



Business Plan for The Red Lion Inn, Stathern

Prepared by
Stathern Community Benefit Society

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Executive Summary

This business plan presents a proposal for:

- the purchase,
- renovation and
- operation of the Red Lion, Stathern, as a community-owned pub/restaurant and a community hub.

The premises will provide a mixed-use facility to include café-type facilities throughout the day and a traditional pub and restaurant operation at lunch-times and in the evening. Our vision is to create a warm, welcoming, community hub for our village. A place where neighbours and friends can meet and our isolated rural community can thrive socially. We want to re-open as a country pub/restaurant with reliable hours to make best provision of the facilities for locals and visitors alike.

If sufficient funds are raised, we plan to:

- Carry out extensive renovation works to the exterior and interior of the building
- Refurbish the trading areas, kitchen and cellar
- Refurbish and redecorate the staff living accommodation on the first floor, to provide attractive, spacious accommodation that will entice applications from the highest quality tenants/managers
- Improve the outdoor space with accessible pathways and a suitable car park surface.

Visitors will be made to feel most welcome, but at the heart of these proposals must be the residents of Stathern, who will so clearly benefit from the re-introduction of this social hub.

Introduction

To enable the purchase and operation of the Red Lion, Stathern, a Community Benefit Society (CBS) has been formed (FCA registration number **8751**). This Society is known as the Stathern Community Benefit Society Limited, and is a form of co-operative.

The Red Lion, Stathern, has been a thriving pub in the past. The pub was closed in January 2017. Since then, there has been enormous local support for re-opening it under community ownership. It has been designated an 'Asset of Community Value'.

Since 2017 the current owner has made two applications for planning permission to convert the property for residential use and to develop the car park for housing. Both these applications met a considerable number of objections. Both applications were withdrawn. The property has recently come on the market, inviting offers. No indication of a selling price is available.

Funds to enable the CBS to put forward an offer to purchase the building (freehold) will be raised through a community share offer. Shares will be sold at £50 each, with a minimum investment of 1 share up to a legal maximum of 2000 equivalent to £100,000. The share offer has a minimum target of **£350,000** in order to provide sufficient funds to support a fair offer to purchase and associated expenses. An upper target of **£600,000** has been set to raise additional funds which will go towards renovating and refurbishing the property prior to reopening. If insufficient funds in excess of £350,000 are raised in the share offer, the Stathern CBS will apply for grant-funding, match-funding or loan-funding to facilitate renovations.

Purchase of shares confers 'membership' of the society, giving members control over the business through the election of a management committee, in accordance with the Society's rules, and voting rights on significant issues at members meetings. All members over the age of 16 will have an equal vote, regardless of the size of their shareholding. The management committee (and shareholders) have the protection of 'limited liability'.

It is our aim to seek an experienced and ambitious tenant, although this business plan has contingency to seek a professional manager/management couple. The final appointment and business model decision may prove to be candidate-led. It is vital we appoint a person/couple that will share the CBS community-centric vision, and create a high-end destination pub/restaurant.

The aim is to buy the property, undertake renovations and re-open in the third quarter of 2022.

Project Development

Background to the Project

There has been a Red Lion pub on the same site for over 300 years. Prior to its current ownership the pub enjoyed an extended period of commercial success and a reputation for a quality dining experience, winning various awards such as:

- Dining Pub of the Year for Leicestershire in the Good Pub Guide
- Michelin Bib Gourmand
- AA Pub of the Year
- The Publican Food Pub of the Year

In 2009 the pub featured on television on The Hairy Bikers' Food Tour of Britain.

The pub provided a significant draw for visitors, and income into the village, and an important meeting place and social hub for the local and surrounding communities.

It closed for business in January 2017, and such was the inherent value to the community that the village sought and obtained 'Asset of Community Value' status for both the building and its car park, (expires May 2023).

In June 2021, the pub was offered for sale. This triggered the Community Right to Bid as the pub is designated as an Asset of Community Value. At a meeting in July, instigated by the Parish Council, 35 local residents attended and those present voted overwhelmingly in favour of an initiative to acquire the premises for the community and to reopen the pub/restaurant. The Parish Council enacted the Community Right to Bid, which triggers a moratorium period of six months. This gave us until December 2021 to put a bid together. A smaller committee was formed to take things forward.

