

## 2010 Accounts

### Annual Report & Accounts 2010 - Spending every penny

Today (as a shareholder) I received my copy of the accounts for the financial year to May 2010.

Never ask of money spent, where the spender thinks it went.

Nobody was ever meant, to remember or invent, what he did with every cent.

Robert Frost (American Poet)

Most people, including our Chairman, I suspect would agree with Frost because of the weird techno speak that accountants use. Most people couldn't care less if a footballer is classed as an intangible or tangible asset or if the gas bill should be classified as a current liability. For many, it's much easier to ignore the numbers and simply tell a story. Give an opinion. This short overview is aimed at sticking to the numbers and explaining what they mean.

Remember that companies keep accounts to assess their health and well-being; like a referee keeping a record of the score in the game of business. As football is a game built on strong emotions, then it's possibly even more important that shareholders and stakeholders take an interest in the numbers.

There are two main questions that owners of a business and stakeholders (the fans) need to know.

First, Whether or not the company is operating at a profit. Second, if the business will be able to meet its commitments as they fall due, so not to have to close due to lack of funds. Both questions should be answered using the accounting data of the firm.

#### The 2010 Balance Sheet

The balance sheet is the source of information that allows us to assess the degree of risk associated with the money invested in a business. A balance sheet contains a lot of different pieces of information, and each piece of information allows us to assess the picture as a whole.

Remember that a balance sheet is a legitimate picture of a company's financial situation at a particular moment in time (31<sup>st</sup> May) so to better evaluate the trend it's worth looking at several years together.

The biggest thing to jump out of the Everton balance sheet for 2010 is that for the fifth consecutive year it has negative net worth. In pure accounting terms, the business owes more than it owns. In layman's terms, it has a mortgage for £95 million and a house worth £65 million (see net liabilities of £29.8 million for 2010). However, remember that there is no guarantee that the house would sell for 65 million as market forces are at play – although the debt will definitely stay at £95m)

Everton show that they have fixed assets (a stadium) worth £8m and players worth £45m. In addition to this it has £11m current assets (money owed to them) resulting in overall assets of £65m.

Everton also however owes money and pays interest on this money. The accounts show that £52m is due to be repaid to creditors within a year and that a further £41m is due after one year. This shows that £95m is owed in total and results in the net liabilities figure of £30m (to be exact £29.774m)

The club defines borrowings however as £47.6m and points out that £21m isn't due for 5 years. It defines its net debt position as £44.9m but the reader should note that none of these numbers show on the balance sheet.

In effect, the club is saying that of the £95m it owes, £45m is in a formalised loan agreement and the rest in bank overdraft, money owed to suppliers and short term loans etc. However, by law the balance sheet cannot lie and the auditors have published a balance sheet which clearly show £95m of liabilities and only £65m of assets.

Whilst it is important to note that the players are on the balance sheet at £45m and that home grown players show no value, the counter argument is that any credible Premier League squad should be at least £50m and this is simply the cost of being in the game. In other words, it's an asset which must be replaced to continue trading.

BALANCE SHEET	2002	2003	2004	2005	2006
Intangible Assets (players)	26,847	25,147	17,788	19,775	20,646
Tangible (Property, plant etc)	14,843	13,733	13,281	13,129	11,303
Total Fixed Assets	41,690	38,880	31,069	32,904	31,949
Stocks	282	622	403	795	521
Debtors	4,335	6,220	3,641	5,817	6,577
Cash at bank	8,949	5,511	3,641	8,732	3,413
Investments					2,767
Current Assets	13,566	12,353	7,685	15,344	13,278
Creditors due within YEAR	(12,025)	(23,829)	(29,873)	(17,195)	(26,314)
Net Current Liabilities	1,541	(11,476)	(22,188)	(1,851)	(13,036)
Total Assets less Current Liabilities	43,231	27,404	8,881	31,053	18,913
Creditors due long term	(36,329)	(33,217)	(30,336)	(29,054)	(28,524)
Provisions	(1,621)	(1,886)	(1,620)	(1,565)	(749)
<b>Net Assets/ Liabilities</b>	<b>5,281</b>	<b>(7,699)</b>	<b>(23,075)</b>	<b>434</b>	<b>(10,360)</b>
<u>Capital &amp; Reserves</u>					
Share Capital	35	35	35	35	35
Share Premium Account	24,968	24,968	24,968	24,968	24,968
Revaluation Reserve	3,137	3,137	3,137	3,137	3,183
Profit & Loss account - deficit	(22,859)	(35,839)	(51,215)	(27,706)	(38,546)
Equity shareholders' deficit	5,281	(7,699)	(23,075)	434	(10,360)

