

PAPER 2 INTRODUCTION TO SGM PROPOSALS APRIL 2024

Since the inception of the Plough Lane Bond in 2020, the Dons Trust Board (also known in its rules as 'the Society') and AFCW PLC board have been undertaking short and medium term financial planning to support the club's operations and growth now it is back playing at Plough Lane.

In advance of the first tranche of bonds falling due for redemption in 2025, the boards with the assistance of the AFCW PLC Finance Committee are bringing further information and two decision points to Trust members in 2024.

The first phase in April 2024 is to propose some updates to the legal documents of AFCW PLC for largely technical reasons. This is further explained below, but will need the Trust's vote as the majority shareholder of AFCW PLC to pass. There will therefore be a series of resolutions at this SGM on these matters which require a majority of votes cast in the meeting to pass (resolutions 2 to 7).

Secondly later in the year there will be a proposal brought to Trust members about changing the Trust's minimum voting rights from the current 75% to 50.01%. More on this below too.

These technical changes proposed now do not presuppose a specific outcome of the member vote on potentially lessening the Trust's shareholding in future to make more equity available - ie the Trust board will be recommending members vote in favour of resolutions 2 to 7 at this meeting whether or not that member supports the idea of reducing the Trust's shareholding and minimum voting rights in future.

APRIL VOTE ON PLC CHANGES

These proposed changes update the processes and rules under which AFCW PLC (and therefore its majority owner the Dons Trust) operate. They include suggestions from the club's legal advisers Brown Jackson including meeting provisions, director roles and areas such as electronic voting which didn't exist when the rules were first drafted.

One of the provisions is also to make explicit within the articles of the PLC that the Dons Trust must hold at least 50.01% of the voting rights in future. This floor does not preclude or overrule the current Dons Trust provision to hold more than 75% of the voting rights - pending any vote on that decision later this year. It simply means that should any future Dons Trust vote permit lessening of the Dons Trust voting rights to fall from 75% to 50.01% this provision is already underpinned in the articles and no further AFCW PLC vote would be necessary. At the same time it adds a provision in the articles of the AFCW PLC to protect majority fan ownership now and in the future. The club's legal advisers and Finance Committee both support and recommend this course of action by AFCW PLC to enable the Trust to hold a vote on underpinning the 50.01% voting rights later this year thereby ensuring the club remains controlled by its fans.

FUTURE CONSIDERATIONS RE TRUST EQUITY HOLDINGS AND FINANCIAL FLEXIBILITY

Further documentation will follow in advance of a Trust member vote on lessening the Trust's minimum voting rights from 75% to 50.01% in due course, but as part of the current medium term financial planning the Finance Committee have advised the boards that a proposal to make more equity available should be recommended to members.

Any such proposal would support the Trust as an active investor - seeking to buy back shares wherever possible and maintaining as large a shareholding as possible but with the Trust always having the 50.01% guaranteed minimum voting rights. For example, the Trust would actively seek to increase its holding from members who are also existing shareholders, but

would also where it's overall advantageous to the club's capital structure potentially encourage bondholders to convert their bonds to equity in future.

This additional equity beyond what is currently available would not be a "magic bullet" to instantly wipe out club debts, rather it should be viewed as an additional lever the PLC and the Finance Committee can pull as part of their financial planning which seeks to lower the overall burden of debt interest, make provision to repay and refinance bonds as and when they fall due and also provide for capital expenditure.

All this of course needs to be done while still maintaining and growing a competitive playing budget measured against the club's peers, most of whom run significant annual losses in order to fund their wage bills.

LEGAL BACKGROUND

Company Law Overview

It is common knowledge that AFC Wimbledon is a football club that is "*owned by its fans*" but what does that actually mean?

Technically the majority shareholding body is called WIMBLEDON FOOTBALL CLUB SUPPORTERS' SOCIETY LIMITED - it is also known in its own documentation as the "Society" and colloquially and for marketing purposes as the "Dons Trust".

In 2003 AFCW PLC was formed – this is the limited company (organisation) that owns AFC Wimbledon (the football club). This was the legal entity in which shares were initially sold to individual shareholders at the time of financing the purchase of Kingsmeadow - the overwhelming majority of shares were still held by The Society.

Since that initial share scheme, AFCW PLC has needed to raise money to fund the club's growth, regain a place in the football league and then fund the new stadium in Plough Lane.

There are 4 main ways that a company can raise money to expand/develop as follows:

- a. using funds from trading profits;
- b. arms' length bank lending (which will attract interest charges and may require security being granted to the bank over company assets);
- c. more favourable lending options (eg supporter bonds, which the Society offered through its status as a mutual society registered under the Co-operative and Community Benefit Societies Act 2014; or
- d. selling more shares (also called equity investment).

Over the years AFCW PLC has used a combination of the above methods of raising finance to get to where it is today. Part of this process involved selling some of the shares in AFCW PLC to external investors resulting in the current position that the Dons Trust now owns 69.7% of the shares but 80% of the voting rights in AFCW PLC (see below for a breakdown).

What are shares?

