

Wembley Stadium: Banking on Football

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And some people are on the pitch... they think it's all over..." Well it is not quite all over just yet but happily the saga of the new Wembley Stadium does now have an end in sight.

Those words – famously spoken by football commentator Kenneth Wolstenholme as England won the 1966 World Cup Final at Wembley – have come to provide a sound bite for the defining moment of English sporting and popular culture during the modern era.

In the 37 years that have followed England have never looked like reproducing the events of that glorious day. But if you believe modern students of the game then the national side is once again assembling a group of players capable of such heights. A new-look Wembley Stadium – maybe Rio's giant Maracana could claim to be a more famous football arena – will certainly add to the cause. It is then ironic that England must look to their fiercest sporting rivals – and to the country they beat all those years ago – to secure their future. Step forward German WestLB.

Background

When WestLB stepped onto the pitch in the last minutes of a bleak looking match to back Wembley National Stadium Ltd (WNSL) their decision was based on the popularity of football. "Football generates greater interest than any other sport and we are confident that people will continue to watch the game", said Neil King, Executive Director of Global Specialised Finance at WestLB.

King attributes the failed attempts by WNSL to close previous deals with Chase and Barclays to the lack of fully developed business plan and support from the key stakeholders, including The FA and Government. "Last Easter [2002] when we were analysing the deal it had all come together, and six months later in September the deal closed. Clear understanding between parties including risk allocation and a strong financing structure were pivotal."

The new Wembley will be located on the existing site but will be built to a larger footprint on the land purchased by WNSL in 1999. The stadium will keep certain design aspects of the original stadium including the famous stairway to the royal box. The main change will see a giant arch - spanning 315 metres - replacing the famous Twin Towers as the iconic feature of the stadium. The capacity will be increased by 12,000 and experts have used sound recordings from the England v Sweden game in 1999 to try to recreate a similar atmosphere.

The project, that has been delayed three years, draws interest especially for the fact that – at £755 million - it will become the most expensive stadium in the world. Cardiff's new Millennium stadium cost just £190 million in comparison. The project has made it through a political battlefield including three parliamentary inquiries and two failed start-ups. It almost became infamous until WestLB stepped in as lead arrangers, adding to a collection of foreign companies including construction company Multiplex UK, IMG, HOK and Delaware North. Multiplex UK, a subsidiary an Australian developer, has an impressive portfolio of previous developments including Stadium Australia that hosted the 2000 Olympics.

Commercial Structure

When it is opened in 2006 the new Wembley will have a capacity of 90,000. There will be 160 boxes with a total 1,850 seats, and 15,100 Executive Seats that WNSL are currently on sale for long-term licences to both corporations and individuals. 1,150 seats are reserved for FA guests, the Royal box and the press. The remaining 71,200 seats are general admittance seats, the FA will receive 68 per cent of the revenues from these, with the balance being used to service the debt of the new stadium.

The commercial structure relies heavily on the boxes and executive seating that provides for 51 per cent of revenues from of a total £60.2 million (2001 prices). £8 million is expected from event by event ticketing for box and executive seating not contracted out under the premium seat marketing.

The stadium will host 26 events each year. The revenue stream is based on a model of 20 games and five 'pop' concerts per year derived from activity at the original Wembley Stadium. There are three long-term contracts under which The FA, the Football League and the Rugby Football league commit to host matches at Wembley. The lists of event secured so far is as follows:

- FA Cup Final has been secured for 30 years;
- The two semi-final FA Cup matches;
- The division One, Two and Three Play-Off Finals;
- All England senior home internationals, estimated at six a year;
- The rugby league Challenge Cup final secured for 20 years;
- The FA Vase Final, the FA Trophy Final and two junior England Internationals;
- The 'pop' concerts are still in the process of being contracted but the original stadium put on six or seven concerts a year so five was seen as a conservative estimate.

As a first in the UK, the plans included premium seat licensing arrangements to underpin project revenues. The key feature is the significant up front revenues that will be received before the completion of the stadium. Employed regularly in the US in NFL stadia, the executive seat concept and programme have been applied on a large scale in the Wembley project. IMG/MMI were employed because of their experience in sports marketing and stadium premium seat marketing. Many readers would no doubt have seen promotional brochures in the UK press. As a national stadium Wembley could not benefit from the significant research that has been undertaken on the US team stadia. Many stadia in the US are indoors and, therefore their capacity is not affected by the weather and can host a greater range of sporting and other events. Baseball matches are played more often than football with around 82 home matches played a season compared with 20-25 home football matches. The first phase of the seat marketing for Wembley began just before the FA cup final this year and sales over the first six weeks have been far ahead of expectations.

Wembley will also benefit from other revenue streams:

- Car parking
- Corporate entertainment
- Merchandising
- Catering (including up front payment of £100,000)
- Sponsorship
- Drink pourage rights
- Corporate Sponsorship- projected at £2.5 million per year

Financing

The FA, with Sports England taking a 1 per share, owns 99 per cent of WNSL. The FA has gone a long way to make the deal work this time investing £160.8 million equity plus the skills developed from managing the previous Wembley Stadium. A further feature of the agreement between WNSL and the FA includes ongoing financial support:

Sponsorship Guarantee If there is less than £2.5 million in sponsorship generated per annum, the FA has agreed to pay the difference to WNSL out of their own revenue - generated mainly from the sale of broadcasting rights.

