

2 Wardrobe Place  
London EC4V 5AH

June 2020

### **City Fund - Tranche One update**

Dear Investor,

We herewith provide our bi-annual update for Tranche One of The City Pub EIS Fund, consisting of The Galaxy (City) Pub Company Ltd, The Pioneer (City) Pub Company Ltd and The Sovereign (City) Pub Company Ltd, which trade under the Mosaic Pub & Dining brand ([www.mosaicpubanddining.com](http://www.mosaicpubanddining.com)).

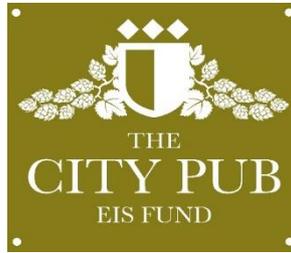
The latest financial year ended 29<sup>th</sup> March 2020 has been a period of consolidation for our companies. We have spent much of the year focussing on further establishing our pubs and refining their offers, and we are confident that the estate is well-positioned to push on again once normalised trading becomes possible. Trading in the period was generally satisfactory. We were up against tough comparatives with the previous year enjoying excellent summer weather and a World Cup tournament which included seven England games, while poorer weather, Brexit uncertainty and the Coronavirus all impacted 2019/20.

Turnover for the 52 weeks was £8.24m, 8% less than the prior (53 week) period. The last three weeks of the trading period were seriously impacted as a result of Covid-19. Gross profit margin improved from 70.4% to 71.5% thanks to stronger buying and better stock management at site level. The Companies' EBITDA before management charges was £0.86m, 1.5% above the prior period. The Bethnal Green Tavern was disposed of in January this year at a small book loss; elsewhere the estate traded within expectations. Our flagship, The Garrison, is reinvigorated with many new customers coming in; The Frederick Street Townhouse, which benefits from 15 letting rooms, became more established in the period; and the courtyard space behind The Button Factory will be developed into an urban garden and music destination at a modest cost. The remainder of our sites are in very good condition and we feel we have strong management in place at each of them.

Since the horrendous day of March 20<sup>th</sup> when our pubs were forced to cease all activities, we have been focussing on cash preservation and liquidity to ensure we are able to weather an extended period of reduced trading. We have taken advantage of the government's Job Retention Scheme, local government grants, business rates relief and the VAT payments freeze, all of which have been of great help. We are currently continuing negotiations with suppliers and our two landlords and we are confident that we will be able to negotiate additional discounts and rent-frees/rent deferrals.

Our executive directors have taken pay cuts and have deferred their bonuses. Our non-executive directors have waived their fees since April 1st and this will be reviewed once our pubs reopen.

Our current debt of £4.15m gives gearing of 29% on normalised valuations. Given the freehold nature of the trading portfolio we feel there is strong asset-backing. We have applied for a £500,000 CBILS loan which our bank has responded to positively and this will further improve our liquidity. Many cost-cutting initiatives are being introduced to ensure we are working on a zero-cost basis and justifying every expenditure. We have streamlined operations which will simplify the running of the pubs when they re-open and reduce costs. Our



'cash burn' is very low and we believe we are well-positioned for the coming months; however, should our cash reserves deteriorate significantly we would not hesitate to dispose of a freehold asset in order to raise additional funds with which to safeguard the businesses' future.

At normalised trading our estate has a valuation of circa £21m, which equates to over 100p per share. However, the almost unprecedented recent events have inevitably impacted on value in the short to medium-term. The listed markets show that sector companies' values have fallen from between 30% to 70% over the past two months. These companies additionally have the advantage of having access to raising further equity via share placings, which clearly we do not have. We have therefore assumed a fall in our net asset value (NAV) of around 50%. It is a serious and challenging set of circumstances, however, we have strong, highly-experienced management who have successfully navigated previous major economic downturns, and we are quite clear in our vision to take the businesses back to high profitability and restore shareholder value. It will take in the region of three years to restore value lost through Covid-19.

Rest assured that we will take all measures necessary. If you have any questions with regards to the above, please email [clivewatson@citypubcompany.com](mailto:clivewatson@citypubcompany.com). We also recommend that you talk to your independent financial adviser (IFA). Meanwhile, we wish you all good health and safe passage over the coming weeks and months, and we look forward to updating you later in the year, when it is hoped we will be both open and growing our businesses once again.

Kind regards

**Clive Watson**  
Investment Consultant

**Peter McDonald**  
Joint CEO

**James Watson**  
Joint CEO

### Estate

- **The Garrison**, 99 Bermondsey Street, London SE1 3XB ([www.thegarrison.co.uk](http://www.thegarrison.co.uk))
- **The Green Goose**, 112 Anglo Road, London E3 5HD ([www.greengooselondon.com](http://www.greengooselondon.com))
- **Walkers of Whitehall**, 15 Craig's Court, London SW1A 2DD ([www.walkersofwhitehall.co.uk](http://www.walkersofwhitehall.co.uk))
- **The Button Factory**, 25 Frederick Street, Birmingham B1 3HH ([www.thebuttonfactorybirmingham.co.uk](http://www.thebuttonfactorybirmingham.co.uk))
- **The Fire Station**, St James Square, Cheltenham GL50 3PR ([www.thefirestationcheltenham.co.uk](http://www.thefirestationcheltenham.co.uk)),
- **The Distillery**, 4 Sheepcote Street, Birmingham B16 8AE ([www.thedistillerybirmingham.co.uk](http://www.thedistillerybirmingham.co.uk))
- **Frederick Street Townhouse**, 26 Frederick Street, Birmingham B1 3HH ([www.frederickstreettownhouse.co.uk](http://www.frederickstreettownhouse.co.uk))
- **The Case Is Altered**, High Road, Eastcote, Pinner, Middx HA5 2EQ ([www.caseisalteredpinner.co.uk](http://www.caseisalteredpinner.co.uk)),
- **The Rising Sun**, 277-279 Richmond Road, Twickenham TW1 2NP ([www.therisingsunrichmond.com](http://www.therisingsunrichmond.com)),