Notes from the accounts – for the season ending 30 June 2022

The Reading Football Club Limited

These is the first set of accounts that has been published since the club reached an agreement in November 2021 with the EFL for breaching the Profit & Sustainability ("P&S") rules and agreeing a business plan with the EFL to reduce its wage bill and also to ensure compliance with the £39m of losses over a three year period.

From my understanding of the agreement with the EFL both of these elements are equally as important as they enable the EFL to bring RFC's overall spending more in line with its revenues. The agreement with the EFL not only covered the 2021/22 season, but also the current season (2022/23) with the player wage bill being set at £21.1m and £16m for the two seasons respectively. Also, the historical losses were reset to allow the club to operate within a £13m per season loss going forward.

So, it has been interesting to see what level of progress has been made by the club and how this has been reflected in the published accounts. It should be noted the published accounts for The Reading Football Club Limited ("RFC") will not have to show a £13m loss position. The club is allowed to make certain deductions by the EFL (the main ones being for costs associated with the academy and also the women's team) which result in the published losses looking higher than those permitted by the P&S rules.

As with last season the accounts for the club (plus its parent company Renhe Sports Management Co Limited ("Renhe")) are actually fairly "normal" and do not show any surprising positions designed to financially engineer a better position (as was the case with the previous sale of the stadium several years ago) with limited levels of related party transactions between the club, Renhe and other businesses owned by Mr. Dai. The club also retains ownership of the Bearwood training ground which has a value of £41.4m.

The season in question saw the return of the club playing games unaffected by COVID restrictions which resulted in increased revenues. However, the club still lost £17.2m and that was after the benefit of selling Michael Olise for £8m. £17.2m loss compares favourably to a loss in the previous season of £35.7m and the wage to income ratio dropped from 234% to 150% with total wages falling from £32.2m to £25.3m. This clearly shows progress and, hopefully, compliance with the budget agreed with the EFL. The restriction of £21.1m relates to playing staff only.

Included within the wage bill of £25.3m is team's management and coaching staff, plus all administrative staff as well. And let's not forget that the 2021/22 season saw the termination of another manager's contract, which has been a consistent theme in recent years.

The losses of £17.2m have again been funded by Mr. Dai. The club has borrowed a further £9.5m from Great Shine International Limited, a Hong Kong incorporated company owned by Mr. Dai. Additionally, over 50m new shares were issued in exchange for debt of over £26m. The club now has total debt of £83m, down from £100m last season as a result of the debt for share exchange.

In some sections I will try to highlight some of the longer term trends as well as I think it helps to provide context to the direction of travel over the past few seasons.

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. These accounts show that progress is being made to bringing the club back onto a more sustainable financial footing but it remains a challenge to balance legacy player contracts and bringing in new players, and this will still continue into the 2023/24 season.

Profit & Loss

	2022			**2021**			**2020**		
	£m	£m	£m	£m	£m	£m	£m	£m	£m
	Operations	Player trading	Total	Operations	Player trading	Total	Operations	Player trading	Total
Turnover	16.9	0	16.9	13.8	0	13.8	17.8	0	17.8
Admin expenses	(37.7)	(5.2)	(42.2)	(41.8)	(8.3)	(50.1)	(52.1)	(9.2)	(61.3)
Operating loss	(20.1)	(5.2)	(42.2)	(28.1)	(8.3)	(36.4)	(34.4)	(9.2)	(43.5)
Profit of disposal of players	0	8.1	0	8.1	0.7	0.7	0	1.6	1.6
Loss for financial year	(20.1)	2.8	**(17.2)**	(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 £20.1m last season compared to £28.1m in 2021 and £34.4m in 2020. In addition, the club lost £5.2 in player trading which is largely the annual cost associated with players' contracts being expensed over the duration of the player's contract.

