

SIBA Purchase of a majority shareholding in Flying Firkin Ltd
Questions and Answers December 2017
Version 1.1

From- Mike Benner, Chief Executive

Introduction

SIBA announced on Monday 4th December 2017 that SIBA Commercial Services Ltd, the commercial arm of SIBA, which is wholly owned by the Society, has bought a majority shareholding of 75% in Flying Firkin Distribution Ltd (FFD).

A statement was issued to all members and to the trade press on 4th December.

A number of questions and issues have been raised by members following the announcement and the purpose of this paper is to provide answers to all SIBA members in an open and transparent way.

This is a 'living' document and further updated versions will be issued as required.

The Executive is very pleased to be able to expand on this positive news so that all members are aware of the process and of the benefits we are confident the purchase will bring to many member businesses.

If any members would like to discuss the purchase privately please contact Mike Benner, Chief Executive, or Nick Stafford, Operations Director. Contact details are at the end of this document.

Who is Flying Firkin Distribution Ltd?

FFD has been a specialist distributor of craft cask ale for over 25 years, based in Colne, Lancashire and has been instrumental in creating and sustaining profitable sales channels for hundreds of British independent craft breweries to the On Trade throughout the UK.

Flying Firkin has always operated under the same ownership and operating personnel. FFD's Managing Director, Nina Bates, has run the business and will remain as both a shareholder (25%) and MD, bringing her wealth of experience to the SIBA Commercial team.

FFD is well-known to most SIBA members, which make up the majority of supplying brewers, selling over £1m of craft brewed beer per year via FFD. FFD has assisted with SIBA operations on several occasions over the years, including the provision of the Beerflex Beer Festival service to Ei Group.

FFD has gained an enviable reputation for cask ale distribution and has provided a service to a large number of SIBA members enabling their beer to be enjoyed outside their own trading areas. Nina leads a team of seven staff and six delivery vehicles. The operation is well organised in every detail – conscientiousness and integrity are bywords of the company.

Flying Firkin was responsible for co-ordinating the logistics of the original SIBA Access to Market Scheme, the forerunner to the Direct Delivery Scheme (now Beerflex DDS), which

proved to the pub company involved that centralised distribution struggled with small volume lines and encouraged the pub company to allow SIBA Brewers supervised, limited direct delivery access - hence the DDS/Beerflex scheme was launched.

Nina served as a North regional director of SIBA between 2004 and 2009 (before the split into two regions) and was heavily involved in cask repatriation, updating, implementing and operating a SIBA cask repatriation system, the forerunner of NCRNet.

Why has SIBA taken this step?

Within our 'Four Pillars' strategy SIBA has committed to improving market access for assured independent British craft breweries and to help ensure that the smallest brewery is able to grow their businesses via access to sales opportunities to all markets and the means by which deliveries can be made.

Distribution networks in the UK are experiencing serious commercial pressures in a competitive beer market in wholesale and retail sectors.

SIBA needs to take action to protect existing business for SIBA brewers and to be minded to prepare for difficulties in developing a favourable commercial climate to enable growth of its members.

As part of its commercial strategy to develop routes to market opportunities for our 850 craft brewery members, we are complementing the Direct Delivery Scheme (Beerflex DDS) and the SIBA Stockholding and Delivery Centre (HDC) with a traditional wholesaling operation under the direct control of SIBA Commercial Services Ltd.

SIBA's success with the Direct Delivery Scheme (Beerflex DDS) has provided access to a foreclosed market for hundreds of SIBA brewers and contributed to a vibrant local beer market.

In recent years our commercial activities have expanded to help create new routes to market for members via the HDC to dovetail supplies into central distribution networks for domestic and export markets.

In summary, the purchase of Flying Firkin is to:

- Protect and develop an existing route to market favoured by our members for years.
- Enhance Beerflex operational reach and stature in Customers' eyes and help Customers consolidate craft beer operations as the market matures.

