

The celtic football and athletic company



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Introduction

The aim of this report is to provide an examination of the business of the Celtic Football Club and Athletic Company Limited. In view to achieve this, the report will contain a financial as well as performance analysis over the past few years. As the objective of this report is to advise investors outside the UK, it will also provide information on the corporate structure, along with an overview of the industry, market conditions and the environmental factors like operating factors, political influence and governmental policies. A comparative analysis with other companies of the same cartel would be provided wherever relevant.

Achievements

Celtic has been the champions of the Scottish Premier League 6 times since it started in 1998/99 season.

Celtic has won the Scottish Cup a record 34 times (runners-up 19 times).

Celtic won the UEFA champions league in 1966/67 beating Internazionale Milano 2-1 in the final. The Scottish team's victory – one of open play over the “negative football” of Internazionale FC – was all the more remarkable because manager Jock Stein had fielded ten Glasgow-born players in the final at Lisbon's Estádio Nacional.

Sponsors

Carling

Nike

Thomas cook

Scottish leader

MBNA

Cocacola

Citylink

Shields

Seatexchange. com

Coral

Powerade

Operational Highlights

Winners of the Co-operative Insurance Cup Participation in the group stages of the UEFA Champions League playing 3 home European fixtures (2008: 5)

Season ticket sales of 54, 252 (2008: 53, 517) following a price freeze and introduction of low-priced concession tickets

26 home matches played at Celtic Park in the year (2008: 28)

Appointment of Tony Mowbray as football manager

NIKE'S appointment as kit manufacturer extended for 5 years until 2015

FOOTBALL OPERATIONS

During season 2008/9 the Club played 51 competitive matches, winning 31 and losing just 8, with 12 matches drawn. After a thrilling penalty shootout in

the semi-final against Dundee United, Celtic went on to beat Rangers in the final to lift the CIS Cup.

Furthermore, no less than eighteen Celtic players were called up for senior International duty, spanning eleven different nations. The reserve side under Willie McStay won the SPL Reserve Championship for the eighth year in a row, losing just 2 of its 22 competitive matches. Willie has since departed to take up a great managerial opportunity at Ujpest in Hungary.

YOUTH ACADEMY

Six new coaches joined the Academy in 2008/9, including Tommy McIntyre as Head of Professional Academy and Stephen Frail as Under 19 Head Coach. Two new teams were added at Under 9s and Under 10s in order to prepare players for participating in the SFA Youth league at Under 11s. We now have squads from Under 9s through to Under 19s. The season started well for the Under 19s winning the Glasgow Cup by beating Rangers 3-1 in the final. They then went on to record their highest ever position in the prestigious Villarreal Tournament.

Financial Highlights

Group revenue reduced by 0. 5% to £72. 59m (2008: £72. 95m)

Operating expenses reduced by 4. 3% to £61. 36m (2008: £64. 09m)

Profit from trading before asset transactions and exceptional operating expenses of £11. 23m (2008: £8. 86m)

Exceptional operating expenses of £2. 78m (2008: £3. 19m)

Gain on disposal of intangible assets of £1. 55m (2008: £5. 70m)

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Profit before taxation of £2. 00m (2008: £4. 44m)

Year end bank debt of £1. 51m (2008: £3. 52m) net of cash

Investment of £8. 53m (2008: £5. 11m) in the acquisition of football players

FINANCIAL PERFORMANCE

In general it is recognised that much of the football sector continues to be challenged financially. A number of clubs remain heavily in debt and incurring ongoing losses. This has been exacerbated in Scotland by the collapse of Setanta, the most recent media rights holder for SPL football. Conversely the lucrative television deals recently secured in England, particularly by the English Premier League, have resulted in increased transfer values and much higher wages at clubs in that league and fuelled wage and transfer fee inflation around Europe. The impact of the credit crunch on the world economy has been significant and trading conditions have been and continue to be extremely difficult. But Celtic's trading results for the year to 30 June 2009 are again strong, benefiting dramatically from participation in the UEFA Champions' League group stage, tighter cost control and player trading. In the year to 30 June 2009 turnover was £72. 59m, which is a slight reduction of £0. 37m, 0. 5% against the previous year having played 26 home matches in comparison to 28 last year. Much of this net reduction is due to lower ticket revenue with two fewer high value home European matches being played. This reduction has been partially offset by an increase in multi-media, £0. 59m, and merchandise sales, £1. 09m, largely as a result of there being three kit launches in the current year as against one the previous. In the year to 30 June 2009 total operating

expenses reduced over the previous year by approximately £2.74m, 4.3% to £61.36m. Much of this cost saving is as a result of a reduction in cost of sales, labour, travel and accommodation together with reduced match day costs from playing two fewer home games this season. During the financial year to 30 June 2009, £8.53m was invested in strengthening the first team squad, which resulted in an amortisation charge of £7.43m in comparison to £5.60m the previous year. In addition a gain on sale of £1.55m resulted from the sales of Sno and Riordan and a contingent receipt in respect of Petrov, this compared to £5.69m last year. Exceptional costs of £2.78m were incurred in comparison to £3.19m last year. This in the main relates to a provision for impairment to player values together with costs arising from onerous contracts and the early termination of certain employment contracts. As a result of the above, and after various exceptional costs, the Company announced a retained profit for the year to 30 June 2009 of £2.00m which compares with the previous year's £4.44m.

