Notes from the accounts

The Reading Football Club Limited – year ended 30 June 2020

So, let's start by looking at which financial year these accounts cover to put matters into context. These accounts only have the first 3 months of COVID-19 and lockdown impacting them (i.e. fans were still allowed to attend matches until early March). Bearing that in mind (and considering how much the current financial year, with virtually no fans at all during the season is likely to be impacted) it is very surprising to see that the club has lost £41.95m in the year compared to £30.1m in the previous year. The balance sheet shows a net liabilities position of £66.2m, up from £36.4m last year.

The other thing to note is that for Profit and Sustainability purposes ("P&S" or commonly called FFP) it is the financial result of the football club's parent company, Renhe Sports Management Co Limited ("Renhe") which is taken into account by the EFL. In 2019 the final result for Renhe for P&S purposes was a loss of £11.8m. But, in 2020, this is £45.0m!

Last year there was a considerable amount of financial manoeuvring at Renhe level through the disposal of assets to other companies controlled by Dai Yongge. However, this has not been possible this year as you can only sell assets once. What all this means for future P&S compliance is that it will be tight. The rules have changed due to COVID-19 but £45m is massive. It reflects a wages to revenue ratio of 216%, even higher than last year's 199% that received so much media comment and suggests the wage bill will have to be cut and players will need to be sold to help become P&S compliant going forward. There was no EFL test for P&S at the end of the 2019/20 season.

No mistaking, this could be problematic in the future and requires Mr Dai to continue to be extremely generous (and ambitious in getting the club into the promised land of the Premier League) and injecting cash into the club to keep it afloat. The concern is always "when is enough, enough" for an owner like Mr Dai. All the money poured in to date really has not brought any real success on the pitch.

These accounts reflect the first season of players like Puscas, Joao, Rafael and Morrison and also having Ejaria on loan from Liverpool and Matt Miazga from Chelsea, Pele and Lucas Boye for the full season. It still includes Mo Barrow (although he was on loan), Garath McCleary, Chris Gunter, Tyler Blackett, Jordan Obita, Vito Mannone (also on loan), Charlie Adam, etc. It's clear to see why Jose Gomes (who was subsequently sacked during this period too) was trying to reduce the size of the squad and offload players like McCleary, Gunter and Sam Baldock. With all this player transfer activity, what stands out for me is we are still net spenders and have not made any substantial transfer profits in recent years. Surely this is now going to have to change even if Mr Dai has the appetite for further outlays just to keep the EFL on-side?

As with last season 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".

So, let's take a look through some of the more detailed aspects of the accounts for the year – but for me it is all pretty bland and much less interesting than last year when there was clearly a lot going on behind the scenes to keep with the EFL's P&S rules.

Profit & loss account

	2020			2019		
	£m	£m	£m	£m	£m	£m
	Operations	Player trading	Total	Operations	Player trading	Total
Turnover	17.8		17.8	18.0	3.0	21.0
Admin expenses	(52.1)	(9.2)	(61.3)	(54.6)	(8.9)	(63.5)
Other income	0	0	0	1.7	0	1.7
Operating loss	*(34.3)*	*(9.2)*	*(43.5)*	*(34.8)*	*(5.9)*	*(40.7)*
Profit on disposal of fixed assets	0	0	0	8.2	0	8.2
Interest payable	0	0	0	0	0	0
Profit of disposal of players	Nil	1.6	1.6		2.4	2.4
Loss for financial year	(34.4)	(7.6)	**(42.0)**	(26.6)	(3.5)	**(30.1)**

So, what does this all mean? In summary, just from playing football the club lost £34.3m last season compared to £34.8m in 2019. In addition, the club lost £9.2m in player trading which is similar to 2019 if Aluko's loan fee of £3m from Beijing Renhe is stripped out. For context, this was a cost of £8.2m in 2018 as well -so pretty consistent over the last three years.

2020 saw no profits being made from selling assets that it owned whereas 2019 had an £8.2m profit. The stadium itself and Hogwood have now been sold. The club still owns the Bearwood training facility, but there's nothing else left.