BALANCE SHEET	2007	2008	2009	2010	
Intangible Assets (players)	26,486	39,435	39,378	45,270	
Tangible (Property, plant etc)	10,267	9,886	9,183	8,090	
Total Fixed Assets	36,753	49,321	48,561	53,360	
Stocks	0	0	0	0	No stocks
Debtors	6,958	12,327	11,779	8,646	
Cash at bank	0	0	0	0	No cash in bank
Investments	2,767	2,767	2,767	2,767	
Current Assets	9,725	15,094	14,546	11,413	
Creditors due within YEAR	(32,483)	(50,931)	(51,979)	(52,088)	bank overdraft, 'other loans' & trade creditors
Net Current Liabilities	(22,758)	(35,837)	(37,433)	(40,675)	All money owed due for payment within a year
Total Assets less Current Liabilities	13,995	13,484	11,128	12,685	
Creditors due long term	(33,298)	(32,849)	(37,335)	(41,122)	All money owed due for payment after one year
Provisions	(484)	(396)	(474)	(1,337)	
<b>Net Liabilities</b>	<b>(19,787)</b>	<b>(19,761)</b>	<b>(26,681)</b>	<b>(29,774)</b>	
<u>Capital &amp; Reserves</u>					
Share Capital	35	35	35	35	
Share Premium Account	24,968	24,968	24,968	24,968	
Revaluation Reserve	3,183	3,183	3,183	3,183	
Profit & Loss account - deficit	(47,973)	(47,947)	(54,867)	(57,960)	

Equity shareholders' deficit	(19,787)	(19,761)	(26,681)	(29,774)
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- Creditors due long term has risen from £25m to £41m since 2006
- Creditors due within the year has risen from £26m to £52m since 2006
- Total assets less current liabilities has dropped from £19m to £13m since 2006
- Tangible assets (ground, training facilities etc) have dropped from £11.3m to £8m in the last 5 years.

## **The Profit and Loss Account**

The Profit and Loss Account shows a trading loss of £17.7m for the year to May 2010 and that loan interest has increased to £4.5m per annum. This combined loss of £22.2m was compensated by a gain of £19m, which was the profit on the sale of players – namely Joleon Lescott to Manchester City. The cash income from this transaction shows to be the most important factor in the P&L performance and resulted in an overall loss of £3m. Last year the loss was £7m despite making only £4m on player sales so this suggests that underlying costs are rising way ahead of income.

### Income

The revenues from the Premier League broke £50m for the first time. Note that this revenue was only £26.3m in 2006 and therefore the club is enjoying an extra £24m per season compared to 4 years ago. In 2006 the Premier League revenue / TV accounted for 45% of the club's total income – in 2010 it represents 63%. Total turnover was £79m – of this turnover generated by the active fans (gate receipts, programmes, catering, Merchandise etc.) was £29m. The ability to generate cash outside of the Premier League / Sky revenue is what sets the top six clubs apart; in 2007-08 season this figure was also £29m and shows that no progress has been made in generating this crucial revenue in the last 3 years.

### Expenditure

Operating Costs increased by 14% in the year and staff costs by 11%. Staff costs are now 69% of turnover compared to 63% in 2006 and 67% back in 2002, which shows that there continues to be a strong commitment from the Chairman.

