

Slaley Rose and Crown Business Case

Introduction and a brief description of the pub and the area

1. The prime purpose for the acquisition of the Rose and Crown is to preserve a precious community asset. You should regard any investment as primarily a social investment rather than a pure financial one. This document should be read in that context.
2. The Rose and Crown is a Grade 2 listed building and a registered Asset of Community Value set in the heart of the village of Slaley. It has been trading since the 17th century. In the last decade it passed from private ownership to a brewery. Since then it has had rapid changes in tenancy and periods of closure. Historically it has provided wet sales, food and bed and breakfast accommodation. It once thrived as a free house.
3. Slaley is a small village with about 300 households and an adult population of approximately 550. Its heritage can be traced back to 1106 in the reign of Henry I. Many of the houses and cottages are built with local stone from Ladycross Quarry, now a nature reserve as well as a working quarry.
4. Slaley is a sustainable village. It has a shop, a school, a village hall, a mobile post office, two churches and the Rose and Crown. In modern times Slaley has found fame as a golfing venue. Slaley Hall Hotel is situated just outside the village with its two championship standard golf courses. Each August, the village plays host to Slaley Show. It is a traditional agricultural show with horticultural, industrial, floral art, children's and animal sections.
5. The village from Town Head to Town Foot is approximately a mile in length and it stands some 750ft above sea level. The altitude is responsible for its climate, which although relatively mild in recent years, has at times been known to be on the windy side! It is a community of traditional farming and longstanding families and more recently commuters working in the wider North East. An area primarily hill farming for livestock, the village is surrounded by spectacular countryside. Slaley Forest is home to much wildlife, birds, animals and reptiles. This is responsible for its popularity amongst lovers of the countryside, walkers, photographers and birdwatchers.
6. The pub is currently owned by Marston's PLC. They have agreed its sale to Slaley Community Assets Ltd, a co-operative set up by the village (Slaley Community Trust sponsored by Slaley Parish Council) to acquire the pub on behalf of the community. The sale is planned to be completed by early Aug 2013. Final negotiations on price have been completed but the option agreement is not yet signed.
7. The Rose and Crown is of stone structure dating back some 300 years and is located in the middle of the village on a plot of land, including car park, garden and a paddock of approximately half an acre. There have been additions to the pub structure in recent years including the licensee's one bedroom flat that are in keeping with the historic structure and its grade 2 listed building status.
8. We have held public meetings and conducted surveys and it is clear that the village wants to see the pub retained and developed. Our initial analysis of the pub's business position is set out in the strengths, weaknesses, opportunities and threats table included in the prospectus. Without doubt the biggest threat will be securing

Slaley Rose and Crown Business Case

sufficient trade to ensure that the venture trades successfully and conversely that is also the best opportunity. Trading in many pubs is now a very difficult challenge but equally there are many examples of successful operations. The level of success will undoubtedly be critically dependent upon the turnover that the pub can generate. Our aim is to attract a wide range and number of investors who will then have a vested interest in using the facility and boosting the turnover.

Our Vision

9. The Rose and Crown is situated in the centre of the village. As a community owned asset our vision is to make it a hub of activity providing a number of needed services. In addition to the traditional pub offer of a drinking establishment, restaurant and accommodation provider, we intend to develop a range of other community services if the demand is there. These could include internet access, coffee mornings or even a full cafe service, takeaway (including delivery), entertainment venue, parcel drop off/collection facilities etc. It is a firm intention that the pub should complement the facilities at the village Commemoration Hall and not undermine another valuable community asset.

10. We envisage that having the Rose and Crown as a community owned asset will have the following advantages for the village:

- Promoting social inclusion by providing a venue and services suitable for all age groups;
- Reducing isolation by encouraging participation in social and other events;
- Providing an informal meeting venue for local clubs and societies;
- Safeguarding and improving a building of historical interest;
- Providing a source of good food for those unable to cook for themselves (this could include a local delivery service);
- Providing local employment;
- Supporting local businesses by the provision of an outlet or by purchasing goods for use in the business
- Helping to maintain local services ensuring Slaley's continued status as a sustainable community.

