



Facing the crisis,
relaunching sport.
Episode #1: professional
football.

Reflections and insights for tomorrow

A Sport Value study

December 2020

Sport✓value

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Methodology of the study: an unprecedented EY - Sport Value collaboration to reflect on the recovery of French football



+ 30 French and European football executives interviewed



+ 15 French and European football stakeholders consulted

Objectivity, accuracy and anticipation

The strategy consulting firms EY and Sport Value, experts in strategic consulting, auditing and financing of professional clubs, came together around a common desire to reflect on the professional football of tomorrow.

At the end of a very difficult summer for French football, it appeared important to us to go beyond the stage of observations and personal interests to think about a recovery in the general interest. This first study on football will be completed in 2021 by focusing on other disciplines and social issues around sport. It was carried out in an objective and totally independent manner.

To build our proposals, we have used the following methodology and principles:

- ✓ An online survey, to which 20 French professional football managers replied
- ✓ More than 20 hours of interviews with European football leaders and various "stakeholders" (politicians, authorities, professional organizations, experts).
- ✓ A documentary review of the situation and measures taken in several countries (Italy, Spain, Germany, United Kingdom, Belgium, Netherlands) supplemented by qualified interviews.
- ✓ An objective synthesis of the key elements emerging from this work

We are committed to our contacts to maintain the highest level of confidentiality and anonymity of responses. We therefore do not name the sources of our verbatim.



1 Our proposals for relaunching and reforming French professional football

GETTING OUT OF THE CRISIS

Launch a major plan to recapitalize clubs in equity and quasi-equity by welcoming minority and bond investors.

- Open up the capital for clubs/shareholders who wish to do so: professionalize the Board of Directors, reduce the risks of dependency, etc.
- Welcoming bond investors to finance 5/7 years recovery plans
- Creating a bond rating to open a secondary market

REDEPLOYING

The League must return to being the home of football, where it is all about the game and not about money.

- Protect the game: organization of competitions, refereeing, discipline, security, fight against piracy, etc..
- Protect the actors: DNCG, juridical, social, paritarianism, etc.
- A simplified and professional stakeholders

A risk management policy aimed at reducing volatility.

- Analyze transfer income as operating income but modify the amortization rules according to sports and economic indicators.
- Provide the DNCG with the capacity to limit the number of player contracts based in accordance with revenues.
- Create a capitalized guarantee fund with major insurers

((RE)BECOMING COMPETITIVE

Rather than a commercial company to market the rights, creation of a joint venture to control the content.

- Joint Venture with a specialist in image production and realization
- Missions of image and content production, commercialization of competitions (media strategy, sponsoring, digital)
- Collaboration with an entity capable of commercializing international rights
- TV rights remain centralized and marketed by the League.
- A 10-year collaboration framework agreement and various options to manage the transfer of shares or the renewal of the framework agreement
- Clubs remain in control but can welcome investors.

2

In an exceptional health crisis impacting all professional sports, professional football is particularly hard hit.

Impact of the sanitary crisis on professional sport in France

- ▶ In April 2020, the Ministry in charge of Sports estimated the cost of interrupting competitions at €1.45 billion for the 2019-2020 season for the main professional sports (football, rugby, cycling, handball, basketball, volleyball)..



1,45
B€



3 B€

Impact of the sanitary crisis on professional football

- ▶ For professional football, the impact of the sanitary crisis on the 2019-2020 season amounts to a €605m loss in revenue.

