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Tottenham Hotspur plc

In early 2008, Daniel Levy, chairman of Tottenham Hotspur Football¹ Club, was contemplating a bold move for the organization, one that he hoped would help vault the team into the upper echelon of the English Premier League (“Premiership”). Despite the club’s long and storied history, Levy felt that the team’s future success likely required a significant investment in physical assets, notably the development of a new stadium.

Tottenham currently played in an old stadium called White Hart Lane with a capacity of only 36,500 fans, but had the opportunity to build a new stadium on some adjacent property. Most of their key competitors, such as Arsenal, Manchester United, and Chelsea, had newer or larger stadiums, and were able to leverage the added revenues these stadiums provided to gain a competitive advantage in the cutthroat player acquisition market. Levy had to decide if the benefits of a new stadium were worth the substantial commitment of time and resources that its construction would entail.

Background

Founded in 1882, the Tottenham Hotspur Football Club was one of the oldest teams in the Premiership. Its rich history featured a successful product on the pitch, as evidenced by major trophies in each of the past six decades—a feat matched only by Manchester United, and a series of innovations off the pitch as well. The club became the first publicly-owned football club in England when it listed on the London Stock Exchange in 1983, and was also the first to introduce corporate hospitality boxes at their stadium. Tottenham also saw the relationship with football fans worldwide as an important one, being were leaders in social responsibility and outreach, often topping the list of Premier League teams in charitable donations.²

Since 1981, the team’s main shareholder had been ENIC International Ltd, an investment company established by Joseph Lewis. Daniel Levy, Lewis’s partner at ENIC, had served as chairman of the club since 2001, after ENIC bought a controlling interest in the club. By June of 2007, ENIC had acquired a combined overall 82% beneficial interest in the club, and was the only shareholder with more than a 3% stake in the club.

¹ Known as “soccer” in the US and Canada.

² http://www.philanthropycapital.org/about_npc/about_us/intelligent_giving.aspx.

Levy, who had formerly served as a director of the Scottish football club Rangers, was a life-long Tottenham fan, but understood the dynamics of football clubs and ran the club to endure financial stability and longevity: “If you sign older players at huge salaries, but don’t get the immediate football success you dreamed of, you cripple yourself.” To this end, Levy focused on three pillars that he felt could help establish a foundation of consistent, long-run success: 1) the development of a new stadium, 2) the building of a new practice facility (or “training ground”), and 3) the continual improvement of the club (particularly the “First Team”, or starting squad) through prudent player acquisitions during the various “transfer windows.”³

The club had a provisional agreement already in place to build the new training ground just outside of London. The club viewed the training ground (the second pillar of their strategy) as also crucial to the third pillar, which was to continually improve the quality of the team. Having a state-of-the-art training ground was a major selling point in recruiting new players, both young players whom they hoped to develop, as well as star players from other clubs or countries whom they hoped to acquire.

Commercial Overview

The Spurs (as the team was referred to by its fans) had a passionate fan base numbering an estimated 20 million people worldwide, including 2.1 million in the United Kingdom. The 36,500 capacity stadium at White Hart Lane was sold out for every game, and there was a waiting list for season tickets of over 20,000 people. As the club’s commercial director noted, “football fans are more likely to change their spouses than their football club,” a sentiment reflected in the fact that over 54% of Spurs fans claim to have supported the club for 6 years or more. The club had created a “One Hotspur Membership” scheme, attracting over 70,000 fans, which offered varying levels of benefits ranging from insider team updates to occasional ticket packages to full season ticket packages, in order to further expand and monetize their brand and fan base.

Overall, the team received revenues from four major sources: attendance, sponsorship rights, merchandise sales, and broadcast rights. Its main costs consisted of player salaries and costs of operating the stadium. Premiership teams were ranked according to their win-tie-loss record⁴ by the end of the 38-game season, which was summarized by the total number of “points” they had accumulated. A win earned a team three points, each tie earned them one point and there were no points gained or subtracted for a loss. A team’s record affected its following which directly increased all its revenue sources. For example, teams that ranked higher earned a greater share of league television broadcast revenues, with each move up in the standings worth an estimated £760,000. Additionally, the top four teams were invited to play in the Champion’s League – a tournament of the top teams from the major European leagues – which earned them additional revenue from

³ A transfer window is a period during the year in which a football team can transfer players either in or out of their team. The Premiership has two transfer windows, one in the offseason from July 1 to August 31, and the other during the season from January 1 to January 31.

