AFC WIMBLEDON FINANCE REPORT

June 2024

For:

Dons Trust Members, Fans, Bondholders & Investors

Prepared by:

The Dons Trust, AFCW PLC & the Finance Committee

Summary

- Over the next three years we will be repaying, replacing, or refinancing £7m of our debt. Our total debt is £10m.

- The world in which we operate is difficult. The EFL recently advised that the average loss for League Two clubs in the 23-24 season was £2m. It will be challenging to manage finances while being competitive on the pitch. The cheaper we can refinance our debts and the better the repayment schedule we achieve - the more money we can spend on the pitch.

- Our long-term ambition is to return to the Championship. But to do so requires us to improve our annual squad investment to a top-half League One budget (c£7m in today's spending). We believe this can be achieved as a majority fan-owned club with sustainable and secure finances, but it won't be easy.

What does this mean for me?

Plough Lane Bond Holders

Consider your Bond options when they're due for redemption. Donating or rolling over on lower / same interest helps the Club the most.

Dons Trust Members

All members will be asked to vote this year on reducing Trust ownership to 50.01%. Making extra equity available could considerably help the Club's financial options.

Introduction

What is the Club's plan to repay the debt? How much do we need to repay and when?

Two short questions with two long answers. The short answer is that there isn't one single magic bullet and it's not a single figure for a one-off payment.

The ongoing management and refinancing will form a significant part of the Club's financial planning for years to come.

We will always aim to manage the Club's finances prudently whilst also trying to allocate as much money as possible to provide a competitive budget to the football operations to achieve on-pitch ambitions.

This means that over the next few years, the Club will seek to grow its playing budget or the amount allocated to "football costs" from the current level to an amount in line with an ambition to challenge for promotion from League Two and then League One.

At the same, of course, provisions need to be made to continue to repay and refinance debt on an ongoing basis - as well as allow capital investment to be made in areas that will improve the Club's long-term prospects.

This document is designed to give fans, members, and bondholders some of the background to the considerations, options, and plans the Club and Trust are making for the future. The two major refinancing windows are in 2025 and 2027 - the exact amount to be repaid will be determined nearer the time in each case.

Provision has been made to pay back bondholders who will require repayment in 2025, but as Trust members and Club owners, we need to consider carefully what is best for the Club in the long-term as we explore all routes for ongoing refinancing and potential investment.

£10m **Total debt to bondholders**

£400k **Cost of borrowing per year (ie our interest payments)**

The Overall Picture

The Club currently has total debt of £10m and the cost of servicing this debt, ie interest payments, is £400k per year.

That means that in percentage terms the cost of borrowing is around 4%. But some of the debt is at much lower rates (0-2%) and some higher (6-7%).

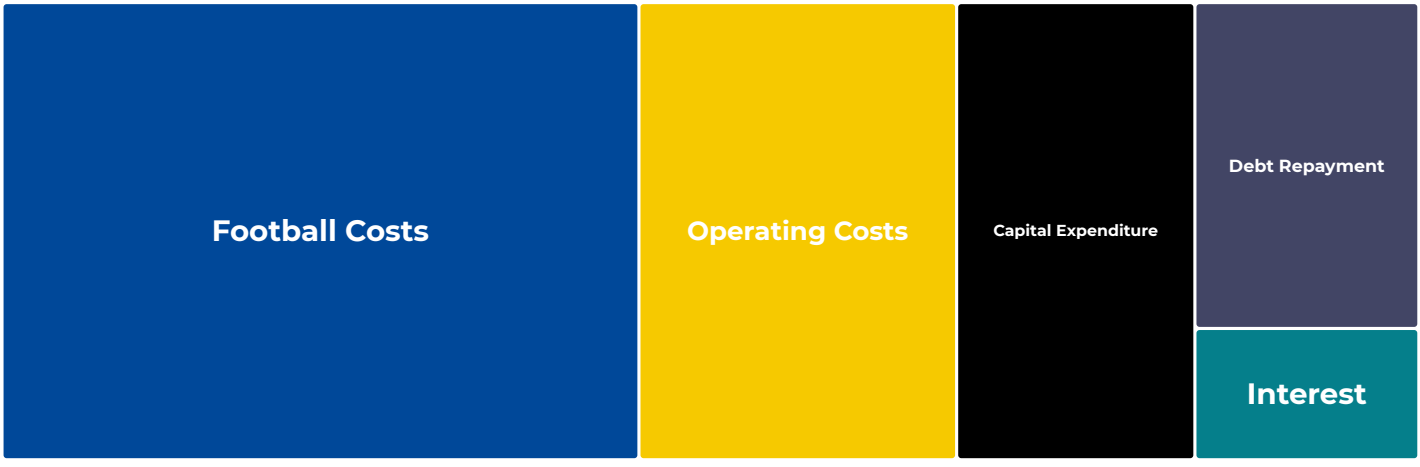
Therefore as the Club plans to redeem and pay some bondholders while others might opt to roll over their bonds, this percentage will change. And if the Club has to seek external sources of funding - the cost of borrowing will certainly be higher than this, probably more than 10% a year in interest costs alone.

