Notes from the accounts

The Reading Football Club Limited

So when I was asked by Paula Martin at STAR to review the latest accounts and provide a commentary what was I expecting to see given this is the season most impacted by the COVID pandemic? Well, a loss of revenue, a huge wage bill compared to revenue, big losses (given we already know the Profit & Sustainability (P&S) rules have already been broken) and significant levels of ongoing financial support from Dai Yongge. And these accounts certainly delivered on all those initial thoughts.

But I suppose the good news is that there is nothing unexpected. There's no major asset sales or large injections of third party debt. It is important to note that, despite many comments on social media to the contrary, the club is still the owner of the Bearwood training facility through its investment in RFC Bearwood Limited and has not been "sold off" to the owner (unlike the stadium). The club has now spent over £41m in developing training ground complex.

There's been little or no progress for Royal Elm Park (the club still has a [25%] stake in that entity, alongside the original Thai investors. The only element of surprise for me is that these accounts have been filed well in advance of the statutory deadline of 31 March 2022 with, perhaps, the club not wanting to run any risks with the EFL for late filing of accounts?

The club has had another very poor year financially making a loss before tax of £35.7m compared to £42m loss in 2020. So let's be thankful it's moving in the right direction but it's taking a long time for books to be balanced. Turnover decreased by £4m to £13.8m with the difference being mainly down to a lack of matchday and commercial revenue. So the club really needs to do better on generating additional revenue and it is also noticeable that we received very little (if any) money from player sales. (note the £8m for Olise falls beyond this accounting period).

The wage bill reduced from £37.6m to £32.2m but this still means that our wage bill to income ratio is 234%. This clearly reflects still having many high earners on the books throughput this period (such as, Moore, Puscas, Joao and [Swift]). It will also reflect payments to Mark Bowen who have had his contract terminated in the period. We all know this is unsustainable and to put this into perspective the club needs to reduce the wage bill from £32.2m in 2021, to £21.1m in the current season and £16m next season, per the agreement with the EFL. Some of the losses are, of course, incurred in running a CAT 1 academy.

To fund all these losses, borrowings have increased from £86.6m to £100.4m although these loans from Dai Yongge do not bear interest (via Renhe Sports Management Limited, the club's parent company). In addition, the owner has provided a further £30m of funding via equity, which does not have to be paid back, unlike the loans. This additional equity was a debt to equity conversion.

As has been the case in recent years, 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 owner states he continues to strive for promotion to the Premier League without jeopardising the club's financial position.

Profit & Loss

	2021			2020		
	£m Operations	£m Player trading	£m Total	£m Operations	£m Player trading	£m Total
Turnover	13.8	0	13.8	17.8	0	17.8
Admin expenses	(41.8)	(8.3)	(50.1)	(52.1)	(9.2)	(61.3)
Operating loss	(28.1)	(8.3)	(36.4)	(34.4)	(9.2)	(43.5)
Profit of disposal of players	0	0.7	0.7	0	1.6	1.6
Loss for financial year	(28.1)	(7.6)	**(35.6)**	(34.4)	(7.6)	**(42.0)**

So, what does this all mean? In summary, just from playing football the club lost £28.1m last season compared to £34.4m in 2020. In addition, the club lost £8.3 in player trading which is largely the annual costs associated with players' contracts being expensed over the duration of the player's contract. The club has made a small profit of £0.7m on players that have been sold in the year. Some of this is profit on sale, while others will be additional monies owed due to appearances and sell-on clauses for players including Mo Barrow, Oliver Norwood, Michael Hector, Rob Dickie and George Evans.

Revenue summary

	2021 £m	2020 £m
Media & Broadcasting	9.4	8.2
Match day receipts	0.6	3.6
Commercial income	3.3	4.6
Rugby match commission	0	0.4
Other income	0	0.2
Grant income	0.5	0.8
	13.8	**17.8**

Match day revenues collapsed and were only £0.6m because of COVID, which meant there were only three home game played with restricted crowds. Similarly, commercial revenues were down from

£4.6m to £3.3m. Offsetting these reductions was a £1.2m increase in Media & Broadcasting as more games were televised and there was good uptake in streaming services provided by the club during the pandemic.

There is no longer any revenue generated from London Irish ground sharing at the Madejski Stadium (SCL).

