

INQ 41



Grant Thornton

Review of Financial Proposals in relation to the Northumberland Development Project

London Borough of Haringey

Confidential and Commercially Sensitive

1 February 2012

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1 Executive Summary

- 1.1 We set out below our key conclusions and findings which have been produced during the course of our work and which are set out in detail in the main body of this report. In this report, "Council" refers to the London Borough of Haringey, "Club" to Tottenham Hotspur plc and its associated companies, and "Project" to the Northumberland Development Project.

Context and Current Position

- 1.2 Our Report in September 2011 noted that whilst operational assumptions in the model were broadly realistic there was a funding gap of c. [REDACTED], essentially being the difference between construction costs of [REDACTED] and debt that the Club would be willing to raise of [REDACTED]. In the period since our previous Report, the Club have continued to develop their proposals for the wider redevelopment of the site in conjunction with ISG and Comperio Research and a revised model and development appraisals were provided to the Council in December 2011.

Scope of Project and Key Assumptions in Previous Report

- 1.3 The business plan and financial model reviewed in September 2011 was based on the following core assumptions:

- New stadium capacity of 56,250, with match day ticket sales of 85% of availability;
- Construction cost of circa [REDACTED];
- Maximum new debt funding to be assumed by Club of [REDACTED] creating a funding gap of circa [REDACTED];
- [REDACTED] contribution from a supermarket development on site;
- [REDACTED] lump sum receipts from pre sales of season tickets or premium seats;
- [REDACTED] per annum receipts from naming rights sponsorship; and
- No equity contribution or guarantees to be provided from Club or parent company.

- 1.4 A detailed list of the core assumptions is set out in Section 5 of our September 2011 Report, which for reference is included at Appendix A to this Report.

Revised Model Assumptions

- 1.5 We reviewed the assumptions within the revised financial model, in comparison to the previous model and also to consider their reasonableness in relation to evidence provided by the Club and in comparison to benchmarks from similar schemes. Key items of note included:

- assumptions in relation to ticket revenue (which would underpin any debt funding) including prices and sales levels, have increased in the revised model. However, the projections do appear to be reasonable in line with similar Clubs, but this would imply the Club remaining at the upper end of the Premier League. The result of these changes is a c. [REDACTED] increase in Year 1 revenue from tickets and other revenue in the revised model.
- the Club have increased the projected value of naming rights from [REDACTED] to [REDACTED]. There is little publically available information against which to benchmark this value but information would suggest that this value is at the upper end of the scale in terms of what might be achieved. The Club also now assume that the naming rights would be paid upfront – whereas the more common arrangement would be for an annual payment to be made. Whilst this is not impossible to arrange, it does present a risk to deliverability due to the requirement to secure a large global organisation as sponsor who would be willing and have the capacity to make this payment upfront.

- 1.6 The remaining cost, revenue and operating assumptions would appear to be broadly reasonable.

Revised Funding Strategy

- 1.7 The revised funding strategy is significantly more complex than that presented in the previous financial model, however the Club do appear to have set out a strategy to address the previous funding gap. Key elements of and changes to the revised funding strategy include:
- the Club are presently engaging with funders and project raising [REDACTED] of new debt (c. [REDACTED] net of repayment of existing debt). The Club had previously indicated they would be willing to raise up to [REDACTED] of new debt. The level of debt does not appear unreasonable compared to levels of debt raised by Arsenal, however we have seen no evidence to state a funder would be willing to lend this amount;
 - the Club provide new equity of circa [REDACTED] used to fund construction;
 - the £106 commitment for the Club has been reduced significantly;
 - the Club project a lump sum payment of [REDACTED] upfront from naming rights to fund construction, based on the assumed annual value of [REDACTED]. An upfront receipt from a partner is an untypical (but not impossible) arrangement. As an alternative, the Club could seek to securitise the annual payments into a lump sum, but this would result in the Club borrowing significantly more than the [REDACTED] it previously noted as being prudent. The assumptions in relation to value and timing therefore present a risk to deliverability;
 - the revised model now includes [REDACTED] of pre sales which contribute towards construction. The level of pre-sales do not appear unreasonable on the basis of research undertaken for the Club and experience of Arsenal but present a risk to delivery in terms of timing and actual levels of sales;
 - the Club project capital receipts from the sale of the Northern [REDACTED] and Southern [REDACTED] development sites, which are used to reduce existing debt and part finance construction, respectively. These values have been reviewed by BNPP and were considered to be broadly reasonable. These also present a risk to delivery in terms of timing and actual levels of sales. It should also be noted that a more detailed study of the proposals would likely be required to support any Compulsory Purchase Order process which the Council enter into to support the development;
 - the Club include [REDACTED] of public funding for heritage works and community spaces; and
 - there are significant capital allowances of circa [REDACTED] in the revised model.
- 1.8 In summary, the [REDACTED] funding gap is projected as bridged by a number of new sources of finance including:

- Increased level of new debt the Club would be willing to borrow ([REDACTED] to [REDACTED]) of [REDACTED], (a net increase of circa [REDACTED] when repayment of existing debt is included);
- Equity of [REDACTED] and Pre sales of [REDACTED];
- Naming rights lump sum (less amounts used to repay existing debt of [REDACTED] of c. [REDACTED]);
- Southern development sale of [REDACTED]; and
- Public sector contribution of [REDACTED]

Overall Assessment

- 1.9 Taken together, it would appear that there are significant challenges and risks to delivery of this project, however this is not uncommon for a project of this nature. There may be further risks to implementation should a Compulsory Purchase Order and the use of s237 powers be required as any constraints imposed could impact on timetable, cost and ability to raise finance. Indeed, to support a CPO process the Club will likely have to provide much greater evidence of their ability to fund and deliver the scheme.

- 1.10 The revised financial model is also predicated on a set of more ambitious underlying assumptions in relation to revenues and a more complex funding strategy than existed in the previous financial model. However, the revised financial model does appear to have set out a strategy to address the funding gap contained in the previous model.
- 1.11 The Club will however need to ultimately convince a lender that the plan is deliverable, particularly in the context of many of the revenue assumptions being at the upper end of the range, driven by the Club remaining at the top end of the Premier League (although it is recognised that the projections do not include for European or domestic Cup revenues). A lender may sensitise these projections, taking a more conservative view on revenue projections which could lead to a funding gap which would be required to be covered by additional equity. The key issue will be the allocation of risk between equity and debt providers. We have also requested evidence from the Club that funders would be willing to lend the projected level of debt and the Club have so far not been able to provide such evidence, although this is not an unusual position at this stage of the process.
- 1.12 However, on the assumption that the Club can satisfy the challenges presented and mitigate key risks set, particularly in relation to the raising of finance through senior debt and naming rights, and the realisation of the projected value of pre-sales and development sales, then the overall plan does appear to have a reasonable prospect of supporting a viable and implementable Project, taking into account proposed public sector support measures.

2 Scope and Context

Background

- 2.1 Grant Thornton were appointed by the Council in July 2011 to review the delivery plan, financial projections and funding strategy in relation to the Club's proposals to develop a new stadium and associated commercial properties. Specifically, Grant Thornton were asked to review and comment on the deliverability of the Club's proposals and we reported our findings to the Council in September 2011.

Scope of Project and Key Assumptions in Previous Report

- 2.2 The business plan and financial model reviewed in September 2011 was based on the following core assumptions:

- New stadium capacity of 56,250, with match day ticket sales of 85% of availability;
- Construction cost of circa [REDACTED];
- Maximum new debt funding to be assumed by Club of [REDACTED];
- [REDACTED] contribution from a supermarket development on site;
- [REDACTED] ramp sum receipts from pre sales of season tickets or premium seats;
- [REDACTED] per annum receipts from naming rights sponsorship; and
- No equity contribution or guarantees to be provided from Club or parent company.

- 2.3 A detailed list of the core assumptions is set out in Section 5 of our September 2011 Report, which for reference is included at Appendix A to this Report.

Findings of Previous Report

- 2.4 Our previous Report noted that operational assumptions within the Club's business plan were broadly realistic and in line with those made by other clubs embarking on similar projects. The critical challenge to deliverability was not the underlying assumptions but the level of debt that the Club felt was supportable.

Funding Gap

- 2.5 Our previous Report noted there was a funding gap of circa [REDACTED] essentially being the difference between the construction costs of [REDACTED] and the debt that the Club would be willing to raise of [REDACTED]. The fundamental driver of this funding gap was the Club's view on the level of supportable debt, which was itself driven by assumptions in relation to how the added value from the stadium was used to support debt finance, no equity investment being available and no support from the parent company.