11. A key driver for the project is to secure a community owned asset within the village to sustain key services essential to the wellbeing of the residents. In addition to concerns about the pub there are also worries about the sustainability of the village shop should the current owners be unable to sell it as a going concern. In such circumstances a shop facility could be re-located to the Rose and Crown building.

12. Once the business is established we intend to plough back some of the profit for other community programs. We will do this through Slaley Community Trust and other appropriate local bodies.

Slaley Community Assets Ltd

13. Slaley Community Assets Ltd (SCAL) has been formed and registered with the FCA (previously FSA) as an Industrial and Provident Society to be the corporate body to purchase and own the pub. The Society will provide for a democratic body with one

Slaley Rose and Crown Business Case

member one vote. This is a key principle allowing wide numbers of people in the community to have their say in determining the policy and future of the Society and hence the pub. The Society's rules are available on our website and in print on request.

Scale of the investment

14. The building is being purchased in its current condition. A structural survey has confirmed that the building is in satisfactory condition for its age and type of use. A number of repairs and renovations have been identified as necessary (primarily repairs to the main roof, the flat roof and damp treatment). These can be phased as there is no immediate risk to the fabric of the building but work will be necessary within say 12 months to two years.
15. The present kitchen area needs some immediate wall repairs and the installation of catering kitchen equipment to enable meals to be prepared and served. After allowing for sundry acquisition costs, operational fixtures and fittings and some decoration, it is anticipated that the building can be purchased, immediate essential repairs carried out and an operational kitchen and restaurant area provided for £250,000 (excluding VAT) within 3 months of acquisition.
16. At present the letting bedrooms are not fit for purpose and require extensive renovation. In addition access to them is not possible from inside the main pub area and necessitates going outside. An initial estimate has also been made for the cost of renovating the 3 bedrooms that could be let as bed and breakfast accommodation. It is planned to undertake these works and further repairs during the second half of the first 12 months to provide accommodation in the second year of operation. The total cost of acquiring the pub and being able to service food and accommodation is estimated at £350,000.

Current pub operation

17. Until May 2012, the Rose and Crown was being operated by Marston's PLC on a landlord/tied tenant model. In the period September 2011 to the end of April 2012 the pub operated with both food and drink available. The tenants provided a quality offering that earned a reputation as good value. It is estimated that the annualised turnover based on that period was in the region of £170,000 per annum (excluding VAT).
18. In May 2012, the tenants were asked to leave. We understand that situation arose because the brewery and the tenants had been unable to agree contractual terms going forward. The tenants owned the catering equipment in the kitchen and removed it on departure. Since then, the brewery has tried and failed to find a suitable replacement tenant on the terms which it is prepared to offer.
19. In the meantime it has engaged a pub management company to keep it open. The current situation with the pub is that it can only sell drink, there are no facilities for food. Evaluating the worth of the business based on the current operation is therefore somewhat limited but it is estimated that turnover (ex VAT) is in the order of £50,000 to £62,000 per annum, a significant reduction from the previous annualised turnover of circa £170,000 (which included both drink and food sales).

Proposed pub operation

Slaley Rose and Crown Business Case

20. The pub under the ownership of SCAL will present itself as a good food at fair prices establishment with a friendly traditional bar serving local and national ales and wines. Wherever possible the food will be locally sourced and prepared and cooked on the premises. The marketing of the pub will be across a spectrum of customer sources, firstly through local organisations, word of mouth, local press, radio and TV and then through the internet and social media, as well as targeting local tourist opportunities.
21. The local area has many scenic and historical attributes as well as local sporting (eg sailing and horse racing) facilities that can be tapped into to generate trade. The village of Slaley is just 2 miles from the nationally renowned Slaley Hall Golf club which offers championship quality golf courses, hotel and significant time-share lodge provision. Their customers will welcome the variety of a traditional local pub as they used to previously.
22. There is a great opportunity to develop trade that currently simply by passes the village to go to Hexham or other local towns. The market of Slaley Hall, self catering holiday cottages, B&B establishments, local caravan sites and passing tourists offer a good opportunity simply by being there, open and with a good offering.
23. We have carefully considered various operating models and we believe that an incentivised manager model provides the best solution in our circumstances. During the development and establishment stages a tenant model would not give the Society sufficient control over the asset to be able sufficiently to shape utilisation to future community needs and requirements. Specifically, should the need to operate the shop alongside the pub arise, it would be impossible to carry out the necessary re-shaping with a tenant in place.
24. The pub will be run as a managed establishment with the manager, or more accurately the manager couple, being paid on a basic salary plus bonus on a results basis. The SCAL Directors intend to set out a strategy and vision for the pub and then clearly instruct the managers to operate to this with monthly reviews of performance and results. Ideally the managers will be given the space to develop their ideas and implement changes that will improve profitability which it is envisaged they will share with the Society.
25. It is envisaged that the manager couple will provide between them both front of house and catering knowledge, skills and expertise. Their resources will be supplemented by hourly paid labour sourced locally.

