<u>ANALYSIS OF THE GLAZER BOND DOCUMENTS SHOWS MANCHESTER UNITED WILL HAEMORRHAGE OVER HALF A BILLION £ IN CASH IN THE NEXT SEVEN YEARS</u>

<u>Summary</u>

The small print of Red Football Ltd's bond prospectus shows that the Glazers have structured the issue to allow them to take **at least £20m of dividends out of the club every year**. An additional, so far unnoticed, clause **allows a further £25m to be paid out in dividends at any time**. Add these payments to the £70m already known about, the Carrington deal and "management fees" and at least **£220m** of the club's cash will flow directly to the Glazers between 2010 to 2017.

With interest on the bonds and the extra cost of leasing our training ground back, **the total that will be sucked out of the club between now and 2017 will exceed half a billion pounds, to add to the huge cost already imposed by the Glazers.**

<u>Only £70m to pay off the PIKs[i]?</u>

Since the bond issue details came out many analysts have been wondering how the family were going to deal with the rest of the PIKs.

The PIKs are held by Red Football Joint Venture Ltd and are secured on that company's shares in Red Football Ltd (and thus the club). If they are not repaid by 2017, the Glazers will almost certainly lose all their shares in Red Football Ltd.

Paying off the PIKs is the top priority for the Glazers. The fact that the interest rolls up at 14.25% also makes it essential for them to try to repay them as early as possible (the PIKs will total around £207m by the end of March, will be over £300m by the summer of 2012 and almost £600m by 2017).

So taking £70m out of the club (which they couldn't do under the old bank loan agreement) is a start, but it is never going to be enough. If they paid £70m off in March 2010, there would still be £332m to pay by August 2017[ii].

This cannot be the strategy for the PIKs. They NEED to pay off more or they will still lose the club to the hedge funds. There must be something else going on.

<u>The small print in the prospectus</u>

Other than paying off the PIKs with their own money (something they have shown no inclination to do for the last five years), their only solution is to get more money out of the club. Payments to parent companies and directors are restricted by the terms of the bond issue, so we need to examine the prospectus's small print that covers the "covenants" Red Football Ltd has to adhere to.

There are two key covenants, relating to this area; **Restricted Payments**[iii] and **Incurrence of Indebtedness and issuance of preferred stock**[iv]. They are both very dense, almost unintelligible sets of rules about what Red Football Ltd can do whilst the bonds remain outstanding. The first one, Restricted Payments, puts limits on Red Football Ltd and its subsidiaries paying cash to the parent companies (like Red Football Joint Venture Ltd). The £70m we all know about is explicitly allowed in clause 13[v]. But it turns out there is a clause just below it that hasn't got any publicity. **Clause 14 says they can also pay up another £25m whenever they want[vi].**

And that's not all. On top of this £95m, there are rules in clauses i to vii about other dividends that the owners can take out of the club[vii]. To summarise, if the club's interest is still covered twice by EBITDA (as described in the "Incurrence of Indebtedness and issuance of preferred stock" covenant referred to above[viii]), Red Football Ltd can pay dividends worth **50% of the net cash profits of the club** (technically the "Consolidated Net Income" or "CNI"[ix]**)**. CNI excludes losses or profits on player transfers and the amortization of goodwill and player contracts.

To give you an idea of what we're talking about, this is the calculation for Consolidated Net Income for the year to September 2009 and shows what would have been extractable in fees, dividends and interest if the bonds had been in place during the year.

	Clause[x]	**£'000**
Net Income year to 30 June 2009		**25,587**
Less profit on player trading	3	(80,724)
Less profit on sale of fixed assets	4	(23)
Add back exceptional	4	837
Add back non-cash tax	5	22,917
Add back amortisation of goodwill	7	35,388
Add back amortisation of player registrations	7	37,641
Less mgt fees in excess of consultancy fees[xi]		(3,100)
Add back higher EBITDA run rate*		6,654
Consolidated Net Income year to 30 Sep 2009		**45,177**
Permitted dividend**		22,589
Management fees***		6,000
General corporate overheads of parent entities****		3,000
Interest on bonds*****		47,500
Total		**79,089**
EBITDA (adjusted year to Sep 2009)****		**100,780**
% diverted*******		79%