Current Position

- 2.6 In the period since our previous Report was prepared, the Club have continued to develop and refine their proposals for the scheme. The core development is currently now planned to be undertaken across 3 phases, with phases 1 & 3 subject to new planning applications to increase and change floorspace (and reflected in the following floorspace totals):

- **Phase 1 – the Northern Development**, comprising the retail superstore (c. 11,000sqm.) and additional office accommodation above the store (c. 12,000sqm.) of which it is assumed that c. 3,000 sqm. will be used by the Club as a 'Brand Centre', accommodating

showcase and exhibition space, and the remaining space will be let to D1/D2 occupiers. This represents an increase from the previous planning application which included c. 6,000sqm. of office space;

- **Phase 2a – the Stadium Development**, comprising the stadium (56,250 seat capacity), Club museum, retail store and raised outdoor public podium; and
- **Phase 3 – the Southern Development**, comprising primarily 285 residential flats (all open market). This represents a change from the previous planning application which was for 200 flats, of which up to 50% were affordable properties. The revised proposals also now contains for 15,000 sqm. additional floorspace (5,000sqm. health & fitness club; 5,000sqm. health centre; 5,000sqm. tertiary college). A hotel development has also been removed from this revised application.

- 2.7 In this context, the Club have developed a revised financial model and development appraisals for the Project and these were provided to the Council in December 2011. It should be noted that there are also longer term elements of development, being a phase 2b and phase 4, however these aspects are outside the scope of our Report.
- 2.8 The revised proposals and planning applications are now due to be considered by the Council's Planning Committee on 13 February 2012. In advance of this meeting, the Council need to consider an assessment of the reasonableness of the Club's revised proposals for this stage in the planning process. It should be noted however that a more detailed assessment of scheme deliverability may be required to support any future Compulsory Purchase Order process.

Scope of Work and Structure of Report

- 2.9 Grant Thornton has now been asked to consider and report to the Council on the revised financial proposals developed by the Club. Specifically, we have been engaged to
- undertake an assessment as to whether revised financial proposals from the Club have a *reasonable* prospect of supporting a viable and implementable Project development, taking into account proposed public sector support measures; and
 - refresh the previous report dated September 2011 on the Club's business plan and funding strategy, taking into account the revised financial model provided by the Club.
- 2.10 For the avoidance of doubt, Grant Thornton are not undertaking an audit or review of the mathematical accuracy or integrity of the financial model and have only been provided with a hard copy version of the financial model by the Club. In addition, BNP Paribas Real Estate ("BNPP") have been separately appointed by the Council to comment on the reasonableness of the assumptions and outputs of the supporting development appraisals for the northern and southern ends of the site.
- 2.11 This Report therefore aims to build on our analysis undertaken in September 2011 and provide the Council with a clear view of inter alia:
- key changes in revenue and operational assumptions underpinning the financial projections;
 - key changes in the proposed funding strategy; and
 - key risks to deliverability and a view of the reasonableness of the overall proposals.

Report Structure

- 2.12 In order to provide this assessment to the Council, our report now takes the following structure:

- **Section 3** – examines the revised financial model, setting out key changes from the previous financial model and commenting on the reasonableness of these operational assumptions;
- **Section 4** – describes and assesses the revised funding strategy which underpins the financial model; and
- **Section 5** – concludes the report by considering the key risks and uncertainties relating to the proposed scheme.

Reliance on Information

- 2.13 We highlight that this report is based on information provided to us by the Council, the Club and publicly available market intelligence.

Confidentiality and Reliance

- 2.14 This report is confidential and has been prepared exclusively for use by the London Borough of Haringey. With the exception of sharing it with Tottenham Hotspur FC, it should not be used, reproduced or circulated for any other purpose, in whole or in part, without our prior written consent, such consent will only be given after full consideration of the circumstances at the time. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the London Borough of Haringey for our work, our report and other communications, or for any opinions we have formed. We do not accept any responsibility for any loss or damages arising out of the use of the report by the addressee(s) for any purpose other than in connection with the required scope of our work.

3 Review of Revised Financial Model

Introduction

- 3.1 In order to develop an assessment of the deliverability of the proposed Project, it is important to understand the key factors which influence the general viability of football stadia.

General Viability of Stadia

- 3.2 A new stadium may be considered viable on a standalone basis when there is sufficient profitability generated by the stadium activities to underpin borrowing and development costs and provide any investor with a commercial return.

Ticket Revenue

- 3.3 This is clearly a key driver of long term profitability and viability. On the assumption there is a set number of fixtures per annum, the level of potential ticket revenue is determined primarily by (i) capacity; (ii) the type (mix) of tickets available; and (iii) average attendance rates. Capacity may be broadly fixed, but within a typical stadium there will be a mix of corporate hospitality tickets, high cost premium tickets, and general seating tickets. In turn, each of these ticket types will contain a range of pricing dependant on the seat location or level of services provided. Revenues over time are therefore a function of the number of fixtures staged, capacity, ticket mix and pricing structures and average attendances. When considering financial projections for a stadium, any change to these variables will impact upon revenues.

Commercial Rights

- 3.4 A new stadium can also attract significant revenues from commercial rights attaching to it, for example naming rights. In this circumstance, a stadium would enter into a contract with a sponsor who would typically make an annual payment in return for naming of the stadium. Such contracts will normally include clauses which can allow for termination or reduced payments in the event on-field performance deteriorates. The securing of naming rights contracts can therefore play a key part in the ultimate viability of stadium developments.

Operating Costs

- 3.5 A typical stadium will incur a level of operating costs. These operating costs will be semi variable in line with capacity and cover a large range of items including staff costs, rates, utilities, insurances, maintenance, professional fees and IT costs. The level of operating costs relative to revenues is therefore a key component of viability.
- 3.6 In summary, for a typical stadium to be viable, any borrowing put in place to develop the stadium needs to be capable of being serviced comfortably by the underlying profitability of the stadium as outlined above. (Note, the ability to secure such borrowing may also require guarantees from parent companies or investors.) It is important therefore when considering the potential viability and deliverability of a new stadium development that these factors and variables are clearly understood, are robust and realistic.

Added Value from Development

- 3.7 Key to the new proposals developed by the Club is the added value, or revenue, which a new stadium can produce. In this context, 'on field' costs (e.g. player wages) and revenues (e.g. media rights) are excluded from the following analysis as these are not wholly facility

dependant. Instead, the focus of analysis will be on the net incremental revenue projected to be generated by the new stadium, and the level of investment which this can support

3.8 This section of the Report will now:

- set out the key assumptions which will underpin the revised financial model; and
- highlight material changes to key assumptions in comparison to our previous report in September 2011;
- assess key assumptions against experience elsewhere and appropriate comparative metrics, to develop a sense of how reasonable such assumptions are; and
- consider the impact of any changes in assumptions in quantitative and qualitative terms.

Scope of Revised Financial Model

- 3.9 The financial model provided by the Club in December 2011 focuses on the revenue and cost cashflows solely in relation to the development of the new stadium project, and excludes 'on field' costs and revenues.
- 3.10 The financial model therefore aims to establish the deliverability of the scheme on a standalone and sustainable basis. This is in contrast to the previous version of the model reviewed in September 2011 which included costs and revenues in relation to inter alia TV deals, advertising, wages, salaries and non-stadium operating costs.

Consideration of Key Assumptions

- 3.11 This section of the report now sets out the key assumptions which underpin the revised model, consider these in the context of available benchmarks or comparative information (particularly in relation to the Emirates Stadium where available), notes any material changes since the previous model and sets out the impact on costs and revenues of any changes.
- 3.12 It should be noted that we have not had access to working financial model therefore have been unable to trace each assumption and calculation fully. Costs and revenue items are also stated in nominal terms.

Capacity

- 3.13 The total capacity of the new stadium remains unchanged at 56,250¹;

Operating Revenues and Expenses

Standard Season Tickets

- 3.14 The number of available standard Season Tickets in the previous model was 30,258 seats and these were priced between [REDACTED] and [REDACTED] with a sales rate of [REDACTED] of available standard seats. This generated a total Year 1 revenue of approximately [REDACTED].
- 3.15 Total available standard Season Tickets in the revised model are 36,222 and these are priced between [REDACTED] to [REDACTED] with a sales rate of circa [REDACTED] of standard seats (35,449 seats) based on research undertaken for the Club by Comperio². This represents an increase in seats available and seats sold of 5,964 and 5,191 respectively. This generates a total Year 1 revenue of approximately [REDACTED].

¹ NDP Model December 2011, Summary Sheet

² NDP Model December 2011, Revenue Inputs, Season Tickets Available and Sold

³ NDP Model December 2011, Income Statement, Season Tickets periods ended Sept 2016 – Jun 2017

- 3.16 The result of increasing the number of available Season Tickets and adjusting the pricing upwards has resulted in increasing projected Year 1 revenues from [REDACTED] to [REDACTED] an increase of [REDACTED] (excluding any minor differences in inflation).

Comparative Analysis

- 3.17 It should be noted that the club has existing season ticket sales levels of circa 20,770⁴. Research undertaken for the Club by Comperio has stated that an additional 14,500 season tickets could be sold at the new stadium, which would broadly equate to the level of sales projected in the revised model⁵. In addition, this level of uptake would be broadly comparable to the experience of Arsenal when moving to the new Emirates stadium, who experienced an increase in Season Ticket ownership from circa 22,000 to 33,000. The Club are also estimated to have circa 33,000 supporters on the season ticket waiting list⁶. In terms of projected Season Ticket costs, these continue to be broadly comparable to prices charged at Arsenal and Chelsea, but generally more expensive than Liverpool or Manchester United⁷.