605
M€

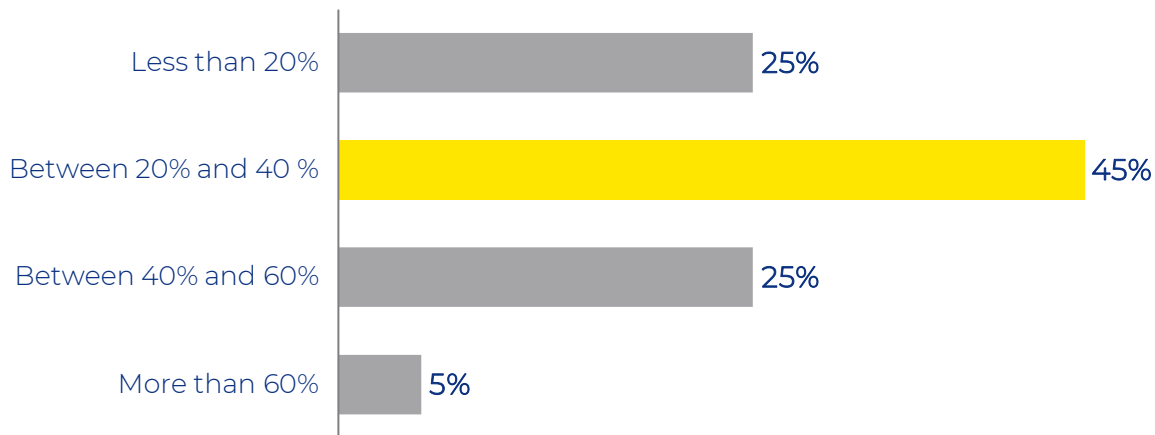
1,5
B€

- ▶ We felt it was important to focus primarily on professional football because of the considerable weight it carries in professional sport.
- ▶ The health crisis was combined with a governance crisis and then a systemic incident on TV rights. It therefore seemed appropriate to draw up an assessment of the situation to date and to propose paths for reform and opportunities for development.

3 In France, professional football has been massively affected by the sanitary crisis, despite numerous government support measures.

75% of French football executives anticipate revenue losses of more than 20% for the 2020-2021 season.

Over the entire 2020-2021 season, and under current conditions (behind closed doors), how much would your projected turnover losses be compared to a year without COVID-19?



Substantial losses, despite the government's support measures

3 B€

Of aids from the French Government for the entire sports sector

3 000

Support actions carried out since the beginning of the crisis

110 M€

Of compensation on the ticketing for professional sport

- ▶ Partial activity apparatus
- ▶ Solidarity Fund
- ▶ Exemption from charges
- ▶ State-guaranteed loans
- ▶ Compensation for ticketing losses

- ▶ For the 2020-2021 season, the majority of French professional football executives are anticipating a loss of ticketing and sponsorship revenue between 20% and 40%.
- ▶ The clubs, as business companies, have benefited from the same state schemes as all other companies. The savings on social charges have been significant for professional football clubs given the importance of the wage bill in the structure of charges.
- ▶ LFP's situation with Mediapro (debtor of €827.5m excluding VAT in 20-21) exposes the clubs to additional uncertainties. There are 2 unknowns at present: whether Mediapro's unpaid instalments will be recovered (around €260m) and what the amount of the resale of the rights to a new broadcaster will be.

4

In Europe, significant economic and financial impacts and support measures are generally less extensive than in France.

Support measures for clubs in major European championships

Most European championships have come to an end allowing clubs to collect at least part of the TV rights revenue while French clubs have received a refundable advance from the LFP. The partial unemployment scheme has been offered but, as in France, it mainly concerns administrative staff. Games at closed-door remains the norm throughout Europe.



- Creation of a sports fund fed by 0.5% of the amount of sports bets
- Suspension of the payment of rent for public stadiums (March, April, May)
- Postponement of the payment of salaries in June, July and August by some clubs



- Recourse to bank loans
- The Premier League and the English Football League (EFL) will lend €276M interest-free to 2nd and 3rd division clubs
- The public is back partly since 2 December



- Wage cuts achieved in some clubs
- Setting up a collective loan guaranteed by TV rights
- State-guaranteed loans (ICO)



- Decrease in players' wages during the stoppage of the last championship
- Support fund of €20M created at the beginning of the crisis by the clubs that played in European competitions.
- VAT reduction, state-guaranteed loans, short-time work (Kurzarbeit)
- Suspension of the licensing regulations in 2020-21 (no sanctions)



- The Sporta union has obtained a pay cut for players during the clubs' inactivity.
- Support fund for clubs that have not had recourse to technical unemployment and supplied by clubs that have played in European competitions



- Decrease in the wage bill
- Support fund of CHF 115 million for football and professional sport (without reimbursement)



- Deferral of charges
- 11M€ support fund funded by national players or sponsors
- Government subsidies to cover part of the wage bill (up to 20% of turnover until June 2021)



- Deferral of charges
- TV rights paid in full following the end of the championship played in June/July.
- Compensation for operating losses as long as there are restrictions on access to the stadium
- Gauge according to the capacity of the stadium