The club has made a profit of £8.1m on players that have been sold in the year which primarily relates to Michael Olise's transfer to Crystal Palace which is a much improved (and needed) position to help balance the books and is something that will continue to be important if the club is to maintain compliance with P&S in the future. Without this transfer fee then it is doubtful the club could have been able to agree a business plan with the EFL to maintain a targeted loss of £13m for the season.

Revenue summary

	2022 £m	2021 £m	2020 £m
Media & Broadcasting	8.4	9.4	8.2
Match day receipts	3.6	0.6	3.6
Commercial income	4.7	3.3	4.6
Rugby match commission	0	0	0.4
Other income	0.2	0	0.2
Grant income	0	0.5	0.8
	16.9	**13.8**	**17.8**

The table above clearly illustrates where the club's income is generated and there's been a rebound in its match day receipts as fans were allowed back into the stadium to watch games. The decline in Media & Broadcasting reflects that during COVID more games were broadcast on television, plus live streaming revenues.

By contrast, in 2016/17 our revenue was £36.7m which would have been the last season of parachute payments where Media income was nearly £21m on its own. It's also interesting to note (with the exception of the COVID pandemic hit season) our revenues have been fairly consistent around the £17m to £18m level since parachute payments ended and so our cost base can only be £13m more than that if the club is going to stay within the P&S guidelines going forward.

The table below shows some key information regarding attendances, season tickets and matchday revenue.

	2022	2021	2020	2019
Average attendance	14,249	0	12,684	14,991
Number of season tickets	8,346	0	9,561	10,052
Matchday revenue	£3.6m	£0.6m	£3.6m	£4.7m

Costs

Staff category	2022	2021	2020
	Number	Number	Number
Players	39	46	61
Football management & coaching staff	74	72	101
Admin staff	60	53	67
Match day staff	53	0	249
Staff employed under training schemes	23	21	16
	249	**192**	**494**
Total wage costs	**£25.3m**	**£32.2m**	**£37.6m**

At £25.3m of total wage costs, this creates a wage cost to revenue ratio of 150%. This compares favourably to a level of 234% in 2020/21 and 216% in 2019/20. Given these historical levels it is clear why the EFL needed to club to trim its wage bill. We know the EFL target for the season for player wages was £21.1m. Given a total number of players of 39 (including academy players), that gives an average playing salary of £541,000 per player (or just over £10,000 per week per player). We also know our first team squad was limited to 25 players then the average salary increases to £844,000 or £16,200 per week. In addition, directors' salaries were £0.3m, down from £0.7m in 2020/21.

Also included in total admin expenses of £42.2m is £5.2m of player "amortisation" which was £8.3m in the prior season. This is the cost to the club each year of transfer fees that have been paid which is accounted for over the lifetime of the player's contract. This number will continue to reduce for the current season as the number of players we have paid a transfer fee continues to reduce with the main ones being Joao, Puscas and Ejaria, the latter two of which will still be in contract next season.

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. But remember these are accounting treatments and not cash flows.

People need to remember that if transfer restrictions are lifted in the future this will not then allow a free for all in terms of paying transfer fees because those fees have to be accounted for in future profit and loss accounts and the club will still be tight to the £13m per season average losses. To help alleviate this problem then either the club needs to generate more revenue from matchday, media, etc or buy and sell, or develop players through the academy, to sell at a profit, like the sale of Olise demonstrated.

Also within the operating costs of the club we know there's a £1.5m charge to now use the stadium itself which was introduced when the stadium was sold several years ago to a company owned by Mr. Dai.

Balance sheet

One important number is the net liabilities of £62.9m, down from £71.9m. This means the club owes more than it owns. Over the years the club has now accumulated losses of £191.5m which is over £140m more than when the Dais bought the club in 2017. From the 2017/18 season onwards it is very clear to see just how much money the club has lost (from £66.5m to £191.5m) and these results also include certain one-off, non-footballing profits such as the sale of the stadium and the old Hogwood training ground. Without those transactions then the position would have been even worse.