Premium Season Tickets

- 3.18 The total available premium Season Tickets in the previous model was 5,500 seats and these were priced between [REDACTED] and [REDACTED] with a sales rate of 85% of available standard seats. This generated a total Year 1 revenue of approximately [REDACTED].
- 3.19 Total available premium Season Tickets in the revised model are 5,831 and these are priced between [REDACTED] to [REDACTED] with a sales rate of circa 90% of premium seats (5,248 seats)⁸. This represents an increase in seats available and seats sold of 331 and 573 respectively. This generates a total Year 1 revenue of approximately [REDACTED]⁹.
- 3.20 The result of increasing the number of available premium Season Tickets and adjusting the pricing and sales rate upwards has resulted in significantly increasing projected Year 1 revenues from [REDACTED] to [REDACTED] an increase of [REDACTED] (excluding any minor differences in inflation).

Comparative Analysis

- 3.21 The provision of circa 5,800 premium seat tickets is slightly lower than the levels included at the Emirates Stadium (circa 7,000 seats)¹⁰. The prices included in the financial model by the Club for premium seats appear to be in line with levels recommended by Comperio Research, and set at a level slightly lower than Arsenal which would therefore appear reasonable.

Match Day Tickets

- 3.22 Total available Match Day Tickets in the previous model was 16,711 seats and these were priced between [REDACTED] and [REDACTED] with a sales rate of 85% of available seats. This generated a total Year 1 revenue of approximately [REDACTED].
- 3.23 Total available Match Day Tickets in the revised model are 12,797 seats and these are priced between [REDACTED] to [REDACTED] with a sales rate of 95% of available seats (12,157 seats)¹¹. This represents an decrease in seats available and seats sold of 3,914 and 2,047 respectively, although the rate of [REDACTED].

⁴ NDP Model December 2011, Revenue Inputs, Season Ticket Availability and Sales

⁵ NDP Feasibility Study Final Report, Comperio Research, Executive Summary

⁶ Deloitte Annual Review of Football Finance, June 2011, p54

⁷ www.sportingintelligence.com/2011/08/24/top-of-the-league-leeds-and-arsenal-ticket-prices-240802/

⁸ NDP Model December 2011, Revenue Inputs, Premium Seats Inventory and Sales

⁹ NDP Model December 2011, Income Statement, Premium Seats periods ended Sept 2016 – Jun 2017

¹⁰ NDP Feasibility Study Final Report, Comperio Research, Arsenal Experience

¹¹ NDP Model December 2011, Revenue Inputs, Gen. Admission Available and Sold

sales has increased from 85% to 95%. This generates a total Year 1 revenue of approximately [REDACTED]¹².

- 3.24 The result of decreasing [REDACTED] the number of available Match Day Tickets but adjusting the pricing and sales rate upwards has resulted in Year 1 revenues from Match Day Tickets remaining broadly constant in the revised model; [REDACTED] versus [REDACTED] (excluding any minor differences in inflation).

Comparative Analysis

- 3.25 As set out above, the Club project that there will be circa 12,797 tickets available for general admission on match days priced between [REDACTED] and [REDACTED]. At these levels, only Arsenal and Chelsea appear to offer more expensive individual match day tickets for sale, and only four clubs sell their cheapest tickets at prices above the level of the cheapest tickets proposed in the revised model¹³. General admission ticket prices at the new Emirates Stadium (Arsenal) range from circa [REDACTED] on match days¹⁴. We have not seen any evidence to indicate that these sales volumes as projected would be met. However, the prices projected to appear to be broadly in line with comparable London based Clubs and also with that already charged by the Club for general admission, which would appear reasonable¹⁵.

Corporate Boxes

- 3.26 Total available Corporate Box Seats in the previous model was 1,060 seats and these were priced at [REDACTED] with a sales rate of 85% of available boxes / seats. This generated a total Year 1 revenue of approximately [REDACTED].
- 3.27 Total available Corporate Box Seats in the revised model are 1,192 and these are priced between [REDACTED] to [REDACTED] with a sales rate of 90% of available boxes / seats (1,073 seats)¹⁶. This represents an increase in seats available and seats sold of 132 and 173 respectively. This generates a total Year 1 revenue of approximately [REDACTED]¹⁷.
- 3.28 The result of increasing the number of available Corporate Box Seats and adjusting the pricing and sales rate upwards has resulted in increasing projected Year 1 revenues from [REDACTED] to [REDACTED], an increase of [REDACTED] (or [REDACTED]) (excluding any minor differences in inflation).

Comparative Analysis

- 3.29 It would appear that the proposed level of Corporate Box seats is lower than that provided at the new Emirates Stadium for Arsenal (c. 2,000)¹⁸. The projected sales levels and pricing included in the financial model is in line with levels indicated in the Comperio Research report prepared for the Club. The projected pricing appears to be slightly lower than levels at the Emirates Stadium, from a high level review of information available on the Arsenal ticketing website, which would appear reasonable.

Other Revenues

- 3.30 Other Revenues have been included in the revised model amounting to [REDACTED] in Year 1¹⁹. This includes for conferences, pre-season friendlies, catering and other items. Other Revenues in the previous model amounted to a total of [REDACTED] ([REDACTED] Other Hospitality and [REDACTED] for

¹² NDP Model December 2011, Income Statement, Gen. Admission periods ended Sept 2016 – Jun 2017

¹³ <http://news.bbc.co.uk/sport1/hi/football/14367608.stm>

¹⁴ ibid

¹⁵ http://www.tottenhamhotspur.com/tickets/ticketinfo_prices.html

¹⁶ NDP Model December 2011, Revenue Inputs, Corporate Box Inventory and Sales

¹⁷ NDP Model December 2011, Income Statement, Corporate Box periods ended Sept 2016 – Jun 2017

¹⁸ NDP Feasibility Study Final Report, Comperio Research, Arsenal Experience

¹⁹ NDP Model December 2011, Income Statement, Other Revenues periods ended Sept 2016 – Jun 2017

conferencing friendlies, publications, booking fees and other amounts). This represents a decrease of circa [REDACTED] per annum although we understand this is in part due to a reclassification of some revenues to within the Premium Ticket pricing. It should be noted that we cannot validate these figures and these have been accepted and included as provided by the Club.

Summary Ticket Revenues

- 3.31 Based on the analysis set out above, total Year 1 ticket revenues from Season Tickets, Premium Seats, Match Day Sales and Corporate Boxes amounted to [REDACTED]. Under the revised model, Year 1 ticket revenues for these categories amount to [REDACTED]. This represents an increase of [REDACTED] (or [REDACTED]) (excluding any minor differences in inflation) and is driven primarily by increases in pricing for each ticket category, and upward adjustments in premium priced and match day ticket sales rates.
- 3.32 When the decrease in Other Revenues are included in this analysis, the revised model projects Year 1 revenues of [REDACTED] versus [REDACTED]. This represents an increase in total Ticket and Other revenues of [REDACTED] (or [REDACTED]).
- 3.33 The key revenue assumptions and revisions are summarised in the table below.

Description	Previous Model	Revised Model
Standard Season Tickets		
- Available Seats	30,258	36,222
- Price Range	[REDACTED]	[REDACTED]
- Sales Rate	100%	98%
- Year 1 Revenue	[REDACTED]	[REDACTED]
Premium Season Tickets		
- Available Seats	5,500	5,831
- Price Range	[REDACTED]	[REDACTED]
- Sales Rate	85%	90%
- Year 1 Revenue	[REDACTED]	[REDACTED]
Match Day Tickets		
- Available Seats	16,711	12,797
- Price Range	[REDACTED]	[REDACTED]
- Sales Rate	85%	95%
- Year 1 Revenue	[REDACTED]	[REDACTED]
Corporate Box Tickets		
- Available Seats	1,060	1,192
- Price Range	[REDACTED]	[REDACTED]
- Sales Rate	85%	90%
- Year 1 Revenue	[REDACTED]	[REDACTED]
Other Revenues	[REDACTED]	[REDACTED]
Total	[REDACTED]	[REDACTED]
Notional Revenue per Seat*	[REDACTED]	[REDACTED]

*based on revenue items set out above only.

- 3.34 As can be seen from the table above, the notional revenue per seat (based on the data included above only) has increased from approximately [REDACTED] to [REDACTED], an increase of circa [REDACTED]. By way of comparison, the Deloitte Annual Review of Football Finance publishes a Revenue per Average Spectator, calculated as total revenue less Premier League and UEFA TV distributions.

In order to approximate this metric, the Club revenues provided in the previous financial model in relation to merchandising () and sponsorship () have been added to the total revenues set out above (these figures are not provided in the revised financial model). This results in an adjusted notional revenue total of , and an adjusted average revenue per seat of approximately .

