

2008 Accounts

The Art of Communication

Putting across the message you want your audience to understand

Communication is a two way process. "A message isn't a message until it's understood".

So much is written and discussed amongst Evertonians and this has to be a healthy thing. The support is consistently fantastic – particularly at away matches and All Everton fans want the same thing....

So what do we want?

To win Premier Leagues? Cups? Or in the twenty first century have expectations changed because most fans have a better understanding that football is a business and somehow over the last 20 years Everton have fallen way behind United, Liverpool, Arsenal and Chelsea?

The debate and argument amongst Evertonians on what is *best* for the club over the last few years has been fierce and sometimes passions have overstepped the mark. My view is that so much of the frustration created is simply caused by a lack of communication. Even worse is miscommunication. Worse again is treating the fan base like they are all ignorant or not intelligent enough to understand grown-up messages such as "we can't spend what we haven't got" or "this summer we won't be spending on players unless we feel the value is right and are convinced that they'll strengthen the squad" or "we are committed to increasing player wages to compete for 5th spot, even if it means borrowing increasing amounts from the bank to fund this activity".

I would like a Ferrari. I'd also like Everton to play in a stadium like the City Of Manchester that I sat in last Saturday. Unfortunately I can't afford a Ferrari and whilst I could probably increase the mortgage to get one, I wouldn't put the family at risk to do this in case a recession hit and the repayments affected our lifestyle.

The 2008 Accounts

"RECORD TURNOVER ANNOUNCED

Everton has revealed a Club record turnover of £75.7 million in its latest statement of accounts. Board members and shareholders have been officially notified in the past 24 hours that revenues for the Everton Football Club Company increased by 47% for year ending May 31, 2008 compared to the prior year."

The problem with this type of headline is the first few fan comments (from the club website):

"This is good news lets hope we can sign the players we desperately need in the January transfer window. COYB"

"Well done all those connected with the club. You can only feel pride in a club that can succeed without mortgaging the future and keep building in the way Bill Kenwright and David Moyes have done. With a new stadium and further wise investment in players, we can become one of the big 3 in the country. COYB."

"like Chris said, if we have this money we should invest wisley eg a new proven striker and a hard tackling central midfielder .. or can some of this be used to sign micheal owen he will cost almost nothing.. but he will want hight wages ! sooo im not sure actually on that one ... personally vagner love i would look like and a big signing i think would be gattuso from ac milan he 30 or so wants to play in the premiership at some point 8 to 10 million should get him if we have that £ 75 million."

2008 Accounts - The Facts (i.e. what they actually say)

- Broadcasting income rose from £27m to £47m thanks mainly to the new Premier league deal and also in part revenues from 5 UEFA Cup ties on TV
- Match income was up by 20%. We played 26 home games with total attendance 951,504 against 22 home games the year before with aggregate attendance 780,660. Aggregate attendance was up by 21%

- Staff costs were up by 15% to £44m and are now 59% of turnover.
- Other expenditure was up from £13.5m to £24.5m by 80%. This increase outstripped the total increase in turnover %.
- Interest charges were up from £2.7m to £3.7m
- The sale of Johnson, McFadden, Beattie & Naysmith created a profit on sale of assets of £9.4m
- Executive pay was up from £420k to £470k
- A £24m (47%) increase in revenue resulted in the club BREAKING EVEN
- Investments in players saw borrowings on the balance sheet increase from £65m to £83m
- The balance sheet is nearly £20m negative

The Notes to the accounts indicate a £17m increase in operating expenses (68.8m in 08 from 51.9m in 07) attributable as follows:

- Player wages £7m
- Maintenance Goodison £1m
- Finch Farm expenses?

If Finch Farm accounts for balance of £9m (as described in accounts) then one can only guess there was a sale/leaseback scheme to raise cash and therefore the club has been forced to charge it all through P&L.

