Profits Method As Applied To Public Houses And Other Leisure Properties

CBRE Head Office
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Good morning

I am delighted to be able to speak to you on the subject of the Profits Method As it is Applied To Public Houses And Other Leisure Properties. Whilst I refer primarily to public houses, the same principles are used in all profits test valuations.

To introduce myself, I am Tony Hunter, a director the Licensed Leisure department at Savills and based in Manchester.

I qualified as a Chartered Surveyor in 1984 at which time I was working for British Rail Property Board in Manchester. Not wanting to deal with the letting of railway arches and goods yards for the rest of my life, I looked at the alternatives. Having worked in pubs since the age of 16 (initially illegally) and thoroughly enjoying the business, I decided to look at opportunities in licensed trade. I joined the Greenalls Group in 1986 and moved to Whitbread in 1989 based in the north until 1998 and then relocating to the south. Following Whitbread's decision to sell its pub estate, I looked for opportunities in the private sector joining Savills in 2004, initially based in Southampton and since the middle of 2016 in Manchester.

I therefore have experienced both client side and private practice and, due to the nature of the licensed sector, I deal with a large geographical area, in essence the United Kingdom and Ireland.

The agenda of the seminar is as follows:-

- Brief history of the public house
- Licensing legislation
- Trading assessments
- Interpretation of accounts
- Freehold valuations as going concerns
- Rental valuations
- Recent legislation
- Investment valuations

Brief history of the public house

I thought it worthwhile initially to give you a quick history of the public house.

Clearly, what we view as a public house has evolved over many years. Taverns and coaching inns have been with us for hundreds of years but it was only in the 19th Century that public houses developed, largely due to the improvement of the 'life of the working classes'.

A lot of public houses were little more than residential properties and the beer that they offered for sale was often brewed on the premises or in a nearby outhouse. Transportation of beer was difficult and it was hard to maintain quality when it 'travelled' any great distance.

In the late 18th Century, brewing became more sophisticated and larger concerns took it upon themselves to buy up a lot of smaller brew houses. This gave them outlets to which they could supply their beers and led to the ‘tied’ system that has been in operation for many years. The tie enabled the breweries to ensure that their products were sold to customers and tenants were legally obliged to purchase the products from the brewery.

The brewery companies would decide for each of their houses whether they manage them directly or let them to tenants, the larger properties normally being the former and the smaller ones the letter.

Licensing Legislation

Public houses have long been controlled by legislation and it has always been accepted that a licensee had a responsibility to society to run his house in an orderly manner. After all, he is selling a drug, all be it legalised, which if used inappropriately can lead to social and other problems.

The Licensing Act 2003 is the legislation which now controls public houses and other licensed premises, this having replaced the Licensing Act 1964 which was getting a bit old in the tooth.

Things generally move very slowly in the licensed world and it was only in 1988 that pubs were allowed to open all day, the enforced closure in the afternoons dating back to the First World War when the authorities were concerned that munitions workers would not return to their jobs if the pubs remained open throughout the afternoon. As you will all know the war finished in 1918 so the changes only took 70 years to come about!

The change of hours in 1988 allowed pubs to open on weekdays for a 12 hour period generally 11am to 11pm but it would be a further couple of years before pubs were allowed to open all day on Sundays.

It is hard for anybody under the age of 30 to comprehend but it was only after the Licensing Act 2003, that pubs were allowed to be more flexible with their opening hours and remain open for business after 11pm.

I can recall the horror of middle class society, mainly promoted by the Daily Mail, who assumed that with pubs effectively allowed to open for 24 hours a day, the whole of society would ‘go out on a massive binge’ and the economy would collapse. They did not seem to factor in that people only have a limited discretionary spend when it comes to visiting public houses and all that would happen is that that spend would be spread over a greater number of hours. This was a major issue for the Daily Mail prior to the Brexit debate!

Indeed, outside town and city centres, most licensees take the opportunity to open for an additional hour on Friday and Saturday nights but close at the same time as they did prior the mid-2000’s or indeed often earlier as the demand for drinking late on weekday nights has declined due to people generally becoming more abstemious during the working week and employers becoming less tolerant of employees being the ‘worse for wear’ the morning after.

As an aside, prior to the late 1990’s, children were generally not accepted in public houses and licensees had to apply for a ‘children’s room’ which had to be separate from areas with a bar servery and people with children often felt like social lepers. Thankfully, things have changed for the positive.

Trading Assessments

The public house has traditionally been valued on a profits test method of valuation whereby the valuer has to assess the Fair Maintainable Trade (FMT) and Fair Maintainable Operating Profit (FMOP) at a site.

Sometimes, accounts are provided but these only show the actual trade achieved by the incumbent operator and it is often the case that operators are either underperforming (every tenant in the eyes of a pub company!) or over performing.

If accounts are not provided, the way that a valuer assesses the trade of the business can be quite rudimentary.

An experienced practitioner in the licensed sector will be able to make a couple of visits to a public house and fairly accurately determine the level of turnover that a pub is, and indeed should be, achieving.

A formal inspection would involve not only an inspection of the trading areas but also the back of house areas such as the kitchen, the cellar and living accommodation.

In order to ascertain the wet trade at a site, a valuer will take note of the barrels that are found on the premises, generally in the cellar. This involves the valuer knowing the sizes of various containers as beer is produced in different size containers.