Shares are essentially ownership rights in relation to a company and there are three separate parts to such rights:

- a. capital rights – the right to share in the growth of the company: all AFCW PLC shares are equal in this regard.
- b. dividend rights – the rights to share in distributions made to shareholders: all AFCW PLC shares are equal in this regard but no dividends are envisaged for the foreseeable future as funds will remain within the company for expansion.
- c. voting rights – there are 2 types of shares in AFCW PLC – "Ordinary" and "Ordinary A". Ordinary shares each carry three times the voting rights of Ordinary A shares. By owning

more of the Ordinary shares, the Trust has managed to retain approximately 80.0% of the voting rights even they own only 69.7% of the capital (shares) in AFCW PLC.

Why do the voting rights thresholds of 75% and 50.01% matter?

Holding 75% of the voting rights is a useful control over a company as this is the voting percentage required to pass a "special resolution" – the special vote required to alter a company's rules (known as its "Articles of Association"). It would be necessary to amend the AFCW PLC Articles of Association for example to change the types of shares AFCW PLC could issue by creating a different class of shares which might have different rights associated with it. Additionally, in the current AFCW PLC Articles of Association at Article 4.1 a special resolution is expressly required for it to issue any further shares (to be replaced with Article 36.1 in the amended Articles). However, retaining the 75% percentage is not absolutely essential insofar as a special resolution can still be passed if sufficient other voting shareholders to achieve this threshold vote in favour.

A company is run by its Board of Directors who make all operational decisions but a company is owned by its Shareholders who in turn have the ability to elect the Board of Directors. Over 50% of the shareholder vote is required to control this vote so, to remain a fan-owned and controlled club, the absolute key consideration is to retain over 50% of the shareholder vote.

There is additional protection contained in Article 117 of the existing Articles of Association of AFCW PLC (in the new Articles this will be covered in Article 16.2) which states:

"117. Meetings of Directors

*The Directors may meet together (either in person or by telephone) for the dispatch of business, adjourn and otherwise regulate their meetings as they think fit, and determine the quorum necessary for the transaction of business. Until otherwise determined four Directors (including one from the Society Board) shall constitute a quorum. Questions arising at any meeting shall be determined by a majority of votes, **save that where all Society Board directors vote against any proposal, that proposal will fail irrespective of the votes in favour.** One Director may, and the Secretary shall at the request of a Director, at any time summon a meeting of the Directors."*

How else has the club raised funding and what are its debts?

As well as selling some shares in AFCW PLC, the Trust raised £10m in supporter bonds which need to be refinanced or repaid by the Trust over 5, 10 and 20 years with the initial key repayment dates being Spring 2025 (£3.4m), and Spring 2027 (£3.4m). These bonds funded the stadium build and repaid bank lending taken out during the construction phase. AFCW PLC now has no bank borrowing or security against its assets and its Board of Directors consider it is essential this remains the case going forwards for the safety and security of the club.

The Trust and AFCW PLC therefore need the flexibility to raise funds to refinance and repay these bonds and also further funds for future capital expenditure — such as a new training ground, fitting out the third floor or looking at future stadium expansions and improvements.

When considering the four routes to raising more money - the Trust Board and the board of AFCW PLC have concluded that bank lending in the current climate is not a realistic option - owing to both high interest rates and the fact that a bank would require security over AFCW PLC's assets, potentially putting it at risk of bank enforcement action or insolvency if the debt repayment terms were breached at any point. This therefore means that these debts will need to be either refinanced or repaid. Refinanced could mean some portion of it being rolled over (ie some bondholders not requiring payment of the capital sum due in 2025 or 2027). Early indications are that a significant percentage of bondholders may agree to this - which assist in the club's financial planning. As it currently stands funds for repayment will need to come either from the club's operating income (largely through recent one-off player sales) or selling further equity investment.

What are the future plans?

This brings us to the current voting proposals in two stages in 2024 and the rationale behind them. By far the most secure long-term route for fund raising is selling shares in AFCW PLC i.e. raising more equity. This is because equity is not a loan requiring repayment by a specified date but is instead a long-term form of investment in and ownership of AFCW PLC. In order to widen the scope of potential investors that the Board may be able to attract whilst protecting fan ownership and Trust (fan) control, it is first proposed to cement the Trust as having (at least) 50.01% of the shareholder voting rights in AFCW plc's articles of association. This is the issue voted on under resolution 3 as part of the other changes to the articles outlined above.

At the same time as making this change, AFCW PLC's lawyers have recommended modernising its Articles of Association (rules) for example to allow for circulation of documents electronically in accordance with the modern rules that a company would normally be given. All of these matters are aimed to make it easier to attract investment into AFCW PLC whilst protecting the voting control of its fans, ensuring it always remains a club owned and controlled by its fans.

Secondly later this year there will be a member vote on whether to allow the Trust to make more equity available by lowering the floor of its shareholder voting rights under its own rules from 75% to 50.01%. This would have the advantage of allowing more money to be brought in to assist in the long-term refinancing of debt obligations while also making money available for capital investment in things like stadium improvements or a new training ground. Until that vote is held and despite the changes in the AFCW PLC articles outlined, the current threshold of 75% shareholder voting rights will remain in place.

A current diagram of the structure is below showing the ownership structure and shareholder voting entitlements.