PROFIT & LOSS ACCOUNT	2001/02 <i>Actual</i> £'000	2002/03 <i>Actual</i> £'000	2003/04 <i>Actual</i> £'000	2004/05 <i>Actual</i> £'000	2005/06 <i>Actual</i> £'000	2006/07 <i>Actual</i> £'000	2007/08 <i>Actual</i> £'000
Total Income	38,440	46,942	44,672	59,953	58,123	51,412	75,650
Total Expenditure	(39,839)	(41,367)	(47,330)	(49,567)	(55,072)	(51,917)	(68,841)
Trading Profit / (Loss)	(1,399)	5,575	(2,658)	10,386	3,051	(505)	6,809
Interest & Similar Charges	(2,112)	(2,624)	(2,967)	(2,674)	(2,186)	(2,794)	(3,694)
Profit on Sale of assets	13,979	(1,151)	1,592	26,177	(238)	4,311	9,260
Amortisation of Player Regs	(8,913)	(14,780)	(11,343)	(10,380)	(11,421)	(10,438)	(12,349)
Net Profit / (Loss)	1,555	(12,980)	(15,376)	23,509	(10,794)	(9,426)	26
Position	15th	7th	17th	4th	11th	6th	5th

The balance sheet

A balance sheet is a snapshot of a business' financial condition at a specific moment in time. Balance sheets, along with income statements, are the most basic elements in providing financial reporting to potential lenders such as banks, investors, and vendors who are considering how much credit to grant the company. Add the credit crunch to this balance sheet and it is highly unlikely that further loans will be made to the company:

BALANCE SHEET	2007	2008	
Intangible Assets (players)	2,6486	39,435	
Tangible (Property, plant etc)	10,267	9,886	
Total Fixed Assets	36,753	49,321	
Stocks	-	-	No stocks
Debtors	6,958	12,327	
Cash at bank	-	-	No cash in bank
Investments	2,767	2,767	
Current Assets	9,725	15,094	
Creditors due within YEAR	-32,483	-50,931	bank overdraft (up £11m) & creditors (up £5m)
Net Current Liabilities	-22,758	-35,837	Net current liabilities at highest level EVER - up 57%
Total Assets less Current Liabilities	13,995	13,484	
Creditors due long term	- 33,298	- 32,849	Bear Stearns loan, creditors & accruals
Provisions	- 484	- 396	
Net Assets or Liabilities	- 19,787	- 19,761	
Capital & Reserves			
Share Capital	35	35	
Share Premium Account	24,968	24,968	
Revaluation Reserve	3,183	3,183	
Profit & Loss account - deficit	- 47,973	- 47,947	
Equity shareholders' deficit	- 19,787	- 19,761	

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).

CASHFLOW	2007	2008
Cash out/in from operating activities	2,731	10,613
Interest In	126	173
Interest Out	-2,858	-4,010
NET CASH OUTFLOW AFTER FINANCE	-2,732	-3,837
Capex		
Purchases Intangibles	-12,432	-24,257
Purchases tangibles	-787	-1,223
Proceeds from Tangible Sales	330	11
Proceeds player sales	8,339	8,582
Net cashflow from Capex	-4,550	-16,887
Net cashflow before financing	-4,551	-10,111
Purchase of Training Land	-	-
Financings		
Increase in borrowings	500	198
Repayment of Loans	- 640	- 717
Capital element of hp	- 32	- 274
	- 172	- 793
MOVEMENT IN CASH	- 4,723	- 10,904

In short, in a year of record revenue, cash of £11m flowed out (Compared to £4.7m the year before). Remember - the cash position is a snap shot in May - boosted by next season's upfront season ticket cash.

Alternative Communication Strategy?

“RECORD INVESTMENT IN EVERTON ANNOUNCED”

“Everton has revealed that it is now spending more than £81million per year in its latest statement of accounts. Board members and shareholders have been officially notified in the past 24 hours that expenditure for the Everton Football Club Company increased by 80% for year ending May 31, 2008 and wages and salaries by 15% to £44m. The club is confident that the TV and radio companies will continue to increase spend in the Premier League in the long term and that there is no threat to normal operations.”

The accounts SHOULD provide a guide to this season:

- Everton need a good run in the cups to ensure match receipts do not decline.
- Everton need to finish 5th to protect merit payment incomes and ensure good feature on TV.
- Everton have no cash in the bank to fund player purchases without further borrowings.
- Everton spent £1.5m on the new stadium last year – this spend will escalate significantly in the years of development before completion and further inhibit cash spends.

Summary

Since the publication of these accounts a further £15m was invested on a player in August, the UEFA Cup and Carling Cup have been exited and the UK banks have ran out of money to lend. In January we need to pray Man City fancy one of our players (they have cash) and hope that cash flow this year remains positive. The contribution from Everton to finance our share of the new stadium also needs clarification.

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.