ARSENAL HOLDINGS PLC
Commentary on INTERIM ACCOUNTS for six months ending 30 November 2006
by Nigel Phillips

So this is it! Having anticipated the stadium move for so long and heard about the transformational effect the move would have on Arsenal's ability to compete at the "top end" of European football, the six month figures announced in late February is the first opportunity to see what is actually happening to the finances of the Club.

The headline numbers show ***total revenue*** up to £100.8m from £57m but with a ***loss for the period*** of £6.2m (profit of £9.6m). These figures are distorted heavily by various one off items such as £7.8m profit (£2m profit) on property development and a significant exceptional finance charge of £21.4m solely related to the costs of the stadium refinancing that took place in July 2006. Stripping out these one offs ***the football business, excluding player sales and the cost of writing down the squad (basically depreciation of intangible assets – a non cash cost), made a £1.8m profit in the six months (£1m loss in previous period).***

Arsenal's football income increased to £76.9m from £52.5m and comprised four separately identified revenue streams, namely:

Match day	£38.0m* (£15.6m)	49%	(30%) of football revenue
Broadcasting	£17.8m (£18.4m)	23%	(35%) of football revenue
Commercial	£14.1m (£11.9m)	18%	(23%) of football revenue
Retail	£7.0m (£6.5m)	9%	(12%) of football revenue

* 11 home games vs. 9 home games in comparable period

Unsurprisingly with the increased capacity and large number of 'premium' priced seats the 'gate and other match day revenues' now accounts for about half of the total football turnover. It is declared that each home game delivers £2.8m of ticket revenues (more per game than the stadium naming rights for one season!)

As the revenues have grown so have the costs. ***The costs of running Arsenal increased by 45% from £48.4m to £70.2m due to:***

- An increase in player wages of £12.3m due to various improved and extended contracts
- Increased operational costs related to the new stadium

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 fallen slightly to about 55%.

Cash balances remained high at an unchanged £53m but of this £32.7m (£8.2m) can not be accessed as it is tied up in the security structure related to the stadium debt. Much of this cash is likely to have been generated from advance sales on the multi-year box and Club seat sales.

During the six months under review Arsenal spent £38m (£54m) on completing the stadium. The ***total gross debt*** now stands at £327m (£263m) and comprised the stadium debt of £260m, Highbury

Continued overleaf

Square development debt of £46m and debenture subscriptions (the A, B, C and D bonds held by supporters) of £25m. Interest paid was £17m (£9m).

In the absence of any note to the contrary it would appear that there are no outstandings against the £40m "player trading loan" or the £30m "general overdraft" (facility details given at the AGM in October 2006).

"Accruals and deferred income" (revenue received in advance of the accounting period to which it relates – essentially Club, box and commercial monies) ***have soared to £164m***, double the level it was only 18 months ago (£82m as at 31st May 2005). Of this £68m relates to monies not due for at least 12 months where this figure was £2.4m at 31st May 2004.

The work on the Highbury redevelopment is commented on positively with sales of over 90% of those units released for sale. From previously quoted figures it appears that up to 550 of the 704 units may have been sold. The total redevelopment loan facility is believed to be approx. £140m and the freehold value of Highbury that Arsenal has injected into the development is £23.1m. The cash profit generated on completion (late 2009) is difficult to estimate but should at least be £75m and potentially much more.

The figures related to "player trading" remain difficult to reconcile with what is generally disclosed when transfers are concluded. During the six months under review it appears that a net £7.5m (£850k expenditure) was spent on "player registrations." Players "in" were Rosicky, Song (transfer completed), Gallas, Baptista and Denilson while departures were Pires, Campbell, Cole, Reyes, Cygan and Ryan Smith. There was no mention of the Baptista / Reyes loan arrangements. The accounts also show that Arsenal have a ***maximum of £19.7m (£8.2m) still to pay in transfer fees*** based on players achieving a specified number of appearances and other unspecified events. Of this amount £10.5m (£3.9m) is described as "probable" and £9.2m (£4.3m) has not yet been provided for. The Theo Walcott "potential" clearly accounts for much of this.

Summary **-** Match day revenue is impressive however "football profit" excluding player trading was a modest £1.8m. Wages continue to grow and will presumably increase further from 2007/08 onwards when the additional £15m pa plus of extra broadcasting revenue is received. The early elimination from the Champions League is likely to have "cost" Arsenal £15m in comparison to the fabulous run to Paris in 2005/06. The successful completion and sale of the Highbury Square development is of course very important to future debt levels and debt service costs. The annual interest cost (not loan repayments) on the £50m floating rate loan, which maybe repaid from the Highbury proceeds, is £3.3m.

However the new stadium still has to prove that it is capable of delivering the spending power in the near term that has been promised. One has to remember that Arsenal have pumped about £100m of cash into the new ground as well as the £260m of debt. This cash has come from the additional ITV share purchase (£30m in March 2005) as well as the accelerated receipt of money from commercial partners like Emirates, Nike and Delaware North (catering firm) as well as the multi-year box and Club seat sales. Much of this cash is tied up in the security structure of the debt financing and it is a matter of opinion as to the extent that Arsene Wenger can access the new revenues for player acquistion. There is always the £40m player trading loan facility to call on! To what extent these issues will play a part in Arsene's contract discussions (current contract expiring June 2008) one can only speculate.

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

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.