It was recognised early on that this initiative could not be a small group's pet project and would only succeed with the support and blessing of the community. A questionnaire with a call for volunteers and ideas was circulated. The questionnaire's results, published in the village magazine and on-line at <https://www.savetheredlionstathern.com>, made it obvious that the community strongly supported the reopening of the Red Lion. A group of volunteers formed a Steering Group, joined the Plunkett Foundation and set up a legal entity, known as the Stathern Community Benefit Society Limited (CBS), in November 2021.

Early donations together with matched funding from the Parish Council allowed us to instruct MJD Hughes Limited to prepare a Business Buyers and Market Appraisal Valuation Report. The Estate Agent handling the sale gave us access to the inside of the building. The viewing was conducted in October 2021 and the report finalised in November 2021.

This independent Business Buyers and Market Appraisal Valuation Report concluded that the market value of the Red Lion as of 19th October 2021 was:

| | VALUATION |
|-------------------------------------------------------------------------------------------------------------------------------------------------|------------------|
| Market Value of the Empty Property having regard to Trading Potential and subject to Special Assumptions ('Market Value - Closed - in Default') | £350,000 |

The CBS intend to raise funds and purchase the property in order to re-open the Red Lion as pub/restaurant at the same time creating a venue to support community activities. It is expected that the pub/restaurant combination, run professionally, will be viable due to the support of community ownership and a low level of debt, as funding will be mainly from capital investment as opposed to mortgage.

The purchase of the Red Lion, building and providing a place for the community, will fulfil the aspirations of the residents. It will provide a fully accessible meeting place, facilitating the meeting and mixing of young and old, neighbours, friends and strangers, thereby vastly improving community cohesion and reducing isolation. The pub/restaurant will provide jobs, volunteering and training opportunities, and a safe, comfortable meeting place for all, including clubs and other community enterprises. It is hoped that it will become a 'go to' destination for nearby residents and townsfolk and a stopping point for the many drivers and cyclists that pass by, as well as walkers on the Viking Way and various circular walks centred on the pub.

The Local Community

Stathern is a substantial and attractive settlement on a 'C' class road connecting Melton Mowbray to the Vale of Belvoir. It lies some 8 miles north of Melton Mowbray at the foot of the wooded escarpment of the Vale. The Red Lion sits in an area around the Rectory and St Guthlac's Church, which is particularly attractive with narrow lanes and pedestrian ways enclosed by high brick and stone walls. This now forms the centre of the Conservation Area which was established in 1976.

Residential development has generally been incremental but there was a surge between 1981 and 1993 when 77 houses were built, increasing the number by over 25%. In 1995, there were several facilities for the residents including Post Office, Methodist Chapel, butchers and general stores plus 2 public houses. The school had access to a sports field. Only one public house and the garage remain open with the remainder (including the sports field) either gone or threatened. Thanks to the Stathern Recreation Association, the village has a playpark, which is also used by the school for sports activity. The village has also gained the Coffee Shot café and village store adjacent to Stathern Garage.

Although census data is currently almost 10 years old, it remains the best means of comparing communities. At the time of the 2011 Census, the Stathern Parish was home to around 728 residents living in 294 households. Analysis of the 2011 Census suggests that between 2001 and 2011, the population in the local area grew by around 8% (56 people). During this period, it is estimated that the number of dwellings increased by 5% (13).

There is evidence of an ageing population with the number of over 60-year-olds up from 22% of the total population in 2001 to 25% in 2011. In line with national trends the local population is likely to get older as average life expectancy continues to rise.

Home ownership levels are very high with around 81% of households owning their homes outright, or with a mortgage or loan. At 7%, the share of households living in social rented accommodation is very low when compared with regional and national rates.

The Local Plan for Melton has updated the housing need across the Borough and the allocation of housing within it. The Local Plan identifies that over the period 2011 to 2036, Stathern is required to

accommodate 91 dwellings. By 31 March 2017, the Local Plan identified that 10 dwellings had been built since 2011 and there was planning permission for 10 further dwellings. This gave a residual requirement for 71 dwellings to 2036. To meet this remaining requirement, the Local Plan has allocated two sites at Stathern, Point Farm on Main Street (STAT 1) and land adjacent to Levesley House, 14 City Road (STAT 2). As of November 2021, 10 houses at STAT2 are nearing completion, and work is about to commence on 74 dwellings at STAT1, scheduled to complete in 2023.

