ARSENAL HOLDINGS PLC
Commentary on INTERIM ACCOUNTS for six months ending 30 November 2005
by Nigel Phillips

Thierry Henry celebrating his record breaking goal in Prague adorns the front cover of the interim accounts. A very apt choice given how the “will he won’t he” sign saga has provided an uncomfortable backdrop to this much discussed “transitional” season!

The headline numbers show ***total revenue*** up to £57m from £49.3m but with ***profit before tax*** significantly higher at £14.7m (£2.7m). This profit was almost entirely due to the profit on player sales (mainly Patrick Vieira) which contributed £13.5m (£0.8m) to profit. Whilst the property development business turned a profit of £2m (loss of £600k) ***the football business, excluding player sales, lost £1m in the six months.***

Arsenal’s income comprised four separately identified revenue streams, namely:

Broadcasting	£18.4m (£20.1m)	35% of football revenue
Match day	£15.6m (£14.3m)	30%
Commercial	£11.9m (£8.8m)	23%
Retail	£6.5m (£5.2m)	12%

The £3m increase in commercial revenue was substantially due to an “additional royalty payment from Nike triggered by the level of worldwide sales of Arsenal branded merchandise.”

The costs of running Arsenal increased by 21% from £46.7m to £56.4m due to:

- An increase in player wages due to various improved and extended contracts
- Highbury Square marketing costs
- Increased operational costs related to the stadium move
- Increased costs of higher retail income

Wages of course are the Club’s main expense and whilst these are not separately disclosed in the interim accounts I estimate that wages to football turnover will have remained at about 60%.

Cash balances were substantial at £53m but were down from the £72m at the financial year end (31.5.05). £24m of this cash relates to advance box and seat sales for the new stadium. You may recall that Arsenal received £30m from ITV plc in March 2005 when they increased its shareholding from 5% to 9.99%.

During the six months under review Arsenal spent £54m on the new stadium. This came from new drawings on the stadium debt facilities, some from advance ticket sales and the rest from payments received from Nike. Arsenal is also building a new office block near the new stadium at the cost of £10m to cater for their employees. The ***total gross debt*** now stands at £263m, up from £239m at the financial year end. Interest paid was £9m (£7m).

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These observations and comments seek to be objective and are a personal commentary by the author and do not represent an official statement from the Arsenal Supporters Trust.

It has been known for some time that Arsenal are working to refinance the 11 year stadium loan into a 25 year facility secured against the revenues of the new stadium. Whilst it is sensible to increase the time to repay the current loan and also to lower the actual interest rate payable ***Arsenal have disclosed that if they are to conclude the refinancing it will cost a staggering £27m in exceptional charges.*** This charge relates to costs associated with breaking the interest rate agreements currently in place to cap the interest rate payable, a redemption fee payable to existing lenders and also writing off costs associated with putting the original loan in place. Whilst not individually disclosed I estimate these to be a £17m cash charge for breaking the interest rate swap, a £3m cash redemption fee on the existing loan and a £7m accounting charge for the unamortized costs of putting the original loan in place. ***A £20m cash outflow*** is a high cost to pay for putting the stadium debt on a better basis and no doubt will attract greater comment if and when the refinancing takes place.

The report carries an upbeat statement on the progress at the Emirates Stadium and seat sales. It is reiterated that the 150 executive boxes are all reserved and over 90% of all Club seats have been sold. I am sure you will all have seen the many adverts in the national press as Arsenal try to sell the remaining 10%. Whilst the actual number of unsold seats is low at about 600 these unsold high yielding seats equate to about the income generated from 3,000 lower tier seats.

The UK launch of the 711 apartments to be built on Highbury was in October 2005 and sales visits have been made to the Far East and Dublin. "Sales are progressing rapidly" although, not surprisingly, no details are provided.

Whilst not included in the accounts as it occurred after the period end, player ***trading in the January 2006 transfer window*** (Walcott (£5m down rising to a maximum of £12m), Adebayor, Diaby, Poom) cost £11.8m rising to a maximum of £20.9m dependant on appearances. The sales of Bentley, Owuse-Abeyie and Stack brought in £3.3m, rising to an undisclosed amount also subject to appearances.

The November appointment of the two new non-executive directors, Sir Chips Keswick and Lord Harris, was surprisingly not mentioned in the report.

Summary – "Steady as she goes" pretty well sums up the penultimate six (financial) months at Highbury. Income streams are virtually "maxed out" at present. The refinancing of the new stadium loans are clearly dominating much executive time at Arsenal. The fact that they are willing to incur a £27m charge for doing so indicates the sheer burden of the current debt service obligations. Successfully completing this refinancing is vital and the delays in finalising this are a small concern.

We will have to get used to having £200m+ of debt for a while but who can buy a new house without a mortgage!

The success of the Highbury Square development is hopefully the safety net for these debt levels. Whilst a six year project, being developed by Arsenal themselves, the net receipts could be £100m and above. This will all depend upon the UK property market over the next few years!

As an Arsenal Supporters Trust member if you have any comments on the financial accounts please get in contact with us at info@arsenaltrust.org or on 07709 718545.

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