Wimbledon Greyhound Stadium

DRAFT

22 November 2013

Baker Tilly CF Limited
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GRA Acquisition Limited
31 North Row
London
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For the attention of Ben Redmond and Don O'Sullivan

22 November 2013

Dear Sirs,

Project Wimbledon

In accordance with the terms of our engagement letter dated 6 November 2013, we enclose our report prepared in connection with the review of Wimbledon Greyhound Stadium ("the Stadium"), a trading division of the tenant GRA Limited (the "stadium" or "Wimbledon").

This report is intended solely for use by the addressee and their advisers. It is not intended to be used for any other purpose or by any other party and should not be published or made available to any other party, other than advisers, without our prior written consent. We note the report will be included as part of a full planning submission and emerging local plan to be submitted to the Inspector, together with various other reports prepared by your other advisers. We consent to the release of the report for this specific purpose. We draw attention to the "Scope and basis of review", which is contained in this report in Appendix 1, in which we describe the scope of our work, sources of information, places visited and the limitation on the work undertaken, in particular we draw your attention to the fact this was a limited review only and would not disclose all matters potentially identified as part of a full due diligence exercise and GRA Acquisition Limited are responsible for ensuring our work was sufficient for their purposes.

We emphasise that our enquiries would not necessarily disclose all matters of significance relating to the Stadium. We have not performed any audit tests on the management information included or referred to within this report and accordingly we express no audit opinion thereon. If you require clarification or further information, please do not hesitate to contact Peter Vandervelde on 07801 607 305 or Kerry Lane on 07866 630 475.

Yours faithfully

Baker Tilly CF Limited

Contents and contacts

Contents

2007 report	Grant Thornton 2007 report on Wimbledon Greyhound Stadium
BGRB	British Greyhound Racing Board
BGRF	British Greyhound Racing Fund
EBITDA	Earnings before interest, tax, depreciation and amortisation
FYXX	Financial year ended 31 December 20XX
GBGB	Greyhound Board of Great Britain
GRA	GRA Limited, the tenant
GRAA	GRA Acquisition Limited
Management	Being the management of Wimbledon, Clive Feltham and Mike Stapley
NGRC	National Greyhound Racing Club
RCPA	Racecourse Promoters Association
Tote	Totalisator
Wimbledon or the Stadium	Wimbledon Greyhound Stadium, a trading division of GRA Limited

Contacts

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Key findings

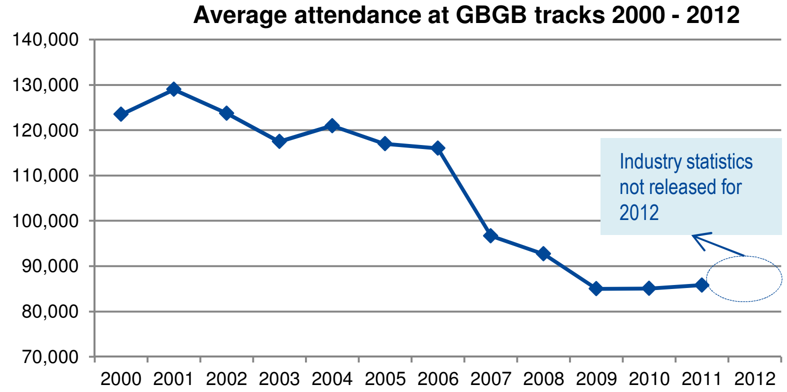
Background and greyhound racing industry trends