It is recognised (see Plunkett Network; The Being Well Project) that community pubs offer so much more than just one service – innovating and contributing to people’s wellbeing, connectedness and ability to stay in their community. They help people to tackle a range of issues such as isolation, loneliness and poverty. A publication from the University of Oxford also found that pubs play a pivotal role in a person’s wellbeing. They found that people who have a ‘local’ that they visit regularly tend to feel more socially engaged and contented, and are more likely to trust other members of their community. They also observed that those without a local pub had significantly smaller social networks and felt less engaged with, and trusting of, their local communities.

It is also reported that having a local pub increases house prices.

The Current Position

Developing a Sustainable Business

Whilst Stathern has a thriving community scene of groups and active volunteers, the challenge of running any business in a rural community with a limited market, does not go unrecognised. It is our intention to create a ‘go to’ offering that appeals to a wider community bringing into scope nearby villages and the nearby towns of Bingham, Melton Mowbray, Grantham, and Nottingham. Our business will support the local economy providing employment, purchasing local produce, goods, and services.

To support this proposal the following have been completed since the 2017 closure of the pub:

- Established a Steering Group.
- Registered the Red Lion and its carpark as Assets of Community Value.
- Met with members of The Thorold CBS and The Tollerton Community Trust Tollerton Flying Club Limited, to share experiences and understand likely hurdles.
- Instructed MJD Hughes Limited to prepare a Business Buyers Report and Valuation.
- Become members of the Plunkett Foundation.
- Set up a legal entity known as the Stathern Community Benefit Society Limited.
- Prepared a Business Plan and a Share Offer.

The Future

Our aim is to buy the Red Lion and to undertake a complete refurbishment before reopening as a pub/restaurant and creating a centre of activity for community groups and members.

We will be opening a share offering in order to raise **£350,000** to enable us to submit an offer to the selling agent (Everard Cole). We will need to raise more in order to refurbish and reopen. In addition to the share offer, we will be applying for appropriate grants and match-funding, and we will also be crowd-funding and canvassing local businesses for financial support.

The share offer was launched at a public meeting in the Stathern War Memorial Institute on 23rd November 2021. Announcements will also be made on the website (<https://www.savetheredlionstathern.com>), via the Facebook page (www.facebook.com/redlioncommunitygroup/), and via crowd-funding website. Articles will be published in the village magazine and local press. We will engage with local radio and TV stations.

It is intended to offer the Red Lion as a tenancy, to a professional innovative candidate who will share and maintain Stathern CBS' community centric ideals, and the vision and ability to create a high-end destination pub/restaurant that will attract customers from beyond the local area. It is important to find the right person/couple to run the business. Consequently, a tenancy may not be the correct business model. This business plan has contingency to work equally well as a tenancy, management, or retail model. It is possible the final choice is candidate-led.

There are now many examples of villages that have saved their local pub by taking it into community ownership and offering different business models: either voluntary, professional management or tenancy. In all of these models the profit from the business can be invested back into the pub, or support other facilities and activities in the local community. For shareholders it provides a social reward knowing that the investment is being put to worthwhile causes as well as offering a financial reward in the form of interest.

The Plunkett Foundation website currently shows a total of 133 community owned pubs, only one of which had to close in 2021.

Vision Statement

Our vision for the Red Lion is to create a warm and welcoming community hub, that will provide an innovative and outstanding place in which to socialise and celebrate village life.

Our aims are to:

Be warm and welcoming by

- providing a relaxed and comfortable atmosphere for all
- being family-friendly and socially-inclusive
- welcoming both local residents and visitors from outside the village
- hosting local events
- offering a clean and fresh ambience

Be a community hub offering

- a heart-of-the-community pub restaurant catering for a variety of stakeholders
- space and facilities for the community throughout the day
- continuous improvement on its community provision
- proactive plans to draw in the community.

Provide an innovative and outstanding venue with

- an interesting, modern and high-quality menu
- a wide range of quality wines and beers, including more unusual offerings
- the use of local produce where possible
- a professional approach in everything that is offered.