⁴ In the Premiership, each game can either end in a win, a tie, or a loss. A winning team will have scored more goals than its opponent and a game will end in a tie if both teams have scored the same number of goals.

attendance and broadcast rights.⁵ The bottom three teams were “relegated” – sent to a lower division in which they could expect to receive far lower revenues.

The official club sponsors were Mansion.com (which paid 34 million pounds over 4 years) and Puma (which paid 25 million pounds over 5 years), but the club had a series of other commercial partnerships as well, and viewed sponsorship revenue in general as a major potential growth area going forward. The club’s merchandise sales had also grown substantially in recent years, in part through the new uniforms (or “kits”) that were updated and re-designed for the team each year and then sold to fans, and also through a total of 11 retail stores that the club had opened at the stadium and elsewhere in London.

At the start of the 2008 season, the Premiership league was in the midst of an impressive run of growth. For the past several years, revenue growth in the Premiership had been averaging 9% per year across all sources. Player salaries were growing even more rapidly at 10% per year, reflecting the intense competition for top-level talent. Both were expected to continue at their current rates for another dozen years or so from which point they were likely to grow at 4% per year (1.5% per year faster than inflation which was expected to be 2.5% per annum). **Exhibit 5** presents a set of analyst pro-forma income statements for Tottenham through 2020.

Stadium Development

White Hart Lane had been updated, expanded, and refurbished several times over the past 100 years, but Levy felt that the only way to truly modernize the club’s match-day facilities at this point was to build a new stadium. The current stadium housed only 36,500 fans, and the club was hoping to accommodate up to 60,000, a goal which simply could not be accomplished by renovating the existing structure. To this end, the club had explored a variety of possible locations and stadium configurations, but ultimately favored a plan which would build a new 60,000-capacity stadium in a location adjacent to their current ground.

Regardless of what stadium it had, Tottenham could anticipate a maintenance capital expenditure that was currently £3.3M⁶ in 2007 and was expected to grow at 4% per year. Depreciation related to these capex charges was £2.2M in 2007 and was also expected to grow at 4%. In addition, the team currently held over £26M of excess cash that could help fund future investments, pay down debt, or be paid out to shareholders. The team planned to put together a consortium of wealthy investors to help finance the construction of the stadium and/or make additional investments. The new stadium would take two years to build at a total cost of £250M which would be paid in roughly equal installments at the end of the first and second years of construction. After-tax proceeds from selling the existing stadium were expected to be offset by costs of acquiring the land for the new stadium.⁷ A special tax incentive would allow the team to depreciate the £250M of construction costs over a 10-year period following completion. Moreover, Tottenham had paid sufficiently high taxes in previous years to immediately capture as tax refunds any tax credits associated with net operating losses.

⁵ In addition, finishing 5th in the Premier League enabled a team to qualify for another European tournament called the UEFA Cup.

⁶ At the time, one £ equaled roughly \$1.60.

⁷ The land acquisition costs would not be depreciable under UK tax law.

With the new stadium, the club expected attendance revenue to increase by 40% relative to forecasts in **Exhibit 5**, sponsorship revenues to increase by 20% relative to forecasts, and stadium operating expenses to increase by 14% relative to forecasts. These increases were estimated based on the historical experience of Arsenal (a rival club), who opened a new 60,300 capacity stadium called Emirates Stadium in 2006, after playing for many years in their old 38,400 capacity stadium at Highbury.