It's part of the step change SIBA Commercial should take in leadership of supply of craft beer for its members and we think it will be a great fit and addition to the SIBA family!

Is FFD a successful business?

FFD is a well-run cash generative business, which has operated successfully for many years, providing a route to market for members' cask ales mainly via its featured ales programmes and festival services.

The management has recognised that in order to grow in a very difficult trading environment, with a recent steady decline in sales, a sales resource is required urgently. This

would have represented a significant step for the business. It was this requirement which led to the approach to SIBA in the hope that a partnership would create a stronger more sustainable business bringing the benefit of SIBA's existing commercial team and the distribution capability of FFD together as one.

How does the purchase fit with SIBA's vision and strategy?

SIBA's vision to deliver the future of British beer and become the voice of British brewing is bold and far-reaching. It directs our activities as a trade association and the activities of our commercial arm, SIBA Commercial Services Ltd. SIBA Commercial Services Ltd is the wholly owned subsidiary and as such all proceeds are injected back for the benefit of the Society.

Our Four Pillars strategy adopted earlier this year focuses all our activities up to 2020 on access to market, taxation, promotion of members' beers and product excellence. The purchase of FFD is directly related to market access and aligned with the promotion of our members' beers and product quality.

What is the rationale for the purchase?

Wholesale prices of beer, particularly cask ale, are being reduced to an all time low. Wholesalers are now focussing on higher volume, mainstream brands. If this volatile small brewery network collapses, national distribution of 'any beer to anywhere' will be jeopardised. SIBA needs to maintain good relations with all wholesalers (or as far as possible) to be ready to offer help to maintain the long-term future of this valuable service.

Central distribution across the industry is also volatile, best illustrated by the withdrawal of Carlsberg UK. Pubcos using central distribution are increasingly sensitive to managing stock with slower throughputs. SIBA member breweries are likely to discover it harder to gain access to this distribution route without managing their own stock. SIBA has the IT facilities and experience to assist. Brands with lower throughputs require smaller scale 'wheels' to move beer about the country.

The SIBA HDC concept will be enhanced by direct control of a distribution company to bring to the HDC lower volume products at a viable cost. The HDC must differentiate itself from usual collation services, which require minimum throughput, excluding very small breweries. Additionally and significantly, exports through SIBA initiatives have never materialised due to a lack of access to a small-scale distribution network.

Isn't this just a money-maker for SIBA?

No. The proceeds of SIBA Commercial Services are injected back into the Society which helps keep down the cost of membership. The income from our commercial activities is important in enabling us to function as a trade association, but equally, it provides benefits to hundreds of members.

Around £11,000 of SIBA's Beerflex profit comes via FFD as suppliers to EI Group beer festivals. The purchase helps to protect this important income.

Of much more importance is the fact that over £1m of member sales are generated via FFD and the primary reason for the purchase was to protect and develop this access for members.

Isn't this purchase an example of SIBA competing with its own members?

The SIBA Executive, as the Board of SIBA Commercial Services Ltd, is very sensitive to this area of concern and considers it with each proposal from the senior management. Our commitment to building improved market access does mean that we have to push the boundaries to enable members who choose to do so to benefit from the opportunities which SIBA can bring as an effective and trusted operator with our retailer customers.

Retailers are increasingly looking for national solutions for local beers, for craft beer category management and a one-stop shop for craft beer. Like other operators we have to meet the demands of the market, while also balancing the needs and expectations of our members. This can be a challenge. Since SIBA is not the only operator in this market place it is important that we investigate and build opportunities as they arise and this may mean taking a much more active role in building new business in a changing marketplace.

Are there any conflicts of interest and how have these been managed?

