

## **Half Year Shareholder Update, December 2018**

### **Introduction**

This update will be supplemented by a video posted to the new investor section at [www.blacksheep.co.uk](http://www.blacksheep.co.uk)

At the heart of the revised Black Sheep strategy, announced at September's AGM, is that we are at a crossroads in the Company's history.

If anyone has any doubt about that, I start this half year update with two momentous announcements.

### **Black Sheep has acquired York Brewery out of administration**

You may have noticed in the press that on Friday, 21<sup>st</sup> December, we completed the purchase of York Brewery, its brewery, brands, trademarks, and four leased outlets. We have acquired a business with a £2.1m turnover, which will be earnings enhancing.

York Brewery and their sister company, Mitchell's of Lancaster, entered administration earlier this month and York has been high on our target list for some time, given that they operate a number of pubs in York and Leeds as well as brewing.

Exploratory talks earlier this year with the parent company, Mitchells Brewers Ltd, we believe, allowed us to beat longer established competition to the deal which represents Black Sheep's first ever acquisition.

The acquisition was funded from the Company's existing banking facilities. Given the Board's stated strategy of developing a retail estate, a review of the long-term funding and capital structure of the business is under way and will hopefully be completed in the early part of 2019.

All York Brewery staff transfer to the Black Sheep team and we look forward to sharing more details of this acquisition in the New Year.

### **Packaging Project Update**

Rob Theakston shared details of the work we have done on packaging line development at the AGM. I am delighted that this is now supported by a credit backed offer from RBS, a significant vote of confidence from a high street bank in both Black Sheep and the strategy the Board are pursuing.

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December 2018

Planning for this £2.0m project is very nearly complete with work due to start early in 2019.

In the six months to September, we spent £820k with third parties on packaging our products, an increase of 55% compared to FY 17/18. This is a consequence of the changing patterns of consumption from on trade to off trade and is a significant drain on the performance of the brewing business.

As explained at the AGM, this packaging project has a fast payback on completion of the project. By early 2020, we will have the capability to bottle, can, standard keg, mini-keg and one trip export keg for our burgeoning range as well as generating income from third parties.

## **Performance**

### ***Headline***

The first six months vindicates the strategy we outlined at the AGM and which received so much support from shareholders.

I am pleased to report an underlying, unaudited operating EBITDA profit (the Board's preferred measure of profit performance), before packaging costs, of £1,200k (17/18 £1,027k) in the first six months. Actual underlying EBITDA for H1 was £380k (17/18 £497k), a drop of 39% which when compared to FY 17/18 is broken down as follows:

- An increase in underlying EBITDA profit of £173k
- A £290k increase in third party packaging costs
- £36k advisory and feasibility study costs of developing our major strategic moves into packaging and retail
- A one-off cost of £44k for dealing with allegations made by David Nabarro in the lead up to the AGM

Net cash generated in H1 was £115k versus a £305k cash outflow in H1 17/18.

In short, whilst profit fell year-on-year, the underlying performance of the business is strong, with a great deal of endeavour going into setting Black Sheep on course to long term sustainable growth.

A more detailed explanation is set out below.

## **Trading performance**

With the cask ale market still in 7% decline (*Source BBPA market data*), Black Sheep continued to grow its share with year-on-year growth in our most profitable local direct market, and through our refurbished visitor centre.

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Contn./3  
December 2018

Sales to the Off Trade remain in good growth led by new listings for our lager, 54 Degrees North, in major multiple supermarket retailers and the success of other lines – including Craft beers.

In the first half of the year, approaching 25% of what Black Sheep brewed hadn't been thought of just two years ago.

***Significant unplanned expenditure***

In the weeks before the AGM, Mr David Nabarro, a shareholder of just 12 months standing in his own right, made allegations to me in writing about the conduct of former Board members. The costs associated with the resulting investigation – relating specifically to historic conversations with a third party – saw approaching £44,000 of shareholders' money spent on professional advice surrounding this issue.

As you will recall, Paul Nolan and I found the allegations to be without foundation.

This episode has been both costly and diversionary.

The Board is now focussed on delivering the plan you overwhelmingly supported in September.

**Other issues**

Black Sheep has been at the forefront of calls to reform the Small Brewer Relief Scheme which sees micro brewers pay beer duty at a fraction of the rate we do. Given our first half beer duty bill was £3.5m, reform could have a material benefit to us.

As part of the review of this scheme announced by the Chancellor in the recent Budget, I will be seeking to use trade and political contacts to help deliver reform which incentivises growth whilst being politically achievable in a most uncertain world.

In summary, there is lots going on and plenty to keep us busy in 2019!

The Board and the whole team at Black Sheep toast your health this Christmas and thank you for your continued support.

A handwritten signature in black ink, appearing to read 'Andy Slee', with a horizontal line underneath it.

Andy Slee  
Chairman