FINDING NEW WAYS OF FINANCING DEBT IN SPANISH FOOTBALL

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INTRODUCTION

Studying football in the UK is useful to understand and compare what happens with finances in Spanish football. Historically, most football clubs in the UK have been net borrowers from banks (Morrow, 1999). Clubs in UK were funded mainly by a combination of equity investors and bank overdrafts but in the 1990s the growth in revenues attracted the attention of City institutions (Brookfield and Miller, 2006). At the beginning of the new century, securitisation appeared in the football industry (Morrow, 2003) but administration, financial problems in several clubs and changes in regulation have brought football securitisation to a standstill (Brinkworth, 2004). Meanwhile Spanish Clubs have evolved differently. Between the 1940s and the 1960s, Real Madrid and Atlético de Madrid issued bonds to fund their venues (Cueto, 1998). After those experiences, clubs looked to financial institutions and other short term creditors for funding. There are few papers which deal with the finances of Spanish Football, due mainly to the lack of financial information. The average working capital of Spanish clubs has traditionally been negative (€ -13million and -11.6 million in 2002 and 2003, respectively). It means that clubs are having difficulties in obtaining funds and they have to find out new ways of financing.

This paper has three objectives. The first is to show the main features of indebtedness in Spanish football clubs. The second objective is to analyse whether or not securitisation could be a way of funding football clubs in Spain and the third one is to propose new products for financing clubs.

METHODS

Firstly, I have analysed the annual accounts of 33 Spanish Football Clubs from 1997 to 2002 in order to determine the significance of the debt with financial institutions. Secondly, an analysis of the net cash position and shareholders' funds has been undertaken. Thirdly, I have studied the gearing and the interest cover following Morrow's (1999) methodology. A median test has been used in order to check whether bank gearing is higher in Spanish clubs than in the English ones. The last stage, from an empirical point of view, consisted of studying the evolution of financial structures in order to check the weight of non financial debt in Spanish Football.

I have analysed the features of securitisation in the football industry in the UK in order to check whether this financing product would be applicable to Spain. Finally, I have carried out a sensitivity analysis in order to establish the attractiveness of linking the yield of a loan or a bond issue to a homegrown player's increase in value. I have estimated the yield to maturity using the bond valuation model according with Damodaran (1996).

RESULTS

I have found a great and growing indebtedness during the period which implies a negative working capital of over € 10 million on average. The average non financial debt is over € 30 million in the First Division. This means that a great part of funding comes from creditors. It is common among Spanish clubs to have a net debt position with banks, but some clubs have a net cash position. This is possible because they obtain funds from other creditors.

Net cash positions in absolute terms are notably lower in Second Division clubs than those in the First Division. Furthermore, the yo-yo clubs have a much higher level of indebtedness than Second Division clubs. This confirms the hypothesis of Noll (2002) and Gerrard (2002). Most of the clubs do not have the ability to cover the interests with their operating profit and profit from transfers. Median gearing bank in Spanish clubs is much higher than in English clubs. There are really high abnormal values in Spain whereas in England only Leicester City shows an extraordinary value.

Securitisation allows funds to be borrowed and secured against an income streams such as matchday revenues or broadcasting contracts. It has been common in the UK to use these funds to rebuild stadia, which are then used as collateral. Many of the Spanish football clubs are not the owners of the stadia in which they play. It means that they have had to guarantee their loans with the costs of players' registrations.
A new financial product such as an indexed loan linked to the increase in value of a homegrown player could multiply the yield to maturity by more than 4 times if the player were to be sold for twice the amount of the money lent.

DISCUSSION

The average financial structure of Spanish professional football clubs is highly in debt. Their gearing bank is significantly higher than that of English clubs. The Spanish clubs ought to try to reduce their gearing.
At the same time, most of their debt comes from non negotiated sources delaying the payments to creditors. It is necessary to switch most of this debt to financial debt.

Securitisation does not suit Spanish clubs due to the lack of collateral. Other products could substitute this. Indexed loans with rights on player's registrations as covenant and the increase in value of players linked to the yield of the loan would offer investors high earnings with low risk. A good tool for estimating players transfer value would be necessary. Gerrard (2001) offers a useful model.

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