Co-invest with David Bruce, co-founder of The City Pub Company – deadline 25 August

IMPORTANT: Investors should carefully read the Information Memorandum and the Wealth Club terms before investing.

Exclusive to Wealth Club investors: West Berkshire Brewery EIS

GAYLE BOWEN
FINANCE DIRECTOR

West Berkshire Brewery PLC ("WBB" or the "Company") is an independent brewery producing a popular and high-quality range of keg, cask and bottled beer and lager. WBB has a turnover of £2.6 million and has grown over 40% year-on-year demonstrating a proven business model.

It has successfully completed previous funding rounds to develop a new state-of-the-art brewery and packaging plant in Yattendon, Berkshire, which should allow the company to increase current production levels twelvefold. In addition, all stages of production can now be carried out in-house which generates immediate margin improvements and takes the business into profitability.

After the success of The Depot, the first WBB pub, **Wealth Club investors now have the exclusive opportunity to participate in a £2 million EIS fundraise to enable WBB to expand and develop its pub estate.**

The business

Set up in 1995, WBB produces a range of beers from its on-site brewery, including well known brands and top-sellers Good Old Boy, Mister Chubb's Lunchtime Bitter, Dr Hexter's Healer and Mister Swift's IPA. WBB uses traditional brewing techniques and, where possible, British raw materials for its core product range. Last year WBB launched the Renegade range of beers, targeted at the fast-growing craft beer sector and aimed at younger customers. Within a year Renegade has become the brewery's second best-selling product. Currently, the

Investment highlights

- Exclusive opportunity to participate in an established brewery's growth including pub estate
- Diversified revenues, known brands and award-winning British beers
- Current valuation £10.3 million (3x revenue 2x net assets)
- £2.2 million target EBITDA by 2021
- Business expected to be profitable even without growth due to improvement in margin
- Highly experienced management team led by David Bruce
- Mid-point target return – over 3x after EIS tax relief, not guaranteed
- Exit targeted from year 4
- EIS advance assurance in place
- Minimum investment – £10,000

production of Renegade is outsourced but this is expected to change thanks to the new plant.

The new plant should be fully operational from September 2017 and has a five year warranty and full maintenance contract. It will allow WBB to do its entire packaging and production in-house. It will significantly increase capacity and bring all aspects of production in-house including bottling, which is expected to drive significant margin improvement from c.38% to over 50%. Additional revenue is expected to be created by carrying out bottling and packaging for third parties, while there is spare capacity. Several breweries, including Meantime and Wadworth's, have already expressed an interest and advanced discussions are underway. The packaging industry in the UK cannot cope with the rise in the number of breweries and WBB has identified and targeted this deficiency. To date the pipeline represents a capacity utilisation of 76% and an annualised turnover of up to £2 million is included in the forecasts.

Once the plant is operational, even without any further growth in beer sales (in our view this is unlikely, given the sales growth to date), the business is expected to become profitable and cash generative.

WBB has several routes to market. Sales are via direct delivery as well as distribution partners such as Dayla and Nectar. Sales are made to pub companies such as Enterprise Inns, M&B and Punch Taverns. Retailers are also a significant sales channel – WBB currently has listings with Tesco, Majestic Wines and Waitrose. It has recently won a national listing for Good Old Boy with Waitrose so there is a significant scale-up opportunity. Currently the largest customer is Enterprise Inns (8.4% of sales), followed by English Provender which buys ale for its real ale chutneys.

As well as the brewery and its kegging, bottling and canning lines, the new site includes an impressive visitor centre, shop, bar and restaurant. It will be home to WBB's "Taproom and Kitchen", a brewery tap offering craft beers, real ales and high-quality food. The menu will focus on pizzas fired in a top-of-the-range pizza oven and burgers and steaks cooked over a charcoal-fired grill. This offer will be made available to the general public as well as to corporate firms and used for events such as weddings and parties.

WBB is planning brewery tours and increasing the sale of merchandise. If correctly marketed, we anticipate it could turn into a popular visitor attraction, as it is in a picturesque spot on an old dairy farm. Despite enjoying a rural location, it is under 10 minutes from the M4.

