UNDERCOVER ROCK LIMITED

SHARE VALUATION

Private & Confidential – September 2021

CONTENTS

1. EXECUTIVE SUMMARY

1.1 Scope of report

We have been asked to consider the fair value of the £1.00 Ordinary shares of Undercover Rock Limited (the Company) in connection with the acquisition of the share capital held by The Climbing Academy Group Limited SSAS (SSAS) by The Climbing Academy Group Limited (Group). The valuation report should be read in conjunction with our Letter of Engagement defining the scope of the report dated 16 August 2021.

The valuation of a small private company is inherently imprecise and creates a spectrum of possible values. The report is written for the benefit of the trustees of the SSAS for this purpose and should not be relied upon by others for any other purpose. It is ultimately for the trustees to decide upon the value of the shares based on the advice.

1.2 Background to the business

The Company was incorporated on 9 April 1991 and operates a climbing wall in a converted church in St. Werburgh's Bristol. It caters for climbers of all abilities and ages and offers over 150 climbing routes which are regularly changed. The centre offers membership options along with a pay as you go option.

The Company's Ordinary share capital is owned by the SASS (49.75%) and Group (50.25%). Group is looking to acquire the Ordinary shares held by the SSAS and so the pension trustees have asked us to provide a valuation of the share capital owned by the SSAS to demonstrate that the proposed transaction meets the fair value considerations in accordance with the HMRC rules which underpin the tax-exempt nature of the scheme.

1.3 Valuation

We have considered a number of valuation methods including, net asset value, the dividend yield and price-earnings methods.

As the Company is a profitable, we have based our final valuation on the price-earnings model. This method requires maintainable earnings to be determined and these are multiplied by an appropriate price-earnings ratio based on experience of similar transactions.

Maintainable earnings have been determined by assessing the reported results of the Company for the periods pre COVID-19 and also the period after the National restrictions were lifted (post 12 April 2021). Based on these results it has been considered reasonable that the Company's trading results will return to the pre COVID levels in 2022 and so the profit before tax in 2019 has been used as the maintainable earnings of the Company.

The industry average P/E ratio per the BDO Private Company Price Index (PCPI) was 10.2 for the second quarter in 2021. This is usually discounted by 50% for small unquoted companies which gives a P/E ratio of 5.2. In our experience a multiple between 4-6 is appropriate and so we have applied a P/E ratio of 5 to the maintainable earnings to give a profit-based valuation of £195k.

We have been asked to value a 49.75% holding in the Company. The value of the shareholding before any minority discount is £97,012 (49.75% x £195). This is comparable to the price paid when the Company was acquired in 2016 by Group and SSAS for £269k when the trading results of the Company were stronger, and the Balance Sheet reported a net asset position.

2. CURRENT SHARE STRUCTURE

The Company has 201 Ordinary shares in issue, each with a nominal value of £1. The total value of the Company's share capital is therefore £201. This has been the same since incorporation. The current share structure of the business is as follows:

Shareholdings		
Shareholder	**No. Held**	**Percentage**
The Climbing Academy Group Limited	101	50.25%
The Climbing Academy Group Limited SSAS	100	49.75%
	201	100.00%

3. FINANCIAL INFORMATION

3.1 Historic performance

Below is a summary of the financial performance of the Company for the last 4 years – the Company's accounting reference date is 30 September. These figures have been taken from the annual financial statements prepared for the members of the Company.

Undercover Rock Ltd Share valuation P&L Historic Summary				
	£'000			
	2017	**2018**	**2019**	**2020**
Sales	407	426	474	256
Gross Profit	**318**	**336**	**362**	**161**
GPM %	78%	79%	76%	63%
Overheads excl depn, amort & interest *(excluding director costs)*	(312)	(294)	(293)	(157)
EBITDA *(excl director costs)*	**6**	**42**	**69**	**4**
	1%	10%	15%	2%
Corona Virus Support	-	-	-	23
Director remuneration	(39)	(22)	(30)	-
Net finance income/(cost)	(1)	(1)	(1)	-
Depreciation	(10)	(10)	(12)	(14)
PBT	**(44)**	**9**	**26**	**13**
Net margin (%)	-11%	2%	6%	5%
Tax	1	(1)	(2)	2
PAT	**(43)**	**8**	**24**	**15**

Notes on the financial performance summary:

1. The way that 'head office' costs are dealt with within the Company was revised in FY 2020. Directors’ remuneration had previously been recharged to the Company by Group, but the decision was made to account for all the costs in Group from 2020 onwards. The director’s remuneration which would have been recharged in 2020 was £21,704. The profit before tax adjusted for this additional cost would be a loss of £9,000.

