

# CAN FOOTBALL FINANCES SURVIVE COVID-19?

Some of England's biggest clubs are rapidly running out of money. A pro-active response and rigorous "cash culture" are essential for survival.



The English Premier League attracts huge television audiences across the globe and is often described as one of the UK's greatest cultural exports. But the COVID-19 pandemic has seen professional sport grind to a halt, and many of England's biggest football clubs find themselves unable to generate revenue and are at risk of exhausting their cash reserves in a matter of weeks. How did they get to this stage, and what has COVID-19 revealed about the frailties at the heart of football finance?

---

None of the 52,000 spectators who watched Liverpool take on Atletico Madrid in the Champions League on 11 March would have guessed it would be several months before another professional football match involving an English top-flight team would be played.

With lockdown measures in response to COVID-19 in the UK continuing, the Premier League has indicated that the earliest that matches could restart (behind closed doors) would be some point in June. However, this is dependent on the latest public health guidance, and it is likely to be a lot longer before any matches will be played in front of a paying audience.

In the UK, much of the focus has been on how COVID-19 is affecting the finances of clubs in the English Football League, which comprises the three divisions below the Premier League. However, even at the elite level, clubs are not shielded from the impact of lost matchday income and broadcasting revenue. Indeed, AlixPartners' analysis of the annual reports of the 20 Premier League clubs suggests that more than half (11) are likely to exhaust their cash reserves in just two months.

### **HOW COVID-19 IS AFFECTING PREMIER LEAGUE FINANCES**

Premier League clubs rely on three main sources of revenue: matchday income (principally gate receipts and hospitality), broadcast revenue, and commercial income. Each of these revenue streams has been affected to differing extents by the cancellation of fixtures.

The impact on broadcast revenue is likely to be the most significant. The Premier League is in the middle of a three-year UK broadcasting rights deal with Sky Sports, BT Sport and Amazon, worth £1.57bn per season. It receives a similar amount each year as a result of deals struck with dozens of overseas broadcasters. If the current season cannot be completed, Premier League clubs face losing £762m in broadcast revenue alone.

On top of that, lost commercial revenue and matchday income could run into tens of millions of pounds for some of England's most established clubs.

Announcing Tottenham Hotspur's decision to furlough its non-paying staff (a move the club later reversed), chairman Daniel Levy warned that its status as the world's eighth-richest club would not protect it from the impact of COVID-19. "It's totally irrelevant as the virus has no boundaries," he said.

Phil Garlick, chairman of Burnley, a club with less riches, but generally regarded as one of the best-run sides in the Premier League, gave an even starker warning. "If we don't finish the season and there isn't a clear start date for next season, we, as a club, will run out of money by August," he said.