WBB management is keen to manage the brewery in a sustainable manner. As well as sourcing its ingredients from as near to the brewery as possible, spent grains are taken by a local farmer to feed cattle and pigs. The Company has installed a reed bed drainage system to filter the brewing effluent and return it to the ground as clean water. The area around the reed bed has been seeded with chalk downland grasses and wild flowers to attract insects and wildlife and support threatened species. WBB intends to add solar panels to enhance its green credentials and reduce costs.

In June 2016 WBB acquired its first leasehold public house, The Depot, in Islington (previously known as Shillibeer's). It currently enjoys average weekly sales of £20k, annual run rate of just over £1 million and generates site EBITDA of £150k (15%), which is a significant improvement from when WBB first acquired the pub.

The management team has successfully incorporated a quality food menu paired with selected beers. It is currently managed by the team from Mosaic Pub Group, James Watson and Pete McDonald, who have an excellent track record in managing and developing pub groups.

The opportunity

This latest £2 million fundraise will provide a war chest for WBB to build on its experience and roll out its pub estate. The aim is to acquire at least a further ten pubs over a three to four-year period. WBB has

successfully signed Heads of Terms with a Venture Capital ("VC") fund to partner the pub roll-out venture. WBB management believes The Depot, the first pub, is a real turning point for the brewery. It allows WBB to showcase its beers and drive sales. Through its pub acquisition strategy, WBB hopes to benefit from increased sales, increased supply chain management and diversified revenue streams.

Based on significant experience in buying and selling portfolios of public houses, WBB management has a strong concept of the profile target pubs and has already engaged with contacts to find the right locations.

It has a well developed pipeline of target pubs, with EIS advance assurance in place. The pubs will be urban, in the M4 corridor, wet-led with a minimum turnover of £0.75 million and a positive EBITDA. The operation of each pub is expected to be outsourced to the same management operating The Depot until an Operations Director is recruited to manage it internally. The recruitment process is underway. Both leasehold and freehold opportunities will be reviewed. The forecast shows sales and EBITDA of £8.7 million and £2.2 million respectively by 2021. The forecast assumes WBB will:

- Grow pub estate and acquire ten pubs through its joint venture with VC
- Carry out packaging/bottling for third parties
- Realise improved margins from full in-house production of all products
- Achieve an overall growth in beer sales.

The market

The UK brewing sector is growing 30% year-on-year and is estimated to be worth £8 to £9 billion. It is dominated by the likes of Heineken and Carlsberg. However, there is rapid growth in the popularity of real ales and craft beers driven by the demand for imaginative and high-quality beers. Consumer preference is moving away from the multinational "industrial" beers towards products brewed with passion and integrity.

The craft beer market in the UK has grown significantly over the last ten years and now represents approximately 6% of the brewing market, estimated to be worth around £600 million. The increasing popularity of craft beer and real ale has supported a rise in demand with over 500 breweries opened in the UK last year taking the total to 2,200. Notable successes in the brewery/pub estate market include Bath Ales which was acquired by St Austell Brewery. Bath Ales Brewery has a strong portfolio of beer brands and an 11-strong pub-estate. The high-profile acquisition of Meantime Brewery by SAB Miller reportedly valued the business at 7.5x revenue (£120 million). WBB has ambitious plans of growing over the mid to long term delivering annual turnover of £20+ million and would be targeting a similar valuation on exit.

