

Re. Black Sheep Brewery PLC

Dear Fellow Black Sheep Brewery stakeholder.

Welcome to this updated version of the www.buildingabetterblacksheep.com web-site.

Firstly, and to be absolutely clear, the contents of this web-site are highly critical of what I believe to be the long-term mismanagement of the Black Sheep Brewery PLC (“Black Sheep” or “Company”) by the majority of its current board (“Board”), and unsurprisingly, my views are in no way endorsed by the Company or its Board.

There’s an old adage that “When you’re in a hole, you should stop digging”! Continuing to endorse the failed management strategies of our chairman, Andy Slee (“Andy”) and the two Theakston brothers, directors of Black Sheep, Robert (“Rob”) and Jonathan (“Jo”) is just that, the equivalent of continuing to dig, and we need to stop it right **NOW**.

And I remind Andy that the role of the chairman of a public company, is “to advise, encourage and warn, and in the final analysis if they are not performing, to fire the executive management”! Something he has singularly failed to do.

The recent release of Black Sheep’s horror-show of a Report & Accounts for 2022, inter alia disclosed

- (a) Yet another **Net Loss**, this time of **£1.1 million**;
- (b) That Overall Debt, including the post balance-sheet-date loan of £1.6 million under the Recovery Loan Scheme, now stands at a record level of £7.76 million, **up 108.36% since 2019**;
- (c) So that gearing has risen to an I believe unsustainable 1.85 x’s Black Sheep’s Total Equity;
- (d) That Cash at Bank **fell by 90.5%** during the last year;
- (e) That frighteningly, **Interest Payable** and similar expenses **increased by 85.6%**, at a time when UK interest rates have only just begun their upwards journey; and
- (f) That **Net Assets had fallen** to just £4.19 million, a **reduction of 42.9%** over the last ten years.

With no current year guidance offered in the latest Report & Accounts by either Andy or our CEO, Charlene Lyons (“Charlene”) and the UK’s current, well-publicised “Cost of Living Crisis”, I doubt our Company has traded profitably during the first part of the current year, so, that Net Assets figure above may now be even lower.

I therefore believe this is the time for all of Black Sheep's stakeholders, to recognise that the vision for and leadership of our Company by Rob and Jo over the last dozen years has manifestly failed, and that Andy has equally failed to fulfil his duties as our Company's chairman by not firing them.

We should therefore now as shareholders, all combine to say loudly, firmly and publicly to the Board that, "**Enough is Enough**".

When I last posted this web-site in 2019, I described Andy as not "a man whose word can be relied on", and that "his appointment as chairman is primarily to ensure that Black Sheep remains a Theakston Family benefit business" and I concluded with the words "it is most probable that no real progress will be made till we've had a complete clear out of most of the current Board and Management." Now, three years later, I believe it is plain to see how right I was.

In my opinion, Andy, who arrived at Black Sheep with very limited corporate experience, has been an unmitigated disaster as chairman and, as I rightly surmised three years ago, seems to have acted merely as Paul Theakston's ("Paul") placeman, for the purpose of protecting the I believe unmerited jobs and Board seats of the entitled Rob and Jo. The above bleak financial numbers display, in my opinion, that their long Board room tenures have been disastrous for all of us stakeholders, as proven amongst other things by the steady decline in our Company's indicative share price on the Asset Match platform to a new thirty year low of £1.15.

Below, you will find a letter setting out numerous further reasons why I make the above accusations and separately, I will shortly be posting a detailed analysis of the latest Report & Accounts for 2022.

*Most importantly, when you have read this latest update, I ask you to please, please **VOTE AGAINST** Resolutions 4, 5 and 6 for the re-elections of Jonathan Theakston, Robert Theakston, and Andy Slee as directors, at the Black Sheep AGM on Thursday 22nd September 2022.*

Their re-elections, if, as they probably will be, passed, will likely, in my opinion, only cause Black Sheep's fortunes to further deteriorate to the point when our Company's solvency may become an issue.

If Andy, Rob and Jo are unfortunately re-elected on Thursday, I will then, in the ensuing weeks, seek to gain sufficient support amongst our fellow Black Sheep shareholders to requisition one, or as necessary more, AGM(s) to dismiss them.

You may contact me by e-mail at david.nabarro@buildingabetterblacksheep.com. I look forward to hearing from you and to your support for quite literally "Building a better Black Sheep". Thank you.

David Nabarro
Continuingly deeply concerned Black Sheep shareholder

Shareholder update

Dear Fellow Shareholders.

It is now three years since I last updated our www.buildingabetterblacksheep.com web-site in the Autumn of 2019.

