THE BLUE UNION

UPDATE
#01

THE BLUE UNION AT ZELIGS

Financial Presentation

Financial report from the public meeting at Zeligs

*With its second meeting attracting an estimated seven hundred concerned Blues, **Colin Fitzpatrick** delivered a superb presentation on Everton FC's finances. Here we take another look at it.*

It would appear that the overwhelming majority of Evertonians, including the current board, agree that there is a genuine requirement for a successful change in the ownership structure of Everton Football Club; a change that will first of all catalyse the resurgence of a club that is being left behind by its peers, and, secondly, a change that will allow Everton to address and develop their infrastructure which will enable them to maximise their income streams and minimise the perceived constraints and the potential bias towards the established Champions league clubs arising from the implementation of UEFA's financial fair play policy.

Bill Kenwright's contention is that he is the man best placed to deliver the change in ownership that is required; whilst the Blue Union, unmotivated by personal gain, are of the opinion that the current board are exclusively responsible for far too many catastrophic business decisions over the past decade, and that they are completely and demonstrably unsuitable to undertake what is perhaps the most important task in Everton's recent history.

Consequently the Blue Union advocate that to facilitate a successful change, one that will ensure a successful outcome for the club, the sale process should be outsourced to professionals who can demonstrate evidence of success and expertise in this field and, once appointed, they will have the autonomy to identify and complete the sale to the organisation that can best demonstrate the resources, ability and a genuine desire to take the club forward on both a commercial and football level in preference to any organisation that simply meets an asking price; a price solely predicated on the need to deliver a return on the main shareholders investment in shares.

Following an ad hoc meeting in September, the result of which was a well attended demonstration, the Blue Union's second meeting, at Zeligs in Liverpool One, drew an equally impressive crowd who came to hear the group's speakers and meet Everton's former manager Howard Kendall and the FA Cup.

The primary focus of the meeting was education; the Blue Union's main presentation gave an overview of the club's finances and how the strategies that have been adopted by the board have inhibited Everton's ability to compete with their peers off the field, which in due course, if not addressed, will inevitably lead to an inability to compete with them on the field.

The Finance presentation began with an explanation that the Blue Union in no way claim to be experts, they're just an ordinary group of Evertonians who have taken an interest and sought information from experts in various fields whose advice has proven to be astonishingly accurate in the past.

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With many supporters enquiring as to where the money comes from and how it is spent, the first part of the presentation focused on highlights of the profit and loss account. It can be seen here, fig 1, that Everton's income is derived from three main sources; matchday income, from tickets and programme sales, media income, distributed by the Premier League and commercial income from sponsorship, advertising and, in Everton's case, payments from the outsourced catering and merchandise operations.

Everton Profit and Loss Highlights 2007 – 2011 [millions]

YEAR	2007	2008	2009	2010	2011
MATCHDAY	17.1	21.3	21.9	19.2	17.4
MEDIA	27.5	46.6	48.6	50.2	52.9
COMMERCIAL	6.9	7.7	9.2	9.7	11.7
TOTAL	51.4	75.7	79.7	79.1	82.0
WAGES	[38.4]	[44.5]	[49.1]	[54.3]	[58.0]
EXPENSES	[11.7]	[22.6]	[22.5]	[23.8]	[23.6]
EBITDA	1.3	8.6	8.1	1.0	0.4
INTEREST	[2.8]	[3.7]	[4.0]	[4.5]	[4.1]
D&A	[12.2]	[14.1]	[14.8]	[18.7]	[17.6]
DISPOSALS	4.3	9.3	3.8	19.2	15.9
PROFIT / [LOSS]	[9.4]	0.0	[6.9]	[3.0]	[5.4]

Fig 1

From their annual turnover Everton need to pay their staff and cover their other operating costs, stated here as expenses. The accountancy term, EBITDA, is an important metric as it indicates whether or not a business is generating sufficient earnings, before they cover additional items including interest, taxation, depreciation and amortisation; hence the acronym EBITDA.

A rudimentary explanation of how Everton end up with either a profit or a loss can be seen on the next page in fig 2. Wage costs, expenses, bank interest, taxation, depreciation and amortisation, [the sum by which the value of assets are reduced annually to give a fair representation of their value on the balance sheet] are added together and subtracted from the turnover figure. To the product of this calculation any profit from the

Everton's Key Financial Figures [millions]

	2007	2008	2009	2010	2011
TURNOVER	51.4	75.7	79.7	79.1	82.0
WAGES	38.4	44.5	49.1	54.3	58.0
EXPENSES	11.7	22.6	22.5	23.8	23.6
INTEREST	2.8	3.7	4.0	4.5	4.1
TAXATION	0	0	0	0	0
DEPRECIATION	1.8	1.8	1.8	1.5	1.4
AMORTISATION	10.4	12.3	13.0	17.1	16.2
TOTAL OPERATING COSTS	65.1	85.0	90.4	101.2	103.3
DISPOSALS	4.3	9.3	3.8	19.2	15.9
PROFIT / [LOSS]	[9.4]	0	[6.9]	[3.0]	[5.4]

Fig 2

It can be seen that Everton hasn't made a profit in the period covered here. Recently Bill Kenwright, in an interview given to talksport, explained that for the future period in which we'll be searching for a new owner, losses in the region of £5m per year would be experienced; looking at the bottom right hand corner of the chart you can clearly see that this is the case, 2011 should show a loss of £5.4m.