Shareholders' equity	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**
	£m	£m	£m	£m	£m	£m	£m
Called up share capital	117.1	92.0	63.3	51.7	24.6	9.6	1.6
Share premium	11.6	10.4	9.1	8.5	7.2	6.5	6.5
Profit and loss reserves	(191.5)	(174.3)	(138.6)	(96.6)	(66.5)	(45.6)	(50.2)
Total equity	**(62.8)**	**(71.9)**	**(66.2)**	**(36.4)**	**(34.7)**	**(29.5)**	**(42.1)**

The club owns both RFC Bearwood Limited and Reading Women's Football Club Limited as well as a 25% investment into RFC Prop Co Limited (being the Thai controlled company with the rights to the Royal Elm Park development). RFC Bearwood owns the training ground at Bearwood and the women's club runs at an annual loss which is effectively funded through the men's team.

Player contracts (or intangible assets) are valued at £6.8m, down from £12.0m although the original value of these contracts is £20.6m. 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). The impact of our recent transfer restrictions is clear to see when looking at the value of players' contracts that the club has paid money to acquire.

Another number to note is debtors of £23.1m which is made up of £19.1m owed by other companies within the group of companies that make up RFC. I believe the £19.1m is mainly owed by RFC Bearwood for development of the training ground (£12m) plus £7.1m owed by the women's football club. The club is no longer owed any money by other clubs for previous transfers.

On the liabilities side of the balance sheet the standout number is the £83.4m owed to Renhe Sports, the parent company. This amount is down from over £100m in 2020/21 which reflects that £26.3m of debt was converted into equity during the year. The good thing about share capital is, unlike debt, it doesn't have to be repaid.

Perhaps also interesting to note though is the difference in accounting treatments between RFC and Stoke. At RFC debt has consistently been converted into equity over the past few seasons (at the behest of the EFL) though such a swap does not provide any benefit to the profit & loss account. However, at Stoke it seems as though a large debt of £120m has been "waived" which has created a very sizeable profit for the season. My understanding is the waiver of any loan is not allowed to be added back for P&S purposes. The same also now applies to sale of property and land.

Cashflow

From a cashflow perspective in 2021/22 the club lost £23.5m on its day to day operations. To cover these losses £8.9m was received from selling players, £9.2m was borrowed from Renhe and the club's cash reserves reduced from £6.5m to £1.1m.

Renhe Sports Management Co Ltd

So Renhe Sports owns 97.96% of Reading Football Club and had a consolidated loss of £21m for the year. This is the combined results of all its subsidiary companies (namely RFC, RFC Women's and RFC Bearwood). Unlike in some previous seasons, the performance of Renhe Sports largely reflects what is happening in the three subsidiaries with no one-off transactions taking place to help off-set the losses elsewhere (which is a good thing).

Renhe now owes its parent company, Great Shine International Limited, (owned by Mr. Dai) £220m which is just under £10m more than the prior year reflecting the fact that RFC only required an additional £9.5m of new borrowings in the 2021/22 season. To put this into context, at 30 June 2017, just after Mr. Dai bought the club, Renhe owed Great Shine £54m so, in five seasons, Mr. Dai has pumped £166m into the club and the main return for that is the Bearwood training ground valued at a little over £41m.

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 £155m.

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).

RFC Bearwood Limited

Key points for RFC Bearwood, which owns the training ground and is a wholly owned subsidiary of RFC, is that is has operating cost of c. £0.9m this season, an underlying asset value of over £41m, owes £12m to RFC and a further £26.5m to Renhe. These amounts have obviously been used to fund the development of that facility. There's been virtually no change compared to the 2020/21 season.

Reading Women's Football Club Limited

Headlines relating to the women's team are a loss for the season of £1.2m compared to £1.3m in the previous season and this loss have continued to be supported by the men's club / Renhe and now owes £7.1m to RFC or Renhe.
