



**UNIVERSITA' DEGLI STUDI DI PADOVA**

**DIPARTIMENTO DI SCIENZE ECONOMICHE ED AZIENDALI "M.  
FANNO"**

**CORSO DI LAUREA MAGISTRALE / SPECIALISTICA IN  
BUSINESS ADMINISTRATION**

**TESI DI LAUREA MAGISTRALE**

**"BUSINESS MODEL AND FINANCIAL PERFORMANCE OF  
PROFESSIONAL FOOTBALL CLUBS"**

**RELATORE:**

**CH.MO PROF. ANTONIO PARBONETTI**

**LAUREANDO/A: GIACOMO CARPANESE**

**MATRICOLA N. 1130367**

**ANNO ACCADEMICO 2016 – 2017**

Il candidato dichiara che il presente lavoro è originale e non è già stato sottoposto, in tutto o in parte, per il conseguimento di un titolo accademico in altre Università italiane o straniere.

Il candidato dichiara altresì che tutti i materiali utilizzati durante la preparazione dell'elaborato sono stati indicati nel testo e nella sezione "Riferimenti bibliografici" e che le eventuali citazioni testuali sono individuabili attraverso l'esplicito richiamo alla pubblicazione originale.

Firma dello studente

---

## Summary

<b>CHAPTER 1 - INTRODUCTION.....</b>	<b>1</b>
1.1 ECONOMY PRINCIPLE .....	2
1.2 UEFA CLUB LICENSING AND FINANCIAL FAIR PLAY REGULATIONS.....	4
1.2.1 MANCHESTER CITY'S LIMITED CASE .....	11
1.2.2 FFP RESULTS BASED ON THE COST PER POINT.....	13
1.3.3 FFP FINAL CONCLUSIONS .....	20
1.4 AMERICAN SOCCER MODEL.....	22
<b>CHAPTER 2 - BUSINESS MODEL .....</b>	<b>26</b>
2.1 GOVERNANCE MODEL AND MANAGEMENT - OPEN VS CLOSED MODEL.....	26
2.2 MAIN REVENUES AND COSTS .....	29
2.2.1 REVENUES AND TRENDS.....	30
2.2.2 COSTS AND TRENDS .....	39
2.2.3 ECONOMIC CORRELATION BETWEEN COSTS AND REVENUE AND COMPARISONS .....	45
2.3 STADIUM .....	49
2.3.1 THE ITALIAN SITUATION .....	50
2.3.2 EUROPEAN SITUATION AND COMPARISONS.....	52
<b>CHAPTER 3 - ACCOUNTING INFORMATION .....</b>	<b>57</b>
3.1. DISPOSAL ON PLAYERS' REGISTRATION RIGHTS - NATURE AND ECONOMIC MEANING.....	57
3.2. CREATIVE ACCOUNTING .....	60
3.2.1. FICTITIOUS CAPITAL GAIN AND EXCHANGE .....	61
3.2.2 DEPRECIATION PROCESS .....	65
3.2.3 LOAN WITH RIGHT OR BINDING OPTION TO SIGN .....	70
3.2.4 SALE OF THE BRAND.....	74
<b>CHAPTER 4 - FINANCIAL PERFORMANCE.....</b>	<b>78</b>
4.1 MILAN'S FINANCIAL PERFORMANCE.....	79
4.2 JUVENTUS' FINANCIAL PERFORMANCE .....	84
4.3 FINANCIAL STATEMENTS INDEXES EVALUATION OF MILAN AND JUVENTUS ..	90
4.4 EUROPE TOP CLUBS' REVENUE GROWTH IN 2017 AND COMPARISONS WITH THE PREVIOUS YEARS .....	96
<b>CHAPTER 5 – CONCLUSION .....</b>	<b>101</b>
<b>BIBLIOGRAPHICAL REFERENCES .....</b>	<b>104</b>



## **CHAPTER 1 - INTRODUCTION**

This topic has the objective of analyzing the football clubs considered as a commercial firm, observing the main aspects to success and to a sustainable development.

The analysis will be conducted using historical, social, economic and financial data and numbers.

This work consists of five chapters.

The first chapter presents the traditional characteristics of a normal company, economics and sustainability, which are becoming much more important in recent years in relation to football clubs.

In the past sport results were the most important aspects. However nowadays we are looking at a change which is a combination of sport and commercial results taking place. Football clubs are moving from non-profit to profit-oriented firms. Sometimes economic numbers related to revenue, costs and earnings are so essential that they put the result on the field in the background forgetting about the basic football principles as a sport.

The same reasoning does not apply to the American football model which is a utility-oriented model based on an exemption system (this will be dealt with later).

Financial fair play is also playing a fundamental role towards economic and sustainability principles. This regulation, approved in 2010 and entered into force in 2011, aims at corporate self-financing and break-even point in the financial statements within a limited number of years.

Chapter two includes a complete analysis of football clubs business models. This includes governance, management, main revenue, costs, football stadiums as an important element to increase either revenue from tickets sale or supplementary service revenue as bars, restaurants, shops, marketing and communication and finishing up with property transfers.

The third chapter takes into consideration more empirical data concerning accounting systems and creative accounting. Creative accounting consists of accounting practices that follow required laws and regulations but deviate from what those standards intend to accomplish. Creative accounting capitalizes on loopholes in the accounting standards to falsely portray a better image of the company. Although creative accounting practices are legal, the loopholes they exploit are often rewritten to prevent such behaviors. Football industry, which includes both listed and unlisted companies, is a specific sector where creative accounting practices are widespread and well known.

Chapter four explores financial performances related to the impact of 2017's transfer market window and financial statement repercussions in relation to AC Milan and FC Juventus.

Furthermore, it shows the top European clubs' revenue growth and comparisons between the top five's championships in term of revenue.

Chapter five develops conclusions and some personal thinking and consideration about the football world in general today.

In the end, I would like to thank my supervisor for the guidance and advice he has provided throughout my time as his student.

## **1.1 ECONOMY PRINCIPLE**

A company to be an economic organization must be lasting. It must be carried out according to working conditions that will allow it to last over time in a changing environment. This principle can be applied not only to a normal commercial firm but also to a football club. Lasting means the business must be conducted on an ongoing concern principle<sup>1</sup>.

Any enterprise that intends to last and does not have to depend on the benevolence of a stakeholder must pursue economic conditions that are conditions of income balance and monetary equilibrium.

In order to better describe this principle, a preliminary distinction must be as follows.

- **Income equilibrium** - It is obtained when revenue from the sale of goods and services to the market cover the costs incurred for the purchase of all the production factors. Only when positive income components cover the negative ones can the enterprise be considered vital or capable of living autonomously without the need for third party intervention. The company must be efficient and stable at an average level of efficiency expressed in terms of production process technical performance. In the long run, the business activity must be capable of producing a profitability that is enough to remunerate the invested capital and also to a certain extent produce self-financing. This objective is obviously achieved if the company is able to produce revenue higher than costs in year-by-year business operations and therefore profits.
- **Monetary equilibrium** - Situation reflecting the company's ability to cope with cash outflows with its own revenue. This is a dynamic concept as it derives from the comparison of two cash flows over time. It depends not only on the amount of cash inflow and outflow but also on their frequency. In other words, the cadence of the first may not coincide with the second so in a given time cash-in may differ from

---

<sup>1</sup> Going concern is an accounting term for a company that has the resources needed to continue to operate indefinitely until that company provides evidence to the contrary. This term also refers to a company's ability to make enough money to stay afloat and avoid bankruptcy.

cash-out even if revenue and costs are equivalent. If cash outflow is higher than cash inflow, this generates the use of external sources of financing such as loans. If cash inflow is higher than cash outflow, this generates excess of liquidity. Hence, the company must be momentarily able to meet the payment commitments. It is financial management's task to provide sufficient financial resources to enable the company to carry out the business. Looking at the short run, for instance, a situation in which we have monetary equilibrium is when account receivables are able to cover account payables without considering inventory estimates.

In other words, the economy is the institution's ability to operate without accumulating losses. At the same time, other aspects are effectiveness, efficiency, institutional equilibrium, durability and autonomy which can be linked to the definition of economy.

Effectiveness refers to the extent to which an activity achieves desired outcomes. It refers to the company's ability to achieve what it set out to do. Measures of effectiveness focus on the comparison of actual results with present expectations or standards.

Efficiency, by contrast, refers to the level of resources that were consumed to achieve a certain level of output. It is related to how many resources were used to achieve the actual output. Efficiency focuses on ratios of inputs to outputs.

In other words, efficiency means "doing the thing right," effectiveness means "doing the right thing".

Institutional equilibrium means all members of the institute share the values and objectives of the institute and receive rewards considered appropriate for the efforts.

It is a long-term equilibrium and there is institutional balance when the members stay in the company.

These general principles and rules also count for football companies.

Football has become a high-intensity sport business in recent years being able to generate large amounts of revenues, costs, investment and therefore financial flows.

For these reasons the management of a soccer company now has major implications from the point of view of management, economics and finance.

Any club has to deal with aspects such as business organization, budgeting schemes, accounting, obligations and equilibrium concepts.

In today's world a football club can be considered through and through as a business company driven by an economic entity who is responsible for organizing productive factors effectively and efficiently, with a certain level of decision-making autonomy.

The goal is not only to achieve the sporting result but also short and long-term economic balance by monitoring costs and avoiding waste of resources in order to generate financial flows that will enable business continuity.

## **1.2 UEFA CLUB LICENSING AND FINANCIAL FAIR PLAY REGULATIONS**

Platini, former UEFA's president and Financial Fair Play (FFP) creator, said that club owners themselves were asking for help "*After years of anarchy, it was time to give rules.*" They all agree, or almost do, that a model where a wealthy owner who invests money just in his spare time and then gets tired and leaves is no longer sustainable. Football does not have to be a toy for rich men anymore but it must be able to "stay alone". The FFP legislation does not have a coercive nature but it is intended to help clubs get out of a crisis situation that could be fatal to the whole system.

The introduction of FFP regulations is a direct response by UEFA to curb recent development where clubs during recent years, despite increased revenue, have experienced substantial losses. Clubs continuously spend more than what they earn which is reflected in their balance sheets. It wants to protect the health of football, its continuity and its long-term economic viability. To ensure fair competition, a certain financial rigor must be reached in order to stimulate investment in infrastructure and youth sector.

UEFA Club Licensing system has been introduced since 2004-2005 and it represents a key project to promote football club credibility. The aim is to pull European football to see behind the short run towards long-run goals.

The licensing systems consider that single European football legislations are responsible for the supervision and the respect of quality standards in compliance with laws and regulations.

It is the single legislation affiliated to UEFA<sup>2</sup> that has the power to grant the license.

In accordance with *UEFA club licensing and FFP regulation 2015* document<sup>3</sup>, a licence is a certificate granted by the licensor confirming fulfilment of all minimum criteria by the licence applicant as part of the admission procedure for entering UEFA club competitions. A license is necessary in order to take part in the UEFA's competitions.

Club licensing criteria are requirements divided into five categories (sporting, infrastructure, personnel and administrative, legal and financial), to be fulfilled by a licence applicant in order to obtain the licence.

To grant the license, the following criteria must be fulfilled:

---

<sup>2</sup> Union of European Football Association

<sup>3</sup> [http://www.uefa.com/MultimediaFiles/Download/Tech/uefaorg/General/02/26/77/91/2267791\\_DOWNLOAD.pdf](http://www.uefa.com/MultimediaFiles/Download/Tech/uefaorg/General/02/26/77/91/2267791_DOWNLOAD.pdf)



1. *Sporting Criteria* - The licence applicant must have a written youth development programme approved by the licensor. The licensor must verify and evaluate the implementation of the approved youth development programme. The club must prove to be able to conduct a youth development programme with good organisation of the youth sector managed by qualified personnel (technical, medical, administrative etc.) which meets the minimum qualifications required. The club must have available infrastructures which measure up to the youth sector and both training and match facilities. Furthermore, the company must organize education programmes on the Laws of the Game, anti-doping, racism and integrity. Furthermore, financial resources for the development of this area must be planned on a three-years basis.
2. *Infrastructure Criteria* - The licence applicant must have a stadium available for UEFA club competitions which must be within the territory of the UEFA member association and approved by the UEFA member association. Available stadium means property or having one for its own use. If the licence applicant is not the owner of a stadium, it must provide a written contract with the owner(s) of the stadium(s) it will use. The same applies to training facilities infrastructure and minimal availability.
3. *Personnel and administrative Criteria* – The licence applicant must have appointed an adequate number of skilled secretarial staff according to its needs to run its daily business. It must have an office space where to run its administration. It must ensure that its office is open to communicate with the licensor and the public and that it is equipped, as a minimum, with phone, fax, email facilities and a website.  
Skilled secretarial staff requires a general manager, sporting director, financial officer, media officer, medical doctor, physiotherapist, supporter liaison officer, head coach of first squad, assistant head coach and head of the youth development programme.
4. *Legal Criteria* – The licence applicant must submit a legally valid declaration confirming it knows statutes, regulations, directives and decisions of FIFA, UEFA, the UEFA member association and, if any, the national league as well as the jurisdiction of the Court of Arbitration for Sport and others.
5. *Financial Criteria* – The licence applicant determines and provides to the licensor, year by year and based on the established expiry dates, the annual and ad interim financial statements. In addition the licence applicant must prove that as at 31 March preceding the licence season it has no overdue payables towards other

football clubs as a result of transfers undertaken prior to the previous 31 December. At the same time the licence applicant must prove that as at 31 March preceding the licence season it has no overdue payables in respect of its employees as a result of contractual or legal obligations that arose prior to the previous 31 December. The same also applies for overdue payables towards social tax authorities.

A debt shall not be deemed to be expired in the event of an extension of the term with the creditor or in the case of litigation. Further, the club whom receives the license, must provide additional future financial information in order to demonstrate to the licensor its ability to continue as a going concern until the end of the licence season. Two indicators must be satisfied which are going concern and negative equity. If at least one of these two indicators is not respected, the club has to provide additional future information on a quarterly basis which are profit and loss statement, cash flow statement and notes to the financial statements.

Financial fair play regulations were instead introduced in 2010 in addition to the UEFA licensing system. It means that after the license has been granted, in the case of UEFA's competitions, clubs must respect FFP requirements. FFP initiatives are limited to European competitions.

An independent and financial supervisory body, the Club Financial Control Panel, has been created in order to not only monitor and control the single football federations activity, but also verify that all clubs taking part in European competition respect the FFP requirements.

FFP regulation starts with the description of CFCP's responsibilities (see above) and with the monitoring process.

The monitoring process starts on submission by the licensor of the list of licensing decisions to the UEFA administration and ends at the end of the licence season.

It consists of the following minimum key steps:

1. Issuing of the monitoring documentation to the licensor and licensee;
2. Return of the completed required monitoring documentation by the licensee to the licensor;
3. Assessment and confirmation of the completeness of each licensee's documents by the licensor;
4. Submission of the validated documentation by the licensor to the UEFA administration;
5. Assessment of the documentation by the UEFA Club Financial Control Body;

6. If appropriate, request for additional information by the UEFA administration or UEFA Club Financial Control Body;
7. Decision by the UEFA Club Financial Control Body.

The licensor is the body that operates the club licensing system, grants licences and undertakes certain tasks in respect of the club monitoring process. In Italy, the Italian football League fulfill this role.

The licensor (the federation) must:

- Cooperate with the UEFA Club Financial Control Body in respect to its requests and enquiries;
- Assess and confirm to the UEFA Club Financial Control Body that the selected reporting perimeter is the same as used for the fulfilment of the club licensing criteria and is appropriate for club monitoring purposes;
- Inform the UEFA Club Financial Control Body of any relevant information submitted by the licensee in respect of club monitoring requirements and any event occurring after the licensing decision that constitutes a significant change to the information previously submitted by the licensee.

The licensee (the club) must inform its own federation in case of any event that might represent a significant change with respect to the previous information sent.

What are the Financial Fair Play criteria? After granting the license all clubs must respect FFP requirements:

1. Break-even requirements;
2. No overdue payables towards third parties;
3. Additional information.

Break-even point is the point in which costs are equal to revenue. Thus company does not incur any loss. Break-even requirements force clubs to operate within their means arising from revenue and the enhanced overdue payables rules encourage clubs to settle their debts when due.

Not all the income components are considered relevant for the break-even result computation. Example of *relevant revenue*<sup>4</sup> are gate receipts, sponsorship and advertising, broadcasting rights, commercial activities, UEFA solidarity and prize money, other operating income, profit on disposal of player registrations (and or income from disposal of player registrations), excess proceeds on disposal of tangible fixed assets, finance income and foreign exchange result.

---

<sup>4</sup> Relevant income must be decreased if any of the elements above include any of the following items: non-monetary credits/income, income transaction(s) with related party(ies) above fair value, income from non-football operations not related to the club.

Example of *relevant costs*<sup>5</sup> are cost of sales or materials, employee benefits expenses, other operating expenses, loss on disposal and amortisation or impairment of player registrations (and or costs of acquiring player registrations), finance costs and dividends.

Other important requirements are notion of monitoring period, notion of break-even result, notion of acceptable deviation and break-even informations.

A monitoring period is the period over which a licensee is assessed for the purpose of the break-even requirement. As a rule it covers three reporting periods as follows.

- i) The reporting period ending in the calendar year that the UEFA club competitions commence (hereinafter: reporting period T), and
- ii) The reporting period ending in the calendar year before commencement of the UEFA club competitions (hereinafter reporting period T-1), and
- iii) The preceding reporting period (hereinafter reporting period T-2).

As an example, the monitoring period assessed in the licence season 2015/16 covers the reporting periods ending in 2015 (reporting period T), in 2014 (reporting period T-1) and in 2013 (reporting period T-2).

The difference between relevant income and relevant expenses is the break-even result.

If a licensee's relevant expenses are less than relevant income for a reporting period, then the club has a break-even surplus. If a club's relevant expenses are greater than relevant income for a reporting period, then the club has a break-even deficit.

The aggregate break-even result is the sum of the break-even results of each reporting period covered by the monitoring period (i.e. reporting periods T, T-1 and T-2).

If the aggregate break-even result is positive (equal to zero or above), then the licensee has an aggregate break-even surplus for the monitoring period. If the aggregate break-even result is negative (below zero), then the licensee has an aggregate break-even deficit for the monitoring period.

In case of an aggregate break-even deficit for the monitoring period, the licensee may demonstrate that the aggregate deficit is reduced by a surplus (if any) resulting from the sum of the break-even results from the two reporting periods prior to T-2 (i.e. reporting periods T-3 and T-4).

---

<sup>5</sup> Relevant expenses must be increased if any of the elements above includes: expense transaction(s) with related party(ies) below fair value. Relevant expenses may be decreased if any of the elements above include any of the following items: expenditure on youth development activities, expenditure on community development activities, expenditure on women's football activities, non-monetary debits or charges, finance costs directly attributable to the construction and/or substantial modification of tangible fixed assets, costs of leasehold improvement, expenses of non-football operations not related to the club.

The acceptable deviation is the maximum aggregate break-even deficit possible for a club to be deemed in compliance with the break-even requirement as defined in Article 63.

The acceptable deviation is € 5 million. However, it can exceed this level up to € 30 million if such excess is entirely covered by contributions from equity participants and/or related parties.

A lower amount may be decided in due course by the UEFA Executive Committee.

With regard to break-even information, by the deadline and in the form communicated by the UEFA administration, the licensee must prepare and submit the following:

- i) The break-even information for the reporting period T-1;
- ii) The break-even information for the reporting period T-2, if not already previously submitted;
- iii) The break-even information for the reporting period T if it has breached any of the indicators defined as follow: going concern, negative equity, break-even results, absence of overdue payables.

In addition, the UEFA Club Financial Control Body reserves the right to ask the licensee to prepare and submit the break-even information for the reporting period T and additional information at any time, in particular if the annual financial statements reflect that:

- a) Employee benefits expenses exceed 70% of total revenue; or
- b) Net debt exceeds 100% of total revenue.

The break-even requirement is fulfilled if no indicator (as defined above) is breached and the licensee has a break-even surplus for reporting periods T-2 and T-1.

Other monitoring requirements are the absence of overdue payables towards third parties.

As at 30 June and as at 30 September of the year in which the UEFA club competitions commence, the licensee must not have any overdue payables towards other football clubs as a result of transfers undertaken up to 30 June and up to 30 September respectively.

As at 30 June and as at 30 September of the year in which the UEFA club competitions commence, the licensee must not have any overdue payables in respect to its employees and social/tax authorities (as defined Articles 50 and 50bis).

As for additional and final information, the licence applicant must prepare and submit future financial information in order to demonstrate to the licensor its ability to continue as a going concern until the end of the licence season if it has breached any of the following indicators which are going concern and negative equity.

The first two monitoring periods were 2011/12 and 2012/13. In those years, UEFA left the clubs the possibility to settle their own accounts without strict provisions. Only in the rare case of Atletico Madrid some measures were applied.

From the 2013/14 season, UEFA required more attention to FFP. It established that in each of the two-year periods 2011/13 and 2013/15 companies could afford a maximum total loss of € 45 million. In the three-year period 2015/18 the maximum threshold will be € 30 mln. In 2018 the maximum adjustable passport will be € 5 million per year.

In deficit situations the budget losses must be heavily secured by property contributions and or capital increases (listed companies). The use of loans, sureties or unclear financial transactions is specifically prohibited.

If a club is not in line with the regulations, UEFA Club Financial Control Body will decide on measures and sanctions.

Non-compliance with the regulations does not mean that a club will be excluded automatically but there will be no exceptions. Depending on various factors (i.e. the trend of the break-even result) different disciplinary measures may be imposed against clubs. The catalogue of measures is<sup>6</sup>:

- a) Warning;
- b) Reprimand;
- c) Fine;
- d) Deduction of points;
- e) Withholding of revenue from a UEFA competition;
- f) Prohibition on registering new players in UEFA competitions;
- g) Restriction on the number of players that a club may register for participation in UEFA competitions including a financial limit on the overall aggregate cost of the employee benefits expenses of players registered on the A-list for the purposes of UEFA club competitions;
- h) Disqualification from competitions in progress and or exclusion from future competitions;
- i) Withdrawal of a title or award.

---

<sup>6</sup> <http://www.uefa.com/community/news/newsid=2064391.html>

### 1.2.1 MANCHESTER CITY'S LIMITED CASE

Manchester City is one of the most important English football clubs. Whether the past was not characterized by sporting success and victories, something changed in 2008.

In that year Abu Dhabi's sheik, prince Mansur Bin Zayed, decided to enter in the football world and bought the club. Thanks to endless financial resources in the transfer market the team was going to embrace some of the best players in Europe. Stars like Davide Silva, Yaya Toure and Sergio Aguero joined the club. The success was not immediate but afterwards the club reached preset goals. Between 2010 and 2014 Manchester City won the FA Cup, League Cup, England Supercup and two Premier Leagues.

On the European stage the team has not yet been able to establish itself even though it has made substantial investments in the market year after year with the goal of getting, sooner or later, the most important trophy which is the UEFA Champions League.

This is totally the reason why the ownership has been submitted to FFP controls.

In the last five seasons (2012-2016) the sheik has paid around € 692 mln<sup>7</sup> to buy new players and outperformed the other clubs for total investments made. In both the 2015/16 and 2016/17 transfers market Manchester City spent more than € 200 mln. Currently, considering also 2017 transfer market summer session, Manchester City is the most expensive team in football history with a total amount of € 853 mln spent.

Some of the other more important European teams started complaining about these crazy investments criticising the fact that they would have not been able to compete at this financial level.

As said, the ownership snapped into focus of UEFA's Control Commission. In the initial FFP control period related to 2011/13 the club reported financial cumulative losses of € 170 mln which significantly exceeded the limit of € 45 mln.

Aside from the transfers market expenditures the Citizens hold the record related to wage and salary expenses. In 2011/12 and 2012/13, when financial controls started, the incidence of personnel wages and salaries over sales turnover was more than 85%<sup>8</sup>.

Both parameters, financial cumulative losses and wages over turnover, would be out of FFP's allowed limits.

The British club leaders were called upon to make their version of the facts in front of the UEFA's leadership with a structured defensive thesis.

Attorneys have highlighted the great efforts made to fit into the imposed parameters by implementing a strategic plan that is reducing the losses. The City has risen in three years from

---

<sup>7</sup> [https://www.transfermarkt.it/manchester-city/transfers/verein/281/plus/0?saision\\_id=2016&pos=&detailpos=&w\\_s=](https://www.transfermarkt.it/manchester-city/transfers/verein/281/plus/0?saision_id=2016&pos=&detailpos=&w_s=)

<sup>8</sup> Deloitte annual review of football finance 2013

an annual budget in the red of € 230 mln (2011/12) to a narrower loss of € 60 mln in 2013/14. This is a reduction of more than 70%. This has been positively seen by UEFA for inspection purposes.

Other positive considerations include increasing annual revenue, diversification of revenue, total absence of debt and strong investment in infrastructure and youth football.

Club administrators have tried to rely on these topics to demonstrate to UEFA the effectiveness of their long-term business plans and their projects in the long run which forecasted budget constraints and the achievement of break even results in a few years.

The defence topics was partly accepted in May 2014 but did not remove the club from the following sanctions, as reported by *La Gazzetta dello Sport* (2014)<sup>9</sup>:

- A fine of € 60 mln held by UEFA's revenue on European competitions. € 40 mls will be returned in the coming seasons if the club will adapt to the expected financial parameters;
- Prohibition to increase the current wage bill (instead it has been reduced over the years);
- Reduction of the number of players in the team from 25 to 21.

Current results are much more encouraging demonstrating that even a ownership with unlimited financial capacity, if well managed, can achieve sustainable financial performance.

Record revenue of € 514 mln announced in the eighth successive season of improved year on year financial performance. Record € 27 mln figure represents the second consecutive year of profitability for the club (exchange rate euro/pound at 31/05/2016 of 0,7618). Wage/revenue ratio of 50% is among the best in the football industry. The club continues to operate with zero financial debt<sup>10</sup>.

For these reasons Manchester City no longer risk UEFA's fines and penalties for breaking "Financial Fair Play" rules in 2014.

UEFA said the club complies with ongoing clauses such as limiting their spending on wages and transfers through 2016.

It means Man City forfeited only € 20 mln in Champions League prize money instead of the maximum € 60 mln that UEFA threatened to withhold.

---

<sup>9</sup> <http://www.gazzetta.it/Calcio/Estero/16-05-2014/uefa-fair-play-finanziario-multa-60-milioni-manchester-city-psg-80687605057.shtml>

<sup>10</sup> Manchester City's annual report 2015/16: <https://www.mancity.com/news/club-news/club-news/2016/october/2016-annual-report>



## 1.2.2 FFP RESULTS BASED ON THE COST PER POINT

In this section we are going to revise last seasons' sporting results (Serie A and Premier League) supposing each team achieves break-even result.

This method is based on the cost per point of each team in relation to the total turnover. This gives the possibility of getting the points each club would have obtained in relation to break even point realization. In case of economic loss final points decrease and in case of economic profit final points increase.

This criteria is either subjective or debatable but it repays both sporting and financial performance results at the same time.

Extraordinary income components are not being considered in the total outcome.

Earnings before taxes are being considered in order to eliminate differences in taxation laws between countries.

The calculation procedure is the follow:

$$\text{Outcome} - \text{wages} = X$$

$$X - (\text{earnings before taxes}) = \text{Other costs}$$

$$\text{Other costs} + \text{wages} = \text{Total costs used as cost per point basis}$$

$$\text{Total costs} / \text{effective points} = \text{Cost per point (in mln)}$$

$$\text{Outcome} / \text{cost per point} = \text{FFP points}$$

The first case we are going to analyze is the Italian League in 2014/15 season.

### Italian football League – Serie A 2014/15 (\*000 €)

CLUB	OUTCOME	WAGES	EBT	RANK	POINTS	COST PER POINT	FFP POINTS	FFP RANK
Juventus	343,635	198,430	10,808	1	87	3,826	90	1
Roma	206,160	133,179	-35,444	2	70	3,451	60	4
Lazio	110,929	57,910	8,311	3	69	1,487	75	2
Fiorentina	94,340	71,952	-49,415	4	64	2,246	42	9
Napoli	143,398	79,735	-14,875	5	63	2,512	57	5
Genoa	78,686	44,240	-33,247	6	59	1,897	41	10
Sampdoria	59,190	43,866	-23,281	7	56	1,473	40	13
Inter	146,840	106,357	-80,045	8	55	4,125	36	18
Torino	59,927	34,826	17,435	9	52	817	73	3
Milan	232,322	146,806	-84,549	10	52	6,094	38	14
Palermo	90,825	39,600	-3,278	11	49	1,920	47	6
Sassuolo	66,371	43,075	-21,097	12	49	1,785	37	15
Verona	51,059	31,738	-7,959	13	46	1,283	40	12
Chievo	55,420	26,211	673	14	43	1,273	44	7

Empoli	39,623	17,783	706	15	42	927	43	8
Udinese	52,341	31,236	-7,078	16	41	1,449	36	17
Atalanta	61,207	32,134	-2,074	17	37	1,710	36	16
Cagliari	67,950	20,026	9,766	18	34	1,711	40	11
Cesena	49,188	16,633	462	19	24	2,030	24	19
Parma	103,061	40,669	-11,939	20	19	6,053	17	20
<b>Total</b>	<b>2,,112,472</b>	<b>1,216,406</b>	<b>-326,120</b>					

Source: Aida for financial statements. For Fiorentina, Sassuolo, Milan, Genoa, Torino, Atalanta, Sampdoria financial statement at 31/12/14; for the others financial statement at 30/06/15

Italian League A in 2014/15 saw Juventus' victory, as happened in the previous four years, with more than 17 points from Roma which ranks in second position.

