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What's the Score?

S&P Capital IQ's Credit Football League; a Season On and Lessons Learned

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Welcome to the second issue of S&P Capital IQ's Credit Football League report. In the last issue[1], published in October 2014, we explained how 'following the team' has taken on a whole new meaning as the share prices and financial standings of football clubs are increasingly monitored. Whether it's a bank lending to a club or would-be investors buying a stake in clubs directly, the football industry is fast emerging as an investment sector in its own right.

In this series of reports, S&P Capital IQ explores the challenges and complex nature of assessing credit risk through the prism of football clubs. With the continued evolution of clubs from sporting institutions to business ones, S&P Capital IQ uses its proprietary peer ranking methodology, *Credit Health Panel*® (CHP)[2], and other credit risk models to assess football clubs as corporations.

Now that the 2014/2015 European football season has drawn to a close, we have reassessed the credit and financial risks of the world's largest football clubs by updating our virtual Credit Football League of 44 European football teams and looking at how the original rankings have changed since September 2014.[3] As in our previous report we use our CHP methodology, to determine the relative credit health of each club in the league. Clubs such as **Manchester United**, **Arsenal**, **Bayern Munich**, and **Juventus** are all included in our ranking.

The report has also evolved, at the request of our first issue's readers, to include more of Europe's super-clubs. In this issue, we have introduced a new proprietary statistical-based methodology, *'Probability of Default Fundamentals'* (PDFN). Given that there is no uniform reporting system for private corporations in particular jurisdictions, financial assessments often need to be made based on limited financial reporting. While there is enough financial data reported by the 44 clubs in the Credit Football League to use the Credit Health Panel model, some clubs do not disclose enough information for CHP to be applicable. In these cases, the PDFN model is used to assess the clubs' credit risk.

Our PDFN model enables us to assess an additional nine privately-owned and one publicly-owned clubs. The report now includes a separate credit analysis of **Chelsea FC**, **FC Barcelona**, **Real Madrid FC**, **Liverpool FC**, **PSG FC** and three Latin American clubs; however, since a different model has been used to assess these ten clubs, their credit health cannot be directly compared to the 44 teams included in the Credit Football League.

Our assessment revealed the following key findings:

- Our virtual Credit Football League clearly demonstrates how the UEFA Champions League tournament impacts clubs' revenue, and overall financial stability. This is illustrated by **Roma's** rise (16 places) and the falls of **Manchester United** and **Valencia** (both dropping 12 places).

[1] What's the Score?, October 2014, http://www.spcapitaliq.com/our-thinking/ideas/what-s-the-score-s-p-capital-iq-s-credit-football-league
[2] *Credit Health Panel* utilises 24 financial metrics from Income Statement, Balance Sheet and Cash flow statement to output an overall credit ranking relative the peer set
[3] The data in the October 2014 report was as of 8 September 2014

- All of the super-clubs assessed by our PDFN model, except **Chelsea F.C.**, have a mapped credit score which is in the high yield range, indicating elevated credit risk for football clubs.
- **AFC Ajax** (ENXTAM:AJAX) and **Arsenal F.C.** retain their respective first and second rankings in our virtual Credit Football League with balanced financial structures.
- **FC Barcelona's** stellar season - winning the treble (La Liga, Champions League and Copa del Rey) for the second time in the history of the club – may move its mapped credit risk score closer to the investment grade range once the club's 2015 financials have been announced. Currently it is in the high yield category
- Overall, UEFA's Financial Fair Play (FFP) directive has put a greater emphasis on football clubs' financials than ever before in history. Making models that examine a club's corporate-financial structure vital to any financial business decisions.