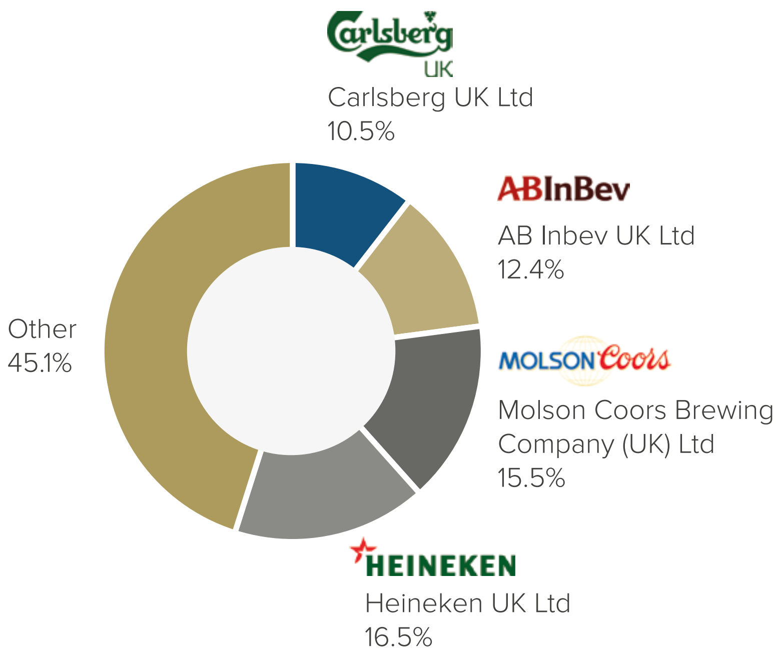
WBB is positioned as a producer of quality British beer with the Renegade brand bringing innovation and worldwide flavours. Established competitors of a similar profile include Rebellion Brewery in Buckinghamshire, Dark Star Brewery in Sussex and Black Sheep Brewery in Yorkshire.

More than anything, the UK's decision to leave the European Union (EU) has had instant implications for the food and drink industry. The biggest of these was a weaker pound. Sterling's depreciation makes British products more attractive to international markets. However, it also puts pressure on businesses that rely on imported raw materials, in an industry that already operates on tight margins. The impact on WBB is limited as where possible the raw materials are British and all the expensive hops are purchased under a forward contract to reduce price volatility.

M&A activity is flourishing, as seen in the craft beer and artisan gin brands such as Brewdog, Sipsmith and Spencerfield Spirit (Edinburgh Gin). Innovative products continue to catch the eye of larger investors.

The opportunity to scale up and roll

UK brewing sector – market share



Source: Ibisworld.co.uk

David Bruce on his decision to invest in West Berkshire Brewery

"When in March 2013 the founders of West Berkshire Brewery decided to retire after 18 years, they invited me to become Chairman to take their company forward. Armed with my 51 years' experience in the international brewing industry, I was delighted to accept the exciting challenge and work with the Brewery's existing team to help them realise the true potential of the business.

Due to my confidence in the Company's portfolio of award-winning brands and the excellence of all its staff, I am now delighted to personally own 7% of the equity [*another 3% is owned by David's family*].

The past four years have been a transformational time. Having raised so far £6.7 million of new equity under the Enterprise Investment Scheme, we are about to open one of the most pre-eminent and cutting-edge new breweries in Europe, together with state-of-the-art bottling, kegging and canning facilities. In addition to this £5.5 million development of our new 38,000sq.ft. site, we are embarking on the rapid expansion of our pub estate to showcase our beers and lagers across Southern England.

Having co-founded and invested in many breweries from London to Seattle via Paris and New York, I am hugely excited about realising the true potential of West Berkshire Brewery and creating real value for our shareholders before achieving an exit for them within the next five years".

out across established distribution channels a relatively small business which has demonstrated a degree of proof of concept or brand profile, can be hugely attractive. WBB has a very good opportunity to scale up its existing customers, particularly the supermarkets. For example, five years ago WBB was in a handful of Waitrose stores. It now has a national listing and is in approximately 300 Waitrose stores and 26 Tesco stores. There are around 3,500 Tesco stores in the UK so the opportunity to scale this customer up in the same way as with Waitrose could be significant.

Experienced management team

WBB has an exceptional management team led by **David Bruce** who has personally invested a significant amount of capital into the business over the years (approximately £500k; he and his family own roughly 10% of the equity of the company). David hopes to build on his success with similar investments such as The Capital Pub Company PLC which provided EIS investors with a significant return on their investment net of tax – note past performance is not a guide to the future.