This is a clear lead advantage that shows how Juventus is widely deserving the absolute Italian dominance in recent years. This is possible thanks to the excellent performance provided on the field together with excellent financial performance results.

In fact it can be noticed how Juventus consolidates its first position even compared to the break even point, even increasing the points obtained.

The highest cost per point are those of Milan and Parma, over € 6 mln, followed by Inter in third place.

The two Milanese teams record the highest losses. This justifies their positions lost in the ranking.

Inter has the worst results. It lost positions and therefore ends up the championship in the eighteenth position moving back to league Serie B.

Fiorentina, in spite of the good sports performance, loses several positions and comes out of European competitions. The reason is definitely related to the significant loss that comes to almost € 50 million.

Turin's results are outstanding thanks to the careful management of President Cairo. The team magically reaches third place and therefore the Champions League.

Two teams with limited turnover, cost-saving policies that survive through the capital gains of their players, Chievo and Empoli, earn seven positions respectively.

Besides, Inter, as already mentioned, Cesena and Parma would be relegated in the field to retire in Italian Serie B.

The second case we are going to analyze is the Italian League in 2015/16 season.

**Italian football League – Serie A 2015/16 (\*000 €)**

CLUB	OUTCOME	WAGES	EBT	RANK	POINTS	COST PER POINT	FFP POINTS	FFP RANK
Juventus	386,108	216,905	11,608	1	91	4,115	94	1
Napoli	155,354	81,854	-2,428	2	82	1,924	81	2
Roma	285,360	150,660	-5,539	3	80	3,636	78	3
Inter	182,192	109,573	-72,626	4	67	3,803	48	10
Fiorentina	131,326	74,714	-15,115	5	64	2,288	57	5
Sassuolo	87,308	46,875	2,231	6	61	1,395	63	4
Milan	221,035	155,721	-94,440	7	57	5,535	40	15
Lazio	93,557	56,294	-11,352	8	54	1,943	48	9
Chievo	66,002	26,608	320	9	50	1,314	50	7
Genoa	100,629	44,015	-10,112	10	46	2,407	42	12
Empoli	51,506	25,355	2,690	11	46	1,061	49	8
Torino	84,532	38,752	14,663	12	45	1,553	54	6
Atalanta	74,329	31,969	-1,521	13	45	1,686	44	11
Bologna	48,637	46,885	-31,999	14	42	1,920	25	19
Sampdoria	85,226	42,713	-1,091	15	40	2,158	39	16
Palermo	56,377	37,632	1,470	16	39	1,408	40	13
Udinese	60,453	33,225	-36,190	17	39	2,478	24	20
Carpi	34,097	14,612	1,374	18	38	861	40	14
Frosinone	30,150	19,927	1,114	19	31	937	32	17
Verona	56,548	27,971	662	20	28	1,996	28	18
<b>Total</b>	<b>2,290,726</b>	<b>1,282,260</b>	<b>-246,281</b>					

Source: Aida; for Fiorentina, Sassuolo, Milan, Genoa, Torino, Atalanta, Sampdoria financial statement at 31/12/15; for the others financial statement at 30/06/16

The 2015/16 season saw a gradual increase in both turnover and salaries. The salaries reached 56% of the turnover off 2% compared to the previous season. However, this drop in salaries is a constant during the last five seasons demonstrating that football clubs have increasingly adopted cost-saving policies especially about footballers' wages.

Juventus wins the championship again which is no surprise. Victory also manifested at FFP and turnover level farther away from that of all other clubs.

Compared to the previous season Milan and Inter cost-per-point indicators, which are among the highest in 2014/15, are reduced thanks to the highest points achieved and to massive cost-cutting policies. However, the position in the FFP ranking deteriorates significantly for both. Fiorentina and Sassuolo confirm their position and they reduce losses compared to the previous season.

Turin continues to climb the FFP ranking also in 2015/16 thanks to a good net profit of € 14 mln.

Despite relegation in the field Carpi achieves salvation thanks to the increase in TV rights revenue due to the transition from Serie B to Serie A.

Carpi's turnover in 2016 moved upward from € 10.3 million (€ 10,382,655) in 2015 to € 34 million (€ 34,096,884) in the year that the Emilians remained in League A.

An increase of just under € 24 million is almost exclusively justified by the difference in TV receipts between League B and League A. In the cadet League television revenue had risen to € 2.3 million euros (€ 2,337,371) and with the promotion rose to € 23.3 million (23,329,138) up by 898% (+ € 20.9 million). This has a very broad impact. In 2016 TV rights weighed 68.4% on overall revenue while in the budget at 30 June 2015 they were "only" 22.5%<sup>11</sup>.

Frosinone also achieves salvation thanks to the importance of TV rights on sales, which account for 65% of the total.

Finally, surprisingly, Udinese and Bologna retreat due to the huge losses.

What about English Premier League?

It is the most important and famous European championship, both by sporting and financial results. Considering the "Big Five"<sup>12</sup>, Premier League shows the following peculiarities. Highest turnover which keeps increasing year by year; the most watched championships in the world with the highest number of fans, mostly in Asia; highest numbers of investors or entrepreneurs who want to invest money in this business (lots of clubs are owned by foreign ownership); the most important championship per number of sponsorship agreements signed.

Related to sporting results the following two tables show seasons 2014/15 and 2015/16.

**Premier League 2014/15 ('000€)**

CLUB	OUTCOME	WAGES	EBT	RANK	POINTS	COST PER POINT	FFP POINTS	FFP RANK
Chelsea	319	217	-34	1	87	4.06	79	3
Manchester City	353	194	10	2	79	4.34	81	2
Arsenal	331	192	25	3	75	4.08	81	1
Manchester Utd	395	204	-4	4	70	5.70	69	6
Tottenham	196	107	12	5	64	2.88	68	7
Liverpool	298	167	60	6	62	3.84	78	4
Southampton	114	80	15	7	60	1.65	69	5

<sup>11</sup> <http://www.calcioefinanza.it/2016/12/19/bilancio-carpi-2016-impatto-diritti-tv/>

<sup>12</sup> Premier League, Serie A, Ligue 1, Liga BBVA, Bundesliga

Swansea City	103	83	2	8	56	1.80	57	10
Stoke City	100	67	6	9	54	1.74	57	9
Crystal Palace	99	68	8	10	48	1.90	52	13
Everton	126	78	-4	11	47	2.77	46	16
West Ham Utd	122	73	3	12	47	2.53	48	14
West Bromwich	96	70	4	13	44	2.09	46	15
Leicester City	104	67	26	14	41	1.90	55	11
Newcastle Utd	129	65	36	15	39	2.38	54	12
Aston Villa	113	87	-28	16	38	3.71	30	19
Sunderland	101	77	-25	17	38	3.32	30	18
Hull City	84	56	12	18	35	2.06	41	17
Burnley	79	29	35	19	33	1.33	59	8
QPR	86	73	-46	20	30	4.40	20	20
<b>TOTAL</b>	<b>3,348</b>	<b>2,054</b>	<b>113</b>					

Source: Annual review of Football Finance 2016; the Guardian newspaper<sup>13</sup>

The 2014/15 season ends up with Chelsea's victory, Manchester City in second place and Arsenal in third place.

The most important results can be seen from a turnover point of view. 15 teams exceed £ 100 mln; 4 teams over £ 300 mln with Liverpool approaching this threshold; the lowest turnover of £ 79 mln recorded by Burnley surpasses the one of 11 Italian teams in the same reference season.

Premier League clubs' wage costs exceed £ 2 billion for the first time in 2014/15 with an increase of 7%. Despite this cost control regulations at a domestic and European level continue to yield encouraging results with clubs having a more sustainable balance between costs and revenue.

Six clubs have a wages/revenue ratio in excess of 70% which is the indicative threshold level used by UEFA as part of their Financial Fair Play Regulations. Although there is an increase from two clubs in 2013/14 it is still a big reduction from the 11 which exceeded this level in 2012/13. Promoted club Burnley's wages/revenue ratio of 37% was the lowest in the Premier League since Manchester United recorded 33% in 1998/99<sup>14</sup>.

The largest pre-tax profit was achieved by Liverpool (£60m) driven by a £54m net profit on player trading due to the sale of Luis Suarez to Barcelona. Six clubs recorded pre-tax losses the highest being Queens Park Rangers (£46m)<sup>15</sup>.

<sup>13</sup> <https://www.theguardian.com/football/2016/may/25/premier-league-finances-club-by-club-breakdown-david-conn>

<sup>14</sup> Deloitte Annual Review of Football Finance 2016

<sup>15</sup> Ibidem note 10

Queens Park Rangers also records the highest cost per point penalized by only 30 points in the ranking and by the huge loss.

Arsenal wins the FFP ranking with 81 points, the same points of Manchester City but with a higher profit before taxes (value taken as reference in case of same score).

Due to good economic results in the first ten positions sporting results reflect FFP results with the exception of Burnley. Relegated in the field, it improves its position on the table league up to the 8th place thanks to incredible earnings before taxes of £ 35 mln.

Newcastle and Sunderland relegated in Championship League with respect to the real ranking due to a negative economic statement.

#### Premier League 2015/16 ('000£)

CLUB	OUTCOME	WAGES	EBT	RANK	POINTS	COST PER POINT	FFP POINTS	FFP RANK
Leicester City	128.7	80.4	1	1	81	1.58	82	2
Arsenal	347.4	195.4	2.9	2	71	4.85	72	4
Tottenham	209.8	100	38.5	3	70	2.45	86	1
Manchester City	391.8	197.8	19.6	4	66	5.64	69	5
Manchester United	515.3	232.2	48.8	5	66	7.07	73	3
Southampton	124.3	84.9	5.9	6	63	1.88	66	6
West Ham	142.1	84.6	-4.5	7	62	2.36	60	7
Liverpool	301.8	208.3	-19.8	8	60	5.36	56	8
Stoke City	104.2	82.3	2.1	9	51	2.00	52	9
Chelsea	329.1	222.4	-69.8	10	50	7.98	41	15
Everton	121.5	84	-24.3	11	47	3.10	39	17
Swansea City	97.2	81.8	-14.6	12	47	2.38	41	14
Watford	94.4	57.9	3.6	13	45	2.02	47	10
West Bromwich Albion	98.3	73.7	1.2	14	43	2.26	44	12
Crystal Palace	101.8	80.6	-6.9	15	42	2.59	39	16
AFC Bournemouth	87.9	59.6	3.4	16	42	2.01	44	11
Sunderlan	108.1	83.9	-33	17	39	3.62	30	19
Newcastle	125.8	74.7	4.2	18	37	3.29	38	18
Norwich City	97.8	67.2	19	19	34	2.32	42	13
Aston Villa	108.8	93	-80.7	20	17	1.15	10	20
TOTAL	3,636.1	2,244.7	-103.4					

Source: Annual Review of Football Finance 2017; [www.tifosobilanciato.it](http://www.tifosobilanciato.it)<sup>16</sup>

Leicester City wins the Premier League title in one of the greatest sporting stories of all time.

<sup>16</sup> <https://www.tifosobilanciato.it/2017/05/06/english-premier-league-conti-delle-squadre-nella-passata-stagione/>

It has lost only three league games in what has been described as a "fairytale" and the "most unlikely triumph in the history of team sport".

Premier League club accounts for the 2015-16 season show an overall state of health in terms of turnover and wealth. Profitability suffers for the negative results of Chelsea and Aston Villa due to the accounting for some extraordinary transactions.

The club with the biggest loss is the Aston Villa with £ 80,7 mln. On Chelsea's 2015/16 budget weighs two heavily anticipated contractual resolutions. The first with Mourinho for £ 8.3 mln and the second with 'Adidas' for £ 67 mln. In 2015/16, Aston Villa made an impairment loss of £ 34.8 mln.

Net sales of 2015/16 compared with 2014/15 increased by 8.7% or increasing by £ 288 mln to a record £ 3.6 billion in 2015/16.

Among the 17 clubs that were in the Premier League in both 2014/15 and 2015/16, the club which had the largest revenue, Manchester United, was also the fastest growing in 2015/16.

Revenue growth of £120m (30%) was principally due to their reported £ 75 mln per year kit deal with adidas. Manchester City generated the largest revenue increase (£ 40 mln) among the others 16 clubs.

Premier League clubs' wage costs continued to grow in 2015/16, reaching £ 2,2 billion for an increase of 9%.

The 17 clubs present in both the 2014/15 and 2015/16 Premier League seasons increased wage costs by an average of £ 13 mln each. Liverpool (£ 42 mln) and Manchester United (£ 37 mln) has the largest increases. As a result, Manchester United replaces Chelsea as the divisions's highest wage payer.

Seven Premier League clubs have a wage/revenue ratio in excess of 70% which is the indicative warning threshold level used by UEFA as part of their Financial Fair Play Regulations. This is an increase from six clubs in 2014/15. Leicester City, who ranked 15th in wage costs, outperformed their wage spending to an extent never achieved before in the Premier League history.

The first nine positions of the real rank are the same of the FFP rank, but with different positioning. Leicester and Tottenham change with each other the first position. Manchester United overcome Manchester City rivals, arriving in third position. Arsenal moves from second to fourth place.

There is also a surprise for this season called Norwich City. Relegated in the field, thanks to a consistent earnings before taxes of £ 19 mln, it improves its position until 13<sup>th</sup> place, obtaining the salvation in the FFP ranking.

As a conclusion, the Premier League final classification 2015/16 has denied the thesis that "wins who bills more".

In terms of domestic football Leicester City winning the Premier League is the greatest achievement ever and I think it will never be surpassed.

### **1.3.3 FFP FINAL CONCLUSIONS**

The FFP was born with a positive idea as its base. At a time when Europe experienced severe financial difficulties that led credit institutions, banks and states to bankruptcy, the football system had to be somewhat controlled.

Over the past decade the expenses incurred by the presidents and the heavy debt exposure towards the banks were sending the community a counter-current message to a sport based on strong positive values.

Self-sustainment, based on generating internally revenue that covers its costs, is a necessary but insufficient condition.

The new regulation not only aims to spend less but rather it is an invitation to spend better. This means avoiding crazy spending on players transfers, reserving important infrastructure investments such as stadiums and training centers or the youth sector.

The goal every company should look for is to seek new sources of earnings and not rely solely on capital gains. Although these line items are more ordinary than extraordinary in football, these can not be considered reliable and consistent sources of income as they vary from season to season based on players performance.

Selling the best players to balance the budget also has negative consequences on sports results. It is also well known how the sporting results influence the economic ones. In football the rule is "the more you win, the more profitable you are".

Team leaders have several tools available to increase their revenue. The main street leads to the construction of a owned stadium which is considered a true corporate solution. Many advantages will result from having a stadium. Fans who are most involved and stimulated to go to see the matches and thus more ticketing revenue; the stadium name divestiture, called naming rights, in exchange of multi-million-dollar sponsorships; organization of meeting, concerts and theme nights along with commercial services such as restaurants, bars and shops.

Therefore, in many cases a stadium can change the face of a whole geographic area, both sporty and economic-social.

Another key parameter to be assessed is indebtedness. Nowadays some clubs, who are spending a lot of money (probably too much) thanks to the unlimited funds of their owners



(Manchester City and PSG) do not have any unpaid debts to third parties. Others, assaulted by their creditors, are forced to sell their best players each year to reach break-even results. While in the first case football companies are under UEFA control or affected by millionaire fines, a highly conciliatory attitude towards highly-debited clubs is at stake.

Two examples are PSG and Atletico Madrid.

The french team, which does not have any bank debt position, spent more than € 400 million in the 2017's summer market session to buy Neymar and Mbappe and paid respectively € 222 and € 180 mln. UEFA's decision to verify PSG's accounts was obviously immediate. We are waiting for feedback and consequences, forecasted for 2018.

Different is the case of Atletico Madrid. The Spanish club lives in a situation of strong corporate uncertainty linked to the level of indebtedness both to lenders and to the tax authorities. The club is therefore often forced to surrender the best players to settle the budget accounts.

The difference with respect to the first case is UEFA's softer position towards Atletico Madrid situation even with the high level of indebtedness.

In 2016 FIFA banned Atletico Madrid from registering new signings for the next two transfer windows for breaching its rules on the international transfer and registration of players aged under 18 in addition to a few milion euros fine.

Some corporate models provide strong initial investments to achieve over the years not only technical but also financial wellbeing. Assessing club's expenses over a two-to-three years period is likely to be a mistake given that some business plans require, especially initially, longer implementation times. AC Milan is a case. Following the change of ownership in 2017 the company immediately made strong investments in the market exceeding € 200 mln. Here again UEFA has decided to investigate.

Milan has been free for the last three years because it has never qualified for a European competition. However, in the last season (2016/17) Milan has qualified for the European League and now the club has to comply with the FFP rules. It is already known that the company is far beyond the limits of allowed losses due to the debts accumulated in the last seasons. For companies with accounts not in line with FFP and which have recently changed ownership, UEFA allows the adoption of an investment plan - the Voluntary Agreement - which should allow the club to go back to the FFP parameters in five years instead of three avoiding penalties. In the case of Milan losses are considered a certainty in the coming season. If the company did not comply with the predictions provided, UEFA sanctions would be even harder.

The Voluntary Agreement presented by the Chinese ownership of Milan provides for a total of € 524 mln in revenue for the next five years. Part of the revenue should come from "Milan China" which is a newly founded company that will promote Milan in China and other Asian

countries with the goal of attracting new investors and increasing the Asian club business. The rest will depend on the results that the team will achieve, that is qualify for the Champions League in the next two seasons to allow the company to recuperate the expenses. UEFA, after receiving the documentation, asked Milan to make more detailed forecasts and postponed everything to October 2017.

With these predetermined time constraints it becomes difficult for an investor to enter the football business and drive a smaller club to success.

At the time it seems that UEFA is concerned about preserving the position of the main clubs rather than the health of the football system. Having new investors ready to make available new and important football resources might have great importance to the community. Just consider of the employment a businessman or entrepreneur might create.

Therefore, everything should be done not to discourage the entry of these lenders with too drastic regulations and rather favoring their medium to long-term investments.

In conclusion, FFP is likely to change football club business model in term of more innovative stadium and facilities, lower wages, more investments in the youth sector, more efficient scouting activit, capable managers, balanced championship, flexible contract, lower number of players per team, new revenue sources and a lower importance of the so called “patron”. The position of the patron or sponsor won’t disappear but it may be referred only to so called “noble costs”, related to youth team development and facilities.

#### **1.4 AMERICAN SOCCER MODEL**

The sporting result as a primary objective involves the entire European sports sector from its origin and it is considered as a driving element on which we have based the development of football system.

However, this mentality can not be defined as typical of any culture, ie the pursuit of the sporting goal is not seen in every part of the world as the primary purpose. In fact, the USA conceive sporting competition completely different from the Europeans.

The American model differs considerably, both in culture and organization, from the European one.

On the European continent there is a pyramid hierarchical organizational model structured according to a system of national sports federations which in turn are associated with European and international federations.

The federations have the task of promoting, regulating and organizing the national, European and international sporting activities of the national sports discipline through the promotion of championships traditionally focused on a promotion - relocation mechanism.

This structure should not be confused with the American ones which, due to the absence of a hierarchical system, is the core of each sporting activity. American sports leagues are not limited to the organization of championships and issuance of rules but they have a decisive manager at power in the field of resources for sporting activities.

At the highest level we find the Major League followed by the Minor Leagues. In the case of football, the federation is called Major League Soccer (MLS).

Formally, in the United States there is no figure of the amateur sportsman. The sportsman is only the athlete participating in professional leagues and the relationship between the first and the team owners is based on rigid rules imposing minimum wage base, some benefits, and above all a pay cap.

The working relationship described is a source of justification for adopting a generally "closed" system (i.e. not structured on the promotion / retrocession mechanism) of the so-called franchisees.

This system basically provides that all the teams participating in the league, even if they come last in the standings, have the right to resume the following year. The composition of the championship remains unchanged and the lower teams are not allowed to compete at high levels. The only way to join the league is to acquire the ownership of a club that already plays in the championship.

The goal is to maintain the balance of competitiveness among the participating teams and to ensure the uncertainty of the sport result. In fact, the last classified teams are facilitated by the recognition of a pre-emption right in the choice of non-contractual players. This is to avoid creating a dominant abuse position and to protect the system. In Europe, however, the principle applies is the free market of players.

In the USA redundancy cases or negative corporate budgets are rarer than in the European continent.

In American sports culture football and sport in general are a mean to make profits and the sporting result is only a mean to get it (profit-oriented club). In European culture, on the other hand, it is a mean of achieving success (at all costs – utility-oriented club). For this reason American companies can not be compared to European ones.

Let's take a look at the MLS business model in more detail.

According to the latest ranking published by Univision, Bundesliga, Premier League, Liga, Serie A and Ligue A are, in that order, the most popular soccer championships in the world. However, opening the horizon of analysis, the MLS and the Chinese Superliga would even rank in front of the Italian Serie A. How is this possible?

The MLS we see today is radically different from the original one, resulting from two turning moments. The quarter-finals achieved by the US national team in the 2002's World Championship and the arrival of David Beckham at LA Galaxy in 2007.

Since 2002 there has been a continuous growth in the number of participating teams, spectators and revenue.

Over time, marketing opportunities and visibility have attracted the interest of new investors and new owners ready to exploit the "soft power"<sup>17</sup> deriving from soccer.

The football system vehicle used by MLS to market TV rights sales and sponsorships is called Soccer United Marketing.

MLS growth is attributed to various factors, primarily to a widespread managerial approach at all levels and across the board, making the American league business-oriented.

There is therefore a significant volume of foreign investment attracted by the system.

Another success factor is the uncertainty of the result. The American model guarantees the competitiveness and contention of the league. The adoption of a "closed model", salary cap<sup>18</sup> and drafts<sup>19</sup>, although limited, allows each year all the franchises, at the starting ribbons, to aspire to the national title.

In this way, some opportunities to increase the value of the championship get lost, although these choices are still justified today. MLS succeeds in generating television and sponsorship revenue (Audi, Adidas, Coca Cola) entering the system without going out.

The "communitarian" American logic must not be neglected. For both cultural and utilitarian reasons, investments are calibrated to have an impact on the city's economy.

Lastly, it is important to note that the football movement has managed to "build" a football culture so far unknown in the USA.

Personally, the American championship has wide growth margins. The areas where the MLS should intervene to increase the value of the tournament could be the following. Increasing the number of franchises; building new stadiums to welcome and give the audience the best experience, exploiting commercially-induced and improve the average quality of teams.

Nowadays, teams are protagonists of growth both in the long and in the short run but teams themselves do not rank at top European levels for revenue, profitability, valuation and brand value.

---

<sup>17</sup> A persuasive approach to international relations, typically involving the use of economic or cultural influence.

<sup>18</sup> In professional sports, a salary cap (or wage cap) is an agreement or rule that places a limit on the amount of money that a team can spend on players' salaries. It exists as a per-player limit or a total limit for the team's roster, or both (Wikipedia).

<sup>19</sup> The MLS draft is an annual event, taking place in January of each year, in which the teams of Major League Soccer select players who have graduated from college or otherwise been signed by the league. (Wikipedia).

Another solution could be to increase the salary cap to avoid too much disparity between the earnings of players.

However, the real node is due to the lack of a defined and quality "product" to limit investment and to generate revenue. The technical quality, the players and the technical staff sare certainly inferior to the European top leagues. This is reflected both on the field and outside.

## CHAPTER 2 - BUSINESS MODEL

### 2.1 GOVERNANCE MODEL AND MANAGEMENT - OPEN VS CLOSED MODEL

In the football world the schemes and game principles have always been fundamental for a team. However, as football is becoming more and more a business phenomenon, the corporate aspect and the relevant governance model adopted are also becoming relevant. This can be described as the club's game plan.

There are various types of governance systems that are the result of different views about the nature and purpose of clubs. Two macrolevels can be considered:

1. *Closed model* - The company's control bodies are in the hands of controlling shareholders (often one person only). Power is therefore concentrated in the hands of a few persons who also confer risk capital. The motivations that induce a person to invest in such a way in a football club are personal fulfillment (a result of sport, prestige, social visibility), direct or indirect economic return (the latter consists of gains stemming from entrepreneurial activity with respect to which football visibility plays an important role). This model is typical in England and Italy.

Italian football got the best results both nationally and internationally when patrons were ready to invest. However, the evolution of the system is leading the closed model into crisis as costs are higher than revenue and the presidents are no longer able to cover the losses.

2. *Open model* - Club's internal bodies are formed by other parties and not only by the majority shareholder. This is because a majority shareholder is not always needed, because there are other figures besides the members in the governing bodies. This model does not influence the economic aspect but it is an example of collective, sporting or socio-cultural interests. Usually this pattern is identified with the expression "popular stock" and is typical of Germany and Spain.

In fact, while profit was introduced in Europe in the '90s, in Germany it was decided that 50% + 1 of the capital should belong to sports associations (with a relative 50% +1 of the voting power – Bayern Monaco's and Hamburg's case) with the exception of clubs that on 1 January 1999 proved to have had a fixed ownership over the last 20 years (Wolfsburg and Bayer Leverkusen only).

Based on the major European football championships, four main management models can be elaborated:

1. *Public business model* - It refers to large companies listed on the stock exchange.

Everyone can buy shares including the fans. Usually most stocks are in the hands of a few members who control the club making the most important decisions. There is a great need for transparency and clarity of programs, as the company is open to the public. Examples of this model are English clubs. Tottenham, Manchester United and Arsenal above all. In Italy there are Juventus, Roma and Lazio (Italian stock exchange). Other companies with this model are Borussia Dortmund (Frankfurt Deutsche Borse) and Olympique Lyonnais (NYSE Euronext, Paris stock market). This can be considered a closed model.

The positive aspect is the ability to find new financial flows more easily. The downside is that sporting results may take a back seat with respect to financial results.

2. *It's my party model* - This is the basic model held by a single owner. It is the so-called patron, very wealthy and powerful, who manages the company in a direct way as its own company injecting great financial resources. Examples are Chelsea (run by Russian magnate Abramovich) and both Milan and Inter (once managed by Berlusconi and Moratti respectively) now owned by Chinese investors. Others are Manchester City and PSG owned by Arab Sheikhs.

The positive side is the great financial resources available to the owner ready to do anything to get the best players performance. It is the same owners who replenish the budget losses with their own equity.

The downside is that often these wealthy owners act too individually without considering any external advice. The biggest risk is the loss of business continuity (ongoing principle) as the owner may decide to get out of the club overnight leaving it in financial trouble. Also this model can be considered a closed one.

3. *A popular club model* - It is the most classic form of open model and is based on the low-denomination shares. The club consists of a large number of members who lend the necessary resources and have voting right. They elect a chairman and a board of directors dealing directly with the management of the company. The main examples are, in addition to the German clubs mentioned above, the Spanish teams where Barcelona and Real Madrid can count on thousands of members.

The positive side concerns the passionate character of the model and the affection of the fans. This means that football comes before profit.

The downside is the ongoing changes in the organization chart which may modify the strategic direction already undertaken. Democracy, moreover, may end up

bringing a club presidency not appreciated by the proponents unanimously creating tense situations.

4. *A family affair model* - It is related to small clubs that are associated with family-run businesses. The president of this club invests family resources and manage the business directly assisted by a few other individuals.

The positive side is the presidents' passion, who serve their own interests.

The downside concerns the difficulties that can be found in the current market that requires sudden strategic changes that these presidents do not accept or disregard.

Nowadays, in football made up of budgets, financial transactions and huge international capital, this is the most troubled model.

The achievement of the goals set by a company is entrusted to the management area defined as the system responsible for managing and coordinating the business units and their functions. It is up to managers to organize and direct the corporate system, plan strategies, organize coordinate and control internal activities and verify the results achieved during the year and making the necessary changes.

The concept of strategic orientation is understood as the action line through which managers try to reach goals set by the top management.

In other words it defines what the company wants to do, how it wants to do it and why. Even football organizations use management techniques to better structure the activity. These functions are usually carried out by a chairmanship made up by the chairman who is supported by the chief executive officer, the sports director and the secretary of the board; the commercial apparatus is entrusted to a team of marketing and communication personnel.

A well-defined division of roles and tasks is therefore necessary: everything revolves around the concept of corporate organization.

The organizational and internal management model adopted by leading international football clubs for the management of the technical area involves the presence of staff selected by the Board of Directors or directly by the Chairman himself, who has his most important position as the sports director.

This is a professional whose tasks are the organization of the team technical staff, supervising sports activities and constantly upgrading management and corporate leadership, the coordination of relations between the management and the team and working in tune with the coach.