However, this isn't the full story, the line above the profit / loss line, the disposals line, indicates the profit derived from the sale of players and other assets. In 2010 the figure of £19.2m represented the sale of Lescott to Manchester City; in 2011 the figure of £15.9 included the profit from the sale of Bellefield, £9m; land that was a legacy of the foresight of Sir John Moores who purchased the land in 1964 for £26,000. Sadly none of this legacy found its way to David Moyes as, according to the note in the 2010 accounts, by company secretary, Martin Evans, it went to the banks to reduce debt.

The £5m losses are therefore dependent on continuing the strategy of the disposal of assets, or to be precise, players. The 2012 accounts, due to be submitted to Companies House in 2013, will show the profit on the sales of Ruddy, Jutkiewicz, Pienaar, Vaughan, Beckford, Yakubu and Arteta.

In 2008 KEIOC questioned the validity of this strategy and received this reply from Everton CEO Robert Elstone:

> **KEIOC:** "This asset utilization and disposal plan, it can't be sustained forever can it; won't the assets run out and the loan repayments overwhelm the clubs ability to provide sufficient funds to obtain better players?"
>
> **ROBET ELSTONE:** "No; we have a highly qualified finance team and a good relationship with the bank; that wouldn't be allowed to happen."
>
> **PUBLIC INQUIRY 2008**

Clearly the above scenario, predicted three years ago, has now happened; we have no money to offer the manager, the banks, according to Bill Kenwright, were about to shut Everton down earlier this year, only for him to produce, in his own words, "a document that prevented them from stopping Everton trading."

So this is where we are today; the business doesn't produce enough money to enable us to compete with the rest of the premiership, we have a major issue with the stadium, an issue which is the root cause of many of our problems, and we have a four man board of directors, three of which appear to do nothing whatsoever and the fourth appears to stagger from one self-made crisis to another.

What are the possible solutions? The accounts shown on the next page, in fig 3, are for a period up to 31st May 2010. Everton could attempt to increase its turnover to cover its shortfall but looking at the figures you begin to appreciate what a herculean task that would be.