Overview

- This report updates information contained in a report prepared by Grant Thornton UK LLP dated 25 April 2007 which concluded that;
  - Nationally average attendance per meeting was in decline,
  - The Wimbledon track attendance showed significant decline,
  - Greyhound tracks continue to be significantly under utilised,
  - Tracks had experienced a decline in Tote revenues, and,
  - Significant increases in operating costs against a background of falling attendances had adversely impacted profitability
- Since 2007 GBGB, the governing body for licensed greyhound racing in Great Britain has been formed by combining the two previous governing bodies, NGRC and BGRB.
- The latest publicly available industry data released by GBGB relates to December 2011 with the December 2012 information not having been released by GBGB. This data estimates that total annual attendances at greyhound stadia in 2011 was around 2 million (c.3.3 million as at 2006) with £2.5 billion bet on races all year round. Of this only c.£40m (c.£100m as at 2006) relates to on-course betting. Race prize money is estimated at c.£13m per annum (£16.4m in 2006).
- These statistics suggest an on-going decline in greyhound racing which is further reflected in the closure of tracks. Since 2006, 5 GBGB tracks (Hull, Oxford, Portsmouth, Reading and Walthamstow) have closed. Coventry Greyhound Stadium closed and then reopened during this period.

Attendance

- Presented opposite is a chart illustrating total attendance at all tracks and average annual attendance for GBGB tracks based on statistics compiled by the RCPA (which we have not verified), a trade association representing the owners of the GBGB licensed tracks.
- The chart indicates a declining trend over the period, with average annual attendances per track down by 31% from 2000 (at 123,500 average) to 2009. Thereafter the average attendances per track increased marginally. However total attendance across all tracks has fallen by 840,000 (29%) from 2007 to 2011.
- Average attendance per meeting has also seen a decline as highlighted opposite. Although this trend reversed slightly in 2011 this is attributed to a reduction in the number of meetings with some tracks reducing to 2 evening meetings per week compared with 3 historically reducing track utilisation further. This concentrates attendance or excludes less profitable meetings which attract variable costs.



Source: RCPA statistics

Average attendance per meeting

	FY07	FY08	FY09	FY10	FY11	FY12
Total annual attendace at all tracks (million)	2.90	2.50	2.21	2.04	2.06	n/a
Average annual attendance per track	96,701	92,707	85,016	85,080	85,830	n/a
Average annual number of meetings per track	172	196	198	199	167	n/a
Average attendance per meeting	562	473	429	428	514	n/a

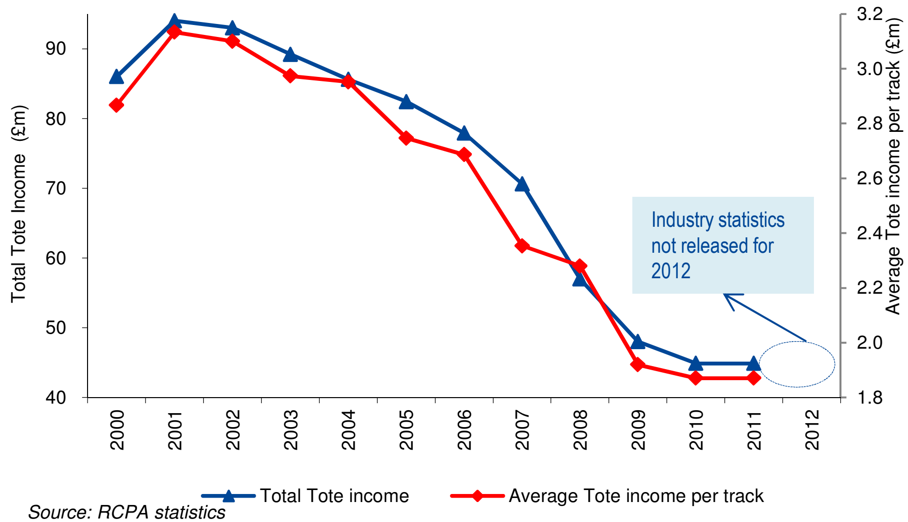
Source: RCPA statistics

Increase due to significantly lower number of meetings per track

Bookmakers, betting and Tote

Bookmakers and alternative forms of betting

- As a result of the Gambling Act, which was introduced in 2007, off course bookmakers are able to open in the evening all year round.
- This appears to have had the detrimental impact that was anticipated on attendance at greyhound tracks with average annual attendance per track falling c.11% from FY07 to FY11, as gamblers have been able to place bets on evening meetings off-course.
- The increase in internet betting exchanges and the increased regularity of greyhound racing on satellite television appears to have also had an impact upon attendances as gamblers are now able to place bets at home, although it is not possible to quantify the exact impact of this.
- This has not been to the benefit of on-course betting which is a small proportion of overall betting on greyhound racing, with betting levels for the equivalent time period falling from £41m to £32m (22% decrease). This fall in on course betting follows the decline in the total attendance as well as reflecting the greater range and accessibility of other betting options to the public.

