Notes from the accounts – for the season ending 30 June 2023

The Reading Football Club Limited

So, these are the long awaited accounts for the year ending 30 June 2023, representing two seasons ago and are nearly a year overdue. In theory, we should be reviewing last season's accounts but the club has already stated these are not being filed in the near future.

I do, however, take some comfort that these accounts have now been filed and, with a half glass full view on life, thinking this is a positive step towards tidying up the club's affairs prior to a sale being agreed and concluded.

It's also worth considering these accounts relate to our last season in the Championship where the club continued to incur points deductions as a result of failing to pay HMRC on time and breaching agreements with the EFL about its financial affairs.

And let's not forget some of the players still at the club that season, which I think is important when considering the size of the wage bill referenced later. Players included (and quickly forgotten as I had to check Transfermarkt for the details); Liam Moore, Lucas Joao, Yakou Meite, Ovie Ejaria, Tom Ince, Junior Hoilett, Jeff Hendrick, Cesare Casadei, Naby Sarr, Baba Rahman, Mamadou Loum, Scott Dann, Tom Holmes and Tom McIntyre. Were they the good old days? I'd say not when you see the effort this season squad puts in week in and week out.

In summary, these accounts aren't particularly exciting or insightful into the club's affairs when compared to a number of the previous seasons that I've reviewed for STAR, especially the first couple of years of Dai's ownership. But it does include the sale, at a profit of £7.7m on the club's 25% stake in RFC Propco Limited (otherwise known as the Royal Elm Park development with the former Thai owners).

It's also sad to note in the accounts of the women's team the statement that the club has ceased to trade as of 30 June 2024.

One final point to note, as in previous years, the club's accounts have received a "material uncertainty" in relation to its going concern. This is not surprising as the club has had such a statement for many years. However, in the recent meeting between the club and STAR it was stated obtaining the going concern statement is what had delayed the filing of the accounts.

For those unfamiliar with this aspect an auditor must deem it appropriate for a company to prepare its accounts "on a going concern basis" – i.e. that the business (in this case RFC) will still be a going concern in at least 12 months' time. Clearly this is what was causing the club issues as under Dai's continued ownership there was absolutely no certainty this would be the case, and this is usually demonstrated to the auditor via proof of funding agreements (whether from a shareholder or lenders). Therefore, for the auditors to become comfortable and sign off the accounts, there has to be some evidence the club will still exist in at least 12 months' time. I assume that hasn't come from Dai, so it leads me to believe that some form of deal must be imminent and the purchaser has provided that proof of funding. But I can only surmise, as I am not an insider and have not spoken to the club about this point.

Profit & Loss

	2023			2022			2021		
	£m	£m	£m	£m	£m	£m	£m	£m	£m
	Operations	Player trading	Total	Operations	Player trading	Total	Operations	Player trading	Total
Turnover	18.7	0	18.7	16.9	0	16.9	13.8	0	13.8
Admin expenses	(36.8)	(4.5)	(41.3)	(37.7)	(5.2)	(42.2)	(41.8)	(8.3)	(50.1)
Intercompany loan provision	(8.3)		(8.3)						
Operating loss	(26.5)	(4.5)	(31.0)	(20.1)	(5.2)	(42.2)	(28.1)	(8.3)	(36.4)
Profit of disposal of players		1.7	1.7	0	8.1	0	8.1	0.7	0.7
Profit on disposal of investments	7.7	0	0	7.7	0	0	0	0	0
Loss for financial year	(18.9)	(2.8)	**(21.7)**	(20.1)	2.8	**(17.2)**	(28.1)	(7.6)	**(35.6)**

So, what does this all mean? In summary, just from playing football the club lost £26.5m compared to £20.1m in the prior season and £28.1m in 2021. The club also had to write off certain debts owed to it by other subsidiaries, the main one being the debt owed by the women's team, which no longer exists, so couldn't repay its debts to the club.

In addition, the club lost £2.8m in player trading which is largely the annual cost associated with players' contracts being expensed over the duration of the player's contract, but did make a profit of £1.7m for the sale of George Puscas albeit this is much lower than the prior year which included the sale of Michael Olise to Crystal Palace.

Player trading remains an important aspect for the club but, with the exception of Olise, we've seen too may talented players be sold for what fans would see to be lower than their market value, purely because their contractual positions often mean there is limited value due to impending end of contracts. More recently players such as Nelson Abbey, Caylan Vickers and certainly Tyler Bindon spring to mind.

What is new in this season's accounts is a £7.7m profit on sale of investments. I believe this was Dai selling the club's 25% stake in the Royal Elm Park development (to himself) and was a heated point of debate about its legality for P&S rule purposes with the EFL prior to a points deduction being imposed on the club by the EFL in the spring 2023.