Turnover 2010

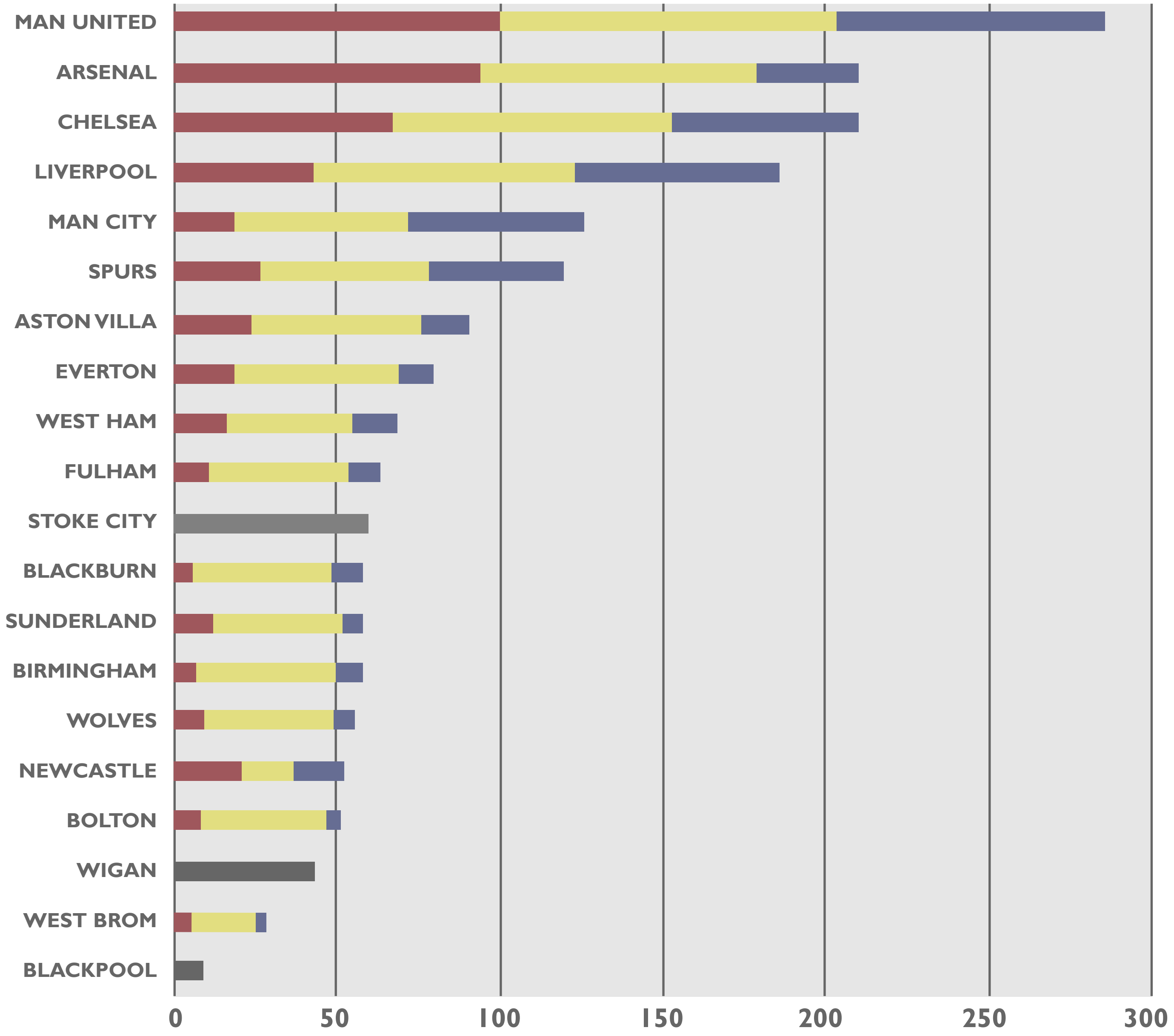

Fig 3

Everton's matchday turnover of just £17m in 2011 is related to the problems with the stadium, the current economy and the increasing antagonism, perhaps apathy, being shown towards the club's board. Whilst not impossible, the person who manages to increase this figure, when a total lack of investment in is on show at every game, would indeed earn every penny of their salary. Similarly an increase in the media payments will only come about through improved performances on the pitch and, once again, the lack of investment in the squad would appear to make any improvement in this department difficult. The exact improvement in the commercial income is slightly masked by the fact that Everton have outsourced their catering and merchandising operations; according to Robert Elstone's explanation below:

> **ROBET ELSTONE:** "If the full revenue from the outsourced catering and retail operations were included in the club's turnover figure, the wage bill, as a proportion of turnover, would have been 64%"
>
> **EVERTON ACCOUNTS 2010**

it is possible to calculate from this statement that the 2010 commercial income figure of 9.7m would have been 15.7m and a quick comparison with our peers can see that we would still have a serious insufficiency.

Has outsourcing, essentially selling off our ability to raise our own revenue, been the right decision? The answer must be an unequivocal yes, under the circumstances it has; this area of Everton's operation was a multimillion pound loss maker, this needed correcting and it now yields a profit; there's an old business adage, "turnover for vanity, profit for sanity". Is it the best solution? Probably not in the long term, if it was, the entire premiership would be following our example; they don't. However the reality was, with no money available to invest in this area, the directors have never actually invested a penny into the club, the quickest way to arrest the losses was to sell off these concessions; it's the Everton way. In 2011 the increases from the new and improved sponsorship and partnership deals also began to make an impact with a 22% uplift in revenue, however, as will be seen later, this is too little too late.

In summary, with no real opportunities to dramatically increase income, the only available course of action was to reduce expenditure. A recent report by leading accountants and business advisors PKF reveals that football clubs are taking unprecedented steps to try to keep their costs under control as pressure continues to build on revenues. We believe that this strategy at Everton, despite furious denials to the contrary, was an important factor in the selling of Ruddy, Jutkiewicz, Pienaar, Vaughan, Beckford, Yakubu and Arteta which has resulted in a cost saving in the region of >£13m a season in wage costs in addition to >£20m in disposal fees. The 2010 premiership wage costs can be seen in fig 6, before the aforementioned reduction in Everton's wage cost is factored in.

