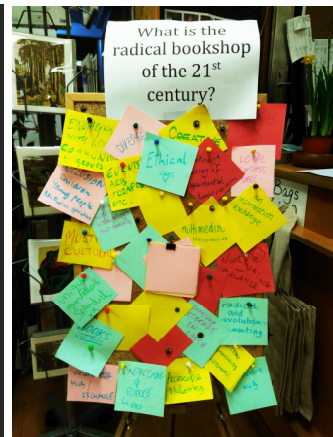


# octoberbooks

Invitation to invest in Loanstock Issue 2018

Help us to “Buy the bank”



Opening date: 9<sup>th</sup> March 2018  
Closing date: 31<sup>st</sup> May 2018

[www.octoberbooks.org](http://www.octoberbooks.org)

## About October Books

October Books is an independent, radical, community bookshop run as a not-for-profit co-operative enterprise and has been selling books and providing information, support and literature to the community for over 40 years. Any money we make, is ploughed back into the business. We trade independently from any political organisation, and seek to promote a fair and equal society. Our workers and volunteers are from many different backgrounds, and they bring diversity to the shop, so everyone feels at home in October Books.

Our stock is comprised of general popular fiction, non-fiction and children's books, alongside our traditional range of specialised radical books and magazines. Our speciality areas are social issues, adoption, humanities and political issues. We can order any book in print in the UK, US and Europe. Over the years, we have expanded our range to include greeting cards, organic and fair-trade foods for people on vegetarian, vegan and gluten free diets and low environmental impact personal and household cleaning products.

We run the shop as a co-operative and we took over the reins in July 2016 when long term co-operative member Ian Lamming retired. The new team of Clare Diaper, Jess Haynes, Joey Jones and Jaquie Daniels have been supported by Annabel Hodgson who has been involved in the co-operative since it started in 1977.

In 2017 we amended our Rules so that the co-operative could admit customers as Members to participate in governance and management of the co-operative alongside the workers. The new team have done this in order to ensure the future plans, perspectives and the nature of the business reflects the aspirations our diverse community.

October Books Limited is a Registered Society under the Co-operative and Community Benefit Societies Act 2014, Register number: 23241 R.

## Why we are buying a building

The tenancy agreement for our current 243 Portswood Road location set out an increase in rent to £30,000 per year from May 2018, which we will struggle to afford. Our co-operative team made the decision to serve notice and to look for other suitable premises in the same area of Southampton.

Whilst we were considering other properties the old NatWest bank on Portswood Road became available for purchase in early November. Our bid of £380,000 has been accepted by the board of NatWest (RBS) bank and we have requested a 6 month purchase period in order to complete the sale. We have to pay an interim payment of **40% of the purchase value (£152,000) by 23<sup>rd</sup> March** in order to provide assurance to the vendors that we are raising the funds to make the purchase (this will be placed in a holding account).

We aim to raise sufficient money through issue of loanstock (minimum required £300,000), crowdfunding (£60,000) and a loan from Co-operative and Community Finance (£150,000) to purchase the property and refurbish. We would like the space to host our bookshop along with a large community space which will be used by community groups, social enterprises and health & wellbeing services.

The leasehold on the first floor will be sold to a local homelessness charity, Society of St James, so they can convert it into supported move-on accommodation for people moving out of their hostels.

## Current financial statement

October books has 4 main product ranges:

1. General Bookshop
2. Extensive card range, diaries and notebooks
3. Organic foods and low environmental impact cleaning products
4. Academic book supplier

You will be pleased to read that books are our largest sales item, making up over 70% of sales in 2016 to 2017 (June year end). Food and cleaning products make up approximately 15% of sales and cards around 9%. The most profitable items are cards with a profit margin of 65% over the 2016 to 2017 trading period (Table 1). Food and books have a similar profit margin to each other, but the cost of book returns (via courier) are not accounted for in the figures and food and cleaning products have a much faster sales turnaround.