The opinion of European football directors

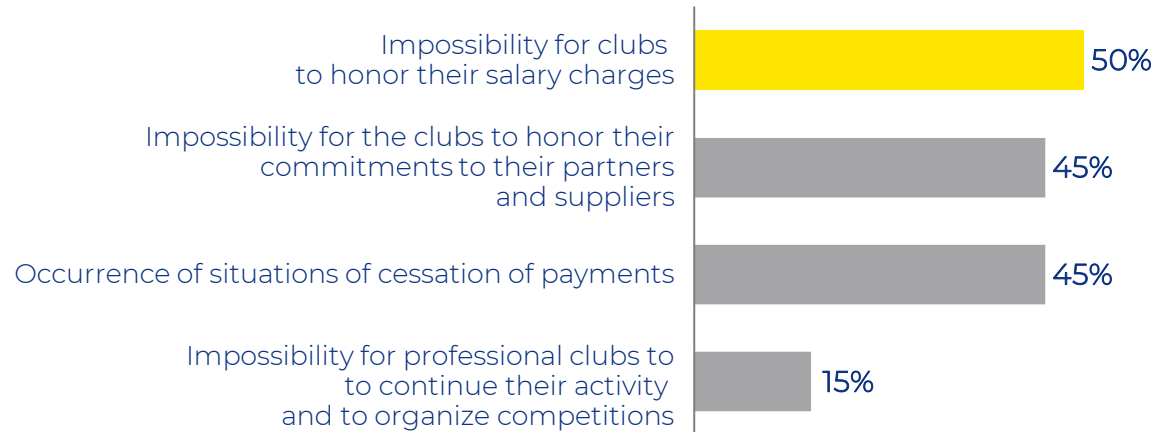
« *The government cannot support professional clubs through new specific measures. In terms of public opinion and general interest, this is indefensible.* »

5

In France, the directors are worried about the future of French football and warn of the long-term economic and social consequences of the crisis.

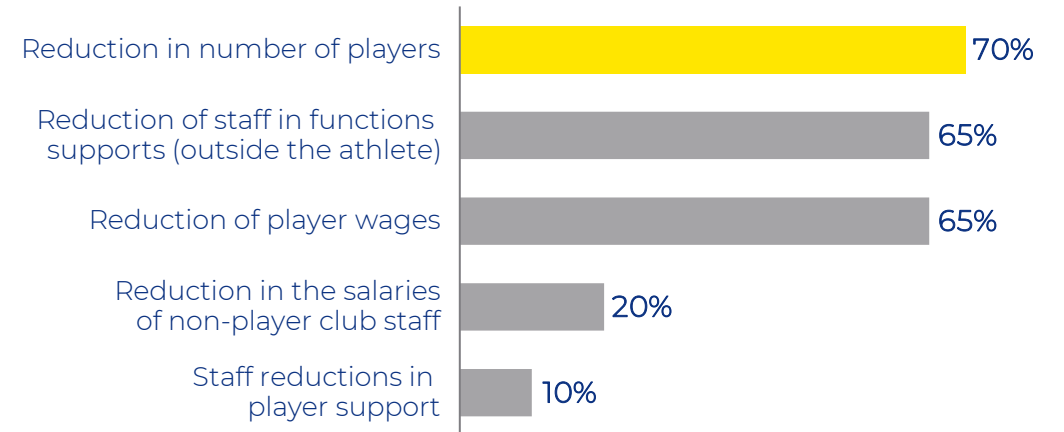
Economic and financial impacts to be expected between now and the end of the season according to French football directors

In your opinion, what are the most likely economic and financial impacts between now and the end of the season for professional football in France?



Social impacts to be expected by the end of the season according to French football directors

In your opinion, what are the most likely social impacts between now and the end of the season for professional football in France?



- ▶ The directors are very cautious about the clubs' ability to meet their short-term commitments. They are all aware that a readjustment of expenses is absolutely essential.
- ▶ The clubs are aware of their importance in the territory and are worried about the economic consequences for their local service providers and suppliers.