Communication

I have waited so long before doing so again, partly because in January 2020, Charlene was appointed as our new Black Sheep's CEO, and out of fairness and respect, I wanted her to have a reasonable period of time to make the so desperately needed changes to put our Company back on the right track, and partly because of the Black Swan (not sheep!) nature of the Covid pandemic, a very damaging event quite beyond the control of either our Board or executive management.

Charlene Lyons

To her great credit, Charlene has communicated with me regularly and in confidence, and I have in turn respected that confidence, not traded in Black Sheep's shares on the Asset Match platform, and regularly provided her with robust, independent and unpaid advice by e-mail, all of which, while generally not heeded by her, has subsequently been shown to be correct.

In the autumn of 2019, I described Charlene as "an impressive and valuable addition to the Black Sheep team". I was/am right, and, since then, I have come to hold Charlene in high regard for her commitment, determination, professionalism, extraordinary hard work and despite all the setbacks continuing good humour.

The honeymoon is over

However, as I have reminded her, after thirty-three months in post, her honeymoon period is now well and truly over, and simply offering the prospect of jam tomorrow, combined with referencing EBITDA not real profitability, and her prevarication on making the necessary changes to Board room structure is now beginning to damage her credibility too.

Executive managers are reasonably given a couple of years, at most three, to deliver, but beyond that, if they do not, they should go. I remain supportive of Charlene, but with Black Sheep's lack of an equity capital injection and desperate need to invest, it's a matter of timing and she appears to me to be consistently taking too long.

The Board

Amongst Charlene's problems are, in my opinion, an evident lack of corporate vision, commercial nous, attention to detail, sense of timing or intellectual challenge from the rest of her Board, from which I exclude the excellent and only recently appointed new CFO, John Hunt ("John").

I sometimes suspect Charlene must feel lonely in her role and sympathise, but after thirty-one years of Black Sheep's disappointing, long-term, non-performance and the recent release of the 2022 Report & Accounts disclosing in gory detail the appalling state of our Company's finances, now is principally the time to shine a spotlight on the failures of competence displayed by three of her boardroom colleagues, Andy, Rob and Jo.

Andy has been on the board for seven years and our chairman for five, while Rob and Jo have each been directors of Black Sheep for at least twelve years, so the three of them really can and in my opinion should rightly be blamed for the mess we see our Company in today.

Andy

The likeable Andy has been on the Board since 2016, and here we are six years later with Black Sheep still not having reported the raising of anything remotely like the required equity injection. Even after a £630k equity raise in November 2019, and last year's fortuitous receipt of £2.4 million of insurance proceeds, debt has more than doubled, ballooning to a frightening and expensive £7.7 million, while sales continue to stagnate.

Any sensible, experienced non-executive director, yet alone a chairman, would have insisted, immediately on their appointment, on Black Sheep going out to market to raise new equity, but not Andy. Why was that I wonder? My own guess, is it was a combination of simply not understanding the depth of Black Sheep's balance sheet imbalance, and his probably having promised Paul, not to materially alter the balance of our Company's share register, so as to continue to safeguard Rob and Jo's unmerited jobs and positions on the Board.

In the 2021 Report & Accounts, Andy wrote "It is difficult to describe the enormity of the challenges we have faced in the last twelve months" and "This has been a very difficult year for everyone". A year later things under Andy's stewardship have simply got worse.

I'm afraid, by his lack of communication, of which more below, Andy seems to me to lack vision, energy, ability, attention to detail, financial grasp, an understanding of the role of chairman or any idea of his duties to communicate openly with Black Sheep's stakeholders.

Of course, the indicative share price says it all. Since Andy joined the Black Sheep board in September 2016 it has fallen by 60%. He should go and NOW.

Corporate Communication

In my view, Andy's failure, as chairman, to provide any real commercial update on our Company's affairs for three protracted periods, between 24th December 2018 and 8th August 2019, a total of eight (8) months, then secondly between 8th August 2019 and 2nd September 2020, a total of thirteen (13) months, and most recently between 9th August 2021 and 26th August 2022, a total of twelve (12) months, was a combination of laziness, irresponsibility and being deeply unfair to shareholders, as it effectively allowed a false market to prevail in the small number of Black Sheep's shares, which changed hands on a quarterly basis on the Asset Match, matched-bargains platform.

During each of the above periods, the Board facilitated regular auctions of its shares on the passive, Asset Match, matched-bargains platform, when simultaneously, shareholders/investors had not been provided with detailed, publicly available, financial information upon which to make informed investment decisions about buying, selling or simply continuing to hold their shares.