Table 1 – Profit margin and sales of main products categories

<b>Category</b>	<b>Gross profit margin YTD</b>	<b>Gross profit margin 2016 to 2017</b>	<b>Total sales 2016 to 2017</b>
Books – all	40%	48%	£104571
Food and cleaning products	39%	46%	£21554
Magazines	76%	25%	£835
Cards, stationery and calendars	51%	65%	£12556

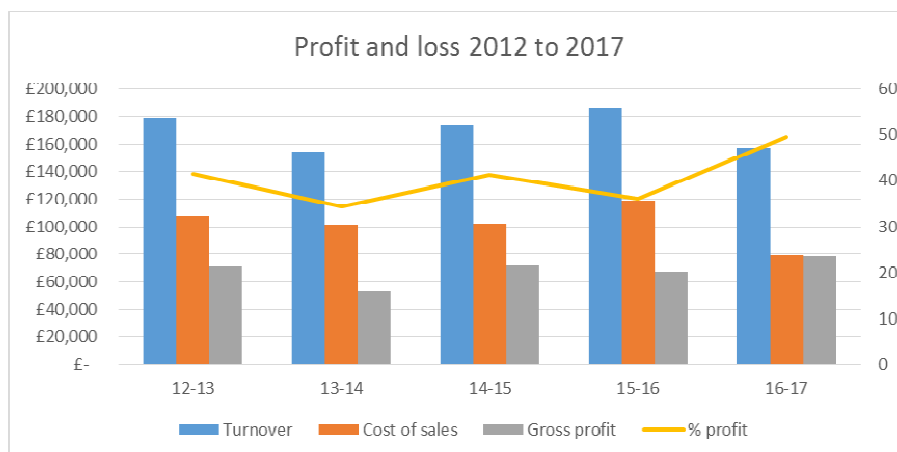


Figure 1 – Turnover and profitability for the last 5 years

October Books turnover does fluctuate year on year between £150,000 and £180,000. There has been no trend towards lower turnover during the last five years of trading (Figure 1). The new team have achieved an improved profitability in the last year (2016 to 2017) from around 40% to 50% for this period. This is due to a combination of increased sales of more profitable items (cards), a removal of offers on low price books and a reduction in purchases of cheap but slow selling products (remainders).

## Business plan

There are a number of different ways the new team aim to ensure a long term future for October Books.

### 1. Reduce rental overheads by moving premises

The option of moving to lower rent premises has been explored but there are currently no suitable, cheaper premises for rent in Portswood. A rent of £21,500/annum would alleviate current profitability and cash flow issues. Loanstock issue of £20,000 would be needed to pay for the move.

### 2. Purchase premises as October Books in collaboration with other organisations

This is a longer strategy to ensure the future of October Books. Our offer of £380,000 has been accepted and approved by the board of the NatWest Bank to purchase the old NatWest building in Portswood. We have formed an alliance with the Society of St James who will purchase the first floor of the building from us at £115,000 to £120,000 (subject to valuation, planning permission and grant funding). £50,000 of loanstock will be repaid after 1 year from the sale of the first floor. We need to place 40% of the purchase price (£152,000) in a holding account by the 23<sup>rd</sup> March 2018 and so **we are requesting all those who have already pledged funds to complete the application form and transfer funds on or before 21<sup>st</sup> March**, when loanstock certificates will be issued.

Our plan is to fund the purchase through issue of a minimum of £300,000 loanstock (maximum £400,000), £60,000 crowdfunding and £150,000 loan over 10 years, which has been approved in principal with Co-operative and Community Finance. If more loanstock is issued loan and crowdfunding targets will be reduced. This will cover the current lease termination expenses and repairs, working capital, purchase of freehold and associated legal and renovation costs. To date we have over £150,000 in pledges of loanstock to purchase (as at 1<sup>st</sup> March 2018). Grant funding will also be used where appropriate.

