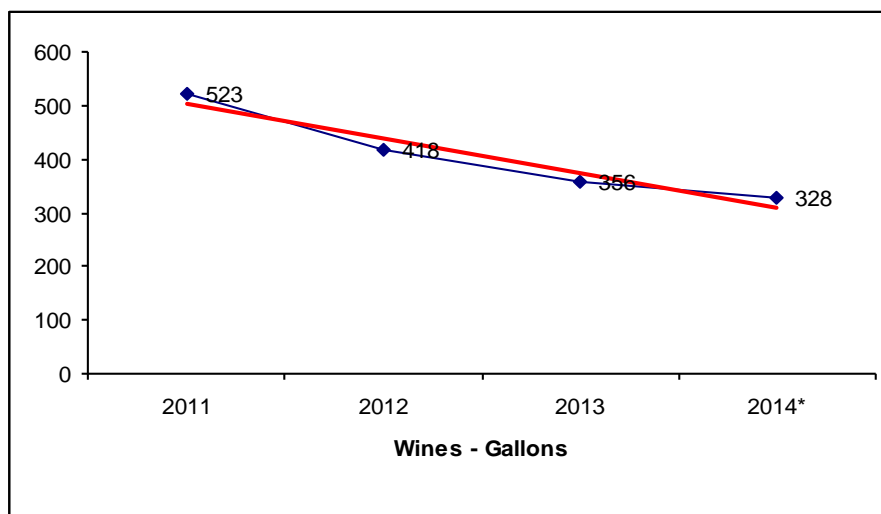
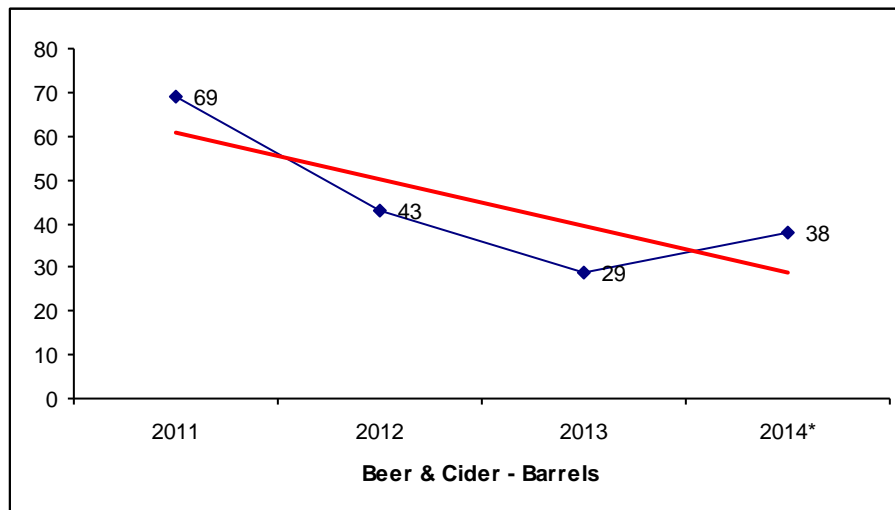
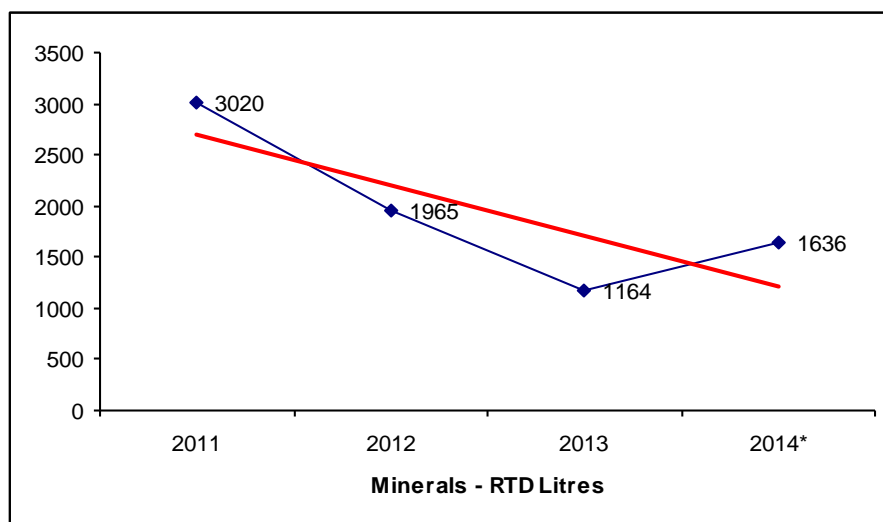
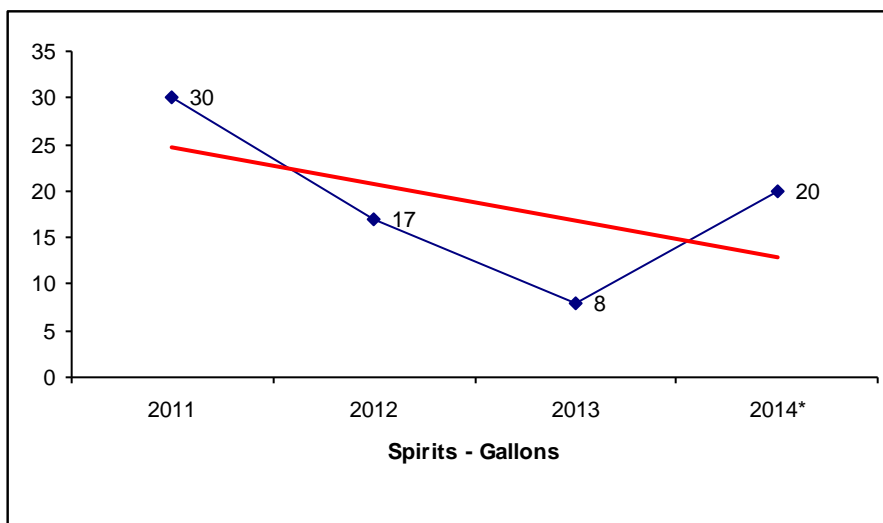
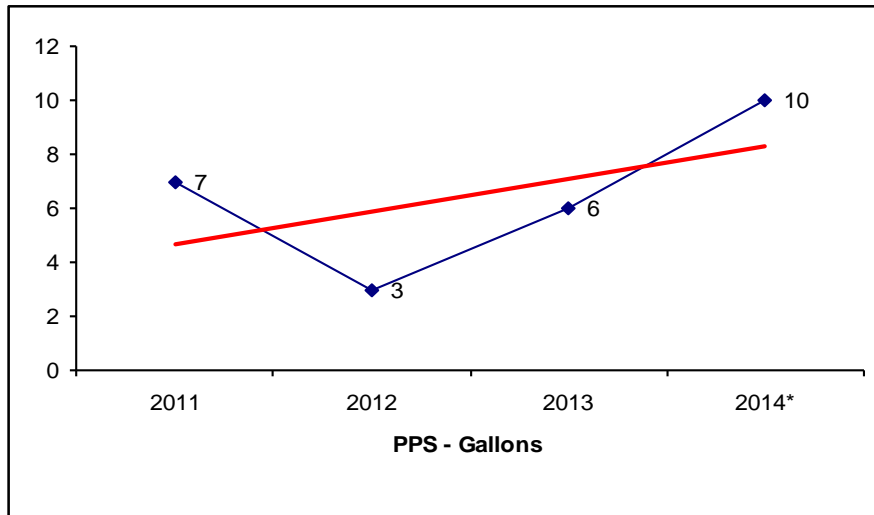