Costs

Total admin expenses amount to £41.8m, of which £32.2m relates to wages and wage related costs. This is a decrease of £5.4m from 2020. A summary of the staff levels is shown below:

	2021	2020
	Number	Number
Players	46	61
Football management & coaching staff	72	101
Admin staff	53	67
Match day staff	0	249
Staff employed under training schemes	21	16
	192	**494**

Since 2019 both the staff costs and total number of staff have both decreased. The playing squad is now only 46 players yet was 63 in 2019. We have, of course, seen the impact of this squad reduction this season when our matchday squads have looked very thin and inexperienced at times.

Directors' salaries were £0.7m, up slightly from the year before with the highest paid director earning a little over £0.5m. It is not possible to name the highest paid director from the accounts.

We also know there's a £1.5m charge to now use the stadium itself which was introduced when the stadium was sold around three years ago to one of Dai Yongge's offshore companies.

Also included in total admin expenses of £50.1m is £8.3m of player "amortisation". 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.

As the club has not been able to sign players recently for any significant value, then the value of player amortisation will reduce each year. This will substantially help to reduce the overall losses the club makes each year going forward.

The final thing to mention when considering the club's FFP position (now called Profit & Sustainability rules). 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. Similarly, further deductions were allowed by the EFL in relation to the COVID impacted seasons, thereby reducing the total losses that were assessed by the EFL in its investigation into the club's finances (which ultimately led to the points deductions).

Balance sheet

The key number is the net liabilities of £71.9m. That means the club owes more than it owns. Over the years the club has accumulated losses of £174.3m, which are partly offset by the shareholders having injected over £102m in share capital.

There are almost no tangible assets remaining at the club after the stadium was sold in previous years. 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 £12m, down from £18.1m although the original value of these contracts is £23.7m. 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). It is interesting to note the value of the contracts of players sold last season was £12.8m (relating to the transfer fees and agents fees fully written off for Aluko, Baldock, Richards, Smith etc so is just an accounting treatment).

Final number to note is debtors of £22.3m which is made up of £16.8m owed by other companies within the group of companies that make up RFC. Very little (only £0.7m) relates to amounts owed by other clubs for players we have previously sold. I believe the £16.8m is mainly owed by RFC Bearwood (£10.9m) for development of the new training ground plus £5.9m owed by the women's football club. **The new training ground is however still owned by the club, via its subsidiary RFC Bearwood,** contrary to other social media reports. The training ground "sold off" related to Hogwood.

On the liabilities side of the balance sheet the standout number is the £100m 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 £30m 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 2020/21 season ended the club sold Michael Olise for £8m and did not sign any new players with a transfer fee attached.

Unlike in other seasons and my previous reviews there has been very little of interest when it relates to payments to and from "other related parties" which was previously performed to try to work around some of the profit and Sustainability regulations.

So, what does this all mean? Fundamentally the club has been run at a significant loss for several seasons with the wage bill far exceeding the income (either from match day revenues, TV & broadcasting rights and player sales). This has resulted in our six point deduction (plus six suspended) from the EFL (as previously reported). It also means the club is having to manage its ongoing wage bill very tightly, but it still has certain high wage earners like Moore, Puscas and Joao contracted for next season. Therefore, I think we will see the club make every effort to further reduce the wage bill in the summer. If it doesn't then a further six point deduction will be heading the club's way.

Even with a much reduced wage bill next season of c. £16m [for the playing squad] the club will still need to do its best to balance the books and keep other costs down (or sell players to reduce the deficit). The club still needs to stick to the £39m loss over three years going forward (or £13m per year). Even with reduced losses the club will be reliant on the owner to continue to fund those losses.

Renhe Sports Management Co Ltd

So Renhe Sports owns 95.4% of Reading Football Club and had a consolidated loss of £39.2m for the year which is the combined results for RFC, RFC Women's, RFC Bearwood. This is down from £45m the previous year. The accounts are relatively clean and benign this year

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 £134.7m.

Total fixed asset are £41.5m which is predominantly the value of the Bearwood training ground. The football stadium sits outside of the consolidated group and is owned by Prestige Fortune Asia Ltd, a company owned by Dai Yongge. There is a lease costing the football club £1.5m per year for use of the SCL. The lease is in place until June 2043.

What is simply staggering is that Renhe owes £212m to Great Shine International Ltd (owned by Dai Yongge). This has funded year after year of losses, where the wage bill is simply too high and previous investments in players has not yielded the dream of premier League football for Mr. Dai. As a fan I really cannot fault Mr. Dai's financial investment into Reading. Whether it is money well spent is a debate to have over a drink one day, but as a club, we are very reliant on Mr. Dai remaining committed to Reading FC.