S&P Capital IQ's End of Season Credit Football League

S&P Capital IQ's proprietary *Credit Health Panel* (CHP) model provides relative financial assessments on a quartile ranking basis and lends itself well to a league table. It ranks corporations using 24 financial metrics that are categorised into Operational, Solvency and Liquidity panels to determine an overall fundamental score on a quartile scale: 'Top', 'Above Average', 'Below Average' and 'Bottom'. We used these CHP metrics to create a relative ranking of the 44 football clubs in our analysis (see Table 1), similar to leagues for match performance, but in this case based on credit performance. Therefore, a CHP rank of 1 represents the team with the lowest relative credit risk of the 44 clubs, whereas a CHP rank of 44 indicates the team with the highest relative credit risk. Analytical tools and models, such as CHP, are commonly used by large corporations undertaking counterparty credit risk assessments to understand their exposures. The application of this methodology is a first step in identifying the credit risk within a portfolio or, in this case, a group of European football clubs. It is important to note here that in our analysis these clubs are treated as corporations. This is because the financial industry regards football clubs as such, and their financial structures are similar to media corporations.

Certain clubs included in the league in our last report have not filed sufficient or up-to-date financials, and we have replaced these in the league with four new teams which have current financials. In this way, the number of clubs in our league remains forty four and is a like-for-like comparison to our September report. **Aberdeen Football Club** (Scotland), **Real Club Celta de Vigo** (Spain), **SASP ANGERS SCO Football** (France) and **Real Sociedad de Fútbol S.A.D.** (Spain) have all been added to the Credit Football League. In order to select the four new clubs we first identified clubs in our database which were not previously included in the league and which had the most current financials. Then, as far as possible, we swapped Northern European clubs for Northern, and Southern European clubs for Southern. [4]

[4] We were unable to undertake a straight country swap, resulting in a club from Italy being swapped for Spain, and England for Norway.

Arsenal and Ajax Maintain Top Positions; Roma Climbs, Manchester United and Valencia Fall

To assess how the credit risk of the 44 individual clubs in our virtual league changed since September 2014, we have included a column showing each club's 'CHP Previous Rank' in Table 2. Last year's Credit Football League table toppers, **AFC Ajax NV** (ENXTAM:AJAX) and **Arsenal F.C.** maintain their first and second positions. AFC Ajax NV (ENXTAM:AJAX) finished the season at the top of our CHP table with the highest cash to total debt ratio of 297x, with the group mean being 14.03x.[5] However, the club was unable to replicate the feat on pitch and finished second overall in Holland's Eredivisie football league. Arsenal F.C.'s manager Arsène Wenger, who incidentally has a master's degree in Economics from Strasbourg University[6], led the team to a third place finish in the English Premiership League and to a second successive victory in the FA Cup final, held on 30 May 2015. The club also retained its CHP rank of second, with the third highest total revenue of $478 million and a well-balanced financial structure.

Focusing on the five clubs that have 'Top' scores for Operational, Solvency and Liquidity, **FC Bayern Munich** climbed from eighth to third position with strong Operational metrics - for example, of the clubs in our league, Bayern Munich has the fifth largest total equity of $294 million. 2014 Premier League winners **Manchester City** also climbed five positions to finish the season fourth overall, as the club's total revenue increased and leverage levels dropped substantially. Furthermore, its liquidity, calculated by the quick ratio[7] of 1.48, is the third highest of the 44 teams, behind **Meidericher Spielverein** (better known as MSV Duisburg, which has relatively small revenue) with 3.2 and **Ajax**, which has a quick ratio of 2.56. **SASP Asse Loire** (better known as Saint-Etienne) retained its fifth position, not as a result of having as high revenue as some of the larger clubs, but by having other strong Operational metrics such as recurring earnings / total assets of 12.59% and strong Solvency metrics such as the highest EBITDA Interest coverage ratio (EBITDA / Interest Expenses) of 181.9x in our league.

We have not commented on all of the movers but, in addition to the table moves mentioned above, some clubs have risen and fallen quite notably.

Manchester United (NYSE:MANU) has fallen twelve places to sixteenth. While the club's on-field fortunes have certainly picked up under new manager Louis van Gall, United's failure to qualify for the UEFA Champions League in the 2013/2014 season cost the club significant revenue this season. In total, the club's revenue fell from $662 million in June 2014 to $589 as of end March 2015. The club has also exhibited decreases in its Solvency and Liquidity metrics since our last report.

