Notes from the accounts

The Reading Football Club Limited

The club has had a very poor year financially making a loss before tax of £30.1m compared to £21m loss in 2018 and £4.7m profit in 2017. Turnover increased by £3.1m to £21m, the difference being mainly a loan fee for Sone Aluko from Beijing Renhe.

There's been quite a lot of financial maneuvering on the balance sheet though to accommodate the losses. The club has net financial liabilities of £36.4m, up by less than £2m. To achieve this new shares have been issued to the tune of £28m (on top on nearly £16m in 2018) and an increase in borrowings of £6.5m. Together this covered the cash that was burnt through the day to day operations of the club which amounted to £32.5m. Borrowings for the club now amount to £67.8m which is all owed to the shareholder Dai Yongge via the parent company, Renhe Sports Management Limited (more on them later).

But it is important to note that for Profit & Sustainability rules (commonly known as FFP), the club's financial performance is based upon the consolidated group accounts of the parent company, Renhe Sports, where the recorded loss is only £11.75m following further asset disposals during the course of the year.

The picture at RFC is a little different to last season where the stadium was sold for £26.5m, which offset the day to day cash burn. This transaction has been ratified by the EFL. Also last year, new share capital was issued of c. £16m which helped to balance the books for the large outflow on players that season (like Aluko, Ilori, Mannone, Barrow, Bacuna, etc). What we do also need to remember is that after these most recent accounts were drawn up we had a bit of a spending spree in the summer 2019 transfer window, which amounted to £15.2m on players such as Puscas, Joao and, no doubt, some loan fees for the likes of Miazga and Ejaria. A key question for me is just how wise was that spending spree? But Mr Dai's ambitions for the club are clear and, in my opinion, commendable.

Unsurprisingly the auditors have stated there is a Material Uncertainty relating to the Going Concern of the club. The directors themselves have concluded "based on cashflow projections prepared by management and through confirmation of continuing support from the group's main shareholders and creditors, have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future".

And the club's owners continue to strive for promotion to the Premier League without jeopardizing the club's financial position.

Profit & Loss

	2019			2018		
	£m	£m	£m	£m	£m	£m
	Operations	Player trading	Total	Operations	Player trading	Total
Turnover	18.0	3.0	21.0	17.9	0	17.9
Admin expenses	(54.6)	(8.9)	(63.5)	(48.5)	(8.2)	(56.7)
Other income	1.7	0	1.7	10.1	0	10.1
Operating loss	(34.8)	(5.9)	(40.7)	(20.5)	(8.2)	(28.7)
Profit on disposal of fixed assets	8.2	0	8.2	6.5	0	6.5
Interest payable	0	0	0	(0.2)	0	(0.2)
Profit of disposal of players		2.4	2.4		1.4	1.4
Loss for financial year	(26.6)	(3.5)	**(30.1)**	(14.1)	(6.8)	**(20.9)**

So, what does this all mean? In summary, just from playing football the club lost £34.8m last season compared to £20.5m in 2018. However, 2018 was enhanced by over £10m of "grants" which arose following the sale of the stadium but in reality, this is just a detailed accounting transaction rather than the receipt of hard cash.

In addition, the club lost £5.9 in player trading which, after stripping out a £3m loan fee for Sone Aluko from Beijing Renhe, a club owned by Dai Yongge, was £8.9m, just slightly more than in 2018.

In two years the club has profited by £14.7m from making a profit on selling fixed assets. In 2018 this is likely to have been the stadium itself; in 2019 it appears to have been the training ground at Hogwood.

The club has made small profits in relating to players that have been sold. This amounted to £2.4m in 2019 and included payments for the following players: George Evans, Roy Beerens, Alex McCarthy, Tarique Fosu, Axel Andresson, Oli Norwood, Tiago Ilori, Leandro Bacuna, and Jack Stacey. Some of this is profit on sale, while others will be additional monies owed due to appearances and sell-on clauses.

