
Money Issues for Arsenal

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Arsenal's board did the hard work of taking on debt and building its money-spinning new stadium. Now it has to stop would-be new owners walking off with the spoils.

On 17 acres in North London stands the reason that the last of the Big Four English Premier League soccer clubs still in the hands of its longstanding owners has an American and a Russian billionaire swarming around it.

Emirates Stadium, completed for the Arsenal team in 2006 at a cost of \$860 million, is a gold mine. During the 2006--07 season Arsenal's match-day revenue (tickets, merchandise, concessions and corporate hospitality sales) was \$155 million versus \$82 million during the team's last season at Highbury. At \$6 million a game, the Gunners, nicknamed for their roots in a team of 19th-century munitions workers, even topped the \$5 million a game Manchester United generated from Old Trafford, the only larger stadium in the Premiership. Arsenal has 41,000 fans on a waiting list to buy season tickets that run between \$1,760 and \$3,640, the most among Premiership teams. In addition, in 2004 Arsenal struck a \$160 million, 15-year stadium-naming and shirt-sponsorship deal with the airline Emirates that began in 2006.

Arsenal posted \$77 million in operating income (earnings before interest, taxes, depreciation and amortization) on \$329 million in revenue, making it the fourth most profitable soccer team in the world, behind Real Madrid (\$112 million), Manchester United (\$111 million) and Barcelona (\$92 million).

The conversion of the old stadium site into 724 luxury apartments opening in 2009 and the redevelopment of property bought around the new stadium is helping the team pay down debt. We estimate Arsenal to be worth \$1.2 billion (before deducting debt), up 31% over the past year. Shares of the club's parent, Arsenal Holdings (thinly traded with only 62,000 shares outstanding), have increased 90% on London's electronic Plus Market over the past two years, giving it a market value of \$1 billion.

American E. Stanley Kroenke and Russian Alisher Usmanov want to carry off the spoils. Since April 2007 Kroenke, billionaire shopping mall developer and owner of Denver's professional basketball (Nuggets) and hockey (Avalanche) teams, has built up a 13% stake. Fellow billionaire, Russian metals magnate Usmanov, has accumulated 24.2% since buying ousted chief executive David Dein's 14.7% stake last August. Despite the sharp appreciation in the value of Arsenal over the past few years, Kroenke and Usmanov, neither of whom would speak with FORBES, know the Gunners still have a lot of unrealized financial firepower.

Simply put, the English do not run their soccer teams with the capitalistic abandon of Americans. This explains why three of England's clubs--Manchester United, Liverpool and Chelsea--have been bought during the past few years by non-Brits who were able to quickly boost the value of their trophies.

American Malcolm Glazer, who owns the Tampa Bay Buccaneers of the NFL, plunked down \$1.5 billion for Manchester United in 2005 and then expanded its stadium and upped ticket prices. We estimate Man U is now worth \$1.8 billion. Fellow Americans Thomas Hicks and George Gillett have also had success. Hicks owns baseball's Texas Rangers and the Dallas Stars of the NHL, while Gillett owns the NHL's Montreal Canadiens. Hicks and Gillett paid \$429 million for Liverpool last year and then took on about \$540 million of debt to build a new stadium. FORBES now estimates the Reds to be worth \$1 billion. In 2003 Russian oilman Roman Abramovich paid \$248 million for Chelsea and poured more of his own millions into the club for some of the world's best players. They delivered back-to-back Premiership titles for Chelsea. The Blues, we calculate, are now worth \$764 million.

Arsenal's board, which controls 45.5% of the stock, has no intention of relinquishing control, especially after all the pain it went through to build the privately financed Emirates Stadium. Planning and funding setbacks delayed completion from 2003 to 2006 and pushed up the cost by 18% over the original estimate. By the time the stadium opened, Arsenal had \$522 million of debt, miraculously refinanced (before the credit squeeze hit) at 5.3%.

In April 2007 Arsenal's members agreed not to sell their shares for at least a year, a lockout agreement later extended to 2009. Until 2012 they can sell only if all agree to do so. As Kroenke and Usmanov chip away at the unaligned 17.5%, the patrician 72-year-old Chairman Peter Hill-Wood, sounding like the former Hambros Bank vice chairman he is, encouraged other shareholders to "consider the stance taken by the directors in committing not to sell their own shareholdings."

It is not hard to see why Kroenke and Usmanov would love to own Arsenal. The Gunners typically finish among the top four in the Premiership standings and qualify for the money-spinning Champions League, which can mean an additional

\$45 million of television, prize and match money each season. The Premiership's new three-year, \$5 billion TV deal that started in the 2007--08 season will increase Arsenal's TV rights revenue by an estimated \$40 million a year, at least if the team remains as successful as it has been. Manager Arsène Wenger has guided the team to seven trophies since arriving in 1996, even while trimming player costs to 55% of revenue from 62% in 2006.

With the new stadium there is ample opportunity to leverage up Arsenal's balance sheet. This prospect doesn't please fans, who fear too much debt could hinder the team's competitiveness. Hicks piled a mountain of debt on his two U.S. teams (bundled together under SouthWest Sports) and their buildings in 2005. Gillett refinanced the Montreal Canadiens in 2006 and sucked out \$70 million to pay himself a dividend, mortgaging the Bell Centre in the process. And Hicks and Gillett used their future stadium to refinance Liverpool to the tune of \$700 million last year.

Usmanov, who paid a rich 3.3 times revenue for his stake in Arsenal, seems more likely than Kroenke to pursue this course. He says he wants to amass a 25% stake, which would be sufficient to veto special resolutions and call extraordinary meetings but well short of the 29.9% stake that would trigger a bid for the whole company under U.K. takeover rules. He has already called for Arsenal to pay a dividend, which it hasn't done for 30 years.

The emergence of Usmanov, who spent six years in jail in the Soviet Union during the 1980s for fraud and unjust enrichment, has warmed Kroenke's relationship with the Arsenal board, though not to the point where Kroenke has joined the lockout agreement. Kroenke Sports Enterprises and its U.S. soccer team, the Colorado Rapids, have a marketing alliance with Arsenal to promote the Gunners in the U.S., including via KSD's TV sports network, and make Arsenal's highly regarded player development expertise available to the Rapids. This is a turnaround from Arsenal's first dealings with the American about whom Hill-Wood famously snorted, "We don't need his money, and we don't want his sort."

Separately Kroenke bought 50% of Arsenal Broadband Ltd., the club's Internet site, for \$46 million, from ITV, the same British media firm that sold him shares in Arsenal Holdings. The operation makes less than \$1 million a year, but unlike in the U.S., where the leagues control digital sports rights, in the U.K. the clubs do, and Kroenke sees lucrative opportunities to exploit Arsenal's brand online. The deal also includes ITV's return of Arsenal's licensing rights. That suggests Kroenke's game plan is to be a business partner rather than an investor. But the three-way marriage between Kroenke, Usmanov and Hill-Wood can't last forever.

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