* Additional £6.7m of EBITDA shown in most up to date accounts (year to Sept 2009) vs. year to June 2009
** permitted 50% distribution
*** See page 152 of Prospectus (166 of pdf)
**** See section below "Carrington, personal loans, "management fees" and expenses"
***** Assuming coupon of 9.5% on £500m issue
****** From Prospectus page 12 (26 of pdf)
******* Note this is a proforma number as if the bond issue had been in place in year to Sep 2009

So in the latest twelve month period for which we have figures, the Glazers could have paid themselves 50% of Consolidated Net Income (about £22.6m) in dividends. No doubt they believe they can continue to push up profits from here (I'm more sceptical), but even if profits are only flat every year until the bonds are redeemed, that's another c. £23m or so they can take out **each year.**

In fact, this bond issue is deliberately structured in such a way, that (assuming they can hold profits where they are) this is the minimum sum they can take each year. If there is any rise in profits from better TV deals or higher prices for supporters, half the extra money can be paid out in dividends.

Adding management fees, expenses and the interest on the bonds, every year 79% of the operating profits of the club will be taken out.

Or perhaps we should turn it around the other way and look at it from the fans' point of view because this outflow is no less than 70% of all United's matchday revenues. 70 pence from every pound spent by supporters on match tickets, food and drink, programmes, even car parking, and 70 pence from every pound spent on corporate boxes and executive facilities will go straight out of the door in dividends, fees and interest.

<u>Carrington, personal loans, "management fees" and expenses</u>

When thinking about how they plan to pay down the PIKs, we can't forget Carrington and the direct payments to the family.

I don't know exactly what Carrington is worth, but we can make an educated guess at £15-20m. All United's property is valued at around £250m[xii], so estimating around £235m of this being Old Trafford and the balance basically Carrington (and the Cliff) sounds about right. Anyway, the Glazers get the asset free and get to sell it with the club leasing it back. So that's c. £15m in the Glazers' pockets and probably an additional cost of at least £1m per year to the club (assuming an 8% yield on Carrington).

We have no idea what the family have spent the £22.9m[xiii] they have taken out in loans and fees and have excluded them from my calculations. Under the terms of the bond issue they can however charge the club £6m pa for "management services". This has been widely reported in the media.

There is however a final indignity hidden in the Restricted Payments covenant (clause (10)(b) of the section setting out payment which <u>are</u> allowed). This shows that Red Football Ltd is entitled to make up to £3m of payments to parent companies to cover their "general corporate overhead expenses" including ".....payments in respect of services provided by directors, officers or employees.....".

You might imagine that such expenses should be covered by the £6m "management fees" already being charged, but no.

Adding it all up

The net result of all this is very depressing. The bond documents embed the rights of the Glazers (merely if they maintain current profits) to take over £30m in dividends, fees and expenses out of the club every year.

Adding in Carrington and the "hidden" £25m one off dividend, they can easily reduce what we have always been told are "their" PIKs down to around £84m this year (see table below).

Total permitted cash to RFJV	**£m**	**PIKs £m**
End March 2010		**191**
add early redemption fees (3%)		194
From bonds	70	124
Carrington proceeds (estimated)	15	109
Extra allowed dividend	25	84
Total after refinancing	**110**	**84**

With the annual dividend and management fees, they will have paid off "their" PIKs including rolled up interest by 2015 (if they just hold profits flat) or even 2014 (if they manage to grow them 5% pa)[xiv].

Total possible cash to RFJV (annually)	**£m**
2009 base 50% CNI	23
Management fees	6
General corporate overhead expenses	3
Total annual dividends on 09 profits	**32**
Assumed yield on bonds	9.5%
PIK rate	14.25%
PIKs repaid in	2015

In total between the completion of the bond issue and 2017 (assuming the bonds yield 9.5%), this is the bill the club will have footed:

Cash outflow 2010-2017 post refinancing	**£m**
Cumulative interest to 2017	333
Cumulative dividends to 2017	161
Cumulative fees and expenses to 2017	63
Extra cost of Carrington to 2017	8
Total	**565**

By 2017, despite having pumped more than half a billion pounds out of Manchester United, the club will still be saddled with the £500m of debts it has today.

These figures are based on the club not having to draw down its £75m revolver or taken on any further borrowing on top of this (there is permission in the document for at least a further £50m[xv]), as the numbers defy all sense already……

Conclusion

Many supporters, commentators and people in the wider football world have been astonished by the revelations concerning the Glazers ownership of Manchester United that have come to light in the last week.

