

Shareholders Association Forum – Monday 9th February 2004 – Part 2

“FROM THE JUNGLE TO A 60,000 ALL SEATER STADIUM”

Over the last few years, we have all noticed Celtic’s fantastic new stadium and the older one’s amongst us remember how it used to be. But how did Celtic achieve the vision and the financing to come from the ‘Jungle’ terracing to the awe-inspiring stadium they have now?

You must take note that in Scotland they receive a pittance of TV revenue compared to the huge amount given to Premiership clubs at the start of every season by the great Television God, Sky. Imagine taking £25M away from our finances — let alone everyone else’s in the Premiership. Most clubs would collapse like a pack of cards — a mirror effect of the Leeds of today.

So, with no more than £2M from TV rights, it makes Celtic’s achievement all the more remarkable. But also bear in mind their fan base locally and worldwide is a lot bigger than ours. Enter Sean Hamill and his presentation on football supporters’ trusts and the club he dearly loves.



Part 2 – A Presentation by Sean Hamill

Sean is the secretary of the Celtic Trust (a Celtic FC Supporters’ Trust). He is also a lecturer in the Department of Management at Birkbeck College, University of London. A Celtic shareholder, he has written and edited a number of books and publications on the subject of the governance and business management of football clubs. Sean explained what has happened at Celtic over the last decade and outlined the aims of the Celtic Trust, which was set up in 2000, summarizing the progress it has made.

Supporters Direct

Supporters Direct is a government-supported organisation that facilitates the establishment of supporters’ trusts which emerged as a result of the Football Task Force reports

- Trusts are constituted as industrial & provident societies (IPSs — cooperatives protected by limited liability).
- They are Mutual, Democratic and not-for-profit proxy voting organisations.
- Trusts are vehicles for introducing new share finance into football clubs that are accountable to supporters.
- Evertonian Andy Burnham MP is the current chairman.
- Acknowledged as a positive force in the financial re-structuring of the game by the 2003 Deloitte & Touche football finance report.

The experience of Supporters Direct has been as follows:

- A partnership between supporters' trusts and major individual shareholders is the way forward.
- Conflict is only effective in the short run against incumbent owners where confidence has been lost. Take, for example, Darlington FC. Darlington shows a classic despot scenario where one man leads the club into financial administration just because he would not listen to his advisors. He wanted to build a monument to himself, a 20,000 plus stadium with less than 3,000 average gates in an area that could not possibly sustain this dream.
- At some point a re-building process must begin, eg. Greenock Morton.

AFC Wimbledon are a great example of how fans can beat adversity. The Wimbledon fans formed a new club because what was happening to their beloved club was unacceptable to them. They took their support away before the owners took the club to Milton Keynes. Together, they raised over £1.5M to buy a new ground so that their club could be reborn and just 3,000 fans accomplished that, buying shares at £75 each.

- Phenomenal success at Football League clubs. For example, Chesterfield, Lincoln and York City are now owned by trusts, and managing them successfully. Over 100 such trusts exist in the UK.
- Premier League clubs are a more challenging environment — the 'What can you do?' syndrome — the sums of money involved simply seem too daunting.

But, when there is a cry for help in a crisis, it's always the fans who will, if turned to, respond first with emotionally backed money, never thinking of a financial return. It's a bit like helping a relative in a bad financial spot — you will give knowing you may never get the money back, but deep down your conscience urges you to help them at all costs. Is Everton not our extended family?

Why do we have to wait for a crisis to happen before being asked to help? Why not see the road signs of a route driven down by many and do that U-turn before it's too late? We at Everton live too much in hope that it will just get better with what we have now instead of planning for the future, together. Too much treading water will eventually drown you!

Supporters Direct – Possibilities for Premier Clubs:

- **Straight share issue** — an expanded shareholders' association, but with issues of voting cohesion to be addressed.
- **Sharesave scheme** (allied to collective ownership). Shareholders United – excellent concept, but resource intensive to manage. The experience at Man Utd showed that a united front of fans CAN stop a billionaire take over their club. They repelled Sky's

aggressive takeover bid, fearing the worst, by being well-organised, professional, and united in their battle plans.

There is an extraordinary good will available to any club from its fanbase, it's up to them to bring in the new investment, recognizing that Abramovich is a one-off!

Let's look at Celtic now and their experience with fans' shares trusts. It was not all plain sailing as the story unfolds. Both Celtic and Everton fans sing, "It's a grand old team..." but can we both sing from the same trust hymn-sheet?

