

ShareLiverpoolFC

Proposal for a possible investment by fans in Liverpool FC

Current situation

The concept of fan ownership of professional football clubs is widely supported by politicians, football governing bodies and supporter organisations. A range of fan owned football club models work well on the continent including those of some of the largest and most successful clubs in Europe. However, to date, we have not seen this approach at the top end of English football. Traditionally English clubs have been owned by local relatively wealthy businessmen who have supported their club and have taken a fairly benevolent attitude financially towards the club. This model no longer works at the very top of the game due to the considerable amount of money now involved in football; effectively local ownership has been priced out of the highest levels of the game. Unfortunately some new investors that have been tempted to buy into English football have over borrowed to do so. Liverpool Football Club (LFC) is a prime example of this. As a result of the new owners being under capitalised they have not been able to deliver what the club needs and what they originally undertook to do.

We understand that LFC currently has to support some £350 million of short term bank debt owed between itself and its holding company. The cost of servicing this debt is expensive due to high level of gearing and the relative lack of security from hard tangible assets within the LFC group. The club needs to significantly reduce this borrowing by injecting new equity capital and restructuring the majority of any remaining debt into long term liabilities. Doing this would reduce costs, bring stability and enable the Club to move forward and to start to raise the necessary finance for the new stadium project.

Liverpool is one of the most widely and passionately followed football clubs in the world. We firmly believe that, if properly approached, this fan base can supply the equity/low cost funding that the Club needs. The financial involvement of the fans would be good for the Club and a viable option for the current owners and their bankers.

The Proposal

The proposals in this paper set out just one way the Club might look to restructure were it to seek investment from its fans. It is not suggested that this is the only way it could be done or even that it is the best way. But it is intended to demonstrate that the involvement of a fan owned structure in the overall ownership of LFC is a viable option for the Club, its bankers and current owners. This paper does not include any analysis of the commercial activities of the Club and the opportunities that may exist to improve these. It focuses solely on a possible new group structure and re financing of the existing debt of some £350 million and its ongoing servicing and repayment based on the current financial performance of LFC.

This paper also only intends to set out the broad principles behind a possible structure fans might use to participate in the ownership of the Club. Its aim is to help start a discussion with the Club's owners and bankers about the principle of fan ownership and a possible structure this could be achieved through. It is not intended as a detailed proposal. Further advice would have to be taken to achieve the detail needed to support a transaction after any discussions commenced.

The main proposals at present are:

- 1) The existing £350 million of short term bank debt would be replaced by a mix of new equity and long dated 2% Loan Stock totalling £250 million from its new equity shareholders; with £100million left in by its bankers in the form of long dated convertible loan stock.
- 2) ShareLiverpoolFC ("**SLFC**") would seek to raise £150 million of this through a mix of equity and long dated subordinated 2% loan stock (the "**SLFC Loan Stock**") from the Club's fan base. The interest payable on the SLFC Loan Stock would be met from SLFC's investment in the Club.
- 3) £100 million would be invested by one or more third party commercial investors (the "**Commerical Investors**"). A shareholders agreement between SLFC and the Commercial Investors would be entered into covering such things as high level management strategy and a possible medium to longer term exit plan for the investor.
- 4) The £250 million of new equity/long term funding would be used to fund a new company ("**New Holding Company**") to acquire the shares in LFC from Kop Football Limited, who will use the £250 million to discharge £250 million of the current £350 million of bank debt.
- 5) The banks would be asked to exchange the balance of their £100m of debt for £100 million of new convertible Loan Stock in LFC. This would be repaid / bought by SLFC at pre-agreed prices over approximately 20 years and upon acquisition converted into new shares in LFC.
- 6) Without heavy interest costs and debt repayment programmes LFC would operate more profitably at current performance levels.
- 7) Management of LFC would be by appropriately experienced and qualified individuals selected as being the best people available employed on appropriate contracts. There would also be a small number of non executive directors appointed by the shareholders whose responsibilities would be to ensure corporate governance standards and policies meet best current practise. They would also be there to ensure that the Club followed the broad principles and objectives set by its shareholders.

Current Financial Position of LFC

Much comment has been made recently about the financial position of LFC. However, the real issue is not the financial position of LFC but that of its holding company and the current owners.