Player Acquisition

Levy believed that constructing a successful football team required more than just financial resources: “People say this business is all about the money, but it’s not. Skill in assessing and developing players, as well as luck, are big factors.” That said, Levy felt that a new stadium was a crucial component of long-run success in the Premiership, in part because the added revenues would allow the Spurs to compete more aggressively in the acquisition market for superstar international players. For example, in the offseason the Spurs would ultimately lose their two leading goalscorers, Robbie Keane and Dimitar Berbatov, in part because both players decided to move on to the “higher-profile clubs” of Liverpool and Manchester United, respectively. To offset these personnel losses, the club had quickly signed Roman Pavlyuchenko from Spartak Moscow, a young Russian striker who the club believed would allow the team to at least maintain their average performance level from the past few years (see **Exhibit 2** for average points and net goals for Tottenham for the past 10 years).

Levy realized, however, that in order to significantly improve the quality of the team, he would have to at least consider the possibility of signing another goalscorer in the future to pair with Pavlyuchenko. The club was scouting a young attacking midfielder/striker, but unfortunately established goalscorers of this type did not come cheaply. Tottenham first would need to pay for the rights to the player, and then negotiate a new contract with him. For the rights to a goalscorer of the caliber that Tottenham had in mind, the club would need to pay a “transfer fee” of roughly £20M. This fee would be paid directly to the player’s current club immediately as a tax deductible expense.⁸ Additionally, the club anticipated negotiating a 10-year contract that would pay the player £50,000 per week for the 2008 season with scheduled increases of 10 percent each year thereafter. Both the transfer fee and the contract were “guaranteed” in that, in the event of injury to the player, Tottenham could recover no portion of the transfer fee and would have to continue paying his salary. This risk was a nontrivial one considering that at any given point in the season an average of 20% of all Premiership players were sidelined by one injury or another.

The pairing of Pavlyuchenko and a new goalscorer had the potential to significantly impact Tottenham’s bottom line. If the new player remained healthy, Tottenham would be expected to increase its net number of goals per season by 12.⁹ By improving the team’s ranking in the Premiership, increases in a team’s net goals and hence its point total led to greater revenues. One concern with this strategy, however, was that because of Tottenham’s small stadium, the club was unlikely to reap most of the revenue increases that would result from any improvement in the club’s performance. In particular, the team forecasted that without a larger stadium that was comparable to

⁸ Again, to the extent that the fee would generate a tax credit, Tottenham had paid sufficient taxes in recent years to collect it as an immediate tax refund.

⁹ A team’s number of net goals (or “goal differential”) during a season is the total number of goals scored minus the total number of goals allowed.

those of the other top-tier teams, Tottenham would only capture *one-quarter* of the anticipated revenue improvements associated with the team's expected improvement. With all these considerations in mind, Levy had to decide if the stadium development plans made sense, and how best to proceed in the player acquisition market as well.

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Tottenham Hotspur plc

Exhibit 1 Basic Information

20-Year Risk Free Rate	4.57%
Tottenham Equity Beta	1.29
Company Tax Rate	35%

Source: Bloomberg, accessed September 2008.

Exhibit 2 Team Valuations, Revenues, and Records (December 31, 2007)

Team	Enterprise Value (EV) ^a	Net Debt/EV	Revenue	Operating Income	Avg. Points (1998-2007)	Avg. Net Goals (1998-2007)
Manchester United	934	0.84	169	50	82	42.7
Arsenal	588	0.53	134	11	77	38.1
Chelsea	345	0.28	154	-20	74	33.9
Liverpool	291	0.18	123	20	67	24.6
Newcastle United	167	0.46	87	6	53	2.3
Tottenham Hotspur	156	0.12	75	5	51	-1.9
Everton	106	0.32	58	-8	49	-4.9
Aston Villa	90	0.16	50	-11	51	0.00

^aEnterprise Value = Equity + Debt - Excess Cash.

Source: Compiled from Forbes.com, "Soccer Team Valuations," http://www.forbes.com/lists/2007/34/biz_07soccer_Soccer-Team-Valuations_Rank.html, accessed August 2008.