While the Trading update on 20th January 2020 included the words "a difficult cask beer market" and "Profitability has been impacted", it gave no indicative numbers upon which any interested shareholder could make a sensible investment judgement, and in making these claims, I exclude the slide show provided at the AGM held on 23rd September 2021, because the slides flashed by quickly, and unlike in 2020, no copies were provided for shareholders to take away. Why was that? Well, Andy might claim commercial confidentiality, but I suspect the truth is much more mundane, that the very poor facts and figures were just too depressing to disclose to shareholders.

In my opinion, those lapses in communication alone should have been sufficient cause for Andy's removal from the Board as chairman and a director of Black Sheep, and I have reported my concerns by e-mail to the Financial Conduct Authority ("FCA") and await their response. Once I have done so, I will also share my concerns with Asset Match.

The Web-site

Again, on the subject of corporate communication, there were long periods when our web-site was not kept up to date, and even today, despite my several times pointing it out to Charlene, poor Mary Lightfoot, Rob and Jo's great, great, great, great granny is shown on the Theakston family tree as having been born in 1826 and yet died in 1799 and was apparently married in 1777 when apparently she couldn't have existed! A second coming? Poor girl. She deserves better of Black Sheep, and as ever, in running a business, attention to detail really does matter, and our Board should do better.

Disclosure

And Andy and for that matter the whole Board, seem not to understand the importance of disclosure. And that's not just for legal and regulatory purposes, but for stakeholder confidence in the Board and management of a company whose shares change hands at regular intervals.

Why are there no details provided on beer sales by category? Or volumes of cider, gin and vodka? Why are the individual remunerations of directors not disclosed? Why are the attendances of directors at Board meetings not disclosed? Why when John was recently appointed to the Board were no details of his previous directorships, if any, disclosed? I could go on.

When appointed chairman, Andy should have taken the lead in communicating with stakeholders. If you communicate and share, you can carry your shareholders and community with you, if you don't you won't! Andy simply didn't and still doesn't get it.

What is Black Sheep for?

The essential task of Black Sheep has always been and remains, to brew outstanding quality and great tasting beers and to sell them as widely as possible at a profit, for the benefit of all of Black Sheep's stakeholders, that's its employees, its shareholders, its bankers, its on and off trade customers, its drinkers, and the wider communities Black Sheep serves.

Continuing losses – Capital destruction

But in straightforward terms, over the last dozen years, and excluding the recent difficult Covid period, Black Sheep, under Andy, Rob and Jo's stewardship, has seen overall beer sales remain broadly static around the £18 million per annum mark (that's including Beer Tax, so nearer to £10 million p.a. in reality), while continuously racking up losses and more and more debt, and failing to raise adequate capital to invest in and expand the business. These failures combined have resulted in long-term capital destruction for shareholders, as the indicative share price has steadily declined back to levels last seen more than thirty years ago.

Branding and Products

In some ways, demand for our core Black Sheep Ale has never recovered from Rob Theakston's disastrous decision some years ago to change its malt content.

And sadly, when I look at Black Sheep's bottled products today, and our Company's provincial web-site and amateurish branding, I'm struck by a sense of impermanence, and crucially, I don't get that all important feeling of "must have" when I see Black Sheep products available in the off-trade, i.e. at Tesco.

To me, the dated web-site, which whoever is responsible continually fails to update, almost advertises Black Sheep's desperate shortage of cash.

Also, in my view, our target market customers are now offered so many different products (see www.blacksheepbrewery.com), I suspect they may be as confused as I confess I am as to what it is our Black Sheep brewers actually want us to drink.

While I agree a strong home base, i.e., Yorkshire, is fundamental to sales success further afield, and that the lower costs of short-range distribution makes strong financial sense, I am not convinced Black Sheep has got the balance of its efforts between Yorkshire and the rest of the UK or beyond, right.

Next, last February's "Drink Cask Beer – It'll change your life" marketing initiative makes Black Sheep look dated and indifferent to change, when it is widely accepted that Cask Beer is, and will continue to be, in decline, and in a rapidly changing alcoholic beverages market, will increasingly, if sadly, play a smaller part of the future.

It would be far better if our Company had already been focused on Low and Zero alcohol beers, for they really are a major part of the future and needs our management's more urgent attention.

And then, fiddling around with Bobby Horn's cider, combined with forays into Black Sheep gin and vodka just looks embarrassing and, in my opinion, rather desperate. Certainly, I see no Heineken or Peroni cider, gin or vodka!