In addition it is the person who, on the basis of the manager's and the company's directions, is responsible for conducting the players negotiations, by contacting the related involved clubs and the intermediaries who directly managed the interests of the players.

For better performance of the technical area it is therefore crucial that a direct synergy between a direct sportsman and a coach is created on the basis of an aligned vision of the strategies in order to achieve the common goals set by the company leaders.

Regarding Italian regulations, the federation has dedicated to sports directors a special discipline, issuing in 1991 Special Rules for the list of Sports Directors and making mandatory to register at the relevant bar for the activity.

A special management has been adopted in England where field issues are often solely attributed to the coach who is the so-called *football manager*. It deals with the most important activities, recruiting young people for the first team, the youth sector and other activities related to the management of the technical structure.

We can define this figure as the undisputed leader of the technical-sports area as being the manager of everything that matters to him. He deals not only with the technical aspects, but also with the management of the budget for the transfers market by conducting the negotiations in person, directly supervising the medical and physiotherapy center as well as managing scouting activities. He is a true human and financial resource manager who tends to focus all responsibilities on himself.

Examples of famous football managers are Arsene Wenger, current Arsenal coach, and Sir Alex Ferguson, former Manchester United coach.

## **2.2 MAIN REVENUES AND COSTS**

In today's context, football clubs are focusing not only on sports but also on budget outcomes. It is therefore a necessity to study new ways of earning so as to increase revenue and try to reach self-financing from the perspective of economic management.

The imperative now is to look for a long-term economic-financial balance and afford to buy players capable of achieving sports goals expected by fans.

Compared to the past gate receipts remain an important component but are no longer the only source of earnings. Executives are increasingly implementing strategies trying to maximize the brand's value so as to open up new markets.

## 2.2.1 REVENUES AND TRENDS

In the football sector the sources of revenue are conventionally divided into three macro-areas:

- 1) Multimedia rights and broadcasting - Revenue from the sale of traditional radio and television rights including rights related to new technologies;
- 2) Matchday revenue - Revenue from the stadium during the team matches.
- 3) Business activities - Sponsorships and merchandising activities.

**Media rights** represent the benefit of broadcasting and transmitting football matches on live or deferred platforms or on any media platform.

This type of revenue has facilitated the revolution of a system allowing the clubs to increase their financial resources with respect to the past and attract more and more viewers everywhere in the world.

Football clubs sell these rights to communication companies. These rights can be divided into:

- *Traditional* - They concern radio and television rights (free-to-air tv, pay-tv, pay-per-view or digital terrestrial)
- *Innovative* - Rights transmitted via Internet and Smartphones.

Broadcasting is one of the most important revenue items especially for Italian clubs, which survive mainly through them. The individual club's ability to influence this income component is often limited, as the value of a league's media rights is impacted by several market-specific factors such as league/product appeal, market size (i.e. number of TV households), consumers' spending power, level of competition among media rights holders and pay-tv penetration rate. Furthermore, the level of broadcasting revenue generated by a club is also influenced by the revenue distribution method applied by each national league as well as by UEFA.

The bargaining can take place in two forms:

- *Individual sale* - Individual clubs sign agreements with the various TV broadcasters; this formula satisfies above all the owners of the big teams, which have more favorable economic conditions than the lower teams in the championship;
- *Collective sale* - It is performed jointly by the Serie A football league. The league leaders deal with the sale of rights on behalf of all clubs; afterwards, earnings are fairly and partly divided between the teams and the remainder proportionally distributed according to the catchment area each organisation has.

In Italy, the Legislative Decree 9/2008 regulates the sale of television rights, best known as Melandri-Gentiloni Law<sup>20</sup>.

---

<sup>20</sup> <http://www.camera.it/parlam/leggi/deleghe/08009dl.htm>

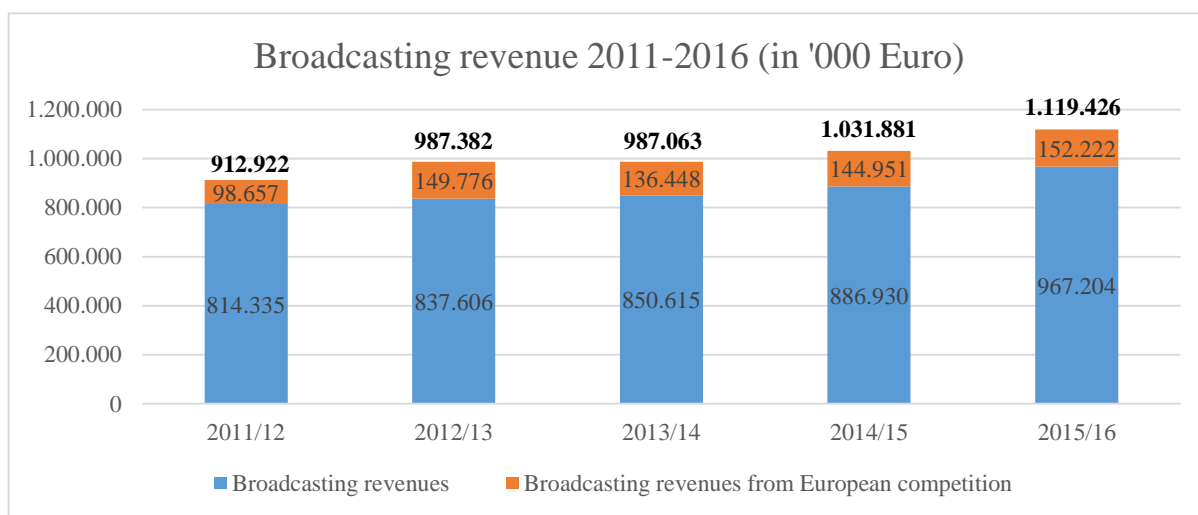
It provides collective sale of television rights. The organizer of the competition (the League) becomes co-owner, together with the participants in the competition, of the audiovisual rights governed by decree.

The proceeds from the collective sale of TV rights are divided according to the following criteria:

- 40% in equal parts among all teams;
- 30% on the basis of the sports results achieved: 10% according to the results achieved by each team from the season 1946/47, 15% based on the last 5 seasons' results and the remaining 5% based on the last championship;
- 30% according to the catchment area: 25% determined by the number of supporters of each team identified by one or more Seria A league researches and 5% according to the population of the reference community.

Revenue from broadcasting rights are still the Value of production<sup>21</sup> main component for Italian clubs. The TV revenue income component, thanks to good performance in the European competitions during the last seasons, has grown from 37% of 2013/14 to 42% of 2014/15 and up to 40% of the last season 2015/16 total turnover.

According to *Report Calcio 2017*, the chart below shows the TV rights Italian trend over the last few years<sup>22</sup>.



Among the five major European championships the collective selling formula prevails today. The Spanish championship is the last in terms of time to have adopted the collective sale in 2016.

<sup>21</sup> It is the sum of all the values that compose the letter A of the income statement.

<sup>22</sup> Report Calcio 2017

With Real Law Decree n. 5/2015, the Spanish league aligned with measures taken by other European leagues in the past, abandoning definitively the "individual" sale rights mechanism that allowed Barcelona and Real Madrid to gain the beauty of 40% of global television rights, that are about 755 million per year<sup>23</sup>.

Both Barcelona and Real Madrid did not oppose the decree because, with this new distribution of TV rights, they may increase their revenue. At the same time the two rivals would benefit by cooperating (as they have always done), being strongly favored with individual bargaining rights that allow them to maintain the full amount stipulated without the obligation of subdividing it with other clubs.

Obviously, this policy has always created a situation of great imbalance: in the 2013/14 season, Real Madrid and Barcelona accounted for nearly 50% of the total sum of TV rights. This is why the Spanish government has issued a decree authorizing the centralized sale of television rights from 2016 to 2019.

The overall figure will be reserved 90% for the Liga, while the remaining 10% will be attributed to Liga Adelante, the Spanish Serie B.

As reported by *Calcio e Finanza*, four distribution criteria will be adopted:

- 50% divided into equal parts;
- A share based on the sports results;
- A share based on the sale of subscriptions and tickets;
- Finally, the remaining stake based on the team's contribution to the championship's visibility. The text does not say it clearly, but it is reasonable to think that this is a criterion similar to our catchment area.

In order not to favor too much Real Madrid and Barcelona, no team can receive more than 20% of the total for each of the last two criteria, and the "first-to-last" ratio must not be more than 4.5 times<sup>24</sup>.

According to some industry experts, the centralized sale of the rights would allow the Liga to generate revenue of € 1,5 billion annually thus doubling the total figure that has been collected with the individual selling system in recent years<sup>25</sup>.

Also for English Premier League television rights are the basic revenue source.

Looking at the European figures, the Premier League generated in 2015/16 season broadcasting revenue of € 2,577 mln and outperformed the other "big fives". Germany recorded TV revenue for € 933 mln, Spain € 1,232 mln, Italy € 1,199 million and lastly France with € 656 million<sup>26</sup>.

---

<sup>23</sup> <http://www.calcioefinanza.it/2015/05/02/liga-dal-2016-al-via-vendita-centralizzata-dei-diritti-tv/>

<sup>24</sup> <http://www.calcioefinanza.it/2016/03/31/diritti-tv-liga-nuova-legge-real-barca-atletico/>

<sup>25</sup> Ibidem note 19

<sup>26</sup> Deloitte Annual Review of Football Finance 2017

The latter is the championship with the highest growth margins after PSG's recent purchase of Neymar in the 2017 summer transfer market window<sup>27</sup>. Hence, the landscape seems more challenging for France right now. Maximising media revenue domestically becomes more important for leagues that are less appealing to global audiences.

**Matchday revenue** is the sum of revenue corresponding to matches.

It concerns the direct use of the stadium in championship or cup games and therefore falls outside of television rights and other revenue streams.

This consists of three subcategories:

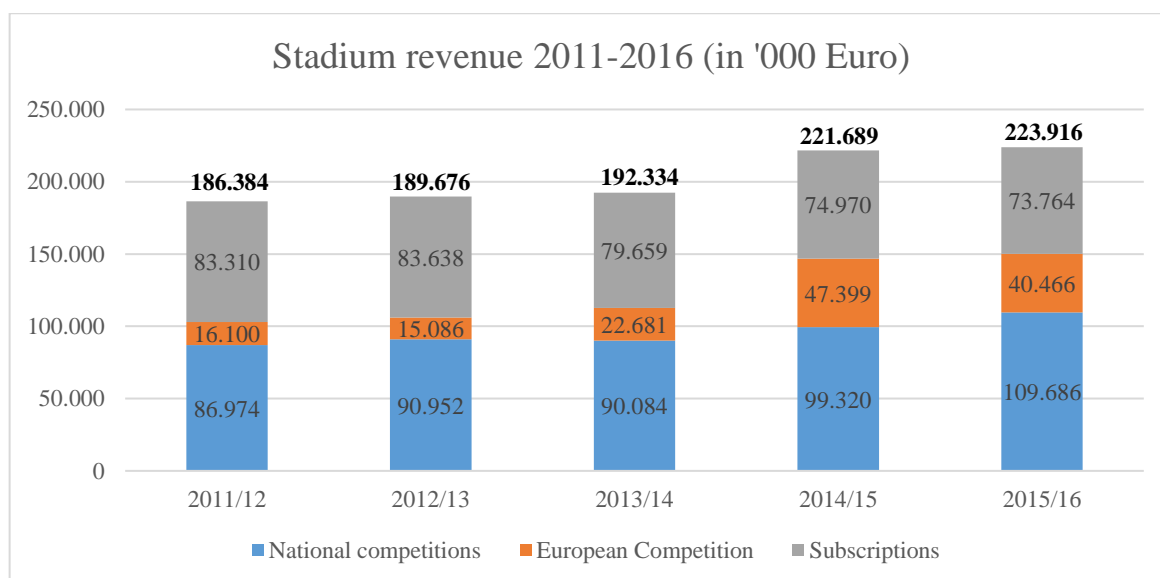
- *Tickets and subscriptions*, considering the classic stadium revenue received in advance compared to the delivery of the service directly on the matchday, through the tickets sale at the box office;
- *Food and beverage*, i.e. the management of food and beverage services for the public in the stadium;
- *Corporate hospitality* covers all the spaces and initiatives within the stadium that the company can exploit before, during and after the game. It can be divided in hospitalities areas and executives boxes. The first is the indoor stadium halls with a view of the pitch set up for normal private fans, offering high-level catering and the ability to attend matches even on days when adverse weather conditions may occur. The second relates to premises set up by the companies which the club has business relations with in order to organize meetings and dinners. Hospitality areas and executive boxes probably represent the avantguard of sport services linked to the stadium.

According to *Report Calcio 2017*, the chart below shows the gate receipts Italian trend<sup>28</sup>.

---

<sup>27</sup> The current contract brings into the French Championships around € 730 million euros annually, and will expire in 2020. However, Ligue 1, according to Bloomberg (business and markets newspaper), is already trying to revise upwards the next contract: the goal is to cash in about 1.2 billion euros annually, an increase of around 500 million a year. Pointing in particular on Neymar who can become (if not already) the man's image of the entire French championship.

<sup>28</sup> Report calcio 2017



The European background shows a net lead advantage on Premier League. In 2015/16 the English championship generated matchday revenue for € 831 mln, far away from the other two big nations in term of stadium revenue Germany and Spain respectively with € 528 mln and € 500 mln. In last positions were Italy and France with only € 204 mln and € 164 mln.

**Business activities** is the set of merchandising activities and sponsorship that clubs are able to develop.

*Merchandising* refers to the marketing of products through the organisation's name or brand that can be directly connected to the soccer world such as T-shirts, scarves, caps, flags, jewelry used every day as keychains and wallets.

These products are often linked to services such as credit cards and ATMs.

On this type of revenue ENGLISH teams are very open as they can count on thousands of passionate and scattered fans around the world, willing to spend big sums each year to find their team's products on the market.

Merchandising is a neglected source of revenue for Italian clubs with a very low turnover rate. There are two main reasons. On one hand, Italian companies are still slaves of piracy. On the other this is due to a kind of cultural attitude that leads people to spend more for fashion clothes than for their own football team's products.

In general, the football sector has huge potential profits because it can leverage on the team-to-fan tie.

In this branch, merchandising is associated with Manchester United. The English club is the most important and successful example in the industry and its strategies are often taken as a point of reference by other clubs.

Red Devils specific feature is the marketing of their own products (direct management), which are commissioned to third parties and sold through both their stores and through the Internet site.

An example is Manchester United Cola which is a drink that is served to fans during matches and catering at the stadium.

Instead Italian companies prefer to outsource all brand management (indirect management) to third companies by choosing outsourcing solutions for all services from manufacture to product marketing.

These companies buy the trademark by paying proportional royalties to the soccer company in relation to the sales made.

*Sponsorships* also play an important role in term of revenue.

Entrepreneurs are strongly attracted to the football business. Companies and players have a strong propaganda power needed to reach directly the final consumer.

Many multinationals use their partnerships with teams to associate their brand with positive values such as sports.

Sponsors can be classified in different types:

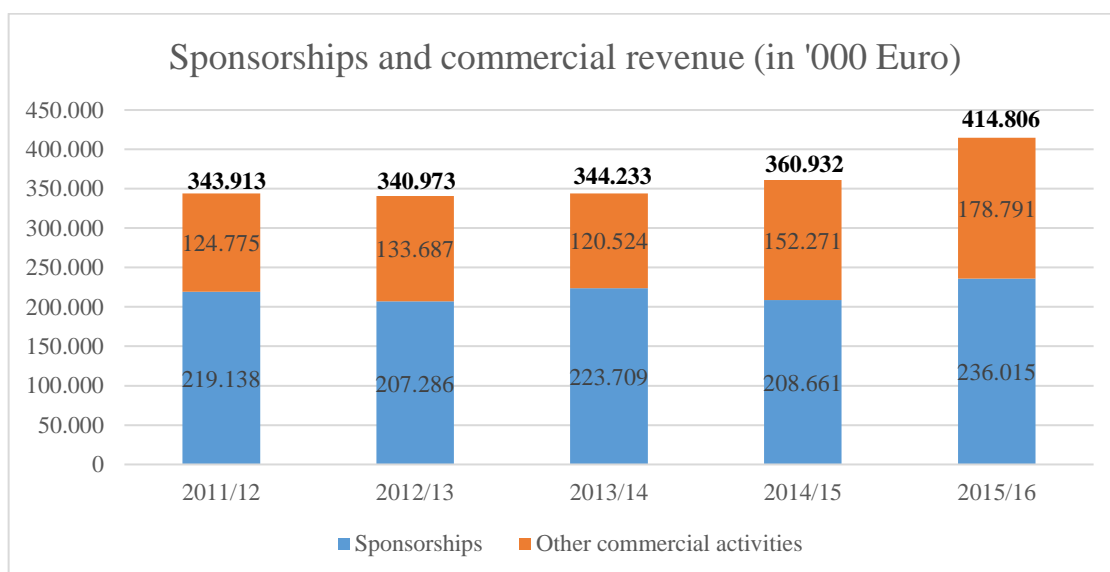
- The *main sponsor* – it is the official sponsor of the organisation and the one that appears on the T-shirts;
- The *technical sponsor* - in this case there is a company that supplies all the technical sports material (T-shirts, balloons etc), putting its name on it;
- *Institutional sponsors* and *official suppliers* - companies that link their name to the team whose brand will appear in both advertising boards during matches as well as on meetings, tournaments, or other events.

A modern form of sponsorship is naming rights (already mentioned). It is about giving to big companies the right of associating their names with sports facilities such as stadiums or training centers in exchange for huge amount of money.

There are many corporations that decide to make these strong investments so they can sponsor these great “cathedrals” for a long time.

Some companies agree with clubs when building the stadium. It is the case of Arsenal who decided to sign a commercial partnership with Emirates for the construction of the new facility. The Arsenal’s new stadium is now named Emirates Stadium.

Looking at Serie A, the graphic below shows last years' situation<sup>29</sup> (figures in thousand of euros).



This item has seen a weak but steady increase in recent years.

To be noted is the significant increase in the last 2015/16 seasons when revenue increased by 14.9%<sup>30</sup>. This is a sign of a greater and more entrepreneurial dynamism although the figure is far from the performance achieved by the major european clubs.

Real Madrid, Barcelona, Manchester United and Chelsea are the teams who benefit the most from that revenue.

At the level of main sponsor Real Madrid ranks in first position. According to reports from *Palco23*<sup>31</sup>, an Iberian web magazine specializing in business sports, the club chaired by Florentino Perez would is about to sign the renewal of the sponsorship agreement with Emirates one year ahead of schedule.

The new agreement with Emirates will expire at the end of the season 2021/22 and will allow Real Madrid to collect around € 70 mln every year. The European champions in charge will collect more than Barcelona which collects about € 55 mln per year with Rakuten<sup>32</sup> and Manchester United whose agreement with General Motors (Chevrolet) can count on € 62 mln per season<sup>33</sup>.

<sup>29</sup> Revenue from sponsorship and other business activities refer to revenue from: official sponsor, technical sponsor, other sponsors, merchandising, royalties and advertising activities (Report calcio 2017 FIGC)

<sup>30</sup> Report calcio 2017

<sup>31</sup> <https://www.palco23.com/clubes/el-madrid-vuela-alto-emirates-pagara-70-millones-al-ano-hasta-2022.html>

<sup>32</sup> Rakuten is a Japanese electronic commerce and Internet company based in Tokyo and founded in 1997 by Hiroshi Mikitani. Its B2B2C e-commerce platform, Rakuten Ichiba, is the largest e-commerce site in Japan and among the world's largest by sales. The company operates Japan's biggest Internet bank and third-largest credit card company (by transaction value). It also offers e-commerce, fintech, digital content and communications services to over 1 billion members around the world, and operates in 29 countries and regions (Source: wikipedia).

<sup>33</sup> <http://www.calcioefinanza.it/2017/09/21/rinnovo-sponsorizzazione-emirates-real-madrid-70-milioni-2022/>



Also concerning the technical sponsor the figures are dazzling, with Real Madrid always on the top.

The negotiations between Real Madrid and Adidas for the renewal of technical sponsorship is still going on.

The agreement signed in 2012 with expiration in 2020 guarantees the Blancos only € 40 mln. Also in the face of Blancos international successes of recent years (three Champions Leagues won in the last four competition editions), Florentino Perez aims to increase significantly the economic part of the contract. According to rumors<sup>34</sup>, the Spanish club and the German sportswear company have reached an agreement around a figure higher than € 150 mln a season with the agreement extended until 2031.

Adidas is also Manchester United's technical sponsor. The agreement, signed in 2015, will last for ten years. The German company will pay Red Devils € 90 mln per season, plus a variable amount depending on the sports results.

The relationship between Barcelona and Nike, together since 1998, continues with success and great satisfaction on both sides. The technical sponsor has decided to renew for another ten years the partnership with the Spanish club. The agreement, valid from the 2018/19 season, will allow a gain of at least € 150 mln a season until 2028 with a possible extension until 2031<sup>35</sup>.

Since 2017, Chelsea will also dress in Nike<sup>36</sup>. It is a new decade-long agreement (the previous was with Adidas) that will bring to the Blues about € 75 mln per season, in addition to € 55 mln of Yokohama Tires, the main sponsor for the London team.

These numbers demonstrate the importance of sponsors in the football world. These are not purely commercial agreements but true loyalty programs. Agreements are often signed on a multi-year basis demonstrating how football vehicle draws major investors in the market.

These numbers will rise and lead to a real upward race. We will see world market giants ready to offer more and more money to get a football market slice and all the resulting image benefits. With these sums teams are able to make investments in infrastructure and to ensure the performance of the best players. This totally demonstrates how sports performance are linked to financial ones. The more you can get from sponsorship and merchandising the more you may directly invest in the transfer market and get immediately the best players.

---

<sup>34</sup> <http://www.calcioefinanza.it/2017/09/20/rinnovo-sponsorizzazione-adidas-real-madrid-2031/>

<sup>35</sup> <http://www.calcioefinanza.it/2016/10/31/rinnovo-partnership-barcellona-nike-fino-2028/>

<sup>36</sup> <http://www.calcioefinanza.it/2016/05/18/chelsea-nike-sponsor-75-milioni/>

Usually best player means in turn better sports results and visibility, more money from TV broadcasting and further more and new possible sponsorship agreements. Hence, more money again, considered. A real vicious circle.

Just think of Manchester United that with Ibrahimovich's only jersey sale has been able to finance Pogba's purchase from Juventus in 2016 for an amount higher than € 100 mln.

In addition to the three main revenue items analyzed so far, we can add *other revenue items* such as capital gains from player transfers, grants related to income (contributions), and revenue attributable to the results obtained in national or international competitions. The latter is related to extraordinary nature items and is characterized by a certain degree of uncertainty as it is not foreseeable ex-ante.

In particular, extraordinary revenue can be divided into two categories:

- 1) The distribution of revenues related to the competitions organized by UEFA;
- 2) The Parachute System

The first category is related to UEFA's distribution of earnings from commercial and television contracts linked to the Champions League and the European League.

Between the two competitions there are both technical and economic differences. The strongest teams of each nation and the most admired players by the fans take part in the Champions League. This results in greater visibility and therefore higher revenue than those earned by companies participating in the European League.

The basic criteria for the distribution of prizes are as follows. First, UEFA distributes equal shares among all the clubs participating in the competition; then there are so-called “bonus performance” sums related to the results achieved in the qualifying rounds that take place between September and December. To this the Market Pool system must be added. It combines the value of TV rights paid by the various broadcasters with the number of games played in Champions League per season and the position in the previous league.

As for the second part of the competition, prizes increase each turn up to the victory of the cup. Looking at the 2016/17 season, UEFA has distributed € 1,7187 billion net of administrative and organizational expenses and the portion retained by UEFA as a profit. Of this sum € 1,269 billion were distributed to the teams participating in the Champions League (in line with the amount of the previous season).

Despite the defeat in the final against Real Madrid, Juventus earned even more money in the 2016/17 Champions League season.

As a matter of fact, the Bianconeri have earned about € 109 million, which could have become about € 113 mln in case of success in Cardiff's challenge. Real Madrid, the final winner, has instead earned about € 80.9 million euros.

Napoli, the other Italian team eliminated in the first knockout round by Real Madrid, earned Champions revenue for € 65 million<sup>37</sup>.

For both Italian teams this revenue account for more than 20% of the total turnover. Thus this sum can be considered vital in the economy of Italian teams. This is the reason why the qualification in the Champions League is important to the CEOs of the Italian teams in order to increase the club's revenue and funding resources.

Regarding the the second category of revenue we can define the Parachute System as a system of contributions where each year the clubs of the main continental football leagues provide financial aid for the teams drawn back into lower categories.

This system of contributions was created with the aim of allowing for better medium and long-term expenditure planning and avoiding the bankruptcy of certain clubs.

### **2.2.2 COSTS AND TRENDS**

A feature that distinguishes football industry from all other economic sectors is the extremely high costs that clubs have to support and bear for the normal performance of the business or for strengthening the team.

Four major expenses can be identified:

1. Expenditure strictly related to sports activities such as the purchase of players and their remuneration;
2. Costs for infrastructures related to stadiums and training centers;
3. Costs for the commercial operations of the club such as shopping malls, shopping centers and tourist facilities;
4. General costs such as administrative costs, legal fees, team transfers and tax burdens.

The main football clubs expenses are definitely included in the first category: every year clubs seek to recruit the best players to reach greater goals. Here is the importance of both summer and winter football session.

Over the last twenty years, and especially in the last 5-6 years, we have witnessed a steep increase in costs both for players' registration rights and their salaries.

---

<sup>37</sup> <http://www.calcioefinanza.it/2017/06/04/ricavi-champions-league-2017-juventus-napoli/>

Two factors have led to this increase. The first is the famous Bosman's law, that since 1995, allowed players to move freely from one club to another at the expiration of the contract. The law has increased the contractual power of players, pushing club executives to increase wage bids and agree upon longer-term contracts to avoid losing players without a contract. The second factor is attributable to purely technical reasons. The greater number of commitments led the executives to contract a greater number of players than in the past. There has been a gradual increase in costs, especially in the case of job placements; labor costs are steadily rising and often achieving wages for individual players out of any logical reason. In the last summer market windows, in particular in 2016/17 and in 2017/18, impressive prices were paid for the purchase of football players as summarized in the table below.

**Highest football players purchase (mln €)<sup>38</sup>**

<b>FOOTBALLER</b>	<b>SEASON</b>	<b>BUYER</b>	<b>PRICE</b>
Neymar	17/18	Paris Saint Germain	222
Paul Pogba	16/17	Manchester United	105
Ousmane Dembèlè	17/18	Barcellona	105
Gareth Bale	13/14	Real Madrid	101
Cristiano Ronaldo	09/10	Real Madrid	94
Gonzalo Higuain	16/17	Juventus	90
Neymar	13/14	Barcellona	88,2
Romelu Lukaku	17/18	Manchester United	84,7
Luis Suarez	14/15	Barcellona	81,72
Angel Di Maria	14/15	Manchester United	75
James Rodriguez	14/15	Real Madrid	75
Kevin De Bruyne	15/16	Manchester City	74
Zinedine Zidane	01/02	Real Madrid	73,5
Naby Keita	18/19	Liverpool	70
Zlatan Ibrahimovic	09/10	Barcellona	69,5
Kaka	09/10	Real Madrid	65
Edinson Cavani	13/14	Paris Saint Germain	64,5
Angel Di Maria	15/16	Paris Saint Germain	63
Raheem Sterling	15/16	Manchester City	62,5
Alvaro Morata	17/18	Chelsea	62
Luis Figo	00/01	Real Madrid	60
Oscar	16/17	SIPG	60
Anthony Martial	15/16	Manchester United	60
Fernando Torres	10/11	Chelsea	58,5
Benjamin Mendy	17/18	Manchester City	57,5

<sup>38</sup> <https://www.transfermarkt.it/statistik/transferekorde>

The table shows how prices are growing at an uncontrolled pace.

Neymar is the most expensive player in football history. € 222 million was paid for his resignation clause by PSG in 2017 that has pledged to pay the player a € 30 million annual salaries for the next five seasons.

The same PSG is the protagonist of the second most expensive negotiation in history, which is not included in the table above for reasons related to the formula adopted. The French club also acquired Kylian Mbappe, Monaco's former player, with an operation of loan with right to purchase in 2018/19 for a price close to € 180 mln. At the same time, PSG will pay € 18 mln salary per season for the next five seasons. Just looking at these two transactions it is clear that costs are becoming outrageous.

Even in football the rule adopted is that the market makes the price. As a result as long as there are clubs with important financial resources ready to spend such high prices to buy a footballer, they will continue to increase in the future.

I personally think that the risk is to see situations where a club pays an excessive price compared to the actual value of the players only because the market has decided in that way.

There are many cases of players who have not yet proved to be worth that amount of money, that were paid high prices only because other players, perhaps already successful, are paid the same price or little more. The underlying market logic is as follows. If team A sells a player for 100, why me, as team B, can not sell my good player at a fair price, maybe close to 100? This triggers a rise in the price chain that has led to the current situation.