2. The results for the year ended 30 September 2020 were adversely impacted by COVID-19. The financial summary below provides the following information:

    i. Company’s full year budget;
    ii. The pro-rated budget for the period to February 2020 (prior to COVID-19 and the National lockdown); and
    iii. The actual year to date figures reported for the period to 28 February 2020.

	Budget Year end 30 September 2020	**Budget to 28 February 2020**	**Actual to 28 February 2020**
Sales	508,993	201,006	200,233
Cost of sales			
Direct costs	(143,842)	(57,425)	(42,594)
Gross Profit	**365,151**	**143,581**	**157,639**
GPM %	72%	71%	79%
Overheads	(279,351)	(115,680)	(111,751)
(excluding director costs)			
Other operating income			
EBITDA *(excl director costs)*	**85,801**	**27,902**	**45,889**
	17%	14%	23%
Director remuneration	(32,384)	(15,146)	(15,146)
Depreciation	(14,202)	(5,620)	(5,620)
PBT	**39,215**	**7,136**	**25,123**
Net margin (%)	8%	4%	13%

    From the financial information above it can be seen that the Company was outperforming the budget before the impact of COVID-19 and the national lockdown.

3. Appendix 1 details the financial forecast for the year ending 30 September 2021 along with the actual year to date figures reported in the Company’s management accounts for the period ended 31 July 2021. The salient features are as follows:

    a) A loss of £25,657 was projected for the year to 30 September 2021;
    b) A cumulative loss of £9,861 was reported for the 6 month period to 31 March 2021 with a cumulative profit of £17,633 being reported for the four month period 1 April 2021 to 31 July

2021. The profitable period corresponds to the reopening of the hospitality sector in the England on 12 April. This however is before any director's salaries have been recharged from Group.

3.2 Historic financial position

Below is a summary of the financial position of the Company for the last 3 years. These figures have been taken from the balance sheets of the annual financial statements prepared for the members of the company.

Undercover Rock Ltd			
Share valuation			
Balance Sheet Historic Summary			
		£'000	
	2018	**2019**	**2020**
FIXED ASSETS			
Tangible	28	40	34
	28	**40**	**34**
CURRENT ASSETS			
Stocks	7	8	8
Debtors	14	14	9
Bank and Cash	26	33	92
	47	**55**	**109**
CURRENT LIABILITIES	**(111)**	**(110)**	**(93)**
NET CURRENT ASSETS/(LIABILITIES)	**(64)**	**(55)**	**16**
NON-CURRENT LIABILITIES			
Creditors due over 1 year	(10)	(5)	(57)
Provisions	(5)	(7)	(5)
NET LIABILITIES	**(51)**	**(27)**	**(12)**

Notes on the financial position:

1. During the FY 2020 the Company received a Bounce Back Loan of £50k. The full amount is included in creditors due over one year within the figures above.
2. The Company reported a net deficit position as at 30 September 2020 of £12k.

4. VALUATION APPROACH

Market value can be thought of as the price the business assets might reasonably be expected to fetch on a sale in the open market in a private agreement, at arm's length.

The valuation will be prepared based on hypothetical purchase with the nature and identity of any actual parties ignored. The purchaser is willing and prudent with the vendor being willing but not anxious.

The most common valuation methods include:

4.1 Net asset basis

The minimum value of the Company can sometimes be considered its net asset value i.e. the net value of the historic cost of the separable net assets excluding any value attributed to goodwill or intangible assets. This approach may be suitable for a loss-making company or one making a very low return on net assets employed, or for an investment company where the underlying asset value is more indicative of value than the income derived.

A net asset valuation should incorporate updated asset values but may not take full account of closure costs. For a minority interest a discount may be applied to a pro rata share of the net assets, to reflect the shareholder's inability to influence the timing of the realisation of the assets.

