

Company Registration No. 05786163

Underdog Restaurants Limited

Report and Financial Statements

For the year ended 31 December 2019



Underdog Restaurants Limited

Report and financial statements 2019

Contents	Page
Officers and professional advisers	1
<i>Strategic report</i>	2
Directors' report	4
Statement of directors' responsibilities	6
Profit and loss account	7
Balance sheet	8
Statement of changes in equity	9
Notes to the financial statements	10

Underdog Restaurants Limited

Report and financial statements 2019

Officers and professional advisers

Directors

W Beckett
H Gott
P Campbell
K Jones
A McLauchlan
T Gould

Secretary

A McLauchlan

Registered Office

Jack's Place, Unit B,
6 Corbet Place,
London
E1 6NN

Underdog Restaurants Limited

Strategic report

The directors, in preparing the strategic report, have complied with s414C of the Companies Act 2006.

Principal activities

The principal activity of the company in the year under review was to operate restaurants under the 'Hawksmoor' brand.

Business review and future developments

The directors consider turnover and EBITDA (earnings before interest, taxation, depreciation and amortisation) as the key performance indicators for the company. Turnover for the year increased from £42m in 2018 to £45.5m in 2019, with underlying EBITDA rising from £6.0m in 2018 to £6.2m in 2019.

A lease was signed to open a Hawksmoor restaurant in New York in early 2020, but this has been delayed until H2 2021.

The directors remain confident about the future prospects of the Company and wider Group notwithstanding the issues it faces during the Covid-19 pandemic. The Company has built an industry-leading brand, which the directors believe will endure the current issues facing the hospitality sector. The Group entered the pandemic with a healthy cash position and was able to access additional debt facilities. The restaurants experienced a swift return to robust trading after the Government mandated lockdowns and expects strong trading to resume once the vaccination program is sufficiently progressed.

Principal risks and uncertainties

The company looks to manage the principal risks and uncertainties, arising from both internal and external factors that could impact the company's performance. The company has risk management processes to identify, monitor and evaluate such issues as they emerge, enabling the Board to take appropriate action where possible.

Economic and market risk

The economic environment and general consumer sentiment have a significant bearing on the success of the company. Furthermore, the company is exposed to the market risks associated with the activities and operation of competing restaurants.

The company is committed to maintaining a highly desirable customer experience. Internal processes ensure that the company is well-positioned to react to market pressures while continuing to deliver a high-quality product at competitive prices to its customers.

Operational efficiency and cost control

The company faces growing internal and external cost pressures. These pressures are managed with a focus on improving supply chain management, operational efficiency and appropriately robust cost control. The company is constantly looking to implement new initiatives to improve efficiency across its restaurants, resulting in lower operating costs without compromising product quality or service levels.

Financing and treasury

Key to the Company's financial success is the availability of sufficient finance to allow it to meet its obligations and to enable it to fund its growth through investment in new restaurants and in maintaining its existing venues. The Company generates strong cashflows and continues to monitor its working capital position and to mitigate liquidity risk. In 2018, the Group secured a refinancing of its external debt that has further enhanced its liquidity profile.

The nature of the Company's business is such that there is minimal exposure to credit risk, foreign currency exchange risk or interest rate risk.

Covid-19

Following the year-end, the Covid-19 pandemic led to the UK government implementing measures to reduce the spread of the virus. These included especially severe restrictions on the hospitality sector, including an enforced closure over several months. The Company's restaurants remain closed at the date of this report. The directors continue to monitor the situation closely and, where available, make use of applicable mitigations – such as the job retention scheme. As the restrictions abate, the directors will ensure that the restaurants are ready to reopen and to

Underdog Restaurants Limited

Strategic report

return to profitability. For further detail, including the impact on the Group's going concern assessment, refer to page 4.

Brexit

The Company continues to monitor the situation in respect of the UK's departure from the European Union, in particular the impact on consumer sentiment and the effects on the workforce.

Climate change

The Company does not consider there to exist any immediate risk to its operations from climate change; the directors will continue to monitor the position.

Section 172 Statement

The following disclosure describes how the directors have had regard to the matters set out in section 172(1)(a) to (f) and forms the directors' statement required under section 414CA of The Companies Act 2006.

S172(1) (a) The likely consequences of any decision in the long term

The directors understand the business and the evolving environment in which they operate and strive to deliver sustainable profitable growth while advancing the Company's strong brand reputation. They seek the kind of growth that cascades benefit throughout the entire organisation and creates opportunities for all its associates.

