

February 2019

Dear Shareholder

### **Trading and Shareholder Update**

At the AGM in September, I promised shareholders that 2018/19 would be a pivotal year in the development of Black Sheep and so it is proving to be.

Following on from my pre-Christmas update, I am pleased to be able to advise on further positive progress for the business.

### **Further potential acquisition**

- I am delighted to announce that Black Sheep are in detailed discussions with a view to agreeing terms to buy another small chain of Yorkshire pubs, subject to property due diligence, which is ongoing.
- Details remain confidential at this stage, but the potential acquisition presents a significant opportunity for us, with a vendor who is happy to work constructively with us to achieve a mutually beneficial outcome.
- We continue to have other discussions regarding additional potential acquisitions.

### **Funding**

- We expect that the new pub group will be purchased with a mixture of debt and equity. As set out in my December update, a review of the long-term funding and capital structure required by the business to support its growth strategy is under way and we will make further announcements about this in due course, but the Board remains focussed on delivering long- term shareholder value with a sustainable level of debt in the medium term.

### **York Brewery acquisition**

- Completion of this deal, in such a short period of time, was only possible thanks to the prior work we had done on York Brewery earlier in 2018, coupled with the resourcefulness and hard work of the Black Sheep finance team in the run up to Christmas.
- Over the Christmas period, York Brewery traded slightly ahead of our expectations, with lots of local goodwill that a Yorkshire company had saved the Brewery, some iconic local pub sites and a number of local jobs.
- For the record, the sites Black Sheep now run, in addition to the Visitor Centre in Masham are:
  - **The Last Drop Inn**, Colliergate, York, YO1 8BN.
  - **The Three Legged Mare**, High Petergate, York, YO1 7EN.
  - **The York Brewery Visitor Centre**, Toft Green, York, YO1 6JT.
  - **Mr Foleys**, The Headrow, Leeds, LS1 5RG.
- As part of our property due diligence we handed one other property back to the landlord as it was not commercial to run on the terms demanded.

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- Also, we have acquired, along with all the trademarks and beer brands, an additional brewery, located within the York City walls, which brews 4,000 barrels per annum, which it sells predominantly locally.
- We will be making some basic investments to the new sites in the short term, ahead of bigger investment later this year. All of the sites are well located and have potential. In order to maximise any future investment, we want to make sure we understand trading patterns and opportunities more fully before spending larger sums.
- To help us operate this new venture for Black Sheep, we have brought in experienced pub professionals to run and integrate the pubs into the newly formed BSB Retail Limited, a wholly owned subsidiary of The Black Sheep Brewery plc.
- The Executive team is working on other elements of integration, such as how the two beer brand portfolios will sit together and how best we present these to local and national customers. This process is being helped by Charlene Lyons, one of our non-executive directors, utilising her extensive business integration experience.

### Core business

- Gross margin per barrel continued to grow over the Christmas period.
- Black Sheep gained market share over the Christmas period, with turnover slightly down on prior year, although up year to date.
- Although the mix of Black Sheep's business has evolved dramatically over recent years, the market remains tough with the traditional cask beer market trending at -8% against prior year (*Source: BBPA market statistics*).

### Packaging

- In addition to the funding offer which we have received to finance this project, we have also applied for some grant funding; a condition of which is that the project cannot commence until this process is completed. Whilst this will mean a very slight delay in getting started, the Board believes that it is prudent, and in the best interests of all shareholders, to take advantage of any potential grant funding for which we are able to qualify. We remain poised to start on site as soon as we can.

This update is supported by a video interview in the investor section of the Black Sheep website at [www.blacksheepbrewery.com/investors](http://www.blacksheepbrewery.com/investors)

**Having increased the frequency of communication with shareholders, we are conscious of escalating postage costs. Therefore, after the September 2019 AGM, letters will be emailed to our shareholder database and posted on the Investor page of our website. The Annual Report & Accounts and proxy forms will continue to be sent out by post. If you have not already sent us your email address but would like to receive shareholder letters in this form, please email us at [shareholders@blacksheep.co.uk](mailto:shareholders@blacksheep.co.uk).**

Thank you again for your continued support.



Andy Slee  
Chairman  
Black Sheep Brewery