

Arsenal Holdings plc

Results for the six months ended 30 November 2017

ARSENAL ANNOUNCE HALF YEAR RESULTS

- The Club continued to invest in its playing squad. Higher player wages were the single largest contributory factor in the Club's increased operating costs whilst, in terms of transfers, the Club has twice broken its record acquisition price during this season (Alexandre Lacazette in the summer 2017 window and Pierre-Emerick Aubameyang in January 2018).
- Amortisation charge on player registrations increased to £43.6 million (2016 - £36.0 million) as a result of the transfers in during the first half.
- A rationalisation of the playing squad has resulted in profits on sale of players, amounting to £58.4 million in the first six months (2016 - £6.3 million) with further significant sales / profits subsequently in the January window.
- Turnover from football decreased to £167.7 million (2016 - £191.1 million) as participation in the UEFA Europa League, instead of the UEFA Champions League, adversely impacted broadcasting, ticketing and commercial revenue lines.
- Activity in the Group's property business was led by the sale of one of the two remaining development sites, on Holloway Road, generating revenue of £14.5 million (2016 - £0.8 million) with a profit contribution of £5.1 million (2016 - £0.3 million).
- The Group recorded an overall profit before tax of £25.1 million (2016 – £12.6 million).
- The Group has no short-term debt and its cash reserves, excluding the balances designated as debt service reserves, amounted to £137.6 million (2016 - £100.5 million).
- Overall result for the year expected to be fully compliant with all of the requirements of both the Premier League and UEFA financial regulatory regimes.

Commenting on the results for the six months, the Club's Chairman, Sir Chips Keswick, said:

"This has not been the easiest of campaigns but we are all working hard to ensure we have a strong finish.

Breaking our transfer record twice in one season and the player contracts we have signed shows our commitment to getting the Club back competing for the Premier League. However, our strategy remains self-financing and we must accept all the challenges that brings at a time when the inflation of transfer fees, player wages and the fees demanded by agents has become super-heated.

We need to spend effectively and be the best we can across the whole of our football operations if we are to compete at the level our ambitions for the Club demand."

CHAIRMAN'S STATEMENT

We have enjoyed a decent run in the Carabao Cup but in the final, against Manchester City, the team was unable to find the performance which would have continued our run of cup successes at Wembley in recent years. Losing a cup final is never easy and we share the acute disappointment of our fans. This has been an inconsistent season but as we enter its final stages let's not forget we still have plenty to play for with the UEFA Europa League and an outside chance of a top four finish in the Premier League.

We have continued to invest significantly in our playing squad with our summer acquisition of Alexandre Lacazette and the more recent signings of Pierre Emerick Aubameyang and Henrikh Mkhitaryan.

In addition to these transfers we have also invested in the retention of key players such as Mesut Özil and an increase in player wages is, once again, the single largest contributory factor in the Club's increased operating costs. The identification and development of young players is also central to our strategy. Konstantinos Mavropanos, a 20-year-old centre back, has arrived from Pas Giannina in Greece while Reiss Nelson, Eddie Nketiah, Joe Willock, Matt Macey, Ben Sheaf and Josh Dasilva have also progressed from our Academy to experience first team action.

Breaking our transfer record twice in one season and the player contracts we have signed shows our commitment to getting the Club back competing for the Premier League. However, our strategy remains self-financing and we must accept all the challenges that brings at a time when the inflation of transfer fees, player wages and the fees demanded by agents has become super-heated. We need to spend effectively and be the best we can across the whole of our football operations if we are to compete at the level our ambitions for the Club demand.

Off the pitch we have recruited some outstanding professionals to take our work forwards. Sven Mislintat is Head of Recruitment, joining from Borussia Dortmund; Raul Sanllehi has joined as Head of Football Relations from Barcelona, while Darren Burgess has come in as Head of High Performance from Port Adelaide. These are key appointments and we look forward to them making important contributions.