Exhibit 3 Tottenham Games and Stock Market Reaction

Game Date	Win	Loss	Draw	Points	Tottenham	FTSE ^a
1/31/2004	0	1	0	0	-0.27%	-0.21%
2/7/2004	1	0	0	3	0.00%	0.72%
2/11/2004	1	0	0	3	11.89%	-0.42%
2/22/2004	0	0	1	1	0.00%	0.21%
3/9/2004	0	1	0	0	0.00%	0.07%
3/14/2004	1	0	0	3	9.52%	-1.22%
3/20/2004	0	1	0	0	0.00%	-1.90%
3/27/2004	0	1	0	0	-2.95%	1.13%
4/3/2004	0	1	0	0	0.00%	0.34%
4/9/2004	0	1	0	0	0.00%	0.47%
4/12/2004	0	0	1	1	8.57%	0.58%
4/17/2004	0	1	0	0	8.57%	0.20%
4/25/2004	0	0	1	1	-2.95%	0.04%
5/2/2004	0	1	0	0	0.00%	-0.66%
5/8/2004	1	0	0	3	8.07%	-2.29%
5/15/2004	1	0	0	3	0.00%	-0.87%
8/14/2004	0	0	1	1	-3.57%	1.13%
8/21/2004	1	0	0	3	0.11%	0.83%
8/25/2004	0	0	1	1	2.41%	0.96%
8/28/2004	1	0	0	3	0.00%	0.81%
9/12/2004	0	0	1	1	0.00%	0.30%
9/19/2004	0	0	1	1	-0.45%	-0.25%
9/25/2004	0	1	0	0	0.00%	-0.81%
10/2/2004	1	0	0	3	-4.13%	0.48%
10/18/2004	0	1	0	0	3.13%	0.62%
10/23/2004	0	1	0	0	0.00%	-1.10%
10/30/2004	0	1	0	0	1.89%	1.07%
11/6/2004	0	1	0	0	0.00%	-0.49%
11/13/2004	0	1	0	0	0.00%	0.19%
11/22/2004	0	1	0	0	-2.91%	0.20%
11/28/2004	1	0	0	3	0.14%	0.18%
12/4/2004	1	0	0	3	-3.95%	-0.53%
12/11/2004	1	0	0	3	3.57%	0.91%
12/18/2004	1	0	0	3	5.26%	0.73%
12/26/2004	1	0	0	3	0.00%	0.22%
12/28/2004	0	0	1	1	4.00%	0.45%
1/1/2005	1	0	0	3	0.00%	-0.12%
1/4/2005	0	0	1	1	7.35%	-0.85%
1/15/2005	0	1	0	0	5.15%	0.54%
1/22/2005	0	1	0	0	-2.58%	0.19%
2/1/2005	0	1	0	0	-0.50%	0.20%
2/5/2005	1	0	0	3	12.50%	0.78%
2/26/2005	1	0	0	3	5.43%	-0.76%
3/5/2005	0	1	0	0	0.16%	-0.18%
3/16/2005	0	1	0	0	0.97%	-0.31%
3/19/2005	1	0	0	3	0.00%	0.21%
4/2/2005	0	0	1	1	-5.48%	-0.35%
4/10/2005	1	0	0	3	-5.04%	-0.21%
4/16/2005	0	0	1	1	6.16%	-1.32%
4/20/2005	0	0	1	1	-3.81%	-0.05%
4/25/2005	0	1	0	0	-7.67%	-0.40%
5/1/2005	1	0	0	3	0.00%	0.24%
5/7/2005	0	1	0	0	0.96%	-0.17%
5/15/2005	0	0	1	1	1.03%	-0.05%
8/13/2005	1	0	0	3	0.00%	-0.03%

