



THE BLACK SHEEP BREWERY PLC

RESPONSES TO SHAREHOLDER QUESTIONS ON THE ACCOUNTS
AND SHAREHOLDERS AGM PRESENTATION 2020



BORN & BRED IN MASHAM, YORKSHIRE

Dear shareholders

Firstly, thank you to those who have written in appreciation, thanking the team for their efforts in keeping Black Sheep Brewery trading during this most trying time. Your support and good wishes are appreciated by us all.

You have probably seen in the press that we have also now implemented a redundancy programme impacting both the Brewery and Retail businesses. This is particularly disappointing but absolutely necessary due to current uncertainties in the brewing and hospitality sectors. This allows us to reset our overhead base to a level that matches our current forecasts. I would like once again to thank all of our employees for their work on behalf of the company during these unprecedented times.

To those of you that emailed your questions, following receipt of the Report and Accounts and the shareholder presentation we are pleased to provide answers to the questions asked in the following Q&A. Please note that we are not able to provide commercially sensitive information which was requested in certain questions and I would emphasise that we are unable to provide any further information over and above that provided below.

Many thanks for your continued support of Black Sheep Brewery, it is very much appreciated. I look forward to sharing a beer with all at a traditional AGM, should regulations allow, next summer. For those of you intending to vote please return the Form of Proxy to the Registrar by 13 October 2020. Results of the voting on the resolutions will be posted on the web site following the AGM.

Yours sincerely,

Andy Slee
Chairman

A) Packaging line

Q 1. When will the packaging line be fully operational?

Parts of the packaging line are already operational and we anticipate that the rest of the filter, keg and bottling plant will be operational by December 2020. The extent of the canning line requirement is currently under review and we expect to place an equipment order before Christmas.

Q 2. Will all products be packaged on site immediately?

The short answer is no. The site is being commissioned and we will need to obtain any necessary certifications before we produce product for sale by our customers. We will be bottling in the New Year and have already started discussions with our third-party packagers about timescales and products will be packaged on site as soon as we are able to do so.

Q3. Why was the project delayed?

This is a complex project. As well as specifying equipment, we have had to complete significant civil works, as noted in the presentation. Since obtaining equity funding for aspects of the project we have tried to move ahead as quickly as possible. However, Coronavirus has caused no end of delays largely relating to suppliers ability to build and ship equipment and to our contractors ability to work on site at Masham. A small team of Black Sheep employees, led by Rob Theakston, rolled their sleeves up and made incredible progress during lockdown and the fact they did, has made sure the December 2020 deadline will be achieved (subject of course to final deliveries and commissioning not being further delayed outside of our control).

Q4. Are you able to confirm which products will be packaged at Masham and how much the cost savings will be?

In time we expect to move the vast majority of our filtering, bottling and kegging requirement to Masham. This will be done with the support of our existing suppliers to ensure a smooth transition.

The logistics of our canning requirements is more complex than our bottling requirements due to the sizes of runs, seasonality of orders and ongoing discussions with key customers, hence the fact we are reviewing our equipment requirements which have changed since our initial specification.

As has been disclosed in the past we spend over £1m per annum packaging our products which includes margins earned by third parties. We are not able to disclose the amount of saving we expect to earn however we anticipate a strong return which will be further discussed in next year's accounts.

Finally we plan to retain some capacity for small batch, third party packaging for other independent brewers who do not have their own facilities.

B) Operating expenses

Q1 Is it possible to provide separate accounts in the Report & Accounts for the retail business?

The report and accounts comprises a consolidation of the Brewery and Retail businesses as required by the Companies Act. Separate accounts will be filed for BSB Retail Limited by its filing deadline which is 31 March 2021. The disclosures provided in the Report and Accounts meet the Companies

Act requirements, however, we will consider whether further disclosure can be provided next year to assist shareholders.

Q2. Why did administrative expenses increase from £2.1m to £4.3m

The administrative expenses disclosed in the accounts include £2.1m relating to the Retail business. This explains virtually all of the underlying increase and, on a like for like basis (excluding exceptional costs), our operating expenses in the brewery were 11% DOWN on the previous year (all of the exceptional costs other than the aborted acquisition costs related to the Brewery).

Q3 Why has employee remuneration increased in FY20?

The increase in employee expenses is largely a result of the acquisition of further Retail sites.

Q4 Can you clarify how many retail sites are owned and where they are located

There are 5 retail sites. The Visitor Centre in Masham which most shareholders are familiar with; three sites acquired in the York Brewery transaction (Mr Foleys in Leeds; The Three Legged Mare and The Last Drop Inn both in York) and The Black Sheep Tap & Kitchen (formerly The Kith & Kin) in Chapel Allerton in Leeds.