Premiership Wages 2010

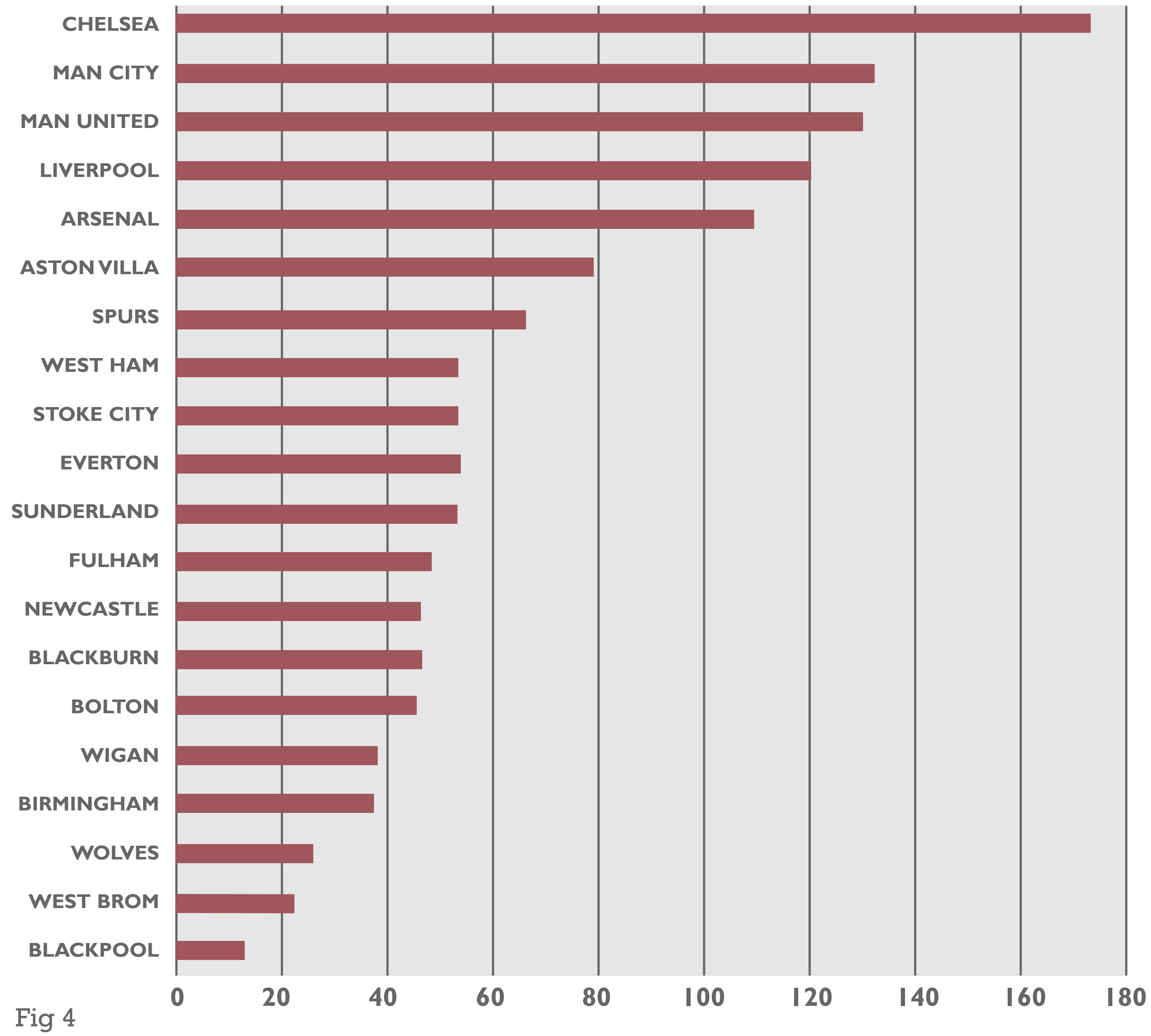

Fig 4

The downside of this exercise in fiscal austerity is that Everton's squad has been significantly weakened. As you can see in fig 5, Everton officially has the smallest registered squad in the premiership and claims of significant investment in future prospects are somewhat surprising as the size of our overall squad is significantly smaller than our peers. If you subscribe to the concept that those who spend the most win the trophies then perhaps a controversial aspect of these measures is that the combination of the two, squad size and wages, with the additional wage savings of 2011, puts us firmly amongst the likely relegation candidates for 2011/12. One can expect David Moyes to earn every penny of his £3m salary this season as it is becoming clear that the incompetency of the board of directors has inevitably arrived on the pitch.