Key financial assumptions

26. The key financial assumptions used in the plan are:
- We estimate that capital expenditure on the purchase and renovation including kitchen and letting bedroom provision will total £350,000. This will be phased.
 - In order to determine the funding cost it has been assumed that will be able to raise our target of £220,000 from shares and additional capital of £130,000 will be borrowed on a mortgage at a rate of up to 6.5% pa repaid over 20 years and secured by a first charge over the property. We have funding arrangements in place on an 'in principle' decision basis from two potential lenders. In comparison to share holding, borrowing is expensive and the more shares taken up the better as it will reduce costs.

Slaley Rose and Crown Business Case

- We estimate that the first year turnover will be circa £135,000 and will include food after 3 months but no accommodation. In the second year we estimate that the turnover will rise to circa £180,000 including food, drink and accommodation, and in the third year we estimate a further increase to circa £190,000. These numbers are considered to be prudent given our knowledge of recent trading history.
- Gross margin will be achieved at the industry norm for a free house of circa 60% for the planned mix of provision.
- Overheads have been based on the previous experience costs provided by the previous tenant.
- The managers will be paid on a basic plus profit based salary in the first year of circa £25,000 and will enjoy free accommodation in the package. It is envisaged a management team of a 'couple' will be employed. The managers will be selected on the basis of their proven ability to deliver quality food and drink and on their belief in the concept of a community pub.
- Finance costs based on the above assumptions will be circa £8,000pa (interest only).

27. The aim is to provide shareholders with a circa 3%pa return on their capital invested, after the first year when it is not intended to pay any interest /dividend. SCAL will endeavour to build up a fund for 'leaving shareholders'.

28. A comprehensive Forecast P&L, Balance Sheet and Cash Flow have been prepared by SCAL. This has been reviewed and challenged externally by PWC. The project steering group have sought to verify their business plan assumptions by reference to industry sources, suppliers and the previous tenants' accounts. The key issues are:

- Turnover has been based in the first year at around 80% of the level reached by the previous successful tenant. We anticipate turnover in the range £135,000 to £190,000 over the first three years and this is considered to be prudent in the current economic circumstances;
- Gross margins are based on the industry norm for a free house;
- Overheads are based on the previous tenants accounts and verification wherever possible with suppliers and industry sources.

29. In more detail the plan includes the following:

Turnover.

30. The pub will be acquired in August 2013 and in the first month the turnover is estimated at Nil, to allow for a month of closure, if required, whilst essential repairs and renovations are undertaken.

31. In the first three months there will not be any food sales whilst the kitchen is refurbished.

32. In the first three months there will be a number of promotional events to boost turnover and interest in the pub.

33. The accommodation will not be available until month 1 of year 2.

34. Accommodation will add to the second year turnover but will only be filled to 40% of capacity against an industry norm of 50%.

Slaley Rose and Crown Business Case

Gross Margin

35. The gross margin on drink sales is estimated to be 63%, on food 50% and on accommodation 80%.
36. The overall margin in year 1 depends on turnover mix but we estimate that it will be 58% and thereafter 60%.