- 3.35 It should be recognised that this calculation is an approximation only, however it reflects a small increase from the average revenue per seat delivered by the Club in 2009/10 of . However, the average revenue remains lower than that achieved by Arsenal (), Chelsea (), Liverpool () and Manchester United () in 2009/10.²⁰ On this basis the adjusted revenue per seat would appear reasonable and broadly in line with existing revenues and peer group clubs.
- 3.36 It should also be considered that whilst the Club have existing very high levels of stadium utilisation (sales of total available tickets) at the existing, smaller stadium, maintaining such a high rate over the long term life of the financial model may be linked to an degree to continued, strong on-field performance.
- 3.37 The analysis in the table above suggests an overall utilisation rate of circa % projected at the new stadium. A review of average stadium utilisations in 2010/11 indicated that those with the greatest rate of utilisation (c. 95%+) were generally those Clubs based around London, those competing for Champions League places or newly promoted clubs. Outside of this, utilisations range from circa 80% (Blackburn Rovers) to 94% (Wolverhampton Wanderers). Wigan Athletic experienced a utilisation outside of this range at just 67%. The Club therefore appear to project attendance rates in line with peer group Clubs, however the risk may exist that any significant deterioration in on-field performance may negatively impact on projected future ticket sales rates.
- 3.38 Total revenues therefore, have increased from the previous financial model, but do appear to be broadly reasonable as these are based on research undertaken for the Club by Comperio, and ticket pricing, volumes and sales are in line with similar Clubs at the top end of the Premier League. This reasonableness is likely to be predicated on the Club maintaining strong on field performance.

Operating Costs

Non-Football Operating Costs

- 3.39 The revised financial model sets out the Club's actual non-football operating costs and adjusts the relevant cost items upwards on a pro rata basis in line with the increased capacity. Specifically, items included under this heading include match day operating expenses, professional fees, executive club expenses, rent, rates, IT, utilities and insurances.
- 3.40 The previous financial model included a Year 1 cost of for these items and these costs are replicated in the revised financial model, although it should be noted that inflation assumptions have served to marginally increase the Year 1 cost in the revised model.
- 3.41 We are unable to validate these costs but as these have been provided by the Club, these have been accepted as reasonable as provided within the revised model.

THFC Payment

- 3.42 The revenues and costs set out in the paragraphs above serve to generate a net revenue position for the new stadium development. However, in order to reflect the ability of the new stadium

²⁰ Deloitte Annual Review of Football Finance, June 2011, Appendix 9

to be viable and deliverable through solely the incremental net revenues generated by the increased capacity, the Club have made an adjustment to the financial model to extract a level of profit in line with the profit generated by the existing stadium.

- 3.43 The Club have stated that the existing stadium generates revenues of [REDACTED] and incurs costs of [REDACTED], resulting in a net profit of [REDACTED]. The financial model therefore includes a notional 'cost' of circa [REDACTED] per annum to isolate the incremental net revenue and cashflow generated by the new stadium. It should be noted that this adjustment was not made in the previous financial model which modelled the full net revenue position of the new stadium and not incremental revenue.

Maintenance Capex

- 3.44 An amount of approximately [REDACTED] per annum is included within the operating costs, as set out above. Within the revised financial model, the Club have assumed that this item is reimbursed by the Football Club every 5 years and therefore a revenue item is included in the financial model. This would represent an internal lease arrangement for the Club which serves to slightly decrease operating costs for the Stadium, but would continue to represent a real cost to the Club as a whole. We have seen no documentation to back up this assumption and assume that the Club are content that this arrangement is affordable, appropriate and therefore entirely reasonable. A funder may wish to see evidence of an agreement with a different (albeit related) entity to meet these costs.

Capital Costs and Receipts

Capital Development Costs

- 3.45 The development cost of the stadium in the previous financial model was [REDACTED]. The capital cost within the revised financial model has fallen to [REDACTED]. This has been driven by a reduction in Section 106 costs, a reduction in the cost of the Podium, and a re-profiling of certain costs to post opening of the new stadium. The total revised costs have been agreed to a cost report prepared by Arcadis for the Club. It is not in the scope of this Report to comment on the reasonableness of the construction costs proposed for the new stadium, however these have been accepted as reasonable as contained within the Arcadis report for the Club. By way of comparison, the Emirates Stadium was estimated to have cost circa [REDACTED]²¹.

Northern Development Site

- 3.46 The Northern Development site is proposed to comprise a retail superstore (11,000sqm.) and additional office accommodation above the store (c. 12,000sqm.). This represents an increase from the previous planning application which included for the retail superstore but only included for c. 6,000sqm. of office space.
- 3.47 The revised financial model assumes a capital receipt of [REDACTED] prior to construction starting at the stadium, which appears to be used to pay down existing debt with Bank of Scotland. This position is reflected in the opening balance sheet in the revised financial model. This [REDACTED] receipt represents a [REDACTED] increase from the previous version of the model and is driven by a reduction of [REDACTED] in Section 106 liabilities and a revision of the valuation of [REDACTED].
- 3.48 The underpinning development appraisal for the Site has been reviewed by BNPP under a separate appointment with the Council. The BNPP assessment notes that value is driven entirely by the supermarket space, and no value has been attached to the commercial space above the supermarket. The 3rd and 4th floors of the development are excluded from the appraisal completely on the basis that these would be cost neutral. BNPP consider that these

²¹ <http://www.arsenal.com/155/unhoused-import-pages/latest-stadium-news/arsenal-confirms-funding-for-stadium-project>

should be included within the appraisal and have undertaken their assessment on that basis. However, BNPP conclude that the projected residual land value of circa [REDACTED] is reasonable, including when the additional 3rd and 4th floor space is factored in. The BNPP assessment is set out at Appendix B to this Report.

Other Third Party Sales

- 3.49 The revised model assumes a further receipt of [REDACTED] prior to construction starting at the stadium, which also appears to be used to pay down existing debt with Bank of Scotland. This position is reflected in the opening balance sheet in the revised financial model.
- 3.50 We understand this to be further sales of surplus land used for relocation purposes, with no completed deals at present. BNPP note in their assessment that this figure is based on a written offer to purchase these properties, although BNPP were not provided with a copy of the agreements due to confidentiality. The Club provided BNPP with a summary of the prices at which these properties were purchased, along with their current book values, and in the context of this information BNPP note the value quoted does not appear unreasonable. This assessment is also included within Appendix B.

Southern Development Site

- 3.51 The Southern Development site is proposed to comprise 285 residential flats (all open market). This represents a change from the previous planning application which was for 200 flats, of which up to 50% were affordable properties. The revised proposals also now contain 15,000 sqm. additional floorspace (5,000sqm. health & fitness club; 5,000sqm. health centre; 5,000sqm. tertiary college). A hotel development has also been removed from this revised application.
- 3.52 The revised financial model now contains a capital receipt of [REDACTED] in December 2015 from the sale of the development which is used to part fund construction at that point. The previous financial model and business plan did not contain any value from this site, with the Club noting that the value has been created through the removal of affordable housing.
- 3.53 The underpinning development appraisal for the Site has been reviewed by BNPP. BNPP in their review of the assumptions concluded that these were broadly reasonable, although some assumptions regarding profit levels and sales values may be somewhat optimistic. BNPP recalculated a residual land value of circa [REDACTED], which is in line with the figure included by the Club in the financial model. The BNPP report on the appraisal is attached at Appendix B.

Sources of Funding

- 3.54 There have been a number of changes to the sources of finance proposed within the revised financial model. This section sets out these key assumption changes and the implications of these changes on the financial model.

Naming Rights Income

- 3.55 The previous financial model included for [REDACTED] income per annum as advised to the Club at the time by AEG. This revenue was received as an annual payment following completion of the new stadium for a period of [REDACTED] years.
- 3.56 The revised financial model now assumes that the intrinsic value of these naming rights is [REDACTED] per annum for a [REDACTED] year term; a [REDACTED] per annum increase in comparison to the previous financial model. We have seen no evidence to back up the assumption as to the value of these naming rights. In comparison, Arsenal entered into a 15 year naming rights deal with Emirates

in 2004 estimated to be worth circa [REDACTED] per annum²² although it has been suggested that this is lower than what the Club may be able to achieve today. Manchester City are estimated to have also entered into a deal with Etihad Airways to both rename their new stadium and to extend playing kit sponsorship worth [REDACTED] per annum²³. Newcastle United are suggested to searching for a shirt and stadium sponsor willing to pay in the region of [REDACTED] to [REDACTED] per annum²⁴. The projected value of the naming rights in the revised financial model therefore appears to be towards the upper end of comparable arrangements.

- 3.57 It is also important to note that the Club have linked their view of the value of the naming rights with the additional development proposed in Phase 2b (new Bill Nicholson Way and Hotel development) and Phase 4 (wider area long term development). The Club also note that the successful delivery of the naming rights deal is core to the deliverability of the scheme.