The Club does not need to be totally debt-free. It needs to ensure it can meet its financial obligations when bondholders want their debt to be redeemed and of course, it wants to be able to spend as little as possible on interest payments per year to allocate more to football costs and other expenses.

The mortgage analogy

Many homeowners don't prioritise becoming mortgage-free if it means they cannot pay for improvements on their home, or if it would take finances away from ways of earning money.

Each year the revenue and income brought in by the Club is allocated to the following:



To be able to spend more on football costs (and therefore increase the playing budget) in the future the Club needs to acheive combinations of the following :

INCREASE OPERATING REVENUE

INCREASE PLAYER SALES

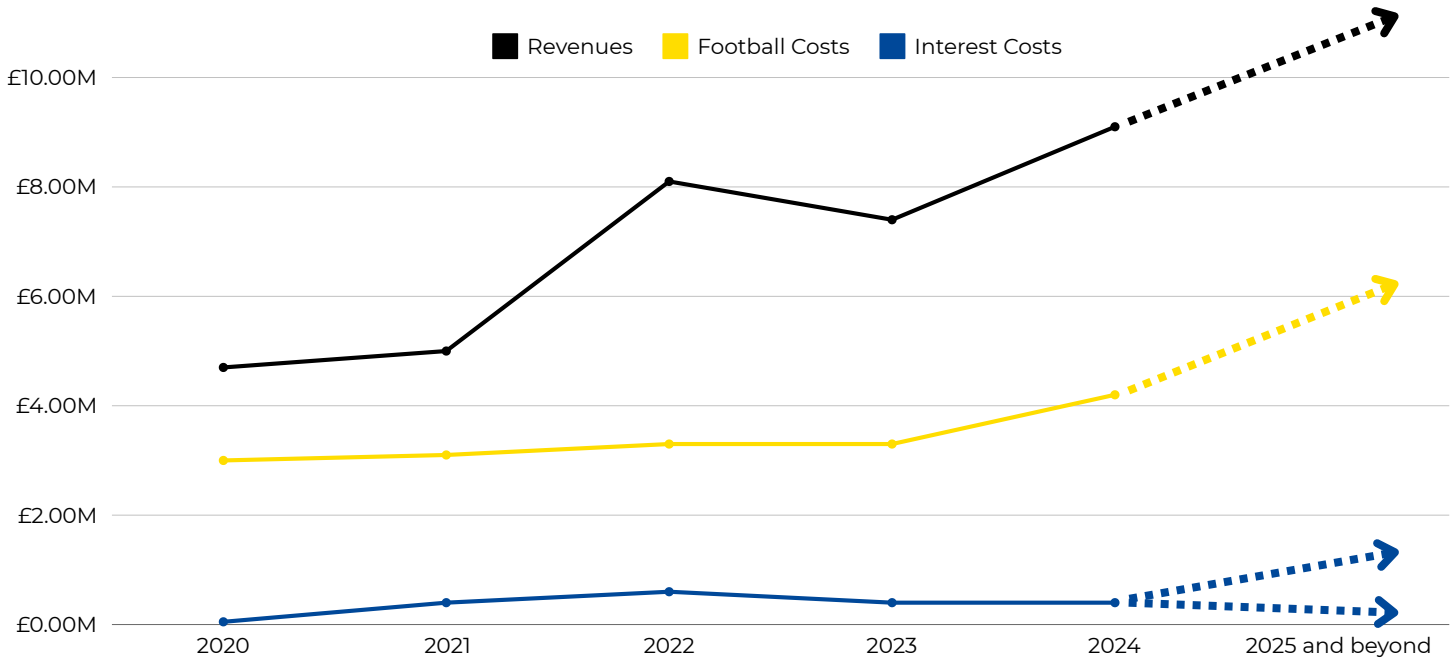
TAKE IN MORE INVESTMENT (EG SELLING EQUITY)

DECREASE THE COST OF DEBT ANNUALLY

DECREASE OPERATING COSTS

Post-Covid the Club aims to grow revenue year-on-year. This is the key priority for the new managing director James Woodroof.