Overall however, since 2005 (last 5 years) operating costs have increased from £60m to £96.7m (+£36.7m) whilst total revenue has increased from £60m to £79m (+£19m) so it's fair to say that every penny earned has been re-invested in resources for the club. It's equally fair to say that this is a trend that cannot carry on.

### Interest Payable

In 2002 the club spent £2m year servicing debt and by 2010 the figure is now £4.5m. It should be noted however that UK interest rates were 4% compared to 0.5% today and that long term this figure could rise significantly.

### Key Trends to note

- Note the importance of 'Profit on Players' which has delivered £77m extra profit over the 9 years shown.
- The £19m Lescott profit will need to be matched / exceeded in the next few years for the business to break even.
- The P&L trends show the club can't break even without selling players
- The P&L does not and has never in 9 years generated enough funds to purchase players
- Player trading can only be funded by player sales
- The combined trading loss over these 9 years was £80m
- The combined cost of servicing the debt has been £27m

Remember, these P&L records provide information that shows the ability of the company (the football club) to generate profit by increasing revenue and reducing costs. Over the last 9 years and in 2010, the company has shown in the trading performance that it has not once been able to generate enough funds from to purchase a high quality Premier League player and a strategy of buying potential to sell on is the only option available.

## The Profit and Loss – 2001 to 2010

	2001/02 Actual £'000	2002/03 Actual £'000	2003/04 Actual £'000	2004/05 Actual £'000	2005/06 Actual £'000	2006/07 Actual £'000	2007/08 Actual £'000	2008/09 Actual £'000	2009/10 Actual £'000
<b>TV Income</b>	<b>18,885</b>	<b>25,165</b>	<b>20,764</b>	<b>29,504</b>	<b>26,349</b>	<b>27,462</b>	<b>46,637</b>	<b>48,634</b>	<b>50,194</b>
Match Income	13,390	14,697	15,627	18,711	18,128	17,090	20,460	21,899	19,206
Sponsorship & Advertising	6,165	7,080	8,281	11,738	5,240	4,600	5,465	6,117	7,144
Merchandising & Catering					7,623				
Catering						1,082	880	876	916
Other Income					783	1,178	2,208	2,143	1,616
<b>Total Income</b>	<b>38,440</b>	<b>46,942</b>	<b>44,672</b>	<b>59,953</b>	<b>58,123</b>	<b>51,412</b>	<b>75,650</b>	<b>79,669</b>	<b>79,076</b>
<b>Amortisation of Player Regs</b>	<b>(8,913)</b>	<b>(14,780)</b>	<b>(11,343)</b>	<b>(10,380)</b>	<b>(11,421)</b>	<b>(10,438)</b>	<b>(12,349)</b>	<b>(13,023)</b>	<b>(17,150)</b>
<b>Staff Costs</b>	<b>(25,664)</b>	<b>(25,600)</b>	<b>(33,171)</b>	<b>(30,840)</b>	<b>(36,966)</b>	<b>(38,427)</b>	<b>(44,480)</b>	<b>(49,069)</b>	<b>(54,311)</b>
<b>Other Op Costs &amp; Depn</b>	<b>(14,175)</b>	<b>(15,767)</b>	<b>(14,159)</b>	<b>(18,727)</b>	<b>(18,106)</b>	<b>(13,490)</b>	<b>(22,870)</b>	<b>(23,021)</b>	<b>(25,312)</b>
<b>Total Operating Costs</b>	<b>(48,752)</b>	<b>(56,147)</b>	<b>(58,673)</b>	<b>(59,947)</b>	<b>(66,493)</b>	<b>(62,355)</b>	<b>(79,699)</b>	<b>(85,113)</b>	<b>(96,773)</b>
<b>Trading Profit / (Loss)</b>	<b>(10,312)</b>	<b>(9,205)</b>	<b>(14,001)</b>	<b>6</b>	<b>(8,370)</b>	<b>(10,943)</b>	<b>(4,049)</b>	<b>(5,444)</b>	<b>(17,697)</b>
Exceptional Cost - new stadium							(1,491)	(1,313)	0
<b>Profit or loss sale of assets / players</b>	<b>13,979</b>	<b>(1,151)</b>	<b>1,592</b>	<b>26,177</b>	<b>(238)</b>	<b>4,311</b>	<b>9,260</b>	<b>3,799</b>	<b>19,062</b>
<b>Interest &amp; Similar Charges</b>	<b>(2,112)</b>	<b>(2,624)</b>	<b>(2,967)</b>	<b>(2,674)</b>	<b>(2,186)</b>	<b>(2,794)</b>	<b>(3,694)</b>	<b>(3,962)</b>	<b>(4,458)</b>
<b>Net Profit / (Loss)</b>	<b>1,555</b>	<b>(12,980)</b>	<b>(15,376)</b>	<b>23,509</b>	<b>(10,794)</b>	<b>(9,426)</b>	<b>26</b>	<b>(6,920)</b>	<b>(3,093)</b>