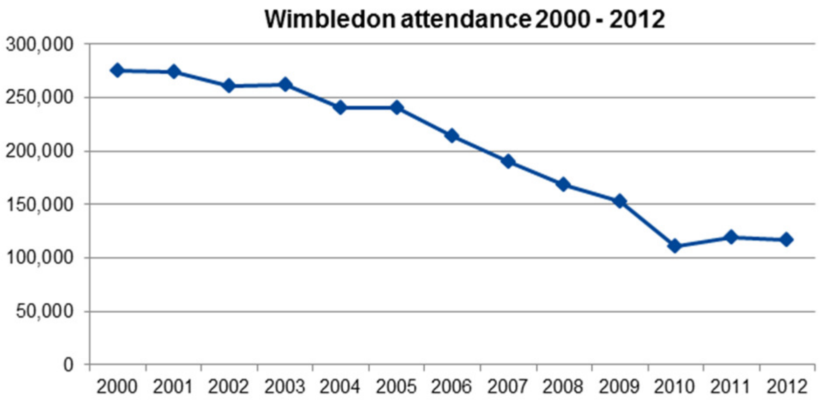


Source: RCPA statistics

Tote

- Stadium owners only receive income from off-course betting indirectly via voluntary payments from bookmakers to the BGRF.
- Betting on tracks is restricted to Tote retention (29% of the total betting pool) and contributions from independent standing bookmakers.
- The graph opposite summarises the level of total Tote income from 2000 to 2011 (source: RCPA statistics) and indicates a decline in total Tote income (48% from 2000 to 2011) and average Tote income per track (35% from 2000-2011).
- For the period from 2007 to 2011 the decline in total income was 36% and the decline in average income per track was 21%, reflecting overall decline in the industry since the 2007 Report.

Wimbledon attendance

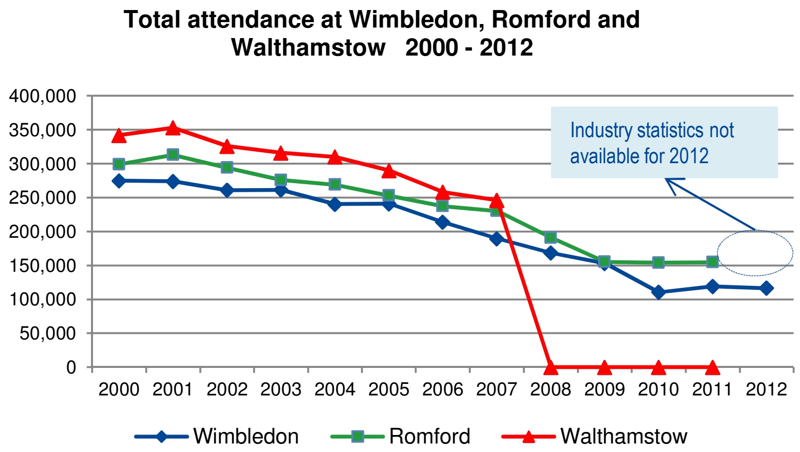


Source: Management statistics

Wimbledon attendance statistics

	FY07	FY08	FY09	FY10	FY11	FY12
Annual meetings	158	154	152	110	114	109
Total attendance	189,591	168,549	153,315	110,622	119,285	116,750
Average attendance per meeting	1,200	1,094	1,009	1,006	1,046	1,071

Source: Management information



Redevelopment of the stadium

- In 2009 Wimbledon spent c.£0.6m on the redevelopment of the stadium which resulted in the transfer of all services into the "Mick the Miller" stand and closure of the second stand. This decision was taken by Management in order to manage the cost base against the back drop of falling attendances and revenues.