S172(1) (b) The interests of the company's employees

The directors recognise that the Company's employees are fundamental and core to its business and delivery of its strategic ambitions. The success of its business depends on developing an engaged, high-performing team that embodies company values and supports future growth. From ensuring that it remains a responsible employer, from pay and benefits to health, safety and the workplace environment, the directors factor the implications of decisions on employees and the wider workforce, where relevant and feasible.

S172(1) (c) The need to foster the company's business relationships with suppliers, customers and others

Delivering the Company's strategy requires strong mutually beneficial partnerships with customers and suppliers. They are at the centre of every decision the directors make in order to elevate each customer experience and foster exceptional strategic partnerships.

S172(1) (d) The impact of the company's operations on the community and the environment

The Company is committed to protecting the environment. Accordingly, it seeks to conserve and protect resources and to reduce environmental impact through sustainable purchasing, source reduction, waste diversion, energy and water management, using alternative and renewable energy sources wherever possible.

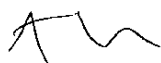
S172(1) (e) The desirability of the company maintaining a reputation for high standards of business conduct

The Company's Code of Conduct gives clear guidance on how to act consistently in accordance with ethical standards.

S172(1) (f) The need to act fairly as between members of the company

The Company is a member of the Underdog Group of companies. The directors ensure that delivery of the strategy is aligned with that of its members.

Approved by the Board of Directors and signed on behalf of the Board:



A McLauchlan
Director

18 February 2021

Underdog Restaurants Limited

Directors' report

The directors present their annual report on the affairs of the company together with the financial statements for the year ended 31 December 2019.

Going concern

During the year the company made an operating profit of £4,390k (2018: loss of £3,372k). The balance sheet showed net current assets of £8,061k (2018: £3,541k).

Underlying trading has historically been strong; however, from its arrival the Covid-19 pandemic has had a profound impact on the Company. In March 2020 the company temporarily closed all restaurants and subsequently re-opened them with a phased approach from July 2020. A second lockdown occurred in November 2020 and following a brief re-opening in December a third lockdown ensued and currently remains in place.

The Company has taken significant measures to safeguard the business during the periods of lockdown in the interests of all key stakeholders, including working with their banking partner to resolve potential covenant issues and engaging in the UK government's furlough scheme. More details of the measures taken can be found in Note 14.

The Company has produced base case cashflow forecasts for the 12 months following the date of this report, which assume a re-opening of all restaurants from Easter 2021 and have modelled various sensitized cashflow forecasts to allow for a longer lockdown period (including to June 2021) and subdued trading for the next 12 months.

Trading in both re-opening periods in 2020 was very strong and ahead of forecasts, and with additional facilities with our supportive lenders the expectation of the Directors is that the Company will be able to meet liabilities as they fall due for the 12 months that follow the date of this report.

Whilst the directors believe that the assumptions made in arriving at the Company's base case forecast cash flows are appropriate, as well as in their sensitized scenarios, there is inherent uncertainty in respect of the lifting of the prevailing restrictions on the group's core operating environment and thus its ability to generate cash and comply with the groups banking covenants. Further, whilst the directors are confident that the Group's bank loan will be successfully refinanced, the extension has not yet been agreed and therefore a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern such that the company may be unable to realise its assets and discharge its liabilities in the normal course of business. The directors consider this an unlikely scenario.

Notwithstanding this material uncertainty, having assessed likely downside scenarios and mitigation available, the directors have formed the judgement that it is appropriate to prepare the financial statements on a going concern basis.

Political and charitable contributions

During the year company made charitable donations of £31k (2018: £26k) for the benefit of various charities.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the company continues and that appropriate training is arranged. It is the policy of the company and that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Employee consultation

The company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the company.

Dividends

The directors did not recommend the payment of a dividend in the year (2018: £nil).

Underdog Restaurants Limited

Directors' report

Directors

The directors who served in the year are presented on page 1 of the annual report.

Exemption from audit

For the year ending 31 December 2019 the Company was entitled to exemption from audit under section 479A of the Companies Act 2006 relating to subsidiary companies.

Approved by the Board of Directors
and signed on behalf of the Board



A McLauchlan
Director

18 February 2021

Underdog Restaurants Limited

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The members have not required the company to obtain an audit of its accounts for the year in question in accordance with section 476.