2011 Premiership Squad Size

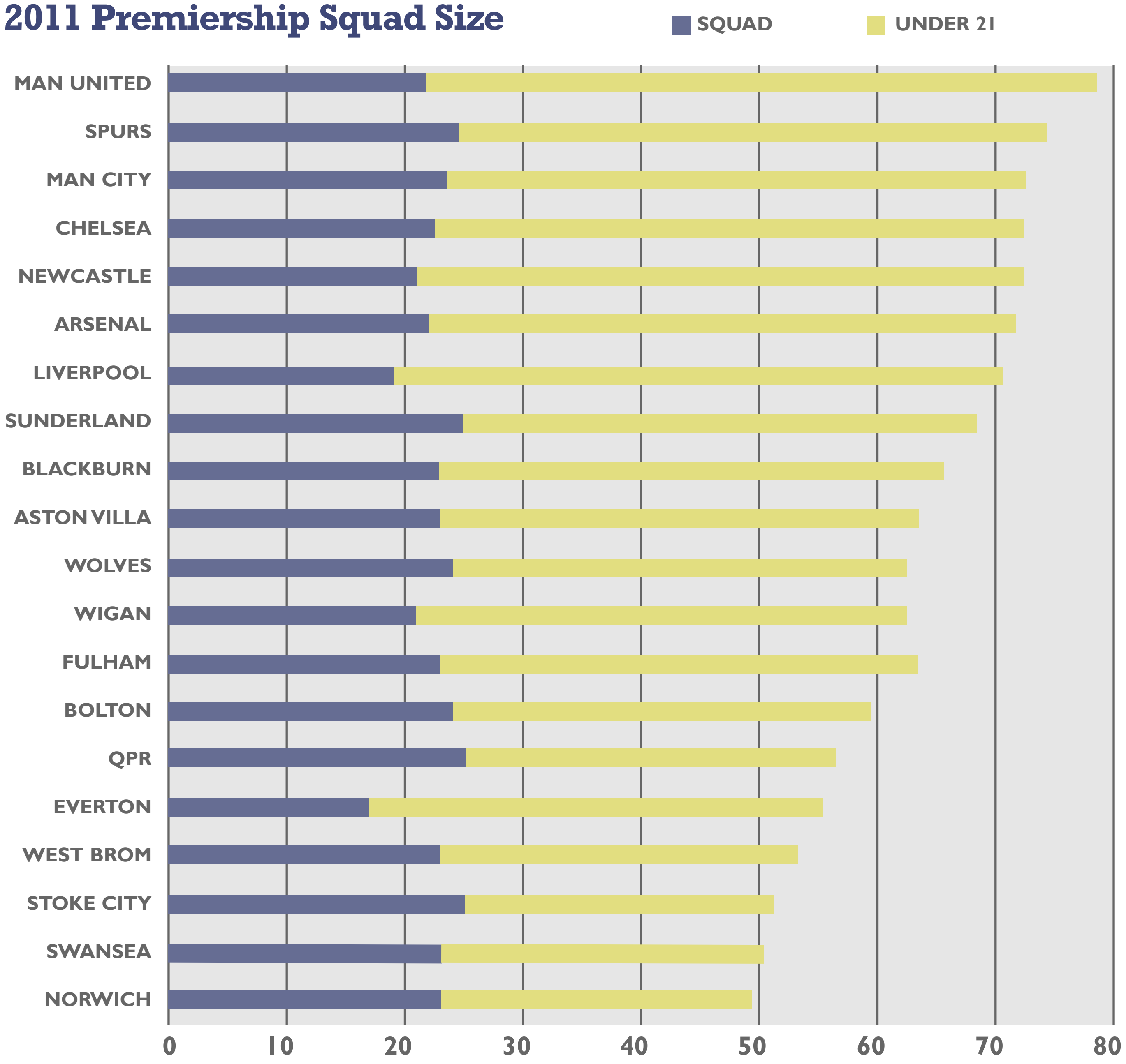

Fig 5

Aside from controlling costs through staff reductions, and therefore wages, are there any other areas where savings could be made? There's an area of Everton's finances that have been questioned for many years by fans and small shareholders alike; the line is "other operating costs" which can be found in the profit and loss account, shown in fig 1, expressed as expenses.

In 2007 these were stated as £11.7m and there then occurred a remarkable increase in 2008 to £22.6 not far off double the previous year. The explanation offered in the 2008 accounts can be seen here:

> "Further significant increases in operating costs were further incurred in the year following the opening of the new Finch Farm training facility. The additional operating costs compared with those incurred at Bellefield are seen as a necessary investment to provide the appropriate training facilities required by both first team players and academy players at a Premier League club of Everton's standing."
>
> **EVERTON ACCOUNTS 2008**

If this is the explanation, that a training ground costs an additional £11m to operate, as suggested in the 2008 accounts, then that is the explanation; we've explained we're not experts, we're just ordinary football fans but it does appear a remarkable uplift in costs.

What are these mysterious "**other operating costs**", well, they're not mysterious at all, but suspicion is fostered when nobody will answer the question; including the chairman who recently claimed he had no idea but then preposterously offered, "is it something to do with David?"

The other operating costs are simply everything else that it takes to run the business apart from what is listed elsewhere in the accounts, staff costs for example. Items in 2007 included the academy at £1.65m, administration at £850k, advertising screen rental, away match expenses, Bellefield costs of £300k, communications, director's expenses, home match expenses, legal and professional costs, maintenance, pitch costs, scouts, ticket office and £800,000 for utilities, the list goes on and on and as can be seen here, in fig 9, they totalled £11.7m; then in 2008 they experienced a 93% uplift, attributed to the new training ground, with a further 4.4% increase over the next 4 years. That's a remarkable uplift from £300k; yes it's much larger facility and would obviously incur additional costs; but twenty seven times the operating cost of Bellefield?