Number of greyhound meetings

- Prior to 2010 Wimbledon ran three evening greyhound meetings per week (Tuesday, Friday and Saturday). However, in 2010, the decision was made to drop the Tuesday meeting.
- Additional meetings are held during the 6 week period up to Christmas, to benefit from the busy seasonal period. Furthermore meetings can be cancelled due to poor weather conditions. Both these factors, as well as the calendar profile (i.e. how many Fridays and Saturdays fall in a month or year), will drive fluctuations in the number of meetings per year.

Wimbledon attendance

- Attendances at Wimbledon have seen a period of decline from 2001 to 2010, which was particularly sharp from 2006 to 2010. Attendance decline has been compounded in recent years following the cancelation of the Tuesday night meetings from 2010.
- Average attendance per meeting since 2010 has shown some improvement and whilst difficult to fully assess the drivers behind this, Management note the following:
  - a growing confidence in economic recovery, and
  - various initiatives introduced including a free entry scheme to Oyster card holders.
- Despite the small upturn in recent attendances, 2012 figures are still significantly below the historical levels achieved prior to 2010, and more specifically are 45% down on 2007.

Attendances in stadia in London and the South East

- We have reviewed total attendances at Romford, Wimbledon and Walthamstow (which closed in 2008). All are within the London area and so provide evidence of trends affecting other local greyhound tracks.
- Romford and Wimbledon follow similar declining trends in line with the wider industry trends. The closure of Walthamstow has had little impact in boosting either the Romford or Wimbledon attendance levels reflecting the localised catchment areas from which demand for greyhound racing is attracted.

Wimbledon trading performance (1 of 3)

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Annual trading performance

£000	FY10	FY11	FY12
Sales	**3,552**	**3,848**	**3,661**
Gross profit	**3,113**	**3,366**	**3,170**
Gross margin%	*87.6%*	*87.5%*	*86.6%*
Overheads			
Employment costs	(1,025)	(968)	(969)
Department costs	(1,281)	(1,334)	(1,366)
Controllable costs	(261)	(153)	(163)
Stadium overheads	(321)	(302)	(287)
	(2,888)	(2,757)	(2,785)
EBITDA	**225**	**609**	**385**
Depreciation	(289)	(300)	(292)
Profit before head office costs	**(64)**	**309**	**93**
Apportioned head office costs	(95)	(116)	(104)
Profit before interest	**(159)**	**193**	**(11)**
Apportioned interest charge	(1,349)	(1,349)	(1,349)
Profit/(loss) before tax	**(1,509)**	**(1,156)**	**(1,360)**

Source: Management accounts

Sales analysis

£000	FY10	FY11	FY12
Food and drink	1,460	1,631	1,639
Betting and Tote	921	950	854
Admissions	159	169	176
Rental	493	476	467
Sponsorship	145	206	201
Other	374	416	324
	3,552	**3,848**	**3,661**
KPI			
No of meets	110	114	109
Average attendance per meeting	1,006	1,046	1,071
Catering spend per head (£)	36.85	39.42	41.99