The directors acknowledge their responsibilities for complying with the requirements of the Act with respect to accounting records and the preparation of accounts.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Underdog Restaurants Limited

Profit and loss account For the year ended 31 December 2019

	Notes	2019 £'000	2018 £'000
Turnover	2	45,515	41,985
Cost of sales		(26,883)	(24,914)
Gross profit		18,632	17,071
Administrative expenses		(14,393)	(13,271)
Impairment of intercompany loan		151	(7,180)
Other operating income		-	8
Operating profit/(loss)	2	4,390	(3,372)
Interest receivable		18	-
Interest payable and similar charges		-	-
Profit/(loss) on ordinary activities before taxation		4,408	(3,372)
Tax on profit/(loss) on ordinary activities	3	(1,146)	(817)
Profit/(loss) for the financial year		3,262	(4,189)

All amounts reported in the profit and loss account relate to continuing operations.

There were no recognised gains or losses during the current or prior year other than the profit for that financial year. Accordingly, no separate statement of total recognised gains and losses has been presented.

Underdog Restaurants Limited

Balance sheet As at 31 December 2019

	Notes	2019 £'000	2018 £'000
Fixed assets			
Tangible assets	4	9,186	10,335
Current assets			
Stocks		974	878
Debtors: amounts due within one year	5	13,487	8,421
Debtors: amounts due after one year	5	204	202
Cash at bank and in hand		3,307	5,236
		<u>17,972</u>	<u>14,737</u>
Creditors: amounts falling due within one year	6	<u>(9,911)</u>	<u>(11,196)</u>
Net current assets		<u>8,061</u>	<u>3,541</u>
Total assets less current liabilities		<u>17,247</u>	<u>13,876</u>
Provisions for liabilities	8	<u>(256)</u>	<u>(147)</u>
Net assets		<u>16,991</u>	<u>13,729</u>
Capital and reserves			
Called up share capital	9	-	-
Share premium	10	1,023	1,023
Profit and loss account	10	15,968	12,706
Shareholders' funds		<u>16,991</u>	<u>13,729</u>

The financial statements of Underdog Restaurants Limited, registered number 05786163 were approved by the Board of Directors and authorised for issue on 18 February 2021.

For the financial year in question the company was entitled to exemption under section 479A of the Companies Act 2006. No members have required the company to obtain an audit of its accounts for the year in question in accordance with section 476 of the Companies Act 2006.

The directors acknowledge their responsibility for complying with the requirements of the Act with respect to accounting records and for the preparation of accounts.

Signed on behalf of the Board of Directors



Alex McLauchlan
Director

Underdog Restaurants Limited

Statement of changes in equity Year ended 31 December 2019

	Called-up share capital £	Share premium £	Profit and loss account £	Total £
At 31 December 2017	-	1,023	16,895	17,918
Total comprehensive income	-	-	(4,189)	(4,189)
At 31 December 2018	-	1,023	12,706	13,729
Total comprehensive income	-	-	3,262	3,262
At 31 December 2019	-	1,023	15,968	16,991

Underdog Restaurants Limited

Notes to the financial statements Year ended 31 December 2019

1. Accounting policies

Accounting convention

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The accounting policies adopted by the Company are set out below and have been applied consistently throughout the year and are consistent with the preceding year.

The Company meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements, which are presented alongside these consolidated financial statements. Exemptions have been taken in relation to the presentation of a cash flow statement and remuneration of key management personnel.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amount of assets and liabilities, income and expenses. The estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form a basis for making the judgements about carrying value of assets and liabilities that are not readily apparent from other sources.

The directors have reviewed the estimates and assumptions used in the preparation of the consolidated financial statements. The directors do not believe that there is a significant risk which would lead to material adjustments to the carrying value of any assets and liabilities in the next financial year due to the changes on the estimates or assumptions.

Going concern

During the year the company made an operating profit of £4,390k (2018: loss of £3,372k). The balance sheet showed net current assets of £8,061k (2018: £3,541k).

Underlying trading has historically been strong; however, from its arrival the Covid-19 pandemic has had a profound impact on the Company. In March 2020 the company temporarily closed all restaurants and subsequently re-opened them with a phased approach from July 2020. A second lockdown occurred in November 2020 and following a brief re-opening in December a third lockdown ensued and currently remains in place.

The Company has taken significant measures to safeguard the business during the periods of lockdown in the interests of all key stakeholders, including working with their banking partner to resolve potential covenant issues and engaging in the UK government's furlough scheme. More details of the measures taken can be found in Note 14.

The Company has produced base case cashflow forecasts for the 12 months following the date of this report, which assume a re-opening of all restaurants from Easter 2021 and have modelled various sensitized cashflow forecasts to allow for a longer lockdown period (including to June 2021) and subdued trading for the next 12 months.

