

**PAPER 01 - UPDATE FOR MEMBERS RE: STADIUM FINANCING**

**Key points**

- Construction of the stadium is underway. We have not yet signed the main construction contract and are not able to do so until we have the necessary funding lined up.
- We do not yet have a firm offer of a loan. We are working hard to secure one but it is taking us longer than we expected to get there, and there is no guarantee that we will get what we are looking for.
- There is a version of the new stadium that can be ready for next season if we do not get a loan in time. It will be rudimentary, with reduced capacity and revenues, and will leave us with the lowest League One playing budget for the foreseeable future (and an uncompetitive budget for League Two).
- If we are to build the full phase one of the stadium for 2020/21, we need to be able to demonstrate to our contractor by January that we will have the funding available.
- If we are able, very soon, to raise a loan for close to the £11 million you have authorised us to borrow, we could sign a contract for the full phase one stadium in January. However, such a loan is likely to be short term only and will need to be refinanced. Owing that much money in the form of a standard commercial mortgage is not financially sustainable.
- If we are to be a financially sustainable club in the EFL, we need to borrow a lower amount of money and to raise the remainder of the funding in the form of additional share capital, or very long term (40 year plus) debt in the form of a sale and leaseback.
- There are individuals who are willing to provide us with capital. They have made clear to us that they have the long-term interests of AFC Wimbledon at heart and are not motivated by making a profit. They would bring deep and varied business experience to the relevant boards.
- However, these investors would require us to make major changes to the ownership structure and governance of AFC Wimbledon. They agree that the Dons Trust must have complete control over issues such as selling the stadium, relocating the club or changing our name, badge or colours. However, they are not content for the Trust to insist on retaining 75% voting control as this limits their rights and the club's ability to raise more money if and when we need it.
- If we are to build the stadium that we have been planning on for the 2020/21 season, we will need to act quickly to bring some major decisions to you in the New Year. The choices we face are in your hands. Please read this paper carefully and decide what is most important to you for the future of the Dons Trust and AFC Wimbledon.

### Situation

1. Construction of the new stadium at Plough Lane is underway and we are working towards playing there next season. Many of you will have seen recent images on the club's website, including the steel frame that is being erected for the main west stand.<sup>1</sup>
2. So far, we have appointed our contractor (Buckingham Group Contracting Limited) to carry out specific packages of works that we can already afford to pay for from the sources of finance available to us. But we are now reaching the point where Buckingham need to place substantial orders with their sub-contractors. To make further progress, we need to sign the main construction contract with Buckingham.
3. To date, we have raised money for the stadium from a number of sources – contributions from Merton Catalyst (the developer of the neighbouring housing, £14 million); money left over from the sale of Kingsmeadow to Chelsea (£3.5 million) and the proceeds of our recent crowd funding share issue. We reached very nearly £2.5m on the crowd funding. That's less than the maximum £7 million permitted but nonetheless past the £2 million we set as a minimum. Thank you to those of you who participated.
4. There are two big problems we still face on the project.

### Problem no. 1

5. There's one other pot of money we've been counting on and that we don't yet have in place. We don't yet have the loan you've authorised us to take out (of up to £11m). We're making progress with a number of potential lenders but it's slow-going and we don't yet have an offer that we can consider as 'money in the bank'. There are various factors that are adding to banks' caution in the current environment, including Brexit and recent financial difficulties of other EFL football clubs.
6. Until we get something firmer, we can't demonstrate to Buckingham that we have the funding to commit to the full phase 1 stadium (9,000 capacity). Even if Buckingham didn't insist on this, it wouldn't be responsible for us to plough on regardless.
7. So, after discussion with Buckingham, we have come up with a potential way forward. Subject to final confirmation, there is a version of the stadium that they can build for a total project cost (including money spent to date and non-Buckingham costs) of around £22 million, which will open in time for the 2020/21 season. The money currently at our disposal leaves us around £1 million short of that figure. That's not an insurmountable gap, although we're going to need your help to get there. We'll be coming to you with new proposals for doing that, now that the crowd funding is over.

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<sup>1</sup> These images can be seen at [www.afcwimbledon.co.uk/news/2019/november/stadium-update-things-are-coming-along/](http://www.afcwimbledon.co.uk/news/2019/november/stadium-update-things-are-coming-along/)

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8. However, you need to be aware that the £22 million version of the stadium will be very rudimentary. For example, it won't have the semi-permanent stands (restricting our capacity to around 4,000 seats), it won't have any conferencing & banqueting and the fit-out of the main west stand will be very basic. All those things can potentially be added at a later date but, in the meantime, we'll be operating in a stadium that doesn't have all the facilities our fans would like to see. It also won't generate the crowds or revenues we need to support a credible playing budget for League One. In reality, assuming we are still in League One at the start of the 2020/21 season, we would have the lowest League One playing budget, based on our understanding of this season's budgets and would expect to be relegated to League Two for 2021/22.
9. The good news is that, if we can satisfy ourselves by January that we can raise £10 million in addition to what we already have at our disposal, and demonstrate to Buckingham that we will have the funds required to pay them, then they can still build the full phase one stadium (including the additional revenue-generating facilities) as part of the initial construction, albeit that not all of the extra facilities will be ready for the start of the season. So we're pushing a variety of lending sources as hard as we can to come up with firm offers of finance. We may need to take out a relatively expensive short term bridging loan and then refinance it as soon as the stadium is complete. That's quite risky, because there's a risk that we'll fail to find a long-term loan to replace it, so we'll need to take a realistic view of our ability to put in place a long-term refinancing.