Revenue summary

	2019 £m	2018 £m
Media & Broadcasting	8.0	7.5
Match day receipts	4.7	4.2
Commercial income	4.8	5.6
Rugby match commission	0.3	0.6
Other income	0.2	0.05
Loan fees	3.0	0

	21.0	**17.9**
Management charges	1.7	0
Grants received	0	10.1

Revenues were broadly in line year on year (though much less than 2017 when we had about £18m in parachute payments) though average attendances fell from 15,181 to 14,991 (and season tickets reduced from 11,586 to 10,052). By comparison Leeds United had revenue of £48m, with the key differences to Reading being match day receipts and commercial income which come from having a much bigger fan base and average gate of over 34,000 compared to our 15,000 and £40 ticket prices. In that context the club's ticket pricing policies remain admirable and it feels like the fans benefit from the owners' generosity with the aim to attract people to matches to improve the atmosphere rather than squeeze every penny out of them, unlike certain other clubs.

We can assume the rugby income went down as a consequence of London Irish being relegated to the Rugby Championship (and will disappear completely from next season) and we know the loan fee was for Sone Aluko. The grant income is a little misleading but is a benefit for the club following the sale of the stadium last year.

Costs

Total admin expenses amount to £54.6m, of which £40.7m relates to wages and wage related costs. This is an increase of £5.4m from 2018. A summary of the staff levels is shown below:

	2019	**2018**
	Number	Number
Players	63	59
Football management & coaching staff	114	99
Admin staff	74	69
Match day staff	280	241
Staff employed under training schemes	18	23
	549	**491**

Wage costs were £40.7m compared to £35.3m and the wages to turnover ratio was 198% compared to 197%. What that means is that for every £1 the club earns in revenues, it spends £2 on player wages, and that's before other operating costs are taken into account (which in themselves were £13.9m this year, similar to last year). Of the above, approximately half of the players are first team squad, and the other half are U23s.

What's interesting here is that, despite being tight on financial fair play rules, the number of total staff still increased by 58, something that does not really reflect a club that is trying to balance the books. Admittedly many of these are match day staff who, I'm assuming, are low paid casual workers, but all categories, bar one, have increased.

Within the £40.7m will be an amount relating to signing on fees to players brought in under free transfers, plus compensation paid to managers who have been sacked. In addition, directors' salaries were £1.5m, up slightly from the year before. Therefore, the average player salary probably isn't nearly as high as recent reports on social media suggest.

We also know there's a £1.5m charge to now use the stadium itself which was introduced when the stadium was sold last year.

Also included in total admin expenses of £63.5m is £8.9m of player "amortization". This is the cost to the club each year as the players' contracts run down. It needs to be remembered how player contracts are accounted for. If a player is bought for £3m on a three year contract, then each year that player "costs" £1m per season in the profit and loss account. This is in addition to the player's wages. Therefore, after two seasons that player is worth £1m in the books of the club (held as an intangible asset on the balance sheet). If the club sells that player for £2.5m at that point in time, then the club makes a profit of £1.5m as the remaining value of that player is only £1m at the time of selling.

The final thing to mention when considering the club's Profit & Sustainability position that of the operating costs a reasonable amount relating to the running of the academy, including the wages of those not in the first team squad, can be deducted.

Balance sheet

The key number is the net liabilities of £36.4m. That means the club owes more than it owns. Over the years the club has accumulated losses of £96.6m, which are partly offset by the shareholders having injected over £60m in share capital.

There are almost no tangible assets remaining at the club after the stadium was sold for £26.5m last year. Fixed assets amount to only £1.3m (down from £4m last year) and an investment of £3.7m into RFC Prop Co Ltd, a company related to the development of Royal Elm Park.

Player contracts (or intangible assets) are valued at £12.5m, down from £17.9m although the original value of these contracts is £28m. As already noted, this reflects that accounting value of the playing squad, and not the market value (i.e. what the club might receive for them if a player was to be sold). This amount also does not include all the new signings from the 2019 summer transfer window like Puscas, Joao, Morrison, Rafael Cabral, etc, etc. It is also interesting to note the value of the contracts of players sold last season was £11.7m (relating to the likes of Ilori, Bacuna, etc).

