Will Arsenal follow the Glazer model?
Nigel Phillips outlines a takeover model not welcome at the Emirates

May 2008. Will Arsenal have won anything, and who will own the club?

These are the two questions most on our minds as we look forward to the new season. We'll leave the football challenge to Arsene.

On ownership, we all have a role to play. So let's start with the most crucial question, who can afford to buy Arsenal and how would they pay for it?

The short answer is only somebody who is extremely wealthy or has credit facilities sufficiently robust for the banks to lend them upwards of £500 million, which is not far short of Arsenal's current market valuation. To this must be added the £260 million of debt the club is already carrying from building the Emirates Stadium and any working capital a new owner might want to inject.

This is a considerable sum and would need somebody with either very deep pockets or who is prepared to take on a huge amount of debt.

Here's the position the Trust has been reiterating all Summer:

> **"The Arsenal Supporters' Trust has studied carefully the financial situation at Manchester United following their takeover by Malcolm Glazer. We are clear that we do not want a similar scenario repeated at Arsenal. The level of borrowing at Manchester United is staggering. It cannot be sustainable for a club to have debts of £660million and to be extracting so much profit for repayments. The current borrowing at Arsenal has been sensibly placed against income earning assets such as the Emirates stadium.**
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> **"The AST believes that football clubs need stability in their ownership structures. Our preference is for investment by shareholders rather than the taking out of debt. We would judge any possible change in ownership on these criteria. We would not support a takeover that placed the club into severe acquisition led debt".**

So why do we say this when Manchester United FC (MUFC) have just won the title and have signed four exciting players at a combined cost of over £40m?

It is now just over two years since the Glazers took control of MUFC. Previously debt free, the club was bought for £790m and now has about £660m of debt secured by the assets and future earnings of the Club.

MUFC has £575m of "senior" debt facilities (this is banker speak for being first in the queue for repayment) in place arranged by JP Morgan and also £138m PIK Loan (payment in kind) lent by a variety of hedge funds. The latter loan has interest "rolled up". This means it is not being paid off, and so is accumulating with interest accruing at 14.25% pa.

Most of the "principal" loan (the money actually borrowed as opposed to the interest charged) is repayable between 2013-2016. The club's current five-year business plan has steep ticket price increases at its heart – required to pay the interest charges (there was an average 12.5% increase across the Board for this season).

The plan was for increases of 2.5% this summer (in fact actual increases were between 8-14%) and then rises at 5% per annum for four summers before a "one-time increase of 9.5% for all categories of seats" in the summer or 2012.

All of these increases are necessary just to repay the debts which only arose in the first place due to the takeover.

Manchester United's profit (to 30 June 2006) was £30m **before** any debt service. After debt service the wider business reported a **loss** of £138m. Interest of £90m was paid. Even after the refinancing, the annual interest repayable is £60m, around 85% of total match day revenue (and the PIK Loan is not being serviced - this will have reached approximately £350m at maturity in 2017!).

New player purchases are funded from within these debt facilities – all part of the "speculate to accumulate" philosophy.

So do Arsenal need to borrow to spend?

Arsene Wenger has money to spend

For the first time in many seasons, the AST believes financial restrictions are not impacting on the manager's ability to compete in the transfer market.

One can speculate as to whether the rapid 'dismantling' of the *Invincibles* and the on-field "slippage" [12, 24 and 21 points adrift of the last three title winners] has been the result of unfortunate footballing decisions, or the impact of tight financial discipline needed to get the stadium funded on the squad's size and quality.

However with 12 months of the new stadium behind the club with the associated uplift in match day revenues, this summer's inflow of cash through the sales and saving on wages of Thierry and Freddie, the prospect of the additional three years of TV revenues (an estimated £15m extra per annum as part of the new tv deals) and the Highbury Square development profits (£100m?) due in two years time we believe that Arsene Wenger has the financial capability to compete in the transfer market.

The fact that we appear to choose not to is maybe more to do with the manager's team building philosophy.

As things currently stand, Arsenal are likely to have one of the lowest wages to turnover ratio of any club in the Premier League, coming in at a ratio of less than 50%.

The AST will be able to analyse the financial results for the past season when they are released in mid September. Our analysis will be sent to all Trust members.

The date of the Arsenal Holdings Annual General Meeting will also be announced at this time and is likely to be in the second half of October. As usual the Trust will provide access to this AGM for as many AST members as possible.

Nigel Phillips is a Board member of the Arsenal Supporters' Trust