Celtic Share Issue

In 1995, there was a Share Issue composed of all-new share capital spear-headed by Fergus McCann. It raises £9.4M with small supporters holding nearly 40% of the shares. The subsequent low turnover in share sales indicated most owners were not seeking profit — just ownership of their Club. Celtic Park was rebuilt in stages; crowds eventually more than doubled to nearly 60,000 per game.

This was a lot of money at the time. I remember prior to this that Celtic fans were at loggerheads with the incumbent Board and refused to enter the ground — instead, opting to stay in pubs and go to away games. Such was the deep hatred of the Club Administration that fans eventually stopped watching the club they loved just to oust the Board.

In 1999 Fergus McCann sold his shares. Supporters spent just over £20M buying 75% of Fergus McCann's shareholding, with major investors buy the remaining 25%. McCann thus sold his controlling stake. Explaining his decision in October 1999, McCann said:

"I believe it is important the ordinary supporters have a say in the running of their club. Celtic cannot end up like Manchester United who are (majority) owned by institutions. Celtic football club itself is an institution which should not be in the hands of one individual or the City.

"The supporters must make sure they can make their voice heard in the boardroom and they can only do that by buying shares. I am stepping back now – the supporters have a chance to fill my shoes."

I remember this happening. Fergus McCann was a Canadian who came into Celtic at a time when they were in turmoil on and off the field. He said in five years he would rebuild the ground and leave the club in a far better state than it was, but he also stated he would make money out of the deal as a business man. Celtic fans bear no grudges to the man now for taking his profit out of his deal. Just look at the ground he has left them, and with a financial stability the envy of their neighbour's Rangers who are now £80M in debt.

The Celtic Trust

The Celtic Trust was founded in December 1999 as an independent voice for Celtic's 22,000 independent shareholders.

- A key objective was to have a supporter representative on the Board of the Plc — as a 'critical friend', to remind the Board of the club's roots.

- It registered as an IPS in September 2000.
- Places were created for existing supporters' groups on the Trust Board.
- The Trust submits four independent resolutions to the 2001 Celtic Plc AGM.
- A Quarterly meeting process began under Celtic Plc CEO Ian McLeod.

Celtic Trust Resolutions to Celtic Plc AGM have included:

- The AGM is the ultimate source of authority at a company.
- The AGM is a public occasion.

A second Celtic Share Issue

Now the story starts to sour a little. In 2001, New Convertible Preferred Ordinary Shares were issued — a privileged class of share with a guaranteed 4.0% annual dividend, plus extra performance-related benefits, including protection against share-price depreciation by issuing extra shares at point of conversion in 2007 if ordinary shares are below £1.25.

This was necessitated by a lack of financial discipline during Alan McDonald's tenure as Chief Executive. For example, Rafael Scheidt signed £4.5M (pronounced, and was...). This was when Dalglish and Barnes came in to manage Celtic, — and they were reckoned to be a disaster on and off the field. (Well, what do you expect from ex-Reds?) They ran up debts of over £20M on poor players. It even cost Celtic a couple of million to sack them. Only in football does a bad job get the reward of a king's ransom for failure. You can't keep going back to fans to pay for management mistakes.

This was a divisive Share Issue — fans don't look for a dividend in financial terms; any profit should be ploughed back into the club to make more money for the club and its fans. The whole principle of creating first- and second-class owners was a share issue too far.

Throughout 2002 and 2003, the Celtic Trust lobbied Celtic Plc on key issues, for example on European away ticket allocation. Also:

- Concerns also about the erosion of privileges of 1994 shareholders. (This is a concern of our own shareholders now. For example if you pay £25 to join the A- or J-club, it would seem you have preference for home tickets. Even the two director box tickets for the Shareholders Association [now drawn at random for the whole Association membership and a donation to charity, instead of being just for the committee] have been relegated from near the front row to the back).
- A wider concern about concentration of ownership of shares.

The Trust submitted one independent resolution to the 2003 Celtic Plc AGM - Celtic levies a charge: THAT the board is requested to propose a scheme at the next AGM for the appointment to the board[s] of the Company and/or Celtic Football and Athletic Club Limited of an elected representative of supporters organizations / small shareholders / season-ticket holders. The Celtic Trust resolution was carried on the show of hands at the AGM. But the Celtic Trust resolution was then defeated in the poll. What are the lessons:

- Approximately 1,500 out of 22,000 individual shareholders voted for the Trust resolution; the majority don't vote.
- Shares controlled by the Board voted against the resolution.

You see once you give up your hard-earned money to a Trust, it does not stop there; you need to remain active in seeing the job through.