Upfront Receipt of Naming Rights

- 3.58 The Club also have changed the assumption in the financial model regarding when payments for naming rights are received. In the previous financial model, the Club received an annual payment in relation to naming rights over a period of ten years. In the revised financial model, the Club have assumed that annual naming rights revenues are received upfront, as a discounted lump sum in lieu of [REDACTED] years of payments. The revised financial model therefore now includes the receipt of [REDACTED] prior to the development of the new stadium. We believe this upfront payment from a commercial partner to be an untypical arrangement and have not been provided with any evidence to assert that this may be deliverable. Normally, any potential partner would require clauses which allow for the reduction (or breakage) of annual payments where on field performance deteriorates, for example. The Club have noted that the ability to receive payment in a lump sum would be dependent on the Club securing a large, global organisation as a commercial partner. The Club have noted that they are actively engaging with large scale corporates but at present there is no agreed deal with a partner.
- 3.59 However, where the Club does not receive a lump sum payment from a partner upfront, the Club could look to securitise future annual naming rights payments through a bank. In other words, the bank would lend the Club a lump sum amount on the basis of the future rights payments. However, in this circumstance a bank would not typically advance a loan prior to the formal completion of the stadium to remove any risks associated with the stadium not completing and the naming rights income not being received as planned. As the lump sum funding from the naming rights is projected as required to meet construction costs, the Club would therefore require to secure a bridging loan from a Bank for the period until completion of the stadium. This would likely be a more expensive form of finance and may require guarantees from the Club or parent company.
- 3.60 There is little publically available information in respect of such commercial deals, few comparable arrangements in England, and we have not been provided with any substantiating information by the Club. Therefore it is difficult to robustly assess in particular the values being proposed by the Club.
- 3.61 However on the basis of the above analysis, the values projected would appear to be towards the upper end of the market but not altogether unreasonable. Similarly, the projected lump sum payment would present the Club with additional risks relating to deliverability and potentially the need to securitise an annual contract.

²² www.guardian.co.uk/football/blog/2011/nov/25/stadium-naming-rights-liverpool-chelsea-spurs, www.dailymail.co.uk/sport/football/article-2012439/Manchester-City-net-120m-rename-Eastlands-Etihad-Stadium.html

²³ <http://www.guardian.co.uk/football/2011/jul/08/manchester-city-stadium-etihad-airways>

²⁴ <http://news.bbc.co.uk/sport1/hi/football/15670830.stm>

Public Sector Cash Contribution

- 3.62 The previous financial model did not include any public sector cash contributions towards the development. The revised financial model currently includes a sum of [REDACTED] towards public works and spaces (Podium) and heritage buildings works in 2014/15 included in the projected cost of the build. It is understood that this reflects the funding amount agreed with the Council in relation to these specific items. The Club have confirmed that the development which this public sector contribution is to be utilised against is included within the overall construction cost in the financial model. This public sector cash therefore serves to reduce debt funding requirements and contribute to the delivery of the new stadium. This would appear reasonable.

Capital Allowances

- 3.63 The development of the new stadium can potentially give rise to valuable capital allowances in relation to plant and machinery. These are incurred annually and can be used to reduce tax liabilities. The previous financial model did not indicate the use of these valuable capital allowances in contributing towards the financing of the new stadium. The revised financial model does include capital allowances in the calculation of the cashflow projections for the new stadium. These are projected to contribute to a potential tax saving of approximately [REDACTED] over the period projected, which we understand was advised to the Club by Deloitte.
- 3.64 It should be noted that a detailed review of the reasonableness and calculation of capital allowances is outside of the scope of this report and these have been accepted as provided.

Summary Assessment of Changes to Key Assumptions

- 3.65 We have reviewed the key assumptions within the revised financial model, both in comparison to the previous financial model and also to consider their reasonableness in relation to evidence provided by the Club and in relation to comparable metrics or benchmarks from similar schemes.

Ticket Revenue

- 3.66 Projected ticket revenues and notional revenues per seat at the new stadium have increased slightly from the previous financial model. This has been driven by a change to the mix of ticket types sold, increases in pricing and increases in the assumed rate of sales. These assumptions have been based on research undertaken for the Club by Comperio Research. A comparison to other similar Clubs in the Premier League, and the experience of Arsenal in moving to the new Emirates Stadium would indicate that the ticketing assumptions to appear to be broadly reasonable, although from a funder's perspective may now be considered to be more of a 'best case' rather than a base case scenario. The impact of this is considered in the following Section on the revised funding strategy.

Naming Rights

- 3.67 There is little publically available information against which to benchmark the reasonableness of the value placed on the naming rights and we have not been provided with any information to back the assertions in the model. Therefore it is difficult to assess the overall reasonableness of assumptions in this area.
- 3.68 The Club now assume the upfront receipt of [REDACTED] in relation to naming rights at the new stadium. The projected value in the revised financial model however appears to be towards the upper end of comparable deals suggested to have been achieved by Arsenal and Manchester City and being sought by Newcastle United, and in this context would not be considered unreasonable.
- 3.69 However, an upfront receipt is not the typical arrangement for payment as naming rights are normally paid annually by the commercial partner, although it may be possible to use a Bank to

provide bridging finance and subsequently lend a lump sum against the future contracted payments. The upfront payment would require the Club securing a large global organisation as a commercial partner. On this basis, it would appear that this assumption would present additional risks to deliverability which the Club would require to manage.

Development Sites

- 3.70 The underpinning development appraisals for the Northern and Southern Sites have been reviewed by BNPP, who have concluded that the appraisals as provided by the Club do appear to be broadly reasonable.

Construction and Operating Costs

- 3.71 Construction costs remain broadly consistent with other similar stadia as noted in our previous report, however the Council may wish to obtain a technical opinion on the detailed cost plan. Operating costs are as advised by the Club based on existing levels of expenditure, increased pro rata for the larger capacity. We are unable to verify these figures and have accepted these as provided by the Club.

4 Review of Revised Funding Strategy

Summary of Previous Funding Strategy

- 4.1 The previous financial model assumed that the cashflow of a 100% debt (£[REDACTED]) funded project was not viable, as cashflow deficits totalling £[REDACTED] accrued by 2021/22. Whilst it was possible to demonstrate that this deficit could be significantly reduced by changing the profile of the repayments, the Club had indicated that it would in any event only be willing to raise £[REDACTED] of debt. This level was considered by the Club to be a prudent amount for the Club to raise, and when compared to the construction costs of £[REDACTED] at the time, essentially resulted in a funding gap of circa £[REDACTED].

Proposed Revised Sources of Finance

- 4.2 There have been a number of changes in the business plan and financial model in relation to sources of funding and the underlying financial assumptions. A table setting out the revised sources and uses of funds up to the point of opening of the new stadium is presented below:

Source	£ m	Use	£ m
Senior debt	[REDACTED]	Construction 2013-	[REDACTED]
THFC Equity	[REDACTED]	Construction 2012/13	[REDACTED]
Naming Rights	[REDACTED]	Repay Existing Debt 1	[REDACTED]
Pre Sales	[REDACTED]	Repay Existing Debt 2	[REDACTED]
Supermarket Sale	[REDACTED]	Finance Costs	[REDACTED]
Third Party Sale	[REDACTED]	Pre Opening costs	[REDACTED]
Southern Site Sale	[REDACTED]	Reserve Accounts	[REDACTED]
Grants	[REDACTED]		[REDACTED]

- 4.3 As can be seen from the table above, there are a range of different funding sources which contribute towards the overall cost of development and towards the reduction of existing debt.
- 4.4 By way of comparison, the sources of finance identified in the previous model included only senior debt of c. £[REDACTED], a receipt from the sale of the supermarket of £[REDACTED] with all other cashflow requirement met through accruing the large cashflow deficit outlined in paragraph 4.1 above.
- 4.5 In considering the revised funding strategy, the key sources of finance are summarised in the following paragraphs. In particular, this considers:
- any changes in the funding sources or assumptions since the previous model;
 - the timing and use of each source of finance; and
 - a consideration of reasonableness and any key risks to deliverability.

Senior Debt

- 4.6 The previous financial model was predicated on a 100% debt finance structure, which resulted in the Club borrowing circa £[REDACTED]. This was considered by the Club to be unsustainable and undeliverable due to the large projected deficit which accrued in servicing this level of debt.

- 4.7 The revised financial model projects borrowing debt of circa [REDACTED] to fund the majority of the development of the new stadium. Previously, the Club had indicated that it would only be willing to borrow up to [REDACTED] towards the new development, however under the revised model the Club make repayments of existing debt of approximately [REDACTED] which would indicate net new borrowing for the development of approximately [REDACTED], in line with the Club's previously stated position. The sources of finance used to make the repayments of existing debt include the sale of the Northern (supermarket) development, Third Party Land Sales and income from the naming rights. These items are discussed in more detail later in this Section. The potential overall debt position should also be read in the context of paragraph 4.21 which sets out the potential level of borrowing where the Club securitises naming rights.
- 4.8 The Club have projected a cost of debt of [REDACTED] during construction. The Club have assumed that the total debt of [REDACTED] is subsequently refinanced post completion of the new stadium at a lower rate of [REDACTED]. Whilst this represents a reduction in the cost of finance from [REDACTED] in the previous model, this revised cost of finance would still be considered to be broadly reasonable in the current market.