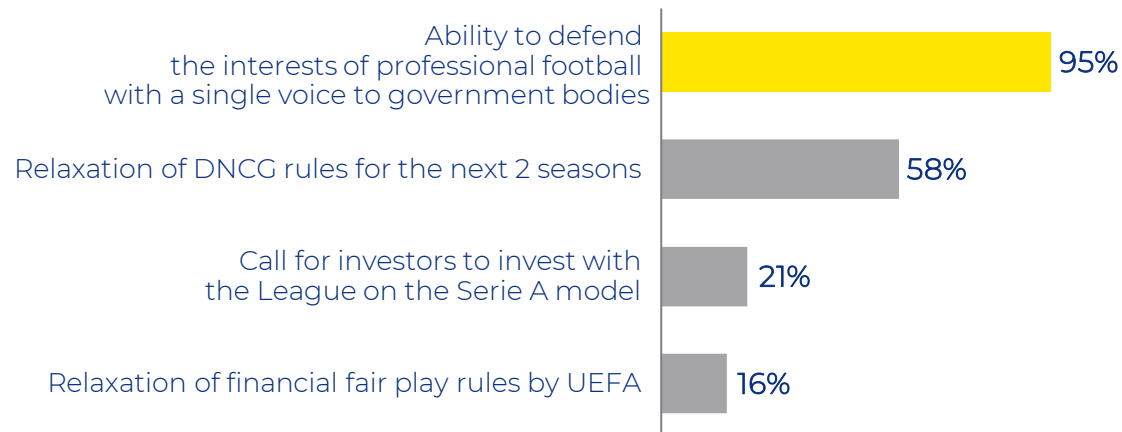
The understanding of Sport Value

The clubs are fully aware of the need to take action on costs, particularly salaries. It seems essential to consider the issue on an equal footing, and the clubs must agree on a global strategy to respect the adjustment of their payrolls according to their income.

6 The directors' expectations towards the institutions

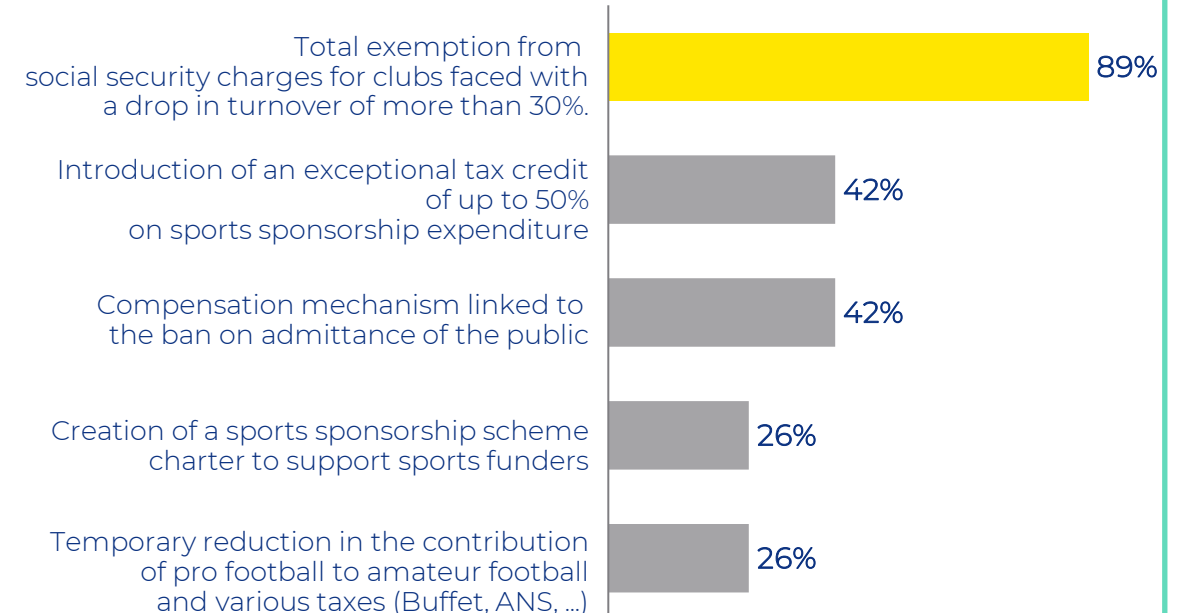
Expectations of club directors towards the French football authorities

What do you expect from professional football bodies to help you through this difficult period?



Expectations of club directors towards government authorities

What are your expectations from government authorities to help you through this difficult period?



The understanding of Sport Value

A medium-term strategy is not built on exceptions. Exemptions raise problems of competition and sustainability over time. It is necessary to think about mechanisms based on optimisation that will limit the volatility of the current economic model. It also seems essential that the League should once again become the home of football, where people only talk about the game. The authorities are not equipped to manage economic development. Special interests have gained the upper hand, taking advantage of a stacking of governance structures that undermines efficiency and agility.