Dumping failed strategies

Black Sheep's dire short-term and long-term performances starkly illustrate our Board's failure to measure up to its task, and to achieve the necessary changes, which is why our Board needs so urgently to dispense with the services of Andy, Rob and Jo and to dump their clearly failed strategies.

New leadership

Then under Charlene's leadership, with John in support, a restructured Black Sheep Board should adopt new and challenging targets, ensure they can be achieved by fundamentally restructuring Black Sheep's capital structure with a much more prudent balance between equity and debt, and oversee executive management's delivery and, if necessary, based on performance, or lack of it, a new and competent chairman can make the necessary future changes to the executive team.

Lack of non-executive oversight

With Andy's manifest failings as chairman, and since the sudden, and I suspect forced, resignation of Paul Nolan in September 2019, Black Sheep has had no genuinely independent non-executive director's ("NED") oversight to challenge executive management. This failure to appoint one or more NED's by Andy and Charlene over the last thirty-six months, is in large part to blame for so many of the failures of governance, particularly the lack of shareholder communication, by Andy, Rob, and Jo over recent years. That observation of course excludes John, our excellent new CFO, who is of course an executive director.

CFO's and Auditors

On the subject of CFO's, while I strongly welcome John's very recent appointment, I am and believe all shareholders should be concerned that in four years, Black Sheep has very unusually for a public company had four chief financial officers, the original Steve Constable, then Simon Adams, and then Chris Kelly as acting CFO, before John's arrival at the beginning of July.

2022 was also the year when Black Sheep changed auditors from RSM to Azets, without any explanation as to why. That's not necessarily another red flag, but given the depth of the problems disclosed in the latest 2022 accounts, it certainly gives me pause for thought.

The heartbeat of Yorkshire brewing – Timothy Taylor's

Black Sheep has been referred to as the very heartbeat of Yorkshire's brewing industry, but sadly that accolade deservedly goes to Timothy Taylor's. During the last dozen years before Covid struck in March 2020, Black Sheep's average annual revenues remained stubbornly constant at circa £18.8 million, very little different to the figure of £18.59 million achieved in 2010 and over the same period, managed to lose a cumulative total of £2.77 million or 39.8% of our Company's capital, a figure much flattered by the receipt of total one-off insurance proceeds during 2021 and 2022 of £2.43 million.

To be fair, Timothy Taylor's has nineteen retail outlets compared to Black Sheep's five, but over the same period, Timothy Taylor's revenues while also largely static, averaging £21.59 million per annum, were crucially profitable in every year and, over the twelve years period after paying annual dividends, their Net Assets increased by 30.6% to £33.49 million.

For 2021, Black Sheep reported revenues 31.29% below their pre-Covid figure of £19.35 million, while Timothy Taylor's reported a not dissimilar fall in revenues of 33.18% from their 2019 revenues figure of £25.52 million, BUT while, in a terrible year for the industry, Timothy Taylor's lost just £28,000 before receipt of their business interruption claim of £2.5 million and government support of £0.62 million enabling them to report a record pre-tax profit of £3.09 million, Black Sheep after stripping out receipt of their similar net insurance claim proceeds of £2.27 million, lost an eye-watering £1.01 million.

Where fault lies

In sum, the root of Black Sheep's problems has been its long-term inability to invest in its brand, because of its shortage of equity capital and for that, in my opinion, Andy, Rob and Jo, the longest-standing members of our Board are entirely to blame.

Interest Rates

Between 2009 up until late 2021, the UK enjoyed a remarkable period of extremely low interest rates and unprecedentedly easy money conditions, when any responsible public company board should and would have raised new equity under what in retrospect were very benign conditions.

However, Andy, Rob and Jo for undisclosed reasons, possibly to do with maintaining the Theakston Family's voting control, and in my view irresponsibly, failed to grasp the opportunity and now, the lack of information forthcoming on a new equity funding, suggests that poor Charlene, as she tries to raise new equity as forecast by Andy in the 2021 Report & Accounts, but confronted by a falling equity market, much tighter monetary conditions and already sharply rising interest rates with the prospect of significant further rises, is probably finding it very difficult.

An Independent Financial Adviser

Charlene wrote in her latest report, that Black Sheep had last year "appointed advisers", but that progress had, in my view unsurprisingly, "not been as hoped". With no name of a new corporate finance adviser disclosed, her remark suggests one is not yet in place, which, after more than a year and given Black Sheep's desperate need for new cash seems like negligence.

Raising new equity capital

As I've said, Charlene's honeymoon period is effectively over, but I believe in tandem with John, and shorn of the encumbrances of Andy, Rob and Jo, she would be able to attract the right quantum of funding.