Trading in both re-opening periods in 2020 was very strong and ahead of forecasts, and with additional facilities with our supportive lenders the expectation of the Directors is that the Company will be able to meet liabilities as they fall due for the 12 months that follow the date of this report.

Whilst the directors believe that the assumptions made in arriving at the Company's base case forecast cash flows are appropriate, as well as in their sensitized scenarios, there is inherent uncertainty in respect of the lifting of the prevailing restrictions on the group's core operating environment and thus its ability to generate cash and comply with the groups banking covenants. Further, whilst the directors are confident that the Group's bank loan will be successfully refinanced, the extension has not yet been agreed and therefore a

Underdog Restaurants Limited

Notes to the financial statements Year ended 31 December 2019

material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern such that the company may be unable to realise its assets and discharge its liabilities in the normal course of business. The directors consider this an unlikely scenario.

Notwithstanding this material uncertainty, having assessed likely downside scenarios and mitigation available, the directors have formed the judgement that it is appropriate to prepare the financial statements on a going concern basis.

Turnover

Turnover represents restaurant and bar takings registered at point of sale through electronic tills, excluding any discretionary service charge and value added tax. The origin and destination of all turnover was the United Kingdom.

Tangible fixed assets

Tangible fixed assets are stated at historical cost, net of depreciation and any provision for impairment.

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life.

Leasehold expenditure	- over the duration of the lease
Plant and machinery	- 33.33% straight-line on cost
Fixtures and fittings	- 33.33% straight-line on cost

Stocks

Stocks are valued at the lower of cost and net realisable value on a first-in-first-out basis, after making due allowance for obsolete and slow moving items.

Underdog Restaurants Limited

Notes to the financial statements (continued) Year ended 31 December 2019

1. Accounting policies (continued)

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the relevant tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax is measured on a non-discounted basis.

Leases

Rentals paid under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease, even if payments are not made on such a basis. The aggregate benefit of any rent-free period or similar incentive under rental operating leases is also recognised on a straight-line basis over the full lease period. The Company has taken the transitional allowance on existing leases to not restate those lease incentives accounted for under UITF 28.

2. Operating profit

The operating profit is stated after charging:

	2019 £'000	2018 £'000
Depreciation – owned assets	1,519	1,481
Impairment of fixed assets	-	-
Impairment of intercompany loan	(151)	7,180
Operating lease rentals – other	2,093	1,922
	<u>2,093</u>	<u>1,922</u>
Directors' remuneration and other benefits etc	874	649
	<u>874</u>	<u>649</u>

3. Staff costs

The average monthly number of employees (including executive directors) was 680 (2018: 614). Their aggregate remuneration comprised:

	2019 £'000	2018 £'000
Wages and salaries	14,655	13,291
Social security costs	1,198	1,095
Pension contributions to private schemes	374	300
	<u>16,227</u>	<u>14,686</u>

The highest paid director in the year received emoluments of £196,000 (2018: £182,000)

Underdog Restaurants Limited

Notes to the financial statements (continued)

Year ended 31 December 2019

4. Taxation

(a) Analysis of the tax charge

The tax charge on the profit on ordinary activities for the year was as follows:

	2019 £'000	2018 £'000
Current tax:		
UK corporation tax	902	780
(Over)/underprovision in prior years	135	4
Total current tax	1,037	784
Deferred tax	109	33
Tax on profit on ordinary activities	1,146	817

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year varies from the effective rate of corporation tax in the UK of 19% (2018: 19%). The differences are reconciled below:

	2019 £'000	2018 £'000
Profit/(loss) on ordinary activities before tax	4,408	(3,372)
Profit/(loss) on ordinary activities multiplied by the effective rate of corporation tax in the UK at 19% (2018: 19%)	828	(641)
Expenditure not deductible for tax purposes	(21)	1,368
Timing differences on fixed assets	95	53
Adjustment to tax charge in respect of previous periods	135	4
Total current tax (note 4 (a))	1,037	784

Underdog Restaurants Limited

Notes to the financial statements (continued) Year ended 31 December 2019

5. Tangible fixed assets

	Leasehold expenditure £'000	Plant and machinery £'000	Fixtures and fittings £'000	Total £'000
Cost				
At 1 January 2019	12,716	2,877	2,832	18,425
Additions	169	-	316	485
Disposals	(96)	-	(19)	(115)
At 31 December 2019	12,789	2,877	3,129	18,795
Accumulated depreciation				
At 1 January 2019	3,842	2,158	2,090	8,090
Charge for the year	708	360	451	1,519
Disposals	-	-	-	-
At 31 December 2019	4,550	2,518	2,541	9,609
Net book value				
At 31 December 2019	8,239	359	588	9,186
At 31 December 2018	8,874	719	741	10,335

