

Investment Appraisal

The Grant Arms
11 Market Place
Ramsbottom
BL0 9AJ

Prepared by: Bob Brooks, Senior Project Manager.
Report instructed by Phillip Rose.

Brief:

- To assess the financial viability of The Grant Arms as a Retail pub, dining and accommodation business.
- Provide recommendations to client.

Own Background:

Senior Operations for Hydes Managed Operations for the previous 10 years with focus on driving profitable acquisitions, and the development of the Hydes Estate through a Capital Development Investment Programme and the successful conversion of Tenancy to Managed realizing incremental profit opportunities.

The 34 managed houses range from high-end destination dining sites to vibrant town and city-centre bars and high quality wet-led operations including the development of Accommodation in selected sites.

Annual sales exceed £30m and the business has experienced strong growth in sales and profitability over the last 5 years driven by improvements to the quality of its establishments alongside the refurbishment of existing sites and the acquisition of new ones.

2017/18 has been an excellent year for company recognition. The business was 'Highly Commended' in the best managed houses category at the prestigious Publican Awards. One of the company's managed pubs with accommodation, the Coach and Four in Wilmslow, was recognized as the best managed house in the country at the Great British Pub Awards a 'hatrick' in this category over 5 years . In addition, Hydes was included in the London Stock Exchange list of '1,000 Companies to Inspire Britain' which identifies the fastest growing SMEs across all industries and regions of the UK.

Areas of consideration:

Trading history:

The Grant Arms, as with many traditional hostelries, has been challenged by the advent of alternative choices and attractions to its potential customer base and a changing lifestyle of many of its original target customers.

This has led to the site being closed currently with no plans in place to recover the site as a retailing multi- faceted business.

Looking back to 2009 the site was underperforming with sales of £340k and a mix of 85:10:5 Wet/Food/Accommodation which is untenable due to the operating cost of this large site. The Grant was at that time leaking cash and was reporting a loss of £53k PA.

The site was then privately leased from 2012 to 2016 where the freeholder had a headline rent of £72k pa for the site. Based on earlier figures this was a ‘major’ achievement although the outcome, as in several other similar leased pub and hotel ventures, was a series of rent reductions by over 30k in 4 years followed by surrenders and abandonments leading to the current situation of a closed dilapidated site.

There is no evidence of any level of investment into the site during this period.

Reputation:

The site has a high level of dilapidation and is currently closed and in danger of becoming an ‘eyesore’ due to its prominent location.

It has no trading reputation to any potential customer although does have a very poor reputation for service quality and value based on reports on social media platforms and from evidence provided within the industry from historical suppliers.

Current rating on Trip Advisor is 2.5* with over 61% of reports under 1* this is one of the lowest scores I have come across in an acquisitions role.

Competition:

Ramsbottom has developed a strong reputation in the recent past as a location providing a varied choice of well operated establishments covering the majority of customer expectations throughout the day and evening.

Business have been opened with good levels of investment providing attractive surroundings in smaller retail outlets, on lower overheads ,enabling entrepreneurs to trade competitively against the established ‘pub’ environment which struggles to compete in a high street environment.

Destination food outlets are well established and operate high turnover successful businesses attracting local customers to use them frequently. Sites of note in the area would include:

Pack Horse Affetside.

Eagle and Child.

Hearth to the Ram.

Nutters.

Wet sales are buoyant in the smaller sites with many bars specializing in drinks ranges around Cocktails–Craft and Cask Ales–Gins.

Bars range in style from Bohemian through to high end Cocktail and provide an excellent circuit experience within a small central location.

Accommodation is readily available within the town and its environs and the price range caters for the majority of requirements.

Average room rates midweek are competitive with examples of the range being Red Hall @ £55 and Eagle & Child @ £80 both net rate.

Example of trading levels and mix expectation following acquisition and major site refurbishment and relaunch against a model house:

Purchase and Refurbishment costs with target minimum **20% ROCE**

{Capital Costs/Operating Profit}:

AREA	GRANT ARMS MAXIMUM PROJECTION POST REFURBISHMENT	MODEL COMPARISON SITE ACTUAL FY 2017
Acquisition cost and refurbishment cost	£2.6m	£3.7m
Wet Sales	300,000	805,597
Food Sales	250,000	709,285
Accommodation	£175,200 (10 Rooms @ 80% occ £60 net RR	708,873 (36 Rooms @ 85% OCC £63 net RR)
Total sales	725,200	2,223,755
Wet Margin	201,000	569,581
Dry Margin	162,500	512,876
Accommodation	175,200	708,873
Total Gross Profit	538,700	1,7913,30
Payroll	217,560	629,675
Controllable Costs	130,536	360,337
Set up costs YR 1	80,000	
Operating profit	110,604	801,318
Fixed costs	79,772	200,904

Total Profit	30,832	600,414
% Conversion	4.25%	27%
ROCE	4.25%	36%
Wet Margin %	67	70.7
Dry Margin %	65	71.3
Total Margin %	72.1	81.2
Payroll %	30	28.3
Controllable Costs %	18	16.2

Assumptions made:

- Sales: Operators launch and trade the site at levels not experienced in previous known history.
- Model house margins are actuals-Grant margins are based on an experienced FOT operator managing the controls efficiently
- ARR and Occupancy figures are achieved by strong direct marketing avoiding agency fees of between 15 and 20% adversely effecting profitability.

ROCE hurdle:

- This could be set between 15% and 20% dependent on the investor and alternative investments available to them.
- A larger company may well see the lower figure as tenable over the longer term and with the criteria of the value of alternative use being recognized at a reasonable level.

Overall summary and recommendation:

- The Grant Arms is a distinguished looking building with prominence in its location although I am unsure that its immediate location would now be regarded as ‘front line’ due to the way business and customer footfall is concentrated into the central block of streets opposite.
- The car parking facility is a bonus although potentially only a major daytime benefit and a strong driver to potential residents.
- The reputation of the business is going to be extremely challenging and onerously expensive to reposition the business.
- The operator would have to either have a strong existing reputation or brand and I don’t think this building and its challenges would be attractive to most.
- The competition both in the immediate vicinity and further afield is varied and on the whole well operated. I would expect that the strongest of marketing and digital marketing strategies would need to be employed, at a high level promotional costs, to ‘prise’ these customers away from their current circuits. This may result in a virtuous circle of promotions with no recognizable benefit “busy fools syndrome”.

- The size of the building would be onerous to the majority of parties not only for the reinstatement and refurbishment cost but also the ongoing operating costs will be high.
- Taking all I have said above and looking at this from purely financial perspective I would strongly advise that you would not proceed to purchase this site and attempt to reopen it as a bar/dining and accommodation offer.
- Please contact the author if you have any further questions.

Bob Brooks September 2018.