469m (2005: £503m). Whilst monies subscribed for new shares outweighed retained losses in the year, changes in accounting treatment meant certain balances had to be reclassified from shareholders' funds to debt.
- At summer 2006, Manchester United (£203m) topped the table for overall shareholders' funds – being the excess of assets over liabilities/debt – followed by Arsenal (£131m) and Chelsea (£81m).
- Based on the available information, the Championship clubs' aggregate net debt at the end of the 2005/06 season was around £300m.
- At least 11 Championship clubs have net debt of more than £10m and, in general, the prospect of a club significantly reducing that net debt in the short/medium term is dependent on either promotion to the Premiership or an injection of equity funding from a new owner.
- Below the top two divisions, managing the clubs' financial position remains a challenge from one season to the next. While, in general, the financial position has improved and become more stable over the past 3-4 years, legacy debt issues relating to past seasons remain at several lower division clubs. ●