Final number to note is debtors of £24.8m which is made up of £14.2m owed by other companies within the group of companies that make up RFC and £6.5m owed by other clubs for players we have previously sold. I believe the £14.2m is mainly owed by RFC Bearwood for development of the new training ground plus £3.3m owed by the women's football club. The new training ground is however still owned by the club, via its subsidiary RFC Bearwood.

On the liabilities side of the balance sheet the standout number is the £67.8m owed to Renhe Sports, the parent company. One point to note is this debt seems to be interest free (or at least very low interest rate) so that's a positive. And during the year, new shares worth £27.1m were issued to Renhe Sports to help fund the losses. The good thing about share capital is, unlike debt, it doesn't have to be repaid.

Picking up on a further point in the accounts, after the 2018/19 season ended the club acquired player contracts worth £15.2m and sold players for only £1m while two players had their contracts terminated (David Meyler and …).

The other interesting (and complicated facet to the accounts) is all the money paid to and received from "related parties". It is this note in the accounts that gives away some of the other machinations that have gone on behind the scenes to ensure the club hasn't fallen foul of the Profit & Sustainability rules.

As I said in the intro there's definitely been some financial chicanery going on to enable Mr. Dai to keep investing in the club. He clearly is a wealthy guy and, so far, committed to the club. To be frank, he deserves more success on the pitch than that amount of cash has so far bought him. It does bring into question who's advising him on the football side of the business because there's a lot of money being spent on players (including their wages) and the constant churn of managers (which isn't cheap I assume) for limited return to date. While I do not pretend to know about the FFP rules, we were clearly running tight to the wire before the deal for £13m for the training ground was approved.

Going forward, unless FFP is relaxed, it's hard to see how the losses can continue to accrue and be dealt with. At some point further players will need to be sold or the wage bill cut dramatically. Spending £2 on wages for every £1 received is clearly not a sustainable business model. We do have a lot of players out of contract this summer, which will help of course to reduce the wage bill. Let's just hope Mr. Dai doesn't take his ball home and stop playing with the club. If he does, we will need someone else with very deep pockets.

Renhe Sports Management Co Ltd

So Renhe Sports owns 95.4% of Reading Football Club and had a consolidated loss of £11.75m for the year. This means the results of all its subsidiary companies (namely RFC, RFC Women's, RFC Bearwood) came to only £11.75m loss which, given the football club lost over £30.1m, is quite difficult to comprehend at first. But, Renhe Sports made a profit of £29.2m on selling assets which reduced the overall loss but borrowings have increased by £47m.

Again, unsurprisingly the auditors have commented in their audit opinion that there is a material uncertainty around going concern due to loss and net liabilities of £50.4m.

Total fixed asset disposals were £45.4m of which £13m appears to relate to the old Hogwood training ground and over £ 4m for a residential part of the Bearwood training ground (through two different transactions) and the remainder was the stadium which was previously held on the books at £26.5m. As part of these transactions a profit of £30m was made.

The stadium was sold for £37.5m to Prestige Fortune Asia Ltd, another company owned by Dai Yongge but outside the RFC group. This is a gain of £11m as it was bought for £26.5m in 2018 from the football club. And let's not forget that there is now a lease costing the football club £1.5m per year for use of the Madejski Stadium. The lease is in place until June 2043.

Renhe also sold the Hogwood training ground to Sun Elegant Group Ltd for £13m (which is another Dai Yongge company) and it also invoiced £4.8m to Prestige Fortune Asia Ltd (another Dai Yongge company) for the residential part of Bearwood. And he put in a further £3m from Beijing Renhe Football Club in respect of the loan fee for Sone Aluko.

A final point to note that the accounts to RFC Bearwood seem to suggest a further £16m has been pumped into the development of the new training ground, taking its total investment up to £28.7m.

What is quite scary is that Mr. Dai has total investments in the football club (including Bearwood) of £127m, up from £82m (i.e. £45m increase in the year) which is a staggering sum of money. Renhe has £122m of borrowings, of which £117m is owed to Great Shine International Ltd (owned by Dai Yongge). The remaining £5.4m is to Reading Asia Holdings which is the former parent company (owned by the Thais).