Business Model

The Stathern Community Benefit Society Limited

The best way of achieving our aims for the Red Lion is to buy it and operate it as a high-end pub/restaurant and a community-centric venue. The Stathern Community Benefit Society Limited (SCBS) has been established as a legal entity to facilitate the purchase and running of the business. Funding will be raised, through a share offer, to enable purchase of the pub for the village and members of the society. The benefits of this are:

- The local community would own the building in perpetuity and have a stake in its success
- People will feel more committed to the facilities offered by a community owned business
- Setting up a co-operative will allow us to attract grant aid
- Purchasing shares may provide a modest annual return by way of interest payable to members
- Local people will have a stake in its success

Future Options

Given that the proposed business is viable (see financial forecasts), additional services could be added later at low risk. Suggestions include:

- Open exhibitions for local artists
- Luncheon club/cookery demonstrations
- Production and sale of Red Lion branded 'food cupboard essentials' – Cooking ingredients, table sauces and condiments.
- Meal kits
- Event catering
- Development of a micro-brewery
- Meals on wheels service to our elderly and infirm villagers
- School meals
- Internet Café

These opportunities are limited only by the space available and demand for the service and others will continue to be explored by the management team.

Share Offer

As a means of raising the required capital, shares in the project will be issued by SCBS. Unlike shares on the stock market these shares cannot increase in value so trading in the shares is solely between SCBS and the individual investor. It should be noted that shares can decrease in value if SCBS were to dissolve but this may be mitigated by a large part of the investment being locked into the capital of the building itself.

The cost of each share is £50 and the minimum shareholding is 1 share (£50). There is a legal maximum investment allowed of £100,000 per member (equivalent to 2000 shares). Owning a share automatically entitles the member to having a say in how the community benefit society is managed. Under the rules of the society, each member would retain one vote no matter how many shares they own. Shares bought for children will not confer membership or voting rights until they are 16.

While dividends are not paid on share investment, society rules do allow an annual interest payment. This is generally at a more attractive level of 3% - 5%.

Investment, subject to the society rules, is tied up for an initial period of 3 years after which withdrawals will be at the discretion of the management committee having regard to the long-term interests of the Society. The rules ensure the purposes of SCBS are not undermined by having too much taken out at one time.

Building Purchase and Renovation

The sale of the Red Lion is being managed through commercial property consultants Everard Cole. No indication of purchase price, or what the current owner would consider an acceptable offer, is available. Offers for the freehold property are invited.

The Business and Valuation report from MJD Hughes Limited indicates the market value of the property in its current state is **£350,000**. Our share offering minimum target of **£350,000**, supported by loans and grants. will enable us to purchase the building and pay all legal fees, stamp duty and insurance. (VAT may be additional to this but should be reclaimable).

The maximum target is **£600,000** and this will enable us to buy the premises, make them safe, complete a full programme of works and refurbishment that will make the property attractive to visitors and work well for its intended uses. This sum would also provide working capital to cover the first three months of operation.

The costs for major renovations are, of necessity, only estimates at this stage. We have included a 20% contingency.

We are confident that under community ownership and with the residents' support that we can create a successful and sustainable business.

Potential Funding

In addition to the share offer we are exploring additional funding opportunities through grants and possibly loans. Once we own the building, we will be able to apply for additional financial help in the form of grants and loans.

Marketing Plan

The marketing plan for the Red Lion is based on three fundamental aims:

1. To attract new and old customers to our facilities (building the customer base)
2. To increase the frequency with which customers use the facilities (building customer loyalty)
3. To increase the value of each visit made (building customer value).

The target market segments that we hope to attract are:

- Local people (families, young and older people) – from Stathern and the wider area.
- Tourists, including those staying in holiday accommodation locally.
- Day visitors to the area, particularly walkers and cyclists.
- Local towns – driving out for a high-end dining experience.

Increasing the Number of Customers

Through our share offer and communication of our plan we aim to build community interest and investment in the Red Lion. The investment of shareholders provides a personal connection and interest between the community and our aims to make the Red Lion best for beer, best for food, and best for families. An extensive outward facing marketing campaign incorporating all forms of media (print, social media, word of mouth) will raise the profile of the Red Lion. Marketing emails directly to a maintained distribution list of those who have expressed an interest in being kept informed about the project.

The population of Stathern continues to change and we will ensure that the 'new resident's pack' sent to all sold properties highlights the community-led ownership of the pub. From time to time we will release a new share holder offer so new residents also have an opportunity to become members of the Stathern CBS and own a stake in their local community pub.

We will seek to work with local businesses, groups and clubs to raise awareness of the project amongst their customers, users and visitors. This will be done through leaflets / posters within local businesses, and through giving talks and presentations to local groups. The local school, adjacent to the Red Lion, offers an important marketing channel to engage parents picking up and dropping off children.