David also co-founded The City Pub Company (East) PLC and The City Pub Company (West) PLC and has raised over £100 million EIS capital. David has a career spanning 5 decades in international brewing and licensed trade industry. In 1993 he was awarded "Outstanding Services to the Industry" from The Publican. Not only a major investor, David is Chairman and will be actively involved in the business.

Clive Watson has partnered with David in many businesses. He co-founded with him The Capital Pub Company PLC in 2000. He is Chairman of The City Pub Company (East) PLC and The City Pub Company (West) PLC.

Simon Lewis, CEO, has 25 years of experience in the drinks trade. He joined WBB in 2015 and was previously Operations Director for Purity Brewing Co. Simon heads up sales strategy and is responsible for managing the sales team and delivering growth.

Tom Lucas, Finance Director, is ACCA qualified and joined WBB in 2008. He has been instrumental in its growth strategy and works very closely with David. Tom has overall responsibility for Finance and Operations.

Head Brewer **Will Twomey** joined WBB in 2006 and became Head Brewer in 2011. He holds a General Certificate in Brewing. Will has created many of the beers including Mister Swift's Pale Ale. He is instrumental in new product development and increasing range with different styles and ingredients.

In November 2014 **Clive Watson** and **Simon Robertson-Macleod** were appointed Non-Executive Directors. David and Clive have worked together previously and have raised just under £90 million under the EIS since 2000 for ten pub companies, including The Capital Pub Company PLC which was sold in July 2011 to Greene King for an enterprise value of £93 million. Simon Robertson-Macleod has been involved in the Drinks Industry for over 40 years including senior positions with Scottish & Newcastle Breweries PLC and Fuller, Smith & Turner PLC (Fuller's). Whilst National Account Controller at Fuller's, Simon oversaw a 400% increase in the sales of cask London Pride.

A new experienced Financial Controller will be joining the team in September. In our opinion this will be an essential role given the ambitious growth plans of WBB to ensure the accounts and cash are under control.

From left: Will Twomey, Simon Lewis and David Bruce

Borrowing

An asset finance facility of £1.4 million is currently in place secured against the plant and equipment. The fixed rate of interest is 4.75% and it's repayable over five years. The forecasts provide for approximately £25k repayments every month once fully drawn down.

There is currently no other form of debt.

The key commercial terms of the Venture Capital (VC) deal, as provided by WBB, are:

- VC invests up to £5 million in year one and £12 million over the life of the company
- WBB invests lower of £1 million or 20% of VC investment
- Capital will be used to acquire and refurbish pubs, pay fees and as working capital
- WBB will supply beer under a supply agreement
- WBB will provide all back office functions under an operations agreement
- WBB will receive 20% share of profits

Financials

WBB has so far successfully increased its sales year-on-year with FY15 sales of £1.6m, FY16 £1.8m, FY17 £2.6m. Sales growth in FY16 was driven by increased bottle sales to supermarkets and growth in cask sales. The sales growth in FY17 is down to the launch of the Renegade product range.

The loss in 2017 includes the one-off costs of financing, launch of Renegade, new site implementation and double rent. WBB management considers the normalised loss to be £395k (rather than £516k).

The business currently achieves gross margin of around 40%. Direct costs include Excise Duty, raw materials (hops, malt, yeast, etc.), bottling and production. It is expected this will increase to approximately 55% following all operations being carried out in-house. Margin in 2017 took a hit because all the production of the newly launched Renegade product was outsourced.

WBB uses its own delivery trucks for carriage in and out of the plant and third party hauliers for deliveries to supermarkets.

The existing business is expected to be profitable (as a result of the margin improvements from in-house production) and cash generative. Outsourced production of Renegade products should stop from Q3/Q4 2017.

WBB has ambitious plans to grow sales to £8.7 million over four years and EBITDA to £2.2 million in the same period driven by brewery volume growth and improved margins, new pubs and the sale of bottling services. Overheads are expected to increase gently as the business grows; there is an agreed stepped rental profile which smooths out sensitivity to rental increases. As the brewery and packaging lines are fully automated it is not anticipated significant additional staff will be required.