The club has made a small profit in relating to players that have been sold, appearance and sell-on clauses. This amounted to £1.6m in 2020 and included payments for the following players: Leandro Bacuna, Alex McCarthy, Rob Dickie, Oliver Norwood, Jack Stacey, Jon Dadi Bodvarsson, Tarique Fosu, George Evans, Michael hector, Josh Barrett, Andrija Novakovich and Lasha Dvali.

Revenue summary

	2019	2019	2018
	£m	£m	£m
Media & Broadcasting	8.2	8.0	7.5
Match day receipts	3.6	4.7	4.2
Commercial income	4.6	4.8	5.6
Rugby match commission	0.4	0.3	0.6
Other income	0.2	0.2	0.05
Loan fees	0	3.0	0
	17.0	**21.0**	**17.9**
Management charges	0	1.7	0
Grants received	0.8	0	10.1

Revenues were broadly in line year on year with 2019 except a £1.1m shortfall in match day receipts, reflecting the impact of COVID-19 restrictions at the end of the season and lower average gates. Average attendances fell from 14,991 to 12,684 (and season tickets reduced from 10,052 to 9,56). As fans we still benefit from generous ticket pricing and Mr Dai's continued support in that respect.

Overall it is a very similar position over the past three seasons (excluding the loan fee for Sone Aluko) and this year will see the loss of all rugby income as well (though we have been on Sky a lot more so may get more TV revenue). The grant income in 2018 is a little misleading (as it is a technical accounting treatment) but was a benefit for the club following the sale of the stadium in that year.

Costs

Total admin expenses amount to £52.1m, of which £37.6m relates to wages and wage related costs. This is an increase of £3.1m from 2019. A summary of the staff levels is shown below:

	2020	**2019**	**2018**
	Number	Number	Number
Players	61	63	59
Football management & coaching staff	101	114	99
Admin staff	67	74	69
Match day staff	249	280	241
Staff employed under training schemes	16	18	23
	494	**549**	**491**
Wage costs	£37.6m	£40.7m	£35.3m
Wage to revenue ratio	**216%**	**199%**	**197%**

Wage costs were £37.6m compared to £40.7m and the wages to turnover ratio was 216% compared to 199%. What that means is that for every £1 the club earns in revenues, it spends £2.16 on player and staff wages, and that's before other operating costs are taken into account (which in themselves were £14.5m this year up from £13.9m 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 playing staff still remained similar (61 compared to 63), something that does not really reflect a club that is trying to balance the books although there have been reductions across all other staff categories such as management, coaching and admin staff

Within the £37.6m will be an amount relating to signing on fees to players brought in under free transfers (such as Morrison and Rafael), plus compensation paid to managers who have been sacked. Wages for players brought in under free transfers tend to be higher than for those where transfer fees have been paid. Directors' salaries down from £1.5m to £0.6m with the highest paid director receiving just under £0.5m.

We also know there's a £1.5m charge to now use the stadium itself which was introduced when the stadium was sold a couple of years ago.

Also included in total admin expenses of £61.3m is £9.2 m of player "amortisation", which is very similar to 2019. 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 £66.2m, up from £36.4m. That means the club owes more than it owns. Over the years the club has accumulated losses of £138.6m, which are partly offset by the shareholders having injected over £72m in share capital – this is also an increase of c.£12m during this financial year.

There are almost no tangible assets remaining at the club after the stadium was sold for £26.5m in 2018. Fixed assets amount to only £1.4m and an investment of £3.7m into RFC Prop Co Ltd, a company related to the development of Royal Elm Park. Further progress of this development still seems to be a little while off.

Player contracts (or intangible assets) are valued at £18.1m, up from £12.5m although the original value of these contracts is over £33m. This reflects the 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 includes all the new signings from the 2019 summer transfer window like Puscas and Joao, albeit free transfers are not reflected in this category. It is also interesting to note the original transfer value of the contracts of players sold last season was £10.5m (relating to the likes of Gunter, McCleary, Blackett, Barrow, Mannone, etc).

Final number to note is debtors of £20.0m which is largely made up of £15.4m owed by other companies within the group of companies that make up RFC and only £1.3m owed by other clubs for players we have previously sold (down from £6.5m in 2019). The £15.4m is mainly owed by RFC Bearwood for development of the new training ground plus £4.5m owed by the women's football club (which ran at a loss of £1.2m in 2019). The Bearwood training ground is however still owned by the club, via its subsidiary RFC Bearwood, and is the last remaining asset of any substance held within the broader Renhe group, meaning it could be sold to a related Mr Dai entity in the future (as the stadium was). The value of Bearwood is shown as £35.7m this year compared to £25.5m in 2019.