This chart shows the relationship between our revenue, football costs, and the cost of borrowing



*2024 numbers are unaudited.

Revenue is all the money we receive, excluding player sales.

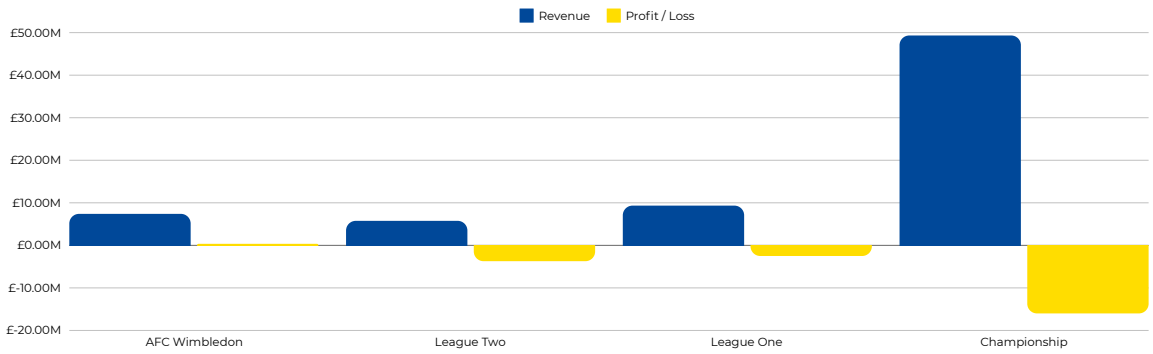
Football costs include our playing budget, management, academy, physio, and other football-related spending.

Football Finances: The Competitive Landscape

£2m **The average loss for League Two clubs in the 2023/24 season**

Since Covid the competitive landscape in Leagues One and Two has continued to get harder - because the vast majority of clubs run at big annual losses. In many cases, significant losses are being underwritten by clubs' owners, and debts clubs owe are increasing year-on-year. We do not have a rich owner to borrow from - our current debt is owed to many individual fans instead.

Following on from Mick Buckley's end-of-season update, updated EFL figures have confirmed that on average League Two clubs had annual operating losses of £2m last season, excluding player sales.



Average revenue and profit/loss of clubs in League One, Two and the Championship.

There is an increase in revenues from League Two to League One of approximately £650,000 - but if you look at the accounts for almost every League One team this increased revenue is entirely allocated to the football costs. In fact, on average the annual operating losses for League One are greater than in League Two almost entirely because of the increased football costs (playing budgets) of League One clubs.

In order to achieve our ambitions - if the Club can grow revenues to £12m per year as a League One club - then this would enable £7m to be allocated to football costs.

This would be in the top half of League One club's football spending, which would support the aim of challenging for promotion to the Championship through a top-six finish. Finishing in the top six with a budget that ranked 7-12th would still represent outperformance from a financial standpoint.

Unlike other clubs, we cannot consistently run at a loss. It is therefore crucial not only that the Club seeks to increase revenue, but also that it explores all avenues for refinancing on the best possible terms through discussions with existing bondholders and potential minority investors.

Refinancing

£3.4m Debt to be repaid, refinanced or replaced by Spring 2025

There are two key refinancing deadlines in the short and medium term - the tranches of Plough Lane Bonds that fall due in Spring 2025 (£3.4m) and Spring 2027 (£3.3m).

Based on initial surveys - the Dons Trust (who operate the Plough Lane Bond) in conjunction with the Club has made provision to reimburse (pay in full) bond-holders who want to take repayment of their capital in Spring 2025.

But many bondholders (more than 50%) have indicated a willingness to roll their bonds over or explore other avenues instead of capital repayment. These options are explained later in more detail.

When the relevant bondholders have confirmed their options we will finalise our exact plans for refinancing.

