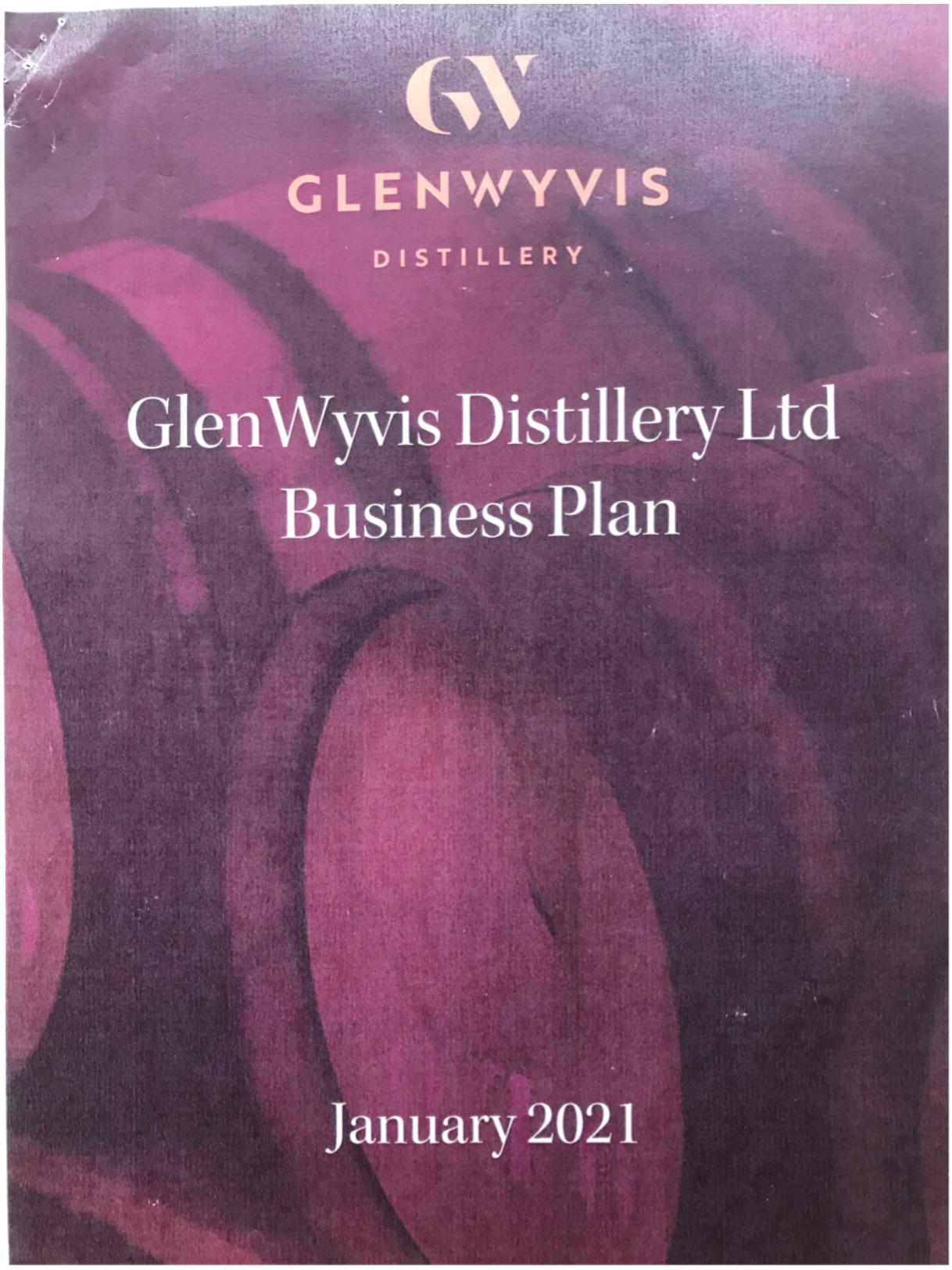

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GLENWYVIS
DISTILLERY
GlenWyvis Distillery Ltd
Business Plan
January 2021

GLENWYVIS

DISTILLERY

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GLENWYVIS

DISTILLERY

Introduction

A start-up distillery is a cash hungry business. Our core business is the manufacture of craft single malt whisky. Whisky is legally required to be aged a minimum of 3 years, consequently, we have to create and build up a valuable stock of maturing spirit for sale many years ahead, and we have to fund that in the meanwhile.