The traditional size of beer barrels contained 36 gallons (288 pints) of beer and when you hear reference to the number of 'brewers barrels', this is the quantity which it refers to.

When I first worked in the pub industry, cask beer was generally delivered in the 36 gallon containers and indeed often in what was known as a 'hogs head' which contained 1.5 barrels of beer or 54 gallons (432 pints). The containers were dropped into the pub's cellar which was a fairly easy operation due to gravitational forces but what was less straight-forward was when a barrel of beer was found to be of a bad batch and a container weighing around 40 stone needed to be hoisted back out of the cellar.

Both standard barrels and 'hogs heads' were large containers and with cask beer needing to be served within three days of 'tapping' the barrel after which air gets to it, this was not a problem during the days of heavy industries such as steel work and glass blowing but, as workers became more sedentary in their lifestyle, this size of container gradually started being replaced by smaller containers and it is now general that cask ale is served in 9 gallon containers and occasionally 18 gallon. It is very rare nowadays to see a 36 gallon container.

In order to confuse things even more, when lager became popular for some unknown reason in the 1970's, the majority was developed by our European friends and they had traditionally used 50 litre and 100 litre (roughly 11 gallon and 22 gallon) containers for their products. That is where the similarities finished through as, whilst the European beers are generally very enjoyable, crossing the channel seemed to remove all their flavour.

So nowadays, the valuer is generally confronted with a mixture of 9, 11, 18 and 22 gallon containers from which to assess the wet trade and containers of specialist beer may only have a 15 or 25 litre capacity.

I simply note down the number of each, plug it into a spreadsheet, make an estimate of the number of days that a licensee would keep the beer on the premises and from this, I can gauge the beer trade at a particular site.

However, it does not stop there.

The valuer then need to make an assessment of the proportion of likely beer sales compared with other products such as wines, spirits and soft drinks.

From this, the valuer can calculate the approximate 'wet' turnover for the site.

The assessment of the catering trade is similarly rudimentary. Consideration of the number of covers at the premises, the likely cover turns per day or per week and the approximate spend of the diner would lead the valuer to an estimate of catering turnover for the site.

Similarly, accommodation income is taken into account and any other income such as fruit machines, pool tables and door money for entertainment.

Examples of the assessment of catering and accommodation turnover are attached at **Appendix 1**. The total of all this leads to my opinion of FMT.

There is no common format to how these are done and the level of sophistication varies considerably. I try to keep it relatively simple.

In the accommodation calculation, I have consideration of the seasonality of the business and room rates that may apply in each of those seasons and the likely occupancy. I also allow for two grades of room and this gives me a good indication of the accommodation income. I keep breakfast separate from this and as you will see this is shown in the catering section. Similarly, in the catering section I divide into low and high season and split the cover turns for lunch and evening. I then apply a spend per head for food and include Sunday, garden and function room trade.

From my assessment of turnover, I can gauge the likely gross profit that a licensee will make by comparing the sale price to customers by the price that the licensee can buy the products for and thereafter, deduct the costs of running the business including wages, rates, utilities and repairs to give me an assessment of the FMOP of the business.

This can then be used in a number of ways.

Interpretation of Accounts

Accounting information is often used to assist in the calculation of FMT and FMOP.

The main part of the financial statements that the valuer uses is the profit and loss account and this can assist the valuer in his or her calculations. We always treat profit and loss accounts with caution as the primary reason for these for tax purposes and therefore, there are a lot of items that an accountant would include which are not strictly part of the business.

There may also be situations where a publican (probably in breach of tax laws) chooses not to include it in the accounts.

A typical profit and loss account is included at **Appendix 2.**

You will I am sure be familiar with profit and loss accounts with turnover at the top, deduction of costs of sales to arrive at a gross profit and then deduction of other expenditure to arrive at a net profit or net loss as is the case here.

An experienced practitioner can very quickly identify the information which is not relevant when assessing trade and that which is personal to the operator.

These are generally to be found in the expense columns and items which should be added back to the net profit shown on the accounts include loans, director's remuneration, depreciation and motor expenses. These are all items which are personal to the individual operating the business and are likely to be different if another operator were running that business.

Adding back my expenditure, this can be seen at **Appendix 3**. This is often known as the Net Adjusted Profit and is essentially a 'clean' profit and loss account.

You will see that I have made notes of certain elements of expenditure including repairs and renewals and entertainment and these may vary dependent on what I see in the accounts. Everything down to the net profit figure can be seen in the actual accounts but I then add back rent, depreciation and a couple of other items. Again, these may vary dependent on what is put in the accounts.

After consideration has been made for the items which need to be added back, the valuer then carries out an analysis to consider whether the key performance indicators are in line with what the valuer would expect for such a business.

The valuer would then consider the gross margin percentage which the accounts are showing and the level that they would expect these to be at bearing in mind the type of business.

The drinks' gross margin will be affected by the split of product sales, for instance a business which sells a higher proportion of wines, spirits and soft drinks is likely to show a higher gross margin than a business which is very heavily draught beer-orientated. For a business that is operated without a tie, I would expect the wet sales to show a gross margin of between 65% and 75%, although these margins may be affected by competition from other businesses in the area.

If the wet sales were tied requiring the licensee to purchase some or all of his drinks from the landlord or their nominated supplier, the gross margin for the drinks would be lower and the exact percentage would be dependent on the tie and the prices that the tenant has to pay for his products which are often double the price that the pub company pays wholesale for its own supplies to sell on to tenants. Some leases state that only beer products are tied for which I would expect a gross margin of between 55% and 65% dependent on the split of sales between beer and other products whereas some pub co leases tie the licensee for all their wet products (including bottled water) in which case, I would expect the gross margin to be between 45% and 55%.

The calculation is further complicated by the pub companies in some cases now offering discounts from their price list but I won't complicate the matter even further for you today.

The gross margin on catering also varies considerably. In respect of a business able to charge relatively high prices, the gross margin could be over 70% but in a highly competitive area, particularly where food is seen as simply a draw to get drinking customers in, this could be 50% or even lower.

Accommodation and letting income has a higher gross margin but nowadays we need to take into account booking agencies who often charge 15-20% of the accommodation income that comes via them. So accommodation income is expected to be in the region of 80-90% gross profit after booking agency fees and other costs including bathroom products and refreshments for the guests.

I would also consider the wage costs for the business as these are a significantly variable cost dependent on many factors including how 'hands on' the proprietor wishes to run the business. Clearly, the scale of some businesses require the proprietor to include managers and this cost also has to be taken into account in those cases.

As a rough rule of thumb, I would expect wage costs of around 15% on a very easily run wet-driven public house rising to 30-35% for an operation that provides high quality food and accommodation and where the customers expect excellent service. Operations at the top end of the spectrum manage to charge higher prices for their products but without the superior service, they would not be able to charge those levels and their overall income would then be lower.

So, we now have our 'clean' profit and loss account which we would expect a hypothetical operator to produce. This may look similar to the actual profit and loss account or it may be totally different.

I have shown an example of this at **Appendix 4**.

You will see that in addition to the general costs of running the business, I have included a cost of finance (interest on tenant's capital) for the operators, furniture and equipment and also stock and working capital. These are items which any hypothetical operator would need to have and therefore should be accounted for in the calculations.

For simplicity, I summarise my calculations as in **Appendix 5**.

We then have the various calculations that we need to have and I will firstly look at valuations of the freehold interest as a going concern.

Freehold Valuations As Going Concerns

Effectively, a potential purchaser which is of course the position that the valuer should be putting him or herself into, is buying an income stream from a business.

A purchaser would generally expect that they can improve the business that they are buying either by increasing turnover (maybe by investing in the property) or alternatively by increasing the efficiency of the business and creating greater profit from the same turnover.

The multiple of profit that a potential purchaser will pay depends very much on the quality and location of the business.

In London, multiples of profit are generally higher than in the provinces and for a good quality licensed operation in a good location, the multiples may be in the range of 9-12. These multiples would be on the basis of a business operating at or close to the FMOP and FMT.

For a good quality operation in the provinces, that multiple may reduce to 8-10.

If the business is underperforming, the multiple would be less as a purchaser would need to invest additional time and resource into driving the turnover and profit levels to and possibly above those fair maintainable levels. Similarly, if a business is absolutely 'shooting the lights out', this may also affect the bid.

At the lower end of the market, a rough estate boozer in a poor demographic area may only sell at a multiple of 4-5 times profit. The usual rules of economics apply and the multiple reflects the demand for a particular asset and the availability of finance to fund the purchase.

Clearly, the valuer needs to have significant experience in the market in order to find the correct level.

Rental Valuations

The hypothetical profit and loss calculation is also used when considering the market rent on trading properties unless they are 'shell' units in areas where there would be competition for the site from retail or other leisure operators and valuations would generally be done on the square footage basis that you will all be familiar with.

If the rent is to be assessed on a profits basis, the calculation is the same down to the FMOP which is in rental valuations also referred to as the 'divisible balance'.

At this point, the valuer must consider the bid that a tenant would make for the property as a proportion of the FMOP. The bid would reflect the likely demand for that business and the profits test method of valuation should follow the market and not the other way round. Again, the rules of economics come into play.

The RICS states that the tenant's bid should generally be between 35% and 65% and I would follow those principles as a guide. It would be unusual to find the bids falling outside those parameters unless there are significant external factors affecting the bid.

When dealing with a property which would have little demand, for example a local community pub in a poor demographic area where the tenant has to deal with drug problems, fights every Friday night and is tied to his landlord for all products, this would be toward the lower end and for a public house with letting rooms operated on a free of tie basis in an affluent, maybe touristy, area of Central London, this would be toward the higher end.

It would be expected that a hypothetical tenant would offer a higher percentage of bid for a free of tie operation than for a tied business operated by a pub company.

From my experience both acting in rent reviews and also when sitting as an arbitrator or independent expert, I find it surprising and somewhat disconcerting that many valuers budge very little from the 'normal' 50%. That may have been the case 10 years ago but the market has moved on a lot and demand for pubs fluctuates considerably.

A comparison of the poorer pub with the better one is therefore shown in **Appendix 6**.

You will see the variance in many of the key performance indicators. If you look at the wet gross margin, this shows 45% compared to 72% and obviously this makes a fundamental difference to the bottom line. Wage costs as well are considerably lower as a percentage of turnover in the wet-driven business with the estate pub coming in at the mid teens and the upmarket pub nearly a third of the turnover. Indeed, when speaking with operators, staff recruitment is seen as the biggest issue and the cost of key personnel such as chefs and assistant managers is increasing way above the pace of inflation and with staff shortages expected as a result of Brexit, this situation will only get worse.

At the bottom of the calculation, the tenant's bid reflects the attractiveness of the particular business.

Recent Legislation

As I mentioned before, the government has seen fit to meddle in the pub industry seemingly since time immemorial which as you will all recall is 1189, the start of the reign of King Richard I.

The growth of the pub companies in the 1990's and particularly from around 2002 onwards has for some time been subject to scrutiny.

The main cause of this has been the decrease in profitability for the pub companies' tenants which has been a result of price rises for tied product purchases from the pub company which the tenant has had no control over. Whilst rent reviews are always ultimately decided by a third party dispute resolver, either an arbitrator or an independent expert, there is no such mechanism for price increases to be so controlled. For instance, I moved to the South of England during my employment with Whitbread in 1998 and a good average tenant was achieving a profit margin on his wet products of around 62% whereas 15 years later, that had dropped to around 55% of turnover. On the assumption that the turnover remained the same and all other costs including rent did also, for a pub with a turnover of £500,000 per year, this meant a decrease in profit of £35,000 which would have more than halved the profit of the business to the tenant.

Now, I have never known a pub tenant tell me that he is paying too little for his rent or for his beer from the pub company but by around 2010, after we had suffered the economic meltdown of 2008, the drums started beating a little louder.

A BIS Select Committee looked into the matter and after the usual few years of debate, we ended up with the Small Business, Enterprise and Employment Act of which Part 4 covered the pub industry. This was further expanded in the Pubs Code Regulations 2016.

Whilst initially pub tenants were rejoicing thinking that the tie was going to be abolished, things regarding legislation in the pub industry are never quite that straight-forward and what was offered was quite watered down from what the tenants thought they were going to get.

In a nut shell, six pub companies were affected (Enterprise Inns, Punch Taverns, Greene King, Marston's, Star Pubs & Bars and Admiral Taverns) who between them had around 12,000 tenants. Not all the tenants were eligible to apply for what was known as a MRO (Market Rent Only) option as many of these were on short-term tenancies and contracted out of the Landlord and Tenant Act 1954. Punch Taverns have now been taken over by the parent company of Star Pubs & Bars (Heineken) so we now have five affected companies.

Also, it was not quite as straight-forward as going free of tie either immediately or indeed at the next rent review or lease renewal.

There were four trigger points which were identified at which time a tenant could call upon a pub company to provide a Market Rent Only option. These were at rent review or lease renewal and also where there had been a major change in trade and conditions caused by matters outside the tenant's control or where the pub companies were planning to increase the price of the products to the tenant by 3% above the Retail Price Index in the case of beer products and more in the case of other products. Seeing as inflation at the time the Pubs Code was introduced was lingering at around 1%, this meant that the pub companies could still put up the prices by quadruple the amount of inflation which still seems to me fairly hefty. If I were a cynic, I would expect that pub companies will put up their beer prices by 2.99% per year above RPI for the foreseeable future. That is currently nearly 7%.

So, the tenants all thought that come the next rent review will be able to go free of tie, purchase their beer a lot cheaper and make considerably more profit.

Again, this was not to be the case. The legislation is probably the worst I have ever seen in my life and, on first reading of it, I could see a lot of loop holes in it and of course, the pub companies instructed their solicitors to find every loop hole in the legislation that they could do. And they did! This is only to be expected as companies will always look at ways or means of ensuring that any legislation or tax implications are reduced.

Whilst pub companies had previously agreed to extensions of leases or changes in the tie arrangements when it suited them by means of a simple Deed of Variation costing a couple of hundred pounds, this was now not the way forward that they would go but they would insist on a brand new lease for the remaining term of the current lease and suggest a rent which is sometimes over twice the amount that a willing tenant would pay to a willing landlord in the market place. The tenant would have to pay the landlord's costs in providing this new lease and it would not be on the basis of the old lease but a totally new 'standard' lease which was remarkably more penal than the previous lease had been before. Also, and this is something to be aware of when acting for any tenant in lease renewal negotiations, because this is classed as a surrender and renewal and not a renewal under the Landlord and Tenant Act 1954, all the disregards that the tenant would previously have had in respect of improvements that they had made would be lost. Any tenant's improvements from the previous lease would therefore be taken into account at rent review and the tenant would effectively be paying for these twice.

It is therefore no wonder that in the first year since the legislation has been in force (from June 2016) out of 497 notices served by tied pub tenants, only 11 MRO tenancies have been agreed.

Clearly, the legislation has been a total damp squib and has actually increased the power of the pub companies considerably, exactly the opposite of what was intended.

We await with bated breath the next move by the government.

Saying that, you can not particularly criticize the pub companies for the action that they are taking as they recognise that free of tie agreements would have a dramatic affect on their profitability and Simon Townsend, the Chief Executive Officer of Enterprise Inns (who have now changed their name to the EI Group) estimated that the loss on each pub that went free of tie would be 18%. This I believe is actually an underestimate and, were legislation to be brought in which simply allowed the tenants to go free of tie at the next rent review with a simple Deed of Variation, I believe that the loss of profit would be in excess of 25% and this would possibly push some companies into administration.

Investment Valuations

Finally, I must touch upon the investment market for public houses.

Pubs were long thought not to be suitable for the investment market and it was only in 1995 when Scottish & Newcastle embarked upon a sale and leaseback project with its Chef & Brewer estate which was relatively successful pulling in yields of around 9% on average.

The market has moved considerably since then albeit that there is a large disparity between the top covenants and the lower end.

The public houses leased to better operators such as JD Wetherspoon and Marston's are generally let on standard FRI leases with either five year open market rent reviews or with increases throughout the lease in line with the Retail Price Index (or other indexation).

I have shown the movement of yields compared to the IPD index for several operators in **Appendices 7-11**.

Scottish & Newcastle who embarked upon the original sale and leaseback project with the Chef & Brewer chain in 1995 have seen yields fall from over 9% to around 6% nowadays having dipped as low as 5% in the heady days of the mid-2000's.

The Spirit Group offered similar quality pubs on a sale and leaseback basis around the height of the market between 2003 and 2007, the yields then being around 6% rising to an average of around 9% in the toughest period around 2010 before dropping significantly to around 4.5% now. The yields in addition to covenant strength also reflect the rental levels charged under the lease compared with the market rent and a lot of the Spirit stock was extremely over-rented. I valued a batch of Spirit pubs which were owned by British Land in around 2010 and the range of yields at the time was from around 6% for the best quality stock at realistic rents to over 20% in respect of poor quality sites which were significantly over-rented. One of the pubs in the South East that I looked at had a turnover of approximately £7,000 per week or £365,000 per annum and the rent passing was £365,000 per annum.

Similarly, the yields for Stonegate, Marston's and Enterprise Inns have reduced significantly.

So, to summarise the whole picture, **Appendix 12** shows the various pubs companies in comparison with the IPD data.

There still seems to be plenty of appetite for pub investments and we recently sold a pub let to Greene King for a yield of less than 2.5%, this being a prime site in Central London.

So, an investment valuation follows the normal process that you will be familiar with, adopting a yield against an income stream and thereafter deducting purchaser's costs to arrive at the investment value.

I trust that this has been informative to you and worthwhile getting up early on a Monday morning to come along and I would be pleased to answer any questions that you may have.

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Director
Savills (UK) Limited

APPENDIX 1

ACCOMMODATION

HYPOTHETICAL ASSESSMENT WITHOUT LIABILITY ASSUMING REASONABLY EFFICIENT OPERATOR

	Weeks	Standard Rooms No	Standard Room Rate Exc B/F	Superior Rooms No	Superior Rooms Rate Exc B/F	Occupancy(%)	Room Income Excl VAT
Low Season	20	6	75	0	100	50	26250
Mid Season	20	6	80	0	100	85	47600
High Season	12	6	120	0	100	95	47880
	52						
							121730
Accommodation Income (£)					**Say**		**120000**

CATERING ASSESSMENT

HYPOTHETICAL ASSESSMENT WITHOUT LIABILITY ASSUMING REASONABLY EFFICIENT OPERATOR

Season Low	37
High	15
Total	52

Number of Covers Food	50
Number of Covers Garden Food	0

Cover Turns

	Mon-Thu	Fri	Sat	Covers Sold	Average Spend		
Low Season Lunch	25	50	50	100	8	24666.66667	
High Season Lunch	75	80	80	230	8	23000	
Low Season Evening	25	50	50	100	12	37000	
High Season Evening	80	100	100	260	12	39000	
							123666.6667
Plus Sunday			200	100	12		52000
Plus Garden Trade	Weeks	10					0
Plus Function Room (if applicable)	Ave Covers	Spend	Annual No				
	0	0	0				0
Plus Breakfasts							
Breakfast	Estimated Guests	Percentage Breakfast	Ave Spend				
	2419.2	50	10				10080
							185746.6667
Catering Turnover (£)						Say	**185000**

Appendix 2

TRADING AND PROFIT AND LOSS ACCOUNT
for the period 14 November 2012 to 30 November 2013

	£	£
Turnover		
Bar & restaurant sales	292,811	
Breakfast sales	18,500	
		311,311
Cost of sales		
Purchases - wet	98,376	
Purchases - dry	50,599	
Other purchases	2,599	
Linen & laundry	637	
	152,211	
Closing stock	(7,500)	
		144,711
GROSS PROFIT		166,600
Other income		
Management fee		42,000
		208,600
Expenditure		
Rent	36,163	
Other establishment costs	4,572	
Rates and water	8,764	
Insurance	1,391	
Wages	103,663	
Post and stationery	2,530	
Advertising	3,462	
Motor expenses	1,061	
Training	323	
Repairs and renewals	51,422	
Household and cleaning	3,716	
Sundry expenses	2,173	
Accountancy	1,500	
Legal fees	4,622	
Security	2,280	
Waste	2,707	
Amortisation of intangible fixed assets		
Goodwill	7,500	
Depreciation of tangible fixed assets		
Short leasehold	3,000	
Plant and machinery	7,201	
Fixtures and fittings	158	
Entertainment	3,735	
		251,943
NET LOSS		(43,343)

APPENDIX 3

CALCULATION OF NET ADJUSTED PROFIT

Year End

Turnover	Actual 14.11.2012-30.11.2013
Bar & Restaurant Sales (£)	292811
Breakfast Sales (£)	18500
Total Turnover(£)	311311
Costs Of Sale (£)	144711
Gross Profit(£)	166600
Gross Profit/Turnover(%)	53.5
Management Fee (£)	42000
Profit Incl Management Fee (£)	208600
Wages(£)	103663
Wages/ Turnover %	33.3
Repairs & Renewals (£)	51422
R&R/Turnover (%)	16.5
Entertainment (£)	3735
Entertainment/ Turnover (%)	1.2
Net Profit(£)	-43343
Net Profit/ Turnover(%)	-13.9
Less Adjustments	
Rent (£)	36163
Depreciation - Short Leasehol (£)	3000
Depreciation - P&M (£)	7201
Depreciation - F&F (£)	158
Amortisation Goodwill(£)	7500
Motor Expenses (£)	1061
	55083
Net Adjusted Profit/ EBITDA(£)	11740
Net Adjusted Profit/ Turnover%	3.8

APPENDIX 4

HYPOTHETICAL ASSESSMENT WITHOUT LIABILITY ASSUMING REASONABLY EFFICIENT OPERATOR

TIED LEASE

		Turnover	GP%	Gross Profit		F&B Split	F,B&A Split
Wet Turnover (£)		270000	51.9	140000		70.1	53.5
Catering Turnover (£)		115000	65.2	75000		29.9	22.8
Accommodation Income (£)		120000	75.0	90000			23.8
TOTAL TURNOVER (£)		505000		305000			
		Say	**505000**	Say	**305000**	60.4	
Expenses							
Wages &NHI Bar		22.2	60000	Total wage%	27.7	140000	
Wages & NHI Food		43.5	50000	Total other%	16.8	85000	
Wages & NHI Other			30000				
Utilities	4.0		20000	RV2010	Payable	CT	Water/Drain
Rates-General,Water & CT	2.1		10567.25	19250	9567.25	0	1000
Insurances	0.4		2000				
Licence Duty, Permits, Sky TV,PRS etc	0.6		3000				
Repairs	3.0		15000				
Renewals	0.0		0				
Phone	0.2		1000				
Waste,Cleaning, Hygiene & Laundry	1.0		5000				
Professional Fees	0.6		3000				
Marketing, Promotion, Advertising & Sponsorship	1.0		5000				
Entertainment & Discretionary	0.6		3000				
Contracts-Rentals & Maintenance	2.4		12000				
Miscellaneous	0.5		2450				
Interest Tenant's Capital	1.1		5472.692308				
Total Expenses				227489.9423			
				Say	225000	44.6	
FMOP(£)					80000	15.8	

APPENDIX 5

Summary

Wet(£)	270000
Catering(£)	115000
Accommodation(£)	120000
Fair Maintainable Turnover(FMT)(£)	505000
Gross Profit Wet (£)	140000
Gross Margin Wet (%)	51.9
Gross Profit Catering (£)	75000
Gross Margin Catering (%)	65.2
Gross Profit Accommodation (£)	90000
Gross Margin Accommodation (%)	75.0
Gross Profit(£)	305000
Gross Margin(%)	60.4
Wages(£)	140000
Wages/FMT(%)	27.7
Other Costs(£)	85000
Other Costs/FMT(%)	16.8
Total Costs(£)	225000
Total Costs/FMT(%)	44.6
Fair Maintainable Operating Profit(FMOP)(£)	80000
FMOP/FMT(%)	15.8

APPENDIX 6

ESTATE PUB		**UPMARKET PUB**	
MARKET RENT - TIED LEASE		**MARKET RENT - FREE OF TIE LEASE**	
Summary		**Summary**	
Wet(£)	200000	**Wet(£)**	250000
Catering(£)	0	**Catering(£)**	400000
Accommodation(£)	0	**Accommodation(£)**	100000
Machines (£)	10000	**Machines (£)**	0
Other Income(£)	0	**Other Income(£)**	0
Fair Maintainable Turnover(FMT)(£)	210000	**Fair Maintainable Turnover(FMT)(£)**	750000
Gross Profit Wet (£)	90000	**Gross Profit Wet (£)**	180000
Gross Margin Wet (%)	45.0	**Gross Margin Wet (%)**	72.0
Gross Profit Catering (£)	0	**Gross Profit Catering (£)**	280000
Gross Margin Catering (%)	0.0	**Gross Margin Catering (%)**	70.0
Gross Profit Accommodation (£)	0	**Gross Profit Accommodation (£)**	80000
Gross Margin Accommodation (%)	0.0	**Gross Margin Accommodation (%)**	80.0
Gross Profit(£)	90000	**Gross Profit(£)**	540000
Gross Margin(%)	42.9	**Gross Margin(%)**	72.0
Wages(£)	35000	**Wages(£)**	240000
Wages/FMT(%)	16.7	**Wages/FMT(%)**	32.0
Other Costs(£)	20000	**Other Costs(£)**	100000
Other Costs/FMT(%)	9.5	**Other Costs/FMT(%)**	13.3
Total Costs(£)	55000	**Total Costs(£)**	340000
Total Costs/FMT(%)	26.2	**Total Costs/FMT(%)**	45.3
Fair Maintainable Operating Profit(FMOP)(£)	35000	**Fair Maintainable Operating Profit(FMOP)(£)**	200000
FMOP/FMT(%)	16.7	**FMOP/FMT(%)**	26.7
Tenant's Bid (%)	42.9	**Tenant's Bid (%)**	50.0
Market Rent (£)	15000	**Market Rent (£)**	100000
Market Rent/ FMT (%)	7.1	**Market Rent/ FMT (%)**	13.3

Appendix 7

savills

Scottish & Newcastle

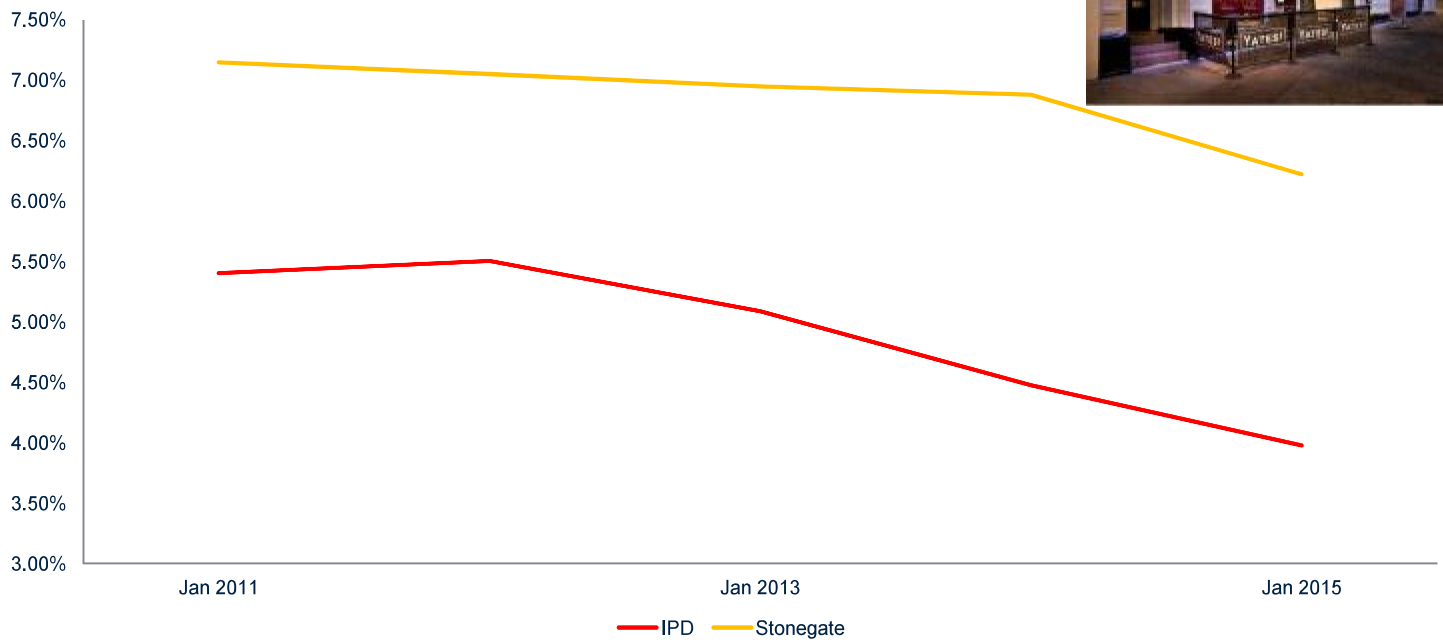
Appendix 8

Spirit Pub Company

Appendix 9

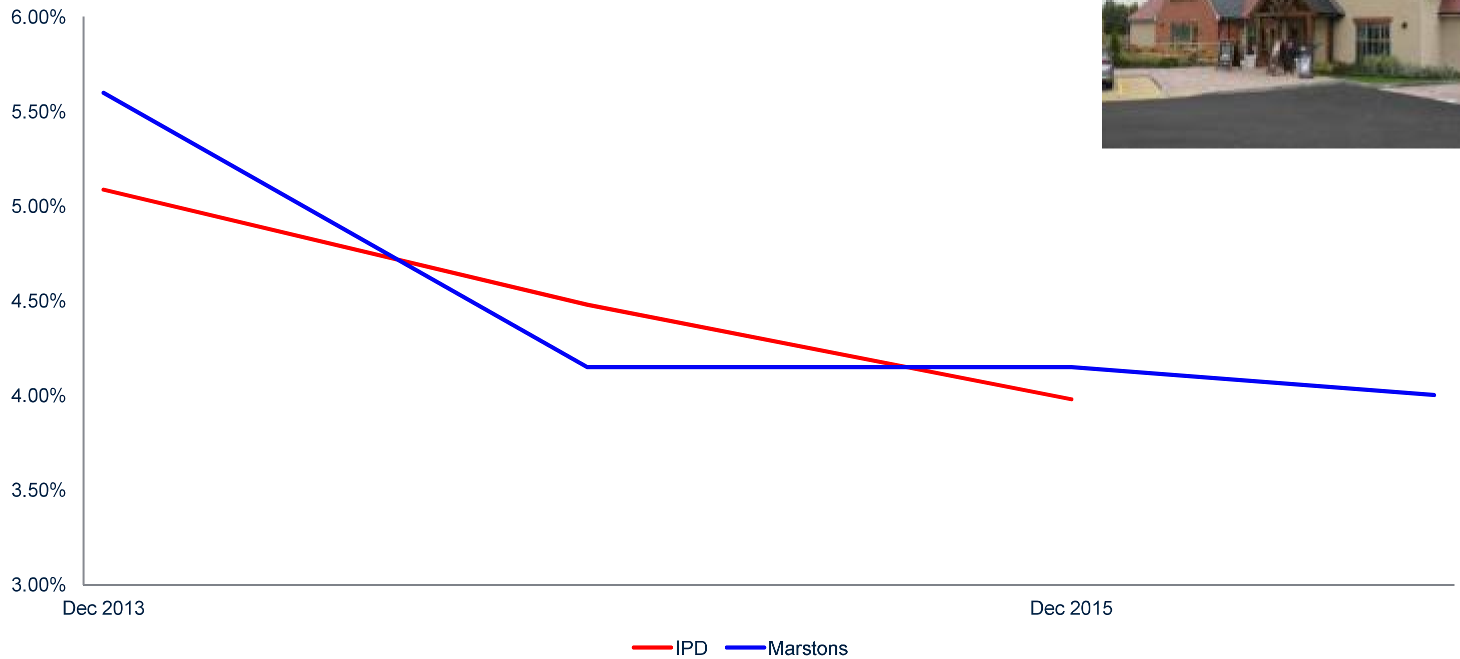
Stonegate Pub Company

savills



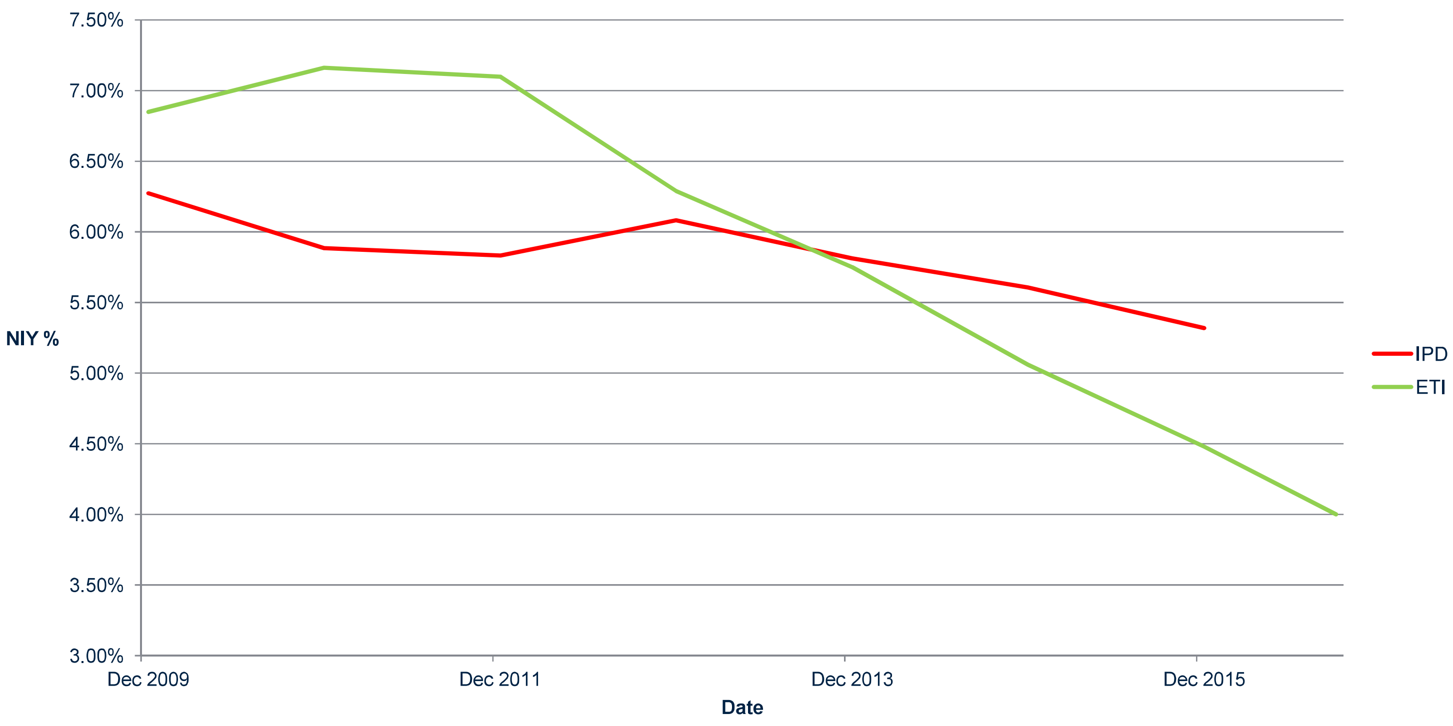
Appendix 10

Marston’s Pub Company



Appendix 11

Enterprise Inns Plc



Appendix 12

Summary