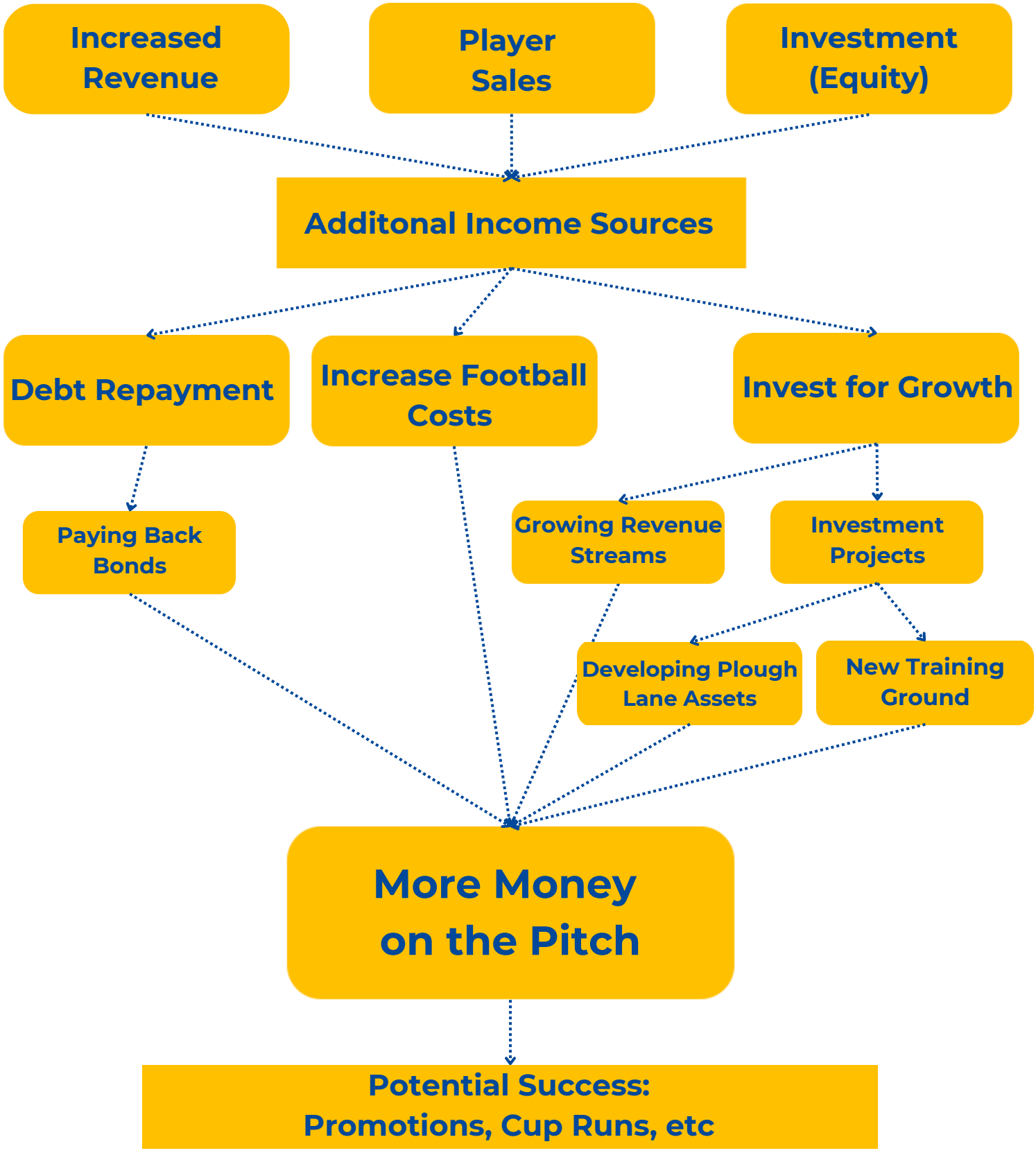
Our options at redemption deadlines are:

- **Debt repayment** - repaying bondholders - money for this can only come from annual revenue or one-off income (eg player sales or equity investment)
- **Debt conversion** - bondholders converting bonds to donations or equity
- **Debt replacement/refinancing** - friendly debt (Bond rollover) or lender debt (banks and other financial institutions.)

How do we best allocate income?

When the Club receives additional income, be that from player sales (eg Ali Al-Hamadi), from sell-on clauses, or from selling equity we have a decision to make about how to allocate what we do with it.

