

WRU Financial Information

Introduction

This memorandum has been prepared in order to summarise financial information relating to the WRU.

Limited information is available to the Regions on the detailed financial performance of the WRU. As a result, the information included in this memorandum has been taken from the annual accounts and reports. This information is in the public domain.

Accounting treatments

The WRU generates surpluses in order to “re-invest” in elite and community rugby. The accounts show, as part of the administrative expenses of the WRU, payments made to the Regions, Clubs (semi-professional) and Community rugby. These payments are described in the accounts as “allocations,” and form part of the administrative cost of the WRU.

The accounts and “allocations” are impacted by the accounting treatment of competition income. Competition income represents the income from competitions, including the Heineken Cup and the RaboDirect Pro12, which is income received by the WRU for the Regions participating in the competitions. This money is paid by the WRU to the Regions. In this regard, the competition income is a “pass through” for the WRU. The commercial nature of the competition income is that it would be more meaningful for it to be deducted from both the WRU income and the “allocations.” This would allow the allocations to only include the sums paid to the Regions that are generated from the WRU’s own activities.

Similarly, in the 2013 accounts, approximately £0.7 million was included in the allocations to the Regions, which was received by the WRU from the British and Irish Lions tour. This represented a compensation payment made by the Lions for the Welsh players that took part. As the Lions players were employees of the Regions, the money “passed through” the WRU to the Regions. Again, the commercial nature of this compensation payment is such that it should be excluded from the allocations made to the Regions, for a more meaningful analysis of the allocations paid by the WRU.

The allocations in the year ended 30 June 2013 have also been affected by the announcement made only 3 days prior to the year-end by the WRU:

“The £2.5m additional investment will be split as follows:

- *Community rugby £1.3m*
- *Regional rugby £1.0m*
- *International rugby £0.2m*

The [two largest initiatives]... into community rugby will include schools initiatives...will be an innovative website scheme to assist member clubs at c. £0.3m and further Facilities Grants of £0.8m.

...WRU Clubs at all levels will be able to apply for grants of £5k, £10k, £20k or £50k to fund improvements to their facilities.

...The Group Chief Executive of the WRU, Roger Lewis, said: “I am delighted that our financial performance over the past year has allowed us to launch these initiatives which will deliver clear benefits to the game in Wales.

...The additional investment into regional rugby of £1.0m will target the development, recruitment and retention of Welsh international players. Specific details of how this money is invested will be determined by the WRU during further discussions between the WRU and representatives of the Regions.”

As a result of this announcement, the WRU has treated these commitments as a liability in its accounts. It is clear from the announcement that:

1. These amounts are one off payments.
2. They were not paid to the Community clubs or the Regions in the year ended 30 June 2013.
3. The amounts were conditional payments, dependent upon future actions by the Community clubs and the Regions.
4. The payments were intended to provide future benefits to Welsh rugby and not reward past performance.

It is also clear from subsequent events that at least £1 million of these amounts will never be paid to the Regions, as a condition imposed by the WRU for the Regions to receive payment was dependent upon the Regions resigning the Participation Agreement by 31 December 2013.

Despite the nature of the transactions, they have been treated as an “expense” in the 2013 accounts. The accounting treatment, adopted by the WRU, raises a question over the meaningfulness of the allocations disclosed in the 2013 accounts.

Certainly, increasing the amount disclosed as “allocations” to the Regions, Clubs and Community clubs in the 2013 accounts, by in excess of £2 million, based solely on the timing of a press release made 3 days before the year end, could give rise to a lack of understanding by readers of the accounts. This is of particular concern as the WRU has focused (inter alia), in its commentary to the accounts, upon the extent of the increase in allocations from year to year, without making it clear that the increase is dependent upon the Regions and Community clubs satisfying certain conditions, some of which turned out to be unachievable by the intended recipients.

Adjustments to the accounts

In order to provide a more meaningful analysis of the financial performance of the WRU and the allocations made to the Regions, Clubs and the Community clubs the following adjustments have been made to the annual accounts of the WRU:

1. The “pass through” competition income has been deducted both from the WRU income and the allocations made to the Regions.
2. The pass through compensation payment made by the Lions for the players on the Lions tour has been deducted from the WRU income and the allocations made to the Regions.
3. £2.1 million provision made on the basis of the WRU press release has been deducted from the allocations; £1 million in respect of allocations to the Regions and £1.1 million to the Community clubs. This removes the results of the WRU being dependent upon the timing of a press announcement, which is entirely under its control.