Source: Management accounts

- Set out opposite is the trading performance for Wimbledon for the 3 years to 31 December 2012. The summary is extracted directly from management accounts with adjustments made to reflect allocations for head office costs and interest charges, which we have derived using the following methodology:
  - Head office costs have been apportioned based on Wimbledon sales as a proportion of total GRA sales.
  - The interest charge reflects the cost of capital employed in the Stadium. This has been calculated based on the average annualised interest charge incurred by GRAA (GRA's parent Company) from the date of acquisition in 2005 to December 2012 and represents a cash cost to the Company. The charge has been calculated by reference to the net book value of Wimbledon tangible fixed assets of £13.1m as a proportion of the total assets employed at all 5 GRA tracks in operation during this period (Oxford has since closed in 2013).
- From 2006 to 2010, Wimbledon has experienced a sustained period of decline and whilst results have stabilised in recent years following the streamlining of operations from the redevelopment work in 2009/10, after the allocation of Head office costs and interest charges Wimbledon is currently making a loss of c.£1.4m and has made losses of this order for some time.
- Profit before head office costs in FY12 was £93k. This is after accounting for £391k of revenue generated from renting out the car park (see next page for further details) for non greyhound racing activities. There are minimal incremental costs associated with this income stream and as such if this income were excluded Wimbledon would be loss making before the allocation of head office costs.
- The improvement in sales in 2011 had followed a sustained period of declining revenues and whilst sales in 2012 reduced (reflecting a reduction in the number of race meets), revenue over the period appears to have largely stabilised. However, current sales are significantly lower than those achieved historically with the 2012 sales of £3.7m representing a 48% fall in turnover compared to the £7.1m achieved in 2006.
- The table opposite represents results on a reported basis and does not provide a view of underlying EBITDA because we have not made adjustments for non-recurring or exceptional items, for example, £93k of redundancy costs included in FY10.

Catering income (food and drink)

- Growth in revenue from catering since 2010 partly reflects the small increase in attendance in 2011 and 2012 but more significantly the result of the decision in late 2011 to re-open the executive boxes. The closure of the second stand in 2009 reduced the restaurant capacity from 450 to 250 and 120 executive boxes located in this stand were initially made unavailable. In late 2011, the decision was taken to reopen these executive boxes which has directly led to the improvement in the number of covers per meet in FY12.
- The catering spend per head appears to have largely matched rising costs given the relatively stable margins achieved.

Wimbledon trading performance (2 of 3)

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Catering income (food and drink) (continued)

- However, despite these recent improvements, catering income has declined by 45% compared with £3.0m which was achieved in 2007 reflecting the aforementioned decline in attendances and the reduced capacity levels at the restaurant.

Betting and Tote

- Income from betting and Tote continues to decline (the upturn in FY11 being a product of the increased meetings in the period) reflecting the continued downturn in the market trend observed in the industry statistics.

Admissions

- Wimbledon has achieved marginal growth in admission revenue across the three years reflecting increased average attendance and a price increase enacted in 2012. Albeit, 2012 still represents a 54% fall from admissions in 2007.

Sponsorship

- Wimbledon had previously received sponsorship from Sky but this ended in 2010. The shortfall from the loss of Sky revenues has been largely replaced by William Hill, a long term sponsor of the annual Derby. The sponsorship money for this event has increased significantly in 2011 and 2012 in order to meet the increased prize money.
- This revenue is supported by other local sponsors but this continues to have mixed results and only represents a relatively small proportion of sponsorship sales.
- Sponsorship income, as a result of the above, has remained relatively consistent since 2007 (£203k), albeit, given the nature of the revenue a significant proportion of this income passes through directly as prize money i.e. with little direct profit.

Rental and other income streams

- The two key rental streams remain the markets and car boot events (2012: £240k) and the car park rental to St George Hospital (2012: £151k). Whilst both these income streams are contractual, income from car park rental continues to decline reflecting a fall in the number of events carried out. The balance of "Other" relates primarily to other rental income (including a squash club) and television fees.
- Wimbledon continues to rent out the track for continuing stock car racing meetings to a third party promoter, the direct income from running these events has remained largely stable since 2008 at around c.£100k - £130k per annum.

Gross profits

- Gross profit margins have remained largely stable across the period at around 87%. with the key cost of sales relating directly to Catering. The relatively small fluctuations in margin appear more a product of revenue mix as opposed to pricing dynamics.

Overheads

- Wimbledon has achieved overhead savings across the period and significant savings prior to 2010 (£4.3m of overhead spend in 2007) reflecting reduced attendance levels over the long term and more recently the streamlining of operations following the reorganisation in 2009/10.