AS Roma, on the other hand, climbed sixteen places in our table – its rise up both the Serie A (Italian Premier League) and our Credit Football League being in direct contrast to **Manchester United**. Having missed out on Champions League football in the previous two years, Roma's second place position in the Serie A 2013/2015 season boosted its revenue from $129 million as of 30 June 2014, to $185 million as of 31 March 2015. The club's Solvency metric also improved with Funds from Operations (FFO) Interest Coverage[8] turning positive for the first time in five years. Perhaps the most interesting of the big movers is

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[5] As of 18 June 2015
[6] http://www.arsenal.com/first-team/coaching-staff/ars-ne-wenger
[7] The quick ratio measures a company's liquidity; the higher the ratio, the better its liquidity.
[8] FFO Interest Coverage is a measure of a company's available cash on hand that can be used to pay its current debt obligations (interest expense)

Valencia. Having suffered years of financial hardship - which seemed to result in the club selling star players such as David Silva, David Villa (now playing for New York F.C.) and Juan Mata - the takeover by Peter Lim, the Singaporean billionaire in October last year - may bring much needed long term financial stability to the club[9]. Nevertheless, Valencia fell 12 places in our league – mainly due to the club finishing eighth in the 2013/2014 La Liga season and missing out on crucial revenue from European cup competitions. The club's total debt to revenue, for example, has been increasing over the last five years. However, the club's finances may improve in the near future, with the backing of its new owner and the revenue the club will secure by qualifying for Europe's Champions League in the season just finished.

The dramatic movement of these clubs up and down our Credit Football League has, of course, a common factor – the Champions League. One of the major debates among football fans at the moment is how clubs prefer to focus on European qualification than on domestic cups. Increasingly, clubs will likely play weakened teams in the domestic cup competitions in order to concentrate on European qualification. Even more remarkably, high profile clubs have seemingly been trying to avoid qualifying for the Europa League – Europe's secondary competition - in an effort to preserve the squad for a chance at Champions League qualification the following season. This was such a perceived problem that the Union of European Football Association (UEFA) has awarded a Champions League spot to the winners of the Europa League to incentivise teams to participate.

What this demonstrates is that the lure of the Champions League, from both a sporting and financial perspective, is so great that clubs might forgo other tournaments (and potential trophies) to prioritise it. The rise of **Roma** and the falls of **Manchester United** and **Valencia** clearly demonstrate the impact it can have on revenue and shows the potential financial gains available to Champions League participants.

UEFA details that the funds available per season for distribution to clubs in the UEFA Champions League amounts to €1.257billion[10]. €12million of that amount is allocated per club for the group stages, increasing as the teams progress to the finals where they stand to earn an additional €15million for the winner, or €10.5million for the runners-up spot. That is in addition to the enormous worldwide broadcasting revenue generated by the competition, and distributed among the participants.

TABLE 1: S&P Capital IQ's Virtual Credit Football League: A Relative Credit Assessment of 44 Public & Private European Football Clubs

CHP Rank	CHP Previous Rank	Club	Country	Overall	Operational	Solvency	Liquidity
1	1	AFC Ajax NV (ENXTAM:AJAX)	Netherlands	Top	Top	Top	Top
2	2	Arsenal Holdings plc	United Kingdom	Top	Top	Top	Top
3	8	FC Bayern München AG	Germany	Top	Top	Top	Top
4	9	Manchester City Limited	United Kingdom	Top	Top	Top	Top
5	5	SASP Asse Loire (Saint-Ettiene)	France	Top	Top	Top	Top
6	30	Football Club Nantes Atlantique	France	Top	Top	Top	Bottom

[9] Source: International Business Times - http://www.ibtimes.co.uk/la-liga-valencia-peter-lim-following-chelseas-golden-path-success-1495192
[10] Source: UEFA Champions League revenue distribution Published: Sunday 1 March 2015. - http://www.uefa.com/uefachampionsleague/news/newsid=1858497.html