### **Problem no.2**

10. The second problem is that, if we can raise a long-term loan of £11m (i.e. £10 million plus the amount of interest we'll owe during the period before the stadium opens), it will be a significant millstone around our necks for many years to come. Depending on the terms of the loan, we will pay out a lot of our cash flow to service the loan, which will eat into our playing budget and hold us back competitively. If we fail to keep up with the payments to lenders, or to meet the other conditions that the lenders set for us, then the club will be insolvent and the lenders will take the stadium away from us.
11. Reputable lenders don't enter into loans in the expectation of having to enforce their security, and nor should we be entering into a loan that we don't think we can service. Our current calculations suggest that, if we do take a short term construction loan for the full £11 million you've authorised, we're going to need to find further funding of at least £4 million that we don't have to repay (such as share capital) to repay some of it so that the long-term refinancing loan doesn't become an imprudently large burden on the club. We expect that lenders will also want us to have access to such an amount of money so as to make us a bankable proposition.

12. The reason we need to find all this extra money is that the stadium is costing us more than we originally expected when we got your permission to sell Kingsmeadow back in 2015. There are a number of unforeseen circumstances that have caused that (see explanation in the box below). It may seem, with the benefit of hindsight, that we were too optimistic in the first place. However, we are not alone. There are plenty of other football clubs – some of them much larger and better resourced than us – that have found that stadium projects cost more than they originally thought.

**Why do we need more money than we originally thought?**

The project is costing more money than we expected in part because it has been delayed by two years. Reasons for the delays include:

- It took longer than expected to obtain planning permission. The Greater London Authority took over consideration of the application after it was approved by Merton. Then the government put the project on hold in order to review the loss of heritage from demolishing the greyhound stadium.
- Commercial negotiations of the commercial agreements with the London Borough of Merton and Merton Catalyst (the developer of the neighbouring housing) took months to finalise. There were further delays when we parted company with the contractor originally selected to build the project.

These delays have resulted in additional costs. Two years of inflation amounts to around £2 million. Also, anticipating higher revenues at the new stadium, we increased the playing budget during this period to give us the best chance of remaining in League One, incurring around £2 million of losses altogether.

There are further reasons why the costs are higher than originally budgeted:

- Switching contractors necessitated re-performing certain elements of the design and repetition of some of the procurement work.
- As detailed design has progressed, costs have increased. Structural engineering work revealed the need for an increase in the amount of steel to support the west stand, and this has added to the project cost.
- We have had to spend a substantial amount of money on levelling the site, as it was not handed over in the condition we expected.

Analysing the cost impact of all these changes would be a significant exercise but, indicatively, they have increased the cost by approximately £3-4 million.

Seeking a radically cheaper design would have required us to go back to the drawing board, with substantial re-design fees, a new planning application (which would take months), another season of delay in which we would have to rent a stadium elsewhere, and would potentially reopen negotiations on the £14 million contribution from Merton Catalyst. This would have further depleted our funds, meaning that the stadium that we could afford to build would be even smaller.

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13. In an ideal world, we would only borrow £4-5 million in the form of a conventional mortgage loan. That amount of borrowing could increase somewhat if we are able to get very long-term financing (e.g. 40 plus years, through a sale-and-lease-back financing arrangement, where we sell the stadium to an investor and lease it from them, with an option to buy it back from the investor for virtually nothing at the expiry of the lease). Servicing borrowings of that level would leave us with cash flows that should support a competitive League One budget.
14. It is also worth noting that, if we do borrow a large amount of money on a long-term basis, then we're not going to be able to expand the stadium towards its 20,000 capacity for many years to come.

### **So what are the options potentially available to us?**

15. Subject to our proposed way forward with Buckingham reaching fruition, we will continue work on the stadium so as to have at least the bare-bones version in place next season. We are confident that, following the ground works, detailed design work and negotiation of a fixed price contract, we have a much clearer understanding of the cost of the project.
16. There is no point in abandoning or mothballing the project. We have sold Kingsmeadow and have nowhere else to play next season. Abandoning or mothballing the stadium would put at risk millions of pounds of expenditure incurred to date – and an unoccupied site with a half-built structure on it would actually create a cash burden on the club (security, insurance, etc.) at a time when we would be needing to pay out for ground hire elsewhere.
17. Assuming we proceed as above, the next question is: what are the options for being in a position to sign, by January, a contract for the full phase one version of the stadium?
18. Option 1: First of all, we could **hang on and hope for the best**. We may raise £11 million of debt and, if we can get a really favourable refinancing package (low interest rate, extended repayment period), then maybe that will be sustainable. However, we haven't yet got such an offer after many months of trying, and it isn't long before we would need to demonstrate the availability of this funding to Buckingham if we are to proceed with the full phase one project. We don't think £11 million is the right amount of money to borrow long-term on normal commercial terms, and we may not be able to borrow it anyway. In short, it is becoming unlikely that we can do what we want to do simply by borrowing some money to supplement the money we have already raised. We may or may not get a short-term loan by January but this will leave us with some significant risks in the longer-term.
19. Option 2: A second option is to issue more shares through a **further round of crowd funding**. However, the rules on crowd funding don't permit it for another 12 months after the first round closed or to raise the amount of