Do we use it on playing budget, to invest in growing revenues, or paying down debt? In reality, the answer is a little bit of all three, but we have to get the mix and balance right.



Capital Investment

Medium & Longterm Projects

The Club also has to plan for capital investment as it explores areas of development - some of these projects would probably need to be financed through further debt-raising or other financial partnerships and investment deals. But all should help support growth on and off the pitch:

THIRD FLOOR

Fitting out the third floor of Plough Lane will generate more revenue but will require capital expenditure to realise.

TRAINING GROUND

A purpose-built training facility would improve our recruitment, develop academy players and allow women's & men's sides to train together.

SOUTH AND EAST STAND DEVELOPMENT

Developing the semi-permanent stands will allow us to host more fans and generate more matchday and non-matchday revenues through stadium expansion plans.

PLOUGH LANE ENABLING

The stadium and the surrounding land we have the freehold over give us an opportunity to continue to grow revenue streams, if we can find the capital and partners to develop them.

Plough Lane Bond holders

For bonds that are due to be repaid in Spring 2025 we ask bondholders to make their preferred option at least 6 months in advance, through the Plough Lane Bond website. This will help the Club to plan and budget.

The options are listed here in the order that would most help the Club's finances, we know it's a personal decision and everyone's financial situation is different:

OPTIONS FOR BONDHOLDERS APPROACHING REDEMPTION:

1. Gift to the Trust or to the Club – We will use the money to invest and pay down the debt. Gifting your bond is a very generous way to support AFC Wimbledon's long-term future.

2. Rollover to a new bond at the same rate (or lower) of interest – Keeping interest rates lower on our debt is a huge help and rolling over the bond is a good way for the Club to keep friendly debt.

3. Swap for Equity (shares) in AFCW PLC (based on each A ordinary share being valued at 83p per share) – These give you the right to vote at the AFCW PLC AGM and SGMs, you may be able to sell your shares in the future but there are no guarantees on price or buyers.

4. Rollover to a new bond at a higher rate of interest – Rolling over the bond is a good way of the Club keeping friendly debt, even if a higher interest rate does cost the Club more.

5. Redeem some of your bond and take one of the other options – Taking some money back and taking one of the options is still helpful to club finances.

6. Have your bond repaid – We will repay your bond at the end of the term. Thank you once again for supporting the Plough Lane Bond.

You can read more about the options on the Plough Lane Bond Website.

Dons Trust Members

50.01% The minimum level of equity we would ever own

As this report outlines we own a football club operating in a difficult environment, it is not all doom and gloom. We believe that our ownership model gives us the best chance of long-term sustainability and security. We don't have significant individual owners who can wander off, sell up, or call in huge debts when they get bored.

We've achieved an amazing amount together since AFC Wimbledon's reformation and there's scope for so much more in the future.

Giving ourselves as many different ways to raise and manage finances is central to this, and later this year we will be asking members to vote on a restricted action to allow the Trust to sell more equity in the Club.

We will never recommend giving up control of the Club, and moving from a minimum threshold of 75% ownership to 50.01% doesn't do that. **The Dons Trust still retains its veto on issues and will always have the crucial majority of voting rights.**

Selling equity isn't a magic bullet either. But making more equity would be an additional weapon in our armory that allows us some flexibility to raise finances to work towards paying down debt, investing to grow, and putting more money on the pitch.

The estimated current value of the equity (30%) we have available in AFCW PLC if we move to 50.01%

£9m+

A Positive Future

Our delayed return to Plough Lane and the economic effects of Covid have meant that we aren't as far along into our growth as we would have liked to be by now. But we believe there are many reasons to be optimistic about the future:

We are a profitable football club, close to recording our second year of profit in a row. We are one of a handful of English League clubs who've made a profit (albeit modest) in that time.

Through prudent budgeting, careful recruitment, excellent talent development, and strong player management, we have given ourselves the ability to reduce our debts by around £2m.

We believe we can share our story with many more supporters and sponsors growing revenues and our fan base. Initial steps in these areas have resulted in record-breaking season ticket and merchandise sales in the last two seasons.

We believe that our valuable freehold at Plough Lane gives us the ability to unlock much more value from stadium usage and development.

We have a story and fan-owned proposition that has significant global upside if we can drive greater awareness of it.

We own our own Club, playing at our home, in our community. We are Wimbledon.