7	6	Borussia Dortmund GmbH & Co. Kommanditgesellschaft auf Aktien (XTRA:BVB)	Germany	Top	Top	Above Average	Top
8	new	Real Club Celta de Vigo, S.A.D.	Spain	Top	Top	Above Average	Top
9	3	Celtic plc (AIM:CCP)	United Kingdom	Top	Above Average	Top	Top
10	13	Tottenham Hotspur Limited	United Kingdom	Top	Above Average	Above Average	Top
11	11	Olympique Lyonnais Groupe SA (ENXTPA:OLG)	France	Top	Below Average	Below Average	Above Average
12	21	Associazione Sportiva Livorno Calcio S.p.A.	Italy	Above Average	Top	Top	Below Average
13	7	Borussia VfL 1900 Mönchengladbach GmbH	Germany	Above Average	Top	Above Average	Below Average
14	16	Juventus Football Club S.p.A. (BIT:JUVE)	Italy	Above Average	Top	Above Average	Below Average
15	14	ACF Fiorentina S.p.A.	Italy	Above Average	Above Average	Top	Below Average
16	4	Manchester United plc (NYSE:MANU)	United Kingdom	Above Average	Above Average	Above Average	Above Average
17	29	Olympique de Marseille SA	France	Above Average	Above Average	Below Average	Below Average
18	17	RCD Espanyol de Barcelona S.A.D.	Spain	Above Average	Above Average	Below Average	Below Average
19	new	Aberdeen Football Club Plc.	United Kingdom	Above Average	Above Average	Bottom	Top
20	18	Meidericher Spielverein 02 e.V. (MSV Duisburg)	Germany	Above Average	Above Average	Bottom	Top
21	37	A.S. Roma S.P.A. (BIT:ASR)	Italy	Above Average	Bottom	Below Average	Above Average
22	15	S.S. Lazio S.p.A. (BIT:SSL)	Italy	Above Average	Bottom	Below Average	Above Average
23	27	Bologna Football Club 1909 S.p.A.	Italy	Below Average	Above Average	Above Average	Bottom
24	12	Valencia Club De Futbol, S.A.D.	Spain	Below Average	Above Average	Below Average	Bottom
25	26	FC Girondins de Bordeaux SAS	France	Below Average	Above Average	Bottom	Bottom
26	44	Racing Club de Lens SASP	France	Below Average	Below Average	Above Average	Below Average
27	new	Real Sociedad de Fútbol S.A.D.	Spain	Below Average	Below Average	Above Average	Below Average
28	19	Brøndbyernes IF Fodbold A/S (CPSE:BIF)	Denmark	Below Average	Below Average	Below Average	Above Average
29	31	Rangers International Football Club PLC (OTCPK:RNGF.F)	United Kingdom	Below Average	Below Average	Below Average	Below Average
30	new	SASP ANGERS SCO Football	France	Below Average	Below Average	Below Average	Below Average
31	32	TSV München von 1860 GmbH & Co. Kommanditgesellschaft auf Aktien	Germany	Below Average	Below Average	Bottom	Above Average
32	24	Silkeborg IF Invest A/S (CPSE:SIF)	Denmark	Below Average	Below Average	Bottom	Bottom
33	38	Sporting Clube de Portugal-Futebol, SAD (ENXTLS:SCP)	Portugal	Below Average	Bottom	Below Average	Above Average
34	43	F.C. Internazionale Milano S.p.A.	Italy	Bottom	Below Average	Top	Bottom
35	28	Sport Lisboa e Benfica - Futebol, SAD (ENXTLS:SLBEN)	Portugal	Bottom	Below Average	Bottom	Above Average
36	35	Associazione Calcio Milan s.p.a.	Italy	Bottom	Below Average	Bottom	Bottom

37	22	Udinese Calcio Spa	Italy	Bottom	Bottom	Top	Above Average
38	36	Ruch Chorzów Spólka Akcyjna (WSE:RCW)	Poland	Bottom	Bottom	Above Average	Below Average
39	40	U.S. Città di Palermo S.p.A.	Italy	Bottom	Bottom	Above Average	Bottom
40	33	Futebol Clube do Porto - Futebol, S.A.D. (ENXTLS:FCP)	Portugal	Bottom	Bottom	Below Average	Above Average
41	41	GKS GieKSa Katowice Spólka Akcyjna (WSE:GKS)	Poland	Bottom	Bottom	Bottom	Above Average
42	42	Club Deportivo Tenerife, S.A.D.	Spain	Bottom	Bottom	Bottom	Bottom
43	new	Hertha BSC GmbH & Co. KGaA	Germany	Bottom	Bottom	Bottom	Bottom
44	20	Millwall Holdings plc	United Kingdom	Bottom	Bottom	Bottom	Bottom