On the commercial front, we were delighted to announce the renewal of our partnership with Emirates. It is the largest commercial deal we have ever signed and represents one of the longest standing partnerships in world sport which is testimony to the success enjoyed by both parties through the relationship. We have also entered into a number of new commercial partnerships. World Remit, Cover-More, CashBet Coin, Hyde Park Developments, Universal, Konami and Cavallaro Napoli have become partners this season and we continue to work hard to bring new partners to the club. Our online retail business continues to grow positively.

Last summer we enjoyed our most successful pre-season tour so far with a trip to Sydney, Shanghai and Beijing. This has played an important part in attracting new partners and extending the engagement with our fans around the world.

This summer we start work on adding approximately 780 extra seats to Club Level to help bring our capacity back in line with our original figure from 2006. The project will involve adding an extra row to the front of Club Level and will take our capacity to just over 60,600. The work will be completed in two phases, over two close seasons, and will finish in the summer of 2019.

Alongside this work, we plan to upgrade and refurbish additional areas of Club Level over the next two years. The first upgrade will be to Dial Square in the summer of 2018, which will see the area transformed to celebrate the club's original name of Dial Square Football Club.

We continue to make a strong contribution through The Arsenal Foundation and our Arsenal in the Community team. Our annual charity matchday raised a record £309,000 in December and our thanks go to all the supporters, players and staff who contributed to raising this sum.

Financial Review

The financial results for the six months ended 30 November 2017 reflect the impact of competing in the UEFA Europa League, rather than the UEFA Champions League, alongside continuing investment in our player costs. Despite the consequent lower operating profits, the overall results are bolstered by the inclusion of profits from player sales and property development such that the final pre-tax profit for the period was £25.1 million (2016 - £12.6 million).

In summary, the main features of the half year were:

- A fall in revenues from Football of £23.4 million across broadcasting, ticketing and commercial which reflects the changed UEFA competition participation;
- An increase in our wage costs of £13.2 million which was principally player driven, despite the exclusion of any UEFA qualification bonus for the players;
- Profits on sale of players of £58.4 million compared with £6.3 million in the comparative period last year; and
- Sale of the development site next to Holloway Road tube station leading to revenue from property activities of £14.5 million with a profit contribution of £5.1 million.

	2017	2016
	£m	£m
Turnover		
Football	167.7	191.1
Property development	14.5	0.8
Total turnover	182.2	191.9
Operating profits*		
Football*	15.6	54.2
Property development	5.1	0.2
Total operating profit*	20.7	54.4
Player trading	15.5	(27.6)
Depreciation and amortisation of goodwill	(8.1)	(7.5)
Joint venture	0.6	0.2
Net finance charges	(3.6)	(6.9)
Profit before tax	25.1	12.6

*= operating profits before depreciation and player trading costs

The Emirates Cup returned to our pre-season schedule and this, along with match fees from our four-match summer tour to Australia and China, was a positive factor in gate and match day revenues. However, there was one less home game compared to the prior period (third group stage game in the Champions League) which, combined with the reduced pricing in place for the Europa League, meant that overall match day revenue was lower at £42.6 million (2016 - £45.8 million). Match day revenue remains weighted to the second half of the financial year and at 30 November we had played 11 of the 28 home fixtures we are so far certain of playing for the full season.

Broadcasting contributed 41% (2016 – 45%) of our Football revenues for the period. The impact of lower UEFA distributions for the Europa League has been partially offset by a favourable weaker sterling exchange rate in converting those distributions from Euros and ten live broadcast Premier League fixtures, two more than in the prior period.

Upward pressure on our player costs remains strong. Our cash reserves have meant that, despite the lower revenues referred to above, we have been able to continue to invest in new players and contract extensions. An increase of wage costs of £13.2 million is the principal reason for our higher football operating costs of £151.4 million (2016 - £135.1 million). We also incurred increased logistical costs because of the scale of the summer tour, higher stadium security charges and retail cost of goods sold rose in line with improved revenue.

The overall impact of these changes is that half year operating profits from football fell to £15.6 million (2016 - £54.2 million). This was in line with our expectation for a Europa League season.

