

## **Proposed Supporter Trust – Project Adelphi 1867**

### **Principal objectives**

The aim of the Supporter Trust is to create a new entity that will acquire and control the share capital of Sheffield Wednesday Football Club Plc on behalf of the supporters of the Club.

### **Rationale**

This is response to the poor performance over several seasons on the pitch, culminating in relegation to the third tier of English football for the 2010-11 season and a widely held belief by the supporters that this is a result, in part, of the lack of stewardship by the directors of SWFC plc, its executive team, the loan note holders and the Co-op bank. The last 18 months have also seen fruitless attempts to secure investment by third parties.

As a result of these failings and a belief that there could be an alternative way for the Club, it is considered the current board of directors should retire, their shareholdings acquired by the Supporter Trust and negotiations entered into with the key loan note holders and the Co-op bank to work on a way forward. We are led to believe that an “heads of agreement” has already been reached by these key stakeholders with the assistance of Club 9 Sports.

### **Initial request**

Our request is that representatives of a proposed Supporter Trust are granted a meeting with the Plc and its key stakeholders to discuss how a Supporter Trust could become involved.

### **Key points**

- 1) This would be a new Supporter Trust, not linked to Wednesdayite.

Wednesdayite would be asked to consider donating their shareholding in SWFC plc to the new Supporter Trust

Discussions with the Shareholders Association would also be held to assess whether small private shareholders could similarly donate

- 2) Funds would be introduced to the Supporter Trust by interested parties with the aim of acquiring the share capital of the Plc and possible part repayment of loan capital
- 3) The Supporters Trust would be a member only non profit making entity, to be run by a Board elected by the members.
- 4) The Board to appoint a CEO and FD to operate the football and business operations of the Plc on say a fixed term of 3 years
- 5) The CEO to be responsible for the key appointment of Team Manager

### **Detailed proposals for the Supporter Trust**

The key considerations are

- a) whether there is an appetite by the current key stakeholders of the Plc to enter into discussions with a Supporter Trust and that a workable plan can be formulated.
- b) whether the supporters of the Club wish to partake in this.
- c) whether sufficient funds could then be raised by the supporters to facilitate the key objective

Consideration a) is of course key, without that then the proposal for a Supporter Trust is a non starter. To that we would ask what workable plans those key stakeholders have for the future.

The biggest criticism is that the current board of directors of the Plc do not appear (from the outside) to be fulfilling their fiduciary responsibility. There appears to be undue influence from an ex-Chairman of the Plc.

The appointments of Lee Strafford and Nick Parker have had a positive impact on the non-footballing aspect of club operations, but we have all witnessed a truly dreadful season on the pitch resulting in relegation to the third tier of English football. Ultimately this is the key concern of the supporters.

The search for investment is ongoing, but in the current financial climate and a view that football finances in the UK are in potential meltdown (Liverpool, Portsmouth, Crystal Palace) and the unique problems of investing in SWFC plc means we are calling for an end to the process.

There also appears to be a desire amongst the fans of professional football clubs for supporter led solutions to the problems (Man Utd, Liverpool).

The Plc has led the way in attempting to become a community focused entity (the link up with Sheffield Children's Hospital is fully endorsed) and the Supporter Trust has envisaged, could in our view become the ultimate Community Based solution.

Our request therefore is for the key stakeholders to not dismiss this idea or give reasons for why it would fail, but to work with us in trying to find a solution.

Consideration b) is hard to assess. We can only go on what we discuss with our friends, work colleagues and these days the views made on Sheffield Wednesday focused internet forums. Whilst we may hold divergent views, the one uniting factor (apart from a dislike of SUFC) is the wish for the Club to be playing football at the highest possible level and not under-achieving.

This proposal deliberately makes separate reference to the Plc and the Club. The view is that the Plc is merely the legal owner of the Club, its custodian on behalf of its key stakeholders, us the fans. When we sing "Wednesday til I die" it is in reference to the Club not the Plc. Our history and tradition is in relation to the Club not the Plc. We want the Club to be successful not the Plc.

The view is that the Plc and its current directors, executive team and creditors have not managed the Club to a satisfactory level for at least 15 years and equally without change we do not believe the Club will be adequately managed for several years to come. We have concerns that third party investors who have been linked to the Plc may not have the required finance, expertise and trust to take the Club back to a level the supporter's desire.

We consider that if properly explained to fans a Supporter Trust if properly constituted and independent of existing entities would garner support.

Consideration c) would in our view flow directly once supporters knew the Plc were minded to make an arrangement and give the opportunity for a Supporter Trust to front this and once the workings of a Supporter Trust were explained.

These are tough economic times and that surplus cash may be difficult to find for supporters. There may also be an unwillingness to commit to funds if their use is not explained.

The proposed structure would permit "membership banding" based on affordability, but with all members being given the right to vote and the possibility of being elected to the Board.

The quantum of required funding can only be established once discussions with the key stakeholders are held. It may be that if unrealistic sums are demanded this idea will simply be shelved.