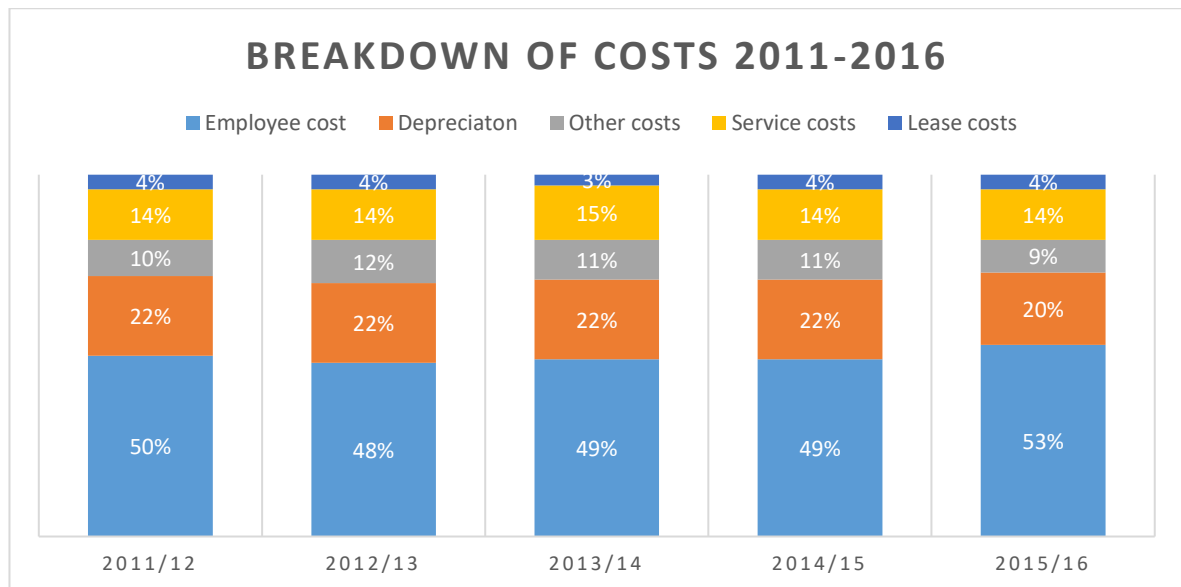
We can say the same for wages and salaries trends.

Football players have a greater purchase power in term of wages and salaries negotiation. The logic is the same as for the price paid. If player A is able to get 10 as salaries, why can't I as player B also get 10 as well with all things being equal?

According to *Report Calcio 2017*, the chart below shows the Italian actual situation related to Serie A in term of all costs<sup>39</sup>.

---

<sup>39</sup> Report calcio 2017



Personnel costs have increased once again after a few seasons characterized by an effort to reduce them. In absolute terms, employees costs shifted from € 1,235.6 mln in 2014/15 to € 1,355.1 mln in 2015/16, with a increase of 9.7% over the previous season. The relation between employees costs and costs of production rises from 49% to 53%. Furthermore, the relation between employees costs and the value of production does not change but remains anchored at 56%, but decreased from 80% to 78% when considering the ratio between overall personnel costs (labor costs and amortization) and net revenue<sup>40</sup>.

Companies are adopting cost-saving policies because of the difficulties in increasing revenue. The clubs are trying to limit the excessive costs by introducing young players from the youth sector into their own first team. This allows the club to save on players' registration and engagement of new successful players constantly seeking richer contracts.

Another strategy is to sign a contract with incentives that are partially fixed and variable depending on both individual and team results. In this case if the player does not have a good return, the company will save some of the cost.

We will now analyze the approach used by Real Madrid to manage the cost policy.

Real Madrid has won most Champions League in history raising the trophy twelve times.

Before the three successes over the last four years Real Madrid raised the Cup for the last time in 2002 (9<sup>th</sup> Cup). Their celebration was doomed by the fixation with the obsession for the *La Decima*, since no team had ever won 10 Champions League.

<sup>40</sup> Report calcio 2017 FIGC

From that moment on twelve years of disappointment went by and the dream for the 10<sup>th</sup> cup became a nightmare.

In 2014 the wait finally ended when the Blancos, under the guidance of the Italian coach Ancelotti, managed to win the big ears cup challenging the rival Atletico Madrid.

The Spanish club has always sought to achieve its goals by hiring the best players in the world, relying on strong revenue from broadcasting and endless fan base spread all over the world.

In the 12 years before *La Decima*, Real Madrid touched the pharaonic amount of € 1 billion only for players' registration. To this employees costs must be added.

The Spanish team was the first to reach € 100 mln to buy a footballer. It happened in 2013 when the club bought Gareth Bale from Tottenham for € 101 mln. Already in 2009, however, the Blancos spent € 94 mln for Cristiano Ronaldo and € 65 mln for Kaka: this has probably triggered the whirlwind of uncontrolled hike in prices.

With regard to salaries it is interesting to analyze the system adopted by Florentino Perez which is a system often subject to numerous criticisms.

It should be noted that despite the strong compensation given to the superstars in the team, the total burden of this cost remains well-proportioned to the high turnover that the club achieves every year.

The wagering policy is based on the *status of player* and not only from a technical point of view. It takes into account both the career achievements, the specific weight that its image has on the market and the benefits that its image can bring in terms of brand turnover and visibility.

These parameters led to the following subdivision in 2016/17:

- The range of players who won the gold ball or potential candidates for the gold ball, called *stars*. They are in the highest salary category which includes Cristiano Ronaldo and Gareth Bale on all;
- The range of players considered internationally renowned stars, called *key*. They are at level just below the previous one which includes players able to determine the results of matches;
- The range of intermediate players, known as *medium*. It includes players considered important but not essential to the project;
- A group of young players, known as *canteranos*. It includes players who are facing the first team and young players who have grown up in the youth field.

The chart below summarizes the situation in the 2016/17 season.

**Chart 1 – Wages of the team in 2016/17 (€ mln)**

#	Player	Gross salary	Net salary	% on total	% cumulative	Category
1	C. Ronaldo	43,5	21,0	17%	17%	Star
2	Bale	31,1	15,0	12%	29%	Star
3	S. Ramos	20,7	10,0	8%	38%	Star
4	Kroos	20,7	10,0	8%	46%	Key
5	Benzema	16,6	8,0	7%	52%	Star
6	Rodríguez	16,6	8,0	7%	59%	Key
7	Modric	12,4	6,0	5%	64%	Key
8	Marcelo	10,3	5,0	4%	68%	Key
9	Coentrao	8,3	4,0	3%	71%	Medium
10	K. Navas	8,3	4,0	3%	74%	Key
11	Pepe	7,8	3,8	3%	77%	Key
12	Morata	6,2	3,0	2%	80%	Medium
13	Casemiro	6,2	3,0	2%	82%	Medium
14	Carvajal	6,2	3,0	2%	85%	Medium
15	Varane	5,8	2,8	2%	87%	Medium
16	Danilo	5,2	2,5	2%	89%	Medium
17	Kovacic	5,0	2,4	2%	91%	Medium
18	Odegaard	5,0	2,4	2%	93%	Medium
19	Isco	4,1	2,0	2%	95%	Medium
20	Asensio	3,1	1,5	1%	96%	Canteranos
21	Nacho	3,1	1,5	1%	97%	Canteranos
22	K. Casilla	2,5	1,2	1%	98%	Canteranos
23	Vázquez	2,0	1,0	1%	99%	Canteranos
24	Mariano	2,0	1,0	1%	100%	Canteranos
25	Yáñez	1,0	0,5	0%	100%	Canteranos
<b>TOTAL</b>		<b>253,7</b>	<b>122,6</b>	<b>100%</b>	<b>100%</b>	

Source: CF elaboration on Spanish newspapers

After the last contract renewal, Real Madrid has two of the highest paid stars in the world, Cristiano Ronaldo (€ 21 million net) and Bale (€ 15 million), who alone bring home 30% of the whole wage bill.

The Blancos 4 stars (CR7, Bale, Ramos and Benzema) have a total wage bill higher than the one of the other players all together both absolute terms (+ 47% compared to key players) and on average (+ 120% compared to the second bracket players).

While this method of managing the cost of labor and the chart above seem to show some disparity, on the other hand it allows Real Madrid to attract and keep stars that have led the club to the excellent recent results without missing an indispensable support from the top-level players cast (James, Kroos, Modric and Marcelo among the others).

This system is the basis of Real Madrid's achievements, both for a motivational and business point of view. It does not waste money but players are paid based on their performance and image return.

The amount due to each player is calculated in a way to get a higher return over the paid salary. This is a dynamic system in which the player's position can be revised whenever a player has to renew his contract. If his performance improves, he can be promoted to a higher slot.

It is a system that can strongly motivate players to give their best both for the good of the club and their own personal interests. Conversely, it may create issues in the locker room especially when the results are not in line with the initial expectations and expenses.



## 2.2.3 ECONOMIC CORRELATION BETWEEN COSTS AND REVENUE AND COMPARISONS

Europe football aggregate revenue reached € 26,6 billion in 2015.

The football industry goes against the flow in comparison with the current general economy. Between 2010 and 2014 the total revenue grew on average by 5% compared to the 2.3% of the European economy.

The aggregate revenue of the clubs participating in the 54 European Top Divisions reached € 16,9 billion in 2015, with an average combined growth rate of 9.3 %.

Costs increased on average by just 3.3%, reducing of the total loss from € 1.7 billion in 2011 to € 0.3 billion in 2015. The introduction of the UEFA Financial Fair Play regulations provided a fundamental contribution in achieving this result. Between 2011 and 2014 the operating income moved from € -0.4 to € +0.8 billion.

In 2015 among the main 10 European Top Divisions Italy ranked fourth for average revenue (€ 95.2 billion), behind England (€ 220.2 billion), Germany (€ 134.5 billion) and Spain (€ 102.5 billion), and followed by France (€ 70.9 billion) and Russia (€ 46.3 billion). Broadcasting rights represent the main source of income for several leagues (Italy, England and Spain). Germany is an exception, as revenue from media rights represent only 34%, exceeded by sponsorship, advertising and other commercial incomes (41%). Gate receipts are significant for Germany (20%), Spain (20%) and England (16%), while for Italy and France represent only 11%<sup>41</sup>.

The chart below shows the performance of the top 10 clubs in Europe.

### CF CALCIO FINANZA Top 10 Revenue 2015-16

	2015-2016		2014-2015	
Manchester United	616,92 mln €	515,34 mln £	519,46 mln €	395,18 mln £
Barcellona (*)	609,90 mln €		560,70 mln €	
Real Madrid (**)	609,26 mln €		567,56 mln €	
Bayern Monaco	591,99 mln €		474,00 mln €	
PSG (***)	500,00 mln €		480,80 mln €	
Manchester City	469,02 mln €	391,80 mln £	462,52 mln €	351,86 mln £
Arsenal	415,87 mln €	347,39 mln £	431,86 mln €	328,53 mln £
Chelsea	393,96 mln €	329,10 mln £	413,14 mln €	314,30 mln £
Liverpool (****)	361,28 mln €	301,80 mln £	391,86 mln €	298,10 mln £
Juventus	341,50 mln €		324,70 mln €	

\*\*\*others sports net proceeds  
 \*\*\*www.ecofoot.fr for estimates  
 \*\*\*\*www.thisisanfield.com for

Exchange GBP/EUR at 30/6/2015 = 1.3145  
 Exchange GBP/EUR at 30/6/2016 = 1.1971

<sup>41</sup> Report Calcio 2017

In relation to costs the incidence of the most relevant one (labor expenses) varies between 50% and 60% for Germany and Italy while it affects France, England and Spain for more than 60%. With respect to the previous season Italy reduced the amount of employee cost (11% reduction) while England and Spain increased it.

Therefore, the overall net result is positive for England (€ 88 mln), Spain (€ 64 mln) and Germany (€ 73.8 million), while others continue to generate losses such as France and Italy (€ 64 and € 292 mln respectively)<sup>42</sup>.

Revenues and costs (especially employees costs) increase although losses have not risen as in previous years but are steadily declining. This has been possible through diversification policies, cost containment policies and capital gains from player alienation. From an economic point of view, we can say everything a part of a stagnant situation of the overall turnover generated by football world.

The level of net aggregate loss does not depend on the economic crisis of recent years (the revenue of the football industry has indeed grown significantly) but it depends on the increase in costs that exceeds revenue. This led the total loss to a considerable deterioration until 2011 followed by a reduction to our days. The crisis that characterizes football can therefore be attributed to real structural shortcomings.

A revenue component that is getting more and more important is football players capital gain. In Italy higher revenues come from national TV rights and capital gains. Italian football sustainability can not count on these revenues since TV right do not represent a safe ground. If the interest diminished, the sums that guarantee these rights would also diminish. Regarding capital gains, some top players are all moved to other leagues while others are trying to move to Italian one. However, the dramatic increase in the prices of individual players, even those with modest or not yet proven skills, will tend to increase the importance of this item on the budget sales. This will probably allow to recover accounts and financial statement that would otherwise make loss, as and even create profitable budget for well established clubs. These are uncertain income components whose amounts may vary from year to year and will therefore affect the club's profit and loss account increasingly. It is thus vital to diversify the sources of revenue.

Italian and French league are those who benefits the most from these income component.

Looking at the Italian situation, the chart below show the top football players capital gains.

---

<sup>42</sup> Report Calcio 2017



## GREATER CAPITAL GAINS 2006-2016

Calciatore	Club venditore	Club acquirente	Prezzo di cessione	Plusvalenza	Bilancio
Edinson Cavani	Napoli	PSG	67.894	64.399	2013/14
Kakà	Milan	Real Madrid	67.000	63.693	2009/10
Zlatan Ibrahimovic	Inter	Barcellona	69.500	53.575	2009/10
Andriy Shevchenko	Milan	Chelsea	43.875	42.025	2006/07
Thiago Silva	Milan	PSG	41.000	35.301	2012
Arturo Vidal	Juventus	Bayern Monaco	37.000	30.985	2015/16
Javier Pastore	Palermo	PSG	39.800	28.980	2011/12
Ezequiel Lavezzi	Napoli	PSG	28.947	28.632	2012/13
Miralem Pjanic	Roma	Juventus	32.000	28.000	2016/17
Paulo Dybala	Palermo	Juventus	32.000	27.600	2015/16
Marquinhos	Roma	PSG	31.451	27.470	2013/14
Alexis Sanchez	Udinese	Barcellona	26.000	26.000	2011/12
Alessio Romagnoli	Roma	Milan	25.000	23.864	2015/16
Juan Cuadrado	Fiorentina	Chelsea	31.000	23.620	2015
Mateo Kovacic	Inter	Real Madrid	31.000	23.000	2015/16
Stevan Jovetic	Fiorentina	Manchester City	26.000	22.089	2012/13
Mario Balotelli	Inter	Manchester City	22.000	21.856	2010/11
Matija Nastasic	Fiorentina	Manchester City	24.000	21.375	2011/12
Alberto Aquilani	Roma	Liverpool	20.000	20.000	2009/10
Juan Cuadrado	Udinese	Fiorentina	20.000	20.000	2013/14



Paul Pogba capital gain (Juventus former player) is not included in the list.

He was sold to Manchester United in 2016 for more than € 110 mln after being bought for zero euros three summers before from Manchester United.

Pogba's accounting value at 30 June 2016 in the Juventus' balance sheet was € 4,708 mln. This is because despite he has been bought for free in the 2012 summer market the black and white club recorded the cost of commissions paid to Raiola for hiring Pogba (€ 1,635 million) and that cost for the renewal of his contract (€ 4.53 million in 2014/15 and another € 2 million in the first half of the 2015/16 season) subsequently amortized over the contract years (expiring on June 30, 2019).

The capital gain that Juventus recorded in the financial statements at June 30, 2017 thanks to Paul Pogba sale to Manchester United for € 110 million (€ 72.6 mln net capital gain stated by Juventus) allowed the club to reach € 562 mln of revenue and a profit after taxes of € 42.6 mln. These are incredible results if compared to other Italian clubs.

At European level the turnover achieved in 2017 places Juventus among the top positions.

This shows how important capital gain could be in term of performance and turnover, even more when prices increase. The more prices increase, the easier getting higher capital income will be. With only one good amount capital gain, clubs could fix their account and keep constant the level of costs (employees costs in particular), without turning to less sustainable policies.

As mentioned above, these entries are non-recurrent and have extraordinary nature. To rely too much on them is not a good choice for a sustainable business model.

In terms of costs, the most important entry is the labor costs since the average cost of wages in the top 10 clubs is € 226,5 mln.

According to *Report Calcio 2016*, the table below shows the employees costs of the top 10 European clubs<sup>43</sup>.

**Employees costs 2014 - top 10 European clubs**

<b>RANK</b>	<b>CLUB</b>	<b>EMPLOYEES COSTS (in mln)</b>	<b>INCIDENCE ON REVENUE</b>
1	Real Madrid CF	270	49%
2	Manchester United FC	263	51%
3	FC Barcellona	248	51%
4	Manchester City FC	245	59%
5	Parsi Saint Germain FC	235	50%
6	Chelsea FC	231	60%
7	FC Bayern Monaco	218	45%
8	Arsenal FC	199	55%
9	Juventus FC	184	56%
10	Liverpool FC	172	66%

The cost of salaries along with depreciation and write-downs reaches 100% of the revenue in some cases. It is an unsustainable situation because many teams spend more than they invoice. In 2015, Italy and France had the highest employee cost / outcome ratio, respectively 69% and 68% respectively.

Going back a few years, just because the data deserve to be quoted, in 2012 Inter and Milan had a employees costs/ turnover ratio of 90% and 88%, respectively.

At a distance of 4 years, this percentage has been considerably reduced: in 2016, Inter had a 60% ratio while Milan 70%.

However, the incidence of salaries is a constant in the European football model with the exception of Germany, where the growth of wage goes hand in hand with increasing incomes with an unchanged incidence.

In 2015 Italy and France also had the lowest percentage of teams with profitable results; 37% in Italy and 45% in France<sup>44</sup>.

The other three championships, England, Spain and Germany, went well over 50%.

Lastly, the trend does not change even at the level of net profit.

---

<sup>43</sup> Report calcio 2016

<sup>44</sup> Report calcio 2017

England, Germany and Spain dominate for total net result, average result and number of profitable teams.

According to *Report Calcio 2016*, the following table shows the situation at 2014<sup>45</sup> (the situation in 2015 is similar).

	<b>Number of Top Division Club</b>	<b>Totall net result (in mln)</b>	<b>Average net result per club (in mln)</b>	<b>Number of profitable clubs</b>	<b>Number of not profitable clubs</b>
ENG	20	196.0	9.8	15	5
GER	18	48.6	2.7	12	6
ESP	20	176.0	8.8	15	5
ITA	20	-324.0	-16.2	7	13
FRA	20	-102.0	-5.1	6	14

### **2.3 STADIUM**

The football transformation from playful moment to real business has effects also with regard to stadiums.

Initially these infrastructures were used only once every 15 days on Sunday afternoon (with the exception of structures used by two city teams or those participating in European competitions) while nowadays the stadium is considered as a 24/7 usable corporate asset. This happened because viewers have become increasingly important for the football system.

The arrival of radio and TV broadcasts could appear the reason for stadia emptying but it was not. At least not everywhere.

The first stadia were built in the late '800 in England, home of football and its passionate fan. In Italy the first stadium was the National Stadium in Rome in 1911 while San Siro in Milano was built in 1926.

Around year 2000, the stadium ownership was predominantly public and clubs used to rent the field to play matches since they owned only the training field. With the increase of costs over revenue, some clubs gives their training field as guarantee and in the worst scenario they are forced to sell their stadiums.

In these days it is alright for clubs to own their stadiums since it could be a source for new cash and financing needed for corporate accounts.

---

<sup>45</sup> Report calcio 2016

The problem is that the construction of a stadium requires a lot of funds that clubs often do not have and therefore they continue to rent public properties thus demonstrating their preference for a short-term vision (typical of the world of football where the results should be immediate) rather than a long-term one. This does not happen everywhere.

### **2.3.1 THE ITALIAN SITUATION**

As reported by Report Calcio 2017, during the 2015/16 season the overall number of spectators attending Italian stadiums for high level matches (from the National Youth Teams to the UEFA Champions League) reached almost 14.9 million, in decline compared to the previous seasons 2014-15 (- 3.2 %).

In terms of average attendance per match the highest data were recorded for the UEFA Champions League (42,257), followed by Serie A (22,280), the Men's Italian National A Team (21,521 – a reduction of almost 50%), the UEFA Europe League (13,847 – 44% reduction in relation to the previous season)<sup>46</sup>.

The number of total spectators continues to grow as already highlighted in the prior season. In 2015/16 the overall number of spectators was 13.6 million, with an increase of 1.8% in respect of 2014/15. Despite this positive increase, the situation continues to be critical. The average stadium capacity utilization exceeds 50% only in Serie A, falling to 41% in Serie B and 28% in Lega Pro.

The Italian Top Division continues to be highly penalized in comparison to other European federations. The overall number of unsold tickets exceeded 8.4 million in 2015/16 in comparison with 1.3 million in the German Top Division and 1.1 million in the English one. The economic potential is not fully expressed; considering an average stadium capacity utilization of 80% (compared to the current 53%) the Italian Top Division clubs would obtain additional gate receipts for almost € 94 mln. This figure could reach € 174 mln in case of 100% stadium capacity utilization.

These are amounts of money that could affect and change the football clubs survival. The average figure reached per club would be € 8.7 mln, an essential sum for a small-medium size club.

The scenario described above is directly linked with the notorious backwardness of Italian football stadiums both at infrastructural profile and at level of services offered. The average age of Italian stadiums ranges from 64 years in Serie A to 68 in Serie B and 59 in Lega Pro. The percentage of covered seats reaches 77% in Serie A while it is lower than 35% in Serie B and Lega Pro.

---

<sup>46</sup> Report calcio 2017

Regarding the construction of newly owned-structure, in Italy there are 4 privately owned stadium. First of all the Juventus Stadium followed by Udinese, Sassuolo and Atalanta stadiums.

In recent years Juventus has been the leading club in such initiatives. The Turin club ranks both for sporting and financial performance among the first three or four teams in the world. Thanks to the realization of the new stadium, which was inaugurated on September 8, 2011, Juventus increased matchdays revenue considerably.

At a financial level the club acquired the area management for a € 25-million-dollar fee as the price for the building area, for 99 years utilisation.

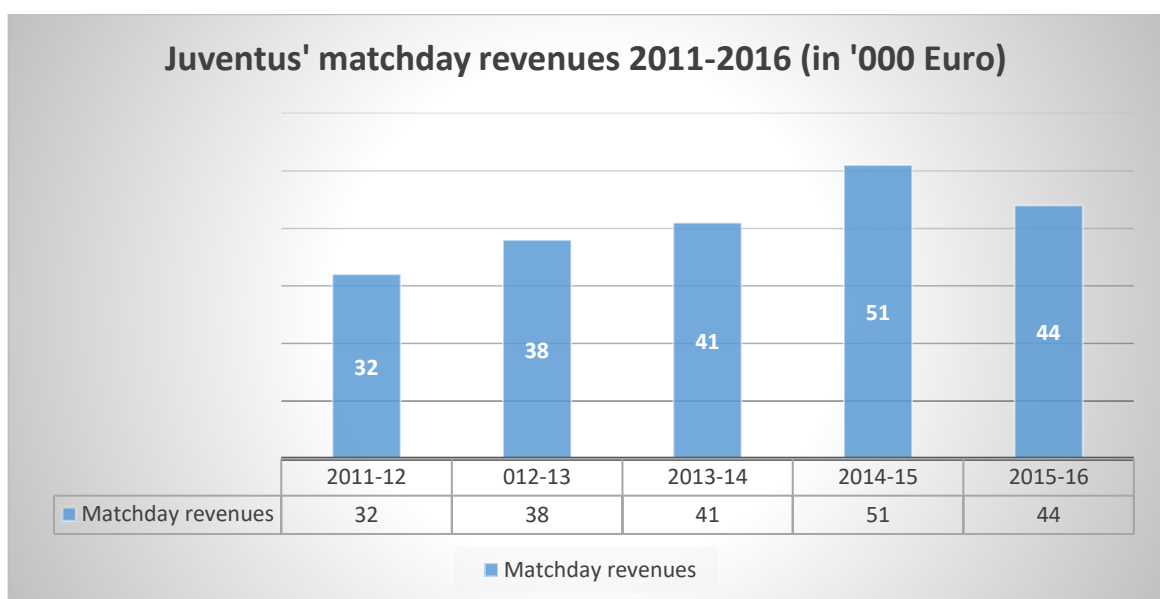
In addition to this initial spending Juventus had to allocate another € 120 mln, partly funded by the sale of the naming right to Sportfive's sports marketing consulting firm, which signed a 12-year agreement in return for € 75 mln.

Now let's take a look at the main facilities innovation.

Juventus' stadium has revolutionized the way stadiums in Italy are conceived. It is not a mere white elephant used only 90 minutes for the games but a combination pole to be used 7 days a week. Inside there is a mall (called "area 12" in honor of the fans who are considered the twelfth man in the pitch), a museum on Bianconeri's history, art exhibitions as well as spaces for the organization of events with personalities of the world of culture and entertainment.

From an economic point of view the benefits gained are remarkable. With a capacity of 41,475 seats (the lowest in Europe) the first year saw an average of 38,000 viewers per game with an increase in terms of revenue from € 11.6 mln to € 31.8 mln, a jump of 174%.

The situation over the last five years is represented by the following graph.



In terms of revenue the situation would improve even more if Juventus could expand the total stadium capacity ((keeping the ticket price at the same level).

These are incredible data that proved how much economic valuations implemented many years ago were well-realized. Juventus Stadium is a project that remains today the model that other Italian clubs should follow.

Currently other teams are considering the option to build a new privately owned stadium. Cagliari, Empoli and Fiorentina have already started a project while Milan and Inter have no clear ideas on the matter. The complications in the project could cause the Milanese teams to stay in San Siro for a long time; renovation and maintenance operations will be made but the rest the situation won't change.

In Roma's case, there is a project for a new stadium but it has been blocked.

### 2.3.2 EUROPEAN SITUATION AND COMPARISONS

The table below shows data comparing the top five European leagues. This appears to be discouraging for the Italian teams (*Report Calcio 2017*)<sup>47</sup>.

Top division 2015-16	<u>GER</u>	<u>ENG</u>	<u>SPA</u>	<u>ITA</u>	<u>FRA</u>	Total
Number of club	18	20	20	20	20	<b>98</b>
Number of matches	307	380	380	380	380	<b>1.827</b>
Championship average turnout	43.327	36.461	28.568	22.280	20.896	<b>29.786</b>
Championship total turnout	13.301.300	13.855.180	10.855.840	8.466.512	7.940.480	<b>54.419.312</b>
Championship average capacity	47.029	38.155	38.864	39.608	31.208	<b>38.651</b>
Filling % capacity	92%	96%	74%	56%	67%	<b>77%</b>
Total potential turnout	14.437.835	14.498.900	14.768.396	15.051.211	11.859.097	<b>70.615.439</b>
Unsold seats	1.136.535	643.720	3.912.556	6.584.699	3.918.617	<b>16.196.127</b>
Number of national cup games	15	56	45	34	36	<b>186</b>
National Cup average turnout	47.305	34.191	22.178	12.857	14.294	<b>24.592</b>
National Cup total turnout	709.569	1.914.701	998.011	437.138	514.601	<b>4.574.020</b>
Filling % capacity	88%	83%	52%	29%	46%	<b>60%</b>
Total potential turnout	802.288	2.303.205	1.906.305	1.510.438	1.113.455	<b>7.635.691</b>
Unsold seats	92.719	388.504	908.294	1.073.300	598.854	<b>3.061.671</b>
Number of European cup games	36	37	45	23	28	<b>169</b>
European cup average turnout	44.543	46.987	43.617	24.964	25.217	<b>38.965</b>
European Cup total turnout	1.603.554	1.738.536	1.962.751	574.181	706.088	<b>6.585.110</b>
Filling % capacity	93%	94%	76%	43%	59%	<b>76%</b>
Total potential turnout	1.724.553	1.856.434	2.589.092	1.322.484	1.194.968	<b>8.687.531</b>
Unsold seats	120.999	117.898	626.341	748.303	488.880	<b>2.102.421</b>
<b>NUMBER OF TOTAL GAMES</b>	<b>358</b>	<b>473</b>	<b>470</b>	<b>437</b>	<b>444</b>	<b>2.182</b>

<sup>47</sup> Report calcio 2017



<b>TOTAL EFFECTIVE TURNOUT</b>	<b>15.614.423</b>	<b>17.508.417</b>	<b>13.816.602</b>	<b>9.477.831</b>	<b>9.161.169</b>	<b>65.578.442</b>
<b>AVERAGE TURNOUT</b>	<b>43.616</b>	<b>37.016</b>	<b>29.397</b>	<b>21.688</b>	<b>20.633</b>	<b>30.054</b>
<b>FILLING % CAPACITY</b>	<b>92%</b>	<b>94%</b>	<b>72%</b>	<b>53%</b>	<b>65%</b>	<b>75%</b>
<b>TOTAL POTENTIAL TURNOUT</b>	<b>16.964.676</b>	<b>18.658.539</b>	<b>19.263.793</b>	<b>17.884.133</b>	<b>14.167.520</b>	<b>86.938.661</b>
<b>TOTAL UNSOLD SEATS</b>	<b>1.350.253</b>	<b>1.150.122</b>	<b>5.447.191</b>	<b>8.406.302</b>	<b>5.006.351</b>	<b>21.360.219</b>

In season 2015/16, Italy ranks fourth in terms of average turnout at championship matches and it is the last in relation to stadium attendance (only 56%).

