RUBICON 3 – INVESTOR Q &A

This Q&A covers the questions we have been asked by investors, both during the webinar and by email or phone.

If you have a question that isn't answered here, please do email bruce.jacobs@rubicon3adventure.com, or call me on 07456 642164

DEAL STRUCTURE AND INVESTOR RETURNS

Q. How did you decide on the valuation in this round?

A. The financial projections and the valuation at this round (as set out in the subscription agreement) are based only on the potential profits from the existing four boats. No upside is included from an increase in load factor, price, an expansion of the expedition sailing business or any of the other growth opportunities – notably the online training, but also shore-based training, small boats, or marine engineering. It was important for me to be conservative on this so that all investors could see a properly robust valuation and then share in what I expect to be a considerable upside over the next five years.

Q. How will I get a return on this investment? Is this an equity or a dividend play?

A. Our absolute focus is on increasing the equity value of the business through profitable expansion of the core and into adjacencies in preparation for an exit via a refinancing or sale. I set this out in some detail on Friday night and you can see it in the presentation. Our primary aim is to grow the profitability of the business to secure an attractive exit for investors in five years. If we did not feel that a sufficiently attractive sale was on the table for whatever reason, the business would be able to pay significant dividends until market conditions improved.

Q. What might the return be on my investment?

A. Clearly this depends on how successful we are in achieving our goals. But for illustrative purposes only (not a forecast) the table below shows what the returns would be in three scenarios – a low, middle and upside. For expedition sailing these assume that:

- adventure sailing remains at 4 yachts
- Prices remain the same without increasing for inflation
- Low is 0.85 load factor
- Mid is 0.93 load factor
- High is 1.0 load factor

Year 5 profitability from the ancillary activities is £0.5m, £1.5m and £6.1m in low, mid and high scenarios. Generated cashflow is retained in the business to finance the growth of ancillary businesses – online training, shore training/sailing school, expeditions and engineering services.

Surplus cashflow means that the business would be debt-free by Year 4 in all scenarios. The increase in profitability to 2027 is projected to be self-financing. The potential increase in the yacht fleet is not included in this analysis and would require additional capital, producing incremental profitability if pursued.

In light of the growth opportunities available, dividends are not included in this returns analysis. However, on a stand-alone basis the sailing business is projected to produce retained cashflow of £334,000 per annum. If distributed by dividend this would equate to a running yield of 15.2% per annum. While such a dividend policy is not part of the current plan it remains an option as opportunities for the Company develop.

	Peformance scenarios		
	Low	**Mid**	**High**
Pre-Finance Cashflow			
Sailing	412	487	562
Ancillary	500	1,500	6,188
	912	1,987	6,750
Exit Multiple	6.5	6.5	6.5
Exit Valuation	5,928	12,916	43,875
IRR	**21.9%**	**42.4%**	**81.9%**
Money Multiple	**2.7**	**5.9**	**19.9**

Note: IRR calculation assumes investment in March 2022 and exit in March 2027

Q. Will I be able to sell my shares outside of a formal sale process?

A. As Blueco Holdings Ltd is not publicly listed, there is no defined market for its shares. If you want to sell you shares “off-cycle” we would test the market for you with other shareholders to find you a price at which they would be purchased.

Q. Is the investment eligible for SEIS or EIS?

A. Because the business has traded for more than 7 years, it is not eligible for SEIS or EIS relief.

Q. What are the terms of the Company’s loans?

A. The business has £475k of debt at 8% due in 24-36 months. This has increased by c.£80k since Covid began due to suspended interest payments. It is all from existing shareholders and director loans. We anticipate being able to refinance it at better terms as the business returns to profit.

Q. Why do I need to sign the Shareholders’ Agreement and what are its main terms?

A. The shareholder agreement gives smaller investors better protections than typical articles – for example if Bruce sells his shares, the purchaser has to buy all of yours at the same price, if you want them to. The full agreement is there for your protection and is on the website.

Q. Bruce is a majority shareholder, with 51% of the shares. What protection do minority shareholders have in this scenario?

When Bruce bought out his founding partner and became a majority shareholder, real care was given to this precise point. The Shareholders' Agreement is specifically drafted to give all minority shareholders strong protection, including the ability to appoint NEDs or observers to the board and a detailed list of actions prohibited without board and / or 75% of shareholder approval.

