



COVID-19 Financial Impact Analysis

**Summary Report for
Sport New Zealand**

16 May 2020

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Julie Morrison
General Manager, Strategy, Policy & Corporate
Sport New Zealand
(by email)

16 May 2020

Dear Julie

Evaluating the financial impact of COVID-19

I'm pleased to enclosed a summary report that presents our key findings.

Kind regards

Istvan Csorogi
Director

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Glossary

\$'bn	NZD billion
\$'m	NZD million
GDP	Gross Domestic Product
HPSNZ	High Performance Sport New Zealand
NRO	National Recreation Organisation
NSO	National Sport Organisations
\$'000s	NZD thousands
Q	Quarter
RST	Regional Sports Trust
SNZ	Sport New Zealand
the Sector	New Zealand play, active recreation and sport sector
WSNZ	Water Safety New Zealand

**Proactively released under Sport NZ's
commitment to Open Government**

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Key findings

Purpose and approach

Purpose

Sport New Zealand ("SNZ") commissioned KPMG to evaluate the financial impact of COVID-19 on the New Zealand play, active recreation and sport sector ("the Sector"). This analysis focuses on the sports identified by SNZ as most highly impacted immediately with government and international decisions to date.

This report is a summary of KPMG's analysis which concluded on 29 April and does not consider events and information after that date.

Approach

This paper focuses on SNZ's ten sports that are expected to have the highest immediate financial exposure (referred as "Phase 1" sports):

- Rugby
- Cricket
- Netball
- Hockey
- Rugby League
- Football
- Tennis
- Basketball
- Baseball
- Snow sports

We have also reviewed two private professional sports teams:

- Wellington Phoenix
- New Zealand Breakers

We have requested financial projections from the New Zealand Warriors, however we did not receive a response.

The remaining SNZ partners ("Phase 2") are considered at a higher level as group in this paper.

Our work started on 18 March and included:

1. Establishing an analytical framework with SNZ
 - Confirming the Phase 1 and Phase 2 partners.
 - Establishing the key assumptions and information requirements.
2. Stakeholder engagement
 - Communicating the purpose of the study and information requests to partners.
 - Clarifying questions, collating submissions.
3. Development of a financial model and reporting
 - Analysing submissions in a financial model.
 - Producing this report.

Phase 1

We requested information from the national body of each sport, through a structured template, capturing revenue, cost and balance sheet information anticipated pre COVID-19, and the latest (post COVID-19) revenue and cost quarterly forecast up to June 2021.

We aimed to assess the financial impacts for calendar year 2020 as we received the most complete information across partners for this period. Where the forecasts provided did not fully cover this period we used the nearest 12 months' information as an estimate for 2020.

The partner submissions were cross referenced with information from SNZ on funding provided by SNZ and gaming and betting income. This was complemented with KPMG secondary research on the structure and historical financials of each sport.

Additional sensitivity analysis was carried out to establish low and high range impacts using top-down assumptions agreed with SNZ.

We aimed to capture a consolidated view of each sport from the national body to club level. However club level information has generally been unavailable. We have noted the source of information, scope of analysis and key assumptions in the main body of this report.

Phase 2

The research for Phase 2 partners was conducted at a higher level, using a less detailed financial impacts template, and through emails and phone calls with SNZ partners.

Sector overview

Structure

The Sector consists of public, not-for-profit and private organisations, at local, regional and national levels. It includes more than 200 entities and c.15,000 clubs.²

SNZ is the primary national agency that oversees the Sector, established by the Sport and Recreation New Zealand Act 2002. SNZ fully owns High Performance Sport New Zealand (HPSNZ), and work with National Sport Organisations (“NSOs”), National Recreation Organisations (“NROs”) and Regional Sports Trusts (“RSTs”). SNZ’s key partner relationships are summarised in the chart below.

The Sector receives government investment through Crown funding (\$91.5m in 2019), Lotto funding (\$59.6m) and other sources (\$4.3m). Crown funding is allocated across the Sport and Recreation, and High Performance system (\$25.1m and \$66.4m respectively). Lotto funding is allocated to SNZ, HPSNZ and WSNZ (\$55.0m, \$2.0m and \$2.6m respectively). A further source of funding is Class 4 gaming revenue, which is c.\$170.0m per annum.

Social and economic contribution

The Sector is an integral part of the New Zealand way of life. It promotes health and wellbeing. It is ingrained in New Zealand culture, with 83% of New Zealanders saying that it is part of their national identity and national teams install a sense of pride in the country.¹

As New Zealand sport has good visibility internationally, the sector is a key driver for tourism, and has important links with the New Zealand education and healthcare sectors.