Increasing the Frequency of Visits

The use of social WIFI, smart phone app-based loyalty and targeted online marketing provides opportunities to harness this community interest and develop retention and loyalty schemes through linked benefits and electronic advertising. We will work with our independent tenant to identify and develop options and may provide additional funding for specific initiatives. For example, we would like to see an annual event or offer for shareholders.

Once the quality of food and drink has stabilised, we aim to augment that with specific marketing campaigns such as Facebook geomarketing (marketing targeted at very specific geographical areas) and targeted offers to shareholders and Stathern residents to generate interest in the new offer.

Smart app-based loyalty options such as ‘meal miles’ will be explored to boost retention of the initial customer drive.

Presentation, manner, and professionalism of staff is paramount. Favourable terms and conditions will be offered to attract the best staff and ongoing training will be provided to ensure they provide a great customer experience.

We will invest in the fabric of the building on an ongoing basis to provide the kind of environment that our customers will expect.

Regular changes to the food and drink menu will retain customer interest.

A series of activities and events aimed at engaging all sections of the local community, as well as visitors will be developed. We will seek advice from agencies such as Age UK about possible classes and clubs that could be run.

We intend to support events such as community or charity fund raising events.

We will encourage customers to review us on platforms such as TripAdvisor allowing the Red Lion management to respond to any negative reviews / comments quickly and directly, showing the wider potential customer base that we are engaged and committed to improving services.

Increasing the Value of Each Visit

We will seek to achieve awards for the quality of our food and service. For example, Michelin, AA, Good Food Guide, and local awards.

We will encourage longer dwell time through eye catching food menus; the provision of wi-fi; newspapers; books; and providing a comfortable and relaxed environment,

Management and Operation

The community asset will be owned by Stathern Community Benefit Society. The CBS legal model has been chosen because it emphasises the social benefit of the project, whilst giving the management committee and shareholders the protection of limited liability. It guarantees an ‘asset lock’ that ensures the assets of the society will be used for the benefit of the community and cannot be disposed of for the personal profit of its members. Stathern CBS rules have been approved by the Financial Conduct Authority and are available separately.

Management and Operation of the Stathern CBS

The strategic management of the venue will be determined by the Stathern CBS which has been set up specifically for this purpose. Our intention is to establish a broad membership drawn from across the local community through the purchase of shares. The Members (shareholders) will elect a management committee at its Annual General Meeting.

Day to Day Operational Model

The Stathern CBS have identified and considered three possible operating models for the future running of the Red Lion: Tenant(s), Manager(s) or Retail Partner(s). There are pros and cons for each model.

Tenants take control of the pub from day one, they have full financial and operational responsibility for the Red Lion's day to day running and success. The CBS has considered that rather than a standard pub tenant/landlord agreement, there will need to be the addition of clauses in the agreement that bind the tenant to the Stathern CBS' aspiration for the style of the pub/restaurant and that of providing a hub for community activities.

Managers will be subject to direction applied by the CBS. They are salaried, have a sales, expense and profit budget to achieve. Managers potentially need greater support of an experienced pub/restaurant operator to oversee their performance and offer support.

A Retail Partner will keep a significant proportion of gross sales and be totally responsible for all financial, personnel and stock controls. The definition of this model and a comprehensive contract will be required.

For the purposes of our Business Plan our preferred option is to follow an independent tenant option. We also have contingency to fall back on either of the other models should one or the other become more advantageous than a tenancy, or a suitable tenant cannot be found.

The community, through the shareholders and their appointed Management Committee, will be involved in setting the strategic direction for all aspects of the businesses.

Community Benefit

Whilst the operation of the pub will be managed by our independent tenant, our wider community benefit aspirations include the pub providing support for wider community events, such as those organised by the Community Benefit Society, Parish Council, Friends of Stathern School, Stathern Recreation Association, and St Guthlac's Church. We would expect support for at least 4 such events during the year. The pub itself should be a hub and we expect the pub to organise a programme of events such as beer festival and barbeques that complement those of the wider community. Our management committee will provide an interface for the tenant to co-ordinate events and communicate with the community.

Financials

Assumptions

Financial forecasting for a new business is inevitably speculative. The previous incarnation of the pub closed for reasons unknown to us, but which we believe are not likely to have any impact on our future ownership and management. There are no meaningful financial figures available from that era for us to use.

The independent Business Buyer and Market Appraisal Valuation Report concluded, "From information available in the public domain, our investigations and meeting with the Red Lion Community Group, and our experience of over 30 years in the licensed trade it is possible to see there is a sustainable business for the pub..."