Overheads

37. Overheads have been based on the information provided by the previous tenants and wherever possible the level of overhead has been tested with suppliers or through trade sources.
38. Overheads include the provision of bar and waitress staff and the managers. Overheads, including the managers, are estimated at 58% of turnover in the first year and thereafter 51%.

Net Profit

39. Based on these assumptions, we estimate that we will break even in the first year (excluding start-up costs) and achieve a net profit in years 2 and 3, rising to circa 10% of turnover.
40. The Cash flow projection shows that the initial sums borrowed and those generated from trading will enable the Society to remain cash positive during the first and subsequent years.

Grants

41. A number of grant sources have been identified and are being pursued but to be prudent none are included in these projections, except the initial pre-feasibility grant that has been secured and used.

Key Risks and Challenges

42. The key risks and challenges and the mitigation arrangements that will be put in place have been included in the Prospectus.

Sensitivity analysis

43. We have carried out a full sensitivity analysis and this has been reviewed and challenged by PWC. We believe that we have taken a prudent view based on actual recent operations. We have considered the impact on the business if our financial assumptions are incorrect and have tested the numbers against potential scenarios. The most sensitive issue is the Turnover but our estimates are considered prudent based on previously achieved outcomes.
44. Borrowing versus Share capital is also critical. The amount borrowed versus the amount of shares subscribed will have an effect on the amount of profit available for dividend. Borrowing will cost between 6% and 8% (dependent on the type of borrowing) and share

Slaley Rose and Crown Business Case

capital is targeted to cost circa 3% so the profit will reduce if additional money is borrowed. Conversely increased share capital raised would reduce borrowing and associated costs.

45. Slippage on proposed timescales will have an adverse impact. Any failure to open the Kitchen at week 14 would reduce the gross margin and should we fail to open the accommodation at week 1 in year 2 profit would be reduced.

What would happen if we only raise the minimum share amount of £130,000 and not the target of £220,000?

46. Raising only the minimum level of shares would have a number of impacts:

- We could still purchase the pub, carry out essential repairs and install an operating kitchen. However we would have insufficient capital to carry out works to provide letting rooms in the timescales envisaged ie in time for the start of year 2. The lack of B&B income would reduce profitability. If wet and food sales could not be increased to compensate, there would be a small operating loss in year 1 and modest profits in years 2 and 3.
- We would need to borrow more and that would increase costs and risks. Shareholder equity would reduce to 52% from 63% but remains prudent.
- Consideration of funding the B&B provision would need to be deferred until the decision could be informed by actual trading results. Further share offers may be necessary.
- Cash flow would become more critical and overdraft facilities would need to be secured.
- The Managers' remuneration levels are less attractive without B&B income. This could make it more difficult to attract suitable candidates. It should still be possible as rewards remain within the range identified by a review of adverts for similar opportunities. Basic pay would form a larger proportion of total earnings reducing the impact of profit share.
- Our ability to build up a fund to enable a proportion of shareholders wishing to withdraw their shares to do so would be reduced. We would need to work harder to find other ways to enable this, for example by promoting the idea of a waiting list of future substitute shareholders.

Summary

47. The Rose and Crown is not trading well at the current time but the lack of investment in facilities, the inability to serve food and its 'to let or for sale' status are seen as the prime causes. In recent memory, only a year ago, the pub was trading successfully and profitably.

48. There is a pent up demand in the village to return to the times when the pub was an integral part of the community. A comprehensive survey and two public meetings have confirmed that the Rose and Crown is a well loved asset that people will use and support if its offer is pitched appropriately.

Slaley Rose and Crown Business Case

49. The business case is prudent and has been constructed at a lower level of turnover than that being achieved in the more recent successful trading period.
50. The level of capital being sought from the community is in line with other known pub community purchases of a similar size and population. If target share ownership levels are reached borrowing assumptions are modest. Failure to achieve the target increases the risk and would present more of a challenge but remains doable.
51. The securing of a good manager couple, with proven pub and restaurant skills, will be the critical factor in determining if the project yields the level of success anticipated. A cautious approach to the management contract and the close involvement in performance appraisal will allow SCAL to intervene if results are not being achieved.
52. There are aspirations for a more comprehensive change to the physical layout and the facilities offered by the current structure but these are unlikely to be affordable at this stage. Further share offers may be necessary to accommodate the layout changes needed to provide a shop for example.
53. The Board has proven business strategic and operational management capability at its disposal.