### **Constitution of Trust**

The principal objectives are as follows

- a) To acquire and control the share capital of SWFC plc on behalf of the supporters. The Trust would hold the shareholding in perpetuity, the members would have no underlying interest in the share capital or be able to profit therefrom
- b) To retain the shareholding and not permit third parties or third party investors to acquire a shareholding in the Club
- c) To be a non profit making entity, all initial member subscriptions to be used to facilitate a change in ownership of the club
- d) All Board members to serve on a voluntary basis
- e) To be open and transparent in its dealings with members
- f) To promote the Youth Academy, in house development of Players

It is accepted that clause b) may be the most controversial, in that it would restrict the future possibility of the Club to source third party funds that may assist squad development and ability to compete at a higher level. It is considered this a price worth paying to retain control of the Club and not permit unwelcome third parties who may not have the best interests of the Club in mind in the long term.

The funding and operation of the Supporter Trust are somewhat inter – linked in this version.

To put some numbers to it, the presumption is that in order to facilitate a transfer of control the Plc, a sum of £5m would be required to be raised. It is important for supporters to realise this would be funds to wrest control of the Plc to the Supporter Trust. It would not mean those funds going to squad development and in all probability the indebtedness of the Plc to the Co-op bank and loan note holders would remain, in part.

Without access to the "heads of agreement" that Club 9 Sports have purported to have reached with relevant stakeholders it is not possible to gauge these numbers. A key risk of course is that the loan note holders may be unwilling to transfer ownership of the shares believing them to be collateral for the loans.

These are fundamental issues, which cannot be denied.

## Membership structure

This is an envisaged structure, not a defined plan. The objective of the Trust is non profit making, this equally applies to the members of the Trust. The contribution is to facilitate the control of the Plc. The membership does not secure any underlying rights to the share capital. It is held by the Trust as nominee for all supporters.

The benefit of contributing greater funds is the securing of additional voting rights.

Band membership	No of member	Contribution per member	Total funds raised	Vote Per member
Band A	1000	£2,000	£2,000,000	40
Band B	2000	£1,000	£2,000,000	20
Band C	5000	£100	£500,000	2
Band D	10000	£50	£500,000	1
Total	18000		£5,000,000	100000

However the secondary benefit is the composition of the Board would be based on the Band membership.

Band membership	Places obtained on Board
Band A	5
Band B	4
Band C	2
Band D	1
Free places	2
Total	14

Hence if you were a Band A member you would be able to stand for election for the Band A places etc. It may be that voting for each Band is restricted to the specific Band Membership, but the preference is for all the membership to be involved. There would be free places open to all.

The objective of being a Trust member is that it potentially gives the power to influence matters, it is not about personal financial reward.

It is accepted there might be fine tuning on this and questions as to whether the Board is elected annually, or for fixed terms.

A secondary point is that if agreed by the membership, there would be an annual subscription. It is hoped the running costs of the Trust would be minimal, so the intention is for all surplus funds to be ring fenced and utilised for the acquisition of a player(s) and their wages. This is over and above the funds generated from the operating functions of the Club. A sum of £50 per year based on a membership of 18000 would provide funding of a £900,000.

## Club operation

The Supporters Trust would be run by an elected Board.

It is accepted that the time, but more importantly the expertise would not be readily available from within the membership to actually operate the football and business operations of the Club. The Board would therefore recruit a Chief Executive Office & Finance Director to run those operations on behalf of it.

The CEO and FD would then make the key appointments to run the business side and categorically the appointment of Team Manager.

The suggestion is that the CEO & FD would be appointed on a fixed term of 3 years, with the option for this to be extended if appropriate (and curtailed if appropriate). It is considered that a shorter appointment would not assist the long term planning of all aspects of the Club's operation. Equally they would have full licence to operate the Club, the envisaged structure does not propose for there to be sub Committees of the Supporters Trust.

The CEO & FD would report to the main Board and there would be opportunity for members to raise concerns and suggestions to the Board.

The idea is to have very clear lines of communication, but enabling the key operators to get on with their job.

Other matters

Share price

The crux is that based on the Group balance sheet at 31<sup>st</sup> May 2009 the overall position should net liabilities of £7m. It could be argued that the price per share to be offered should on market value principles be Nil.

The balance sheet does not of course reflect the value of the SWFC. I am loath to use the word but the value of the brand. Using technical language anything that is paid per share plus the net liabilities constitutes goodwill or a premium that the current shareholders would seek to relinquish control.

The valuation of goodwill is notoriously difficult, even more so for a football club. How do you value 143 years of tradition, a great fan base, a customer base that does not switch to rival teams but a large part of which are dis-illusioned.

The truth is that the market value of shares in SWFC plc, even including this intangible asset of the Club is barely a few pence per share. The current shareholders, if this were a normal business, would be prepared to accept a nominal penny per share. The shareholding however is much more use to the key stakeholders as a bargaining tool in relation to the loan notes and political influence.