Earlier in this document there is evidence of how the new business will be run and marketed and how the benefits of capital investment and community ownership will enable the business to run successfully. Under community ownership we will not have to finance significant levels of debt that are often associated with a failing business under private ownership.

Acquisition and renovation costs

Stathern Community Benefit Society have yet to negotiate a purchase price for the freehold of the Red Lion and land. Until such negotiations are complete, cost of acquisition will be based on the valuation given in the MJD Hughes Business Buyers and Market Appraisal Valuation Report, plus an element of contingency.

Acquisition costs

| Item | Cost (£) | Notes |
|------------------------------------------|----------------|-------------------------------------------|
| Cost of Purchase | 350,000 | Assumption based on valuation |
| Fees (solicitors, tax advisors, surveys) | 10,000 | |
| Stamp Duty | 7,000 | |
| Cost of loans during vacancy | 0 | Assumption is that a loan is not required |
| Utilities and bills during vacancy | 1,000 | Based on 3 months vacancy |
| Contingency | 10,000 | |
| Total | 378,000 | |

The costs for major renovations are, of necessity, only estimates at this stage. We have included a 20% contingency for refurbishments to the building.

Renovation Costs

| Item | Cost (£) |
|------------------------------------------------------|----------------|
| Building Repairs – External and Internal * | 25,000 |
| General Maintenance | 5,000 |
| Landscaping Garden Areas and Car Park | 4,000 |
| Refit Cellar and pipelines * | 20,000 |
| Refit Kitchen * | 25,000 |
| Test repair/update plumbing & heating | 8,000 |
| Test repair/renew electrical cabling | 8,000 |
| Refurbish upstairs accommodation * | 20,000 |
| Internal Decoration Pub and upstairs accommodation * | 5,000 |
| External Decoration * | 20,000 |
| Furnish the Pub | 25,000 |
| Stock the pub and kitchen for 3 months | 15,000 |
| Day-to-day working capital for the first 3 months | 30,000 |
| * Contingency for refurbishments | 23,000 |
| Total | 233,000 |

Funding Requirements

A summary of the Costs and proposed sources of funding is given below:

| Item | Cost (£) |
|-------------------|----------------|
| Acquisition Costs | 378,000 |
| Renovation Costs | 233,000 |
| Total | 611,000 |

Over and above the share offer we are identifying and exploring additional funding opportunities through grants and possibly loans. Once we own the building, we will be able to apply for additional financial help in the form of grants and loans. If the share offer does not raise sufficient capital to purchase the building, then a further share offer or alternative borrowing would need to be considered.

Profit and Loss

The profitability of the tenant's own pub business is their affair and not something Stathern CBS would seek to manage. However, it is the aim of Stathern CBS to improve the start point for any tenant, so they have a better chance of running a profitable business.

There will be two key advantages made for the tenant.

Firstly, a lower rental, sufficient to cover the cost of any Stathern CBS loan repayments plus some return, but lower than typical brewery charges to tenants.

Secondly, the pub will be a free house, which allows the tenant to sell beer at a higher margin.

These 2 factors should improve the margin on revenue by approx. 20%. Enough to turn a business from marginal to profitable based on sector standard turnover levels.

With the other changes planned, the top line revenue should improve further, which should raise profits to a level that provides a sustainable and attractive income for a high-quality tenant.

Operating Costs and Revenue Streams

Our proposal is to let the property to a tenant who would then be responsible for the operation of the business. To further mitigate the operational risk born by Stathern CBS the tenancy agreement will be on the basis of a full repairing and insuring lease. This will mean that the only liability born by Stathern CBS will be the interest and loan repayments on any borrowing undertaken as part of the capital purchase and for any improvement works undertaken.

All revenues received by Stathern CBS are expected to be in the form of quarterly rental payments made by the tenant.