I believe there is often apathy amongst our fans when cohesion is needed. It took a lot longer to oust Johnson than it might have. Following a Celtic fan-style protest would have made a huge impact — imagine standing outside for one game en masse and coming through the turnstiles at half time. I know this is an oversimplification but the end of the Johnson tenure was a nightmare that continued for far too long – and the ability of fans to influence administrations should never be ignored.

When times are good, it is hard to concentrate supporters' minds on the financial side of the business. Just look at us last season with the Wayne and Moyes factor! But still we had revenue problems that prevented us from maintaining the momentum with new players.

But in football, 'bad' times are often just around the corner: back to Celtic:

- They about to lose key players such as Henrik Larsson, and there is uncertainty over the future of manager Martin O'Neill.
- There is no money for transfers, and yet a provision has been made for £2.5M in dividend payouts to the special 2001 shareholders to be made in August 2004.
- When times are hard you need organised supporter input e.g. Hearts plan to move to Murrayfield rugby stadium.
- When a major expansion is planned, e.g. a new stadium (Celtic 1994) you need organised supporter input.

Celtic Trust is now calling for a Dividend Re-investment Scheme at Celtic Plc to keep the revenue within the club. This is important to the fan in the street but not necessarily to a board member who is looking for a return on his investment.

Sean asks the defining question “What is a Football Club for?”

In Europe there are no bigger or more famous clubs than the Spanish giants Real Madrid and Barcelona. It was interesting and refreshing to hear of their current Chairmen's views on football clubs:

- Snr Perez, Chairman at Real Madrid, says his construction company is for the stock market, but Real is for the City of Madrid.
- Joan Laporta, Chairman of Barcelona, was elected by the fans. He started out as part of the 'Blue Elephant' supporters' group seeking to reform the club's voting franchise in 1999.

Barcelona and Real Madrid are expressions of great cities' pride. Perez and Laporta both recognize that the clubs should be not-for-profit.

In 2008, Liverpool will be Europe's City of Culture. A strong, supporter-shareholder led refinancing of Everton in partnership with appropriate business interests would make a significant contribution to the year's celebrations. Are we not part of our great cities pride?

We are the oldest and biggest football institution on Merseyside yet often we feel obstructed or ignored by the local powers that be. One aspect of that bold statement is the current refusal to allow Goodison Park to be expanded beyond its existing footprint, resulting in a

strangulation of the will and vision for Everton to stay at Goodison Park. Long overdue development of the ground would give us badly needed extra revenue streams NOW.

The Kings Dock invitation and now the ground share are all argued as worthwhile developments – but can we afford to borrow more money now? Why not stay in Walton and the community we have been symbiotic with? We still have time to rebuild Goodison for the European Culture festivities — Goodison for Ever-ton (GFE) proved we could have done it, why do we always have to miss out?

I enjoyed Sean's inspirational speech; he showed us a way to help the club and drew caution from the mistakes that occurred in Celtic's involvement with trusts.

My first impression was, as much as I admire Bill Kenwright and respect him for what he has done for us (I'd make him Life Chairman), we need a businessman like Fergus McCann. I ask the question: can Paul Gregg be our Fergus McCann?

I remember meeting Paul Gregg for the first time at a meeting with fellow board members and fan representatives. He didn't say much but looked very much on his guard. Definitely listening and taking it all in though — assessing who was who and where they were coming from.

I said to Mr Gregg "I hope you make a fortune with your association with Everton." He was a bit taken aback by that statement. When he asked me, Why? I answered, "Because if you make money it will ultimately mean we are successful." But Mr Gregg will not in my opinion put any more money into this Club unless he has a controlling interest. By his own admission, I repeat, he is not a football fan. He wants a business to be viable rather than emotional.

As much as we disliked Peter Johnson, he did have vision and ambition; he talked of the G14 and Everton to be involved in a European Super league (now we just want to be in the Premiership come the end of the season!), and he wanted a new ground and a business village to support it. We were closer than you think to achieving that vision under him, but that's another story.

I am older and wiser now and realise Agent Johnson was not all bad; he did put money in (and some would say he took it out) but he had drive and a masterplan. This is not a criticism of the Board now — maybe they are more prudent and realistic in their vision of Everton in the short-term future.

But we cannot continue like this; the path we are going down is frightening. The sale of Wayne Rooney looks to be inevitable under the projected figures from the last presentation. his can be stopped now if we harness the fans and work 'together'. If we sell Wayne because of selfishness, then let's take the Club's motto off the badge and be done with it.

A Wayne Rooney comes along only once in a lifetime, believe me. For the sake of Everton Football Club, we the fans have to do all we can to keep him here.

Ian Macdonald

17 February 2004