This paper demonstrates that the pillaging of the club over the last four years by the owners is set to continue and indeed accelerate in the years to come. Nobody can be in any doubt; not the fans, the Football Association, the Premier League, UEFA, the government or indeed the manager or players that what is being allowed to happen is nothing less than a violent assault on one of Britain's best known sporting institutions. There can no longer be any excuses by the football authorities to not immediately and urgently intervene (through rule changes if necessary) to prevent people, who have no interest in football beyond their own greed, from acting in this way.

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About me
I am a season ticket holder at Old Trafford as well as having been a fund manager based in London with 15 years experience of company financial analysis.

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[i] PIKs are "payment in kind securities". These were issued by Red Football Joint Venture Ltd ("RFJV"), a parent company of Red Football Ltd in August 2006 and are secured on RFJV's equity in Red Football Ltd. The PIKs accrue interest at 14.25% per annum which is rolled up into the capital of the securities (a process known as "reverse amortisation").
Manchester United is not liable for the PIKs, but if the Glazers fail to repay them by August 2017 (by which time they would be worth almost £580m), control of Red Football Ltd would pass to the owners of the PIKs (widely thought to be Citadel Capital Group, Perry Capital and Och Ziff Capital Management Group.

[ii] Revised PIK capital outstanding is calculated using £175.479m total exposure declared in RFJV's report and accounts to June 2008 less £2.811m of unamortised financing costs. Interest is added to this net amount for nine months to 31 March 2010 when it is assumed £70m is repaid (less an assumed 3% early redemption fee). The revised sum of £123.2m is then projected forward (reverse compounding at 14.25%) to August 2017.

[iii] See page 112 (page 126 of the pdf version), of the "Preliminary offering memorandum of MU Finance plc", published on 11 January 2010 (hereafter the "Prospectus").

[iv] See page number 116 of the Prospectus (page 130 of the pdf version).

[v] See page number 116 of the Prospectus (page 130 of the pdf version).

[vi] The Restricted Payments covenant sets out what constitutes a Restricted Payment in clauses 1-5. It then describes circumstances (sub-clauses (a) to (c)) under which such payment can be made before setting out 14 exemptions from

the rules governing Restricted Payments. The last of these covers the extra £25m allowed, the only restriction being that Red Football Ltd has not defaulted on the bonds.

[vii] Pages 113-114 of the Prospectus, (pages 127-128 of the pdf version). The other clauses in this section state that total Restricted Payments cannot exceed the sum of 50% of Consolidated Net Income plus 100% of new equity issued, cash proceeds from certain asset sales and certain sums reflecting any changes in the status of subsidiaries. None of these additional clauses are likely to materially affect the dividend paying capacity of Red Football Ltd. This test applies from the issue date of the bonds onwards and so is a rolling test over time. For the purposes of this paper, I have assumed that dividends are drawn annually under this clause, but they could be taken out over different periods (both shorter and longer).

[viii] Clause (b) on page 113 of the Prospectus (page 127 of the pdf version) makes passing the Fixed Charge Coverage Ratio test a condition of dividend payments. The Fixed Charge Coverage Ratio test amounts to an EBITDA / interest cover test of 2.0x (see pages 116 and 148 / 130 and 162 of pdf). The Fixed Charge Coverage Ratio can be seen to have been met on a proforma basis in the year to September 2009 on page 13 of the Prospectus (page 27 of the pdf). This is true even if adjusted EBITDA is reduced by £3.1m to reflect the higher management fees that will be charged in future vs. the consultancy fees charged on 30 June 2009.

[ix] See page 145 of the Prospectus (page 159 of pdf). Consolidated Net Income can also be calculated as adjusted EBITDA, less depreciation, less interest, less cash taxes.

[x] These numbers show the adjustments to arrive at Consolidated Net Income specified on page 145 of the Prospectus (159 of pdf).

[xi] To calculate the proforma permitted dividend in the year to September 2009, Consolidated Net Income needs to be reduced by the difference between future permitted management fees (£6m) and the actual “consultancy fees” paid during the year and already in the net income calculation (£2.9m).

[xii] See note 8 to financial statements of Red Football Ltd year to June 2009 (page F-12 of the Prospectus / 214 of pdf).

[xiii] See page 86 of the Prospectus (page 100 of pdf version).

[xiv] Methodology as set out in note ii, but £110m is applied to repay PIKs in March 2010 rather than £70m, and ongoing dividends equivalent to 50% of CNI and £6m of management fees are applied to redeem PIKs annually thereafter.

[xv] See clause 14 page 118 of the Prospectus (page 132 of pdf version)