Confidential Rent Estimate Report for Mr Smith on Welcome Inn,
Anytown, The Shire, TB14 9JF

All the information contained in this report relates to documents provided by
The Very Large Pubco (VLP), to Mr Smith.

4 Year History Report







As you can see there is a marked decline in volumes all sectors:

Year	Beer/Cider Barrels	Wines Gallons	PPS Gallons	Spirits Gallons	Minerals RTD litres
2011	69	523	7	30	3020
2012	43	418	3	17	1965
2013	29	356	6	8	1164
2014*	38	328	10	20	1636
4 Year Avg	45	406	7	19	1946

(*2014 figures are straight line projections on 6 months)

Competition

There are nine other pubs within a 3km radius of the Welcome Inn, including a Toby Carvery; The Rose & Crown (14 years in CAMRA good beer guide, and 7 years as local CAMRA pub of the year); The Cock Inn (with extensive entertainment program); Bull's Head, (again extensive entertainment program); Rose & Crown, (multiple operator x 200 sites, well marketed and supported; Tally Ho, (food led); The Horns, (food led).

In consequence there is considerable local competition which would require a high end food led/entertainment driven operation to make inroads into the local market.

Energy Performance Certificate (EPC)

Despite the requirement to provide an EPC, none is attached to the particulars provided by VLP and according to VLP no current EPC is available. Given the high cost of energy, Mr Smith is advised to insist on a current EPC to assess whether energy efficiency is being optimised at the premises.