Game Date	Win	Loss	Draw	Points	Tottenham	FTSE ^a
8/20/2005	1	0	0	3	4.88%	0.11%
8/24/2005	0	0	1	1	0.00%	-0.37%
8/27/2005	0	1	0	0	0.00%	-0.53%
9/10/2005	0	0	1	1	-1.02%	0.29%
9/17/2005	0	0	1	1	-0.24%	0.40%
9/26/2005	1	0	0	3	-0.59%	-0.11%
10/1/2005	1	0	0	3	-0.39%	0.43%
10/15/2005	1	0	0	3	-0.04%	0.22%
10/22/2005	0	0	1	1	0.00%	1.27%
10/29/2005	0	0	1	1	-0.22%	1.99%
11/7/2005	0	1	0	0	7.69%	0.00%
11/20/2005	0	0	1	1	-2.18%	-0.02%
11/26/2005	1	0	0	3	0.00%	-0.84%
12/3/2005	1	0	0	3	0.47%	-0.32%
12/12/2005	1	0	0	3	-3.94%	0.10%
12/18/2005	0	0	1	1	-4.63%	0.15%
12/26/2005	1	0	0	3	0.00%	-0.03%
12/28/2005	0	1	0	0	-0.83%	0.28%
12/31/2005	1	0	0	3	0.00%	-0.35%
1/4/2006	1	0	0	3	2.83%	-0.41%
1/14/2006	0	1	0	0	-2.85%	0.51%
1/21/2006	0	0	1	1	-2.16%	-0.20%
1/31/2006	0	1	0	0	0.58%	0.72%
2/5/2006	1	0	0	3	1.18%	0.23%
2/12/2006	0	0	1	1	0.60%	0.51%
2/19/2006	0	0	1	1	4.89%	0.29%
3/5/2006	1	0	0	3	0.00%	0.67%
3/11/2006	0	1	0	0	2.91%	0.76%
3/18/2006	1	0	0	3	-2.41%	-0.13%
3/27/2006	1	0	0	3	2.83%	-0.61%
4/1/2006	0	1	0	0	-5.04%	1.00%
4/8/2006	1	0	0	3	0.00%	0.68%
4/15/2006	1	0	0	3	0.00%	0.48%
4/17/2006	0	1	0	0	-0.51%	0.24%
4/22/2006	0	0	1	1	1.80%	-0.55%
4/30/2006	1	0	0	3	0.00%	-0.61%
5/7/2006	0	1	0	0	-4.32%	-0.40%
9/9/2006	0	1	0	0	0.00%	-0.48%
9/17/2006	0	0	1	1	-0.20%	0.22%
9/19/2006	0	1	0	0	-1.35%	0.59%
9/23/2006	0	1	0	0	8.39%	-0.41%
9/26/2006	0	1	0	0	-3.39%	0.96%
10/1/2006	1	0	0	3	0.00%	-0.05%
10/14/2006	0	0	1	1	0.00%	0.25%
10/22/2006	1	0	0	3	0.36%	0.18%
10/28/2006	0	0	1	1	2.49%	-0.55%
11/5/2006	1	0	0	3	4.26%	1.24%
11/12/2006	0	1	0	0	0.00%	-0.23%
11/19/2006	0	0	1	1	-0.60%	0.20%
11/26/2006	1	0	0	3	1.59%	-1.18%
12/2/2006	0	1	0	0	-1.43%	0.48%
12/5/2006	1	0	0	3	4.01%	0.06%
12/9/2006	1	0	0	3	-0.71%	0.12%
12/17/2006	1	0	0	3	6.96%	-0.20%
12/26/2006	1	0	0	3	-0.14%	0.89%
1/1/2007	0	0	1	1	-1.27%	1.45%
1/14/2007	0	1	0	0	0.00%	0.39%

Game Date	Win	Loss	Draw	Points	Tottenham	FTSE ^a
1/20/2007	0	0	1	1	-2.34%	-0.30%
2/4/2007	0	1	0	0	-1.88%	0.11%
2/10/2007	0	1	0	0	-0.61%	-0.46%
2/21/2007	1	0	0	3	0.00%	0.37%
2/25/2007	1	0	0	3	-1.16%	0.52%
3/4/2007	1	0	0	3	0.00%	-0.94%
3/17/2007	1	0	0	3	-1.19%	0.96%
4/1/2007	1	0	0	3	0.00%	0.12%
4/7/2007	0	1	0	0	-1.16%	0.32%
4/15/2007	0	0	1	1	0.06%	0.83%
4/21/2007	0	0	1	1	8.77%	-0.11%
4/28/2007	1	0	0	3	8.42%	0.48%
5/7/2007	1	0	0	3	-3.91%	-0.81%
5/10/2007	0	0	1	1	5.50%	0.64%
5/13/2007	1	0	0	3	2.61%	-0.16%

^aThe FTSE is the UK equivalent of the S&P 500.