Revenue summary

	2023 £m	2022 £m	2021 £m
Media & Broadcasting	9.4	8.4	9.4
Match day receipts	4.8	3.6	0.6
Commercial income	4.3	4.7	3.3
Other income	0.1	0.2	0
Grant income	0	0	0.5
	18.7	**16.9**	**13.8**

The table above clearly illustrates where the club's income is generated and there's been an increase in its match day receipts plus an additional £1m of Media & Broadcasting income.

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 £19m level since parachute payments ended.

The table below shows some key information regarding attendances, season tickets and matchday revenue. Attendances remained fairly constant as did the number of season ticket holders. With that fact pattern it will be interesting to understand why Matchday revenue increased by £1.2m which the club confirmed was mainly due to the FA Cup fixture against Manchester Utd at Old Trafford. I'm also keen to see what happens to these stats in the next accounts which reflect our first season back in League One.

	2023	2022	2021	2020
Average attendance	14,027	14,249	0	12,684
Number of season tickets	8,204	8,346	0	9,561
Matchday revenue	£4.8	£3.6m	£0.6m	£3.6m

Costs

Staff category	2023	2022	2021
	Number	Number	Number
Players	51	39	46
Football management & coaching staff	79	74	72
Admin staff	59	60	53
Match day staff	67	53	0
Staff employed under training schemes	27	23	21
		249	**192**
Total wage costs	**£24.5m**	**£25.3m**	**£32.2m**
*Average cost per employee**	*£188k*	*£223k*	*£272k*

**based on Players plus Management and Coaching Staff*

At £24.5m of total wage costs, this creates a wage cost to revenue ratio of 131% down from 150%. This compares favourably to a level of 234% in 2020/21 and 216% in 2019/20. It's interesting to note the total numbers of players increased from 39 to 51, despite our issues with P&S. In addition, directors' remuneration remained constant at £0.3m.

Also included in total admin expenses of £41.3m is £4.5m of player "amortisation" which was £5.2m 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 is likely to be much lower. Most of the £4.5m related to Puscas and Ejaria who were still in contract in this season (with Puscas out on loan).

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 but certainly impact P&S rules.

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, a charge which is in place until June 2043. However, the £1.5m charge was not paid to Dai (or more precisely his company which owns the stadium, Prestige Fortune Asia Ltd) which is now owed £6m, reflecting the rent charge hasn't been paid in cash for four seasons.

Balance sheet

One important number is the net liabilities of £78.6m up from £71.9m. This means the club owes more than it owns. Over the years the club has now accumulated losses of £213.2m (£21.7m higher than last year) and this is over £160m 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 £213.2) and these results also include certain one-off, non-footballing profits such as the sale of the stadium, the old Hogwood training ground and its stake in Royal Elm Park. Without those transactions then the position would have been even worse.

Shareholders' equity	**2023**	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**
	£m	£m	£m	£m	£m	£m	£m
Called up share capital	122.8	117.1	92.0	63.3	51.7	24.6	9.6
Share premium	11.8	11.6	10.4	9.1	8.5	7.2	6.5
Profit and loss reserves	(213.2)	(191.5)	(174.3)	(138.6)	(96.6)	(66.5)	(45.6)
Total equity	**(78.6)**	**(62.8)**	**(71.9)**	**(66.2)**	**(36.4)**	**(34.7)**	**(29.5)**

The club owns both RFC Bearwood Limited and Reading Women's Football Club Limited but this year sold its 25% investment into RFC Prop Co Limited (being the Thai controlled company with the rights to the Royal Elm Park development). The club made a profit of £7.7m on this transaction.

RFC Bearwood owns the training ground at Bearwood and the women's club ran at an annual loss which was effectively funded through the men's team.

Player contracts (or intangible assets) are now valued at NIL compared to £6.8m last year 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 and therefore there's no longer any value remaining in those player contracts.

Another number to note is debtors of £17.0 which is made up of £12.5m owed by other companies within the group of companies that make up RFC. I believe the £12.5m is mainly owed by RFC Bearwood for development of the training ground (£12m) but the £7.1m that was owed by the women's football club appears to have been written off in the accounts of both Reading FC and the women's club (presumably reflecting the demise of the women's team).

On the liabilities side of the balance sheet the standout number is the £79.8m owed to Renhe Sports, the parent company which is down from £83.4m in 2021-22 after £6m 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.

Renhe Sports Management Co Ltd

(this commentary remains unchanged from the previous review as Renhe Sports Management Co Ltd is yet to file its accounts for the year ending 30 June 2023)

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 (the same as the previous season), an underlying asset value of over £41m and owes £39m to either RFC or Renhe (in previous years this as split £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 2021/22 season.

Reading Women's Football Club Limited

Headlines relating to the women's team is that the accounts state the company ceased trading on 30 June 2024. Therefore, the accounts are pretty irrelevant but this did have the knock-on impact on RFC's accounts as a debt of £7.1m owed to the men's club for to cover previous losses has had to be written off.