C) BSB Retail

Q1. Are there any plans to expand retail?

At this present time, all retail expansion plans are on hold.

Q2. The acquisition of The Kith & Kin (now The Black Sheep Tap & Kitchen) has incurred significant losses – does the Board consider it a bad purchase?

The Kith & Kin lost a significant amount of money during the year. However, we purchased it at the price we did knowing it needed some investment. The property was refurbished in February, just before lockdown, and traded well and since reopening it has traded in line with expectations. In hindsight we would have done the rebranding earlier.

Q3. The aborted deal was costly – what costs were incurred?

The costs of the aborted deal were proportionate to the size of the transaction and included legal fees, costs relating to raising funding for the transaction and the cost of due diligence.

Q4. Why are 2 of your pubs still closed?

Quite simply because it is not commercially viable to open them at this time. Mr Foleys is in Leeds City Centre which has experienced a massive drop in footfall and the Last Drop in York is too small to open safely and profitably. We are currently working on plans to temporarily reopen The Last Drop for use as a Christmas pop up shop.

D) Government support/ beer duty for the brewing sector during lockdown:

Q1. Was there any support available to the Brewery during lockdown and subsequently?

As an integral part of the UK Hospitality sector that employs 3 million people in the UK, we were disappointed with the lack of specific Government support for breweries during lockdown, for example, our Visitor Centre in Marsham didn't qualify for a Hospitality Grant and unlike pubs the brewery is still liable for business rates. We were able to access government schemes such as the Coronavirus Job Retention Scheme which helped to offset operating expenses.

Q2. Is beer duty likely to increase or decrease?

We are not sure, but we know that the current level of UK Beer Duty is already the highest in Europe and results in Black Sheep paying nearly 40% of our Brewery turnover in Beer Duty alone. As a contrast, The Times recently reported that Amazon paid 2.1% of their UK turnover in UK taxes.

Black Sheep fully supports the industry "Long Live the Local" campaign, endorsed by CAMRA, which encourages anyone to write to local MPs to express their support for lower taxes for our sector. We would really appreciate your help with this via www.longlivethelocal.pub

E) Current/future investment and financing

Q1. Will debt levels be offset by the opportunity for shareholders to further invest in Black Sheep Brewery?

A huge amount of hard work went into the successful Coronavirus (CBILS) loan application. From what I understand, there are several companies in our sector who have not been so fortunate in their applications.

That said, the Board of Black Sheep is aware of the option to raise equity funding and we are grateful to a number of shareholders who indicated a willingness to increase their investment. Raising funds can be expensive, as evidenced by the costs incurred in advisor and legal fees relating to the equity raise in the year and we need to ensure that the costs of an 'open offer' which would be required if we offer all shareholders the opportunity to invest are proportionate.

Our priority at present is delivering on our commitments we made to the bank during the loan application process and to growing sales through new and existing routes to market. In particular we are fortunate that the loan has no interest payable and only £120,000 of capital repayments in the next 12 months and this provides time to focus on trading and to reflect on whether to subsequently change the capital structure.

Q2. Will there be a dividend paid this year (FY19/20)?

We can confirm no dividend will be paid this year.

F) Coronavirus:

Q1. What is the financial cost to Black Sheep of Coronavirus?

Although lockdown happened just before the end of FY20, on trade demand softened from early February and the impact of lockdown was so material it had a profound effect on last year's accounts. Many of the direct costs of the national lockdown ordered by the Prime Minister in March are included in the FY19/20 accounts, but the impacts on trading since 1 April 2020 will be reflected in the FY 20/21 accounts.

The direct costs included the cost of stock write offs, bad debts and the cost of providing replacement beer in line with the policy dictated to national accounts by global brewers.

We acted quickly and decisively to minimise the impact of lockdown and used the time constructively to develop a fit for purpose model for the future.

Q2. When will Black Sheep return to profit?

It is not appropriate to provide a forecast setting out when Black Sheep will return to profit, although we are encouraged by the fact that we are trading ahead of the bank forecasts. Government restrictions in our sector are changing daily but thankfully we are as prepared as we can be.

G) York Brewery:

Q1. Was the purchase a good one?

Yes definitely. The brands have performed in line with expectations over the last 12 months and have continued to win awards during that time and the pubs have traded well and hopefully will do so again when they fully reopen without the measures required to contain Coronavirus.

Q2. Are there any plans to brew again in York?

When we closed the Brewery site in the summer of 2019, we stated an intention to return brewing to the City. Several sites with the potential for a "Brewpub" were viewed but clearly the huge uncertainty around the hospitality sector, and our decision to put Black Sheep's retail development on hold means this is not a priority for us at present.