The initial approach from FFD was to our long-serving Operations Director Nick Stafford. Nick is an Executive Director of SIBA. Nick has known Nina, like many brewers, for many years. Two members of Nick's family were also shareholders in FFD, alongside Nina. Nick declared this conflict of interest at the beginning of the process. It was dealt with appropriately by the SIBA Executive throughout consideration of the proposal and the resulting due diligence. The process was managed by Francis Patton, Chairman of the Executive and by John Hart, Finance Director, with the Chief Executive, Mike Benner kept informed at every stage. Nick played a minor role in the process, contributing commercial forecasts and information as required.

Why were members of SIBA not consulted?

I'm sure most members will appreciate that it is not practical for the Executive or the Board to consult with members on every activity and the Executive is in place to make decisions as the Board of SIBA Commercial Services Ltd, within its authority set out in the Society's rules and within our strategy.

On a wider governance point, the Board of Directors can make changes to SIBA's rules and policies at any time. The Board consists mainly of elected directors from each region. It is not required for the Board to make proposals for change via motions at AGM or consult the whole membership, although it may choose to do so. This enables the Board to operate the Society effectively, ensuring it can deal with issues practically and respond in a timely manner.

In the case of this purchase, the matter was not referred to the whole SIBA Board, since it was a relatively minor transaction for SIBA Commercial Services, particularly in terms of the financial impact and risk. The Executive acted appropriately within its powers and the vendors demanded absolute confidentiality in order for discussions to proceed.

The Members' Handbook, which you will find on the SIBA Toolbox, contains all the Society's Rules and Articles of Association.

What did the purchase cost?

The costs to SIBA Commercial Services Ltd are confidential, but were limited to the net asset value. Other than legal costs and minor consultancy fees, there were no other costs to SIBA. The total cost represents around 6% of SIBA's total reserves. The purchase has a relatively minor impact on SIBA's finances given the benefits to members and the potential for growth.

What are the financial risks to SIBA?

It is a pre-condition of the purchase that SIBA is not obliged to any financial commitment beyond the initial purchase price.

What are the future plans for FFD as part of SIBA?

Initially FFD will run exactly as it did before the purchase. The terms and conditions, approach to pricing, etc will remain unchanged during a period to enable the businesses to be aligned. The performance will be reviewed regularly by the SIBA Executive and any changes notified to members.

By purchasing FFD, SIBA protects member sales and protects a small SIBA margin, but it also provides a wholesale arm allowing us to develop existing beer festival business, potentially grow member sales, enter new markets for SIBA and its members (such as hospitality and export) and start to bring the HDC concept to life.

The forecasts carried out during our due diligence suggest that trading will be profitable in year 1, growing further in year 2 and beyond. A detailed projection analysis has been carried out by the Executive. We will build the business within our existing plans around exports, a multi-format approach including a craft keg range and beer festivals.

It is important to remember that over a £1m of SIBA member business goes through FFD, so protecting this is a priority for the business going forwards. Beyond this, we aim to grow the sales of the breweries currently supplying FFD and a business plan is in place to enable this.

FFD do not use chilled warehousing. Are there plans to introduce this?

There are no plans to introduce this service at present, as the warehouse is partially underground with natural temperature control and proven successful operation, but it will be considered as an investment in the future.

Will all brewers supplying FFD now need to be enrolled in the SIBA Food Safety Certificate programme?

As part of our Four Pillars plans and consistent with all Beerflex activity, all brewers supplying beer to FFD will have to be enrolled in the SIBA FSQ or hold another approved level of certification by December 31st, 2019. As with the introduction of FSQ to Beerflex (of which FFD is now part), a 24 month period for suppliers to enrol in the SIBA FSQ is considered to be fair and reasonable.

For non-SIBA members, who are still able to supply FFD, we will require an acceptable alternative to the FSQ by December 31st, 2019 or that the brewing business joins SIBA and enrolls in the FSQ by December 31st, 2019.

What if I have other questions?

Contact Nick Stafford, Operations Director, for questions on the commercial or operational aspects or Mike Benner, Chief Executive, on other aspects.

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Ends

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