Your Committee of Management would like to secure further finance in order to ensure the future growth of the distillery. This proposal explains the background and outlines our rationale.

GlenWyvis Distillery Ltd
Upper Dochcarty
Dingwall
IV15 9UF

A Community Benefit Society: number 7305 on the Mutuals Public Register

Formed: 5 Apr 2016
Commenced trading: 31 May 2016

Background

GlenWyvis is a single malt whisky craft distillery. Its long-term financial future depends on its ability to stockpile a significant amount of maturing spirit, in order to capitalise on premium prices for single malts aged 10 years and over.

GlenWyvis Distillery Limited, founded in Dingwall in 2016, is one of the largest registered Community Benefit Societies in the UK. It has approximately 3,800 shareholders. Roughly 28% of them live in the immediate vicinity, 44% live in the rest of Scotland, 17% in other parts of the UK and 11% in 36 different countries worldwide -- some of whom may be avid whisky devotees and collectors, and others may be Scottish expatriates. The distillery will launch its long-awaited first whisky at the end of 2021 and it also produces the award-winning range of GoodWill gins.

The Distillery has been established with 'green' credentials:

- using a 550kW biomass boiler which generates steam for production
- using green energy, as far as possible, supplied by the landlord using a combination of hydro, solar and wind-powered generation. The prospectus declared that there would be some 100,000kW hours of clean, green energy available annually to the distillery.
- transporting distillery effluent offsite by a licensed disposal contractor, and
- providing draff to the landlord for cattle feed.

Achievements

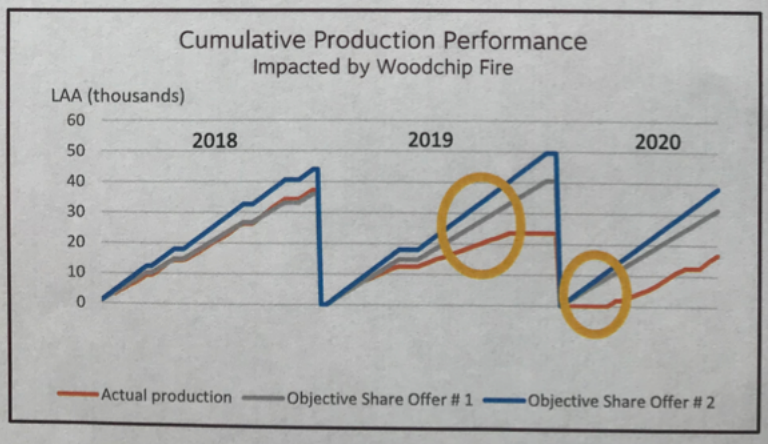
The raising of £3.8 million of share capital through two rounds of crowdfunding created a very supportive shareholder body. We also benefited from government grants and donations. Additional working capital came from a 7-year asset-backed HP facility supplemented recently by a 6-year coronavirus Bounce-Back Loan

GlenWyvis Distillery Funding	
Share Capital:	£3.8 million
Government grants:	£300,000
Public Donations:	£60,000
HP facility:	£566,600
Bounce Back Loan:	£50,000

Since the beginning of distilling operations, we have produced over 95,000 litres of absolute alcohol (LAA) in the form of new make whisky and we are determined to increase production target of over 100,000 LAA annually at the earliest opportunity.

By way of explanation, a litre of absolute alcohol is the normal unit of measurement for maturing spirit. In the casks the strength is usually 63.5% alcohol by volume, and that will typically be diluted for bottling depending on its age and the desired taste profile.