Ability to Raise and Service Debt

- 4.9 As set out in our previous report, the Club noted that they had received indications that they may be able to raise long term finance by way of a private placement in the USA of between [REDACTED] and [REDACTED]. A heavily caveated letter from Barclays provided by the Club also indicated that [REDACTED] of debt finance may have been able to be raised in relation to the Olympic Stadium scheme. The Club have not provided any direct evidence of their ability to now raise [REDACTED] of debt in relation to the development or of the ability to refinance such an amount. However, it is recognised that this is not an unusual position pre planning consent. Arsenal are understood to have raised circa [REDACTED] of senior debt from a consortium of six banks²⁵ for the new Emirates stadium, although this was in a significantly more benign banking environment. The Club note that they are engaging with potential funders at present but have not yet considered the detailed assumptions in the model with funders.
- 4.10 From a funder perspective, the annual projected interest charge on [REDACTED] of debt is approximately [REDACTED] (prior to refinancing). The projected incremental net earnings generated by the new stadium before interest charges are applied ("EBITDA") in year 1 are approximately [REDACTED]. However, actual cashflow available for debt servicing ("CFADS") is a key metric for a potential lender, and to adjust from EBITDA to CFADS, a negative working capital adjustment of [REDACTED] is required in initial years to account for the upfront sale of season tickets and naming rights. This results in CFADS of approximately [REDACTED] in the first two years post opening of the new stadium. The ratio of CFADS to interest is therefore approximately [REDACTED] in the first two years of the new stadium, which could be considered to be quite low by a funder. This ratio is projected to improve once the initial years covered by upfront sales of season tickets and premium seats ends. It is important to note that the projected ratios would be significantly improved if the ratio analysis were performed by a funder on the total revenues and cashflow of the stadium, and not just incremental cashflows as currently modelled by the Club - this adjustment currently removes approximately [REDACTED] of net revenue from the financial model, implying a robust potential CFADS ratio in the region of [REDACTED].
- 4.11 Whilst this analysis from the financial model indicates that [REDACTED] of debt can be serviced by the incremental cashflow, albeit with reasonably tight cover ratios, a funder may not wish to take this level of exposure to the scheme or achieve greater interest cover ratios.
- 4.12 In this context, the cashflow projections are predicated largely on the underlying assumptions relating to ticket revenues. As noted in Section 3, a funder may view these assumptions as a

²⁵ www.arsenal.com/155/unhoused-import-pages/latest-stadium-news/arsenal-confirms-funding-for-stadium-project

'best case' scenario, adjusting sales levels or prices downwards and basing their willingness to lend on a lower forecast EBITDA and CFADS position. However, it is recognised that the financial projections do not include any revenue from European or domestic cup competitions, and on that basis may be considered prudent.

Sensitivity

- 4.13 By way of a sensitivity, the currently assumed sales rates across all ticket categories were adjusted downwards to 85% (as per the previous financial model) and a revised Year 1 EBITDA and CFADS position of [REDACTED] and [REDACTED], respectively, was calculated. On this basis, during the early years of the scheme the ratio of CFADS to interest is only [REDACTED] i.e. the incremental cash generated is insufficient to meet interest repayments.
- 4.14 For a funder to require a CFADS to interest ratio under this sensitivity of just [REDACTED] would imply a maximum interest charge of c. [REDACTED] and therefore a maximum level of debt of [REDACTED]. This in turn would result in a funding gap of almost [REDACTED] which a funder would most likely require to be met by equity.
- 4.15 Again however, it is important to note that the this ratio and funding position would improve substantially if calculated on the basis of total and not incremental cashflows, which have approximately [REDACTED] of net revenue from the existing stadium removed. On the straightforward assumption that total CFADS produced by the stadium under this scenario is therefore [REDACTED] (a net revenue at existing stadium plus [REDACTED] incremental) then the CFADS to interest ratio increases to a reasonably robust [REDACTED]. It is likely that this is the basis on which a funder would base their lending decisions.
- 4.16 In summary:
- the previous financial model included [REDACTED] of senior borrowing but this was unsustainable due to the large cashflow deficits incurred;
 - the revised financial model projects senior borrowing of [REDACTED], however the Club have no direct evidence of their ability to raise this quantum of debt at present and this remains the key uncertainty and challenge for the Club;
 - the incremental stadium cashflows projected are capable of servicing this level of debt. However the risk exists that a funder may sensitise the underlying cashflow projections downwards. This presents the risk of a funder being unwilling to lend [REDACTED] on the basis of the incremental cashflows and creating a significant funding gap which would require to be met by equity;
 - the ability of the total stadium cashflows to service this level of debt is significantly greater and would appear reasonable;
 - cashflows exclude European and domestic cup competition revenues which would appear prudent.

THFC Equity

- 4.17 The previous financial model did not include for any new equity towards the cost of the development. The revised financial model now includes an amount of equity (described as provided by the football club and not the parent company) of circa [REDACTED]. The revised financial model notes shows that this equity is used in 2012/13 to fund a corresponding amount of capital works in relation to the new development. This equity does not appear to be used to repay any existing debt.
- 4.18 We have not seen any documentation in relation to this equity commitment and accept this would be made available as described by the Club.

Naming Rights

- 4.19 As set out in Section 3 of this Report, the previous financial model included an amount of [REDACTED] per annum income in relation to the sale of naming rights at the new stadium. The revised financial model has two fundamental differences in this regard, specifically that the intrinsic value of the naming rights has been increased to [REDACTED] per annum, and an assumption has been made that a commercial partner will make an upfront, discounted lump sum payment of [REDACTED] in lieu of an annual payment profile. The Club note that this increase is also an indicator of their confidence in the wider impact of the scheme on the area to attract an appropriate partner.
- 4.20 The [REDACTED] lump sum is received in 2012/13 and projected to be used to repay approximately [REDACTED] of existing debt and to part fund construction for 12 months prior to the drawdown of the main senior debt facility.
- 4.21 The key risks and uncertainties in relation to the naming rights are set out in detail in Section 3 and therefore are not rehearsed here in detail. However in summary, the Club have not provided any direct evidence to back the assertion that naming rights at the new stadium are worth [REDACTED] per annum. Furthermore, the upfront payment of a lump sum by a commercial partner is understood not to be a typical arrangement, particularly prior to the completion of the new stadium. Indeed a partner would commonly insist on performance and break clauses in contracts whereby payment can be reduced if on-field performance significantly deteriorates. In addition, the Club have stated that they believe the value of the naming rights to be linked to the wider development (phases 2b and 4), implying any impediment to development of these phases would negatively impact the value which the Club could realise from naming rights.
- 4.22 As set out in Section 3, the Club would also have the option of obtaining a bank loan for a lump sum, to be serviced by the annual contracted payments from the commercial partner. This would be an option to mitigate the risk of not receiving an upfront payment from a commercial partner. This process, known as securitisation, would deliver the Club an upfront capital sum however a bank would not enter into such an arrangement until the new stadium was completed. Therefore, the Club would typically also need to put in place an amount of bridging finance to fund the development to completion, before a lender would securitise any naming rights contract. Bridging finance could be obtained by way of a loan or cash injection from the Club or parent company, or through a bank although this would be an expensive form of finance and likely require security and/or guarantees to be provided by the Club or the parent company.

Impact on Borrowing Levels

- 4.23 In the circumstance where the Club securitises the naming rights income, the Club is essentially incurring additional borrowing of up to [REDACTED]. Whilst this debt would be serviced by the naming rights income received each year, the Club total debt position could increase from [REDACTED] to [REDACTED]. Even taking into consideration the repayment of [REDACTED] of existing debt, this would serve to increase the overall debt position of the development by significantly more than the [REDACTED] which the Club previously stated it would be comfortable in raising. The Club would also be exposed to a degree of risk as the repayment of the securitised loan to a bank would require to be made each period, however the level of the naming rights payment would be at risk of reduction should contract conditions relating to inter alia on field performance are not met.
- 4.24 In summary:
- the Club consider the projected value of the naming rights is linked to a successful development of phases 2b and 4;

- the Club have not provided any evidence to back the assertion that the naming rights are worth [REDACTED] per annum, significantly more than previously projected, greater than has been suggested as received by Arsenal, but not unreasonable when compared to similar amounts suggested in connection to Manchester City and Newcastle United;
- the Club project an upfront capital receipt in lieu of annual payments from a commercial partner, which is an untypical arrangement, likely requiring partnership with a large global organisation as sponsor;
- the Club would potentially be unable to securitise an annual payment stream into a lump sum payment through a bank until post stadium completion, which would require the sourcing of bridging finance either from a bank or internally to fund the stadium development process;
- any securitisation would result in the Club borrowing significantly more than the [REDACTED] which it previously noted as being a prudent level of borrowing.