There were other known increases in the operating costs in 2008 that you can discount, an extraordinary legal and professional charge, attributed to Kirkby, increased stadium maintenance charges and general increases which every business is exposed to, nevertheless it would appear that an increase in operating costs directly attributable to Finch Farm would be of the magnitude of £8m.

Other Operating Costs and Wages 2007 – 2011 [millions]

YEAR	2007	2008	2009	2010	2011
TURNOVER	51.4	75.7	79.7	79.1	82.0
WAGES	[38.4]	[44.5]	[49.1]	[54.3]	[58.0]
EXPENSES	[11.7]	[22.6]	[22.5]	[23.8]	[23.6]

Fig 6

The level of additional cost, attributed to Finch Farm, has been confirmed through the latest mantra that emerged in the early part of 2011 when supporters were repeatedly told that 85p of every pound generated finds its way to Finch Farm. We can see from fig 6 that our turnover in 2011 is expected to be £82m, we know that the players and their agents take £58m + £3.6m, a total of £61.6 million or to put it another way, the players and their agents receive 75p from every pound the club generates, leaving 10p or 10% to run Finch Farm, 10% of £82m being £8.2m, the same figure again and again.

You can see that all the money at Everton is accounted for; it's unlikely that any other costs can be cut and any increases in turnover would be minimal. Where does that leave Everton? In order to understand the magnitude of the task faced by club employees on a daily basis a comparison has been made with Spurs.

Yes, Spurs are a London based club, but the synergy is there; traditionally they have been in our peer group, they hail from an equally insalubrious area of a major city, they have similar obstacles standing in their way but most of all, over the five year period discussed in this document, we're pretty much equal; yes they may feel superior, but the reality is they witnessed the wrath of a night game at Goodison last season, and ran out losers, and over the five aforementioned years they have averaged 7th place whilst we have averaged 6th, an endorsement of David Moyes percentage style football and perhaps an indication that he will successfully steer the ship to safety this season? We'll have to wait and see.

Everton v Spurs Income Comparison [millions]

YEAR	MATCHDAY		MEDIA		COMMERCIAL		TURNOVER	
2007	17,090	30,899	27,462	33,734	6,860	38,518	51,412	103,091
2008	20,460	28,615	46,637	40,320	8,553	45,844	75,650	114,788
2009	21,899	27,857	48,634	44,811	9,136	40,344	79,669	113,012
2010	19,206	26,849	50,194	51,519	9,676	41,446	79,076	119,814
2011	17,400	TBC	52,900	TBC	11,700	TBC	82,000	TBC

Fig 7

The gulf in the matchday figures isn't down to attendance levels, our average attendance last season was 35,038, whilst Spurs managed 35,073, they were tenth in the attendance league and we were ninth; it would be a brave decision to increase our ticket prices by £10 to overcome the £7m shortfall; attendances would obviously drop. So on matchday income we are where we are and the unaddressed stadium issue only exacerbates the problem.

On media, as you would expect for close rivals in the league, over the period discussed, the incomes are similar; however, it is when we move to the commercial income stream that Everton are absolutely annihilated; Spurs have an income stream four times that of Everton which significantly contributes to their turnover which is in the region of 50% greater than that of Everton.

The gulf between the "haves and the have nots" is immense, yet it is somewhat surprising as to the level Everton have found themselves with nothing. We're slightly above average in our attendances, as can be seen in fig 8 opposite.

Attendances 2010/11

	TEAM	TOTAL	AVERAGE
1	MAN UNITED	1,427,077	75,109
2	ARSENAL	1,140,480	60,025
3	NEWCASTLE	906,640	47,717
4	MAN CITY	871,726	45,880
5	LIVERPOOL	813,584	42,820
6	CHELSEA	787,271	41,435
7	SUNDERLAND	760,209	40,011
8	ASTON VILLA	706,685	37,193
9	EVERTON	684,738	36,038
10	SPURS	678,368	35,703
11	WEST HAM	601,685	33,426
12	WOLVES	526,222	27,695
13	STOKE	510,303	26,858
14	BIRMINGHAM	483,775	25,461
15	FULHAM	475,810	25,042
16	BLACKBURN	474,995	24,999
17	WEST BROM	468,976	24,682
18	BOLTON	434,528	22,869
19	WIGAN	319,431	16,812
20	BLACKPOOL	299,815	15,779

Unofficial Average Attendance: 35,283

Fig 8

As Fig 3 illustrates, Everton also has the eighth highest turnover in the premiership, yet we are unable to compete off the field with clubs of a lesser stature. Everton's business isn't selling merchandise and food, they're just facets of the business; the business is being a professional football club in the best league in the world and in order to do that we must have a business plan that delivers funds to the manager. A shocking statistic can be seen in fig 9 overleaf, in the past five years Everton have only managed a net spend of £1m.