Premises Licence

The summary provided, seems to be in keeping with a rural pub and local competition:

Supply of alcohol, background music: Sun - Thurs 10.00 - 00.00
And provision of late night refreshment: Fri - Sat 10.00 - 01.00
Open to the Public: Sun - Thurs 10.00 - 00, Fri - Sat 10.00 - 01.30
Live Music Mon - Thurs 10.00 - 23.30, Fri - Sun 20.00 - 23.30

VLP have indicated there are no especially onerous restrictions to the licence save the provision of live music is only permitted indoors.



Estimated Sales

Using the VLP retail pricing matrix as a guideline to what the market will stand:

Sales Value of Consumption							
Year	£3.60 /pint Beer/Cider	£3.60/175ml Wines	£3.50/bottle PPS	£2.40/25ml Spirits	£1.70/16oz Minerals	Total Sales Incl VAT	Total Sales Ex VAT
2011	£ 71,539	£ 48,953	£ 405	£ 13,104	£ 11,293	£ 147,306	£ 122,755
2012	£ 44,582	£ 39,125	£ 174	£ 7,426	£ 11,293	£ 104,612	£ 87,176
2013	£ 30,067	£ 33,322	£ 347	£ 3,494	£ 11,293	£ 80,537	£ 67,114
2014*	£ 39,398	£ 30,701	£ 579	£ 8,736	£ 11,293	£ 90,707	£ 75,590
Inclusive VAT						£	
4 Year Avg	£ 46,397	£ 38,025	£ 296	£ 8,190	£ 11,293	104,201	£ 86,834
Exclusive VAT						£	
4 Year Avg	£ 38,664	£ 31,688	£ 246	£ 6,825	£ 9,411	86,834	

In addition the letting particulars indicate £1,000 to £2,000 per week food sales, given the continuing down turn in wet sales over the last four years and without further information relating to food sales, the author has opted to be conservative as to current sales, which should be limited to a lower figure in accordance relating to the current low quality food offering at £400 per week

Hence one can estimate total annual sales at £104,844, no other sales are indicated in the particulars (other income or AWP income).

Profitability

Once again using VLP retail pricing matrix one would assume the following departmental gross profit percentages:

- Beers and Ciders 48%
- Wines 53%
- PPS 50%
- Spirits 70%
- Minerals 67%

and given the sales mix overall Nominal Gross Profit on the wet account would be in the region of 52%-53%. (This does not take account of stock taker's usual allowances for waste/cleaning/promotional pricing etc). You should note actual GP% may be significantly less than this once allowances are made. Total Gross Profit on the Wet Account might be £44,394 p.a.



Using the Association of Multiple Retailers (ALMR) annual benchmarking report for food gross profit percentage of 57.7%, annual gross profit might be £12,002.

Thus total gross profit, from which all overheads and rent must be serviced might be £61,395.

Operating Costs

I have used two sets of benchmarking to estimate costs, those of the ALMR and those of the British Beer and Pub Association (BBPA) for a food led rural pub trading in the region of £5,000 per week, which is the most appropriate category for the Welcome Inn.

This would put overheads (excluding rent) at £47,759.

This would leave a "divisible balance" of £13,636. (For a free of tie tenant this might be as much as £19,693.)

Rental Bids

The recent Business, Industry and Skills consultation included a preferred method of assessing tied pub rents so that no tied tenant is worse off than a free of tie tenant.

The BIS recommended calculation would create a rental bid of £6,818 as a 50% share of the divisible balance.

BIS would then adjust the rent to take account of the difference in divisible balance for a free of tie tenant and reduce the rent to £3,790, however VLP are extremely unlikely to acquiesce to this.

Conclusion

Given the serious dilapidation in the current trade, the downward trend in all volumes and probable concomitant depressed food income this author would propose an initial rental bid of £8,000 per annum. As ever, the maxim of "nothing ventured, nothing gained" should be applied.

Further investigation may result in increased costs and diminished sales being attributed to the profit and loss account, thus reducing "divisible profit" and the concomitant rent bid.

(Please see attached Profit & Loss account)



The author of this report strongly recommends that Mr Smith seek independent legal, accounting, stock taking, and chartered structural surveyor advice before proceeding with any negotiations with The Very Large Pubco or entering into any legally binding agreement relating to the Welcome Inn.

This report is for Mr Smith's information only, and the author acknowledges its limitations, it should not be interpreted as a definitive representation of fact.

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