Table 1 – Summary projected cash flow over next 5 years

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
<b>Purchase</b>						
Trading income	£135,272	£131,300	£152,830	£158,595	£158,595	£158,595
Borrowing & donations	£510,000	£360	£360	£360	£360	£360
Rental of space	£0	£6,750	£15,500	£18,000	£18,000	£18,000
Property sale	£0	£120,000	£0	£0	£0	£0
VAT	£613	£22,975	£0	£0	£0	£0
Other	£10,862					
<b>Total</b>	<b>£656,747</b>	<b>£281,385</b>	<b>£168,690</b>	<b>£176,955</b>	<b>£176,955</b>	<b>£176,955</b>
Property purchase/renovations	£433,673	£94,975	£3,600	£3,600	£3,600	£3,600
Trading expenses & Overheads	£152,464	£141,799	£142,897	£146,297	£146,297	£146,297
Loan payments	£6,400	£76,700	£26,100	£26,100	£26,100	£26,100
<b>Total</b>	<b>£592,537</b>	<b>£313,474</b>	<b>£172,597</b>	<b>£175,997</b>	<b>£175,997</b>	<b>£175,997</b>
Cash at start	<b>-£5,048</b>	£59,162	£27,072	£23,165	£24,122	£25,080
Incoming-Outgoing cash	£64,210	<b>-£32,089</b>	<b>-£3,907</b>	£958	£958	£958
<b>Cash at end</b>	<b>£59,162</b>	<b>£27,072</b>	<b>£23,165</b>	<b>£24,122</b>	<b>£25,080</b>	<b>£26,038</b>

Our current financial projections (Table 1) are based on one month of no sales, a 10% increase in sales from July 2019 to June 2020 and a 15% increase thereafter. A rental income from the remaining ground floor space of £500pcm from Oct to Dec 2018, £750pcm Jan to March 2019, £1000 April to December 2019 and £1500 thereafter is required to make the move economically viable. Other compatible community organisations/ charities or enterprises will need to be identified in order to fulfil this rental income requirement. We are in discussion with Social Enterprise Link, Public Engagement Research Unit and Social Impact Hub at Southampton University, Southampton University Hub, local practitioners involved in health and wellbeing services and other local community groups interested in using the space.

Current financial projections include total renovation costs of £120,000 including VAT. Projections suggest we could go to £130,000 (maximum) as we can claim back VAT 3 months later. Longer term there is the potential to form a new community benefit society to manage the building and for October Books to be the anchor tenant. The plan would be to set up and launch this new society after 5 years and to transfer the majority of loanstock to community shares (See Table 2). The new issue of loanstock is in addition to £76,700 previously issued. The Co-operative and Community Finance loan will be repaid after 10 years and community shares can then be repaid as appropriate.

Table 2 – Long term projections of loan and loanstock repayment

Year end	New Loanstock	Community shares	Co-operative and Community finance loan
2018	£300,000		£150,000
2019	£260,000		£140,400
2020	£260,000		£130,032
2021	£260,000		£118,835
2022	£260,000		£106,741
2023	£260,000		£93,681
2024	£60,000	£200,000	£79,575
2025	£60,000	£200,000	£64,341
2026	£60,000	£200,000	£47,888
2027	£60,000	£200,000	£30,119
2028	£60,000	£200,000	£10,929
2029	£0	£240,000	£0
2030	£0	£220,000	£0
2031	£0	£200,000	£0
2032	£0	£180,000	£0
2033	£0	£160,000	£0

We have already appointed a solicitor to act for us in the purchase and have paid an initial down payment for these services. We have also agreed to appoint two local architects to produce a feasibility study for the renovations and we will likely be paying for a design and build contract as we do not have the skills or resources to manage the renovations ourselves. We will have a community meeting to discuss the feasibility study and plans for the space.

### **3. Improve management systems**

The new team have made improvements to October books management systems with a new stock ordering system (Gardlink) installed which has improved stock control, ordering times, goods in processing times and intelligence about what is selling. Additional training for the software is ongoing.

The co-operative is now producing cash-flow forecasts to monitor and manage finances and this is now a standing agenda item at weekly Collective meetings, allowing planning and proactivity rather than fire-fighting and reactivity.