Source: Credit Health Panel (CHP) on the S&P Capital IQ platform as of 18 June 2015.
The CHP score is a relative quartile ranking (Top, Above Average, Below Average, Bottom) that expresses the creditworthiness of the focus company relative to its unique peer group. For illustrative purposes only.
New Teams: Aberdeen Football Club (Scotland), Real Club Celta de Vigo (Spain)., SASP ANGERS SCO Football (France) and Real Sociedad de Fútbol S.A.D. (Spain) were added to the Credit Football League as four of the previous teams either had dated financials or did not have sufficient updated financials to be included in the table.

The Reporting Gap - Introducing More Super-Clubs and a New Model

Our inaugural report was very well received, and we were delighted that it resonated with market participants and football fans alike. However, many readers asked us different variations of the same question; 'where's my team?'

It goes without saying that not all football clubs are run the same way, have the same financial structure, the same ownership model or the same financial reporting method. Differences are particularly prevalent among privately-owned clubs as they are not subject to the same reporting requirements as public clubs. With this in mind, the proprietary *Credit Health Panel* model we used to analyse and rank the 44 clubs in our Football Credit League uses financial data that many privately-owned clubs do not disclose.

We have therefore introduced a new proprietary statistically-based methodology, *'Probability of Default Fundamentals'* (PDFN), designed by S&P Capital IQ to **help its clients overcome one of the central challenges in assessing the risk of privately owned corporations – the reporting gap**. The PDFN model uses both business and financial risk metrics to determine a corporation's probability of default. This means that the model not only uses financials, but also takes into consideration a broader set of inputs including but not limited to whether it is a private or public company, country risk, industry risk, macroeconomics, and industry competitiveness.[11]

In order to look at additional football clubs our readers requested, we have applied this model and have assessed an additional nine privately-owned and one publicly-owned clubs, including some of European football's super-clubs. Below you will find an analysis of **Chelsea F.C.**, **F.C. Barcelona**, **Real Madrid F.C.**, **Liverpool F.C.**, **Paris Saint-Germain F.C.** (PSG). As a different model has been used to assess these ten clubs, their credit health cannot be directly compared to the 44 teams included in the Credit Football League

[11] Furthermore, in this issue of the report we have not included the Probability of Default Market Signal model, used in our previous report, as this model applies only to public clubs, and nine of the additional clubs we are looking at are private. Neither have we used CreditModel, also referenced in our previous report, as it has less coverage (specifically, at this time, it does not cover the European super clubs we are analyzing) than the PDFN model.

Much like UEFA's Financial Fair Play (FFP) directive which puts a greater emphasis on a football club's financials than ever before in the history of the game, the PDFN model examines how healthy a club's corporate-financial structure is. To explain this, let us consider two major spending constraints imposed on clubs by the FFP: 1) the 'maximum permitted loss for football clubs', and 2) 'maximum permitted loss if owner does not inject equity'[12]. If a club does not have the option of an equity injection by its owner, as is usually the case for smaller clubs, then the permitted loss is lower. This means that clubs with wealthy owners, such as **Chelsea F.C.** and **PSG,** can afford to spend more, incur more debt by subsidising the losses and ultimately be more competitive for the league title and European competitions. In essence, if a club has a large amount of 'off balance sheet equity', provided by a wealthy owner, it can afford to have a more risky business structure.[13]

While our PDFN model does not take into account the wealth of the owner or his/her interest in injecting cash, it does **evaluate a club's financial health and risk of default**. For example, if a football club has a high percentage PDFN and no wealthy owner, this should elicit further due-diligence into the club's financial stability to understand whether it is at risk of default. For the wealthy owners themselves, this model may be a tool to help determine the likelihood that they will be asked to invest more to keep the club within a sound financial structure.