As we do not have access to the underlying financial records of the WRU, it is difficult for us to know whether or not any further adjustments are necessary, in order to make a meaningful comparison of the results over a period of time.

Summary of financial performance

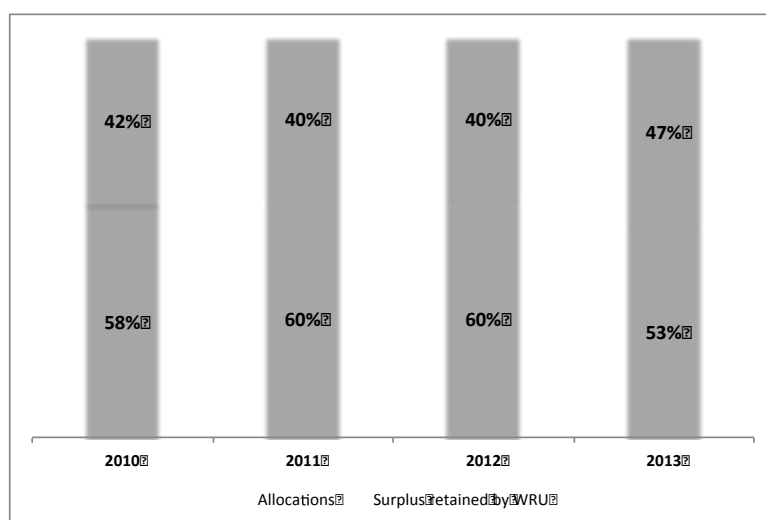
We set out below a summary of the WRU results over the past 4 years, during which time the Participation Agreement has been in operation:

	2010 £m	2011 £m	2012 £m	2013 £m	Total £m
Turnover					
Match income	34.2	30.5	35.2	32.1	132.0
Commercial income	10.9	11.2	12.2	13.1	47.4
Other event income	2.0	2.7	0.5	3.5	8.7
Other income	2.2	0.7	6.0	2.4	11.3
	49.3	45.1	53.9	51.1	199.4
Operational costs					
Business and admin	(6.4)	(5.6)	(5.8)	(6.0)	(23.8)
Direct	(11.6)	(10.7)	(10.4)	(11.3)	(44.0)
Players	(1.5)	(1.3)	(5.4)	(2.4)	(10.6)
Elite	(3.8)	(4.0)	(4.1)	(4.2)	(16.1)
Community rugby	(2.1)	(1.9)	(2.1)	(2.7)	(8.8)
Stadium	(5.4)	(4.5)	(7.7)	(5.3)	(22.9)
	(30.8)	(28.0)	(35.5)	(31.9)	(126.2)
Surplus prior to Allocations	18.5	17.1	18.4	19.2	73.2
Allocations					
Regions	(5.0)	(5.9)	(6.0)	(6.1)	(23.0)
Clubs	(1.3)	(1.2)	(1.2)	(1.2)	(4.9)
Community	(4.5)	(3.1)	(3.8)	(2.9)	(14.3)
	(10.8)	(10.2)	(11.0)	(10.2)	(42.2)
Operating Surplus	7.7	6.9	7.4	9.0	31.0
Interest	(4.9)	(1.0)	(1.8)	(1.0)	(8.7)
Interest on tax	0.0	0.0	0.0	(0.5)	(0.5)
Surplus before depreciation	2.8	5.9	5.6	7.5	21.8

The match income of the WRU is dependent upon the number of games played. In 2013 and 2011, only two 6 Nations matches were played at the Stadium, whereas in 2011 and 2010 three matches were played.

The surplus prior to allocations has been fairly stable over the period, averaging £18.3 million per annum.

The allocations have also been steady, however the allocations as a percentage of the surplus decreased in 2013:



As shown in the above table, the WRU has paid the Regions £23 million out of the surpluses generated over the 4-year period. Based on the PWC report issued in May 2012, the benefactors to the Regions had contributed at least £12million to the Regions, during the three years to June 2012 and at the time of the report a further £4 million had to be contributed in order to satisfy past liabilities.