LFC's holding company, Kop Football Limited's balance sheet at July 2008 can be simply summarised as follows:-

Kop Football Limited

Assets

Cost of LFC shares	£183 million
Loan to LFC	<u>£ 80 million</u>
Total investment in LFC	£263 million
Losses to date (interest)	<u>£ 37 million</u>

£300 million

Financed by:

Bank Loan	£240 million
Shareholders' loan (probably borrowed)	<u>£ 60 million</u>

Total Debt **£300 million**

Shareholder equity **Nil**

Kop Football Limited has no other asset than LFC. Without the owners injecting personal funds the company has no way of paying back its debt other than by selling its investment in LFC or funding the existing debt cost / repayment from cash flows taken by way of dividend or interest from LFC. LFC can not currently support this level of debt.

At the date of the last audited accounts (July 2008) LFC itself owed the £80 million, as shown above, to the holding company (this has since risen to over £100m) and £22 million to the bank, so bank debt in the club alone itself is at a reasonable level.

Liverpool Football Club

Profit and Loss account

The accounts show steady growth in the Club's revenues which totalled £159 million last year. Media income grew strongly last year to a total of £68.4 million, largely as the result of a new Premiership TV deal. Matchday income at £39 million was fairly static year on year and is likely to stay that way until a new larger stadium is built, or the existing one enlarged. Commercial income is growing after a period of poor underperformance. We believe there is considerable room for more growth in this area if managed properly. The Club's costs are dominated by player wages and amortisation of player purchase costs. These are largely dictated by the market and are in line, in percentage terms with other similar clubs. Gross interest costs (including that capitalised) is over £10 million and presumably growing, most of this appears to be payable to the holding company.

The Club has made a profit on player sales in each of the last four years. Last year it made a profit of £21.6 million mainly from the sale of Sissoko, Carson, Risse, Guthrie and Crouch. Since the last year end the club has sold Finnan and Keane for a total of £12.8 million a figure that may rise further dependant on various conditions being met. However, subject to no sale of major players during this summer's transfer window, profit on the sale of players in this current year may be down on last year.

See summary below of the Club's abridged audited Profit and Loss account for the last three years.

Liverpool FC

Summary of abridged audited accounts for the three years to July 2008

	2008	2007	2006
	Actual	Actual	Actual
	£ m	£ m	£ m
Turnover			
Media	68.4	52.2	49.8
Matchday	39.2	38.4	32.6
Commercial	49.8	41.8	35.6
Other	1.6	1.8	1.8
	159.0	134.2	119.8
Cost of Sales	-16.5	-16.4	-12.8
Administration expenses			
Staff costs (% of income)	-89.7	-77.6	-68.9
Amortisation of cost of player purchases	-32.5	-33.1	-29.9
Profit on sale of players	21.6	6.7	6.2
Other costs	-22.6	-19.6	-18.0
Exceptional costs	0.0	-12.9	-
Tax	-1.8	1.0	0.9
Interest (net)	-9.1	-2.9	-1.6
Net Profit / Loss	£m 8.4	-20.6	-4.3

Balance Sheet

The Club's last accounts showed some £28 million of shareholder equity, down from £40 million two years ago. Major changes in the year include an investment of £21 million in fixed assets, mostly capitalised costs re the new stadium project, a net increase of nearly £30 million in players, further investment of some £10 million in LFC TV and a reduction in total bank borrowings. This has all been financed by an increase in debt due to the holding company which has in turn increased its borrowings.

Balance Sheet

Liverpool FC

Summary of abridged audited accounts for the three years to July 2008

Assets

Stadium and training ground Inc New Stadium costs	50.5	31.3	34.9
Players	129.7	100.4	82.8
Investment in LFC TV	15.9		
	<u>196.1</u>	<u>131.7</u>	<u>117.7</u>

Liabilities

Loans from shareholders	-81.3	-13.0	-0.5
Bank loans / overdrafts	-21.9	-43.5	-25.6
Other creditors due in more than one year	-22.7	-15.9	-17.3
Deferred income	-23.3	-22.2	-19.8
Other net current liabilities	-18.9	-17.4	-14.2
	<u>-168.1</u>	<u>-112.0</u>	<u>-77.4</u>

Shareholder equity

£m	<u>28.0</u>	<u>19.7</u>	<u>40.3</u>
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ShareLiverpoolFC membership

These proposals are based on the assumption that, with the support of Spirit of Shankly, SLFC could raise between 20,000 and 25,000 members. SLFC seeks to make membership as open as possible to all fans. As the "fan ownership vehicle" it wants to be seen as representing as wide a fan base as possible.

On its own SLFC currently has getting on for 10,000 registrants. Originally over twice this number expressed interest via its website. However, as no specific proposal has been put to fans to date, many who originally showed interest in the concept have not registered their financial support and probably won't until they see a specific plan. Spirit of Shankly has some 2,500 members. It is believed that there is very little overlapping of membership between the two groups.