When, hopefully, our Company does finally raise new equity, it will need to ring fence as much as possible of the new moneys for a combination of new capital expenditure and investment in the Black Sheep brand, but in current tighter market conditions, I would logically expect our Company's bankers to insist on some reduction of debt at the same time.

Since equity investors always dislike seeing their invested moneys going to pay down historic debt, and will typically put a limit of an absolute maximum of 40% of new moneys raised going towards repayment of debt, it is my belief that to achieve its objectives, Black Sheep will need to raise of the order of £15 million to £20 million of new equity moneys. Such a raise, if

achievable, will likely be highly dilutive to existing shareholders and probably priced at a substantial discount to the current indicative share price.

Catch 22

The Catch 22 is whether to raise all the new equity moneys now or not. Arguably new moneys could be raised in increments in the future at hopefully higher prices and therefore on less dilutive terms, but that would put tremendous pressure on executive management to deliver short-term performance, without their having sufficient funds to finance it.

And only partially raising new moneys now, risks the possibility of failure or at least less success, and could leave Black Sheep's executive management cash-strapped and trying to manage the business as though they have one hand tied behind their backs, while potentially leaving Charlene having to continue running around with her begging bowl. So, not a good idea.

And in my view, seeking to raise new equity capital while Andy, Rob and Jo remain on the Black Sheep Board is a near impossible task, for the three of them cloaked in their past failures, are, as the time being taken to make any announcement strongly suggests, simply uninvestible.

A Rights issue?

I do not know, but hopefully, when Black Sheep does press the button on its new equity funding, it will act fairly to our long-suffering fellow shareholders, by doing it by way of a "rights issue". If that is the chosen route, it would reassuringly be necessary to issue a very detailed, fully disclosing and verified prospectus, upon which shareholders could make informed investment decisions, which would allow existing shareholders the opportunity to fully assess the risks of a further investment in Black Sheep.

Pricing of New Equity

As there are no profits to multiply and our Company has limited physical assets to set against its debt, Black Sheep's shares are difficult to value, and the key to pricing a new equity issue will be valuing the Black Sheep brand, which will need to be opined upon by an independent expert.

Shareholder Dilution?

So urgent is I believe the need for new cash, that provided all existing shareholders are offered the opportunity to follow their money, dilution should not be an issue.

Rob and Jo

And then we turn to Rob and Jo.

Why we may ask is a Black Sheep board seat allocated to Jo, whose efforts in the Export Department for which he is responsible, accounted for just 2.28% of total brewed products sales in the latest year of £11,755,579? Odd that, to say the least!

And Rob, the man who so damaged the original taste of our core Black Sheep Ale, carries the title of Managing Director, and yet the Bottling and Canning Plant at Fearby Road for which he was apparently responsible, has, I believe, recently had to appoint a new manager. Again, odd that!

In my opinion, the entitled Rob and Jo have over many years contributed little to Black Sheep and are an expensive and unnecessary financial drag on our Company. Our Company's sales progress, or rather lack of it, over the last dozen years is proof aplenty.

Andy's suggestion they need to be retained as a key part of the culture and provenance of Black Sheep is rubbish. There are no more Guinness's at Diageo.

In sum, the Theakston brothers seem to consistently and conveniently forget that they and their families own but a small percentage share in our Company.

I recently challenged Charlene to give me one, just one good reason for the on-going employment of Rob and Jo and she couldn't or wouldn't. The reason I think may be because there isn't one. Or not one I can identify.

Conclusion

It is fundamental, if Black Sheep is once again going to rise phoenix-like from the abyss, and in the best interests of all of Black Sheep's stakeholders, that's you the reader of this web-site, our outstanding employees, our fellow shareholders, our bankers, our suppliers, our customers, our imbibers and the wider community our Company serves, that Andy, Rob and Jo be removed from the Black Sheep board and shown the door as soon as possible.

I hope you will **VOTE AGAINST** the re-election of each of Andy, Rob, and Jo to the Black Sheep board at our 2022 AGM on Thursday 22nd September.

But if, as I suspect, they are re-elected, I propose to campaign consistently and publicly to requisition an Extraordinary General Meeting ("EGM"), or as many as necessary, to have the three of them sacked.

I am available to discuss the contents of this letter with all my fellow Black Sheep shareholders and can be contacted by e-mail at david.nabarro@buildingabetterblacksheep.com.

I look forward to hearing from you.

A handwritten signature in black ink, appearing to read 'David Nabarro'. The signature is fluid and cursive, with a prominent loop at the end.

David Nabarro
Continuingly deeply concerned Black Sheep shareholder