Assets and liabilities

We set out below a summary of the assets and liabilities of the WRU for each year in the four years ended 30 June 2013:

	2010 £m	2011 £m	2012 £m	2013 £m
Fixed assets	141.4	140.3	136.2	132.0
Current				
Stock	0.0	0.3	0.2	0.2
Debtors	5.9	3.6	4.1	6.1
	5.9	3.9	4.3	6.3
Creditors				
Trade	(3.8)	(2.5)	(1.4)	(3.0)
Other	(0.5)	(0.6)	(0.6)	(0.6)
Accruals	(9.6)	(10.9)	(15.0)	(9.9)
	(13.9)	(14.0)	(17.0)	(13.5)
Net current assets	(8.0)	(10.1)	(12.7)	(7.2)
Net debt				
Cash	1.0	0.4	0.8	0.8
Fair value of derivatives	0.2	0.1	(0.7)	(0.5)
Bank debt	(33.1)	(26.6)	(19.6)	(20.3)
HP	(0.3)	0.0	0.0	0.0
	(32.2)	(26.1)	(19.5)	(20.0)
Debentures	(37.3)	(37.6)	(37.6)	(37.6)
Taxation				
Liability	(4.2)	(4.2)	(7.4)	(2.8)
Deferred	(3.3)	(4.0)	(2.1)	(1.7)
	(7.5)	(8.2)	(9.5)	(4.5)
Net assets	56.4	58.3	56.9	62.7
Reserves	3.1	5.3	5.7	13.4
Pension liabilities	0.3	0.0	0.0	0.0
Deferred income	43.0	43.0	41.2	39.3
Bank debt not repayable	10.0	10.0	10.0	10.0
Permanent funding	56.4	58.3	56.9	62.7

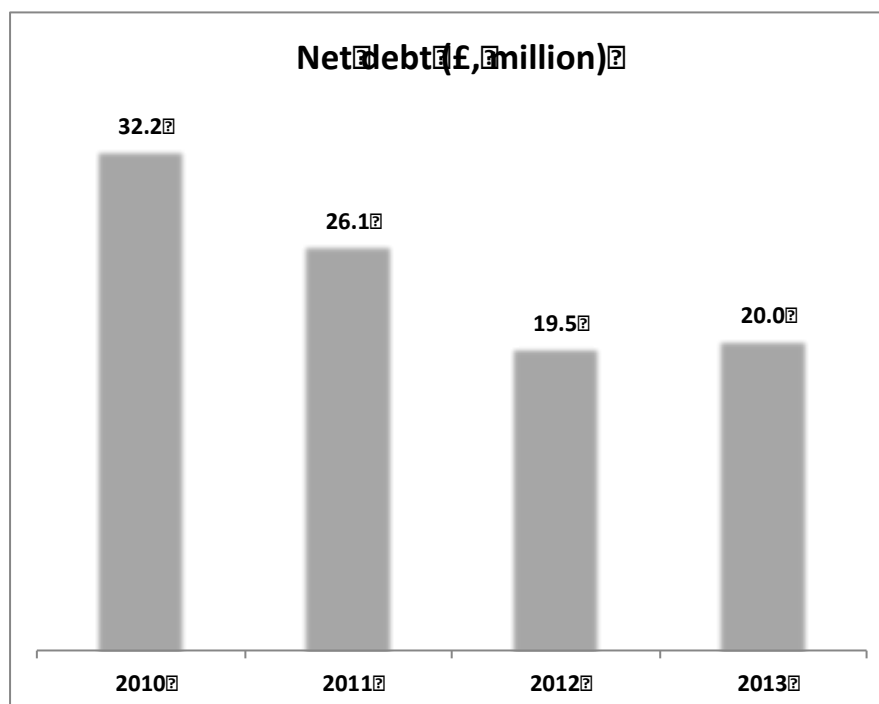
The information has been extracted from the annual accounts of the WRU. The accounts have not been presented in a statutory accounts format, but in a format that provides a more meaningful analysis. The only adjustment made to the accounts has been to exclude the £2.1 million provision, for the reasons explained on page 2 above.