Source: Datastream, accessed September 2008.

Exhibit 4 2007 Tottenham Balance Sheet (millions of pounds)**Assets**

Current assets:

Cash and equivalents	26.29
Investments, available for sale	0.63
Inventory - Merchandise	1.17
Accounts Receivable	19.99
Total current assets	48.07

Property and equipment, net

55.78

Intangible assets, net

49.35

Total assets

153.20

Liabilities and Stockholder Equity

Current liabilities:

Accounts payable	64.40
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Total current liabilities

64.40

Long-term debt and deferred interest, net of current portion

43.08

Total liabilities

107.48

Total stockholders' (deficit) equity

45.73

Total liabilities and stockholders' equity

153.20

Shares Outstanding (millions of shares)

9.29

Market Capitalization

128.20

Source: Company reports.

Exhibit 5 Tottenham Pro Forma Income Statement (millions of pounds)

Current Forecast														
	0	1	2	3	4	5	6	7	8	9	10	11	12	13
Revenue	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Attendance	17.40	18.97	20.67	22.53	24.56	26.77	29.18	31.81	34.67	37.79	41.19	44.90	48.94	50.90
Sponsorship	15.70	17.11	18.65	20.33	22.16	24.16	26.33	28.70	31.28	34.10	37.17	40.51	44.16	45.93
Broadcast	28.70	31.28	34.10	37.17	40.51	44.16	48.13	52.46	57.19	62.33	67.94	74.06	80.72	83.95
Merchandise	5.20	5.67	6.18	6.73	7.34	8.00	8.72	9.51	10.36	11.29	12.31	13.42	14.63	15.21
Other	7.10	7.74	8.44	9.19	10.02	10.92	11.91	12.98	14.15	15.42	16.81	18.32	19.97	20.77
Total	74.10	80.77	88.04	95.96	104.60	114.01	124.27	135.46	147.65	160.94	175.42	191.21	208.42	216.76
Operating Costs														
Payroll	50.92	56.01	61.62	67.78	74.56	82.01	90.21	99.23	109.16	120.07	132.08	145.29	159.82	166.21
Stadium Operating Expenses	16.38	17.04	17.72	18.43	19.16	19.93	20.73	21.55	22.42	23.31	24.25	25.22	26.22	27.27
Other	1.80	1.87	1.95	2.02	2.11	2.19	2.28	2.37	2.46	2.56	2.66	2.77	2.88	3.00
Total	69.10	74.92	81.28	88.23	95.82	104.13	113.22	123.16	134.04	145.95	158.99	173.28	188.92	196.48
EBITDA	5.00	5.85	6.76	7.73	8.77	9.88	11.06	12.30	13.61	14.99	16.43	17.93	19.49	20.27
Depreciation	2.20	2.29	2.38	2.47	2.57	2.68	2.78	2.90	3.01	3.13	3.26	3.39	3.52	3.66
EBIT	2.80	3.56	4.38	5.26	6.20	7.21	8.27	9.41	10.60	11.86	13.17	14.55	15.97	16.61
Interest	2.26	2.46	2.69	2.93	3.19	3.48	3.79	4.13	4.50	4.91	5.35	5.83	6.36	6.61
Taxes	0.19	0.38	0.59	0.82	1.05	1.30	1.57	1.85	2.13	2.43	2.74	3.05	3.37	3.50
Net Income	0.35	0.71	1.10	1.52	1.96	2.42	2.91	3.43	3.96	4.52	5.09	5.66	6.25	6.50

Source: Compiled from company annual report 2007, http://admin.tottenhamhotspur.com/uploads/assets/docstore/old/tottenham_ar07.pdf, accessed August 2008, as well as internal company reports.