Fixed assets increased significantly because of the new plant and bottling line. Specialist advice should be taken to maximise capital allowances and we have reported this to WBB. Stock includes raw materials (hops, malt, yeast

Profit and loss

	Mar/16 Actual £'000	Mar/17 Actual £'000	Mar/18 Forecast £'000	Mar/19 Forecast £'000	Mar/20 Forecast £'000	Mar/21 Forecast £'000
Revenue - beer sales	1,838	1,958	2,524	3,169	3,950	4,295
Revenue - pubs	--	642	1,507	1,957	2,132	2,276
Revenue - outsourced bottling	--		1,323	2,191	2,110	2,092
Total sales	1,838	2,600	5,354	7,316	8,192	8,664
Gross profit	816	981	2,997	4,119	4,475	4,734
Gross margin	44.4%	37.7%	56.0%	56.3%	54.6%	54.6%
Operating profit	7	(559)	680	1,605	1,912	2,140
Directors' fees	277	221	247	247	247	247
Net Profit/Loss	(270)	(780)	433	1,358	1,664	1,892
EBITDA	(189)	*(516)	735	1,683	1,997	2,236
EBITDA margin	(10.3%)	(19.8%)	13.7%	23.0%	24.4%	25.8%

Normalised EBITDA loss of £395k, before exceptional and one-off costs in 2017

Balance sheet

	Mar/17 Actual £'000	Mar/18 Forecast £'000	Mar/19 Forecast £'000	Mar/20 Forecast £'000	Mar/21 Forecast £'000
Fixed assets (NBV)	3,758	7,442	7,145	6,858	6,520
Current assets					
Stock	270	461	524	593	613
Trade debtors	342	656	785	917	997
Current account	838	1,912	3,037	4,298	5,917
Total current assets	1,450	3,029	4,347	5,807	7,527
Total assets	5,208	10,470	11,492	12,666	14,047
Liabilities due within 1 year					
Trade creditors	741	736	719	714	805
Beer duty	31	102	127	158	164
Hire purchase	12	1,296	1,015	722	415
VAT	72	295	333	372	392
Corporation tax	--	82	238	291	331
Total current liabilities	856	2,511	2,432	2,257	2,107
Net assets	4,353	7,960	9,059	10,407	11,941
Share capital & reserves					
Share capital	285	399	399	399	399
Share premium	4,954	8,096	8,096	8,096	8,096
P&L reserve	(886)	(536)	564	1,912	3,445
Total share capital & reserves	4,353	7,960	9,059	10,407	11,941

The Depot pub, Islington

Cash flow

	Mar/17 Actual £'000	Mar/18 Forecast £'000	Mar/19 Forecast £'000	Mar/20 Forecast £'000	Mar/21 Forecast £'000
Opening cash	2,869	838	1,912	3,037	4,298
Capital received	--	3,406	--	--	--
Debt received	--	1,490	--	--	--
Cash received	--	720	842	988	1,035
Debtors received	--	5,391	7,808	8,710	9,280
Cash In	--	11,007	8,650	9,698	10,316
Creditors paid	763	2,673	3,311	3,456	3,535
Beer Duty	--	771	1,098	1,438	1,601
Hire Purchase Repayments	--	206	280	293	307
Hop Payments	--	181	228	272	191
Staff Costs	--	1,333	1,489	1,516	1,531
Corp Tax	--	--	102	263	320
VAT	--	71	919	1,075	1,192
CapEx	--	46	35	55	--
New Brewery Capital Cost	1,269	3,311	--	--	--
Change in Working Capital	--	191	63	68	21
Investment in Sister Pubs		1,000	--	--	--
Capital Costs	--	150	--	--	--
Cash Out	2,031	9,934	7,525	8,437	8,697
Cash Flow	(2,031)	1,074	1,125	1,261	1,618