Predicted Tenant Trading Account

PROJECTION

PLANNING INTO THE FUTURE

PUB NAME

Red Lion

5 year projections

PUB LOCATION

Stathem

Projections

Retail Prices Index will be (%) (Impacts Rent)

1.0%

1.0%

1.0%

1.0%

Sales will change by (e.g.: +2% or -1%)

5.0%

2.0%

2.5%

2.5%

Expenses will change by (e.g.: +1% or -4%)

2.5%

2.5%

2.0%

2.0%

| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | % |
|-------------------------------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|---------------|
| | £ | £ | £ | £ | £ | |
| SALES | (ex Vat) | (ex Vat) | (ex Vat) | (ex Vat) | (ex Vat) | |
| Total Drinks Sales | 109,500 | 114,975 | 117,275 | 120,206 | 123,212 | 29.8% |
| Food | 255,500 | 268,275 | 273,641 | 280,482 | 287,494 | 74.6% |
| Accommodation | 0 | 0 | 0 | 0 | 0 | 0.0% |
| Other Sales | 2,080 | 2,184 | 2,228 | 2,283 | 2,340 | 0.6% |
| TOTAL SALES | 367,080 | 385,434 | 393,143 | 402,971 | 413,046 | |
| GROSS PROFIT | | | | | | % profit |
| Total Drinks | 67,890 | 71,285 | 72,710 | 74,528 | 76,391 | 62.0% |
| Food | 178,850 | 187,793 | 191,548 | 196,337 | 201,245 | 70.0% |
| Accommodation | 0 | 0 | 0 | 0 | 0 | 0.0% |
| Other Sales | 2,080 | 2,184 | 2,228 | 2,283 | 2,340 | 100.0% |
| Net Machine Income | 1,500 | 1,500 | 1,500 | 1,500 | 1,500 | 100.0% |
| TOTAL GROSS PROFIT | 250,320 | 262,761 | 267,986 | 274,648 | 281,477 | |
| EXPENSES | | | | | | % of Turnover |
| Wages & Salaries inc NI | 121,000 | 124,025 | 127,126 | 129,668 | 132,262 | 32.0% |
| Business Rates | 13,600 | 13,940 | 14,289 | 14,574 | 14,866 | 3.6% |
| Water Rates | 1,900 | 1,948 | 1,996 | 2,036 | 2,077 | 0.5% |
| Heat / Light / Power | 23,000 | 23,575 | 24,164 | 24,648 | 25,141 | 6.1% |
| Repairs & Maintenance | 7,300 | 7,483 | 7,670 | 7,823 | 7,979 | 1.9% |
| Gardening Expenses | 4,000 | 4,100 | 4,203 | 4,287 | 4,372 | 1.1% |
| Insurance & MSA | 1,500 | 1,538 | 1,576 | 1,607 | 1,640 | 0.4% |
| Licensing | 300 | 308 | 315 | 321 | 328 | 0.1% |
| Tenant Insurance | 1,500 | 1,538 | 1,576 | 1,607 | 1,640 | 0.4% |
| Sky & PRS | 750 | 769 | 788 | 804 | 820 | 0.2% |
| Entertainment | 0 | 0 | 0 | 0 | 0 | 0.0% |
| Marketing, Promotional & Advertising | 4,500 | 4,613 | 4,728 | 4,822 | 4,919 | 1.2% |
| Print / Post & Stationary | 800 | 820 | 841 | 857 | 874 | 0.2% |
| Telephone | 400 | 410 | 420 | 429 | 437 | 0.1% |
| Travel & Car | 1,000 | 1,025 | 1,051 | 1,072 | 1,093 | 0.3% |
| Cleaning Materials & Waste disposal | 3,500 | 3,588 | 3,677 | 3,751 | 3,826 | 0.9% |
| Accountant / Stock taker / Prof fees | 2,000 | 2,050 | 2,101 | 2,143 | 2,186 | 0.5% |
| Bank Charges | 200 | 205 | 210 | 214 | 219 | 0.1% |
| Equipment Hire | 0 | 0 | 0 | 0 | 0 | 0.0% |
| Sundries & Consumables | 6,000 | 6,150 | 6,304 | 6,430 | 6,558 | 1.6% |
| Drinks Gas | 734 | 752 | 771 | 787 | 802 | 0.2% |
| TOTAL EXPENSES | 193,984 | 198,834 | 203,804 | 207,881 | 212,038 | 51.3% |
| NET OPERATING PROFIT, BEFORE RENT | 56,336 | 63,927 | 64,182 | 66,768 | 69,439 | |
| (Inc Machine Income) | | | | | | |
| RENT | 37,000 | 37,370 | 37,744 | 38,121 | 38,502 | |
| NET OPERATING PROFIT, AFTER RENT, BEFORE ADJUSTMENTS | 19,336 | 26,557 | 26,438 | 28,647 | 30,937 | |
| (Inc Machine Income) | | | | | | |
| BREAK EVEN SALES | 338,595 | 346,296 | 358,956 | 371,815 | 385,190 | |