Premier League Net Spending 2006 – 2011 [millions]

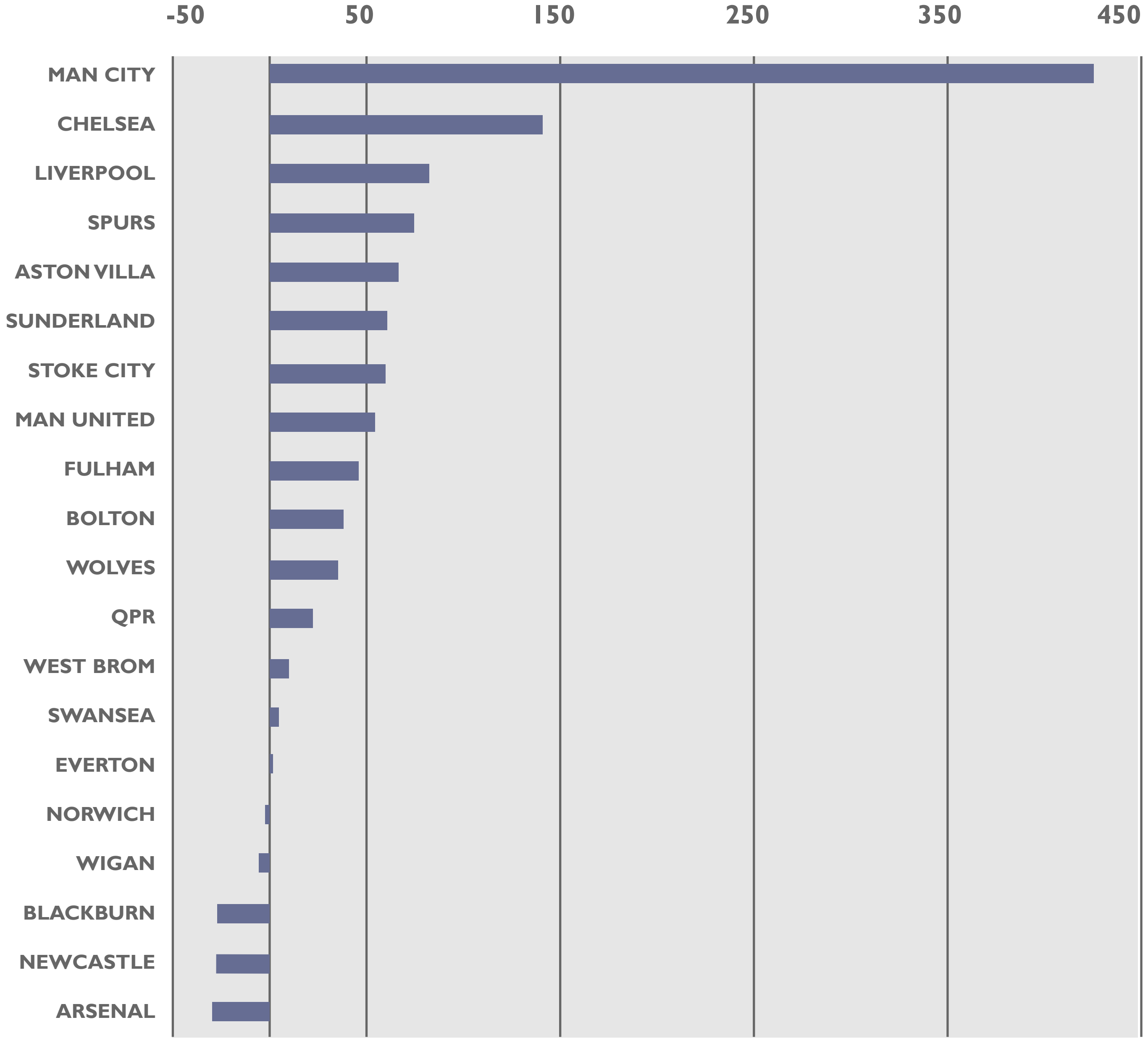

Fig 9

This isn't because we're a well run business like Arsenal, this is because our money is being used to prop up a failed business plan. We're in a corner, it's impossible to generate sufficient money from the business to rectify the situation and the time has come to take the only decision that can solve our dilemma, sell the business; but not sell the business to the first person who comes along with an attractive offer to the current major shareholders.

The Blue Union has expressed their concerns over the suitability of the current chairman and the board to conduct the sale process. This concern is not without foundation; every Evertonian will remember the ineptitude over the NTL deal which resulted in the Prudential securitisation loan that will cost Everton over £60m, they remember the inability to deliver a truly world class stadium in the city centre, they remember the embarrassing and thoroughly disgraceful spectacle of producing a person masquerading as an Evertonian at the shareholders meetings claiming to represent an organisation that was used to oust then director Paul Gregg. The list can go on and on but there is one event above all others that should confirm that the current board have forfeited any right whatsoever to conduct the sale; Kirkby.