On the liabilities side of the balance sheet the standout number is the £86.6m owed to Renhe, the parent company (which has increased from £67.8m, partly reflecting how the losses for the year have been funded). The 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 £12.2m were issued to Renhe to help fund the losses. The good thing about share capital is, unlike debt, it doesn't have to be repaid.

Two other changes from the previous year have arisen. The club owes £9.7m for players it has acquired (up from £2.3m) which reflects deferred payments as transfer fees are rarely paid all up front and has also owes HMRC £6.5m (2019: £1.5m) for taxes and social security. This reflects the club taking advantage of the benefits Rishi Sunak has allowed all companies to take in respect of the PAYE and VAT when COVID-19 first hit. This has all now been repaid to HMRC.

Unlike last year the related parties note is pretty uninteresting for new items, which reflects a lack of financial manoeuvring going on this year compared to last. While I do not know the ins and outs of the P&S regulations, given the imbalance between costs and revenues noted previously, it is not difficult to understand why we may not have been able to offer certain players like Omar Richards the contracts he wanted, nor bring in any big money signings during the last pre-season in 2020. If P&S rules are brought back then I believe life for RFC will be very difficult indeed and we could see a number of key players being sold. It is, of course, a crying shame that we have not been able to financially profit from the sale of academy players such as Danny Loader and Omar Richards but it feels a bit "chicken and egg" in that we perhaps cannot afford the size of contract they require and so leave without the club receiving true market value.

Renhe Sports Management Co Ltd

Renhe owns 96% of Reading Football Club and had a consolidated loss of £45.0m for the year reflecting the results of all of its subsidiary companies (namely RFC, RFC Women's, RFC Bearwood), largely reflecting the £42.0m loss made by RFC itself. This year Renhe has not sold off any assets (to other companies owned by Mr Dai) which means these heavy losses have not been off-set in any way.

Renhe now owes its ultimate parent company, Great Shine International Limited £162.5m. Basically this is the amount Mr Dai have invested into the club (in addition to buying the stadium and Hogwood as well, which takes the total investment well in excess of £200m). The only thing he has to show for this is Bearwood, with a value of £35.7m following additional investment in this facility in 2020 of £11.8m (plus technically he still owns the Madejski Stadium, albeit outside of this group structure). There is now a lease costing the football club £1.5m per year for use of the stadium. The lease is in place until June 2043.

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 £95.5m.

Concluding thoughts

Since the Thais left we really cannot complain about the amount of money Mr Dai (and his sister) have invested into the club. The returns have been pitiful really (this current season obviously being better than the past few) as he acquired the club at the end of the Jaap Stam led play-off season. In fact, finishes have been 20th, 20th and 14th prior to this one. We're on our 5th permanent manager since Mr Dai took control of the club. There's been no real attempts to balance the books (why wasn't Danny Loader sold when Wolves showed some interest a couple of summers ago?) and reduce both the squad size and the wage bill. We all know players like Moore and Swift have had interest while Mr Dai has owned the club but he's refused to sell.

He clearly wants to build a successful team and is prepared to pay for the privilege to do so. But at what point does Mr Dai become the next Mel Morris (owner of Derby) and decide it's time to spend his money elsewhere? Teams like Barnsley and Swansea are showing a team can push for success on a more limited budget while the Brentford model seems to be working well (no academy and picking up other clubs' cast-offs at 16-18 or scouring lower leagues for under-rated players and selling on at huge profits – the so-called Moneyball theory).

Let's hope he really sees value in developing our academy and its players in the future, and performances from players like Richards, Holmes, MacIntyre, Rinomhota and Olise certainly shows we have talent there. There's always value in having great coaches who can improve players rather than those that try to buy success. It really feels like we're going to have to tighten the purse strings sooner rather than later, but that doesn't mean scrapping at the bottom. And actually, you know what, I'm quite excited about that as a prospect and challenge for future seasons. As fans, we all need to re-set our expectations when it comes to big money or high profile transfers.