In terms of average attendance Italy is in the last position for both European cups and the national cup (Coppa Italia).

In terms of total turnout England, Germany and Spain are clearly outgrowing Italy and France whose numbers are however steadily increasing. The English championship exceeds 17.5 mln people and ranks first followed by Germany (15.6 mln) and Spain (13.8 mln).

England ranks first also in relation to the attendance percentage. On average, in every single match, an English stadium has 96% attendance of the total capacity. Germany follows with 92% and Spain with 78%.

The two most successful models are certainly England and Germany ones.

English football has always been characterized by full-attendance stadium and a captivating atmosphere. Going to the stadium represents for fans the "most beautiful moment of the week" when you share with others your passion for football.

The fundamental aspect of economic and sport culture that distinguishes British football from the rest of the world is the ownership of the stadium.

Before everybody else, the English teams realized the importance of investing in the club's infrastructures, studying facilities and equip them with every kind of comfort. Also real commercial citadels and little villages near the stadium were created.

The basic concept behind the phenomenon of the stadium is to try to attract fans and tourists of all kinds.

The stadium is therefore the center of survival of the English clubs, it has a full exploitation at 360 degrees in sporting, commercial and economic sense.

In the Italian stadium traditional view fans come to the stadium just before the start of the game and leave the facility immediately after. In the British idea fans come to the stadium early in the morning, eat their meal in the indoor lounges or in pubs outside and find leisure activities awaiting for the start of the match. The same happens at the end of the game. Fan can stop in the stores, buy their own team T-shirts, scarves and gadgets.

Clubs that own a stadium can count on the highest turnover. In this special ranking the Premier leads, as in 2016/17 season 16 stadiums on a total of 20 teams were privately owned. The Bundes (the only league with 18 teams) with 10 follows. The municipal owned stadium is instead typical of Spain (where 13 stadiums are not owned by clubs), Italy (only 4 teams own their own facility) and France where only Paris Saint Germain is tenant and owner of his playing field.

Three factors question Premier League's primacy in favor of the German model which are age, naming rights and capacity.

The data concerning the age of the stadiums take into consideration only those built or restructured from 2000 onwards. Bundesliga has the lead as in the next season 2016/17 can count on eleven constructed or renewed installations over the past sixteen years. German success is also due to investments made in the 2006 World Cup that had a fundamental role. It is not even bad for the Premier that in the same year has cut the tape at seven facilities. In the coming seasons with the opening of the new Anfield Road, Stamford Bridge and White Hart Lane, the numbers will increase.

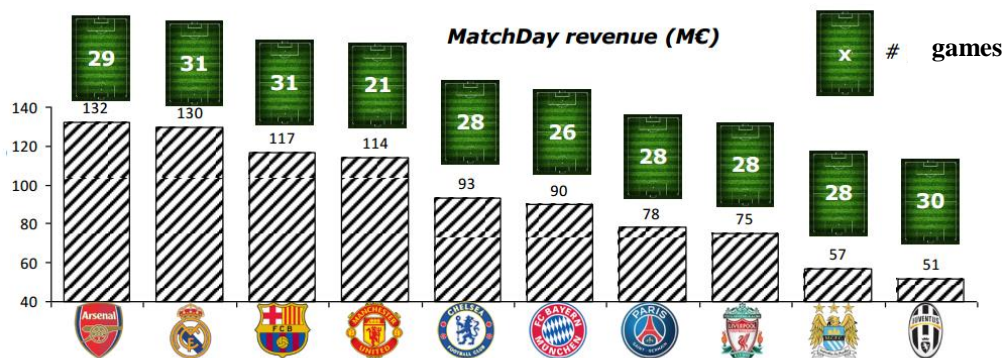
Another statistic that has allowed Bundesliga to prevail over the Premier is naming rights. In Germany there are 14 clubs whose facilities are being sponsored (Bayern Munich with Allianz to the last one Leipzig with Red Bull for € 70 mln). In Premier the numbers are exactly half.

The third and final aspect concerns the capacity of the facilities. Once again the Bundesliga is leading the ranking with 44,563 seats. The German stadiums are the largest in Europe. However, Premier is out of the podium and ranks fourth with 37,445 seats. Serie A, which can count on an average availability of 40,356 seats, ranks seconds. Closing the podium is Liga with 38,377 and further down the list Ligue 1 with 32,650 seats.

What is clearly evident from this comparison is that only Bundes keeps up with Premier League in term of facilities and related benefits.

Let's take a look at the importance of stadiums in term of revenue.

As reported by *Calcio e Finanza*, the chart below shows the best results per club in term of matchdays revenue in 2015/16 season.



Arsenal ranks first.

Arsenal and the Emirates Stadium in London is the model that many clubs have looked at (and continues to look at) in recent years. It is a state-of-the-art facility which, since its inauguration, has become an important source of revenue for the club.

The construction started in 2004 costed € 560 million. About a third of the sum was funded through the expiration of long-term bank financing (expiring of 2031). The remaining amount was funded with the proceeds of real estate transactions carried out on the place where the old Highbury stadium was and where a residential complex of 680 flats was built and by renegotiating the naming rights of the new facility to the Emirates airline at a price of around € 120 mln for 15 years.

Matchdays revenue rised from € 63.8 million of last season in Old Highbury to € 134.6 million in the new first season new facility. This is because the increase in the available seats allowed Arsenal to have about 44,000 subscribers per year and an average of around 60,000 viewers per game, with an attendance percentage close to 100%.

Looking at the last five years' data, matchday revenue never fell below € 100 mln. Hence the investment made by Arsenal in 2006 was fully recovered from the revenue generated by the stadium.

The podium is completed by the two Spanish giants Barcelona and Real Madrid not mentioned so far. Gate receipts revenues represent 20% on total sales and therefore they are an absolutely reliable source of income.

It is not a coincidence that in the top ten, five are English teams, all of which have a privately owned stadium. The already mentioned Arsenal is followed by Manchester United, Chelsea, Liverpool and Manchester City.

Lastly, despite the growth in recent years, Juventus is lagging behind in term of matchday revenue, generating at least 50% less than all teams except Manchester City.

Stadium revenue depend on both the average turnout (already mentioned) and the ticket price. Analyzing the data for the latter, *Report Calcio 2017* shows that Premier League charges the highest average price which is € 52.20 per game.

This price, fans passion and total and average attendance, explain the results in terms of gate receipts and matchday revenue achieved by British clubs.

Spain and Germany complete the trio, respectively with € 41.2 and € 35.5 per match.

Again in this case, this average price together with a high and constant average turnout allows German and Spanish clubs, as well as British ones, to benefit by this income component to increase their total revenue.

## **CHAPTER 3 - ACCOUNTING INFORMATION**

The football sector is a complex environment in which in many cases economy, finance and even laws are distorted, sometimes bent, in some cases ignored.

The economic reality within which football clubs are managed is extremely complicated.

The Italian football landscape has seen some very controversial cases of creative accounting and "administrative doping". Our country has been the scene of economic affairs like bankruptcy failures or bailouts in extremis relating to several soccer companies, even among the most prestigious.

The reasons that led football clubs on the road to disaster are to be searched in the evolution of football world over the years. Born as a simple sport associations many realities are transformed into complex social groups to better manage and exploit every aspect (from sports to advertising to the economic aspect) related to football activity.

This evolution has not been supported by regulatory institutions and by adequate control bodies. Soon the system started collapsing due to inadequate management models and deleterious organizational structures in the medium and long run.

The first part of this chapter analyses how players' registrations are accounted according to both national and international accounting standards and how and where they are allocated into the balance sheet.

The second part shows creative accounting peculiarities and issues in relation to fictitious capital gain and exchange, depreciation transactions, loan operations with right or binding option to sign and sale of the brand.

### **3.1. DISPOSAL ON PLAYERS' REGISTRATION RIGHTS - NATURE AND ECONOMIC MEANING**

The study of football clubs financial statements and the accounting treatment of the related items is mainly based on players' registration rights.

The economic relevance of these investments and the resulting costs, such as wages (primarily) and amortization, led the control bodies (Covisoc<sup>48</sup>, for the Italian context) to monitor this line item by setting up specific indicators aimed at ensuring the financial equilibrium in the management.

In the Italian tradition this item is located in the balance sheet as an asset.

---

<sup>48</sup> Commissione di Vigilanza sulle Società di Calcio Professionistiche: it is a technical body that carries out tasks on behalf of the FIGC such as consultative activities (Article 79 NOIF), control activities on football clubs economic and financial equilibrium (Article 80 NOIF), inspections and controls (Article 87 of the NOIF).

This treatment is particularly evident in the multi-year nature of the investment that has led our doctrine to assimilate it as an intangible asset in all its effects.

At international standards level, there is no uniformity regarding the nature or the accounting treatment of this item.

Divergences concern some ways of detecting and capitalizing on such costs.

The advent of IAS / IFRS, mandatory since 2006 for listed companies, also drew attention to the significance of this accounting entry within these principles.

In order to understand the nature of players' registration rights in the financial statements, in accordance with the international accounting standards, it is necessary to understand the meaning that the IASB<sup>49</sup> attributes to the concept of intangible asset.

The benchmark is IAS 38, named Intangible Assets.

According to IAS 38<sup>50</sup> intangible assets are non-monetary assets without physical substance and they must be identifiable. An intangible asset to be identifiable has to be separable and arise from contractual or other legal rights. However, it should only be recognized if it expects to generate future economic benefits and if the cost of the asset can be measured reliably.

The resource deriving from the purchase of a football player can not be considered as a tangible asset since the object of the sale is not the physical entity of a footballer but the right to use its sports performance.

At the same time football companies do not exercise any control over the person but only have a legally protected exclusivity on their performance over a period of time, normally over one year.

In the case of players' registration it appears evident that the prevailing aspect should be considered as immaterial.

Despite the presence of a contract the company does not have any claim of control or law on the human being.

Therefore, the players' registration is certainly a non-monetary assets, without physical consistency, as required by IAS 38.

In order to demonstrate that this is all about an intangible resource it is imperative to check whether this item also responds to the other requirements as resource control, ability to produce future economic benefits and autonomous identifiability.

Regarding *resource control*, players' registration seems to meet this requirement. When a club acquires a footballer and signs a multi-year contract, it gets the option to benefit from the future

---

<sup>49</sup> International Accounting Standard Board

<sup>50</sup> [http://ec.europa.eu/internal\\_market/accounting/docs/consolidated/ias38\\_en.pdf](http://ec.europa.eu/internal_market/accounting/docs/consolidated/ias38_en.pdf)

economic benefits associated with the use of sporting services limiting that benefit to third parties.

However, this is more controlled than other business assets. In the case of players transfer consent is required. This is at the same time full control over the resource for the time period stipulated by the contract and a limited control constrained by the consensus of the athlete.

Regarding *future economic benefits* players under contract with a club, home-grown or acquired are expected to generate future economic benefits for the club as they are bound to it for a certain period of time and due to the fact that clubs, in general, exist as holder of players' registration rights without which the possibility to carry on a football activity would be precluded. Basically, future economic benefit can be revenue or cost savings. In order to assess the future economic benefit, a club shall use reasonable and supportable assumptions representing management's best estimates of the economic conditions during the useful life of the asset on the basis of evidence available at the time of the initial recognition (IASB).

The last feature is related to identifiability. No doubts that players' registration identification is an intangible assets. Based on their nature, players are constantly subject to buying and selling or loan operations among clubs.

As a conclusion, players' registration rights have all the requirements required by IAS/IFRS to be considered as intangible assets. They represent monetary resources, without physical substance, easily identifiable from other entities.

Further, the club owns a kind of control over these rights that turn out to be acquired in the past from which economic future benefits will be obtained.

Now we will focus on players' registration rights allocation in the balance sheet and, in particular, in the balance sheet ruled by art. 2424 of the Italian Civil Code.

Both at national and international level the prevailing doctrine agrees to attribute to this line item the nature of intangible assets ascribable to financial assets.

The only case in which it would not be possible to capitalize the cost of purchase is related to the drafting of an annual contract. In this case the cost incurred would be entirely charged to the income statement within item B7 "service costs" (that seems to be the most consistent item).

In the presence of a multi-year contract the purchase cost definitely has all the characteristics to be included in the non-current asset. These are for all intents and purposes sporting performance available for several years on the basis of a contract and therefore durable and with multi-year utility.

The most important issue is the identification of the balance sheet line item more appropriate with the player's registration rights nature.

Accounting recommendation No. 1<sup>51</sup>, dedicated to players' registration rights, considers that the nature of this item can be assimilated to concession rights and similar, classified under item B.I.4) concessions, licenses, trademarks and similar rights.

This line item is about the right to exclusive exploitation of a given asset for a given period of time. There are no particular criticisms or divergences on this topic with literature and doctrine. As it can not be traced back to any of the other intangible assets, the assimilation of players' registration under item B.I.4 is undoubtedly the most appropriate one.

Even if acknowledging the nature of this item, which is similar to concessions, the accounting recommendations tend to provide a separate indication in the financial statements, according to Art. 2423-ter Civil Code, which governs the possibility of adding other items if their contents are not included in the civilian scheme terms or if the particular nature of the activity requires a new line item.

The reporting frameworks and the Federal Accounting Plan also require the disclosure of a separate allocation, under the voice named B.I.8) *players' registration rights*.

Player's registration represents an exclusive line item linked to the specificity of the business carried out by the football company which can not be sold or allocated in the budget of any other type of company, unrelated to the sport sector.

Hence, according to the national accounting principles this item is accounted as an intangible asset. It gives the club the exclusive right to use the player's performance for the entire duration of the contract.

### **3.2. CREATIVE ACCOUNTING**

"Creative Accounting" is a phenomenon of great relevance and interest. Despite the fact that following major accounting scandals the countries involved have made important efforts and controls to prevent and avoid such phenomena, cases of accounting misleading have not been completely eliminated.

To get more into the substance of the theme, it is essential to make it unambiguously definable. This is quite simple from the theoretical point of view but it is not from a practical one. In fact, the term *Creative Accounting* refers to the use of flexibility in accounting, remaining within the current regulatory framework, with the aim of manipulating the presentation and the valuation

---

<sup>51</sup> [http://users.unimi.it/d\\_sport/allegati/dispense1213/20130207/mancini/Raccomandazioni\\_contabili\\_F.I.G.C.\\_2008\\_2.pdf](http://users.unimi.it/d_sport/allegati/dispense1213/20130207/mancini/Raccomandazioni_contabili_F.I.G.C._2008_2.pdf)



of accounts in order to give priority to the interests of editors rather than those financial statements final users.

Creative accounting generates accounting numbers intended to deceive shareholders and other users. It damages the credibility of the company and its managers and it can financially damage shareholders and other users who rely on them for their decision. Creative accounting effectively destroys the trust on which the principal-agent relationships needs to be based and can de-stabilize capital markets.

In a perfect world, where managers should be perfectly able to reach expectations and business goals at any time, there would be no incentives or reasons to adopt Creative Accounting practices. In the reality of the facts, however, various purposes drive managers to manipulate budget accounts.

The reasons that lead an organization to use creative accounting can be internal and external. The first case relates to the manipulation of accounting books in order to achieve goals set in terms of sales, profitability and price of the shares; the second case concerns the expectations of those who have relationships with the company and therefore shareholders in the first place, followed by employees, customers, suppliers and investors.

Another important incentive for adopting creative accounting is the need to maintain a stable income profile in order to impress investors and prevent sudden stock price fluctuations. Finally, at a purely accounting level, creative accounting is used to reduce the tax burden and the pre-tax income on which the annual tax is calculated.

In relation to football clubs, creative accounting cases are very frequent and easy to implement as there is no benchmarking market for players. Most often players price is decided subjectively by club executives based on technical parameters (age, games played, injuries, growth margins) and market (price trends).

The most important creative accounting practices are dummy capital gains through player exchange, brand selling, amortization and load with right or binding option to sign.

The goal is to change the actual composition of costs and revenue, achieving operational income and outcomes appropriate to the club's situation.

### **3.2.1. FICTITIOUS CAPITAL GAIN AND EXCHANGE**

Capital gain is defined as the higher value of an asset (a football player) with respect to its carrying amount.

A club usually buys a player from an other company paying a certain amount of money; also it may happen that two clubs decide to exchange two players thus eliminating any kind of money movement (or with a limited cash payment).

This is the case where fictitious gains may occur.

Capital gains in football have always existed. It is only in recent times that they have become the only survival way for such a business sector during a crisis situation.

It is well known that the increase in revenue is accompanied by a corresponding increase in the ratings of football players and by an unstoppable increase in employees costs. In recent years the financial statements of many clubs have recorded labor cost values that are even higher than sales. Accounts balances in the red have a single consequence - their replenishment, that is, a fresh cash payment that balances the financial situation.

Obviously, not all football club owners are able to shell out millions of Euros annually to cover the losses.

Today's budgets show substantial losses, and none of them, even the richest, decides lightly to replenish the losses.

Then, how to set up budgets to be in line with the parameters required to sign up for the championship or with FFP parameters? Simply adopting the capital gains system.

Logic requires that if you want to get a profitable income, you need to surrender an important player with a high market share. But it is equally obvious that if you lose a precious piece in your team, you have to replace it with an element of equivalent value unless you resign yourself to lose competitiveness. A vicious circle, then.

Until the early 1990s football worked just like this. Who had the money (the big ones) invested in football players, who did not have money (the small ones) got by trying to resell young talents grown in the house. But everything has changed by adding the adjective "fictitious" to the capital gain word. Why "dummy"? An example may come in handy (*Economia delle aziende sportive – 2009*):

*Example 1. The soccer company A sells to company B the player's registration right of its player X, historical cost 1,000, depreciation provision 600, carrying value 400, agreed selling price 700 with a net capital gain of 300 (700-400). Company B will in turn transfer to company A the player's registration right of its player Y, historical cost 900, depreciation provision 600, carrying value 300, agreed sale price 500 with a net capital gain of 200 (500- 300). In view of the different market prices attributed to the two players, company B will have to pay to A an amount 200, i.e. the difference between the market value of X, equal to 700 and Y equal to 500.*

*X and Y new contracts last for five years. The financial adjustment is regulated through the clearing house<sup>52</sup> of the Italian football League Serie A. The accounting records of the two companies are reported below:*

**CLUB A**

Player's registration right (2)      500   1000      (1)	Depreciation Provision (1)    600
Seria A's account (1)      700   500      (2)	Capial gain        300      (1)

**CLUB B**

Player's registration right (1)      700   900      (2)	Depreciation Provision (2)    600
Seria A's account (1)      500   700      (2)	Capial gain        200      (2)

*(1) transfer market of player X from A to B*

*(2) transfer market of player Y from B to A*

Following the exchange the two clubs record on debit in the player's registration right account the disbursement of the historical cost of the player that will be transferred and the value of the agreed purchase cost on credit. Both companies recognize gains of 300 and 200 respectively to report in the income statement.

From the exchange club A has a credit to the league Serie A to be settled through the clearing house of 200 while company B has a debt to the league Serie A for the same amount.

---

<sup>52</sup> Exchanges made between professional clubs are regulated through a complex system centrally managed by the Italian football League (Serie A), which acts as a clearing room for established creditors and debtors relation. The league, by means of special accounts, record all exchanges for the various professional companies during the reference period. Then it will be up to the league itself to collect debts from companies that have a lump sum and paying advances, over the total due, to credit clubs.  
[http://www.figc.it/Assets/contentresources\\_2/ContenutoGenerico/52.\\$plit/C\\_2\\_ContenutoGenerico\\_2532976\\_StrilloComunicatoUfficiale\\_1stAllegati\\_0\\_upfAllegato.pdf](http://www.figc.it/Assets/contentresources_2/ContenutoGenerico/52.$plit/C_2_ContenutoGenerico_2532976_StrilloComunicatoUfficiale_1stAllegati_0_upfAllegato.pdf)

Based on the previous example we now make some changes to the sale price only. Player X is sold at 1,700 instead of 700, player Y is sold at 1,500 instead of 500, all the other things being equal.

Again, both clubs succeed in gaining from the exchange. A's gains moves from 300 to 1300 and B from 200 to 1200. A's credit and B's debit to the league remain unchanged.

**CLUB A:**

<table style="margin: auto; border-collapse: collapse;"> <tr> <td colspan="2" style="border-bottom: 1px solid black; padding: 5px;">Player's registration right</td> </tr> <tr> <td style="width: 50%; text-align: center; padding: 5px;">(2) 1,500</td> <td style="width: 50%; text-align: center; padding: 5px;">1,000 (1)</td> </tr> </table>	Player's registration right		(2) 1,500	1,000 (1)	<table style="margin: auto; border-collapse: collapse;"> <tr> <td colspan="2" style="border-bottom: 1px solid black; padding: 5px;">Depreciation Provision</td> </tr> <tr> <td style="width: 50%; text-align: center; padding: 5px;">(1) 600</td> <td style="width: 50%;"></td> </tr> </table>	Depreciation Provision		(1) 600	
Player's registration right									
(2) 1,500	1,000 (1)								
Depreciation Provision									
(1) 600									
<table style="margin: auto; border-collapse: collapse;"> <tr> <td colspan="2" style="border-bottom: 1px solid black; padding: 5px;">Seria A's account</td> </tr> <tr> <td style="width: 50%; text-align: center; padding: 5px;">(1) 1,700</td> <td style="width: 50%; text-align: center; padding: 5px;">1,500 (2)</td> </tr> </table>	Seria A's account		(1) 1,700	1,500 (2)	<table style="margin: auto; border-collapse: collapse;"> <tr> <td colspan="2" style="border-bottom: 1px solid black; padding: 5px;">Capial gain</td> </tr> <tr> <td style="width: 50%;"></td> <td style="width: 50%; text-align: center; padding: 5px;">1,300 (1)</td> </tr> </table>	Capial gain			1,300 (1)
Seria A's account									
(1) 1,700	1,500 (2)								
Capial gain									
	1,300 (1)								

**CLUB B**

<table style="margin: auto; border-collapse: collapse;"> <tr> <td colspan="2" style="border-bottom: 1px solid black; padding: 5px;">Player's registration right</td> </tr> <tr> <td style="width: 50%; text-align: center; padding: 5px;">(1) 1,700</td> <td style="width: 50%; text-align: center; padding: 5px;">900 (2)</td> </tr> </table>	Player's registration right		(1) 1,700	900 (2)	<table style="margin: auto; border-collapse: collapse;"> <tr> <td colspan="2" style="border-bottom: 1px solid black; padding: 5px;">Depreciation Provision</td> </tr> <tr> <td style="width: 50%; text-align: center; padding: 5px;">(2) 600</td> <td style="width: 50%;"></td> </tr> </table>	Depreciation Provision		(2) 600	
Player's registration right									
(1) 1,700	900 (2)								
Depreciation Provision									
(2) 600									
<table style="margin: auto; border-collapse: collapse;"> <tr> <td colspan="2" style="border-bottom: 1px solid black; padding: 5px;">Seria A's account</td> </tr> <tr> <td style="width: 50%; text-align: center; padding: 5px;">(1) 1,500</td> <td style="width: 50%; text-align: center; padding: 5px;">1,700 (2)</td> </tr> </table>	Seria A's account		(1) 1,500	1,700 (2)	<table style="margin: auto; border-collapse: collapse;"> <tr> <td colspan="2" style="border-bottom: 1px solid black; padding: 5px;">Capial gain</td> </tr> <tr> <td style="width: 50%;"></td> <td style="width: 50%; text-align: center; padding: 5px;">1,200 (2)</td> </tr> </table>	Capial gain			1,200 (2)
Seria A's account									
(1) 1,500	1,700 (2)								
Capial gain									
	1,200 (2)								

(1) transfer market of player X from A to B

(2) transfer market of player Y from B to A

It is clear that the increase of 1,000 in the transfer price between the two clubs produces the following results:

- Both clubs record a higher gain of 1000 in the income statement, with consequent benefits on the net profit for the period;
- Player's registration right value is greater than the first case, exactly 1,000. This will result in higher amortization in the income statement for the cuurent year and for the subsequent ones (based on the duration of the contract). However, if the greater gains have a positive impact of 1,000 on the economic result, the amortization is negatively reflected only for 1/5 of their value, or 200, being this subdivision based

on the entire duration of the contract (5 years). In the short run, therefore, the club has an economic advantage of 4/5 of the higher declared value over the real one;

- The net financial position of the two clubs does not change in relation to the previous example, with a A's credit of 200 and a B's debt of 200.

The examples provided here illustrate the purposes underlying some exchange transactions and the resulting effect generated by these financial statements policies.

Once the amount to be paid by a club is decided, to get the wanted benefits the clubs just need to increase the amount of their players' declared value. In this way it is possible for both companies to achieve an economic advantage during the year in which the transaction is accounted for through greater income gains recorded in the income statement.

This "collusive" attitude does not match with other business areas; the fictitious higher income would increase the taxable base for the purpose of calculating taxes, resulting in an increase in the tax burden for the enterprise. The diffusion of this procedure has been adopted due to historical high losses which constantly affect football clubs balance sheet. This has made convenient to adopt this expedient because it has allowed to improve the economic result and balance sheet of both parties involved in the operation.

The use of players' registration right exchanges allowed some clubs to avoid large recapitalizations in compliance with law and regulation. Often these athletes prior to the sale were usually included in the balance sheet at very low or even nil values thus enabling the realization of very high fictitious gains. However, this practice is not a definitive solution to solve financial issues but it is only a postponement of costs to the subsequent exercises. The increase in the players' registration is reflected in a dilation of future amortization which, in the absence of proportional growth revenue, can generate higher income statement losses the higher the players' registration overestimation in previous years has been.

As a rule exchanges related to creative accounting policies that hide unjust capital gains are made with "peer" exchanges that do not involve cash outlay or at least amounts that are irrelevant with respect to the declared value of the players.

### **3.2.2 DEPRECIATION PROCESS**

Players' registration rights balance sheet value must be subsequently amortized in compliance with the nature of intangible assets and in accordance with art. 2426 n. 2 c.c.<sup>53</sup>.

The *accounting principle n. 24* in turn states that amortization constitutes a "systematic" process of cost allocation sustained based on the entire assets useful life.

---

<sup>53</sup> [http://www.universocoop.it/codice/art\\_2426.html](http://www.universocoop.it/codice/art_2426.html)

Systematic does not necessarily imply the use of constant rates plans although this is the most commonly used methodology.

According to the same accounting principles, "systematicity" translates into the predisposition of an amortization plan. To this end the preparation of the depreciation plan requires the knowledge of the following elements:

1. Depreciable value
2. Remaining useful life
3. Allocation criteria of the depreciable value

With regard to the first element, the *depreciable value* estimation as an intangible assets since 1999 (approval year of accounting principle n. 24) was based on similar provisions as for tangible assets.

The depreciable value is therefore determined as "the difference between the cost of the asset and its expected residual value at the end of its useful life.

According to this provision, therefore, the purchase cost is not the value to be subject to amortization. To calculate this amount the residual value of the asset must be deducted from the purchase price.

The accounting principles, however, point out that the residual value is often so small with respect to the value to be amortized that it is not taken into account in the computation.

The application of this provision to players' registration rights leads to a systematic conclusion about the residual value in the depreciable value computation. The same principles do not consider it necessary to take that amount into account in determining the depreciable value.

Whether the residual value takes on a significant amount, it is mandatory to estimate this amount for the purposes of valuation. This expectation is significant as in the football sector players' rights transfer price is often higher than the same purchase value.

The same accounting principles require to systematically update the assets residual value on the basis of feasible prices on the market through a possible sale. This presupposes that even in the case of players' registration it is likely that a proceed from the sale of the asset will be obtained and or it is possible to determine the reliable amount within the market.

Even if such assumptions appear to favor the recognition of the residual value as an adjustment of the purchase cost, other factors exclude such hypothesis. These variables are as follows. The ability to find an agreement with a new buyer. The player's willingness to accept the transfer (this requirement is exclusive only for players' registration rights). The remaining years of the contract and in particular the case of one year left contract; beyond this deadline, the effects of the redemption occur and the club can not claim any remuneration from a possible sale. Last

but not least and not less important, each player has technical characteristics that make him unique in a market where official quotations do not exist. Their value depends on variables such as physical-technical abilities, state of form, performance and notoriety, etc.

Based on the considerations just mentioned, the estimated realizable value can not be deducted from the purchase cost.

The uncertainty about the realization of this positive component in the future would result in an infringement of the prudence principle.

The *remaining useful life* is related not to the physical lifetime of the assets, but to their economic lifetime defined as the period in which the asset is expected to be useful to the club. The contract through which a club acquires players' registration rights may not exceed 5 years, in accordance with art. 5 of Law 91/81<sup>54</sup>.