There were significant changes in each of the two main components of player trading. The investment in the squad over the summer, mainly the acquisition of Lacazette, meant that the amortisation component was increased to £43.6 million (2016 – £36.0 million). However, this was more than offset by a higher profit on player transfers as the start of a rationalisation of the squad delivered gains of £58.4 million, mainly from the sales of Oxlade-Chamberlain, Gibbs, Gabriel and Szczesny, against only £6.3 million profit in the same period last year.

During the period, we completed the sale of the property development site adjacent to Holloway Road tube station and this is the main element of revenues from property of £14.5 million. The one remaining development site on Hornsey Road remains subject to a satisfactory planning consent.

Net finance costs for the period were £3.6 million (2016 - £6.9 million) with an underlying fall as we pay off our fixed rate stadium finance bonds, supplemented by a positive change in the market value of the interest rate swap of £2.5 million (2016 – negative £0.6 million).

The increased profits from player trading and property meant that the overall outcome for this half year is a profit before tax of £25.1 million (2016 – loss of £12.6 million). The tax charge for the period is £4.7 million and the rollover relief applicable to parts of the player trading profits mean that £4.2 million of this charge is deferred.

The Group has maintained a robust cash position with balances as at 30 November 2017 of £160.7 million (2016 - £123.7 million), inclusive of debt service reserves, which are not available for football purposes, of £23.0 million (2016 - £23.3 million). This allowed us to make significant player investments in terms of transfer fees and wage commitments during the January transfer window in respect of Aubameyang, Mkhitaryan and Özil.

The Group enters into a number of transactions, relating mainly to its participation in European competition (UEFA distributions are paid in €) and player transfers, which create exposure to movements or volatility in foreign exchange, including €. The Group monitors this foreign exchange exposure on a continuous basis and will usually hedge any significant exposure in its currency receivables and payables.

Summary

The after-tax result for the period is a profit of £20.4 million (2016 – £10.3 million).

During the January transfer window, in addition to the player investment activity referred to above there were further profitable player sales including Coquelin, Giroud, Sanchez and Walcott.

As always, the actual outcome for the second half will be strongly influenced by the extent of progress in the remaining knock-out competition, the level of live TV coverage for Premier League games and final League position. The overall result for the year will be compliant with all of the requirements of both the Premier League and UEFA financial regulatory regimes.

In closing I should thank everyone for their support. This has not been the easiest of campaigns but we are all working hard to ensure we have a strong finish. We still have much to aim for including a path back to the Champions League. Let's give the team our full support and make a difference over the next few months.

Sir Chips Keswick
Chairman
28 February 2018

Arsenal Holdings Plc
Consolidated profit and loss account
For the six months ended 30 November 2017

		Six months to 30 November 2017			Six months to 30 November 2016	Year ended 31 May 2017
		Unaudited			Unaudited	Audited
	Notes	Operations excluding player trading £'000	Player trading £'000	Total £'000	Total £'000	Total £'000
Turnover of the Group including its share of joint ventures		183,125	746	183,871	193,384	427,052
Share of turnover of joint ventures		(1,588)	-	(1,588)	(1,493)	(3,095)
Group turnover	5	181,537	746	182,283	191,891	423,957
Operating expenses						
- other		(168,924)	-	(168,924)	(142,934)	(294,845)
- amortisation of player registrations		-	(43,616)	(43,616)	(35,974)	(77,126)
Total operating expenses		(168,924)	(43,616)	(212,540)	(178,908)	(371,971)
Operating profit/(loss)		12,613	(42,870)	(30,257)	12,983	51,986
Share of operating profit of joint venture		556	-	556	236	598
Profit on disposal of player registrations		-	58,380	58,380	6,260	6,760
Profit before net finance charges		13,169	15,510	28,679	19,479	59,344
Net finance charges				(3,611)	(6,853)	(14,737)
Profit before taxation				25,068	12,626	44,607
Tax on profit				(4,715)	(2,364)	(9,321)
Profit for the financial period				20,353	10,262	35,286
Earnings per share	6			£327.13	£164.94	£567.14

All trading resulted from continuing operations.

The accompanying notes are an integral part of these statements.