Pre Sales

- 4.25 The previous financial model did not include any contribution towards development costs from the pre-sale of tickets at the new stadium. The revised financial model includes for [REDACTED] of pre sales of new season tickets and premium seats which contribute directly towards the development costs in 2015 and 2016, reducing the need for further borrowing.
- 4.26 The Club have assumed that circa [REDACTED] of season ticket holders would opt for a product allowing them to purchase upfront a 3 year season ticket and assumes an upfront payment is required in relation to all premium seats sold. By way of comparison, it can be noted that Arsenal pre-sold 100% of available season tickets, premium seats and corporate boxes when moving to the Emirates Stadium²⁶ and the Club are estimated to have circa 33,000 supporters on the season ticket waiting list²⁷. On this basis the level of pre-sales do not appear unreasonable.
- 4.27 However, despite the experience of Arsenal and the fact that the level of pre-sales included within the financial model are broadly agreed to research undertaken for the Club by Comperio Research, there is a clear risk that failure to realise this level of pre-sales will impact on deliverability of the stadium development. It should also be noted that the Club have stated that the level of pre-sales which can be achieved is impacted directly by the delivery of the wider development scheme (phases 2b and 4), therefore any failure to deliver this part of the wider project could have a detrimental impact on pre-sales achieved.

Development Sites

Supermarket (Northern Development) and Third Party Sales

- 4.28 The previous financial model included a contribution of [REDACTED] from the sale of the supermarket development. This has increased to [REDACTED] in the revised financial model, representing a [REDACTED] increase in value from the September Model which we understand has been driven by reduced Section 106 liabilities and an increase in the valuation.
- 4.29 A further [REDACTED] has also been included for further third party land sales, based on a written offer to the Club (which has not been provided to us or BNPP). There is clearly a risk that this value may not be achieved.
- 4.30 Both of these sums are used to repay existing debt prior to the commencement of the development of the new stadium.

²⁶ NDP Feasibility Study Final Report, Comperio Research, Arsenal Experience

²⁷ Deloitte Annual Review of Football Finance, June 2011, p54

Southern Development

- 4.31 We have been provided with an appraisal for the southern end of the site which indicates a residual land value of circa [REDACTED] based on the sales value of 285 residential units and this has been included in the December Model as a source of finance. This value is included within the revised financial model as a cash receipt in 2015 and is used to part fund construction costs of the new stadium and reduce borrowing requirements.
- 4.32 The previous financial model did not include any value in relation to this development. There is clearly a risk that this value may not be achieved.
- 4.33 As set out in Section 3, the underpinning development appraisal for the Northern and Southern Sites have been reviewed by BNPP, who have concluded that the appraisals as provided by the Club do appear broadly reasonable. However, whilst the Club have stated they have been offered [REDACTED] in relation to the third party land sales, we have not seen any evidence to back this assertion.

Grants

- 4.34 Public sector grant funding of [REDACTED] has been made available by the Council for the scheme in relation to heritage works and provision of community spaces. This has been included in the revised financial model and the Club have confirmed that the works to which these amount pertain are included within the overall capital costs of the project in the financial model. This public sector funding therefore contributes to the potential delivery of the scheme and reduces the Club's borrowing requirements.

Summary of Revised Funding Strategy

- 4.35 The revised financial model represents a significantly altered and more complex funding strategy, which relies on the achievement of inter alia milestones in relation to ticket pre-sales, site sales and naming rights to deliver the stadium.
- 4.36 In terms of the largest element of the funding, the senior debt, we have seen no direct evidence of the ability of the Club to raise this level of debt. However, the quantum of debt does appear to be capable of being serviced by incremental cashflows of the new stadium, and certainly by total stadium cashflows. Arsenal are understood to have raised a greater level of debt, albeit in less constrained economic times. The cost of the debt does appear to be reasonable. However, a number of risks and uncertainties exist, particularly the extent to which a funder could seek to reduce its level of lending on the basis of downwardly adjusting ticket revenue projections.
- 4.37 Perhaps the largest individual uncertainty at the present point however relates to the income from naming rights. We have seen no direct evidence to suggest that the level, and upfront nature of capital receipt projected to be received by the Club is achievable, particularly prior to completion of the new stadium. Furthermore, it would appear that the value of the naming rights projected by the Club would be at the upper end of the scale when compared to publically available information relating to amounts raised by clubs of a similar standing. Should this amount not be received then the risk exists that there is a significant funding gap for the project.
- 4.38 A similar risk exists in relation to the monies to be received from pre-sales of tickets and the sale of the Southern Development, which whilst both appear to be reasonable in terms of the values projected, are critical parts of the overall funding strategy which will require to be delivered on time and to the level projected to ensure the development is successful.

- 4.39 The overall funding strategy therefore contains a number of key risks and uncertainties however should the Club be able to manage and mitigate these issues, then the overall strategy would appear to have a reasonable prospect of supporting the development.

5 Assessment of Overall Proposals and Key Risks

Introduction

- 5.1 This section seeks to draw together the analysis undertaken in Section 3 (which considered the revised assumptions in the financial model) and Section 4 (which considered the revised funding strategy) and set out in more detail the key risks to deliverability within the revised financial model and funding strategy.

Reasonableness of Key Assumptions and Comparable Metrics

- 5.2 The table below highlights the key operating and financing assumptions in the revised model, and summarises the extent to which these are backed up by evidence or comparable metrics.

Assumption	Source or Evidence from Club	Other Comparable or Benchmark	Comment
Season Ticket pricing [REDACTED]	Comperio Research	Arsenal [REDACTED] Chelsea [REDACTED] Liverpool [REDACTED] Man Utd [REDACTED] ²⁸	Pricing comparable with similar clubs and based on Comperio research.
Premium Seat season ticket pricing [REDACTED]	Comperio Research	Arsenal [REDACTED] ²⁹ Chelsea [REDACTED] ³⁰	Pricing comparable with similar clubs and based on Comperio research.
Match Day Ticket pricing [REDACTED]	Comperio Research	Arsenal [REDACTED] Chelsea [REDACTED] Liverpool [REDACTED] Man Utd [REDACTED] ³¹	Pricing comparable with similar clubs and based on Comperio research.
Corporate Boxes [REDACTED]	Comperio Research	Comparable costs not readily available.	Pricing based on Comperio research who state projected pricing is slightly lower than Arsenal and Chelsea.
Ticket sales rate at stadium of c. 96%	Comperio Research	Arsenal – 99% Chelsea – 98% Liverpool – 97% Man Utd – 99% ³²	Sales rates based on Comperio research and comparable with similar clubs.
Average Revenue per Seat of [REDACTED]	Calculated	Arsenal [REDACTED] Chelsea [REDACTED] Liverpool [REDACTED]	Comparable with similar clubs.

²⁸ www.sportingintelligence.com/2011/08/24/top-of-the-league-leeds-and-arsenal-ticket-prices-240802/

²⁹ www.arsenal.com/assets/_files/documents/aug_11/gun_1312185602_Arsenal_Hosp_Brochure_2012012.pdf

³⁰ http://www.easyflip.co.uk/CHELSEA_HOSPITALITY_2011/ebook.html?page=16

³¹ <http://news.bbc.co.uk/sport1/hi/football/14367608.stm>

³² Deloitte Annual Review of Football Finance, June 2011, Appendix 9

		Man Utd – [REDACTED] ³³	
Operating Costs c. [REDACTED]	Provided by Club	n/a	Reasonable based on pro rata increase to existing costs at current stadium.
Senior Debt borrowing [REDACTED] against cost of [REDACTED]	No direct evidence	Arsenal suggested to have borrowed c. [REDACTED] from consortia of 6 banks ³⁴ against costs of up to [REDACTED] ³⁵	No direct evidence of ability to raise this level of finance. However Arsenal may have raised a similar proportion of funding to meet stadium development costs.
Naming Rights value [REDACTED] per annum	No direct evidence.	Arsenal c. [REDACTED] ³⁶ Man City c. [REDACTED] (kit and stadium rights) ³⁷ Newcastle Utd linked to deal c. [REDACTED] ³⁸	Relatively higher than available information suggests has been achieved elsewhere. No evidence of ability to achieve this value.
Naming Rights lump sum payment c. [REDACTED]	No direct evidence	Comparable information not readily available.	Untypical arrangement to receive payment upfront from partner. No evidence of ability to secure this payment.
Pre Sales of c. [REDACTED]	Comperio Research	Arsenal pre-sold 100% of available season tickets and premium seats. ³⁹	Sales rates based on Comperio research and comparable with Arsenal.
Development Sites [REDACTED]	Development Appraisals from Savills	n/a	Review of appraisals by BNPP notes broadly reasonable.

Net Revenues at New Stadium

- 5.3 As can be seen from the summary table above, the pricing and sales levels projected for all ticket types are based on research undertaken by Comperio for the Club and are broadly comparable with similar Clubs such as Arsenal and Chelsea and also with existing ticket prices at the Club which would suggest projected pricing is reasonable. Projected attendance rates are also reasonable in comparison to Arsenal, Chelsea and Manchester United.
- 5.4 However, it would seem clear that that these levels of pricing and attendance (and therefore revenues) are predicated on remaining at the upper end of the Premier League. Relative attendances for clubs in the middle to lower end of the Premier League by comparison, range from circa 80% at Blackburn Rovers to 91% at Newcastle United. The projected operating costs may also be considered reasonable as these are based on a pro rata increase to existing stadium operating costs.