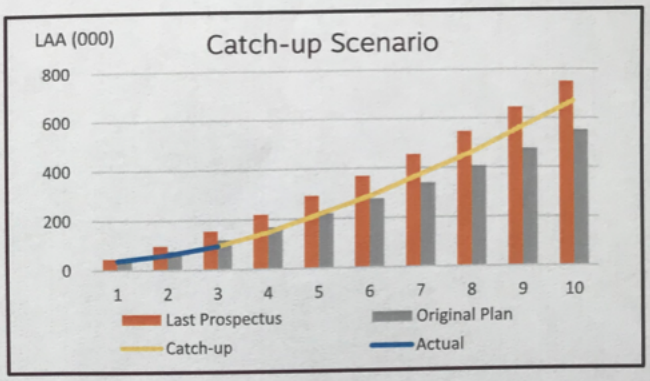
The 95,000 LAA was achieved despite the distillery suffering some initial production setbacks, including a fire in October 2019, which put the operation out of action for 5 months. The fire was in the woodchip store, and is believed to have been caused by spontaneous combustion. A number of design improvements were made during the rebuild to avoid an accumulation of damp wood chippings in the future. Production began again in March 2020, days before lockdown started.



This chart illustrates the impact of production lost due to the fire - - other losses were due to a lack of finance in early 2019 and also to external restrictions of working hours in both 2019 and 2020.

The coronavirus pandemic has impacted heavily on sales to the licensed trade, which has resulted in a change of marketing strategy - - with more focus now on sales directly to consumers, mostly online. Despite lockdown, the distillery was able to continue in production. It was also able to contribute to the national effort by manufacturing some hand sanitizer for use locally.

This plan sets out the steps needed to recover lost production. The distillery's design capacity is 140,000 LAA. The volume commitment made to shareholders in the second share offer was to steadily increase production to 105,000 LAA by 2030 - - enabling us to reach a cumulative total of 750,000 LAA.





GlenWyvis New Make Spirit was launched in November 2019. This is raw spirit taken straight from the still, which will, through the magic of the maturation process, turn into whisky. One expert described it in the following glowing terms: *"An elegant start on the nose, opening with some grain and demerara sugar. The palate is big and sweet, and it has a long, lingering warm finish. The alcohol is beautifully integrated for such a high strength."* In August 2020, it gained an International Wine & Spirit Competition (IWSC) Silver medal.

Gin was initially introduced in order to generate cash, and manufacturing of GlenWyvis gin was outsourced. After the second round of fundraising, a gin still was purchased and put into production. The original GoodWill gin has been joined by a Christmas Spiced Gin and two cask matured gins known as Quercus Alba and Quercus Robur.



- GlenWyvis proudly possesses four medals from the 2019 and 2020 International Wine & Spirit Competitions (IWSC) - - 1 Gold, 2 Silver and 1 Bronze.
- It also won a prestigious Gold Medal in the 2020 World Gin Awards, as well as Best Newcomer at the 2019 Scottish Gin Awards

'The hidden asset'

It is tempting to wax lyrical about the maturation of our whisky, as it slumbers in casks while gradually turning into the wonderful golden liquid that will be highly prized by all those who will have the privilege of tasting a dram. However, we need to consider the financial magic that is taking place, and the accounts do not tell this story!

At 31 December 2020 the distillery owned 63,276 LAA in casks in our warehouse. The cost of creating this spirit exceeded £660,000. At current average cask sales prices its current market value approaches £1.9 million. But, if we wait, allow time to work its magic, and assume that it could be sold at 10 years old for a modest £60 per bottle retail at 46% alcohol by volume, the same quantity would yield net revenue about £7 million (expressed in terms of a retail price after allowing for VAT, Customs duty, the cost of bottling and not forgetting the *angels' share*!) However, equivalent product releases from new start-up distilleries indicate that GlenWyvis could command an average retail price nearer £80 a bottle.

Learnings

Sales of gin were introduced as a means of short-term cash generation - - but high upfront product development and branding costs, tight margins, a very competitive marketplace and significant sales underperformance thwarted that ambition.

Similarly, an initiative to set up a visitor centre and gin wagon on the shores of Loch Ness was abandoned after it proved uneconomic to resource 7 days a week.

Because these challenges have consumed scarce resources, diverting them away from whisky, the Committee has agreed to keep the viability and profitability of gin production under review.