Source: Annual Reports & Accounts, Everton Football Club

## Cashflow

Cash flow (also called net cash flow) is the balance of the amounts of cash being received and paid by a business during a defined period of time. Measurement of cash flow can be used to evaluate the state or performance of a business or to determine problems with liquidity. Being profitable does not necessarily mean being liquid. A company can fail because of a shortage of cash even while profitable. (Leeds United being a prime example).

In short, in a year of record revenue and the cash sale of Joleon Lescott, cash of £1.1m flowed out (Compared to £1.7m the year before). Once again it shows clearly that every penny received for players is re-invested to keep the company going.

However, in the last 5 years more than £24m cash has flowed out of the business and no new capital flowed in – therefore it is clear that increased debt has funded the business.

<b>CASHFLOW</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
<b>Cash out/in from operating activities</b>	<b>-2,286</b>	<b>8,569</b>	<b>-1,451</b>	<b>13,304</b>	<b>12,991</b>
Interest In	76	359	157	241	271
Interest Out	-1,676	-1,671	-3,115	-2,937	-2,523
<b>CASH OUTFLOW AFTER FINANCE</b>	<b>-1,600</b>	<b>-1,312</b>	<b>-2,958</b>	<b>-2,696</b>	<b>-2,252</b>
<b>Capex</b>					
Purchases Intangibles	-11,216	-10,497	-7,981	-13,794	-15,931
Purchases tangibles	-1,262	-963	-1,130	-1,521	-3,881
Proceeds from Tangible Sales	25	0	0	3,100	4,149
Proceeds player sales	18,387	449	1,785	25,468	2,708
Net cashflow from Capex	5,934	-11,011	-7,326	13,253	-12,955
<b>Net cashflow before financing</b>	<b>2,048</b>	<b>-3,754</b>	<b>-11,735</b>	<b>23,861</b>	<b>-2,216</b>
Purchase of Training Land					-2,767
<b>Financings</b>					
Increase in borrowings	29,313	-	10,400	-	-
Repayment of Loans	-13,717	-2,630	-2,928	-13,544	-531
Capital element of hp	34	-9	175	-53	195
	15,630	-2,639	7,647	-13,597	-336
<b>MOVEMENT IN CASH</b>	<b>17,678</b>	<b>-6,393</b>	<b>-4,088</b>	<b>10,264</b>	<b>-5,319</b>