Arsenal Holdings PLC
Consolidated Statement of Comprehensive Income
For the six months ended 30 November 2017

	Six months to 30 November		Year ended 31 May
	2017 Unaudited	2016 Unaudited	2017 Audited
	£'000	£'000	£'000
Profit for the period	20,353	10,262	35,286
Exchange differences	(5)	28	21
Total comprehensive income	<u>20,348</u>	<u>10,290</u>	<u>35,307</u>

Arsenal Holdings Plc
Consolidated balance sheet
At 30 November 2017

	Notes	30 November		31 May
		2017	2016	2017
		Unaudited	Unaudited	Audited
		£'000	£'000	£'000
Fixed assets				
Goodwill		42	458	250
Tangible assets		429,510	428,271	430,973
Intangible assets	7	188,931	220,169	182,029
Investments		5,878	5,166	5,444
		<u>624,361</u>	<u>654,064</u>	<u>618,696</u>
Current assets				
Stock – Development properties		8,114	11,309	12,300
Stock – Retail merchandise		4,811	4,157	7,357
Debtors – Due within one year		80,555	74,115	63,696
Debtors – Due after one year		10,286	2,420	2,175
Cash at bank and in hand	8	160,653	123,734	180,116
		<u>264,419</u>	<u>215,735</u>	<u>265,644</u>
Creditors: Amounts falling due within one year		<u>(217,839)</u>	<u>(239,329)</u>	<u>(213,807)</u>
Net current assets/(liabilities)		<u>46,580</u>	<u>(23,594)</u>	<u>51,837</u>
Total assets less current liabilities		<u>670,941</u>	<u>630,470</u>	<u>670,533</u>
Creditors: Amounts falling due after more than one year		<u>(240,904)</u>	<u>(246,166)</u>	<u>(264,162)</u>
Provisions for liabilities		<u>(46,321)</u>	<u>(45,953)</u>	<u>(43,003)</u>
Net assets		<u>383,716</u>	<u>338,351</u>	<u>363,368</u>
Capital and reserves				
Called up share capital		62	62	62
Share premium		29,997	29,997	29,997
Merger reserve		26,699	26,699	26,699
Profit and loss account		326,958	281,593	306,610
Shareholders' funds		<u>383,716</u>	<u>338,351</u>	<u>363,368</u>

The accompanying notes are an integral part of this consolidated balance sheet.

Arsenal Holdings PLC
Consolidated Statement of Changes in Equity
For the six months ended 30 November 2017

	Share Capital £'000	Share Premium £'000	Merger Reserve £'000	Profit And Loss £'000	Total £'000
At 1 June 2016	62	29,997	26,699	271,303	328,061
Total comprehensive income for year ended 31 May 2017	-	-	-	35,307	35,307
At 31 May 2017	62	29,997	26,699	306,610	363,368
Total comprehensive income for the six months ended 30 November 2017	-	-	-	20,348	20,348
As at 30 November 2017	62	29,997	26,699	326,958	383,716

Arsenal Holdings Plc
Consolidated cash flow statement
For the six months ended 30 November 2017

	Six months to 30 November		Year ended 31 May
	2017	2016	2017
	Unaudited	Unaudited	Audited
	£'000	£'000	£'000
Net cash inflow from operating activities	19,737	13,579	109,045
Taxation paid	(3,252)	(1,729)	(7,762)
Cash flow from investing activities			
Interest received	137	338	475
Proceeds from sale of fixed assets	17	15	24
Purchase of fixed assets	(6,494)	(14,535)	(25,264)
Player registrations (see note below)	(15,160)	(86,604)	(102,524)
Net cash flow from investing activities	(21,500)	(100,786)	(127,289)
Cash flows from financing activities			
Interest paid	(5,926)	(5,705)	(12,253)
Repayment of debt	(8,522)	(8,084)	(8,084)
Net cash flow from financing activities	(14,448)	(13,789)	(20,337)
Net decrease in cash and cash equivalents	(19,463)	(102,725)	(46,343)
Cash and cash equivalents at start of period	180,116	226,459	226,459
Cash and cash equivalents at close of period	160,653	123,734	180,116
<i>Note: Gross cash flows – player registrations</i>			
Payments for purchase of players	(48,861)	(90,602)	(111,460)
Receipts from sale of players	33,701	3,998	8,936
	(15,160)	(86,604)	(102,524)