It is not thought unrealistic to project that membership of SLFC would be at least 20,000 if a specific proposal was agreed with the banks and the current owners, as fans would then think it realistic that a transaction might happen.

A survey of the SLFC registrants carried out earlier this year showed:

- 55% considered that it was essential that any fan ownership company's constitution only allowed one vote per member, so all members had equal voting rights.
- 80% supported the concept of the fans entering into a joint venture with a commercial partner to buy the club if this made the completion of a transaction more likely.
- 60% were prepared to subscribe the suggested £5,000; 40% were prepared to subscribe more.
- The geographic spread of ShareLiverpool fans was:
 - 21% were from Merseyside / the Northwest
 - 35% were from elsewhere in the UK
 - 10% were from Ireland
 - 12% were from Scandinavia
 - 22% were from elsewhere

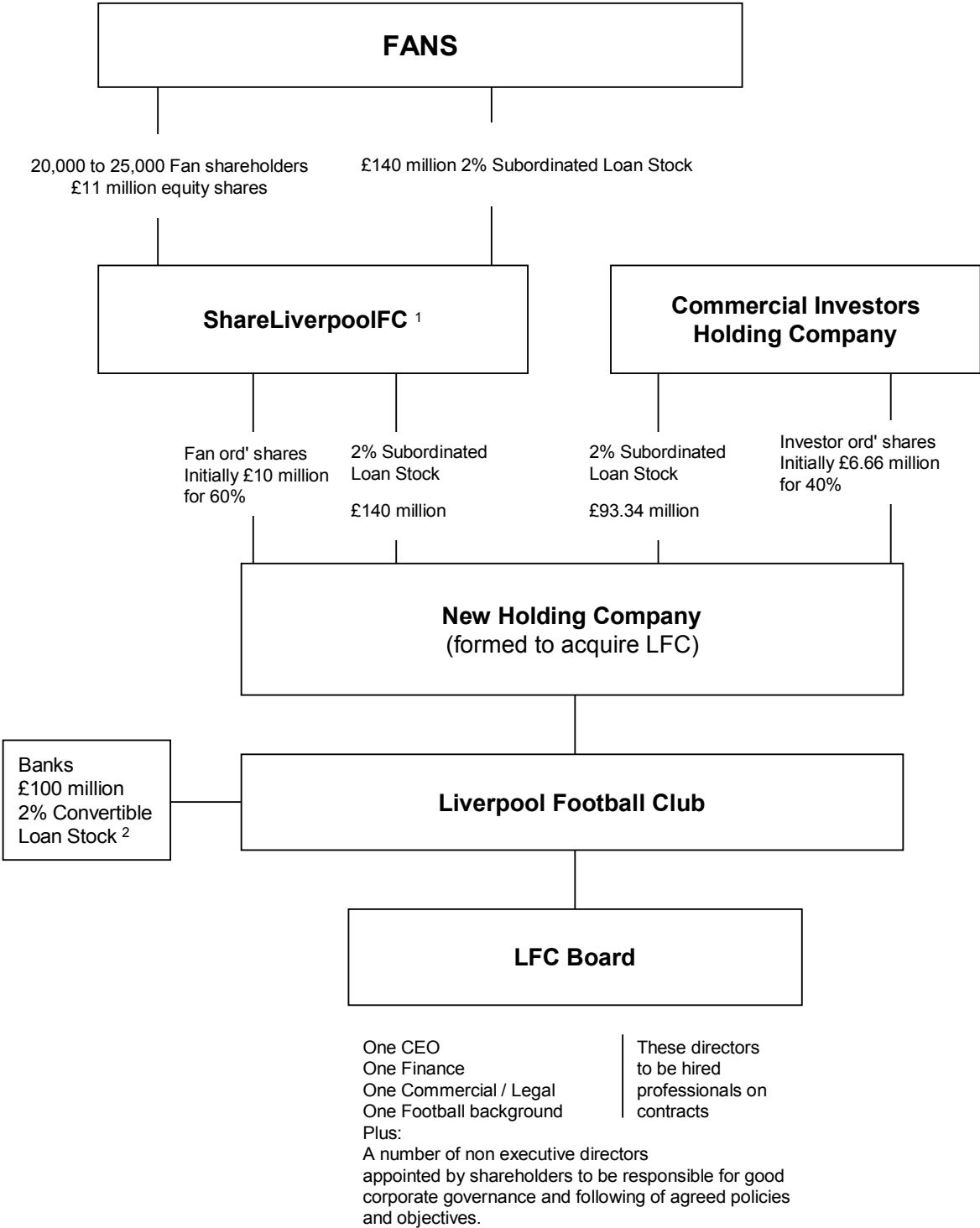
The Spirit of Shankly membership is thought to be predominately from Merseyside.