<b>CASHFLOW</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
<b>Cash out/in from operating activities</b>	<b>2,731</b>	<b>10,613</b>	<b>9,651</b>	<b>1,425</b>
Interest In	126	173	151	29
Interest Out	-2,858	-4,010	-4,040	-4,489
<b>CASH OUTFLOW AFTER FINANCE</b>	<b>-2,732</b>	<b>-3,837</b>	<b>-3,889</b>	<b>-4,460</b>
<b>Capex</b>				
Purchases Intangibles	-12,432	-24,257	-17,839	-27,960
Purchases tangibles	-787	-1,223	-1,020	-398
Proceeds from Tangible Sales	330	11	10	57
Proceeds player sales	8,339	8,582	12,071	24,475
Net cashflow from Capex	-4,550	-16,887	-6,778	-3,826
<b>Net cashflow before financing</b>	<b>-4,551</b>	<b>-10,111</b>	<b>-1,016</b>	<b>-6,861</b>
Purchase of Training Land	-	-	-	-
<b>Financings</b>				
Increase in borrowings	500	198	207	9,000
Repayment of Loans	-640	-717	-765	-3,222
Capital element of hp	-32	-274	-196	-79
	-172	-793	-754	5,699
<b>MOVEMENT IN CASH</b>	<b>-4,723</b>	<b>10,904</b>	<b>-1,770</b>	<b>-1,162</b>

## Summary

It's three years since I last summarised the accounts and the closing paragraph hasn't changed:

"Football – and finance – is a matter of opinion. I believe directors have a duty to treat their business with as much respect as they treat their own personal finances and I cannot believe any board member would risk their own futures the way this proud football club is being risked. The stadium and transfer windows are a great distraction. AGMs have been dominated by these issues and no questions raised on the 'off pitch' performance. This year is arguably the worst 'off pitch' performance ever, at a time when the manager has delivered one of the best 'on pitch' performances ever.

Hopefully the analysis will help manage unrealistic expectations and allow fans to get together to support the team more passionately than ever. In addition, it should show that the Chairman does NOT take anything personally out of the club and if anything his main crime is to not involve himself in off-pitch performance as much as on-pitch performance.

The accounts suggest there will be any spare cash available to develop a new stadium or purchasing players without making sales or finding a new donor. They also show that as a club we have gone backwards commercially for the third year in a row."

So it's business as usual.

Personally, I think the stats also prove that David Moyes is the best £ for £ manager in the Premier League and that we have punched way above our weight every year for the last 5 years.

What destroys the energy in the club is the weight of unrealistic expectation. If a £50m wage bill plays a £200m wage bill 10 times then I think the smaller bill might win once or twice but also expect to lose six times out of ten. Football is about competing financial resources and it seems to me that Bill Kenwright's only crime is to be too emotionally attached to Everton. The fans constantly demand new signings, retaining the likes of Pienaar (£65,000 a week or £3.3m per year?? madness) and ask where all the money goes. At times it appears our board think the same way?

It's not easy for the board. If I owned the club the fans I fear would really dislike me....

- Cap the wage bill at no more than 50% of turnover
- Wage cap for players ensuring no megastars creating disharmony in the dressing room
- Work tirelessly to persuade Liverpool to consider a shared stadium
- Never pay more than £5m for any player – shop in the Championship and lower leagues
- Invest in the infrastructure and improve customer service and customer satisfaction
- Tell the fans the financial reality – consistently
- Bite the buyer's hand off if they offered £35m for our forward produced in the academy
- Pay off and reduce debt and leave a legacy of assets for the next generation

It's a truly horrible manifesto for die-hard blue and so you can see why it's not likely to happen.

In short, there is no viable alternative to the current business plan. For every Sheikh there's a Mike Ashley and there are rumoured to be over 100 football clubs in Europe seeking wealthy benefactors.

The Chairman signs off his report in the accounts by saying

"I shall continue to work tirelessly for the cause. At the same time as I continue to work to work tirelessly to find that rich and generous benefactor."

The problem is that our accounts and this strategy makes us as attractive as a bulldog in a brothel☹

For a final exercise that any fan can do, it's worth guesstimating how the P&L is looking for this year given attendances, TV appearances, position in league, new improved contracts for players and rising energy and duty costs. Most important of all, is to factor in if there is no large number against 'Profit or loss on sale of assets or players' on the P&L (e.g. no £24m for Lescott) between now and May 31<sup>st</sup>. The figure (forecast for the year to May 31<sup>st</sup> 2011) is mind boggling!

Joe Beardwood  
8<sup>th</sup> February, 2010