

The Case for the Purchase of the Royal Oak

- Immediately prior to the last meeting and indeed further back in the HOTV project, questions have been asked regarding the price and value of the RO, particularly in the current circumstances. This document outlines the discussions that have occurred and the resulting conclusion.
- The RO was valued as a business by the company MD Hughes in November 2018. Considering the potential opportunity, a value of £376,000 was estimated, based on purchase as an operating facility and the estimated potential for sales of £200K This conclusion was derived from considerable experience in the pub trade over many years
- An offer of £345,000 on the RO was made and accepted in March following the agreement which was minuted in the March meeting of the Interim Management Committee.
- At the onset of the Covid crisis it was proposed that the sale be postponed and that there should be a revaluation of the property and negotiation re-opened with Horizon Finance.
- We re-engaged with MD Hughes to discuss the value of the property. The response was that they saw no reason to reduce their original valuation since it was based on long-term trading potential, and this had not changed
- The potential for renegotiating the price consequently rested entirely on a direct approach to the mortgage lender Horizon Finance. The position was laid out in two separate calls. We were given a full hearing but there was no persuading a price reduction. As a result of the length of time that it has taken to realise our offer, Horizon had already started to look at alternative options. These options remain on the table however they do not involve maintaining the property as a Pub.
- Separately a review of the market was undertaken to determine how the value of the Royal Oak compared with other properties. A survey was made of Rural Pubs for Freehold Sale in Somerset using the site UK.businessesforsale.com. The results are displayed in Appendix A. A total of twenty-two properties were listed with the RO placed at nineteenth in terms of price.
- Furthermore, for those pubs which had published sales figures a chart showing sales/potential versus price reinforces the notion that the price being paid represents fair value See Appendix B.
- It is worth emphasising that the price of £345,000 is the basis for the business plan and was part of the share prospectus
- It is also worth bearing in mind that the market value is almost academic, since Horizon are aware that the success of the HOTV project is based on the specific acquisition of the Royal Oak. In that sense this is not an open market transaction, and we should be glad that we have been able to negotiate a fair figure.
- Based on there being no tangible change in value, an owner who sees other opportunities for development beyond the current use of the building, and that the price represents fair value, it is recommended that we proceed with the purchase of the RO with a completion date of July 31st

Other Connected Considerations

- Playing into this discussion is also the factor of delay. Loans and Grants from the Plunkett Foundation and SSEF (Somerset Social Enterprise Fund) were approved but with time limits based on a June completion. In view of the unusual circumstances a request to extend these

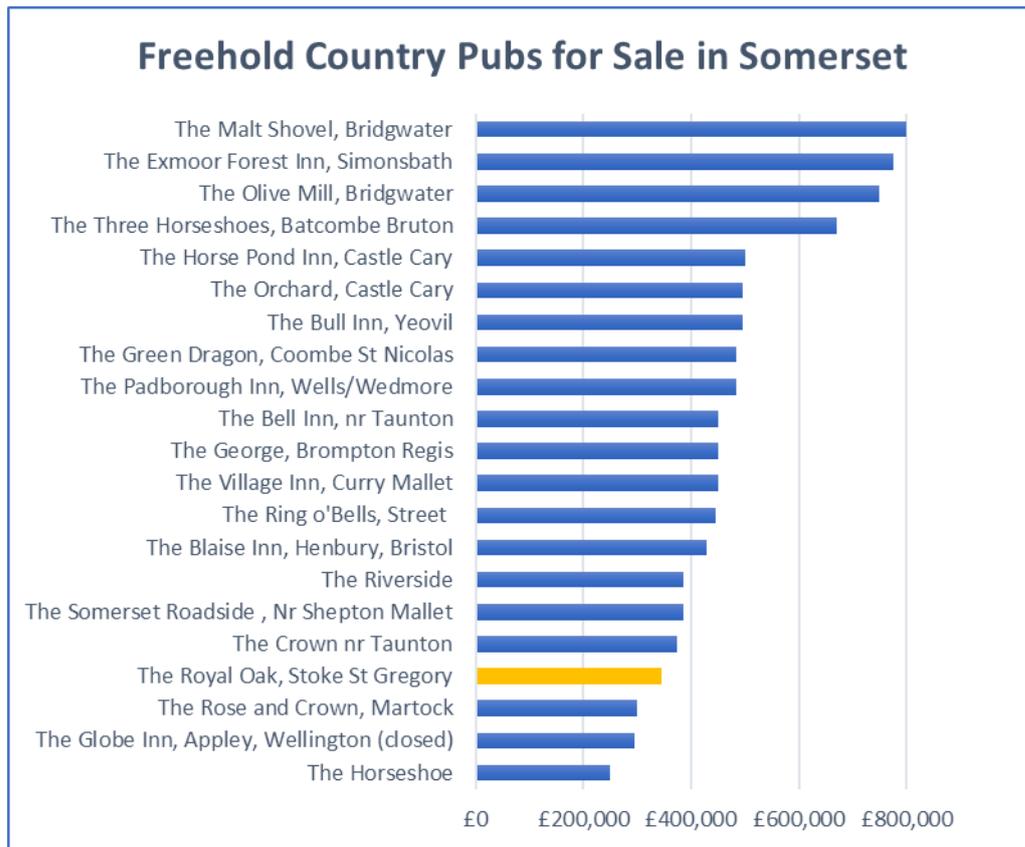
deadlines was granted, but with the expectation that a sale would be completed soon. The project could potentially be compromised by further delay.

- The shop, since passing into community hands has traded robustly, but the potential for further increases in sales are limited by the space available. This will be even more true when the village hall reopens as the kitchen is currently in constant use as a storage and preparation area.
- Nicola will leave the RO on July 31st. Should the ownership be unresolved at this date, it will become necessary to remove stock and equipment which would have otherwise been part of the sales transaction.
- There is no certainty that full pub operation will be possible when Covid restrictions are eased on 31 July, but we already have provisional plans for phasing in ways of trading on a reduced scale, so that we are generating some income as work proceeds on the pub. This in turn will enable us to make full use of the building as soon as circumstances allow.
- Completion of purchase will permit the essential work described in the business plan to be started. Owning the freehold will also make us eligible to apply for a range of additional grants with which to start paying off our loans.

Overall Summary of the Project Financial Position

- The business plan outlined a need for total financing of £471,000, made up as follows
 - Royal Oak freehold £345,000
 - Stamp duty £6,750
 - Legal Fees £6,250
 - Village Stores fixtures and fittings £19,000
 - Alterations, repairs & refurbishment £80,000
 - Stock £14,000
 - Total for acquisition £471,000
- The finance available to us is as follows
 - Membership and Donations £206,950
 - More than a Pub (Plunkett) 50/50 grant/loan £100,000
 - Somerset Social Enterprise 33/67 grant/loan £100,000
 - Triodos Bank £100,000
 - Fairfield Trust Grant £20,000
 - Total £526,000
- The cost of financing has been updated in the business plan. A short-term plan taking account of current trading conditions is being prepared. Funds that remain unused upon implementation of the business plan will potentially be set against the most expensive loans, subject to Management Committee approval.

Appendix A:



Appendix B:

