Thistle Pub Company III plc

Chairman's AGM Statement – 30 March 2015

I will begin by looking in the rear view mirror at the Maclay debacle and then look forward.

For those with an awareness of the two Thistle Pub companies, it is important to understand that the effect of the Maclay administration on the two companies is different. Thistle II had terminated its management contract with Maclay at the end of June 2014; Thistle III had not. In addition, the Thistle II loss was caused, in the main, by the miss-posting of invoices. The Thistle III loss was caused by the removal of funds. The effect of this is that the potential remedies are different.

I have had a shareholder write to me on the chronology, so I will cover that first. In my position as a Director of Thistle II, I was aware that errors had arisen at Thistle II. I took them to be accounting errors, as that was consistent with the pressure that Thistle II was putting on the Maclay people, at what was already a busy time for them. We had also worked with Maclay for many years and the accounting always been accurate and diligent. However, by the time of a meeting with the Maclay Chairman and Chief Executive in late October, concerning Thistle III, I flagged, inter alia, that, going forward, I was becoming unimpressed with their systems. The accounting on Thistle II had been scrappy. The accounting and help on Thistle III had remained consistent. I assumed, wrongly, that because Thistle II had terminated its contract with Maclay, the handover had been careless and rushed with that company and he was not giving it his full attention.

As part of the ongoing relationship with Maclay I had also been interested in the strength of their funding following the loss of the Thistle II contract. I had been reassured on that by both the Chairman and the CEO. They were both sanguine about losing the Thistle II income and winning it back did not fit in their future plans in any way. This was consistent with the Thistle II contract negotiations which, despite some very pointed hints about the level of their proposal, they were not prepared to lower their quote any further. They clearly thought that they had enough cash to go forward with their own units, the new Thistle III contract and their Joint Venture with Tennents.

Two days after that meeting, in last days of October, the CEO of Maclay informed me that, following his investigation of my remarks, their Financial Controller had been suspended pending an investigation of his behaviour. Subsequently, as I reported to shareholders, there followed a period of serious activity by your Directors to secure unscheduled bank funding, find an experienced accountant, work out a plan going forward and safeguard the value of Thistle III.

The accounting control systems at Maclay caused serious loss at both Thistle II and Thistle III, but the effects on Maclay were catastrophic as it is now in administration. You might also note that no individual has benefitted from the removal of our funds.

I have also received correspondence concerning the auditors, Saffrey Champness. However, in our opinion, what was happening would not pass any audit; it took place during the year, in other words, between audits. You should be aware that Saffery Champness recognised that there is reputational risk to them in these circumstances and have worked their way through the "Bugger's muddle", diligently, and at no extra expense to the Company.

Please also note that we have a proposal at this meeting about their re-election. I will pay very close attention to that voting regardless of the final outcome. If a substantial minority are "agin" Safferys, then Mr Hughes knows fine well the Directors will need to take that into account come next year's audit. But for their very real help this year, in very trying circumstances, I would like to thank them.

My focus in the short term is on restoration where it is possible. I will then look to restorative justice which is more problematic. Only finally will I turn my mind to retributive justice. We have not finished with anyone or any organisation yet, in our pursuit of restitution. At the moment my best guess of the scale of loss that we will show in the 2015 accounts will be about £200k, although, as I noted in my statement, there is significant expenditure which we may well have incurred and that has now been avoided; cold comfort perhaps. I must stress however that there is much work to be done and that, if we litigate, then the wheels of justice turn slowly, cost money, and with unpredictable result. However, in any circumstance, when we have finished on the various measures we can pursue we will be explaining the actions we took to shareholders as well as those that we did not.

You might also note that the Administrator, who is, by virtue of his appointment an Officer of the Court, has to file a report on the conduct of the Maclay Directors. It is a private report, but Mr Yuill, who attended the AGM of Thistle II, is in no doubt about the strength of feeling of those shareholders. He is here today will take into account any thoughts or misgivings you may have about the Maclay Directors.

Finally I apologise to shareholders that this should happen on my watch. No “ifs” and no “buts”. Looking forward, our current results are still being affected by the Scottish Government’s reduction in the drink driving limits. We are destination led and so we feel it slightly more than others. Against that, the money we spent on certain units is keeping the turnover just shy of what we achieved last year. I think this performance will improve in the coming months as we address a changed marketplace. I also think it will weed out some weaker competition. And so we believe that its effect on valuations, come the second half of this year, will be marginal.

I do think the focus of Maclay had blurred in 2014. I am convinced that we would, all other things remaining equal, have parted company with Maclay. Following Thistle II’s change in July, I could see from that experience that LT Management offered a greater range of products and thus potentially better sales, as well as potentially greater margin at a significantly reduced management cost. LT were giving a fresh approach and LT, whose operations in Scotland were nascent, were hungry to do well. They now have the opportunity to demonstrate their abilities and, if they are as successful as I expect them to be, then that can only help the value of our estate.

I know our managers have been much more than, just positive, about the potential benefits of LT on their individual fiefdoms. Right at this moment we have a good bunch of managers who are in good heart and I am keen that we foster that spirit to the advantage of shareholders.

We have some specific issues to address across the estate and even limited expenditure can achieve a better valuation for our pubs. We are pursuing those possibilities and we are constantly looking to find the financial resource from the bank to allow this. In our agenda we include some capex at this pub (Canal Station) already recognised as one of, if not the nicest pub in Paisley.

I have tasked Paul (Theakston), a brewer of excellent repute, with taking a special interest in our micro-brewery at Clockwork. The brewer there is enthused about supplying his beers to our other units. He cannot understand why we are slow in this respect and why Maclay never did it. We can take advantage of the favourable fiscal regime that applies to micro-breweries across our units. Again it will take a little time to prove the financial benefit, but if we do then it will be value enhancing.

I have been asked “Would it not be a good idea to sell now?” and “Should we not sell alongside the Administrator of Maclay; greater value in 20+ units?” Apart from the fact that the Administrator regards that as most unwelcome, I say the following:

1. Why would I want our pubs to be associated with failure?
2. Why would I fly in the face of all the professional advice I have been given from reputable professionals?
3. Why would I not want to demonstrate the untapped latent value in this portfolio before I get to an exit event for shareholders?

And it is for that reason I set our target exit date at June 2016. We don’t just have to start the improvements – we have to prove them, if only for a limited number of months. In my mind that is the second half of this financial year. That will give just enough of a “like for like”.

Other issues have been raised. “Why have another director?” This came at the same time as another major shareholder berating me with “You said there would be three directors in place!” We are with new managers and I hope you will forgive me for exercising the appropriate paranoia over our affairs – i.e. closer control.

There will be a third director once we have finally finished with sorting out the position post Maclay. Apart from anything else any sale process is time-consuming and the involvement of Donald will save professional cost.

Turning to potential realisation, there are two camps of shareholders; those for whom the continuance of EIS Relief means nothing (and are therefore keen to sell), and those for whom the continuance is useful. I am trying to find a way that satisfies both, which is tricky, but it is achievable. I will continue to pursue that option – the cost of doing so is marginal and the potential benefits are significant; not least for our staff and, in particular, the managers of our pubs. I need to be able to look them in the eye and tell them it is to their advantage to give their very best. The only way I can think to do this is through financial interest aligned with the shareholders; and so, over the coming weeks, we will be putting in place an appropriate incentive plan - otherwise how can the shareholders expect their enthusiasm.

My thoughts do not stop there. I am working to give your company its own identity – one apart from the management companies. It was very clear to me during the formal sales process (undertaken in 2013) that certain purchasers took the attitude that we had to sell and framed their bid accordingly. They were wrong; we did not have to undersell and we did not. Anyone, at any time, can bid for a public company, but do not come knocking at my door expecting to get a very good estate with great managers at under value. That is not going to happen for I am making sure that the owners, the shareholders, know that this a good group of destination pubs and it deserves top dollar.

I repeat my commitment to shareholders – your Board is committed to finding a structure which will give shareholders the opportunity to exit by June 2016. If we have an AGM next year then, in the absence of change or ongoing change of status, I will put myself up for re-election so that shareholders can exercise their franchise, in the circumstances that then prevail, as they see fit.

Alan Stewart
Chairman