### **IS FOOTBALL REALLY BIG BUSINESS?**

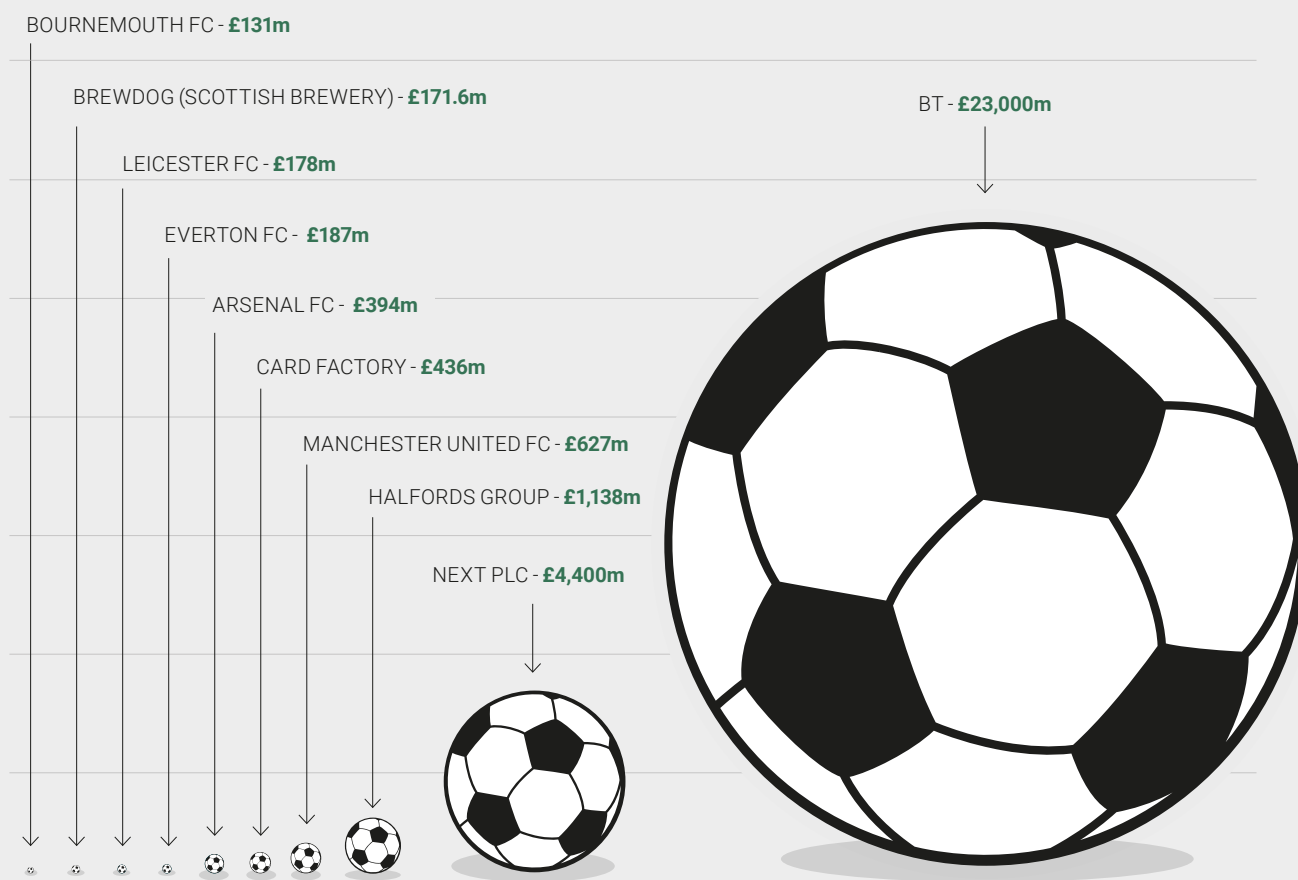
Football fans and non-fans alike are fascinated by the sport's finances. Endless headlines are generated by news of 'exorbitant' player salaries and transfer fees, or enormous TV broadcasting deals.

This is perhaps one of the reasons that football has found itself cast as the pantomime villain during the COVID-19 pandemic. UK Health Secretary, Matt Hancock's suggestion at the start of April, that footballers should take a pay cut, sparked weeks of debate about whether the sport as a whole should be doing more to help during a time of public crisis.

But all of this distracts from the fact that football clubs are actually small businesses relative to leading companies in many other industry sectors, with less revenue-generating potential.

Across Europe, the 30 clubs with the highest annual turnover generated combined revenues of less than £10bn last year. In comparison, BT and Sainsbury's generated revenues of £23bn and £32bn respectively over the same period.

## HOW PREMIER LEAGUE REVENUES COMPARE TO THOSE OF OTHER UK BRANDS



## STEPS TO MINIMISE FINANCIAL IMPACT OF COVID-19

The Premier League has attempted to cushion the blow for clubs, by providing advance payments for prize money and TV money, due between now and the end of the season. However, the size of these payments has been restricted, because the Premier League must factor in the worst-case scenario of matches not being completed and revenue having to be returned to broadcasters.

The Premier League has also been unable to agree a deal with the Professional Footballers' Association that would have seen players from all 20 clubs take a collective 30% pay cut. Instead, players are negotiating salary reductions on a club-by-club basis. To date, no club has come close to agreeing a 30% reduction.

While it would be unfair to describe these measures as sticking plasters, it is clear that clubs will need to take additional steps in order to ride out this difficult period.