Share Liquidity

Shares can only be sold back to Stathern CBS after a lock-in of 3 years. This ensures the business has an initial period of financial stability and is an HMRC requirement for any tax rebate schemes that may apply. Three months' written notice is required and the management committee have a duty to control withdrawals. If there are insufficient funds or new investors to purchase the shares, withdrawal will be delayed. Based on the above profit and loss predictions it is anticipated that share capital can be refunded in year 3 at a rate of 5% assuming a 3% new share capital investment.

| Share Capital Liquidity | | | | | |
|--------------------------------|--------|--------|--------|--------|---------------------------|
| | Year 0 | Year 3 | Year 4 | Year 5 | |
| Opening Balance | | 300000 | 294000 | 288120 | |
| New Share Capital Issued | 300000 | 9000 | 8820 | 8644 | Assume 3% Investment Rate |
| Share Capital Withdrawn | 0 | 15000 | 14700 | 14406 | Assume 5% Withdrawal Rate |
| Closing Balance | 300000 | 294000 | 288120 | 282358 | |

Risk Analysis

This section identifies the key risks associated with the project. The risks are assessed according to the likelihood of occurrence and level of impact on the project should they occur.

Key risks to the project

- Share capital raised does not meet minimum target
- Refurbishment costs exceed budget
- Insufficient customers to cover operational costs
- Departure of members / loss of key skills within the management committee
- Unforeseen operating costs or increases in costs
- The sudden departure of the management couple

The following chart plots the likelihood of occurrence and impact of each risk:

| | | Likelihood | | |
|--------|--------|-----------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------|-----------------------------------------------------------------------|
| | | Low | Medium | High |
| Impact | High | Low Risk Unforeseen operating costs or increases in costs The sudden departure of the tenant | Medium Risk Insufficient customers to cover operational costs | High Risk Share capital raised does not meet minimum target |
| | Medium | Low Risk | Medium Risk | Medium Risk Refurbishment costs exceed budget |
| | Low | Low Risk | Low Risk Departure of members / loss of key skills | Low Risk |

Share capital raised does not meet minimum target: The initial risk to the project is the ability to raise the capital required to purchase and develop the Red Lion so that it can be sustainable and successful. Based on the share funding raised in other similar and smaller communities the management group considers the share capital target realistic. This capital may also be used to unlock further capital through the Plunkett Foundation. Stathern CBS will have to apply for this funding and might not be successful. If not successful then a further share offer or alternative borrowing would need to be considered. If we are unable to raise sufficient capital then monies will be returned to investors. The impact is high and it is likely that the local community will lose their last opportunity to retain the pub, car park, and garden.

The risk is considered to be high.

Refurbishment costs exceed budget: If costs exceed the minimum budget, refurbishment will proceed in line with available funding and consultation with shareholders.

Essential works will be prioritised and more desirable activities can progress as money becomes available. Once we have purchased the building, we will have better access to a number of grants which should enable refurbishment to be completed in stages.

The risk is considered to be medium.

Insufficient customers to cover operational costs: If the re-opened pub/restaurant fails to provide the anticipated revenue income, the impact would be high. However, the consultation with the community shows that a significant proportion of the local community would support the pub. Our marketing plan and vision for the business are designed to attract customers from the wider area. The Business Buyers and Market Appraisal Valuation Report, based on information in the public domain and 30 years' experience in the sector, predicts a sustainable business for the pub.

Overall, the risk is considered to be medium.

Departure of members / key skills within the management committee: Although it is considered likely that the membership of the management committee will change, it is anticipated that if the project is successful with the share offering other people, with key skills, will come forward to be members of the team and ensure an adequate range of skills, knowledge and experience is maintained.

The risk is considered to be low.

Unforeseen operating costs or increases in costs: Significant increases in operating costs would have a high impact. However, as all assumptions have been based on industry standards and our forecasts are considered to be robust.

The risk is considered to be low.

Sudden departure of the tenant: The tenancy will be for a reasonable amount of time to avoid regular change. The tenancy agreement will have terms to encourage loyalty / longevity. We will retain a personal licence holder within the management team and ensure that at least one member of staff is sufficiently trained to continue running the bar in the absence of a tenant. The impact is considered to be high but likelihood low.

Overall risk is considered to be low.