³³ Refer to paragraphs 3.34 and 3.35

³⁴ www.arsenal.com/155/unhoused-import-pages/latest-stadium-news/arsenal-confirms-funding-for-stadium-project

³⁵ <http://faculty.london.edu/chigson/casestudies/pdfs/Arsenal.pdf>

³⁶ www.guardian.co.uk/football/blog/2011/nov/25/stadium-naming-rights-liverpool-chelsea-spurs

³⁷ www.guardian.co.uk/football/2011/jul/08/manchester-city-stadium-etihad-airways

³⁸ <http://news.bbc.co.uk/sport1/hi/football/15670830.stm>

³⁹ NDP Feasibility Study Final Report, Comperio Research, Arsenal Experience


- 5.5 On this basis, the overall net revenues projected within the financial model appear to be broadly reasonable, on the basis that the Club continue to be successful on the pitch and remain at the upper end of the Premier League.

Financing the Development

- 5.6 The Club have not provided any direct evidence from potential funders or commercial partners as to their ability to raise the necessary debt finance or to realise the projected levels of naming rights income. However, the level of senior debt does appear to be serviceable and comparable to the proportion of debt which Arsenal raised when moving to their new stadium. It would not be unreasonable for the Club to seek to raise this level of debt through a funder, although the Club would clearly need to convince any funder in relation to the on-going revenue projections at the stadium and would require to undertake a significantly more detailed due diligence process on the financial model.
- 5.7 We have seen no evidence of the ability of the Club to secure the projected value of the naming rights, or of their ability to receive this as an upfront payment, which is an untypical arrangement. Whilst this arrangement is not unheard of, it does represent a significantly more ambitious assumption than was presented in the previous financial model and represents a challenge to deliverability.
- 5.8 The Club have also projected significant contributions towards the development from pre-sales of tickets and sales of the Northern and Southern Developments. As set out in the table above, each of these projections is underpinned by professional advice to the Club and appears to be broadly reasonable. However, it should be noted that a more detailed study of the proposals would likely be required to support any Compulsory Purchase Order process which the Council enter into to support the development.

Key Risks to Project Deliverability

- 5.9 In order for the revised financial proposals to retain a reasonable prospect of supporting a viable project, it is equally critical that a number of key risks which have been identified in relation to the revised proposals are recognised, managed and mitigated by the Club. These are set out in detail at Appendix C and are summarised below.

Area	Risk	Potential Impact
Senior Debt	Failure to raise  of senior debt	High – may create a funding gap.
	Requirement to use funding consortium	Medium - may impact on timetable and impose more onerous terms
Naming Rights	Failure to achieve projected value	High - may create a funding gap.
	Inability to achieve projected lump sum payment for naming rights	High – would impact on the ability to fund development of the stadium.
	Increased borrowing through securitisation of naming rights	Medium – lenders may reduce the level of debt provided if required to fund debt and naming rights, creating a funding gap.
Pre-Sales	Failure to achieve projected pre-sales of tickets	High – failure to achieve projected levels would create a funding gap.
Supermarket Development	Failure to achieve projected sales value and timetable.	Medium – sale is used to repay existing debt. If not repaid, a funder may reduce amount advanced in new borrowing.
	Failure to achieve planning permission.	High – may create funding gap.
Southern	Failure to achieve projected sales value	High – failure to achieve projected sales

Development	and timetable.	would create a funding gap.
	Failure to achieve planning permission.	High – may create funding gap.
Compulsory Purchase Order & s237 Process	Risk of public inquiry or legal requirements imposing constraints on scheme.	High – may create delays and impact on design and costs.

Overall Assessment

- 5.10 Taken together, it would appear that there are significant challenges and risks to delivery of this project, however this is not uncommon for a project of this nature. There may be further risks to implementation should a Compulsory Purchase Order and the use of s237 powers be required as any constraints imposed could impact on timetable, cost and ability to raise finance. Indeed, to support a CPO process the Club will likely have to provide much greater evidence of their ability to fund and deliver the scheme.
- 5.11 The revised financial model is also predicated on a set of more ambitious underlying assumptions in relation to revenues and a more complex funding strategy than existed in the previous financial model. However, the revised financial model does appear to have set out a strategy to address the funding gap contained in the previous model.
- 5.12 The Club will however need to ultimately convince a lender that the plan is deliverable, particularly in the context of many of the revenue assumptions being at the upper end of the range, driven by the Club remaining at the top end of the Premier League (although it is recognised that the projections do not include for European or domestic Cup revenues). A lender may sensitise these projections, taking a more conservative view on revenue projections which could lead to a funding gap which would be required to be covered by additional equity. The key issue will be the allocation of risk between equity and debt providers. We have also requested evidence from the Club that funders would be willing to lend the projected level of debt and the Club have so far not been able to provide such evidence, although this is not an unusual position at this stage of the process.
- 5.13 On the assumption that the Club can satisfy the challenges presented and mitigate the key risks set out above, particularly in relation to the raising of finance through senior debt and naming rights, and the realisation of the projected value of pre-sales and development sales, then the overall plan does appear to have a reasonable prospect of supporting a viable and implementable Project, taking into account proposed public sector support measures.

A - Grant Thornton Report – September 2011

B – BNP Paribas Real Estate Reports

C - Funding Strategy Risk Identification

Risk Description	Potential Impact	Mitigation
Senior Debt		
1 Failure to raise [redacted] of senior debt to fund the development.	High – Failure to raise the projected level of debt may create a funding gap which will require to be met by equity.	The Club should engage actively with lenders to gain a robust view on levels of funding which may be available and also applicable lending terms and costs. The Club should seek to understand the likely view a funder will take in relation to operating and revenue assumptions (e.g. attendance rates and ticket sales) at the Club and the level of exposure it would be willing to take.
2 Requirement to use a large consortium of funders to raise debt.	Medium - This may adversely impact on timetable and impose more onerous terms and conditions.	The Club should engage actively with lenders to gain a robust view on levels of funding which may be available and also applicable lending terms and costs.
Naming Rights		
3 Failure to achieve projected value for naming rights.	High - Failure to realise the projected value of naming rights may create a funding gap which will require to be met by equity.	The Club should continue to engage with potential commercial partners and clearly establish the market value of the naming rights.
4 Inability to achieve projected lump sum payment for naming rights.	High – the lump sum from naming rights is projected to fund significant early elements of construction. Failure to realise this lump sum would adversely impact on the ability to fund early development of the stadium and may in turn impact on the commitment of senior lenders.	The Club should ensure contingency arrangements are available should the projected value of naming rights not materialise. The Club should continue to engage with potential commercial partners and clearly establish the market appetite to fund upfront naming rights.
5 Increased borrowing through	Medium – the risk exists that lenders will reduce the	The Club should engage with funders to assess the ability to securitise naming rights in the case where a commercial partner is unwilling to make upfront payments. The Club should engage with funders to assess the ability to

Risk Description	Potential Impact	Mitigation
securitisation of naming rights	level of senior debt they will lend in the circumstance where they are required to fund both senior debt and a naming rights securitisation, creating a funding gap.	securitise naming rights in the case where a commercial partner is unwilling to make upfront payments and also to assess the impact this may have on total lending that may be available.
Pre-Sales		
6 Failure to achieve projected pre-sales of tickets	High – significant pre sales of tickets are assumed in the financial model and these are used to fund construction in lieu of further borrowing or equity. Failure to achieve projected pre-sale levels would create a funding gap and may impact on construction timetable.	The Club should ensure it is comfortable with the level of pre-sales included, based on the research carried out for the Club. The Club should ensure that appropriate contingency arrangements are in place to ensure construction can continue in the event there is a shortfall.
Supermarket (Northern) Development		
7 Failure to achieve projected sales value and timetable.	Medium – the revenue from the sale of the supermarket is used to repay existing debt. The risk exists that if this is not realised as projected and existing debt is not repaid, that a funder may reduce the amount it is willing to advance in new borrowing to fund construction.	The Club should ensure it is comfortable with the projected income from the sale and seek to expedite the development and sales process in co-operation with the Council.
8 Failure to achieve planning permission.	High – the risk exists that the Club does not obtain planning permission for the site.	Continue to engage with Haringey Council.
Sale of Southern Development		
9 Failure to achieve projected sales value and timetable.	High – sale of site is assumed in the financial model to fund construction in lieu of further borrowing or equity. Failure to achieve projected sales value or timing would create a funding gap and may impact on construction timetable.	The Club should ensure it is comfortable with the projected income from the sale and seek to expedite the development and sales process in co-operation with the Council. The Club should ensure that appropriate contingency arrangements are in place to ensure construction can continue in the event there is a shortfall.
10 Failure to achieve planning permission.	High – the risk exists that the Club does not obtain planning permission for the site.	Continue to engage with Haringey Council.

Risk Description		Potential Impact	Mitigation
Compulsory Purchase Order & s237 Process			
11	Risk of public inquiry or legal requirement to impose constraints on scheme.	High – the risk exists that if a CPO process and use of s237 powers are required that significant constraints may be imposed on the implementation of the scheme, which may in turn create delays, increase costs and require resolution before funding can be secured.	Continue to engage with Haringey Council.