The crisis has pointed to a flaw in the embodiment of football and necessitates a temporary review of the DNCG's economic control criteria

- ▶ Clubs point out the difficulties posed by the lack of consensus
- ▶ DNCG criteria becoming inapplicable due to the crisis, clubs want a temporary revision.
- ▶ In order to encourage sponsors to remain loyal or to commit, clubs are calling for an incentive system.
- ▶ The clubs also want measures to compensate for loss of revenue (a €48M envelope has since been earmarked for professional football).



The expectations of European football leaders

"Football needs safeguards because it is a very emotional business.»

"The risks inherent in the economic model require institutions and regulators to have a very high level of competence with a medium to long-term strategy.»

"Governance and decision-making bodies need to be simplified and the concentration of powers too oriented by short-term particular or economic interests must be avoided.»



The understanding of Sport Value

The DNCG must move from a one-season accounting mode to a dynamic approach focused on medium-term cash flow. The 3-year plan requested to the clubs is rarely debated and sometimes even ignored by the clubs. But it is a way of making them responsible for the implementation of medium-term strategic and financial plans with a reflection on the operating, investment and financing model. The DNCG must equip itself with the human and IT resources to structure this preventive approach.

8

In the future, French football directors recommend relying on a triptych of content / stadium revenues / caution

- ▶ In the midst of a storm over TV rights and the non-payment of deadlines by Mediapro, the subject of content distribution is at the top of the list of opportunities and solutions favoured by French directors.
- ▶ The optimisation of revenues from stadium operations is becoming a priority over pure sponsorship label policies.
- ▶ Finally, the constitution of reserves to buffer against exceptional shocks is evoked.



The understanding of Sport Value

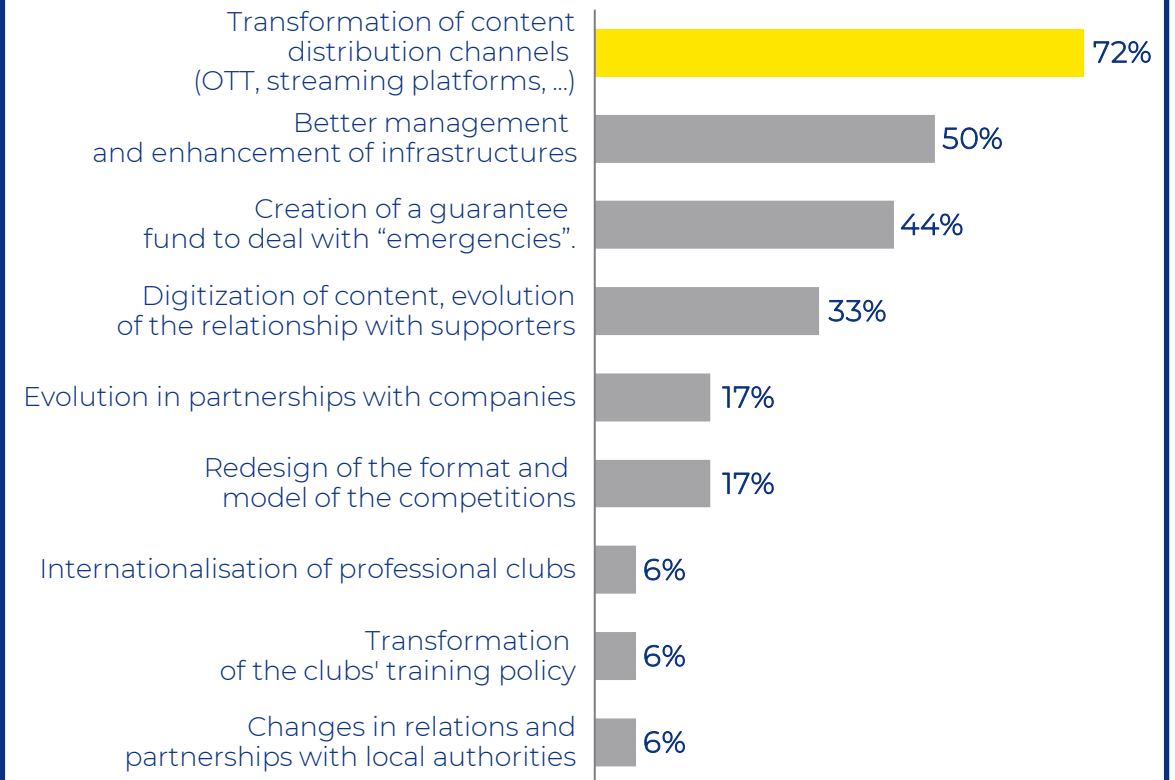
Rather than marketing TV rights through a commercial company, it seems more strategic to us to control its content and develop internationally. Moreover, OTT does not seem to us to be a miracle solution and can only be studied with the expertise of professionals from the sports, music or film industries.