Turning to the new clubs, listed in alphabetical order in Table 2, we see how the PDFN model produces a probability of default value which is shown as **the percentage chance of a club going into financial administration or bankruptcy in the next 12 months**. Using a sophisticated mapping technique we map the PDFN figures to quantitative creditworthiness scores which identify whether a corporation, or in this case a club, falls into the investment or non-investment grade range. *(Please note that this is a quantitative model-based approach and completely separate from Standard & Poor's Ratings Services credit ratings)*. A PDFN percentage of 0.5344% maps to a lower-case credit score of 'bbb-', the lowest investment grade score.[14] This figure is the cut-off between investment grade and non-investment grade. A probability of default percentage higher than 0.5344% maps to a high yield (or non-investment grade) credit score and, conversely, a PDFN lower than 0.5344% maps to a score in the investment grade, indicating a lower risk of default.

Mapping the percentages to alphabetic scoring symbols helps counterparties doing business with a corporation determine the level of risk involved in the business deal. Table 2 shows that nearly all of the additional football clubs we have looked at are below the investment grade threshold and map to a high yield credit score. In fact, our 10 April 2015 blog post '*Football: A Risky Movies & Entertainment Business?*'[15] highlighted that football clubs' median PDFN is 19.03%, which maps to a lower-case credit score of 'ccc'. This means that, on the whole, football clubs hold significant credit risk.

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[12] Both are usually calculated over three seasons, although they are calculated over one season for the English Championship (second division).

[13] To be clear, the wealth of the owner is not a factor in the PDFN model. It is the owner's capital, once injected, that can improve financial difficulties. When talking about corporate owners, S&P Capital IQ frequently discuss the propensity of that "parent" company to bail out its subsidiaries.

[14] Lower-case nomenclature is used to distinguish credit scores from credit ratings issued by Standard & Poor's Ratings Services.

[15] For report: http://www.spcapitaliq.com/insights/football-a-risky-movies-entertainment-business

Table 2 – 10 Additional Teams with PDFN Assessment

Football Clubs (Alphabetical Order)	Country	Probability of Default Fundamentals (PDFN)	PDFN Mapped Credit Score
América Futebol Clube	Brazil	23.6827%	ccc
Aston Villa Football Club Limited	United Kingdom	6.7141%	b-
Chelsea FC plc	United Kingdom	0.5066%	bbb-
Clube Nautico Capibaribe	Brazil	12.9779%	ccc+
Cruzados SADP (SNSE:CRUZADOS)	Chile	19.7625%	ccc
Dundee United Football Company Limited	United Kingdom	0.5604%	bb+
Futbol Club Barcelona, S.L.	Spain	2.2370%	bb-
Paris Saint-Germain Football Club	France	16.6200%	ccc
Real Madrid C.F.	Spain	0.7110%	bb+
The Liverpool Football Club and Athletic Grounds Limited	United Kingdom	9.6205%	b-

Source: S&P Capital IQ Credit Analytics, as of 18 June 2015

The only club out of the ten we looked at which has a mapped credit score in the investment grade category is this year's English Premiership winner **Chelsea F.C.**, which has a PDFN of 0.5066% mapping to a lower-case credit score of 'bbb-'. Chelsea's owner, Roman Abramovich, was reported to be worth $8.9 billion in 2014.[16] This gives Chelsea a financial cushion, helps the club comply with the FFP rule, and allows it to stay competitive by buying the best and most expensive players. In fact, the club did win the Champions League in 2012 - the first time a London team has ever won the trophy - bringing the club considerable revenue. **Dundee United** of Scotland just misses out on an investment grade credit score with a PDFN of 0.56% which maps to 'bb+'. But, of course, the club has much smaller revenue of $9 million compared to Chelsea F.C.'s $489 million.

FC Barcelona had an extraordinary season - winning the treble (La Liga, Champions League and Copa del Rey) for the second time in the history of the club - much to the dismay of **Real Madrid**, their fiercest rivals.[17] FC Barcelona, which is commonly touted as the best in the world, especially after this season, has a PDFN of 2.237%, which maps to 'bb-'. However, it is important to remember that not all of these financial rewards have been officially published. Barcelona is a private club and usually publically reports its full year financials around a year after fiscal year. This means that its PDFN is likely to show a decreased value (i.e. be less risky and have a lower probability of default) when 2014 financials become available, and its profit margin of 12.5% and return on capital of 47.67% (as of 30 June 2014) could improve, bringing the club closer to the investment grade PDFN category. At this time Real Madrid does have better creditworthiness than Barcelona with a PDFN of 0.771% mapped to a lower-case score of 'bb+'.[18]