### **4. Marketing activity**

The co-operative has developed an outline marketing strategy and has already started to implement some of the “quick wins” e.g. improving its social media reach and performance through Facebook, Twitter and Instagram; hosting “pop ups” and community activities to generate interest/raise profile/sell to visitors/generate commission. To generate increased sales, the co-operative will focus on: a higher profile and better promotion of existing product lines to both existing and new customers and a better understanding of customer interests to provide new product lines for existing customers to increase spend.

Recent marketing focus (since October 2017) has been on food products and sales have improved by up to 15% in recent months (December and January). Marketing and promotion is being extended to include prize winning books, new publications and new book series. Our much complimented card lines will also be promoted on social media.

A customer survey has been developed and this will be sent out to customers in the next few months. Responses will identify new product lines and book categories our customers would purchase. This survey and the above strategy aims to help us meet the projected increase in sales needed to cover additional costs due to moving.

### **5. Membership strategy, staffing and volunteers**

October Books has recently updated their constitution in order to welcome more members to the co-operative. The idea is to allow our customers, suppliers, supporters and others to have a say in how the co-operative is run and for them to play an active role in the life of the bookshop. Membership will be via a one-off purchase of a £5 share which is non-redeemable, non-transferable and becomes void if you cease to be a Member. Members will be requested to give a minimum of 5 hours of volunteering time over a year and attend the AGM. This will help to provide the additional volunteer hours to cover events, stalls and moving and refurbishment.

Financial projections also include the appointment of another part-time staff member at 20 hours/week to help with the running of the shop to allow existing staff to focus on the additional work needed to plan, coordinate and manage the move and new membership. In addition, financial projections include an increase in hourly rates for all staff from minimum wage to a living wage. This change was identified in a Business Ethics and Environment student report from 2016, which would bring October Books staff wages in line with their ethics.

October Books has always relied on a volunteer workforce to maintain shop opening hours and many back of house tasks. The new team are in the process of assigning specific roles to volunteers to make training more effective and to not overburden volunteers with the complexities of running the entire shop. Training manuals are also in the process of being compiled so that we can attract more volunteer hours by promoting roles and tasks as training.

## About loanstock

Loanstock is a public offer of an investment for a fixed period of time and offering a fixed period of interest. Loanstock confers no voting rights or other control over the co-operative. Interest on loanstock is paid annually. Unlike some loans, the capital is repaid in full at the end of the term rather than as regular repayments.

Loanstock is invested at risk and is not subject to any financial compensation schemes.

As a Registered Society we are exempt from the Financial Services and Markets Act 2000 regulations, meaning we can make this offer of loanstock to the public.

## The offer

We are offering loanstock for periods of 1 year, 5 years and 10 years, with an interest rate of 0% or 1.5%. Our preferred option is for people to invest for the longer period of 10 years and you can split investment over different time periods.

We request a minimum holding of £100

We need to raise a minimum of £300,000 in loanstock, with at least 40% of this raised by 23<sup>rd</sup> March 2018 (£152,000). **If you have already pledged funds please complete the paperwork, transfer the funds and return to us as soon as you can.**

If we do not raise sufficient funds (by June 2018) then we will not go ahead with our plans and we will return all monies. All loanstock funds will be held in a separate bank account.

## Donations

We are also gratefully accepting donations or you can join our Crowdfunding campaign.

## Benefits of investing in October Books

- An ethical investment – with interest if you choose to receive it
- An opportunity to be a catalyst for change in the way we use our High Street and retail spaces
- High accountability: you know exactly where your money has gone
- The Booksellers Association report that in 2017 the number of independent bookshops in the UK and Ireland grew, rather than shrank, for the first time since 1995 (a small increase but a significant one)
- Because we are part of a consortium of independent bookshops challenging the status quo (<https://www.theguardian.com/books/2018/jan/29/independent-booksellers-could-join-forces-to-compete-with-chains>)

## Repayment of loanstock

We are committing to one Loanstock issue in 2018, between 9<sup>th</sup> March and 31<sup>st</sup> May 2018. The total loanstock issue will be a minimum £300,000, the maximum £400,000.