In 2016, the Sector contributed c.\$2.3bn to the New Zealand economy (~1% of GDP). In years when New Zealand hosted international events such as the Lions Tour, Cricket World Cup and the Rugby World Cup, this has been significantly higher.²

The Sector employs c.35,000 people, 1.5% of New Zealand’s workforce. On a business as usual protective, this is set to rise to 72,000 by 2026.³

Sport New Zealand’s sector relationships



Green boxes above are those under review as Phase 1 partners. Three in-scope organisations (Phoenix, Warriors and Breakers) are not shown in this diagram as they are privately owned teams.

1. Sport NZ Value of Sport, 2018.
 2. Skills Active Workforce Scan 2018, Sport and Community recreation.
 3. Sports and recreation sector workforce, Sport New Zealand, NZRA, Skills Active, 2013

Financial impact of COVID-19 (1/4)

Revenue

The Phase 1 partners reviewed in this report forecast \$468m revenue for 2020 pre COVID-19; including:

- Commercial income: sponsorship, broadcasting, match day and events revenue (from providing a 'sport product')
- Membership, registration, affiliation (income from players and teams);
- SNZ investment (including Crown funding and Lottery allocations)
- Grants, donations: revenue from 'non-exchange' transactions including betting and gaming distributions;
- Other income.

Phase 1 partners have generally provided financial information at NSO level, except four partners who also provided regional data. Therefore the revenue summary below is understated. For example, it provides partial visibility of membership income which is generated at club level. Appendix B includes an estimate of membership income based on Sport NZ information. Appendix B also provides further breakdown of SNZ's investment.

COVID-19 is projected by partners to reduced overall revenue by 50% to 57%, in a 3 month and 6 month scenario, as follows.

Summary of the revenue impact of COVID-19 on Phase 1 sports								
\$'m	3-month impact				6-month impact			
	Pre-COVID	Post-COVID	Delta		Pre-COVID	Post-COVID	Delta	
Commercial income	328.1	152.2	(175.9)	(54%)	328.1	133.6	(194.5)	(59%)
Membership/ other income from players & teams	26.0	15.8	(10.1)	(39%)	26.0	8.1	(17.8)	(69%)
SNZ investment	20.9	13.7	(7.2)	(34%)	20.9	12.8	(8.2)	(39%)
Grants and donations	50.4	33.1	(17.4)	(34%)	50.4	30.7	(19.7)	(39%)
Other	42.5	20.7	(21.8)	(51%)	42.5	15.6	(26.9)	(63%)
Total	467.9	235.5	(232.4)	(50%)	467.9	200.9	(267.0)	(57%)

Source: Phase 1 partner projections.

Note: The above financials are annualised.

Key revenue exposures were broadly consistent across the sports, including:

- Broadcasting and sponsorship revenue lost due to cancellation of games (with significant impact on rugby, netball and the privately owned, professional teams in particular)
- Reduction in membership fees, which is especially apparent in seasonal sports that may have to cancel their entire 2020 season (eg football, rugby league and netball).
- Significant loss of betting revenue due to the cancellation of domestic and international competitions, with major impact on baseball, football, rugby league, tennis and community sport overall.
- Loss of Class 4 gaming revenue, due to the shutdown of hospitality venues, with similar impact to betting revenue losses.
- For some sports, the implications have already been felt, for example, Netball Mainland has entered voluntary liquidation.
- Some sports did not provide forecast for 6-month disruption, stating that they would not be able to continue in that case.

Financial impact of COVID-19 (2/4)

Costs

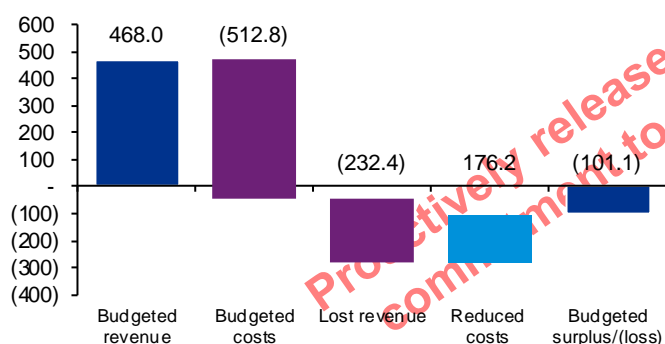
The sports reviewed in this report forecast \$513m total costs for 2020 pre COVID-19. They have assumed a range of cost savings to respond to the expected revenue losses, such as:

- Reduction in staff salaries (20% - 50% decrease). Most sports have applied for the government's wage subsidy scheme to moderate these reductions.
- Decrease in player salaries, which is more material in case of high profile professional teams.
- Lower costs due to cancelled events; however some sports noted that they cannot materially reduce these costs as they are run by volunteers (eg hockey at the association level and basketball).
- Reduction in high performance programme costs such as training academies (eg the Phoenix, rugby, basketball and hockey).