'Bottlenecks'

There are three key constraints which could impact on the business in the near future:

1. **Warehouse space**: the company's bonded warehouse onsite at Scroggie Farm will very soon be full to capacity. Rather than invest capital into further warehousing at Scroggie Farm, your Committee has negotiated the lease of suitable premises at Inchberry, Lentran. These will be let to the company on a phased basis to reduce its annual cost in the near future. Planning Permission is currently being negotiated and the lease is awaited so that HMRC authorisation is granted permitting the use of the premises as a bonded warehouse.
2. **Finance**: as referred to previously, the business is necessarily cash hungry in the early years. We are pursuing opportunities for government loans and grants and we intend to launch a new share offer in early 2021 in parallel with an issue of loan notes. Our target is to raise new funds of £4 million in 2021. Further sums may be required in later years.
3. **The landlord**: We are actively negotiating with John McKenzie, the Founder of GlenWyvis and current landlord, to reach acceptable work schedules and operating times for the distillery. The mutual objective of both parties is to deliver profitably the volumes projected in the original plans, and at the same time be respectful of his living conditions next to the distillery. While there is nothing specific in the lease about working hours, we believe we need to scale up to a six-day production cycle to achieve our production targets, which is exactly what the distillery equipment and process was designed to achieve.

Sales and sales channels

The company has sold to retailers as well as to the licensed trade (both 'on' and 'off' trade). In addition it has a successful business-to-consumer (B2C) website for the sale of Gin, New Make Spirit and whisky casks. In the near term, it is anticipated that the majority of sales will now come through the website.

Advertising on social media is therefore a key requirement. The Committee is working with teclan, a specialist digital marketing company to define and implement this strategy.

A campaign for pre-selling the inaugural release of GlenWyvis 3 year old Single Malt was approved by the Board and successfully launched at the end of October 2020. Bottles were offered at £100 and sold within 6 weeks.

Sales of casks have been very popular. We intend to develop these further by the introduction of a 'Community Cask Scheme', whereby investors will be able to purchase a proportion of a cask.

We strongly believe that we should build a network of established and reputable market partners in order to promote GlenWyvis single malt whisky into carefully selected markets. The experience of other new distilleries is that building relationships and sales volumes can take several years. Negotiations with key representatives in the UK and Germany are in progress.

Sales and Marketing Consultant

David Wilkinson is a partner in Inspired Leaders Network Ltd, with a particularly strong understanding of marketing in the spirits industry.



Our workforce

The distillery currently operates with a small team of 3 full-time staff and 1 part-time. These are the Distillery Manager, Matthew Farmer, who is supported by one Distillery Operator, Craig MacRitchie. Josh Fraser is the Office Manager and is supported by Kay Graham as part-time bookkeeper.









At this crucial time in its development, the organisation is dependent on the active involvement of its Chairman and other members of the Committee of Management (ie the 'board of directors').

Your Committee of Management

The company operates with a Committee of Management. It is a voluntary body, with a wide range of skills to support the team.



David Graham is the Chairman with a background in manufacturing business turnarounds.



James Cameron is the Vice Chairman - he owns and runs a construction company, which was responsible for the building of the distillery.



Dickon Sandbach is the Treasurer - - he recently retired as Senior Partner of Moore East Midlands, Chartered Accountants, then moving to Kiltarlity.



Tim Dumenil brings 25 years of expertise in energy management and supply chain leadership, much of which has been within the distillery industry.



Andy Fisher is the Managing Director and co-founder of Integra Well Solutions Ltd, and has a wide range of commercial experience covering all aspects of business.



David Norcom is a US financier with extensive experience of the capital markets. He was a substantial contributor to the first share offer and owns several private casks of GlenWyvis. He will be advising the board on several aspects of future capital raising.



Sandy Rennie has over 20-years of surveying expertise covering all sectors of commercial and residential property.



Marnie Vincent is the Minutes Secretary. She keeps the Board in check and makes sure all papers are in order.

Accounts and Audit

Audit

The Board commissioned a full financial audit of 2018-19 results by Scott Moncrieff (now Azets Audit Services), a reputable firm of accountants with strong distillery industry experience. This audit exceeded the statutory requirements for a society of our size, but the Board decided that it was in the best interests of our 3,800 shareholders. The auditors made several recommendations concerning corporate governance, which have been addressed. They also discussed and recommended a number of prior year adjustments.

The 2019 audit report was delayed as a consequence of uncertainty caused by John McKenzie who wrote to the auditors alleging that he was owed money from the early days of the business. This had a knock-on effect in terms of fundraising, which has been further exacerbated by the fire and the pandemic.