Based on our interpretation of the accounts, the following is important to gain an understanding of the accounts:

1. Deferred income.
This is shown as a long-term liability in the accounts. It represents grants received, largely for the stadium infrastructure (the bulk of which was received from the Big Lottery Fund). These grants are being released to the profit and loss account in line with the depreciation on the stadium.
The deferred income will not be repayable and therefore is not a cash liability of the WRU. For this reason we have classified it as part of the permanent funding of the WRU.
2. Bank debt not repayable.
The bank borrowings shown in the accounts include £10 million of loans that will not be repaid, except in extremis (e.g. default on the loans). Again, this forms part of the WRU's permanent funding.
3. Reserves
The WRU's retained reserves increased by £7.7 million in 2013. This increase in the year reflected the settlement of the tax position, regarding the stadium, which resulted in the expected liability to HMRC reducing by £3.7 million. This favourable tax outcome contributed to the significant increase in retained reserves during 2013.

Bank debt

The amount of bank debt that is repayable has reduced over the period, as shown in the graph below:



The reduction in bank debt, over the last 3 years, has been substantial.

Bank facilities available

The following facilities were available to the WRU at 30 June 2013:

Nature of facilities	£, Million	%
Facilities utilised		
➤ Revolving credit facility	7.5	25
➤ Term loan	12.8	42
Total facilities utilised (debt shown in balance sheet)	20.3	67
Unutilised facilities	10.0	33
Total facilities available	30.3	100

(Note: The above table excludes the £10 million of bank debt that is not repayable)

A revolving credit loan facility provides the WRU with a maximum aggregate available facility over a specified period of time. However, unlike a term loan, the revolving loan facility allows the WRU to drawdown, repay and re-draw loans advanced to it of the available facility during its term.

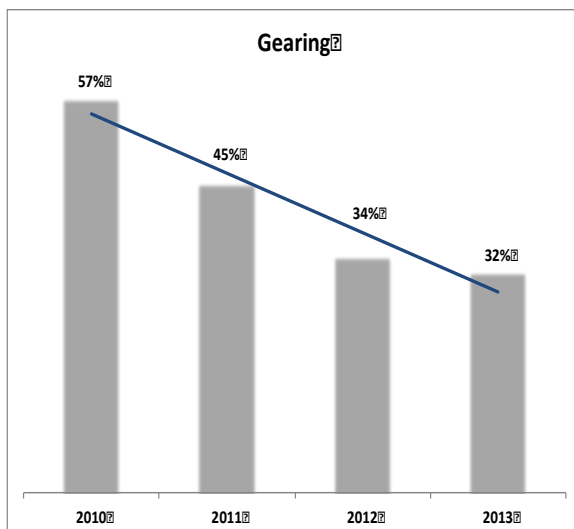
The facilities available to the WRU were £10 million more than were being utilised at 30 June 2013 and shown in the balance sheet as a liability. Given the structure of the bank facilities, we believe that this unutilised facility is likely to represent an undrawn element of the aggregate revolving credit facilities and potentially an element of bank overdraft.

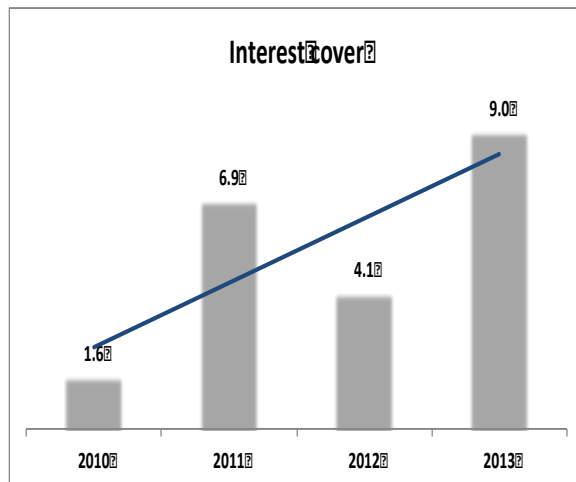
Liquidity of the WRU

Two measures of liquidity are often used for assessing the liquidity position of a company:

1. Gearing.
This measure can be calculated in a number of ways, but a common method is to compare bank debt with permanent capital in the company. The gearing ratio is shown as a percentage.
2. Interest cover.
This measure shows how many times the earnings before interest, tax, depreciation and amortisation (EBITDA) covers bank interest. The interest cover is shown as a ratio.

These liquidity measures for the WRU are shown below:





The trend lines, shown on the graphs, indicate the improvement and the speed of the improvement over the period covered by the summary.