## WHEN WILL PREMIER LEAGUE CLUBS RUN OUT OF CASH?

AlixPartners' analysis of the most recent annual reports of all 20 Premier League clubs suggests 11 could exhaust their cash reserves within two months, and a further seven could deplete theirs within six months. This analysis is based on the following assumptions:

- Clubs will have no source of revenue
- All non-cash operating expenses (besides depreciation and amortisation) are negligible
- Financial expenses and taxes are not taken into account
- Employee payroll will be cut by 25%
- All financial metrics published in the last annual reports reflect clubs' current financial positions



## DEVELOPING A CASH CULTURE KEY FOR CLUBS' SURVIVAL

In a crisis situation, businesses facing liquidity pressures need to quickly shift operational gears in order to prioritise cash. This requires three main steps:

### 1. Implement rigorous cash management practices:

A rolling 13-week cashflow forecast is needed to demonstrate forensic understanding of the cash burn rate. It should be refined on a weekly basis and is a proven tool to establish clear transparency around liquid funds and "live a cash culture". Payments should only be made for critical business processes, and controlled by a cash control committee.

### 2. Delay cash-outs/CAPEX as much as possible:

Focused, selected CAPEX investments, which are mission-critical for restart and future growth should now be pursued, after having been suspended temporarily at the onset of the crisis. Players that become available, at reasonable cost, and who would add significant playing and commercial value, could be considered.

### 3. Optimise working capital:

Actively managing receivables and renegotiating payment terms, in a "partnership for survival" approach, can generate additional cash.

## SCENARIO PLANNING

The resumption of football in England and Wales depends on a range of factors, including some that are beyond the control of Premier League clubs. The news that Germany's Bundesliga is expected to restart in May could provide some comfort, although other countries, including France and the Netherlands, have abandoned their top-flight seasons.

What Premier League clubs must do is to plan for multiple scenarios. Key considerations for scenario planning include:

- The potential length of the crisis
- Cash levels
- Revenue outlook
- Level of costs, and possible cost reduction levers
- Cash-raising opportunities (e.g. debt, player sales, M&A)

A successful scenario-based plan is one that results in clubs being prepared for multiple scenarios, and able to confidently make business and sporting decisions based upon each scenario. A well-executed scenario plan will allow clubs to react quickly and responsibly to risks and opportunities (which could include buying quality players from teams who need to sell). All planning must consider



the full set of stakeholders (including owners, players, support staff and part-time staff who are dependent on matchday income).

Cash-raising opportunities are a key part of scenario planning, and should include the evaluation of all financing alternatives. Consider exploring options across the entire capital structure, from equity holders, to lenders and suppliers, and even areas such as business interruption insurance. While performing this evaluation, continue reinforcing credibility with potential sources of financing, maintaining an open communication channel, staying close to them, being pro-active in raising potential funding needs once these needs become certain, and then working towards securing their commitments.

Investing the time upfront to understand options will have a material pay-off later when negotiating with various stakeholders and evaluating their offers.

### **COST REDUCTION**

In the short-term, clubs must identify all cost reduction opportunities and quickly establish the time it will take to address different cost categories.

<b>CATEGORY</b>	<b>SPEED TO ADDRESS</b>
Advertising	Fast
Merchandising	Fast
Player scouting	Moderate
Player insurance	Moderate
Player salaries	Slow
Agent commissions	Slow

### **REVENUE GENERATION**

Clubs are now waking up to the fact that they are overwhelmingly reliant on revenue generated from a single product, delivered out of a single venue, for 90 minutes. With no on-field action and with the closure of club shops and other bricks-and-mortar merchandise outlets, clubs must now consider all possible levers for driving merchandise sales online. This includes:

- Promotions/reductions/personalised product suggestions (leveraging existing customer database)
- Unique content targeted at specific customer segments
- Leveraging players' social media influence
- Increasing online traffic through search engine optimisation

The current lockdown has not dimmed fans' appetite for access to anything football-related. In April, BBC Sport streamed live coverage of Premier League stars (including Manchester City's Raheem Sterling and Crystal Palace's Wilfried Zaha) competing against each other in an online tournament of the FIFA 20 computer game. A similar event, involving players from Spain's La Liga, attracted more than one million viewers over a single weekend.