We have allowed for the repayment of £50,000 of loanstock after 1 year in our projections. This repayment will be serviced from the sale of the first floor of the new building to The Society of St James. We would prefer people to buy loan stock for the 10 year period but based on community meetings and conversations with investors we understand that most will opt for the 5 year period.

While we are able to make the regular monthly repayments to Co-operative and Community Finance (CCF) totalling over £21,000 each year we will need to raise extra finance to repay the loanstock holders in year 5.

Our preferred option is to sell the freehold to a Community Benefit Society which would carry out a community share issue to raise the funds. We would then hold a lease for the bookshop section of the building. Forming this new organisation over the next 5 years allows sufficient time to write a business plan and raise the funds from the community. We will also investigate other sources of funding in the form of grants prior to the purchase.

If the formation of a Community Benefit Society by Year 5 is not achievable, we will carry out a follow up loanstock issue to raise the funds to repay those loanstock holders who are redeeming their loans. By that time we will also have the option available to us of raising all or part of the sum required using a mortgage. We would prefer not to use a mortgage as it is more expensive.

If all other options fail, we could sell the freehold on the open market. This would enable us to repay loanstock holders but is our least preferred option as we would be in a position of needing to find premises again

After we clear the CCF loan in year 10, we will have the ability to put aside an extra £20,000 per year to repay investors (see Table 2 above).



## **Frequently Asked Questions**

### **How do I pay for my loanstock?**

Please complete the application form and send to us with a cheque made payable to "October Books". We are also able to accept internet bank transfers/BACS. Please see application form for bank details.

### **Does loanstock give me a vote?**

Loanstock carries no rights to participate in the management of October Books. However, customers of the book shop who are willing to commit a small number of volunteer hours can apply to become members, have a vote at Members' Meetings and stand for the Management Committee. You do not have to be a Member to buy loanstock and you do not need to buy loanstock to become a Member. Membership is a one-off purchase of a £5 share which is non-redeemable, non-transferable and becomes void if you cease to be a Member. Please contact us at [info@octoberbooks.org](mailto:info@octoberbooks.org) with MEMBERSHIP in the subject line if you are interested in becoming a member.

### **When do I get my loanstock certificate?**

We will be issuing loanstock certificates on the 21<sup>st</sup> March and the 1<sup>st</sup> June and you can collect them from October Books. We will stay open until 7.30pm so that you can collect them on these days. You could combine collection with signing up as a member of the collective.

### **When do I get my money back?**

When you purchase loanstock you agree a fixed period after which we will return your original investment. Your money is at risk and is not covered by any financial compensation schemes.

### **When do I receive interest (if chosen)**

If you have chosen to receive interest, you will receive your interest within 21 days of the year end (30th June). This will be a simple payment of interest on the amount of loanstock and not a compound interest payment i.e. the proposed 1.5% interest will yield £15 per year on a £1000 investment.

### **Why don't you get a mortgage?**

The loanstock route is cheaper than a mortgage. If we were to obtain a mortgage we would still need to raise 30% of the purchase price plus purchase fees, survey, Stamp Duty etc so we would still have to raise a significant sum through loanstock. If we cannot raise the full amount through loanstock we may have to consider a mortgage.

### **What happens if you don't raise enough Loanstock?**

We hope that we will be able to raise sufficient funds through loanstock, but if we are unable to raise the required amount we would have to arrange a mortgage or other form of finance from an institution. In the event that we cannot raise the total required, we will not go ahead with the purchase and will return all loanstock applications.

### **What happens if October Books closes?**

In the event that October Books was to decide to wind up, all its assets would be sold and all its debts met from the proceeds. Loanstock holders would be classed as unsecured creditors. In the event that there is more money left after meeting all its debts, then the remaining funds would have to be passed to another common ownership co-operative. If

there are insufficient funds to meet debts (insolvent liquidation) then an administrator would have to manage the process of allocating assets to creditors.