Pre COVID-19 the combined annual loss of the sports reviewed was projected to be c.\$45m. Post COVID-19 this is expected to increase to \$101m and \$116m under the 3 and 6 months disruption scenarios respectively. Where a sport has provided a forecast only for the 3 month case, we used this for the 6 month case as well for the purpose of the chart below.

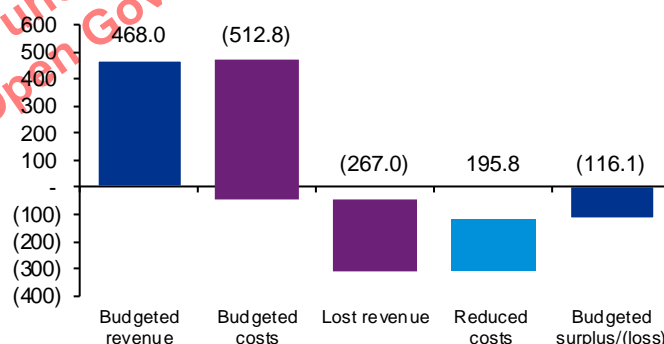
The combined cost mitigations range from \$176m to \$196m.

3-month combined impact (\$m)



Source: Phase 1 sports financial input sheets.
Note: the above financials are annualised.

6-month combined impact (\$m)



Source: Phase 1 sports financial input sheets.
Note: the above financials are annualised.

The above bridges show the projected changes in revenue and costs as submitted by sport partners. We have carried out a sensitivity analysis to assess a high and low range for revenue and cost impacts. This was based on the sports' baseline budgets (pre COVID-19) and a set of 'top-down' assumptions agreed with Sport New Zealand (summarised in Appendix A) in order to cross check the sport partners' submissions and consider the overall reasonableness of their assumptions.

This shows that in aggregate the sport partners have assumed that both their revenue losses and cost savings will be at the higher-end of the range calculated with the top-down assumptions.

Impact range						
\$'m	3-month impact			6-month impact		
	Low	As provided	High	Low	As provided	High
Lost revenue	150.8	232.4	255.4	172.1	267.0	281.2
Reduced costs	111.6	176.2	225.9	136.5	195.8	245.8

Note: the above financials are annualised.

Financial impact of COVID-19 (3/4)

The table below provides a breakdown of the financial impacts and projected annual loss by sport as submitted by partners.

Summary of the financial impact of COVID-19 on Phase 1 sports												
\$'m	Pre-COVID		3-month impact					6-month impact				
	Revenue	Costs	Total change			% change		Total change			% change	
			Lost revenue	Saved costs	Net loss/ (Surplus)	Lost revenue	Saved costs	Lost revenue	Saved costs	Net loss/ (Surplus)	Lost revenue	Saved costs
Rugby	241.3	285.4	164.6	132.4	76.3	68%	46%	164.6	132.4	76.3	68%	46%
Netball	46.7	44.7	22.3	15.5	4.7	48%	35%	37.0	19.6	15.4	79%	44%
Hockey	28.2	27.8	12.2	9.0	2.8	43%	33%	18.3	12.9	5.0	65%	47%
Football	27.4	28.3	9.2	5.7	4.4	34%	20%	15.8	10.9	5.9	58%	38%
Cricket	86.6	86.8	7.7	4.2	3.7	9%	5%	13.9	8.5	5.7	16%	10%
Breakers	5.8	7.0	3.9	1.4	3.7	68%	20%	4.7	3.4	2.5	80%	48%
Rugby League	8.1	8.2	3.6	3.2	0.5	44%	39%	3.6	3.2	0.5	44%	39%
Phoenix	7.6	8.6	3.5	1.3	3.3	46%	15%	3.5	1.3	3.3	46%	15%
Basketball	6.9	6.8	3.0	2.5	0.4	43%	37%	3.0	2.5	0.4	43%	37%
Tennis	4.0	3.9	1.5	0.8	0.5	37%	22%	1.7	1.1	0.4	42%	28%
Snowsports	4.5	4.4	0.6	0.0	0.5	14%	1%	0.6	0.0	0.5	14%	1%
Baseball	0.8	0.8	0.2	-	0.3	30%	-%	0.3	-	0.3	38%	-%
Total	468.0	512.8	232.4	176.2	101.1	50%	34%	267.0	195.8	116.1	57%	38%

Source: Phase 1 partner projections.