The 2020 audit is complete and signed accounts have been distributed. Azets provides GlenWyvis Distillery with payroll and taxation advisory services.

GLENWYVIS

DISTILLERY

Accounts

Here are highlights of our performance in 2020 and 2019.

Strong cask sales performance (up 75% from 2019) more than offset poor volumes of GoodWill gin (down 7%) in difficult market conditions. Without the earnings from casks, there would have been no gross profit in 2019-20. Administrative expenses were significantly affected by the loss of production caused by the fire in October 2019, and reduced following cash conservation measures. Further detail is contained in Appendix A

Financial Performance Highlights

	2019-20 Actual (000)	2018-19 Actual (restated) (000)
Turnover	£ 343.9	£ 290.2
Gross Profit	£ 58.0	£ 91.2
Other Income	163.3	36.5
Administrative Expenses	(360.1)	(543.1)
Profit/(Loss) before tax	£(138.8)	£(415.4)
Fixed Assets	£ 2,683.6	£ 2,800.4
Net Current Assets	392.1	213.1
Non-Current Liabilities	(741.1)	(560.9)
Net Assets	£ 2,334.6	£ 2,452.6
Share Capital	£ 3,754.7	£ 3,733.9
Profit and Loss Reserves	(1,420.1)	(1,281.3)
Net Worth	£ 2,334.6	£ 2,452.6

Compliance

In addition to compliance with financial reporting standards and requirements, GlenWyvis has also achieved full compliance with HMRC excise duty recording and reporting standards, met rigorous food hygiene and safety procedures (HACCP tests), achieved accredited supplier status with supermarket buying groups, set up internal policies and procedures including a staff handbook, passed health and safety inspections, conformed to planning permissions and satisfied environmental health inspections.

Shareholder Support

In response to a Shareholder survey issued prior to lockdown, we received a number of encouraging responses concerning future investment in shares, loans and cask purchases. 1,308 (or 34%) of our 3,800 shareholders participated, which is an exceptional response.

- 97% supported capacity expansion, in line with the original prospectus
- 55% said they were willing to invest more in GlenWyvis
- 25% said they would consider lending money to GlenWyvis - - at a median interest rate around 4%
- 44% offered to volunteer their services in some manner - - we are still working on how best to tap into this potential
- 37% expressed interest in buying casks, either privately or as members of a syndicate

In total, this is highly encouraging! Based on this sample of a third of our investors, we are confident of the distillery's ability to raise new funds in 2021.

Community Benefit

Prior to lockdown, the directors agreed to actions which will reinforce the benefit of the distillery to its community.

- A community support fund will be established in the first instance through a 5% levy on all online sales (excluding duty and VAT).
- Willing benefactors, society members and members of the public will be approached to make donations to the fund. A few bottles from the inaugural whisky release and subsequent special editions will also be auctioned to raise capital.
- GlenWyvis Distillery GoodWill Fund will be established with the object of distributing money to deserving local projects. This will be run initially by volunteers who are members and directors of the distillery, and subsequently with added representatives drawn from the community.
- Funds raised will go to provide seed-corn investment in small-scale local ventures. Individuals or groups will be invited to submit their business ideas and an explanation of how they will use the funds profitably. Those which make the most convincing case will be supported by a grant and will be offered mentorship during their start-up period. While not every venture is expected to succeed, those which do will be requested to repay as much of their grant as they can afford in order to *'recycle the GoodWill'*.

Sources of funds

The distillery has been built on land owned by John McKenzie, the Founder, at Scroggie Farm, and granted leasehold to the Distillery at a nominal rent of £1 annually for a period of 175 years.

Initial funding came from shareholders - - in total £3.8 million in two tranches. In exchange for their shares, many became entitled to investor rewards, such as cask of whisky, or a bottle of whisky when the spirit has matured for three years. As the company is a Community Benefit Society, shareholders will not participate in growth in the value of the company, but will be entitled to a small annual dividend only once the company has achieved profit and has built-up positive, distributable reserves.

The company also benefitted from about £300,000 of government grants to defray some of its start-up costs - - and donations from the public of nearly £60,000.

The plant has been financed by a Hire Purchase loan from Close Brothers. This is considered to be expensive money at 8.6%, and the Committee would like to be able to repay this at some future time. Total outstanding repayments were £566,600 at 30 April 2020.