The three Latin American clubs, **América Futebol Clube** (Brazil), **Clube Nautico Capibaribe** (Brazil) and **Cruzados SADP** (SNSE:CRUZADOS) (Chile) all have PDFNs that are above the 0.5344% cut-off, meaning they are mapped to high yield credit scores. One of the overarching reasons why the scores are lower than those of the other clubs in Table 2 is the

[16] Source: Forbes Magazine, December 2015
[17] http://www.fcbarcelona.com/final-champions-berlin-2015
[18] This report is produced by S&P Capital IQ and is completely separate from Standard & Poor's Ratings Services

fact that Chile and Brazil have lower country risk scores of 'bbb' and 'a-', respectively, compared to the countries where the European clubs are based. This increases the PDFN percentage and lowers the mapped credit score. Within this model, country risk scores are based on a set of macro- and socio-economic factors that capture the level of corruption, ease of doing business, income equality, human development and global competitiveness in a particular country. This risk is particularly relevant for companies operating in emerging markets.[19]

The Future of the Finance of Football

So what do these figures tell us about the financial state of modern football? We know that football clubs have evolved from sporting institutions to business ones and, although the game of football has remained relatively constant over the last century, the business of football has changed dramatically.

The financial health of a modern football club is as much a consideration for its owners and investors as its performance on the pitch – more so, the disgruntled fans of some clubs would argue. A particularly interesting and relevant development in the idea of football as business is the aforementioned FFP. While the ruling was brought in as a sporting one – to ensure a level or parity between the haves and the have-nots of football – its introduction is nonetheless significant. It represents, effectively, the first piece of regulation designed to address football as a financial industry. The laws of the game are now dictated by the accountants, as much as the referees.

As we highlighted in our first report, one of the reasons behind composing this research series was to **explore football's potential and emergence as an investment sector in its own right**. FFP is one of many recent developments that have brought the financials of football clubs to the forefront.

This transparency of financial information has allowed football to evolve as a financial sector. Since our inaugural report in October last year, we have seen developments on that front. For example, only recently the new London Sport Exchange Ltd.[20], a $750 million platform/market that matches sports teams with hedge funds and banks, was launched. The platform provides a means by which football clubs can access the capital markets, similarly to how other corporations do, in a manner previously unavailable to them. By accessing the capital markets, professional sports clubs and athletes can potentially secure future revenue through channels such as media rights, image rights, sponsorship and commercial revenues.

Looking ahead, and as an extension of this, could we see the roll-out of a Premier League Investment Index through which consumers could follow their teams in spirit and financially? Food for thought, although of course it's far too early to say with any certainty what is going to happen.

What we do know is that the English Premier League sold its broadcasting rights to its games to Sky and BT for a record £5.136 billion in 2015. That is 71% above 2013-2016 session rights and around £10 million per game.[21] This revenue boost is certain to have a favourable impact on the finances of English clubs, who may steal a march on their European rivals.

[19] S&P Capital IQ's Country Risk Score is reflective of what it is like to do business in the country and separate from Standard & Poor's Sovereign Credit Ratings. For more details: https://www.capitaliq.com/media/151097-Country_risk_and_sovereign_risk.pdf
[20] http://www.londonsport.exchange/how/
[21] Source: http://www.bbc.com/news/business-31379128

We will explore these themes, and more, in the next edition of the Credit Football League, through which we aim to keep you fully up to speed with football's evolving finances, and who is winning and losing in terms of credit and financial health.

Behind the Analysis

The data, credit risk metrics and tools used to complete this analysis are available via Credit Analytics on the S&P Capital IQ platform.

Request a Trial

Request your complimentary trial of the S&P Capital IQ platform for access to these credit risk metrics, fundamental financial data and more for public and private companies globally.

To request a trial, visit **www.spcapitaliq-credit.com/request-trial** or contact us at **emea-marketing@spcapitaliq.com** for more information.

About S&P Capital IQ

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