Clubs must consider what they can do to maximise their digital and intellectual property assets, including player-generated content and fan engagement.





## HOW DID TOP-FLIGHT FOOTBALL FIND ITSELF ON THE BRINK OF A CRISIS?

The English Premier League is not alone in finding itself with little room to breathe. Analysis of annual reports of the leading Spanish and Italian football clubs suggests six clubs in La Liga have cash runways of no more than two months, while in Serie A, three-quarters of clubs (15 out of 20) could find themselves in the same position.

However, the knowledge that their European counterparts are in the same boat will offer little solace to executives of England's Premier League clubs. If the Premier League does survive the current pandemic with all 20 clubs intact, serious questions will remain about whether the operating models of many elite clubs are sustainable. Questions such as:

- Are clubs doing enough to reduce their reliance on matchday income by building up off-season revenue streams?
- Is there a strong enough focus on business management, including cost reduction and cashflow management?
- Are clubs really balancing their desire to meet the expectations of their fanbase with the need to plan for worst-case scenarios, such as relegation? Or is it a case of fantasy first, pragmatism later?
- Does football have the commercial maturity of other sectors? And, given the strict controls on spending dictated by UEFA's Financial Fair Play regulations, can football clubs really be considered businesses at all?

## HOW ALIXPARTNERS CAN HELP

AlixPartners has significant experience working with sports organisations and owners, including in the following areas: scenario planning, operations costs, restructuring, litigation support, non-playing personnel costs, products and services spend, administration, sports associations, relegation planning, youth academy costs and revenue growth.

### SUPPORT WHEN IT REALLY MATTERS

- 1. Crisis management** – establishing crisis management teams, cash and liquidity management and scenario planning (including relegation planning if relevant).
- 2. Rapid cost reduction** – including costs relating to non-player personnel, sports operations and SG&A expenses.
- 3. Revenue generation** – driving online merchandising sales, digital content strategy and monetisation model.
- 4. Financial advisory** – including business interruption, debt-raising and litigation support.

For more information, get in touch:

**Mo Habbas**

Managing Director, London  
mhabbas@alixpartners.com

**Serge Lupas**

Managing Director, London  
slupas@alixpartners.com

**Steve Braude**

Director, London  
sbraude@alixpartners.com

## ABOUT US

For nearly forty years, AlixPartners has helped businesses around the world respond quickly and decisively to their most critical challenges – circumstances as diverse as urgent performance improvement, accelerated transformation, complex restructuring and risk mitigation.

These are the moments when everything is on the line – a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. But it's not what we do that makes a difference, it's how we do it.

Tackling situations when time is of the essence is part of our DNA – so we adopt an action-oriented approach at all times. We work in small, highly qualified teams with specific industry and functional expertise, and we operate at pace, moving quickly from analysis to implementation. We stand shoulder to shoulder with our clients until the job is done, and only measure our success in terms of the results we deliver.

Our approach enables us to help our clients confront and overcome truly future-defining challenges. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.

The opinions expressed are those of the authors and do not necessarily reflect the views of AlixPartners, LLP, its affiliates, or any of its or their respective professionals or clients. This article, Can football finances survive COVID-19? ("Article") was prepared by AlixPartners, LLP ("AlixPartners") for general information and distribution on a strictly confidential and non-reliance basis. No one in possession of this Article may rely on any portion of this Article. This Article may be based, in whole or in part, on projections or forecasts of future events. A forecast, by its nature, is speculative and includes estimates and assumptions which may prove to be wrong. Actual results may, and frequently do, differ from those projected or forecast. The information in this Article reflects conditions and our views as of this date, all of which are subject to change. We undertake no obligation to update or provide any revisions to the Article. This Article is the property of AlixPartners, and neither the Article nor any of its contents may be copied, used, or distributed to any third party without the prior written consent of AlixPartners.