The legal duration is equal to the one set in the contract. Generally this coincides with the useful life of the same players' rights in the balance sheet. Even in the case of players' registration rights, if the economic duration was lower than the legal one, the latter could not be taken as a reference period in which the purchase price for the determination of the depreciable value is spread.

However, more often the opportunity to review the remaining useful life of players' registration rights arises during their period of use especially as a result of injuries that may be partially or definitively compromising.

The accounting recommendation n. 1 appears more "rigid" than the one just shown and in particular: amortization must be determined on account of the entire duration of the contract that binds the player to the club and for a time not exceeding five years (maximum legal duration of the contract). This is a provision that does not allow revisions in the calculation of useful life in the case of economic lifetime lower than legal term.

Accounting recommendation n. 1, in line with what established by the national accounting standards, provides a specific amortization plan for each player based on the cost and useful life and therefore the duration of the contract.

The amortization effective date is the one in which the player starts to pursue his or her sport activity, that is during the season in which the sign-up took place. In the event of an acquisition during the financial year the amortization begins from the date of player availability using the pro rata temporis method in compliance with the principle of economic competence.

---

54

[http://www.figc.it/Assets/contentresources\\_2/ContenutoGenerico/87.\\$split/C\\_2\\_ContenutoGenerico\\_3814\\_1stSezioni\\_numSezione0\\_1stCapitoli\\_numCapitolo1\\_upfFileUpload\\_it.pdf](http://www.figc.it/Assets/contentresources_2/ContenutoGenerico/87.$split/C_2_ContenutoGenerico_3814_1stSezioni_numSezione0_1stCapitoli_numCapitolo1_upfFileUpload_it.pdf)

All values of capitalized players must be reviewed individually each year for impairment by management. If the amount is lower than what is stated on the balance sheet, it must be adjusted to the recoverable amount.

Accounting principles and prevailing doctrine argue that useful life should be periodically reviewed to ascertain that changes to original conditions have occurred.

Even for players' registration right events designed to change the original life expectancy may occur. Such facts may be agonistic activity abandoning on a contract pending, a serious player injury, with the risk of failing to achieve full recovery for a return in the field before the expiration of the contract and the decision by the club to sell the player in advance in relation to the deadline stipulated in the contract.

These causes lead to a decrease in the useful lives of players' registration rights.

The last element to be considered refers to the *allocating method of the depreciable value*.

The distribution of the cost to be amortized over the residual utilization should ensure a rational and systematic accrual during the estimated useful life.

The preferred and most commonly used method is the one at constant rates obtained by dividing the purchase cost for the years of useful life.

Both national accounting principles and accounting recommendations converge on the amortization method at constant rates.

We now come to analyze what gimmicks were and are adopted by the football team managers for the purpose of creative accounting with reference to the depreciation line item.

It is necessary to divide the reference timeline into 3 periods:

- Until 1981, due to the existence of a tied sport contract<sup>55</sup>, the acquisition of players' rights resulted in an indefinite relationship between player and club;
- From 1981 to 1995, after the approval of Law 91/81, a maximum limit of 5 years was adopted, maintaining some sort of control over the next two years due to the ability of claiming the PPI<sup>56</sup> payment.
- Since 1996, after the Bosman's Law, at the expiration of the contract the club also lost the possibility of claiming the PPI payment. Players' rights control is limited to only the years of contracts with a maximum of five years.

---

<sup>55</sup> It represents the bond between athlete and club based on which each player, once signed a contract with a football company, could not engage with another team unless his membership organisation had given his consent to the transfer. With this constraint, the club could use the player's sporting performance for the entire duration of his agility.

<sup>56</sup> Preparation and Promotion Indemnity. This allowance was considered to be a compensation for the loss of human and sports potential that a player's transfer could cause to the abandoned club. In essence, the PPI produced the concrete effect of reviving the repealed sport constraint.



In the first period, in the presence of the sporting constraint, there was no deadline for the players' registration rights. Clubs used to establish an unreasonably lengthy amortization period often higher than the player's agonistic life.

By artificially widening the amortization period the club was able to contain the economic impact of amortization in the individual financial statements for the entire period of time in which players' registration rights were used.

Subsequent to the approval of Law 91/81, with the abolition of the sports constraint and the establishment of PPI extended for two years after the expiration of the contract, clubs resorted to the following gimmicks:

- Two-year extension of the depreciation period with respect to the duration of the contract;
- A reduction in the value of players' rights to be amortized for an amount equal to the presumed value of the indemnity at the expiration of the contract in case of player transfer.

With reference to the first policy the two-year extension amortization period allowed for a reduction in costs for the year on the basis of the lower amortization value recognized in the income statement.

The second expedient was based on depreciating the player's rights net of the PPI that the club could presumably receive after the termination of the contract. The main objective of this behaviour is to reduce the impact of amortization in the income statement.

Obviously, this second aspect has been subject to many criticisms as it refers to a situation when the depreciable value can be obtained as the difference between the purchase cost and the expected residual value.

The impairment of PPI as a decrease in the value to be amortized involves a greater reduction in future amortization rates and a proportionally higher value of the allowance.

As already mentioned PPI accounting in reduction of the purchase price is considered a clear violation of the prudence principle.

To conclude, with the repeal of PPI by Law 586/96 (following the Bosman's Law and the 5 years maximum limit), creative accounting policies through amortization have diminished. Since 1996 the players' registration rights purchase price is amortized at constant rates over the whole duration of the contract.

### 3.2.3 LOAN WITH RIGHT OR BINDING OPTION TO SIGN

Football companies can acquire footballer's performance right even through a temporary loan operation granted by an another club in exchange of a fee payment for the player rental (sometimes the fee may be zero).

The financial difficulties that have hit football clubs over the last few years, making the player purchase more expensive from the cost management point of view, involve greater use of the players' registration right loan.

From an accounting perspective, this transaction is entirely similar to the lease / rental of an instrumental asset. It therefore requires a leasing club and a tenant (seller and buyer).

The accounting reflections of this transaction relate mainly to shifting costs and revenue from one club to another.

The club, temporarily purchasing a player's sports performance, supports higher player-related costs (*wage and salary* in the income statement), costs for the temporary purchase of players' registration rights (*leased assets to third parties* in the income statement ) and higher amortization in subsequent years in the case of player's sports performance outright purchase (*depreciation and amortization* in the income statement). With reference to the amortization in the first year the transferring company keeps owning the player's right and therefore will continue to amortize the cost based on the whole duration of the original contract. This solution appears in line with the principle of economic competence.

On the other hand the leasing club will no longer have to charge any of the above mentioned costs in the income statement. The economic benefit obtained by the leasing company concerns not so much an increase in revenue but a reduction in costs.

The lessee (buyer) also benefits from the following advantages:

- Technical availability of a new player at a low cost;
- Secondly, it may be possible to proceed to the player's outright purchase, based on his performance in the new environmental and corporate context.

On the other hand the leasing company (seller) has the following advantages:

- Improvement of the economic situation through the collection of a fee and a reduction in administrative and management costs (as mentioned above);
- More efficient exploitation of the player's fleet in particular those less employed or younger footballer.

The accounting movements are summarized in the table below.

	<b>SELLER</b>	<b>BUYER</b>
<b>FIRST YEAR: loan operation</b>	Annual revenue fee for the footballer lease granted + depreciation	Annual payment of the lease cost + footballer's wage
<b>SECOND YEAR (onward): case of right or binding option to sign</b>	Potential capital gain in the case of footballer outright selling + no longer depreciation of footballer sold	Footballer's wages + cost in the case of footballer outright purchase + depreciation of the new footballer acquired

The row *FIRST YEAR* refers to the accounting operation for the first year only.

The row *SECOND YEAR (onwards)* refers to the shiftment of costs and revenue from one club to another in the case of right or binding option to sign. In the second case the buyer become the new football player owner based on the legal years agreed in the contract.

On the other hand the seller loses the player's right ownership, getting instead a potential capital gain and a reduction in depreciation and personnel costs.

*Onward* means there is the possibility of performing a loan operation based on a two-year loan with option or binding obligation to sign, starting from the third year. Lending operations over two years are not allowed.

Creative accounting policies related to loan operations refer to the following stratagems. The vendor ascribes in the first year's income statement the capital gain obtained from the footballer future selling, even if the selling may be possible starting from the second year. The debtor ascribes in the first year's income statement the depreciation costs despite the purchase may take place only from the following year (and the amortization process as well)<sup>57</sup>.

With reference to the binding option to sign, introduced for the first time in the operation of the footballer Borriello between Milan and Roma<sup>58</sup>, this transaction is composed by the right to purchase and a private deed<sup>59</sup> or a contract that commit the contracting parties to execute the redemption. This deed plays an important role. It should impose to ascribe for the first year the depreciation cost in the income statement. In contrast, a simple gentlemen's agreement or right

<sup>57</sup> [http://www.magliarossonea.it/img201011/alb308\\_2011.pdf](http://www.magliarossonea.it/img201011/alb308_2011.pdf)

<sup>58</sup> In the original version art. 103 N.O.I.F., the article that regulates this operation does not talk about the obligation to purchase. The expression appeared in the market with the transfer of Marco Borriello from Milan to Rome. Giallorossi stated: "A.S. Roma S.p.A. has announced it finalised the contract with AC Milan for the free temporary acquisition with obligation to purchase of the sporting performance of football player Marco Borriello, with effect from today's date.

Rome is therefore the club that coined the expression "obligation to purchase", specifying how the statement was carefully thought for transparency reasons with respect to the Stock Exchange

<sup>59</sup> It is a written agreement not confirmed by a notary.

to purchase would not allow any cost to be included in the income statement in relation to amortization of the player's value until the acquisition is exercised.

The "obligation" is considered to be a masked purchase postponed for a year or two.

The economic and financial benefits of this operation refer to the possibility of postponing payments in an ever-longer future dreaming for big sporting results (like having a car under leasing). Since football players selling in Italy can not be paid in instalments over three years, this allows clubs to earn one financial year<sup>60</sup>. The buyer has the opportunity to limit the purchase cost and to postpone the claim in the future. The seller obtains an immediate revenue from the player's temporary loan, by reducing the cost and may expect future capital gains in the event of a potential acquisition by the buyer.

For both the buyer and the seller, the possibility of lowering losses is achieved reducing the share capital utilization to cover losses.

Ultimately, the binding option is allowed or isn't it? The Italian League Serie A states: "*What is not forbidden by our regulation is admitted. If the contract respects the Civil Code, it does not violate internal rules and if it is signed by all parties, it is fine for us*".

Let's clarify the operations with a numerical example.

In 2013/14 season club A sells the player X to club B, for a final price of 2,000. According to payment rules and with A allowing to B the maximum extension period for the payment (3 years), the price will be paid in instalments of 600-800-600.

However, in case of 4 installments, A pretends to lend X to B for the entire 2013/14 season for 600, fixing an option for a definitive sale at a price of 1,400 (= 2,000 - 600) payable in 3 installments of 400-600-400 respectively. The following table shows B's monetary outflows in the two different hypotheses ("normal" and "tricky").

<b>SEASON</b>	<b>SELLING</b>	<b>LOAN</b>	<b>DIFFERENCE</b>
<b>2013/14</b>	600	600	0
<b>2014/15</b>	800	400	-400
<b>2015/16</b>	600	600	0
<b>2016/17</b>		400	-400
<b>TOTAL</b>	<b>2,000</b>	<b>2,000</b>	<b>-800</b>

---

<sup>60</sup> If two teams wanted to divide the price into 4 rates, going beyond the maximum limit, they could do so by including the first installment as a compensation for a fictitious loan that it will be followed by the exercise of the right (actually an obligation redemption) of option, with payment of the sale price extended in 3 installments.

The final payment does not change.

With the “fictitious loan” B gets a lower cash outlay for the first three season (1,600 instead of 2,000) postponing for one year the disbursement of the last instalments.

A will have the same situation but from reveues point of view.

From an economic and accounting perspective, the situation is trickier, but without influence the personnel cost which is still paid by the team who exploits footballer’s utilisation (team B).

Let’s suppose team A bought X one season before, in 2012/13, for a price of 2,000 and both A and B offered a five-year contract (first year as a trick operation – A in 2012/13 and B in 2013/14). Based on these conditions B’s costs are as follows.

SEASON	PURCHASE <sup>61</sup>	LOAN	DIFFERENCE
2013/14	400	600 <sup>62</sup>	+ 200
2014/15	400	350	- 50
2015/16	400	350	- 50
2016/17	400	350	- 50
2017/18	400	350	- 50
<b>TOTAL</b>	<b>2,000</b>	<b>2,000</b>	<b>0</b>

Also in this case totals are the same but costs distribution in the five seasons has changed. In the face of a bigger cost in 2013/14, B makes provision for a constant reduction in costs for the following four years.

On the other hand A’s revenue and costs are as below.

SEASON	SELLING		LOAN		DIFFERENCE
	REVENUE	COSTS	REVENUE	COSTS	
2012/13 <sup>63</sup>		400		400	0
2013/14	400 <sup>64</sup>		600	400 <sup>65</sup>	-200
2014/15			200		
<b>TOTAL</b>	<b>400</b>	<b>400</b>	<b>800</b>	<b>800</b>	<b>0</b>

<sup>61</sup> The value is related to the depreciation of a single year based on a five-year contract (2000/5)

<sup>62</sup> Supposing the same loan price as above

<sup>63</sup> In this period, cost is the same in both case because loan operation takes place starting from the following season (2013/14). Thus, no costs and revenue for A in 2012/13 in relation to the loan. The cost of 400 is related to the first-year depreciation.

<sup>64</sup> Selling price 2.000. Carrying amount 2.000-400=1.600. Capital gain 2.000-1.600=400.

<sup>65</sup> 600 is the loan revenue paid by B; 400 is the depreciation still on behalf of A.

In this case the overall economic result (which is equal to 0 in this hypothesis) remains the same while the total amount of revenue and costs is different. With the "real" sale A obtains a capital gain of 400 in 2013/14 having surrendered X to 2,000 after one year and then with a book value of 1,600 net of a one year depreciation of 400. This gain entirely covers the amortization being of equal amount.

With a "fictitious loan", in 2012/13, A records depreciation only but in 2013/14 it records all the 600 of the first installment as a proceed from the loan to which the second depreciation cost of 400 must be deducted. In 2015/16, when the sale from A to B is official for a price of 1,400, the capital gain is only 200 as the book value is reduced to 1,200 for the two amortization shares suffered ( $2,000 - 400 - 400 = 1,200$  and  $1,400 - 1,200 = 200$  capital gain).

As anticipated in both cases revenue covers all costs but the "real" sale amounts to 400 while the "dummy loans" rise to 800. In addition, for A, the distribution of the overall economic result differs in the last two seasons, "spreading" the 400 "revenue surplus" between 2013/14 (200) and 2014/15 (200) instead of enrolling them solely in the second-season budget (2013/14 - 400).

### **3.2.4 SALE OF THE BRAND**

In the business sector the brand is a distinctive means to recognize and identify a "product-service" and it is different from the so called competition brand.

In the case of professional clubs the brand is the founding element of trade relations between sports clubs and their markets (sponsors, fans, enthusiasts, stakeholder groups, users).

In the development of "sports business" the brand, thanks to its reputation, image and loyalty, quantifies a relationship with external subjects and determines in economic terms an important source of "competitive advantages" for the club of reference.

For fans and enthusiasts the brand of a sports company identifies the loyalty and discovery of their own team.

The brand, denomination and social colors also represent the "relationship" between the team, the fans and the reference territory.

In company terms the use of a sporting company brand leads to merchandising and marketing profitable gains and to customer satisfactory activities.

As noted for a sports company it is crucial to activate a proper evaluation of its brand.

The sale of the brand has been "imported" in the Serie A since the mid-2000s. After the golden age of super-capital gains and by the need to clean up budgets and financial statements especially after the EU's intervention which reduced the space for debts devaluations and depreciation according to the "*Spalmaddebiti law*" (Decree Law n. 282, 24 December 2002)<sup>66</sup>

---

<sup>66</sup> <http://gazzette.comune.jesi.an.it/2002/301/2.htm>

from 10 to 5 years, in 2003 Italian football was financed with this mechanism through transactions with a book value over € 600 mln. To the classic sales and resale formula of the brand, it is preferable today to create a new company responsible for the exploitation of the brand as in the Genoa's case.

In practice, in the traditional model, the brand is sold to a football-related company by the principal, which immediately collects a certain amount of money so it can adjust the accounts and "redeem" at the same time the brand from the related company in order to exploit it commercially by paying a periodic fee. The money the affiliated company pays to the football club to buy the mark usually comes from a bank loan. The buyer company in turn repays the bank each year until the loan pay-off (capital share plus interest which is slightly lower than the rent paid by the football club). Ultimately, the round of cash is nothing more than a "masked" bank loan that allows the football club in difficulty to cash in immediately an important sum, spreading the financial statements in red in multiple exercises through the re-rent of its brand. The gain obtained from the brand evaluation and any rents are found only in the single financial statements and not in those consolidated (as intragroup transactions).

The sale and the subsequent lease are two transactions linked to each other, as a result of the principle of prevalence of the substance over the form ex art. 2423-bis of the Civil Code, and they must be accounted for. The transfer is recognized, but the capital gain is included in the income statement as required by the principle of competence and deferred over the term of the lease.

Sampdoria (€ 20 mln in capital gain) was the first football club to use this operation in 2003, followed in 2005 by Milan (€ 183 mln), Inter (€ 158 mln), Brescia (€ 20 mln), Chievo Verona (€ 10 mln), Reggina (€ 10 mln) and Ascoli (€ 5 mln).

In 2006 *Covisoc* defines this mechanism as an accounting artifice used as a substitute for recapitalization.

According to detractors, these operations represent nothing more than accounting maquillage. Those who defend them argue that these are forms of rationalization of the football company activities.

Covisoc, the industry's governing watchdog, raised some objections at the time but then it accepted it as long as the brand's assessment was based on authoritative expertise. The same Tax authorities, after careful analysis, excluded forms of circumvention only providing proof of economic profitability for brand selling.

In a chronological order US Palermo was the last team to use the brand transfer operation.

In June 2016 it sold Mepal Srl, a company it owned, to a subsidiary of a Luxembourg Zamparini's holding company called Alyssa Sa for € 40 mln in a deal that allowed the club to close the economic situation with positive profitable results.

But what did Mepal do to be worth exactly € 40 mln? Before answering this question, we should take a ten-year step back. On November 6, 2006, Palermo's brand was sold to Locat, a Unicredit group company, in a lease agreement.

Palermo sold its brand valued at € 30 million by an expert and at the same time it reacquires it with a lease so that it can make commercial use and get appropriate seasonal revenue. Zamparini pays Unicredit a € 9 mln installment and the remaining € 21 mln stays in the club cash account. Afterwards it pledges to pay back 107 monthly fees of € 242,145 with an interest rate of 5.17% and € 300,000 for the final redemption<sup>67</sup>.

The transaction therefore generates a gain of € 30 million for Palermo, which is spread out over nine years starting from 2007's consolidated financial statement.

On June 26, 2014, nine years before termination (Zamparini, "mister capital gains", is at his second sale, although there are no players involved in the transaction) the club lends to the subsidiary Mepal Srl originally appointed to build a sports center and stadium "*the business branch for spreading, developing and enhancing the Palermo's brand and for producing and selling merchandising products.*"

In details, Mepal signed a financial lease agreement with Locat (now Unicredit Leasing Spa), merchandising plan and license agreements with Flash trading group Srl and Swan Co Srl. At the same time it received computers, furniture and facilities for a total value of € 17 mln. The amount reinforces at the accounting level the financial assets item of the club consolidated financial statements

At this point, after two turns the wheel', Palermo's brand has already extracted a value for € 47 mln. And it is not over. In June 2016 Mepal Srl was sold by Palermo to an unknown Luxembourg company called Alyssa Sa for € 40 mln, with a capital gain of € 21.9 million. This allowed Palermo to close the financial statement with a profit before taxes of € 395,743. In the budget and in the audit report it is stated that Alyssa Sa, a company operating internationally, can reach more easily the supporters of the team and has financial means to realize the sports center.

All clear? Evidently not for the judiciary. And Zamparini himself offers evidences that increase confusion. In an interview to "Giornale di Sicilia" on July 8 2017, he explains that "*Mepal is the reason why everything started.*" For the Palermo president, "*this is absolutely nothing. With*

---

<sup>67</sup> <http://www.goal.com/it/notizie/goal-economy-palermo-zamparini-e-la-cessione-del-marchio/1j3ddrouvejg19yvmp1vkk06o>



*Mepal we did an optimization balance and is now returning as a reverse transaction. Instead of being enrolled as a credit, it will become a participation. If someone wants to have fun in watching a crime, it may have a good time<sup>68</sup>. "*

We will see how the judiciary will express itself on the assumptions of the offense raised.

The fact remains that in ten years the passage from Locat to Mepal and then to Alyssa the Palermo's brand generated three-step accounting gains for € 68.9 mln.

---

<sup>68</sup> [http://palermo.gds.it/2017/07/08/palermo-finanza-per-16-ore-allo-stadio-tutte-le-accuse-per-zamparini-il-patron-nessun-passaggio-illecito\\_693226/](http://palermo.gds.it/2017/07/08/palermo-finanza-per-16-ore-allo-stadio-tutte-le-accuse-per-zamparini-il-patron-nessun-passaggio-illecito_693226/)

## CHAPTER 4 - FINANCIAL PERFORMANCE

The relationship between sport and economic results is often crucial to the success of a club's management policy.

Football companies as well as all businesses need funds to cover and finance their expenses. These funds can come from sources such as gate receipts, television rights, merchandising, sponsors and capital gains recorded for the sale of the players. If the turnover is not high enough, the clubs will have to resort to indebtedness. In this sense it can be stated that the greater the club's wealth the greater its ability to spend money and therefore the probability to achieve better results on the pitch.

Therefore, there is a growing correlation between sports performance and financial resources. The concentration of huge economic resources is inevitably reflected on the playing field and therefore in the championship standings.

This can be demonstrated by the 30 years of the Berlusconi's presidency at Milan's leadership. The first 25 years were characterized by huge and continuous investments that have led to incessant victories and trophies making Milan the most titled club in the world. In the last 5 years there has been a real "closure of taps". The best players have been sold to settle accounts and losses. Mediocre players were often purchased by following the policy of buying at the expiration of the contract. Wage reduction policies have been implemented in order to contain costs. All of these factors are the result of lack of participation in European competitions, lower wins in the pitch and zero trophies.

Hence, it is possible to say that revenues of a football company increase proportionally to the percentage of winnings.

As we will see in the next paragraph only in the last market transfer window, due to the change of the ownership, Milan has returned to invest heavily in the market realizing a real renovation with the goal of returning in the European competition both in the short and long run.

This chapter concerns the following issues. The financial performance of Milan with particular reference to the impact of the 2017 transfer market on the budget, how all costs incurred will be charged in the 2017/18 financial statement and in which way the available financial resources were obtained. The 2017's transfer market impact on the budget will also be analyzed for Juventus. Furthermore, this chapter presents the result of an indexes evaluation between Milan's and Juventus' financial performance and the last years' revenue growth trend of Europe's top clubs.

With this background the soccer sector can be considered a business characterized by continuous vicious circles. Good sports performance implies higher turnover and funds that can be invested to improve the sports results.

#### 4.1 MILAN'S FINANCIAL PERFORMANCE

After five years of cost containment Milan returned to invest in the 2017 summer transfer market window for a total spending of around € 240 mln.

The new Chinese ownership led by the CEO Marco Fassone and the SD<sup>69</sup> Massimiliano Mirabelli made a real renovation of the team buying 11 new players.

Now we will analyze the financial aspects of this new management in terms of expenditure incurred and impact on the budget. All figures reported are not official yet but derived from reliable news media (Milan is not listed on the stock exchange and therefore it has no obligation to make public the financial transactions).

We will estimate the results based on data available to understand what was the transfer campaign impact on Milan's balance sheet at the end of the 2017's football market.

Gross wages of new players	+ 55.6
Gross wages of players sold/released	-39.83
G. Donnarumma's gross wage variation	+ 10.8
Montella's gross wage variation	+ 1.5
New players depreciation	+ 41.4
Depreciation saving from players sold	-4
Capital gain/loss	-17.38
Loan expenses	+9
Loan revenue	-7.5
Expired loans saving	-1.9
<b>HIGHER COSTS IN THE INCOME STATEMENT</b>	<b>+ 47.69</b>

According to estimates by *Calcio and Finanza*, the higher costs to be charged in the 2017/18 income statement would be € 58.83 mln net of capital gains and savings in sales costs.

The detailed player-to-player table relative to the cost impact of the summer market window in the balance sheet is represented below (in the table the largest cost related to Montella's contract renewal is not included but it has been considered in the overall calculation above)<sup>70</sup>.

Player	Purchase Cost	Years of contract	Depreciation	Loan cost	Net wage	Gross wage	FS impact
Musacchio	18.0	4	4.5		2.5	4.6	9.1
Kessie *	-	4	-	4.0	2.5	4.6	8.6
Rodriguez	18.0	4	4.5		2.5	4.6	9.1

<sup>69</sup> Sport Director

<sup>70</sup> <http://www.calcioefinanza.it/2017/07/14/calciomercato-milan-e-impatti-sul-bilancio-saldo-gli-arrivi-bonucci-biglia/>

Silva	38.0	5	7.6		2.0	3.7	11.3
Calhanoglu	22.0	4	5.5		3.0	5.6	11.1
Borini **	-	1	-		1.5	2.8	2.8
Conti	24.0	5	4.8		2.0	3.7	8.5
Biglia ***	17.0	3	5.7		3.5	6.5	12.1
A.Donnarumma	1.5	4	0.4		1	1.9	2.2
Bonucci	42.0	5	8.4		6.5	12.0	20.4
G.Donnarumma* ***	0	4	-		6.0	10.8	10.8
Kalinic *****	-	4	-	5.0	3.0	5.6	10.6
<b>TOTAL</b>	<b>180.5</b>		<b>41.4</b>	<b>9.0</b>		<b>66.4</b>	<b>116.8</b>

\* two-year loan (€ 4 mln per year) + € 20 mln obligation to purchase

\*\* one year loan (for free) + € 6 mln obligation to purchase

\*\*\* the final purchase cost might be € 3 mln higher because of a variable part based on some bonus

\*\*\*\* contract renewal

\*\*\*\*\* one year loan (€ 5 mln) + € 20 mln obligation to purchase

The player-to-player details relative to outgoing market window and the FS positive impact are as follow<sup>71</sup>.

Player	Operation	Selling Price	Capital gain/loss	Deprec. saved	Saving for ended loan	Loan revenue	Net wage	Gross wage	FS impact
Deulofeu	Loan ended				0.75		0.7	1.3	2.05
Pasalic	Loan ended				0.20		0.8	1.48	1.68
Ocampos	Loan ended				0.50		0.55	1.02	1.52
Honda	Contract ended			0.30			2.5	4.63	4.93
Mati F.	Loan ended				0.45		1.3	2.41	2.86
Poli	Selling		-0.2	0.6			1.5	2.78	3.18
Lapadula *	Loaned					2.0	1.0	1.85	3.85
Bertolacci	Loaned						2.0	3.7	3.70
Kucka	Selling	5.0	3.0	1.0			1.5	2.78	6.78
Pessina	Selling	1.0	1.0				-	-	1.0
Vido	Selling	1.0	1.0				-	-	1.0
D. Lopez	Selling	1.0	-				-	-	-
De Sciglio **	Selling	12.0	11.99				1.5	2.78	14.77
Ely	Selling	3.0	-1	2.0			0.8	1.48	2.48
Vangioni	Selling	1.70	1.14	0.10			0.8	1.48	2.72

<sup>71</sup> Ibidem note 70

Bacca ***	Loaned					2.0	3.5	6.48	8.48
Crociata	Selling	0.45	0.45				-		0.45
J. Sosa ****	Loaned					1.5	1.7	3.0	4.5
Niang *****	Loaned					2.0	1.4	2.7	4.7
<b>TOTAL</b>		<b>25.15</b>	<b>17.38</b>	<b>4.0</b>	<b>1.90</b>	<b>7.5</b>	<b>21.9</b>	<b>39.83</b>	<b>70.61</b>

\*Loan with € 11 mln obligation to purchase

\*\* The purchase price might be increased of a maximum of € 0.5 mln based on the conditions of the contract

\*\*\* Loan with € 18/19 mln right to purchase

\*\*\*\* Loan with € 4,5 mln obligation to purchase

\*\*\*\*\* Loan with € 12 mln obligation to purchase + € 1 mln as bonus + 25% of the future reselling

New purchases (including renewals of Donnarumma and Montella) will entail higher costs in 2017/18 budget for € 116.8 mln. Outgoing market operations (the latest in order of time is the sale of Sosa to Trabznospor) will result in cost savings of € 70.61 mln.

The balance should therefore result in higher costs in the 2017/18 budget for € 116.8 - € 70.61 + € 1.5= € 47.69 mln due to higher costs related to new players, lower costs related to the outgoing transfers and the revenue related to the player trading (capital gains and loans).