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money we are looking for. In any case, we think the opportunity for appealing to our fanbase and beyond for further funding of that nature, having just completed one round, is much diminished. We know that many of you have put in as much money as you possibly can into the crowd funding, and we cannot expect you, or the wider public, to do so again.

20. Option 3: A third option is to appeal to DT members and fans for **donations**.

To put that in context, the £10 million would be equivalent to over £3,000 per Dons Trust member. Realistically speaking, coming on top of the crowd funding that you supported so generously, we would be surprised if you were able to donate that much. There are some supporters who weren't able to participate in the crowd funding and who might be persuaded to make contributions. If we proceed with the bare-bones stadium, we will be exploring options to raise further donations from fans, to help cover what will be a more manageable shortfall.

21. Option 4: The final option is to bring in **external investment**. By this, we don't mean sponsorship, which is what members sometimes ask about. Sponsorship will no doubt be available in the new stadium – for example, naming rights – and is already part of our business plan. However, it will not be an amount that could fund a significant amount of capital, and will in any case be payable over a period of years rather than up-front. What we're talking about is bringing in a group of investors who want to make a positive impact by supporting AFC Wimbledon financially but without entering into a loss-making investment.

22. We know these investors do exist. We came across some of them while we were preparing for the crowd funding and were hoping to bring them in as part of that, and we have continued to talk to them over recent months. We were struck by the genuine goodwill towards AFC Wimbledon from high net worth individuals who live locally and further afield. They wanted to help, and to contribute significant sums of money, but had a different perspective towards investing than crowd funding investors. They raised a number of issues that they would want to be addressed in our structure and governance. If these were addressed, they have indicated that several millions of pounds would be available.

### **What are investors looking for?**

23. The key issues that have been presented to us as obstacles to investment are:

- The Dons Trust's requirement to retain at least 75% of the votes in AFCW PLC. Besides the limited rights that remain for minority investors with the Dons Trust retaining this level of control, they are concerned that it would be difficult to raise additional money in the future, should the need arise. From their perspective, decisions to raise additional share capital should be driven by the club's business plan and not be held back because of the

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desire of one shareholder (i.e. the Dons Trust) to retain a particular level of voting control.

- The current governance structure, and in particular the need for a suitably qualified board of directors (comprising key executives of the football club as well as directors nominated by the Trust and investors) that makes commercial and financial decisions, as well as day-to-day operational decisions, for the benefit of the company as a whole and is not dominated by a majority of Dons Trust board nominees.

24. In return, external investors recognise that we would need to ensure that the Dons Trust retained an absolute veto over certain existential issues, including selling the stadium, relocating the club or changing the club's name, colours or badge.

25. The precise details of these arrangements are not yet known. However, it is clear that the changes to the governance and structure of the club would be very significant and would reduce the extent of the Dons Trust's control over AFC Wimbledon compared to the current situation. However, there are potential advantages:

- Greater financial stability, and reduced pressure on cash flow, compared to owing lenders £11 million. This would enable the club to sustain a more competitive playing budget at a level that should be expected in a new and larger stadium;
- Participation of people with deep and varied business expertise on the board;
- Earlier access to funding to expand the stadium towards its eventual 20,000 capacity;
- The right for the Dons Trust to participate in future share issues alongside other investors so as to avoid diluting the extent of its shareholding in the company (provided the Trust can raise the money it needs to participate in a share issue).

26. We remain in control of our destiny and these are choices for you, the membership, to make. If you want us to pursue this option, then we would need to bring a number of votes to Dons Trust members. For example, we would need members' approval to:

- Remove the requirement in the Trust's Constitution for Dons Trust Board members to be in the majority on the board of each subsidiary company;
- Allow the level of voting control retained by the Dons Trust to go below 75%, by approving decisions that amount to 'Restricted Actions' in the

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Trust's Constitution and/or removing that list of Restricted Actions from the Constitution;

- Ensure that the veto rights for the Dons Trust referred to above are suitably enshrined in the Trust's Constitution and in the constitutional documents of the subsidiary companies.

27. We will be working on the further detail of what the necessary changes and decisions will be over the coming weeks. If members want us to progress the full phase one stadium before the 2020/21 season, then we may need to put these decisions before members for approval early in the New Year.

28. Given how tight the timetable is, we want to get this dialogue underway with members at the earliest possible opportunity. The reactions and suggestions we hear from members at the 9 December SGM will help us shape any decisions we put to you thereafter, as well as informing our approach towards expanding the scope of the construction contract in January.