French clubs are still lagging far behind at the European level in generating commercial revenue and need to launch a major development plan.

Finally, the setting up of a capitalized guarantee fund to supplement relegation aid could help the industry to cope better with the risks.

Opportunités / solutions des dirigeants pour la relance et l'avenir du football français

In your opinion, what opportunities could arise from the current crisis?



1

ECONOMY / FINANCE

- ▶ A new accounting method for transfers. The accounting of transfer revenues in one time while expenses are amortized over the duration of the contracts creates harmful effects (dependency, financing needs, etc.).
- ▶ A new mode of remuneration. The decline in club revenues must be accompanied by a new method of remuneration, with more variability based on results. A common and supportive position must be found among the players.
- ▶ Facilitating access to credit. The need for liquidity is urgent and not all clubs can benefit from a capital increase.

2

GOVERNANCE

- ▶ Improve decision-making processes. Insist on procedures that avoid overly intuitive decisions, welcome independent professionals, allow a real separation between the execution of decisions and their control.
- ▶ Increase the level of skills. Rely on highly qualified experts on boards of directors.

3

REGULATION

- ▶ A priori control of the wage bill and the number of transfers. It is the club's contractual revenue that would set the level of transfers in order to maintain a sufficient level of results (this is the model of the Spanish Liga).
- ▶ Limitation of the number of professional contracts approved on the basis of a sporting criterion (number of matches, for example). Avoid "speculative" recruitments that harm players' careers. Re-establish a competitive balance. Limit the wage bill mechanically (volume effect).



The opinion of European football directors

« The change will come neither from FIFA nor UEFA but from the clubs via new practices. »

"A 10-year vision with an action plan is needed, but the special interests of families prevent them from projecting themselves. »

"European football needs a massive recapitalization plan of 6 billion euros. »

10 Another look: professional football stakeholders take the floor

1

ECONOMY / FINANCE

- ▶ Re-connect with fans and the public. The health crisis can distract football fans from stadiums and competitions.
- ▶ Rework the overall product. There is a decline in interest in the game, a trend that is reflected in declining audiences, especially for League 1.
- ▶ Readability and structuring of budgets. Clubs with a budget of €60m actually generate €20m in revenue and benefit from a €40m subsidy for TV rights.

2

GOVERNANCE

- ▶ Create new content and train the clubs. Some teams do not have all the resources and skills in-house. LFP must be a driving force on communication/marketing issues.
- ▶ DNCG must stop its strong accounting and censorship vision. It must also develop its documentation and make it much more readable on cash management.

3

REGULATION

- ▶ The creation of a closed league. This is a subject that comes up every year in the discussions and given the situation, some large clubs might think about it.
- ▶ Optimization of national and European calendars. In order to guarantee the show and the performances of the players.



The opinion of European football directors

"The reopening of the stands would bring in a little money and limit breakage. We need to prepare for a level of fan engagement that has declined.»

« It is necessary to reconquer civil society because the clubs are the driving forces of the territories, but they don't do enough, unlike the Premier League which does a lot of mutual aid and social work.»

« We discovered people who were unable to talk to each other, to put common interests above all else.»

11 Your contact to talk about it



Nicolas Blanc (CEO, Sport Value)

He founded Sport Value in 2005 with the aim of structuring and professionalizing the sports industry by providing strategic advice and financial solutions to players. Nicolas Blanc has conducted more than 200 missions for global players in the industry.

About Sport Value :

Sport Value is a firm specialised in advising and financing sports stakeholders in France and abroad. For 15 years, the company has been working with amateur and professional clubs, federations, local authorities, start-ups and specialised companies. Over the last 5 years, Sport Value has helped finance around €250 million for French clubs.



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