It is worth assessing the net asset value of the company as a starting point. The financial position of the Company for the last three years has been summarised in section 3. The balance sheet as at 30 September 2020 reported a net deficit of £12k.

Given the balance sheet of the Company reports a net deficit and the fact that the Company has been profitable, a valuation of the Company based purely on net assets does not take account of future earnings of which a purchaser would be entitled to a share. The valuation would therefore be lower than appropriate.

4.2 Price/earnings basis

For a price/earnings valuation method the maintainable earnings of the Company need to be established and these earnings are then multiplied by a suitable P/E ratio to give the whole value of the Company. The maintainable earnings (EBITDA) for the 3 years to 30 September 2020 are as follows:

Undercover Rock Ltd			
Share valuation			
Maintainable earnings			
	£'000		
	2018	**2019**	**2020**
PBT	9	26	13
Add:			
Depreciation	10	12	14
Interest	1	1	-
Less			
Director salaries not included	-	-	(22)
Adjusted Maintainable earnings (EBITDA)	**20**	**39**	**5**

As explained in section 3, the figures for FY2020 do not include costs for directors' remuneration. An adjustment has been made for the director's costs within the above figures for 2020. For 2018 and 2019 the director's remuneration has been recharged from Group and included within the profit before tax for the relevant years.

As per Section 3 above, the Company's financial forecast projected a profit before tax of £39k for the year ended 30 September 2020 and a projected profit as at 28 February 2020 of £7k. The Company's actual results to 28 February 2020 exceeded the budgeted figures with a profit of £25k being reported. The effects of COVID-19 meant that the actual profit reported for the year was £13k before the inclusion of directors' remuneration.

The Company has reported profits for the period after lockdown (12 April 2021 onwards) with the Company being hopeful that the trading performance will return to the results reported for the most recent periods pre COVID-19.

Given the positive results reported for the pre COVID-19 period to 31 March 2020 and the results reported in the post lockdown period April 2021 to 31 July 2021 it is not unreasonable to assume that the Company's trading results for 2022 will return to the pre COVID level of results. It is therefore reasonable to take the Company's EBITDA of £39k as being the normalised maintainable earnings for the Company.

5. VALUATION CALCULATION

5.1 Enterprise value

As explained in section 4.2, now that maintainable earnings have been established, a suitable price/earnings ratio must be established. To do this we use industry standard published data as a start point.

The BDO Private Company Price Index (PCPI) reports that the average P/E ratio for the second quarter in 2021 was 10.2. The PCPI tracks the relationship between the Enterprise value to the earnings before interest tax depreciation and amortisation (EBITDA) multiple paid by trade buyers when purchasing UK private companies. The PCPI of 10.2 suggests that on average, private companies are being sold to trade buyers for 10.2 times their historic EBITDA.

Typically, the P/E ratio of a small, unquoted company is 50 to 60 per cent lower than that of a comparable company in the same sector. Applying 60% discount to the PCPI gives a P/E ratio of ~ 4.

In our experience, private companies change hands based on pre-tax P/E ratios of between 4-6. If we take P/E ratio at the bottom of this range of 4, this is comparable to the discounted PCPI discussed above. This is deemed to be appropriate given the strong client base but for one which has been adversely affected by COVID-19.

Based on the average maintainable earnings of the Company this gives a fair value of the whole Company on a profit basis calculated as follows:

	£'000
Maintainable earnings	39
PE ratio	x4
Valuation	**156**

5.2 Value of shareholding

We have been asked to value a shareholding held by the SSAS being 100 £1.00 Ordinary shares in the Company which equates to 49.75% of the shares. The value of the shareholding before any minority discount is £77,610 (49.75% x £156k).

A discount should be applied to the value given we are valuing a minority shareholding. The valuation manual suggests that a discount of between 30 to 40% should be applied for shareholdings of between 26% and 50%. Taking a discount in the middle of this range gives a value of £50,446.

6. CONCLUSION

In conclusion, we determine the value of the 49.75% of the share capital of the Company to be approximately £50,500.

Corrigan

The Tramshed
25 Lower Park Row
Bristol
BS1 5BN

0117 928 1970
info@corrigan.co.uk
www.corrigan.co.uk