Q. What about future dilution? Are there any options outstanding or plans to create an employee share scheme?

A. Currently there is no employee share scheme, but it is something we are likely to consider in the future. It would be set up so that employees only received options at a strike price that meant that existing shareholders receive significant upside.

Q. What will you do if you are oversubscribed? What is the maximum you might raise?

A. We would like to find a way to incorporate everyone and there may be ways in which we could accelerate Phase 2. But we will cross that bridge when we come to it.

Q. Can you please give more detail on the planned use of funds?

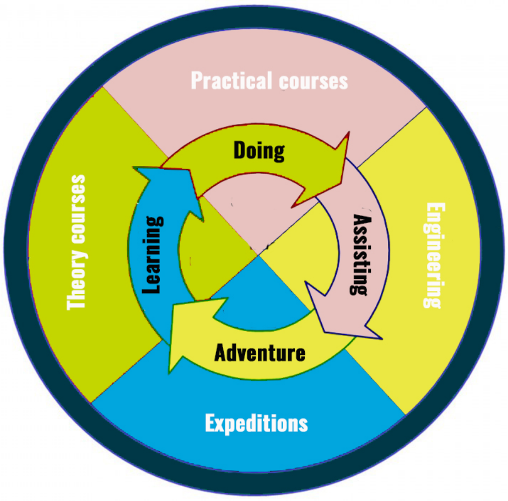
A. We are raising money now with the specific purpose of realising the online opportunity. Had Covid not had such a significant impact, we would have expected already to have made significant progress in this area. The budget for use of funds was set out in more detail in the 04 February webinar and the details can be found in that presentation, but in summary:

- £40k for an online marketeer
- £77k to start developing the ASA and other online courses
- £60k for yacht refurbishment and reserves.

STRATEGY

Q**. How do the various new opportunities complement the existing operations? Why are you focusing on all of them when some seem to be much more profitable than others?**

A. This was talked through in some detail at the February 04 seminar and it is worth watching this and the Q&A that follows if you are interested in the detail. In short, Rubicon 3 will become the adventure sailing brand, and therefore needs to have a complete proposition. The various streams form a self-feeding cycle as set out in the diagram below which is taken from the presentation. Each activity enriches the customer's experience and feeds into sales opportunities for the other activities.



Q. **Do people really want to do online courses? Don't they just want to do the RYA qualification and then get on with sailing?**

A. There is a huge, untapped hunger for learning, which we discuss with customers on a daily basis. The sailing industry is focused on RYA and ASA courses but these are basic and cover perhaps 10% of what many sailors wish to know. As experience increases, so does the desire for knowledge but there is no resource for it. It is rare to have such untapped potential. It is to our great advantage that the industry, worth hundreds of millions, is made of up of small 1-2 man operations, with little or no sophistication in strategy, product development or marketing. The current online courses are of low quality and focused on what the industry wishes to provide, not what the customer wants.

Q. **In your business plan how many days/annum of maintenance down time and revenue generating time are considered? Do you have a maintenance schedule for each boat or just "as needed"?**

A. The schedule for each yacht is designed to have them active (paid days) for 270 days a year. The remainder of the year is taken up with time off between trips and scheduled maintenance periods (two 21 day periods per year). Every fourth year, a yacht has one of these three week periods extended to three months to allow a more significant refit to take place. Our Chief Engineer is John Manners, whose 24 years in the Royal Navy make him highly skilled and experienced. The yachts have an existing maintenance schedule and we are now implementing a program called Reliability Centred Maintenance that will further enhance performance and profitability.

FINANCIALS

Q. Is there a financial model and can I have a copy? What are the assumptions behind the forecasts?

A. We have now set out a summary of historic financials and projections with assumptions on the website. As mentioned above, the future projections are for the four boats only, they do not include any of the upside from increasing the fleet or expanding into online or shore-based courses, small boats, or Marine Engineering. Very detailed models exist but these are hugely market sensitive and – if required – would be shared on a one to one basis only.

Q. I see the 'Subscription offer summary' shows a 'Normalised EBIT' of £412k. What does this figure represent?

A. This is the projected annual profit after overheads if we run the existing four boats at 85% utilisation. This is below historic utilisation rates but is used in all our forecasts. You can find more detail and assumptions in the Financials section on the investor page of the website.