Employment costs

- Following the closure of the second stand in 2009/10, Wimbledon has been able to make significant savings in employment costs through head count reduction. This is a key factor for the reduction in employment costs from 2010 to 2011.
- Employment costs have remained static in 2012 despite the reduction in meetings in the period which is partly due to increases in agency costs. Agency costs relate to security and cleaning; security costs have increased due to increased local authority requirements whilst cleaning increases reflect inflationary rises. Management have tried to control the cleaning costs in recent months by bringing the activity in house. Other like for like increases in employment costs relate to annual rises in the minimum wage.
- Overall, when compared to 2007, employment costs have reduced by 43% from £1.7m, reflecting both the reduction in meetings and the impact of the redevelopment.

Department costs

- Department costs (racing, operations and marketing) have increased by £85k between 2010 and 2012. This increase is due to a number of factors including higher racing costs relating to prize money (specifically William Hill sponsored Derby) and trainer costs.
- Maintenance costs have fluctuated between the periods but appear to be in the region of £0.2m per annum when viewed on an average basis. Management consider this cost to be insufficient and, whilst difficult to fully quantify a more appropriate spend to maintain the track to a good condition, they estimate longer term costs would be in the region of c.£350k per annum.

Wimbledon trading performance (3 of 3)

Controllable costs

- Controllable costs are defined by Management as costs which are considered to be under the responsibility of the Wimbledon general manager, for instance heat, light and power. In practice however, there is limited ability to control such costs. 2010 includes £93k of redundancy costs following the restructuring of operations which largely accounts for the savings achieved in 2011. We have not adjusted EBITDA for such to reflect a sustainable EBITDA.

Stadium costs

- Stadium costs include insurances and rates. The reduction across the three years reflects savings achieved in both these areas.

Capital expenditure

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Capital expenditure	
£000	**£'000**
FY09	
Wimbledon redevelopment	575
Other*	9
	584
FY10	
Other*	30
	30
FY11	
Kubota L5040 Tractor	23
Other*	59
	82
FY12	
Other*	17
	17

Source: Management capital expenditure schedule

**Other relates to various general items such as electrical equipment, furniture and fixtures*

- Set out opposite is an analysis of capital expenditure carried out at Wimbledon since 2009 highlighting key purchases (being items greater than £20k) across each period.
- The key expenditure across the period is the redevelopment and reorganisation of the track in 2009 which resulted in the closure of the second stand and relocation of services to within the "Mick the Miller" stand. There is no further breakdown of these costs other than as presented opposite.
- The only other significant acquisition in the period was the Kubota Tractor in 2011. Based on discussion with Management it is our understanding that all track/race related expenditure is subsidised by grants received from the British Greyhound Racing Fund (BGRF) of up to 50% of costs, with the cost presented opposite being the gross value.
- Based on discussion with Management it is our understanding that there are no significant capital expenditure needs for the short to medium term. Management's view is that increased investment in the stadium generates little or no benefit to trading results. In order to improve attendances there would need to be a significant investment in the infrastructure in the surrounding area to improve access and public transport lines.
- Overall, based on the historical trend and ignoring the large redevelopment costs in 2009, there appears to be an annual commitment of general capex spend of between c.£20k-£50k per annum.