In terms of total investments (outright players purchase + loans) Milan has invested more than € 230 mln (cash and liquidity related, not accounting). The question here is spontaneous: *how can Milan spend so much money for the transfer market?*

To answer this question we will deal with the cash account in order to understand how many resources Milan has and where these resources come from.

Second, we will analyse how Milan will be able to charge all the investments in the 2017/18 financial report (this will be an accounting matter only).

To understand where cash comes from it is necessary to go back at the end of 2016 when Milan was still owned by Fininvest.

In December 2016 Milan had an outstanding debt position of € 73 mln to banks and € 109 mln to factoring corporations (cash advances disbursed against future cash-in contract). The net financial position was - € 178,395 mln in 2016 with a cash position of € 3,869 mln<sup>72</sup>.

Before the closing took place Fininvest dispensed a € 73 mln credit line used to totally repay the bank position. The bank count went to zero but a new Fininvest's account arised for the same amount.

<sup>72</sup> Aida for Financial Statements

The closing took place on 14 April 2017. At the takeover date the new president Yonghong Li repaid the Fininvest's debt with a loan issued by Rossoneri Sport Investment Lux<sup>73</sup> to AC Milan. The financial resources used to liquidate Fininvest came from a € 300 mln loan distributed by the American hedge fund Elliott to Milan's new president in order to conclude Milan's takeover.

Hence, AC Milan no longer had debts to the banking system at the closing date (only factoring debt remained) but it had a debt position to its controlling shareholder.

On 18 May 2017 AC Milan's general meeting approved two bonds issue respectively of € 73 mln and € 55 mln. Both bonds have been wholly signed by Elliott through the subsidiary company Project RedBlack.

With the first bond AC Milan repaid the loan account towards Rossoneri Sport Investment Lux. The second bond has been used for the transfer market.

Furthermore, on 18 May, a general meeting approved a first € 60 mln capital increase of which Yonghong Li will wholly assume the responsibility in the light of its 99.93% stakeholding in the club.

This capital increase has not been used to cover the € 72 mln income statement loss (related to the 2016's financial statement) but it aims at the financial and ownership strengthening of the club. Thus, it has been used for the transfer market.

Hence, the total liquidity available for the summer market window was  $55 + 60 = 115$  mln.

If we also considered loan revenue (€ 7.5 mln), total cash would be equal to € 122.5 mln.

Without considering players acquired by loan operation (Milan only paid a rent for them) AC Milan has spent € 180.5 mln total amount for players' registration right (see table above) with a maximum cash of € 122.5 mln. We can explain this situation supposing the following scenario. Payment for players bought with obligation to purchase will be postponed in future years. Players bought from the Italian championship with outright purchase will be paid into instalments. Players bought from foreign championships (Musacchio, Rodriguez, A. Silva and Calhanoglu) will be paid immediately. Here the rough computation (see the table above for data):  $18 + 18 + 38 + 22 + 1.5 + 4 + 5 = 106.5$ . A € 16 mln cash position is still available to start paying the other spread debt positions (for instance Bonucci's purchase for € 42 mln will be paid in three instalment of € 14 mln each).

This explains how Milan has been able to spend so much for new players.

---

<sup>73</sup> It is a private limited liability company funded on 21th December 2016, with an equity of Euro 12.000, used by the Chinese consortium to takeover AC Milan. The holding has as its object "the acquisition of shareholdings in Luxembourg or abroad of any company or enterprise in any form, and the management of such investments".

From an accounting point of view, as the CEO Fassone stated, Milan will charge all the investments made in 2017/18 financial statements. This is quite improbable and I want to show why.

According to national accounting standards and N.O.I.F<sup>74</sup> football clubs have to spread player's cost along the whole footballer's useful life. This is what depreciation means as already explained in par. 3.2.2.

If this criteria was respected Bonucci's purchase for € 42 mln with a 5 years contract would be amortized for € 8.4 mln in each of the five years of the contract (independently from the payment term – this is about cash and not accrual or bookkeeping).

This goes for the other new players as well. In term of depreciation at a constant rate Milan will be able to charge in the Income Statement € 41.4 mln (see the table above).

Always in term of depreciation another amortization plan could be adopted which is the decreasing method.

Accounting recommendation n. 1 considers the depreciation method admissible both at constant and decreasing rate.

Milan would be able to charge higher costs in the 2017/18 income statement by using the accelerated depreciation method only if *all the depreciation charges are anchored to objective criteria in line with accounting principle proper implementation and the method is used for all the players in the fleet. Once adopted, the method will not be modified unless unexpected or extraordinary situations arise.*

The following table shows the decreasing depreciation method<sup>75</sup>.

<b>YEARS</b>	<b>DEPRECIATION CHARGES - %</b>				
5	40 %	30 %	20 %	7 %	3 %
4	40 %	30 %	20 %	10 %	
3	50 %	30 %	20 %		
2	60 %	40 %			

With a 40% rate for all the new players and with a 50% rate only for Biglia (3 years contract), Milan charges in the income statement depreciation costs for € 73.9 mln ( $163.5 * 0.4 + 17 * 0.5 = 65.4 + 8.5 = 73.9$ ).

<sup>74</sup> Norme Organizzative Interne Federali

<sup>75</sup> <http://www.calcioefinanza.it/2017/09/01/come-fa-il-milan-a-caricare-sul-bilancio-2017-2018-tutti-i-costi-della-campagna-acquisti/>

By using this method Milan will charge about 41% of the total outright investment. If Milan used constant rates method it would charge only about 23%.

More attention is necessary in the case of the loan with binding option to sign and, in particular, for Kessie (€ 8 mln for two-year loan + € 20 mln of obligation to purchase), Kalinic (€ 5 mln of loan + € 20 of obligation to purchase) and Borini (for free loan + € 6 mln obligation to purchase).

These three players, not yet Milan's owned assets, are not subject to depreciation procedure.

In a normal accounting situation Milan would charge in the income statement only the loan-related cost which amounts to € 9 mln. Therefore, the CEO's intention is to charge in the IS "as much costs as possible". The authorised solution by accounting principle is to record an accrual or a provision for future obligation recording in the IS a sum equal to how much Milan will have to spend to redeem these players in the future (accrual for € 46 mln).

By adopting this solution the club will be able to record in the 2017/18 income statement the whole investment related to borrowed players considering that also the rental costs will be charged. The total cost will be  $9 + 46 = 55$  mln.

This will allow a future benefit in term of financial performance. At the time of the release, the club will no longer charge any cost but it will rather record an increased value adjustment. This will have a positive impact on revenue equal to what was accrued in the previous years.

Considering all the hypothesis done Milan will be able to charge as follows.  $41,4 \text{ mln} + 55 + 12$  (agents commissions) for a total of € 108,4 mln in the case constant rates depreciation.  $73,9 + 55 + 12$  for a total of € 140.9 mln in the case of decreasing rates depreciation.

The decision to charge all the 2017/18 transfer market investments should be part of the executives' strategy with a view to UEFA's next interviews according to FFP regulations and Milan's voluntary agreement<sup>76</sup>.

AC Milan is indeed free from FFP's constraints in 2017/18. Hence this is why the club has decided to invest a lot in the 2017's market transfer window trying to charge in the IS as much costs as possible exploiting this kind of "grace".

## **4.2 JUVENTUS' FINANCIAL PERFORMANCE**

Juventus is the healthiest Italian club if we look at current and recent performance.

After the 2006's scandal (Calciopoli) the club has started an unbroken growth process. It has opened the door to the very good current results.

With steady growth in revenue, the club has returned to invest heavily on the transfers market especially in the last two summer sessions. The investments made allowed Juventus to reach

---

<sup>76</sup> *UEFA Club licensing and financial fair play regulations* for voluntary agreement definition.



two champions finals over the past three years (without ever winning) and to win seven championships.

Now let's see the investments made in the 2016/17 and 2017/18 market sessions (the two sessions with more investments).

The executives of the Turin club have always invested intelligently spending on the basis of the revenue earned and not relying on external funding sources. For this reason, despite the large investments, the revenue-costs relation in the last two years is very balanced.

The 2016 market transfer was characterized by Pogba's sale to Manchester United for € 110 mln and the subsequent Higuain's purchase from Napoli for € 94 mln. If we add Morata's transfer to Real Madrid for € 30 mln and Pjanic's and Pjaca's purchases for € 30 mln and € 23 mln respectively, we note that the balance reflects what was said above. The balance of these five transactions is as follow:  $(94 + 23 + 30) - (105 + 30) = 12$  mln.

Taking into account all transactions carried out in 2016/17, the final purchases amount to € 160.9 million (€ 123.5 mln in 2015) while outright sales amount to € 158.7 million (€ 54.5 million in 2015). Loan transactions has not been considered. If we did, total figures would be even higher (for instance Cuadrado has been bought with a € 5 mln loan plus an obligation to purchase of € 25 mln and Zaza has been sold with a € 2 mln loan plus an obligation to purchase of 20 mln). Once again the balance is almost equal to zero<sup>77</sup>.

The market transfer investment trend does not change in the 2017's summer window.

Mentioned data are recent and not official yet, for this reason numbers will be based on press releases published on the Juventus' site or on reliable journalistic sources.

Juventus bought 8 new players for a total investment of € 98.2 mln. The amount rises to € 135.2 mln if we consider Cuadrado and Benatia's obligation to purchase.

From the outgoing players point of view Juventus sold 9 footballers for a total amount of € 87.4 (outright sales plus loans). Once again, the balance is in equilibrium.

We now analyze the transfers market impact on 2017/18 financial statement in term of higher gross employees costs, depreciation and income capital gain.

The following table shows the costs comparison in relation to the last two seasons.

Gross employees costs 2017/18	155.03
Gross employees costs 2016/17	130.06
Absolute variation	24.98
Variation %	19%

<sup>77</sup> All data have been obtain from Juventus's financial report at 31 December 2016 + *Calcio e Finanza* on <http://www.calcioefinanza.it/2016/09/01/juventus-saldo-calciomercato-2016-2017-impatto-su-bilancio/>

Depreciaton/loan costs 2017/18	99.23
Depreciation/loan costs 2016/17	69.18
Absolute variation	30.05
Variation %	43%
Exyended cost of the team 2017/18	254.26
Extended cost of the team 2016/17	199.24
Absoluet variation	55.02
Variation %	28%
<i>Datas in milion of euros</i>	

The outright purchase of new players with important values such as Bernardeschi and the sale of footballers who, like Bonucci, had a low budget amortization should bring to an increase in this cost item on the 2017/18 financial statement.

In detail, amortization should increase from € 61.18 mln to € 89.73 mln (an increase of € 28.55 mln, equal to 46%) while loan cost should rise from € 8 mln (5 for Cuadrado and 3 for Benatia) to 9.5 mln (6 million for Douglas Costa and 3.5 million for Howedes).

Considering the market transactions during the 2017/18 summer transfer campaign, Dybala's renewal and the release of Cuadrado and Benatia, the extended cost of the team (gross wages + amortization + loan cost) for the 2017/18 season is € 254.26 mln (155.03 million gross wages + 99.23 amortization and loan costs) up by € 55.02 mln if compared to € 199.24 mln in 2016/17. From the positive income components point of view Juventus got € 72.39 mln income gains plus € 3 mln of loan revenue.

PLAYERS	OPERATION	SELLING PRICE	INCOME GAIN/LOSS	LOAN RECEIPT
Bonucci	Sale – Milan	42	39,504	-
Neto *	Sale – Valencia	6	4.7	-
D. Alves	Termination of contract	0	-0.118	-
Donis	Sale - Stoccarda	3	2.9	-
S. Ganz	Sale – Pescara	1.8	1.8	-
Cassata	Sale – Sassuolo	7	6.6	-
Romagna	Sale – Cagliari	7.6	7.6	-
Lemina **	Sale – Southampton	17	9.4	-
Rincon ***	Loan - Torino	0	0	3
<b>TOTAL</b>		<b>84.4</b>	<b>72,386</b>	<b>3</b>

\*the payment due may increase of € 1 mln upon the occurrence of specific conditions

\*\* the selling price may increase of € 3 mln upon the occurrence of specific conditions

\*\*\*€ 3 mln loan + € 6 mln obligation to purchase

The € 55.02 mln increase in the cost of the team is therefore more than offset by capital gains revenue (€ 72.39 mln) and loans collection (€ 3 mln).

The impact on Juventus' budget in 2017/18 given as difference between higher costs related to the transfers market (€ 55.02 mln) and higher revenue (€ 72.39 mln gains + € 3 mln loan installments) is therefore positive for € 20.36 mln.

Although the summer market window closed with a positive impact of € 20.36 mln, the extended cost of the team must be balanced by an increase in typical revenues.

The financial statements at 30 June 2017 will close with revenue above € 500 mln. This result was possible thanks to € 150 mln capital gains realized in 2016/17 (above all Pogba's sale to Manchester United) and the Champions League proceeds.

The Juventus' budget in 2016/17 recorded revenue (including capital gains) of € 562.7 mln increased by 45.1% compared to € 387.9 mln in 2015/16, a fast-growing net profit of € 42.6 mln compared to € 4.2 mln of the previous season. This is the third consecutive positive year for Juventus.

In detail, net of the € 151.15 mln deriving from the management of the footballers fleet, in 2016/17 Juventus' typical revenue was € 411.56 million, an absolute record for a Serie A's club. This confirms what was said above in relation to increase the typical revenue.

The detailed situation is shown below<sup>78</sup>.

<b>Amounts in Euros</b>	<b>2016/17</b>	<b>2015/16</b>	<b>Variation</b>
Matchday revenue	57,835,297	43,667,912	14,167,385
TV broadcast	232,773,784	194,897,031	37,876,753
Sponsorship	74,718,794	70,008,038	4,710,756
Merchandising	19,198,979	13,509,887	5,689,092
Players' rights revenue	151,149,536	43,403,703	104,745,833
Other revenue	27,034,664	19,414,202	7,620,462
<b>Total</b>	<b>562,711,054</b>	<b>387,900,773</b>	<b>174,810,281</b>

Matchday revenue, due to the increased number of home games played in the 2016/17 season compared to 2015/16, has increased from € 14.16 mln to € 57.83 mln exceeding the record reached in 2014/15 thanks to an higher number of Champions League games.

<sup>78</sup> 2016/17 Juventus' financial statements, available on: <http://www.juventus.com/media/native/investor-relations-docs/Italiano/comunicati/2017/comunicato%202092017%20approvazione%20bozza%20bilancio%20ita.pdf>

On the commercial revenue side, Juventus' choice to internalize licensing and merchandising activities and partnership agreements signed in the previous season had a positive impact on sales, totaling € 93.92 mln (€ 74 mln revenue from sponsorships and advertising and € 19.19 mln as sales of products and licenses).

TV rights revenue reached € 232.77 mln. Thanks to Champions League path, Juventus reached the huge amount of € 110 mln<sup>79</sup> just the European competition.

Overall, the Juventus' revenue structure is still heavily unbalanced in favor of the television rights component where a relevant part is related to Champions League.

TV rights revenue account for 56% of Juventus' typical revenue in the 2016/17 financial year. Commercial revenue is the second revenue item (23%) while matchdays line item is only 14%. 7% is represented by "other revenues" (usually this includes income from certain business activities but also insurances for players' injuries, various contributions, etc.).

The last five seasons' total revenues have increased constantly. If we look at the 2012-2017 income statement, revenue has increased on an average rate of 22%. Matchday revenue, merchandising and players capital gains recorded the higher percentage increase per year<sup>80</sup>.

Looking at the costs trend in the last five seasons, personnel costs and depreciation have increased the most. The table shows the results<sup>81</sup>.

<b>COST/SEASON</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Employees costs	235,345 <sup>82</sup>	221,484	198,430	184,091	163,463
Depreciation	92,884	76,331	66,351	59,062	59,800
Total operating costs	495,334	377,700	330,157	306,329	286,355
Total % variation	31%	14%	8%	7%	6%

On average, total costs increase of 8.2% per year. This means that the final turnover is totally able to repay the costs in each of the last five seasons (22% > 13.2 %) and further a net positive result is available to cover other expenses. You can see a constant increase of costs from 2013 to 2016. The higher variation, from 2016 to 2017, is due not only to employees costs and depreciation but in particular to fees paid to FIFA's agent for services concerning players'

<sup>79</sup> <http://it.uefa.com/uefachampionsleague/news/newsid=2512612.html>

<sup>80</sup> Aida for financial statement datas. [https://aida.bvdinfo.com/Report.serv?\\_CID=29&context=33VOED7X17DF1TV](https://aida.bvdinfo.com/Report.serv?_CID=29&context=33VOED7X17DF1TV)

<sup>81</sup> The end of the financial year is at 30 June. Only employees costs and depreciation have been considered because they are the costs components with the highest burden in the income statement. Data from 2013 to 2016 have been taken from *Aida*.

<sup>82</sup> Data are not official yet but they have been taken from balance sheet's approval at 30 June 2017 (press release - PDF version: <http://www.juventus.com/media/native/investor-relations-docs/Italiano/comunicati/2017/comunicato%202092017%20approvazione%20bozza%20bilancio%20ita.pdf>).

registration right and the acquisition or renewal of players' rights. Such value increases from € 10,941 mln in 2016 to € 50,492 mln in 2017.

Even if costs are continuously increased, revenues have covered such growth. The ability to cover costs with revenue is confirmed also by the operating profit.

This line item moves from a negative value in 2013 (- € 4.443 mln) from a positive one in 2014 (€ 6.655 mln) continuing to be positive until 2017 (operating profit of € 67.377 mln).

The last line item to analyze is net profit after tax which is the most important one. Also in this case Juventus shows a positive economic trend. The last negative net profit is dated back to 2014's financial statement (- € 6.674 mln). This negative result is not so bad if compared to the 2012 and 2011's net result respectively of - € 48,654 mln and - € 95,414 mln.

In the last three years the situation has changed. In 2015 and 2016 the net profit was respectively of € 2,298 mln and € 4,062 mln but the best performance was obtained in 2017 with a final net result of € 42,568 mln, the highest in Juventus' history.

The values presented make Juventus the Italian club with the best economic position in term of financial performance, total revenue and net profit. The constant increase in revenue in particular from 2015 to 2017 justifies not only the huge growth in employees costs and depreciation but especially the massive summer market transfer of the last two years.

Juventus reached this performance thanks in particular to capital income gains and Champions League broadcasting revenue which turn out to be essential for an Italian club.

The negative aspect which Juventus should pay more attention to is the indebtedness position both towards banks and other clubs. This account includes loans and other financial debts related to mortgages for the construction of the stadium, debts to banks, factoring debts and leasing debts to Unicredit for the construction of Vinovo's training center (this debt has been totally repaid in 2017). Current debts (within 12 months) are not a problem because its cash position at 30 June 2017 is enough to cover the indebtedness position. The current cash available is about € 140 mln against a total current debt of € 112.7 mln. Hence a positive net financial position of  $140 - 112.7 = € 27.3$  mln. The current NFP is getting better if compared to 2016 and 2015, respectively of - € 48.7 mln and - € 146.602 mln.

More attention should be paid to non current financial debt (over 12 months) which amount is about € 193.9 mln. These are the debt Juventus will face in future financial years (to which other debt might be added). The cash position in the long run is not available yet but considering the huge amount of future debt it shall be more consistent than the actual one. Thanks to a well-organized and precise club management I personally think Juventus will be able to pay the future loans without incurring any difficulties.

Furthermore, the value of overdue payables towards other clubs is increasing both current and non current debt. This increase is justified by the huge investments made in the last two transfer market windows. Current and non current account receivables towards clubs won't fully repay account payables. For this reason Juventus shall keep increasing total revenue in order to increase the cash needed to repay the future debt.

In order to reduce the financial debt and the relative interests Juventus might adopt other solutions such as increase the equity or resort to sale and lease back operations, renegotiate the interest rate of the mortgage or loans and only as a last resort selling the best players.

However, having a high level of debt is not negative. Taking out a loan means having other financial resources to be used in the activity. A good management of the debt position and the ability to pay back the interests are necessary in order to repay the outstanding debt and to obtain other financings. This means having other financial resources available to be invested in order to enhance the club performance (considered as a continuous flow of money). In this scenario a growing diversified level of revenue is fundamental and this is exactly what Juventus has been doing in recent years.

#### 4.3 FINANCIAL STATEMENTS INDEXES EVALUATION OF MILAN AND JUVENTUS

This paragraph shows a comparison between Milan and Juventus in terms of financial indexes in order to identify the reciprocal health condition.

I decided to take into consideration the 2015's and 2016's values because financial information is more reliable. The indexes considered are the most important and more relevant to a football club. After showing the numerical results I will explain each index and its meaning. The table below shows the situation of the two Italian clubs<sup>83</sup>.

RATIO	FORMULA	MILAN		JUVENTUS	
		2016	2015	2016	2015
ROE	Net profit / Equity	n.c.	n.c.	7.61%	5.15%
ROA	EBIT / Total Asset	-16.51%	-21.61%	1.46%	2.84%
ROS	EBIT / Revenue <sup>84</sup>	-36.64%	-59.42	2.18%	3.92%
Total Solvency	Total asset / Total debt	1.14	1.22	1.15	1.13

<sup>83</sup> ROE, ROA and ROS have been reported as stated by *Aida*. The other indexes have been calculated from Milan and Juventus' annual report (data always taken from *Aida*).

<sup>84</sup> Revenue = (VoP+FAR) = value of production plus financial asset revenue

Ownership solidity	NFP <sup>85</sup> / Equity	40.36	4.49	3.73	4.23
Indebtedness	Total liabilities / Equity	106.34	15.39	10.82	10.62
Cash availability	Current Assets / Current Liabilities <sup>86</sup>	0.41	0.48	0.54	0.55
Employees costs	Employees costs / Total revenue	67.09%	73.19%	64.86%	52.77%
Depreciation Incidence	Depreciation / Total costs	15.67%	17.38%	17.14%	15.95%
Depreciation and wage incidence	Depreciation + wages / Total costs	65.44%	67.05%	73.53%	74.53%
Economy	Total revenues / Total costs	95.72%	87.53%	111.56%	119.56%

ROE means *Return on Equity*. It shows the whole profitability of a company (of a football club in this case) and the level of risk remuneration faced by the owner(s) or by the members. It refers to the entire business management. It takes into consideration both ordinary and extraordinary management (this because it uses the net profit as numerator. The net profit is the final result after considering all the line items).

This index must be positive in order to express a good judgement. Positive means the club obtained a net profit. Negative means the club obtained an economic loss. This is exactly the situation shown above.

In 2016 and 2015 (the last two years of Berlusconi's presidency) Milan reported such huge losses in the income statement that the index can not be computed (too negative). In the case of Milan this index has continuously reported a negative value due to constant economic losses in the recent years. This means Milan is not a profitable club at all. However, this is not new because the majority of the Italian clubs have recently recorded financial losses. Operating in loss situation is becoming a constant in Italy and this means clubs are not able to reach the minimum level of profitability (revenue equals to costs).

The Juventus' situation is different. As mentioned above Juventus is the healthiest and well-managed Italian club.

Juventus' ROE shows a good level of profitability in 2016 and 2015. After years characterized by economic losses the club has been able to reach a good level of stability recording a net profit in the last three years (also in 2017 – € 42.6 mln – ROE will be much higher). The index

---

<sup>85</sup> NFP = net financial position. This value has been taken from 2016' annual financial for Juventus and from Aida for Milan.

<sup>86</sup> This index does not take into account current financial debt and current financial assets.

has increased from 2015 to 2016 and this means Juventus is not only the more profitable club in Italy but it is also becoming more profitable year by year. I think Juventus will continue on this level of financial performance also for the coming years.

ROA means *Return on Assets*. It shows the profitability of the invested capital. It also shows how much the ordinary management yields which is expressed by the operating profit. It is an operating profit because it only includes typical revenue and costs (the difference between typical revenue and costs makes exactly the operating profit).

From a strictly accounting point of view this index is part of ROE computation (ROE can be broken down in other three indicators among which ROA is the most important one). This means the higher the value of ROA the higher the level of ROE in both positive and negative terms.

Milan has a negative ROA. It means the club recorded a negative operating profit in the two years considered (and in the previous ones). This index is extremely negative and this is one of the reasons why ROE can not be computed otherwise the computation would be meaningless. The more negative the operating profit is the more negative net profit and ROA will be and, as a consequence, the more negative ROE will be.

This index shows a situation in which Milan has invested equity and financial resources in a wrong way without obtaining any kind of profitability.

On the other side Juventus reached a good level of ROA thanks to positive operating profits in 2016 and 2015. It is quite unusual that the value of ROA from 2015 to 2016 has decreased while ROE has increased. This can be explained as follows. It means that other indexes have contributed to enhance the value of ROE such as the index of extraordinary management incidence. This index is computed as a percentage relation between net profit and operating profit. The higher this ratio the higher the financial and extraordinary management will be and hence the ROE. As we know football club net profit also includes income from players capital gain. This income component was very important and consistent in Juventus' last financial statements and in particular in 2017 and 2016.

The good level of Juventus' ROA means the club is investing capital and financial resources in a very profitable way.

ROS means *Return on Sales*. It shows the profitability of a single sale. In the case of football club the revenue composition is quite diversified and usually divided into more than five categories. The index measures the profitability of the operating activities of a club which, for the purposes of this analysis, include clubs' players trading result. Furthermore, the value concerns the



relation between sales volume, costs and prices. It depends on both internal efficiency and external market.

As ROA is part of ROE's breakdown, ROS is part of ROA's (ROA can be broken down in ROS and assets rotation computed as total revenue over total assets).

Once again, having Milan a negative operating profit, this index is extremely bad and it shows that club's sales are not profitable. Milan should consistently increase revenue and limit costs in order to make sales more profitable and to obtain a positive ratio. Due to very inadequate results I think Milan might not be able to solve the situation in the short run but instead it will need at least three-five years of revenue growth and cost-saving policies.

Juventus has a positive operating profit and hence a good and well-performed index. This means the club is profitable and it is able to generate earnings with respect to the total outcome. For this reason Juventus is a club stakeholders should invest in.

Total solvency ratio shows the relation between total assets and total debts. A football club is creditworthy when total assets are higher than total debts. The higher this ratio the more solvent a club is. The more this ratio is close to 1 the more a club gets into debt. If the index is equal to 1 it means all the club's patrimony is debt (assets = debt).

Milan and Juventus are both creditworthy and show similar values. This means both clubs would be able to repay the debt with their own assets.

Milan would not be able to repay the debt using only current assets because the debt is too high when compared with account receivables. This means the club should draw on the sale of its non current assets such as players' registration rights and financial assets.

Also Juventus recorded a huge amount of debt in the financial statement. Juventus is more solvent than Milan because, even if it has a higher financial debt, it has also higher players' registration rights, tangible assets such as property facilities and equipment (the property of the stadium and the land) and equity.

Ownership solidity index evaluates the proportion between net financial position (third parties' debts net of financial assets as shareholding) and equity. Net financial position is calculated as the difference between cash and both short and long run financial debts (towards banks and other investor).

Both clubs have a negative NFP (this means financial debt higher than cash).

If this index is bigger than 1 it means the club is not able to repay the financial debt with its own resources (equity). This is the case of both teams taken into consideration.

Milan's index in 2016 stands out in our analysis. A higher NFP and a reduction in Equity in 2016 made this index worse than 2015.

This ratio uses to be higher for football clubs than for normal firms. They are characterised by more intangible (players) than tangible assets, higher level of indebtedness (towards shareholders and banks) and lower value of equity because of higher amount of economic losses and frequent capitalisations or provisions by the ownership. Indebtedness may be reduced in two ways. The first is with contributions by shareholders in order to replenish financial losses and repay debt positions. The consequence of these contributions is that sooner or later the owner will stop providing financial resources (money is not endless). The second possibility is to reduce the value of players' registration rights but this will have a reduction in the solidity of the club as consequence.

For all these reasons Milan and Juve can not to be considered solid from a financial point of view because of their substantial level of debt. They are solid from a patrimonial point of view because the sum of tangible, intangible and financial assets is enough to cover the NFP even if this solution can not be considered sustainable. Juventus is also solid from an economic point of view because revenues were higher than costs in the last two years while Milan is not.

The same reasoning can be sustained for the indebtedness index between total liabilities and equity. Total liabilities are always higher than NFP and for this reason this ratio is even worse than the solidity one.

This index confirms that both clubs make frequent use of indebtedness policies. Furthermore, it shows an unbalanced situation between equity and debts.

Cash availability or liquidity index shows the relation between current assets and current liabilities. In the computation both short term financial assets and liabilities are not considered. This index means the ability of a company or a club to repay short term commercial debt (towards footballers in the case of football) by using current credits and cash available. This ratio should assume a value between 1 and 2. If it is lower than 1 it means the club is not able to pay off short term debt with current assets.

Furthermore, the index reflects the solidity of a club in the short term and hence it is linked with the ownership solidity index. If the club has a good patrimonial solidity, the liquidity index shows a positive correlation between current assets and current liabilities. This is not our case because both indexes show that Milan and Juventus are neither solid nor able to repay short term liabilities.