Prospects

The Regions are not party to the WRU strategy, or its financial plans. As a result, we cannot comment, with any degree of certainty, as to the future funds that are available to Welsh rugby and on which the strategies of the Regions can be developed. However, the following appears to be relevant:

1. The operating surplus (see summary of performance above) in 2013 was £9 million. This was based on having only two 6 Nations games at the stadium, compared with 3 in 2014.
2. The long outstanding tax position has been resolved and the WRU tax liabilities are £3.7 million lower than the WRU management expected. This has, therefore, saved the WRU this amount of money, which is a “windfall cash gain”.
3. The WRU has £10 million of unutilised bank facilities
4. The tax rates have fallen from 23.8%, which applied to the WRU in 2013, to 21% in 2014 and 20% in 2015.
5. In the last 4 years the WRU has generated cash of £15 million (excluding the loss suffered in restructuring its financial derivatives). The amount averages approximately £3.75 million per annum in excess of the allocations.
6. We understand that subsequent to the year-end the WRU has generated additional income of £2 million per annum from sponsors, specifically targeted at retaining players in Wales. This should generate additional surpluses in future years, additional to those arising in prior years.

In addition to the current cash generation, PWC in their report (“Financial Review of Professional Rugby in Wales”) dated 15 October 2012, concluded (inter alia) that:

“... the logical solution appears to be a closer and more collaborative approach between the Regions and the WRU to address the funding gap.”

Along with PWC, we believe that significant opportunities exist to improve the financial position of Welsh rugby from closer collaboration and working between the Regions and the WRU. These opportunities include, but are not limited to the following “synergy benefits”:

1. Ensuring the Regions share in the development of the WRU strategy to enable the Regions to develop strategies that are complementary, rather than operating “blind”.

2. Developing a more structured approach to player salaries.
3. Developing a combined policy for retaining players in Wales
4. More efficient use of support and backroom facilities across Welsh Rugby
5. Developing more efficient pathways for development of our young talent
6. Developing a combined approach to sponsorship to sell “Welsh Rugby”
7. Developing a combined approach to raising funds from benefactors to support Welsh rugby. The recent success, in gaining an additional £2 million from sponsors (see above), is an avenue that the WRU has never explored in the past.
8. Utilising WRU’s extensive resources more effectively for the benefit of Welsh rugby.
9. Selling the naming rights of the stadium. The Irish obtained an investment in Irish Rugby of €8.3 million, as an upfront payment for the sale of the naming rights of the stadium for 10 years. Such an approach could reduce the bank debt, allowing funds to be channeled into Welsh rugby.

Potential funds available for reinvestment in Welsh rugby

As explained above, we do not have detailed financial information or financial plans for the WRU. It is therefore difficult to assess what funds may be available to the WRU, going forward, to invest in Welsh rugby. However, an estimate of the potential funds would be:

Source of funds and estimated outflows	£, Million
Operating surplus in 2013 (see table on page 3)	9.0
Less (all estimates based on accounts for 2013):	
➤ Capital expenditure	(0.7)
➤ Bank (capital and interest)	(3.8)
➤ Taxation(see note below)	(1.4)
Cash available for reinvestment	3.1
Additional sponsorship available to retain players in Wales	2.0
Total additional funds available for reinvestment in Welsh rugby annually	5.1

(Note: The tax payments would increase if the increase in operating surplus is retained and not allocated to the Regions, Clubs and Community clubs. As a result, the actual tax payable will be dependent upon the level of allocations made.)

It would appear that the WRU may have the financial resources, going forward to make significantly higher annual payments to the Regions, Clubs and Community clubs than they have made to date. Even if the estimates (because of incomplete information) are wrong, the magnitude suggests that further funds are available.

In addition, most companies operate with a level of acceptable bank borrowing. As a result, when the loans reduce to an optimum level (rather than pursuing an objective of full repayment), a further £2.8 million of funds would not have to flow out to repay the bank. This would increase the potential funds available for reinvestment in Welsh rugby, from £5.1 million (see above) to £7.9 million annually.

This increased potential reinvestment in Welsh rugby is without recognising any benefits that would arise from the increased collaboration between the WRU and the Regions referred to above. Such collaboration could deliver significant “synergy benefits”, which would add to the funds available for reinvestment into Welsh rugby.