Revenue Guarantee

The FA up to a maximum of £12.5 million will meet any shortfall in the revenue stream produced by Wembley Stadium million per year. The obligation is covered by The FA's own gate receipts, which are 68 per cent of the total general admittance at FA games.

Refinancing Clause

At the end of the 16 years, if refinancing is necessary the FA has agreed to assume up to 25 per cent of the original debt amount of £106.6 million.

Although Wembley Stadium does not fit the classic model of a PPP it has many of the same features. Combining full public sector support with private sector expertise. Total grants make up £161 million of the financing for the project. This amount is made up of three grants from Sports England, London Development Agency and the UK Department of Culture, Media and Sport.

As required by the £120 million Sports England lottery grant, the stadium will be capable of hosting a minimum of 65,000 spectators at a potential athletic event. Nevertheless the completed stadium would not be suitable for athletics without modification. In order to host the Olympics, the host would need to put in a second tier with the money coming from their own pockets. There have been discussions on another

stadium being built in east London to host the athletics, leaving Wembley Stadium for football only. “Any benefits that flow from a successful bid for the Olympics would be on top of projected cash flows,” says King

Government support reflects the fact the project promotes the surrounding area of Brent, such as the benefits seen in the area surrounding Manchester Stadium (Commonwealth Games 2002). Running parallel to the construction of the new Wembley Stadium are plans to improve and upgrade local infrastructure with an estimated £130 million, of which WNSL has committed £20 million. There will also be development of the adjacent underground stations that will probably be provided by Tubelines.

Figure 1: Wembley balance sheet

Sources	£m	Uses	£m
Senior Debt	426.4	Stadium Purchase	106.0
Mezzanine Debt	6.8	Development Costs	37.2
Equity	160.8	Construction Costs	450.5
Sport England Grant	120.0	Section 106 Payments*	20.5
LDA Grant	21.0	Funding Costs	20.4
DCMS Grant	20.0	Interest during Construction	58.8
Total Grants	161.0	Operating Costs	41.7
Catering Payment	0.1	Contingency	20.0
Total	755.1		755.1

The limited recourse senior debt facility has a final maturity of 16 years and a mandatory repayment schedule reduces debt by year 16 to 25 per cent of the facility amount. A cash sweep is also included to further repay the debt to a target repayment schedule under which facility is fully amortised by year 15. The senior debt margin is 250bps. The coverage ratios are set out in figure two.

Figure 2: Coverage ratios

	Base Case	Low Case
Min ADSCR	1.41	1.22
Min LLCR	1.57	1.37

The senior lenders benefit from a full security package, including step-in rights, although as King comments “it would be difficult to run the stadium without the continuing support of The FA”. The sale of naming rights is not possible because of restrictions put under the funding agreements, but if the project fell into default this may be an option requiring the approval of Sports England.

Closing a project with such negative public attention was a notable achievement. Following a lengthy syndication process the syndicate has emerged as WestLB, SG, Lehman Brothers, BBVA, BES, Bank of Ireland, HamburgLB and Islands Banki. However, the mandated lead arrangers are still pursuing a number of further potential participants.

Looking to the future

Most sports across Europe do not have dependability of football. The international interest generated by football was a key factor for the deal. King Comments, "The importance of Wembley being a national stadium is having a team that cannot be relegated. Although clubs at the very top level of the game in Europe should be able to raise long term stadium finance against a sensible business plan, this risk will prove a serious barrier to any club below the top tier."

Nigel Purse, the General Manager of BES and an arranger of the Wembley project, in has greater confidence in the future of stadia finance. Purse believes that the abysmal state of football management and extortionate fees paid to players have left football associations unattractive to lenders. Purse feels that, "with positive changes to football management, making the clubs more profitable, lenders will be willing to finance sporting stadiums".

BES has been the lead arranger for stadia projects worth over £1 billion pounds and underwriting commitments of around £190 million including Benfica, Sporting Lisbon, FC Porto, Boavista and Wembley. Their involvement is not diminishing with three main current projects in negotiation including £100 million Coventry Arena in the UK.

There are other projects also testing banks' enthusiasm for sports infrastructure finance in the UK. Surrey County Cricket Club is in negotiations with several banks in order to establish £12 million of funding needed for its £21 million new Oval cricket redevelopment. The parties involved in the project are linked to those involved in Wembley Project. Arsenal Football Club is also looking to Wembley Project for the development of its and has already begun marketing the executive seating for the new Stadium.

With the UK's sports infrastructure closely resembling the decrepit state of the rest of the Country's infrastructure this may be the boost needed to make British sporting teams again strong contenders in the world arena. With Wembley Stadium ahead of construction target and strong contenders for host a future World Cup, there will be a good chance for the English national football team to replay the moment in July 1966, when the captain of the English side –Bobby Moore – proudly held the World Cup aloft.IJ

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