The Steering Group

Norman Watson - I&PS Director and Steering Group Chair Slaley resident and a full time practitioner in the Co-op Sector for over 30 years. He has specialised in arranging Employee Buyouts of Companies. He has a wide knowledge of Co-op Rules and has already provided advice to the Steering Group on the kind of model rules that might be used in the purchase of the R&C. Norman will continue to be our subject matter expert on I&PS rules and structure.

David Allsop - I&PS Director and Steering Group Secretary Slaley Resident and former Regional Director of The Audit Commission, David is also an accountant, property landlord and Slaley Parish Councillor. David will be bringing his people and financial management, corporate governance and risk management skills to support the bid. He will act as the liaison between the Parish Council and the Steering Group in managing the bid process.

Margaret Weatherley - I&PS Director and Steering Group Treasurer Slaley resident. Insolvency Case Administrator with KPMG for 18 years until retirement. Margaret's key skills centre around smooth business transitioning including book-keeping, office administration and liaising with debtors, creditors and employees. As treasurer Margaret is responsible for; invoicing, paying creditors, banking of revenue, preparing income and expenditure accounts. Margaret also has considerable experience in fundraising and securing grants/donations for a variety of projects.

Sir Mike Darrington Slaley resident and Managing Director of Greggs The Bakers for 25 years until 2008. He has had a long-term involvement with both the CBI and Business in the Community - and more recently with the Prince's Trust. He received a knighthood in the 2004 New Year's Honours list for services to business and the community in the North East. Sir Michael Darrington brings his strategy and negotiation skills to assist the community in retaining and developing the R&C as a community asset.

Slaley Rose and Crown Business Case

Eileen Tuohy Slaley resident, Eileen's skills include market assessment for business acquisitions and managing large product developments. She has also advised businesses on sustainability and corporate responsibility strategies. Head of Innovation at The Payments Council, the body that sets the UK's payments strategy, she brings her programme management and marketing skills to assist in retaining and developing the R&C as a community asset.

Brian Wilson Slaley resident, Brian has many years experience working in a number of industry sectors including engineering, hotel, milk, distribution, clothing , footwear and legal services. For the last 25 years he has worked at Finance Director level and is currently self employed providing financial business advice.

Kevin Doonan Slaley resident. Kevin runs an architecture practice in Hexham which has won many design awards. Kevin brings his expertise in renovating and restoring heritage buildings to the work on the Rose and Crown.

Max Hamps Slaley Resident. Now retired he has 25 years experience at Director level in Vocational Training at Newcastle College and CITB (Construction Industry Training Board). As CITB's Apprenticeship Director Max was responsible for an annual £40+m Government national training contract for over 15000 construction apprentices. He has experience of marketing, customer relations and fund raising.

Neil Whatmough Long time Whitley Chapel resident and retired Sales Director, Neil also has considerable experience in project management including the refurbishment of an old Northumbrian property.

54.The information contained in this document has been prepared by the Founder Members of the Society, who take responsibility for its contents. To the best of their knowledge, all information is reasonable and not misleading at the time the Share Offer was issued. The numbers cannot be guaranteed and are estimates.

55.This Share Offer is exempt from the Financial Services and Markets Act 2000, or subsidiary regulations. This means that you have no right of complaint to an ombudsman. An Industrial and Provident Society is registered with, but not authorised by, the Financial Conduct Authority (previously the Financial Services Authority) and therefore the money you pay for your shares is not safeguarded by any depositor protection scheme or dispute resolution scheme.

56.This document should be read as an introduction only. As a prospective investor, you should read the whole of the Share Offer Prospectus and be aware of any risks involved in making an investment. You should also read the Rules of the Society which are available for viewing on our web site www.slaleyroseandcrown.co.uk. An investment in the shares offered in this Share Offer carries risks and you may lose the value of your investment. If you have any doubts or questions, you should seek independent financial advice.