PREDATORS V PRODUCERS

"It's a question of rewarding the producers in industry rather than the predators of finance"

Ed Miliband, King's Dock. Liverpool, 2011

Kirkby was a disgraceful attempt to sell a lie to the supporters and fellow shareholders; no £50m towards the cost of the stadium, we were paying for the lot, no world class stadium, a £78m barely championship grade construction, nine miles for the city region centre with very little increase in revenue when the true attendance levels were factored into the finances which were heavily criticised by the secretary of state as Everton were unable or perhaps unwilling to explain them. The whole scheme was officially condemned as a con by Liverpool and Sefton Councils. Everton were reduced to becoming little more than a device to deliver a retail scheme 400% greater than planning regulations allowed; Tesco were winners, Knowsley Council were winners and Everton's board of directors would have been winners when the stadium was VALUED at £130m meaning that £50m would have been added to Everton's balance sheet, whilst the club and its fans were left on the road to the championship.

Why are we adamant that the best solution is to outsource the sale process? A week before the Blue Union were at Zeligs Ed Miliband gave his keynote speech in the Echo Arena, a site where we should be playing our football now. In his speech he spoke about "predators and producers" it was about rewarding those who add value to a business and allowing them to reap their just rewards to the detriment of the predator or mere speculator.

Let's just return to the comparison with Spurs but not the business comparison, a comparison of the business acumen of the directors.

Tottenham Hotspur

1999	
OWNER	ALAN SUGAR
NET ASSETS	£41,000,000
SQUAD VALUE	£28,000,000
TODAY	
OWNER	JOE LEWIS
NET ASSETS	£70,000,000
SQUAD VALUE	£116,000,000
PLANS	BULLS CROSS NORTHUMBERLAND DEVELOPMENT
SEASON TICKETS	33,000 PAID FOR WAITING LIST

Everton

1999	
OWNER	PETER JOHNSON
NET ASSETS	£20,000,000
SQUAD VALUE	£29,000,000
TODAY	
OWNER	BILL KENWRIGHT & CO
NET LIABILITIES	[£35,000,000]
SQUAD VALUE	£33,000,000
PLANS	FINCH FARM DELIVERED NO FURTHER PLANS
SEASON TICKETS	NO WAITING LIST

Fig 10

In 1999, Peter Johnson's last year of ownership, the net assets of the business were £20m and the squad was worth £29m. Spurs, under Alan Sugar, had net assets of £41m and their squad was worth £28m.

Today whilst the Spurs directors have grown their business Everton's has been decimated. Whist Spurs now have net assets of £70m and a squad worth £116m, according to their balance sheet, Everton now have net liabilities of £35m and a squad valued at £33m. When it comes to the future, Spurs are building their own £30m training complex at Bulls Cross, they have planning permission to redevelop White Hart Lane and they have a 33,000 season ticket waiting list that supporters have paid to be on. Clearly the Spurs directors have added value to their business whilst Everton's directors have decimated theirs and with Finch Farm appearing to be little more than a very expensive off balance sheet financing arrangement and nothing else on the horizon is it little wonder why no serious bidders have come forward?

It's analogous to placing £20m on the black and it coming up red then waiting for the croupier to pay you out; you'll be waiting an awful long time and any Casino that does pay you won't be in business for long.

The Blue Union will be holding a rally and protest before the Wolverhampton Wanderers Premiership fixture

COUNCIL FIELDS, SPELLOW LANE
SATURDAY 19TH NOVEMBER
2PM

The Blue Union are campaigning for change; we want to see professionals conducting that change. The current board has brought the club to its knees the spin and the misinformation no longer hides the fact. We don't want Everton to become another Portsmouth, another West Ham, Leeds, Coventry, Blackburn; doing nothing now will facilitate that, we want to remove from the sale process the common factor that has caused catastrophic failure at Everton on many occasions.

Controversially we will campaign for the club to be sold for the value of its debt; we recommend, for the wellbeing of the club, that rather money is put into the pockets of those who have decimated our club we propose that a prospective owner deposit a sum of money into a escrow account, or trust, that will be sufficient to fund the club and the development of the stadium over a five year period.

Our strategy is to take our campaign to the FA and the government to focus on the questionable ownership structure at Everton. We'll take the campaign to the sponsors and the partners, we'll take the campaign to the club's bank and the national media; we're even prepared to take the campaign to prospective owners in a bid to avoid the situation that developed at Liverpool a few years ago.

If you agree with our campaign come and join the thousands who already are supporters of The Blue Union.

IT'S TIME FOR
Change

THE BLUE UNION

www.theblueunion.com

October 2011