Arsenal Holdings Plc
Notes to the cash flow statement

	Six months to 30 November		Year ended 31 May
	2017 Unaudited	2016 Unaudited	2017 Audited
	£'000	£'000	£'000
<i>a) Reconciliation of operating result to net cash inflow from operating activities</i>			
Operating (loss)/profit	(30,257)	12,983	51,986
(Profit) on disposal of tangible fixed assets	(7)	(8)	(16)
Amortisation of goodwill	208	208	416
Depreciation (net of grant amortisation)	7,900	7,270	14,972
Amortisation of player registrations	43,616	35,974	77,126
Operating cash flow before working capital	21,460	56,427	144,484
Decrease/(increase) in stock	6,732	516	(3,675)
Decrease/(increase) in debtors	8,371	(12,066)	(5,036)
(Decrease) in creditors	(16,826)	(31,298)	(26,728)
Net cash inflow from operating activities	<u>19,737</u>	<u>13,579</u>	<u>109,841</u>

b) Analysis of changes in net debt

	At 1 June 2017	Non cash changes	Cash flows	At 30 November 2017
	£'000	£'000	£'000	£'000
Cash at bank and in hand	103,683	-	(21,225)	82,458
Cash equivalents	76,433	-	1,762	78,195
	<u>180,116</u>	<u>-</u>	<u>(19,463)</u>	<u>160,653</u>
Debt due within one year (bonds)	(8,018)	(8,996)	8,522	(8,492)
Debt due after more than one year (bonds)	(178,423)	8,741	-	(169,682)
Derivative financial instruments	(26,430)	2,543	-	(23,887)
Debt due after more than one year (debenture subscriptions)	<u>(14,597)</u>	<u>(206)</u>	<u>-</u>	<u>(14,803)</u>
Net debt	<u>(47,352)</u>	<u>2,082</u>	<u>(10,941)</u>	<u>(56,211)</u>

Non cash changes represent £255,000 in respect of the amortisation of costs of raising finance, £206,000 in respect of rolled up, unpaid debenture interest and £2,543,000 in respect of the change in fair value of the Group's interest rate swaps.

Arsenal Holdings Plc
Notes to the interim accounts
30 November 2017

1 Basis of preparation of Group financial statements

The unaudited condensed consolidated interim financial statements for the half year ended 30 November 2017 have been prepared in accordance with NEX Growth Market Rules for Issuers and therefore do not include all of the notes and disclosures that would otherwise be required in a full set of financial statements, and should be read in conjunction with the 2016/17 Annual Report. The accounting policies applied in the preparation of the interim financial statements are consistent with financial statements for the full year ended 31 May 2017.

The financial information for the full year ended 31 May 2017 is extracted from the financial statements for that year. A copy of the statutory accounts has been delivered to the Registrar of Companies. The auditor's report on those financial statements was unqualified and did not contain any statement under section 498(2) and (3) of the Companies Act 2006.

The Group has two classes of business – the principal activity of operating a professional football club and property development.

2 Going concern

The Board has undertaken a full and thorough review of the Group's forecasts and associated risks and sensitivities. The extent of this review reflects the current economic climate as well as the specific financial circumstances of the Group. The status of the Group's financing arrangements is summarised in the Chairman's Statement. The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and the financial statements continue to be prepared on the going concern basis.

3 Significant accounting policies

Income recognition

Gate and other match day revenue is recognised over the period of the football season as games are played and events are staged. Sponsorship and similar commercial income is recognised over the duration of the respective contracts. The fixed element of broadcasting revenues is recognised over the duration of the financial year whilst facility fees for live coverage or highlights are taken when earned at the point of broadcast. Merit awards are accounted for only when known at the end of the financial period. UEFA pool distributions relating to participation in the Europa League are spread over the matches played in the competition whilst distributions relating to match performance are taken when earned; these distributions are classified as broadcasting revenues. Fees receivable in respect of the loan of players are included in turnover over the period of the loan. Income from the sale of development properties is recognised on legal completion of the relevant sale contract.