6. Debtors

Amounts falling due within one year:

	2019 £'000	2018 £'000
Trade debtors	828	759
Amounts owed by group undertakings	11,613	6,703
Other debtors	401	339
Prepayments	645	620
	13,487	8,421

Amounts falling due after more than one year:

	2019 £'000	2018 £'000
Other debtors	204	202

Underdog Restaurants Limited

Notes to the financial statements (continued) Year ended 31 December 2019

7. Creditors: amounts falling due within one year

	2019 £'000	2018 £'000
Trade creditors	2,353	2,496
Amounts owed to group undertakings	3,495	4,751
Corporation tax	347	556
Other taxation and social security	1,278	1,223
Other creditors	481	484
Accruals and deferred income	1,957	1,686
	<u>9,911</u>	<u>11,196</u>

8. Provisions for liabilities and charges

	2019 £'000	2018 £'000
Provision for deferred taxes	<u>256</u>	<u>147</u>
		Deferred tax
		£'000
On accelerated capital allowances		
Balance at 1 January 2019		147
Profit and loss account		<u>109</u>
Balance at 31 December 2019		<u>256</u>

9. Called up share capital

	2019 £	2018 £
Allotted, issued and fully paid		
9,500 Ordinary "A" shares of 1p each	95	95
2,822 Ordinary "B" shares of 1p each	28	28
7,400 Ordinary "C" shares of 1p each	<u>74</u>	<u>74</u>
	<u>197</u>	<u>197</u>

The company has three classes of ordinary share, each of which carries no right to fixed income. All shares are ranked *pari passu*.

Underdog Restaurants Limited

Notes to the financial statements (continued) Year ended 31 December 2019

10. Reserves

	Profit and loss account £'000	Share premium £'000	Totals £'000
At 1 January 2019	12,706	1,023	13,729
Profit for the year	3,262	-	3,262
At 31 December 2019	15,968	1,023	16,991

11. Operating lease commitments

Annual commitments under non-cancellable operating leases are as follows:

	Land and buildings	
	2019 £'000	2018 £'000
Expiring:		
Within one year	2,107	1,987
Between two and five years	8,534	7,855
In more than five years	19,450	18,468

12. Capital commitments

At the balance sheet date the company had capital commitments as follows:

Contracted for but not provided in the financial statements:

	2019 £'000	2018 £'000
Acquisition of property, plant and equipment	-	-

13. Control

At the balance sheet date, the directors consider Underdog Group (C) Limited, a company incorporated in the United Kingdom, to be the parent company. The smallest and largest group into which the results of the company are consolidated is that headed by Underdog Group Limited.

Copies of the consolidated financial statements can be obtained from Underdog Group Limited, Jack's Place, Unit B, 6 Corbet Place, London E1 6NN.

The directors do not consider there to be an ultimate controlling party.

14. Post balance sheet events

In March 2020 the Government mandated the closure of bars and restaurants following the Covid-19 pandemic. Subsequent lockdowns were imposed in November and again in December and currently remain in place. This pandemic has had a profound impact on the company's wider corporate group (headed by Underdog Group Limited) with trading days reduced by around 40% over the course of the year. During the lockdown periods the directors took a number of steps to safeguard the business and its employees. These included securing additional funding from the group's banking partner to provide sufficient liquidity to pay suppliers

Underdog Restaurants Limited

Notes to the financial statements (continued)

Year ended 31 December 2019

and cover fixed costs as well as making use of the Government Job Retention Furlough Scheme. The group and its employees have continued to support various charity initiatives throughout the various lockdowns and has also managed to develop a nationwide meal box delivery service.

Initiatives and actions taken in response to the pandemic include the following:

- £4m term loan to aid liquidity;
- Waiver of existing banking covenants for June-20 through December-20 and replaced with alternative covenant tests that have been fully complied with;
- Placing employees on Coronavirus Job Retention Scheme; and
- Negotiated rent concessions with landlords.

The group has incurred significant losses during the first and subsequent lockdowns but maintains sufficient liquidity to meet its financial obligations as they fall due. Further information about the adoption of the going concern basis of accounting is presented in Note 1 to the financial statements.