Note: Rugby, Phoenix and basketball provided only one scenario, therefore the 3-month and 6-month impacts are the same. The above financials are annualised.

In summary:

- All sports reviewed expect a net loss
- The largest absolute \$ net losses are expected by rugby, netball and football.
- The largest % revenue losses (above 50%) are expected by rugby and the Breakers in the 3 month disruption case, and also netball, hockey and rugby league in the 6 month disruption case
- The level of quarterly revenue and cost impacts vary based on the seasonality of the sports (typically peak in Q2 or Q3 2020)

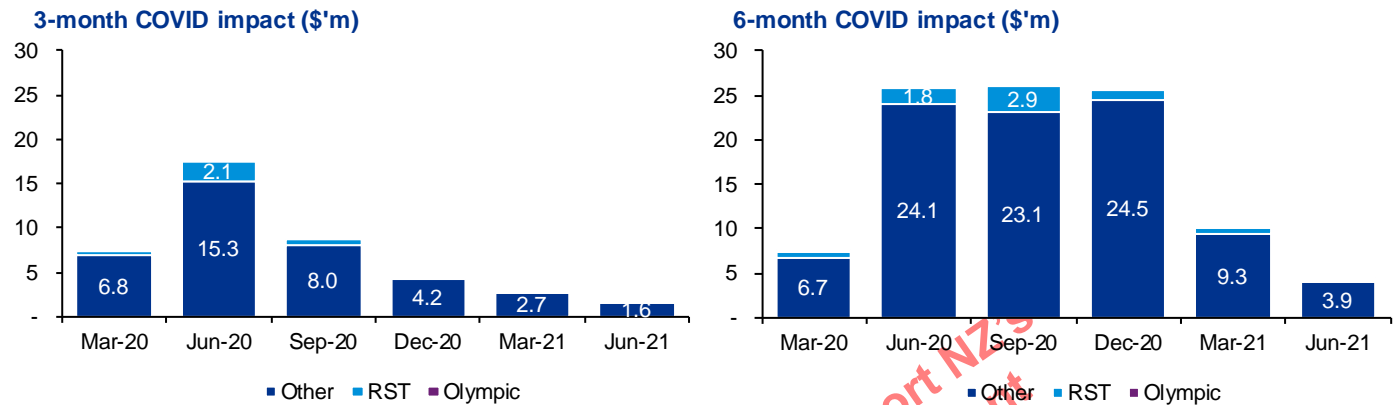
Phase 2 partners

As well as the ten sports discussed above, a further 79 organisations receive partnership investment from SNZ. Of those that were contacted by SNZ, we received responses from 13 RSTs, and the following sport partners and Olympic organisations:

- Alpine
- Athletics
- Badminton
- Bowls
- Croquet
- Equestrian
- Golf
- Halberg Foundation
- Ice speed skating
- Indoor bowls
- Motorsports
- Orienteering
- Outdoor Instructors Association
- Physical Education NZ
- Petanque
- Polocrosse
- School Sport NZ
- Shooting
- Special Olympics
- Speedway
- Surfing
- Surf Life Saving NZ
- Swimming
- Synchronised swimming
- Table tennis
- Triathlon
- Waterpolo
- Yachting
- Paralympics
- Squash

Financial impact of COVID-19 (4/4)

The aggregate impact of COVID-19 on the 13 RSTs, 28 sport partners and 2 Olympic organisations that provided information is summarised below. The net impact with a 3 month disruption is \$43m between March 2020 and June 2021, increasing to \$100m for a 6 month disruption.



Source: Phase 2 sports financial input sheets.

Key revenue exposures

- The majority of respondents cited membership fees for the upcoming season as a key exposure.
- Other revenue stream that expect to be impacted included grants and other donations, partly due to the decrease in betting and Class 4 gaming revenues.
- Other exposures included merchandise, educational courses, events (sports and fundraising) and facilities rental income.

Key cost mitigations

- The largest reduction in costs is projected from staff salaries. Some partners indicated that they would be applying for the government wage subsidy, and others noted that due to the cancellation of events and closure of facilities, a number of staff will no longer be required.
- There are also costs savings from overseas events being cancelled.