Conclusions

Conclusions

- The conditions identified in the 2007 report have largely continued if not worsened over the last 6 years and notably national attendances at greyhound meetings have continued to decline as have those at Wimbledon.
- After the allocation of head office costs and an interest charge to reflect the cost of capital, Wimbledon is making an annual deficit of £1.4m and has made losses of this order for many years, despite a £600k investment in 2009/10.
- The decline in attendances at Wimbledon since 2007 – attendances have now fallen by c.58% in the period 2000-2012 – and the lack of any sustainable alternative revenues have led to significant accumulated losses when the cost of investment is taken into account.
- The recent redevelopment in 2009 has helped control costs and stabilise the operations. Attendance levels have stabilised and shown minor growth in 2011 and 2012. however this is small in the context of the decline since 2007.
- Whilst not specifically reviewed as part of this report (given the unavailability of Management information for the current year), the impact of the closure of the Oxford track at the start of the year on head office costs at Wimbledon has been considered by discussion with Management Whilst some Head office cost savings will arise from this the quantum of this is likely to be less than the amount allocated to Oxford (under our methodology). In this instance the Head office costs allocated to Wimbledon are likely to increase compounding the annual loss further.
- In FY12 Wimbledon generated profit before head office costs and interest of £93k. This was achieved after non greyhound related revenues such as rental income on the car park for markets and the local hospital of £391k, which have limited or no incremental costs to the site. Therefore, if this was solely used as a Greyhound stadium, this would be a loss making operation, before any head office cost or interest apportionment. This is despite employment savings of c.£0.7 million from 2007 to 2012.
- Despite recent stabilisation and improvements at the EBITDA level, the on-going deficits after full costs have been absorbed, together with historical losses and severe decline in attendance in prior periods, casts significant doubt over the stadium's long term viability.

Appendices

Appendix 1

Scope and basis of review (1 of 2)

Scope of our work

- The scope of our work has been limited to the terms of reference set out in our engagement letter dated 6 November 2013. Our report has been limited to matters which we have identified that would appear to us to be of significance to GRA Acquisition Limited (our "Client").
- Our report has been prepared from that work solely for the confidential use of our Client.
- This report may not be made available or copied in whole or part to any person other than yourselves without the express written permission of Baker Tilly Corporate Finance Limited. Baker Tilly Corporate Finance Limited accepts no responsibility for any reliance that may be placed on this report should it be used by any party or for any purpose that has not been expressly agreed by Baker Tilly Corporate Finance Limited. We note the report will be included as part of a full planning submission, together with various other reports prepared by your other advisers. We consent to the release of the report for this specific purpose.
- Our work has not been carried out in accordance with auditing standards and practices generally accepted in the United Kingdom or other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Sources of information

- We have obtained information from a variety of sources by e-mail or in hard copy format from Management. We have not visited the Wimbledon Stadium.
- During our work we have held discussions with and obtained information from:
  - Mike Stapley, GRA Limited Finance Director
  - Clive Feltham, GRA Limited Managing Director
- We did not hold discussions with any other management or staff of the Stadium other than those above.

Fieldwork

- Our fieldwork commenced on 18 November 2013 and finished on 22 November 2013. Our work has not been updated for events beyond this date except as specifically noted in this report.

Reports

- A report remains in draft form for discussion purposes until it has been signed by a Baker Tilly Corporate Finance Partner. Accordingly any findings in an interim report will not constitute definitive findings, opinions or conclusions and no reliance should be placed by you or any other person on any such interim report.

Scope and basis of review (2 of 2)

Allocation of costs

- All head office income/expenses have been allocated on the basis of Wimbledon sales compared to total sales.
- We have assumed that an interest charge is levied on Wimbledon to reflect the cost of capital employed in the Stadium. We have calculated this charge based on the average annualised interest charges incurred by GRAA from the date of acquisition arising from borrowings for the purchase of the GRA business. The element allocated to Wimbledon has been calculated on the basis of the relative net book value of Wimbledon fixed assets compared to the total for all GRA tracks.

Management confirmation of facts

- Management have been provided with a copy of this report and have confirmed the factual accuracy and completeness of this report [To send to Management]

Other advisers

- Our report may contain views or opinions provided by other advisers on the engagement. We take no responsibility for any such opinions.

Rounding

- This report has been prepared using numeric tables prepared using Excel spreadsheets. As figures have been rounded apparent summing errors of a magnitude up to the relevant unit may appear in certain of the tables herein.

Electronic distribution

- For your convenience, this document may have been made available to you in electronic as well as hard copy format. Multiple copies and versions of this document may therefore exist in different media – in the case of any discrepancy, the final hard copy should be regarded as definitive.