The last four indexes refer to economic indicators.

Employees costs index refers to the operative efficiency of a football club and it is used on an international level. The lower this value the more efficient the club will be.

The numerator includes employees costs while the denominator includes typical income components such as matchdays, TV broadcasts and commercial. Typical revenue does not include capital gain from players sales.

According to FFP and European Club Association the maximum level allowed of this indicator is 70%. A value below this percentage means that the club is well-managed. A value above this percentage means employees costs carry too much weight in the income statement and they must be reduced.

Juventus has an indicator quite below the threshold in both years. Milan is out of the parameters in 2015 and it remains below the limit in 2016 due to cost reduction policies.

In other words, Juventus can have a team with higher employees costs than Milan because it is able to generate just as high typical revenue.

Another useful indicator is depreciation incidence. It is the ratio between players' registration rights depreciation in the numerator and total costs in the denominator. Total costs include also financial interests and players write-downs.

This index shows the level of depreciation incidence over the total costs. It is a very adequate indicator because it shows the rigidity of the investments in football players. This ratio is quite similar for both Milan and Juventus in both years and it is acceptable (16% on average for both). If we add to the previous index's numerator also the employees costs, which is the second most relevant cost component, we end up with a different conclusion. In this case it is possible to observe the incidence of human capital in the club. This incidence is higher for Juventus (more than 70%) than for Milan (less than 70%). This means Juventus has made more investments in the recent years paying higher wages than Milan.

The last index aims to measure the level of economy of a football team. It is given by the relation between typical revenue in the numerator and depreciation plus employees costs in the denominator. If this index is higher than 100% it means that typical revenues are higher than the costs considered. If this index is lower than 100% means typical income components are not enough to cover the main cost components. Milan's depreciation and wages are higher than typical revenue and this explains why the club has recorded economic losses in the last years. Juventus instead has the typical revenues higher than costs demonstrating once again that Juventus is managed better than Milan.

In conclusion we can say that Juventus reaches better financial performance than Milan in terms of revenue and profitability. Juventus' equity has been better invested and this is shown by both a positive operating profit and a net income. Milan suffered from the austerity policies of the last years and from the reduction of financial resources by the old presidency. In terms of revenue both clubs should better exploit their own brands in particular in foreign countries such as Asia and America. Furthermore, they should better diversify revenue and be less dependant on footballers capital gains. This is especially the Juventus' case. The club has been able to diversify revenue thanks to the new privately owned stadium but at the same time it still depends on capital gains and broadcasting revenue essential to reach a positive net result.

Both clubs have a consistent indebtedness position in common. Debts are not a problem if recapitalised or reinvested in order to increase revenue or to build new facilities. This is exactly the reason why Juventus differs from Milan. The indebtedness and the refinancing of the debt allowed Juventus to deal with financial needs arising from operating management, new increasing investments and short-term financial debts.

Thanks to higher revenue from the owned stadium and a better management of the debt position Juventus has been able to obtain better financial performance than Milan at this time. We will see if Milan thanks to the change of the ownership will be able to outperform Juventus in the incoming years. However, I personally think Milan will reach better financial results than the ones obtained so far.

#### **4.4 EUROPE TOP CLUBS' REVENUE GROWTH IN 2017 AND COMPARISONS WITH THE PREVIOUS YEARS**

The following analysis shows revenue growth for 2016/15, 2015/14 and 2013/14 season in relation to the Europe top clubs. Economic and financial data of 2016/17 season have not been considered because not reliable and not yet official. However, they will be mentioned and estimated later in order to provide a 2017's background. Revenue excludes players transfer fees, VAT and other sale related taxes. Some adjustments have been made to revenue values to enable a more meaningful comparison of the football business on a club by club basis.

As reported by *Deloitte UK Sport Football Money League 2016 and 2017*, the table below highlights the top clubs revenue trend in the three seasons considered showing the ups and downs in the positions. The table shows only the first ten positions but later on in the analysis references to the top 20 will be carried on.

**Revenue growth in 2015/16, 2014/15, 2013/14<sup>87</sup>**

<b>P</b>	<b>2015/16</b>	<b>2015/16</b>	<b>2014/15</b>	<b>P</b>	<b>Variation</b>	<b>2013/14</b>	<b>P</b>	<b>Variation</b>
1	Manchester Utd	689.0	519.5	3	169.5	518.0	2	1.5
2	Barcelona	620.2	560.8	2	59.4	484.4	4	76.4
3	Real Madrid	620.1	577.0	1	43.1	549.5	1	27.5
4	Bayern Munich	592.0	474.0	5	118	487.5	3	-13.5
5	Manchester City	524.9	463.5	6	61.4	416.5	6	47.0
6	Paris Saint-Germain	520.9	480.8	4	40.1	471.3	5	9.5
7	Arsenal	468.5	435.5	7	33.0	359.3	8	76.2
8	Chelsea	447.4	420.0	8	27.4	387.9	7	32.1
9	Liverpool	403.8	391.8	9	12.0	305.9	9	85.9
10	Juvenuts	341.1	323.9	10	17.2	279.0	10	44.9

With respect to 2013/14 the 2014/15 season sees another year of ups and downs in the financial pecking order. The top five clubs continue to dominate the ranking.

The top ten remains stable with no new entrants. Most notably, Barcelona leapfrogs both Manchester United and Bayern Munich to return to second position behind Real Madrid, becoming the third club to break the € 500 mln revenue barrier in the process. Bayern Munich dropped to fifth position overtaken by Paris Saint Germain.

Real Madrid claims the top spot for the eleventh consecutive year with revenue of € 577 mln, which are not matched with on-pitch success, relinquishing the Champions League to the rival Barcelona.

Barcelona enjoyed a very successful season on the pitch winning both Liga title and Champions League. Revenue growth from the European triumph also resulted in Barca regaining the second position in the money league from Manchester United.

Bayern Munich continue to be one of the three clubs to be ever present in the money league but at the same time it is the only one to have recorded a reduction in total revenue from the previous season. The Bavarians no longer outperformed their biggest international rivals in commercial area and now faced a very strong competition to regain one of the top three places in the coming years.

The number of English clubs in the top 20 has increased from eight to nine.

Chelsea won the 2014/15's Premier League but its off-pitch position has been usurped by Arsenal in terms of total outcome.

<sup>87</sup> Deloitte UK sport football money league 2016 and 2017 pdf. P means position in the ranking

Manchester United's strong commercial growth, underpinned by its ability to agree on new impressive sponsorship deals, compensated to a certain extent for its Champions League absence in 2014/15.

Paris Saint Germain remains the only French club in the top 20 moving up a position to fourth, the highest ever for a French club.

Juventus continued its domestic dominance that, coupled with its run to the Champions League final, has helped the club to achieve a total revenue growth of 16%, and maintained a place in the money league, increasing the revenue gap between itself and the eleventh position by over € 40 mln.

Total revenue reached € 6.6 billion representing an increase of 8% on the previous year's top 20 clubs.

To gain a place in the top 20, substantial broadcast revenue continues to be critical especially that generated from participation to UEFA Champions League.

The ratio of the three principal revenue stream remains broadly constant in regard to the prior season with clubs generating 19% of their total revenue from matchday sources, 40% from broadcasts and 41% from commercials. With further increases expected in broadcast and commercial revenue in the coming years, I would expect the revenue a club generates from matchday to fall in significance even further than its current low record.

In 2015/16 season three teams broke down the limit of € 600 mln revenue for the first time. Manchester United has regained top spot in the rank for the first time since 2003/04 after eleven years of Spanish dominance with a revenue record of € 689 mln. The top three clubs in the ranking are the same as in 1996/97 but Manchester United, Real Madrid and Barcelona in 2015/16 collectively generated over seven times the revenue they did in the last season.

For the third consecutive year, the same clubs are in the top ten but five of them have changed position. Real Madrid and Manchester United swap places, Paris Saint Germain slips two places to sixth position while Bayern Munich jumps to fourth position and Manchester City climbs one place up to fifth, their highest even position.

Out of the top 10 we can find team such as Milan, Borussia Dortmund, Tottenham, Atletico Madrid, Internazionale, Roma, Zenit Saint Petersburg and Leicester which either way contribute to top 20's total revenue.

The total revenue for the 20 top clubs breaks another record and it is the first time that combined revenue of the top teams have exceeded € 7 billion. This a 12% increase on the previous year's top 20 (€ 7.4 billion in 2015/16 and € 6.6 billion in 2014/15). Out of € 0.8 billion total increase,

49% is due to broadcast revenue, 42% to commercial revenue and only 9% due to matchday revenue.

According to *Deloitte UK Sport Football Money League 2017*, to gain a place in the top 20, a club must generate revenues of € 172 mln at least which represents an increase of 4% with respect to the previous season. The 20th position is taken by Leicester which made its first appearance in the Money League generating € 172.1 mln. Leicester's on-pitch success (Premier League title) has translated into financial gain with a revenue increase of 23%.

Stepping back to the first positions and to the table above we can find a sort of English clubs dominance with 5 teams out of the top 10. Manchester United has always been the highest placed English club. Its ability to generate more commercial revenues than its rivals continues to be the primary factor behind its success. In 2015/16 season Red Devils generated commercial revenue of € 363.8 mln (€ 263.8 in the previous season with an increase of € 100 mln) equal to 53% of the total outcome.

With Manchester City's climb to fifth position this is the first time that England has had two clubs in the top 5 since 2011/12. City also became one of the only six clubs to have ever generated revenue in excess of € 500 mln.

Arsenal, Chelsea and Liverpool retain their positions of seventh, eighth and ninth respectively. With the weakening of the Pound against the Euro following the UK's decision to leave the European Union, I think it may be very challenging for English clubs to remain at the top in the coming years.

Paris Saint Germain remains the only French club in the 2015/16's top 20 slipping two positions compared to the previous season. The club has also lost its claim for the highest commercial revenue (€ 305.3 mln) losing its title to Manchester United and Bayern Munich in second place (€ 342.6 mln). However, PSG's commercial revenue is going to increase thanks to Neymar's purchase whose effect will bring a higher volume of t-shirt and gadget sales.

Bayern Munich recorded the second largest overall revenue increase of any of top 20 clubs and it is the only German club to have held a permanent position in the Money League.

Regarding Italian clubs Juventus has kept the tenth position with its revenue growing by 10%. Juventus has led the way in Italy developing its own stadium and performing strongly on the pitch which has allowed it to maintain its position.

Italian clubs continue to be affected by Champions League broadcast revenue and this is the reason why Milan and Internazionale are losing position in the ranking. Matchday revenue growth is still constrained by lack of widespread investment in stadiums. This is why three out of the four Italian clubs are in the bottom positions for matchday stadium revenue. Despite individual efforts to change this, there is a possibility that Milan and Internazionale will drop

out of the Money League in the next seasons. At the same time thanks to changes of ownership (they both have Chinese ownership now and aim at increasing future revenue) there is possibility that the Milanese teams will climb the rank reaching higher positions.

I expect this will be a revenue record year, driven by increased broadcast and commercial income components, to be eclipsed next year. New domestic broadcast deals started in 2016/17 for Premier League and La Liga clubs (as well as international broadcast deals for the Premier League) mean that the next Money League will see the € 8 mln barrier broken. The weakened Pound will ensure a close three-way fight among Manchester United, Real Madrid, Barcelona, Bayern Munich and Paris Saint Germain for the top positions.

Whilst European football dominates financially, the landscape may change considerably in the longer term because of attractive and emerging football markets that will become the future football superpowers.



## **CHAPTER 5 – CONCLUSION**

In view of the above I would say the future football continuity will be mostly and precisely based on economic and financial equilibrium. The introduction of Financial Fair Play regulations and the lack in future financial resources will force football clubs to review and limit economic dynamics, expenditures and investments. The executives will be obliged to restructuring financial operations on the basis of available resources.

In this context, the financial statement will assume much more importance since it will be considered not only an element for an adequate accounting information but also fundamental for the club's business strategy.

The resulting budget and the indexes, from both national and international sporting laws and regulations, will have to determine a sharp change of perspective for its users. This category includes not only third parties interested in controlling financial sustainability and commitments (suppliers, other clubs, customers or fans) but also federal institutions responsible for verifying regular participation in the competitions.

The budget will be a kind of "compass" to allow management to develop projects and programs (sports and financial) consistent with the economic equilibrium.

The use of the budget must definitively abandon the pure accounting concept by making it more suitable for dynamic and strategic assessments rather than static ones. More attention will be paid to creative accounting policies with the aim of limiting their use and making the budgets more truthful and correct. Clubs should take decisions to implement management policies to make the company more solid, effective and efficient. All clubs should pursue internal self-financing rather than indebtedness. Of course this path will not be immediately feasible for football clubs as their vision is still football-oriented and not profit-oriented.

The same introduction of Financial Fair Play will require an interpretive and adaptive effort by both UEFA and the National Federations in order to allow a uniform application of the rules.

As in the Italian case with the issuance of specific accounting principles and a chart of accounts, the new legislation should be introduced with great caution within the legislative framework.

In terms of accounting and taxation the UEFA's area is characterized by a very heterogeneous set of standards in force. If this apparent practical deviation is not overcome, any attempt of reform will lead to extreme and prolonged conflicts among the various systems. In short, only budget values and indexes will not be sufficient. Football system will especially need strategic commercial behaviour. By carefully evaluating the balance between revenues and costs it will be possible to operate according to sustainable sports programs in the short and medium term.

Investments in particular will have to be mainly oriented to club consolidation. On one hand all the opportunities deriving from an intensive facilities management (stadiums and or sports

centers) shall be exploited. On the other hand all projects aiming at the creation of a high quality youth sector will be encouraged and they will have to be able to support club ambitions.

Furthermore, clubs should adopt revenue diversification policy in order to make all the sources of income more reliable. This is necessary whether a club wants to grow and survive regardless of sporting results. They are crucial but unpredictable variables and thus a club can not be based only on these to be sustainable.

Football sector is extremely competitive nowadays. Hence, I think the presence of high-skilled management is fundamental for the club's survival and to reach economy and sustainability principles.

In my opinion Italian football should:

- Keep indebtedness under control and avoid too high debt exposure in order not to run a business with excessive debt such as Chelsea;
- Aim only at footballers purchase and sporting result as in the Paris Saint Germain's experience;
- Oppose situations such as insane and uncontrolled growth from the patron.
- Not support strong polarization and an unbalanced system as in Spain (Real Madrid and Barcelona don't have competition).
- Not support a closed system with low competition on the pitch.
- Not bet on a trading based model as in France.

In favour of foreign football system, Italian football should:

- Take as example the German model in term of healthy and balance growth, high competition and low polarization.
- Have a system which provides high-quality product such as English football along with the German model.
- Strengthen the football political weight in order to get more support from institutions as in Germany and France.
- Open this sector to fans, get familiar with them (UK and Germany) and educate them in terms of healthy sport satisfaction and growth such as Germany.
- Aim at a stronger federation able to develop a commercial product as in Germany.
- Invest in the youth sector and in facilities (stadiums and training centers) as in Germany.

- Discourage the growth of employees costs with innovative policies and agreement such as salary cap ad hoc, welfare plans and contracts with variable benefits.
- Reduce the weight of sport agent with concerted action.
- Diversify revenues composition as the main clubs in the UK, Barcelona and Real Madrid.
- Adopt real estate management in relation to the ownership and management of the stadiums.
- Make the product internationally attractive as in Premier League with benefits and growth margins in terms of TV broadcast, merchandising and sponsorship.
- Be based on customer relationship management as for Bundes, Premier League, Barcelona and Real Madrid.
- Develop innovative sponsorship agreements such as co-branding or training kits ad hoc.
- Exploit intangible assets (right of likeness) and new media such as Facebook, Twitter and social network in general to increase revenue.

In this way the Italian football system could enhance its own management.

## BIBLIOGRAPHICAL REFERENCES

IL BUSINESS NEL PALLONE, ANALISI DI MODELLI ORGANIZZATIVI E GESTIONALI DELLE SOCIETA' DI CALCIO (Jean-Christophe Cataliotti, Tommaso Fabretti – III Edizione 2016)

VINCERE CON IL FAIR PLAY FINANZIARIO, I GRANDI CLUB DEL CALCIO EUROPEO E LA NUOVA NORMATIVA UEFA: LA FINE DELL'ERA DEI MECENATI (Paolo Ciabattini – I Edizione 2011)

ECONOMIA DELLE AZIENDE SPORTIVE, I BILANCI DELLE SOCIETA' SPORTIVE PROFESSIONISTICHE (Mancin Moreno – 2009)

REPORT CALCIO 2015 – 2016 – 2017 (Versione PDF)

Available on: < <http://www.figc.it/it/106135/35556/Impianti.shtml> >

DELOITTE UK ANNUAL REVIEW OF FOOTBALL FINANCE 2016 – 2017 (Versione PDF)

Available on: < <https://www2.deloitte.com/uk/en/pages/sports-business-group/articles/annual-review-of-football-finance.html> >

UK DELOITTE SPORT FOOTBALL MONEY LEAGUE 2016 – 2017 (PDF VERSION)

Available on: < <https://www2.deloitte.com/uk/en/pages/sports-business-group/articles/deloitte-football-money-league.html> >

MANCHESTER UNITED'S ANNUAL REPORT 2017

Available on: < <http://ir.manutd.com/financial-information/annual-reports/2017.aspx> > (Date of accession: 30/10/2017)

MANCHESTER CITY'S OFFICIAL FINANCIAL REPORT 216

< <http://annualreport2016.mancity.com/> > (Date of accession: 30/08/2017)

UEFA CLUB LICENSIGN AND FINANCIAL FAIR PLAY REGULATION 2015 (PDF version)

Available on: <

[http://www.uefa.com/MultimediaFiles/Download/Tech/uefaorg/General/02/26/77/91/2267791\\_DOWNLOAD.pdf](http://www.uefa.com/MultimediaFiles/Download/Tech/uefaorg/General/02/26/77/91/2267791_DOWNLOAD.pdf) >

RELAZIONE FINANZIARIA SEMESTRALE AL 31 DICEMBRE 2016 JUVENTUS (PDF Version)

RELAZIONE FINANZIARIA ANNUALE AL 30 GIUGNO 2016 JUVENTUS (PDF Version)

COMUNICATO APPROVAZIONE BILANCIO AL 30 GIUGNO 2017 (PDF Version)

UEFA OFFICIAL WEBSITE, Available on:

< <http://it.uefa.com/> > (Date of accession: more than once)

< <http://it.uefa.com/uefachampionsleague/news/newsid=2512612.html> > (Date of accession: 21/10/2017)

TRANSFERMARKET, Available on

< <https://www.transfermarkt.it/> > (Date of accession: more than once)

AIDA (for football teams financial statement), Available on:

< <https://aida.bvdinfo.com/version-201787/Login.serv?Code=InvalidIpAddress&LoginParamsCleared=True&LoginResult=nc&product=aidaneo&RequestPath=home.serv%3fproduct%3daidaneo> > (Date of accession: more than once)

GAZZETTA DELLO SPORT, 16/04/2014. *UEFA, fair play finanziario. Multa da Euro 60 mln per Manchester City e Psg (online)*. Available on:

< <http://www.gazzetta.it/Calcio/Estero/16-05-2014/uefa-fair-play-finanziario-multa-60-milioni-manchester-city-psg-80687605057.shtml> > (Date of accession: 03/09/2017)

CALCIO E FINANZA, 2016. *Bilancio Carpi 2016, i diritti tv serie A valgono il 70% del fatturato* (online). Available on: < <http://www.calcioefinanza.it/2016/12/19/bilancio-carpi-2016-impatto-diritti-tv/> > (Date of accession: 05/09/2017)

THE GUARDIAN, 25/05/2016. *Premier League finances: the full club-by-club breakdown and verdict* (online). Available on:

< <https://www.theguardian.com/football/2016/may/25/premier-league-finances-club-by-club-breakdown-david-conn> > (Date of accession: 07/09/2017)

SPORT BUSINESS MANAGEMENT, 2014. *Alla scoperta del modello sportivo americano* (online). Available on: < <http://www.sportbusinessmanagement.it/2014/02/alla-scoperta-del-modello-sportivo.html> > (Date of accession: 10/09/2017)

CALCIO E FINANZA, 2016. *MLS, ecco quanto manca per diventare una lega di primo livello* (online). Available on: < <http://www.calcioefinanza.it/2016/12/12/mls-usa-valore-business-confronto-campionati-europei/> > (Date of accession: 10/09/2017)

CALCIO E FINANZA, 2016. *Liga, dal 2016 al via la vendita centralizzata dei diritti tv* (online). Available on: < <http://www.calcioefinanza.it/2015/05/02/liga-dal-2016-al-via-vendita-centralizzata-dei-diritti-tv/> > (Date of accession: 16/09/2017)

CALCIO E FINANZA, 2016. *Diritti tv Liga, la nuova legge scontenta Real e Barca: -75 mln. Boom Atletico e medio-piccole* (online). Available on: < <http://www.calcioefinanza.it/2016/03/31/diritti-tv-liga-nuova-legge-real-barca-atletico/> > (Date of accession: 16/09/2017)

CALCIO E FINANZA, 2017. *Real Madrid, rinnovo record con Emirates: 70 milioni a stagione fino al 2022* (Online). Available on: < <http://www.calcioefinanza.it/2017/09/21/rinnovo-sponsorizzazione-emirates-real-madrid-70-milioni-2022/> > (Date of accession: 22/09/2017)

CALCIO E FINANZA, 2017. *Adidas pronta ad offrire 150 milioni a stagione per vestire il Real Madrid fino al 2031* (Online). Available on: < <http://www.calcioefinanza.it/2017/09/20/rinnovo-sponsorizzazione-adidas-real-madrid-2031/> > (Date of accession: 22/09/2017)

CALCIO E FINANZA, 2016. *Pagare Pogba con le Maglie di Ibra? Ecco quanto frutta davvero l'accordo Adidas – United* (online). Available on: <

<http://www.calcioefinanza.it/2016/07/31/come-funziona-laccordo-adidas-manchester-united/>

> (Date of accession: 22/09/2017)

CALCIO E FINANZA, 2016. *Nike ricopre d'oro il Barcellona: rinnovo da record con lo sponsor tecnico fino al 2028* (Online). Available on: <

<http://www.calcioefinanza.it/2016/10/31/rinnovo-partnership-barcellona-nike-fino-2028/> >

(Date of accession: 22/09/2017)

CALCIO E FINANZA, 2016. *Il Chelsea saluta Adidas e firma con Nike: accordo da 75 milioni di euro per 10 anni* (online). Available on: <

<http://www.calcioefinanza.it/2016/05/18/chelsea-nike-sponsor-75-milioni/> > (Date of

accession: 22/09/2017)

CALCIO E FINANZA, 2017. *I ricavi Champions dal 2012/2013: nessuno ha incassato quanto la Juventus* (online). Available on: < <http://www.calcioefinanza.it/2017/06/04/ricavi-champions-league-2017-juventus-napoli/> >

(Date of accession: 22/09/2017)

CALCIO E FINANZA, 2017. *Stipendi Real Madrid 2016/17: come funziona il sistema di retribuzione Blancos* (online). Available on: <

<http://www.calcioefinanza.it/2017/06/03/stipendi-real-madrid-2016-2017-cristiano-ronaldo-bale-benzema/> > (Date of accession: 24/09/2017)

CALCIO E FINANZA, 2017. *Calcio e finanza top 10 revenue, la classifica dei club più ricchi* (online). Available on: < <http://www.calcioefinanza.it/2017/01/16/classifica-ricavi-societa-di-calcio-2016-fatturato/> >

(Date of accession: 27/09/2017)

UK PREMIER LEAGUE, 2016. *Stadi, soltanto le Bundesliga regge il passo della Premier League* (online). Available on: < <http://www.ukpremier.it/rubriche/football-economy/stadi-soltanto-la-bundesliga-regge-il-passo-della-premier-league.html> >

(Date of accession: 29/09/2017)

IL SOLE 24 ORE, 2014. *Dal Milan al Genoa, in Serie A le cessioni dei marchi valgono oltre 600 milioni* (online). Available on: <

<http://marcobellinazzo.blog.ilsole24ore.com/2014/02/12/dal-milan-al-geoa-in-serie-a-le-cessioni-dei-marchi-valgono-oltre-600-milioni/> > (Date of accession: 05/10/2017)

CALCIO E FINANZA, 2017. *Palermo, si indaga sulla cessione del marchio. Zamparini riapre la trattativa con Cascio* (online). Available on: < <http://www.calcioefinanza.it/2017/07/07/palermo-si-indaga-sulla-cessione-del-marchio-zamparini-riapre-la-trattativa-cascio/> > (Date of accession: 07/10/2017)

GOAL.COM. 2017. *Goal economy – Palermo, Zamparini e la cessione del marchio* (online). Available on: < <http://www.goal.com/it/notizie/goal-economy-palermo-zamparini-e-la-cessione-del-marchio/1j3ddrouuvejg19yvmp1vkk06o> > (Date of accession: 07/10/2017)

IL GIORNALE DI SICILIA, 2017. *Finanza per 16 ore allo stadio: le accuse per Zamapirini. Il Patron: nessun passaggio illecito* (online). Available on: < [http://palermo.gds.it/2017/07/08/palermo-finanza-per-16-ore-allo-stadio-tutte-le-accuse-per-zamparini-il-patron-nessun-passaggio-illecito\\_693226/](http://palermo.gds.it/2017/07/08/palermo-finanza-per-16-ore-allo-stadio-tutte-le-accuse-per-zamparini-il-patron-nessun-passaggio-illecito_693226/) > Date of accession: 08/10/2017)

GAZZETTA DELLO SPORT, 2010. *Borriello, un prestito che fa discutere* (online and PDF version). Available on: < [http://www.magliarossonera.it/img201011/alb308\\_2011.pdf](http://www.magliarossonera.it/img201011/alb308_2011.pdf) > (Date of accession: 12/10/2017)

CALCIO E FINANZA, 2017. *Calciomercato Milan e impatti sul bilancio: il saldo dopo gli arrivi di Bonucci e Biglia* (Online). Available on: < <http://www.calcioefinanza.it/2017/07/14/calciomercato-milan-e-impatti-sul-bilancio-saldo-gli-arrivi-bonucci-biglia/> > (Date of accession: 14/10/2017)

CALCIO E FINANZA, 2017. *Calciomercato e bilancio Milan: l'impatto sui conti dopo l'ufficialità di Kalinic* (online). Available on: <http://www.calcioefinanza.it/2017/08/22/calciomercato-milan-e-impatti-sul-bilancio-ufficialita-kalinic/> > (Date of accession: 14/10/2017)

CALCIO E FINANZA, 2017. *Calciomercato e impatti sul bilancio, fino a dove può spingersi il Milan* (Online). Available on: < <http://www.calcioefinanza.it/2017/07/04/come-fa-il-milana-spendere-cosi-tanto-per-il-calciomercato/> > (Date of accession: 15/10/2017)

CALCIO E FINANZA, 2017. *Il Milan anticipa i costi del mercato sui conti 2017/18 in vista del voluntary agreement* (online). Available on: <



<http://www.calcioefinanza.it/2017/09/01/come-fa-il-milan-a-caricare-sul-bilancio-2017-2018-tutti-i-costi-della-campagna-acquisti/> > (Date of accession: 16/10/2017)

CALCIO E FINANZA, 2017. *Juventus, dal calciomercato impatto positivo sul bilancio per oltre 75 milioni* (online). Available on: < <http://www.calcioefinanza.it/2016/09/01/juventus-saldo-calciomercato-2016-2017-impatto-su-bilancio/> > (Date of accession: 17/10/2017)

CALCIO E FINANZA, 2017. *Calciomercato Juve e impatto sul bilancio: le plusvalenze compensano l'aumento dei costi* (online). Available on: < <http://www.calcioefinanza.it/2017/09/01/calciomercato-juventus-impatto-sul-bilancio-2017-2018/> > (Date of accession: 18/10/2017)

CALCIO E FINANZA, 2017. *Bilancio Juve 2016-17: ricavi da 562 milioni, utile da 42,6 milioni* (online). Available on: < <http://www.calcioefinanza.it/2017/09/22/bilancio-juventus-2016-2017-ricavi-562-milioni-utile-426-milioni/> > (Date of accession: 19/10/2017)

CALCIO E FINANZA, 2017. *Juventus, ricavi 2017 oltre i 550 milioni con plusvalenze e Champions League* (online). Available on: < <http://www.calcioefinanza.it/2017/05/30/preview-bilancio-juventus-2017-fatturato-ricavi/> > (Date of accession: 19/10/2017)

CALCIO E FINANZA, 2017. *Ricavi Juventus 2016 verso i 340 milioni: ma i bianconeri restano Champions dipendenti* (online). Available on: < <http://www.calcioefinanza.it/2016/06/08/ricavi-juventus-2016-fatturato-champions-league/> > (Date of accession 22/10/2017)

CALCIO E FINANZA, 2017. *Ricavi top club 2016-2017: la Juve cresce cob la Champions ma i big fuggono* (online). Available on: < <http://www.calcioefinanza.it/2017/09/29/classifica-fatturato-squadre-calcio-2016-2017/> > (Date of accession: 01/11/2017)