A

Top-down assumptions

Top-down assumptions

Top-down assumption summary								
Revenue item	Case	Overall assumption (% of baseline)					Sport specific	Rationale / comment
		P0	Q1	Q2	Q3	Q4+		
Affiliation, Membership, Subscription Fees	High	50%	90%	100%	100%	100%	Applies to the in-season period for each sport	Some membership fees are pre-paid and retained as donations during P0. Thereafter, revenue recovers with a delay as members/clubs take time to readjust.
	Med	30%	70%	95%	100%	100%		
	Low	0%	30%	50%	70%	100%		
Programmes, Events, Competitions		Same as Affiliation						
Commercial, Sponsorship	High	20%	80%	90%	100%	100%	Applies to the in-season period for each sport	Assumes this income relies on 1) the availability of events and 2) discretionary spend by sponsors which could be impacted for a longer period.
	Med	10%	70%	80%	90%	100%		
	Low	0%	50%	60%	70%	80%		
Sport Betting, Broadcasting	High	20%	60%	70%	100%		Applies to the in-season period for each sport. The speed of 'bounce back' will depend on each sport's reliance on international competitions.	Both income streams are reliant on sport 'product' to sell. Assume that international leagues will not back for a year.
	Med	10%	50%	70%	80%	90%		
	Low	0%	30%	50%	60%	80%		
Gaming, Class 4	High	0%	40%	80%	100%	100%	Applies regardless of season to each sport	Longer term impact linked to reduced availability and footfall in licenced premises
	Med	0%	40%	60%	80%	100%		
	Low	0%	20%	40%	60%	80%		
Grants, Lottery	High	100%	100%	100%	100%	100%		Grants are less affected - considered more akin to donations. Lottery has been severely impacted however no overall impact as Sport NZ distributes Lottery funds to sports and confirmed that Sport NZ investment in partners will not change.
	Med	80%	90%	100%	100%	100%		
	Low	70%	80%	100%	100%	100%		
Interest		50%	0%	0%	50%	100%		Deposits depleting during P0
Other		100%	100%	100%	100%	100%		
Cost item								
Player salaries	High	100%	100%	100%	100%	100%	- Less govt wage subsidy	Some short term reduction is assumed possible; balanced with maintaining the sustainability of the sport
	Med	80%	100%	100%	100%	100%		
	Low	60%	100%	100%	100%	100%		
Team operations, Sport delivery, High performance		Same as players						- Less govt wage subsidy
Programmes, Events, Competitions, Match Day		*					Scale in line with programmes/events revenue	Broadly, assumes event cost can be avoided if events are not held
Marketing/ commercial		*					Scale in line with commercial revenue	Broadly, assumes commercial costs can be avoided if revenue is not earned
Grants	High	100%	100%	100%	100%	100%		Not directly correlated with events; wide range of cost outcomes possible depending on the nature of the grant
	Med	50%	100%	100%	100%	100%		
	Low	0%	50%	100%	100%	100%		
Community & participation		Same as players						- Less govt wage subsidy
Governance & admin		Same as players						- Less govt wage subsidy
Interest		100%	100%	100%	100%	100%		
Depreciation & amortisation		100%	100%	100%	100%	100%		
Other		100%	100%	100%	100%	100%		

Note: P0 - directly disrupted period (3 or 6 months depending on scenario). Qn - Nth quarter after the disrupted period.



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B

Phase 1 sports membership and investment

D - Phase 1 sports membership and investment

Summary of Phase 1 sports' membership (FY15-FY19) and estimated membership fees (FY19)

Historical sports membership								
	2014-15	2015-16	2016-17	2017-18	2018-19	Average members	Average fee per member (\$)	Total Revenue (\$)
Tamariki and Rangatahi	469,301	489,104	516,984	511,541	537,248	504,836	100	50,483,560
Adult	170,625	172,266	174,070	171,651	202,274	178,177	200	35,635,440
Total	639,926	661,370	691,054	683,192	739,522	683,013	126	86,119,000

Source: Sport NZ

Sport NZ investment in Phase 1 sports FY19

Sport NZ investment into Phase 1 sports							
\$'000	Athlete Support	High Performance	Scholarships	Business Improvements	Community Sport	Other	Total FY19
Baseball NZ	-	-	-	-	20	-	20
Basketball NZ	-	150	5	8	590	-	753
Hockey NZ	890	2,151	357	100	540	633	4,671
Netball NZ	498	1,550	252	58	750	-	3,108
NZ Cricket	-	500	7	9	400	-	916
NZ Football	-	500	67	154	830	-	1,551
NZ Rugby League	-	400	8	47	660	-	1,115
NZ Rugby Union	189	2,200	83	-	550	-	3,022
NZ Tennis	-	-	25	-	400	-	425
Snow Sports NZ	376	2,260	258	-	75	391	3,360
Total	1,953	9,711	1,062	376	4,815	1,024	18,941

Source: Sport NZ

Note: Excludes \$2m one-off investment. SNZ's total FY19 investment in Phase 1 sports was \$20.9m.

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