Player registrations

The costs associated with acquiring players' registrations or extending their contracts, including agents' fees, are capitalised and amortised, in equal instalments, over the period of the respective players' contracts. Where a contract life is renegotiated the unamortised costs, together with the new costs relating to the contract extension, are amortised over the term of the new contract. Where the acquisition of a player registration involves a non-cash consideration, such as an exchange for another player registration, the transaction is accounted for using an estimate of market value for the non-cash consideration. Under the conditions of certain transfer agreements or contract renegotiations, further fees will be payable in the event of the players concerned making a certain number of First Team appearances or on the occurrence of certain other specified future events. Liabilities in respect of these additional fees are accounted for, as provisions, when it becomes probable that the number of appearances will be achieved or the specified future events will occur. The additional costs are capitalised and amortised as set out above.

4 Segmental analysis

Class of business

	Football		
	Six months to 30 November		Year ended
	2017	2016	31 May
	Unaudited	Unaudited	2017 Audited
	£'000	£'000	£'000
Turnover	167,738	191,116	422,799
Profit on ordinary activities before taxation	19,915	12,319	44,402
Segment net assets	326,031	284,552	309,674

Class of business

	Property development		
	Six months to 30 November		Year ended
	2017	2016	31 May
	Unaudited	Unaudited	2017 Audited
	£'000	£'000	£'000
Turnover	14,545	775	1,158
Profit on ordinary activities before taxation	5,153	307	205
Segment net assets	57,685	53,799	53,694

Class of business

	Group		
	Six months to 30 November		Year ended
	2017	2016	31 May
	Unaudited	Unaudited	2017 Audited
	£'000	£'000	£'000
Turnover	182,283	191,891	423,957
Profit on ordinary activities before taxation	25,068	12,626	44,607
Net assets	383,716	338,351	363,368

5 Turnover

	Six months to 30 November		Year ended 31 May
	2017	2016	2017
	Unaudited	Unaudited	Audited
	£'000	£'000	£'000
Gate and other match day revenues	42,593	45,806	99,996
Player trading	746	2,094	6,932
Broadcasting	68,700	85,269	198,637
Retail and licensing income	15,014	14,521	26,352
Commercial	40,685	43,426	90,882
Property development	14,545	775	1,158
	<u>182,283</u>	<u>191,891</u>	<u>423,957</u>

6 Earnings per share

The calculation of earnings per share is based on the profit for the period divided by the weighted average number of ordinary shares in issue being 62,217 (period to 30 November 2016 – 62,217 shares and year to 31 May 2017 – 62,217 shares).

7 Intangible fixed assets

	£'000 Unaudited
Cost of player registrations	
At 1 June 2016	432,603
Additions	59,202
Disposals	(35,448)
At 30 November 2017	<u>456,357</u>
Amortisation of player registrations	
At 1 June 2017	250,574
Charge for the period	43,616
Disposals	(26,764)
At 30 November 2017	<u>267,426</u>
Net book amount	
At 30 November 2017	<u>188,931</u>
At 31 May 2017	<u>182,029</u>

8 Cash at bank and in hand

	30 November		31 May
	2017	2016	2017
	Unaudited	Unaudited	Audited
	£'000	£'000	£'000
Debt service reserve accounts	23,016	23,275	35,864
Other accounts	137,637	100,459	144,252
	<u>160,653</u>	<u>123,734</u>	<u>180,116</u>

The Group is required under the terms of its fixed and floating rate bonds to maintain specified amounts on bank deposit as security against future payments of interest and principal. Accordingly the use of these debt service reserve accounts is restricted to that purpose.

The Group uses short-term bank treasury deposits (cash equivalents) as a means of maximising the interest earned on its cash balances.

	30 November		31 May
	2017	2016	2017
	Unaudited	Unaudited	Audited
	£'000	£'000	£'000
Cash at bank and in hand	82,458	51,553	103,683
Short-term deposits	78,195	72,181	76,433
	<u>160,653</u>	<u>123,734</u>	<u>180,116</u>

9 Additional information

These interim results have been reviewed by the Group's auditors, Deloitte LLP, who have issued a review report on the results.