Target returns based on a £10,000 investment

EBITDA Multiple	7x (£'000)	8x (£'000)	9x (£'000)	10x (£'000)	11 (£'000)	12 (£'000)
Business Valuation	15,651	17,887	20,123	22,359	24,595	26,831
Net Cash for Distribution	5,501	5,501	5,501	5,501	5,501	5,501
Total Return	21,152	23,388	25,624	27,860	30,096	32,332
Investment	10	10	10	10	10	10
Tax relief	3	3	3	3	3	3
Net Investment Cost	7	7	7	7	7	7
Investor share of proceeds	20	22	24	26	29	31
Investor Returns Multiple						
Pre-Tax Relief	2.0x	2.2x	2.4x	2.6x	2.9x	3.1x
Post-Tax Relief	2.9x	3.2x	3.5x	3.8x	4.1x	4.4x

The target returns are illustrative only and not guaranteed. It is based on WBB achieving the forecasts and exiting in year 2021, and what this could return an investor who invested £10,000. Based on some recent and comparable deals, should WBB be successful in its growth strategy the exit multiple could be considerably more, but there are no guarantees. We consider EBITDA multiples of 7x to 10x realistic for a business of this nature and size.

and chemicals), work in progress and finished goods: this includes beer in casks, kegs and bottled beer as well as stock in the on-site shop.

Cash in the bank is currently £1 million, sufficient to cover remaining capital expenditure to complete the plant installation and provide ongoing working capital for existing operations.

The Asset Finance is shown as Hire Purchase Payments.

Exit strategy

The target is to exit in year four. Given the number of acquisitive and cash-rich buyers and range of exit routes seen in recent deals in this sector, a sale to trade, private equity or IPO are all possible – however, none is guaranteed.

Risks

Below are some of the main risks. Carefully read the Information Memorandum for details.

- **Loss of capital** – this is a highly speculative venture with low liquidity and capital is at risk. It invests into a single business, with no diversification. Investors should not invest money they cannot afford to lose.
- **Operating risk** – the underlying business may not be successful, e.g. the margin improvement may not be realised and the third-party bottling may not grow as expected. The pub acquisition strategy may not be successful. There could be teething problems wth the plant. Overheads may be greater than forecast and profitability less.
- **Taxation risk** – tax rules can change and the value of tax benefits depends on circumstances. WBB must adhere to the EIS rules around the pub acquisitions.
- **Bank finance risks** – the use of a loan/gearing will increase risk. There is very little debt in the business currently so this appears to be manageable.
- **Interest rate risk** – as the bank interest rate is fixed this shouldn't be a risk.
- **VC risk** – WBB will be subject to its terms and conditions. If the pubs were unsuccessful the VC may have powers to protect its investment which may be detrimental to EIS investors.

Fees

There are no direct charges to investors. Grant Thornton, WBB's adviser, will receive a fee of 3%, contingent on the fundraise. The company will also pay an introducer fee to Wealth Club.

Summary

This is an exciting opportunity to invest growth capital into a EIS-qualifying, well established business with a track record of sales growth. The investment made into the plant and facilities this year should help deliver the anticipated increase in volume and margin improvement. Well managed businesses with good brands and routes to market can attract premium valuations and this is the route WBB is poised to take, although of course there are no guarantees. The increasing popularity of local breweries and craft beer also puts WBB in a strong position, in our view. There is good downside protection as the business has a good level of net assets and plant with a good second-hand value. The business should also get into profitability with no further sales growth. WBB has diversified revenues and offers the potential for an attractive return.

Wealth Club aims to highlight investments we believe have merit, but you should form your own view. You should decide based on the information memorandum and ensure you have read and fully understand it before investing. This report is a marketing communication. It is not advice or a personal or research recommendation. It does not satisfy legal requirements promoting investment research independence and is thus not subject to prohibitions on dealing ahead of its dissemination.

How to invest

Before investing download and read the documents at www.weathclub.co.uk/wbb

To reserve an allocation, please simply tell us how much you wish to reserve and confirm your name and email address. The minimum is £10,000 and the deadline 25 August. This doesn't put you under any obligation – it simply buys you some time to decide.

Reserve now