FINANCIAL ANALYSIS OVER THE LAST FIVE YEARS

Turnover

	2003	2004	2005	2006	2007	2008
Annual turnover	60,569	69,020	62,168	57,411	75,237	72,953
£, 000						
Increase(decrease)	6.5	14	(10)	(8)	31	(3)

%

After consecutive falls in turnover from 03/04 and 04/05, an extremely successful season both on and off the pitch resulted in a 31% increase (£17m) in turnover to a record breaking £75. 2m in 06/07, a first for any Scottish club. On the field Celtic completed a domestic double, winning the SPL by 12 points and the Tennents Scottish Cup for the 34th time. On the European front they progressed to the last 16 of the UEFA Champion's League for the first time in the Club's history. This followed a successful pre-season with trips to Japan, Poland and North America enabling the club to spread the Celtic brand. The season 07/08 saw total revenue falling 3% from £75. 2m to £73m – principally due to a reduction in merchandising sales following the club's decision to keep the same playing kit as the previous season.

Ticket sales

Season 2008/9 was another successful year. Standard season ticket sales exceeded 51, 000 with a value of circa £17m. The introduction of new concessionary prices for kids' season tickets was very well received by supporters, with nearly 10, 000 taking advantage of the discounted tickets. Sales were boosted by a highly successful half season ticket sale, which accounted for 2, 100 season sales worth over £180, 000. Taking into account Corporate and Premium ticket sales the total number of seasonal tickets sold reached over 54, 000, which is amongst the highest in the UK. Match ticket sales of over 300, 000, generated revenue in excess of £7million. Nearly 160, 000 UEFA Champions League tickets were sold at a value of £4. 2m, whilst many SPL games were sold out.

Average Annual Attendance of the Club

	2003	2004	2005	2006	2007	2008
Average annual attendance	57243	58,442	57,958	58,149	57,927	56,676
Utilization	95	97	96	96	96	96

Wage level

	2003	2004	2005	2006	2007	2008
Total Wages £, 000	33,097	40,502	37,394	32,490	36,421	38,981

Wage to Turnover

Ratio	55	59	60	57	48	53
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%

Celtic continued to carry the heaviest wage burden in the SPL. At £39m the employee costs for 2008 were 14% higher than their Old Firm rivals, partly due to having greater numbers of players in the high earning bracket. This increase in wage costs, coupled with the fall in turnover, led to an increase in the wage to turnover ratio to 53%, which is still comfortably below the recommended sustainable ratio of 60%.

Profit loss before tax

2003	2004	2005	2006	2007	2008
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Profit(Loss) before tax	(5,794)	(7,471)	(7,733)	(4,222)	15,040	4,435
£, 000						
Movement		(29)	(4)	52	456	(71)
%						

For the fourth successive season, Celtic continued to lead by example in the club's ability to combine on-field success with stellar financial results. The Parkhead outfit once again generated an operating profit and nearly managed to preserve its record levels of turnover achieved during the previous season. Aided by record levels of turnover and significant gains on the sale of players, the club managed to convert this into a record bottom line profit before tax of £15m. Moreover the net gains made on the sale of players enabled the club to convert this into a secure bottom line profit before tax of £4.4m this year. Although down substantially from the previous campaign, this profit is indicative of the club's solid financial core and worldwide commercial appeal.

Cash flow

	2003	2004	2005	2006	2007	2008
Net cash flow	(4,133)	(3,615)	(2,541)	(3,834)	(4,985)	2,546

£, 000

Movement

12.5 29.7 (50.8)(30) 151

%

Celtic's impressive financial figures once again yielded positive net cash inflow from operating activities of £11.6m (2007: £18. m). Although significant sums were then reinvested into its new training facilities, the first team squad and the repayment of a further £0.9m of debt, the Parkhead club still managed to generate a positive cash inflow of £1.5m, which was significantly down on 2007's record-breaking season (£4.1m).

Balance sheet overview

	2003	2004	2005	2006	2007	2008
Net						
debt	17,	15,	19,	13,	9,	6,
	782	805	503	965	165	706
£, 000						

Moveme

nt 11 (23) 28 34 27

%

Celtic's continual chipping away at its net debt balance over the past four years places the club in an extremely strong financial position to weather the unpredictable financial storm. The Parkhead club realised a net gain on player sales during the year 2008, which had the positive impact of reducing

net debt to £6. 7m, a decrease of £3. 1m in one year (2007: £9. 1m).

Furthermore, another successful season on the pitch in terms of Champions League football and revenue resulted in the club being able to repay a further portion of its debt.

Conclusion:

Celtic's financial performance over the past five years has largely been driven by success in European competitions, typified by appearances in the last 16 of the UEFA Champions League for the past two seasons. Although turnover peaked during the prior season, the fall of 3% to £73m was principally a result of reduced merchandising income following only one strip launch (compared with two in the prior season). In addition, the UEFA Champions League television market pool was shared due to the club's Old Firm rivals' participation in the same competition. Celtic continues to manage the wage bill effectively, as displayed by its wage to turnover ratio of 53% (2007: 48%), whilst enjoying continued success on and off the field. This compares favourably with both the average of 63% for the English Premiership recorded in the 2006/07 season and the recommended ratio of 60%. Profit before tax slipped to £4. 4m (2007: £15m), due to reduced player sales, investment in the playing squad and reduced turnover. However, this still compares favourably with the seasons 2003/04 to 2005/06 when losses were recorded each year. Finally, for the fourth successive season the Parkhead club managed to reduce its net debt to £6. 7m following the peak of £19. 5m experienced during 2004/05. Continuing this trend it wouldn't be surprising to see the club operating with no debt within the foreseeable future.

References

Pricewaterhouse coopers annual financial review of Scottish football (16th – 20th)

Scottish Football Association official website

Scottish Premier League official website

Celtic football club official website