The Committee has taken advantage of various Business Support initiatives launched by the UK Government in response to the coronavirus pandemic. A Covid Bounce Back loan of £50,000 was drawn from Bank of Scotland on 11 May. It is for a 6-year period. Capital repayments start at the beginning of year 2 at £833 monthly and all interest in year 1 is paid by the government; thereafter we will pay 2.5% on the outstanding balance until the end of the term.

Applications have also been submitted for both a Digital Development Grant and a Digital Development Loan - - in aggregate for £75,000. This is intended to finance computer hardware, distillery and inventory management software and digital marketing.

The Committee is working on a further share issue in parallel with issuing loan notes. It is intended to use the monies raised to reduce the reliance on expensive lines of credit. In summary:

- we propose to raise new equity from a third, new share offer.
- we also plan to raise funds from new interest-bearing bonds.
- we estimate that we need to raise £4 million by the end of 2021, and further funds may also be required in the following two years.

The Committee is also looking at the possibility of options over maturing spirit as a way of enhancing cashflow.

Financial strategy

The Committee will endeavour to cover the annual costs of operation from sales, predominantly of casks. If this is achieved, then external funding will be required for capital expenditure and for laying down the inventory of maturing stocks.

Capital expenditure

We are looking to raise from shareholders and others, through our share and bond offers, sufficient to cover most of the following:

- Casks - - average annual spending will rise from £70,000 in 2020-2025 to over £103,000 in 2026-30.
- Warehousing - - our share of the refurbishment and fit-out of Inchberry is expected to be £35,000 by 2023, plus £200,000 to build Warehouse 2 onsite. Later in the cycle, there are likely to be similar costs for the next tranche of warehousing.
- Capacity expansion - - adding a washback and a wash receiver may cost £250,000 in 2023.
- Plant and machinery - - provision of £10,000 annually for replacement of production and bottling equipment when the need arises.
- Technology - - invest up to £75,000 in production control, computer hardware, our website and other digital resources. *This is the subject of the application for Digital Development Grant and Loan.*
- Confidential reserve - - about £450,000

Inventory

As at 31 December 2020 we own 63,276 LAA of alcohol in the warehouse (after excluding spirit that is owned by 3rd parties).

During calendar year 2020 we have sold 79 casks to private owners at the prices published on our website. There are different cask sizes and types - - but our average price is about £28 per LAA. Applied to our warehouse stock, that supports a current market value of above £1.7 million.

Working capital facility

The Committee is seeking a flexible loan or overdraft based on the current market value of maturing whisky. We believe that the market value offers us sufficient headroom for a facility of £250,000.

Security

It is proposed to offer security by way of a second floating charge over the maturing stocks of whisky.

Note. Section 9.7 of the Rules of the Society gives the Management Committee powers to borrow up to £10 million at any one time; and section 9.7.1 gives the Management Committee power to mortgage or charge any of its property and assets, or to issue loan stock or make contracts under whatever security or conditions the Management Committee determine are necessary to obtain the capital required to fulfil the Society's objects.

The Lease

When the Lease was granted it was for an area of 7,450 square metres - - which included the distillery itself, two bonded warehouses and a distiller's house. There were also shared accesses from the public road to the west of the farm site.

Together, the original drawings for the distillery and Warehouse 1 allowed for 4,790sqm. When built, the final area occupied was 5,153sqm. During a series of onsite meetings, agreement was reached for certain areas totalling 363.3sqm to be surrendered back to the landlord to compensate for the overrun. A Minute of Variation - - the legal instrument required to register these changes - - was prepared by the distillery and submitted to the landlord's solicitors for approval in June 2020.

The provision of a distiller's house was subject to planning permission being obtained not later than 1 November 2018. This was not achieved, therefore that area was renounced.

The Directors have valid planning permission to build Warehouse 2 at the southern boundary of the farm on an area of 1,525sqm. However, they have chosen to rent warehouse space in a re-purposed steading, Inchberry, 15 miles away in order to conserve capital in the short term. The new warehouse will provide roughly 3 years' storage capacity and is available on attractive rental terms for a minimum of 10 years.

A copy of the revised lease drawings and a reconciliation to the original grant is shown on Appendix C.