Possible new group structure

The diagram on the following page shows how the Club might fit into a new group structure. It shows SLFC initially owning a 60% interest in the Club, with this rising to some 71% once all the banks' convertible SLFC loan stock has been acquired by SLFC and converted to new shares in LFC.

The structure also allows for a third party commercial investor.

Liverpool Football Club



1. SLFC will retain £1 million to provide funds to pursue its other constitutional objectives, e.g., contribute to the regeneration of Anfield, etc.
2. SLFC will have the right to acquire the Banks' convertible LFC loan stock in equal annual instalments over 20 years. Following its acquisition, SLFC could convert it into new shares in LFC, therefore increasing its equity interest over time to 71%.

ShareLiverpoolIFC Capital Structure

The following shows how the revised capital structure of SLFC may look under these proposals.

Share Capital	£
20,000 to 25,000 at £500 per share	11,250,000

Shares to be limited to one share per person and one vote per share.

2% Subordinated 50 year convertible Loan Stock

15,000 to 20,000 at £5,000	87,500,000
5,000 at £10,000	50,000,000
50 at £50,000	2,500,000
	<hr/> 140,000,000
	£ 151,250,000

No dividend would ever be paid on the share capital

Each shareholder would be invited to subscribe for loan stock.

There would be no top limit on how much loan stock an individual could hold.

Interest cost on the £140 million Loan Stock would total £2.8m per annum at 2%

The Loan Stock would be dated for repayment in just under 50 years and it would be subordinated behind any other liabilities.

£150 million of SLFC's capital would be invested in New Holding Company in a mix of shares and 2% Subordinated loan stock. The mix between equity and loan stock would be mirrored by the Commercial Investors to maintain relative percentages.

Liverpool Football Club
Current Capital Structure – at date of last audited accounts

Share premium account		32,882,000
Profit and Loss account	-	4,984,000
		<hr/>
Total shareholders' funds	£	28,072,115
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Possible initial Capital Structure of New Holding Company

Authorised		
500,000 Ordinary shares of £5 each		2,500,000
		<hr/>

Allotted, called up and fully paid		
300,000 "Fan" Ordinary shares of £5 each		1,500,000
200,000 "Commercial Investor" Ordinary shares of £5 each		1,000,000

Share Premium account		14,166,666
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Total shareholders' funds		<hr/>
		16,666,666
		<hr/>

2% Subordinated 50 year loan stock		
Held by Fan Holding Company	140,000,000	
Held by Investor Holding Company	<hr/>	93,333,334
		233,333,334

£100 million 2% Convertible loan stock - Held by Bank		100,000,000
		<hr/>

Total capital	£	350,000,000
		<hr/>

The schedule on the previous page sets out the current capital of LFC and then how the current capital of New Holding Company would look under these proposals. Essentially there would be a total of £350 million new long term capital. Initially SLFC would have a 60% equity interest in LFC (through New Holding Company) rising to 71% on acquisition and conversion of the banks' convertible LFC loan stock to new LFC shares which would be held directly by SLFC. It's proposed that the banks' convertible LFC loan stock would be acquired in instalments over about twenty years, being funded by dividends from LFC.

The proposal assumes that LFC would be able to pay a total annual dividend of £12.5 million on its ordinary (equity) shares to New Holding Company. With the interest cost on the banks' convertible loan stock, total financing costs would be £14.5 million pa reducing over 20 years to £12.5 million pa. We believe that this is a modest total financing cost for a club of LFC's size. Other short term bank facilities have not been considered as part of this paper, as any application for such facilities would be based on the business case at the time.

Out of the £12.5 million of dividends New Holding Company would receive from LFC, it would pay £7.5 million pa to SLFC in the form of dividends and interest. From the £7.5 million pa received from New Holding Company SLFC would pay £2.8 million (£140 million at 2%) on its subordinated loan notes providing a pa surplus of £4.7 million. If cash wasn't available for LFC to pay a dividend then interest would be rolled up on the loan stock respectively issued by New Holding Company and SLFC. Assuming LFC can pay such dividends each year and there is modest growth in the dividends paid, the annual surplus SLFC funds could be used to purchase the banks' convertible LFC loan stock in equal annual instalments over a 20 year term, though it may be quicker if LFC's profits were higher during the period.

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