**What happens if Society of Saint James can't raise the funds, obtain planning permission or are otherwise prevented from purchasing the first floor?**

We would be able to rent out the first floor as a whole office suite or, alternatively, kit it out as individual offices. However, we prefer the option of being able to create affordable housing with a social landlord partner over being a landlord to businesses.

**What is the situation with planning permission for the first floor - If that can't be obtained, SSJ will not want that floor?**

Whilst we cannot confirm that planning permission will be granted, there is a precedent for encouraging space above shops to be converted into residential premises. If the Society of St James cannot obtain planning permission we will seek other collaborators, either as purchasers or renting the space.

**What obligations will October Books have as freeholder to the leaseholder on the top floor?**

The top floor flat in the building is owned by a leasehold private landlord. We are awaiting confirmation from our solicitors as to our obligations in terms of maintenance but we understand we would need to pay for roofing repairs and any maintenance to the common stairway. Our financial projections currently include a £3600/annum maintenance cost.

**Will it be possible to put Solar Panels on the roof?**

As we are committed to a sustainable, low carbon future and renewable energy we would love to install renewables on the building. However, at this stage we need to focus on obtaining and renovating the building to make sure the shop is open in time. Once the shop is open and the other occupants in place we would love for community members to lead on helping us switch to generating our own energy.

**What else can I do to help?**

We need all sorts of volunteer help to make this move to new premises a reality.

We need to clean, clear and make good our existing rented space.

We need other groups and organisations to play an active role in the new premises, it's more than big enough for the bookshop and there are the possibilities of renting out rooms and facilities to others.

We need people who can help with the planning, budgeting, fundraising, project management, administration (membership applications for example) and renovations for the move.

We are currently only a team of five and we do need to continue to run the bookshop while the move is happening, so the more people to help the better. Please contact us on [info@octoberbooks.org](mailto:info@octoberbooks.org) if you can help with any of the above

## Terms and conditions

Conditions for October Books (Registered Society under the Co-operative and Community Benefit Societies Act 2014, Register number: 23241 R) Loanstock Issue 2018

### 1. Issue

This offer of Loanstock was agreed with the Collective on 8th February 2018 and is known as Loanstock Issue 2018 and is open from 9<sup>th</sup> March 2018 to 31<sup>st</sup> May 2018. Loanstock certificates will be issued on the 21<sup>st</sup> March and 1<sup>st</sup> June 2018 will mature in 1 year, 5 years or 10 years from these dates, depending on the maturity date selected by the lender. The issue is to be of a minimum of £300,000 of loanstock and a maximum of £400,000. Loanstock is to be issued in whole pound units only and will be non-transferable. The minimum amount that can be applied for is £100

### 2. Interest

Interest shall be paid on the Loanstock at 1.5% or 0%, as agreed by the applicant. The interest shall be calculated on June 30 each year. Interest shall be credited to each Lender by cash payment or BACS payment, whichever is requested by the Lender. In the case of Loanstock repaid in full as described in 3(ii) below, outstanding interest to the date of repayment shall be added to the principal amount outstanding.

### 3. Certificates

Certificates shall be given to show the issue of Loanstock. Where part of the amount of Loanstock indicated on a Certificate is to be repaid, a new Certificate shall be issued in respect of the amount of Loanstock outstanding

### 4. Repayment of Loan Stock

- i. The Loanstock shall be repaid in full on the maturity date as stated on the Loanstock certificate (as agreed individually with each lender).
- ii. October Books may at its discretion, accept applications for early repayment of Loanstock subject to the following conditions:
  - a) a written notice stating the amount requested to be repaid should be sent to the Secretary of October Books together with the Loanstock Certificate.
  - b) repayment of Loanstock will normally be made within the following periods of time after proper notice has been received;
    - £100 to £1000 – one month
    - £1000 and over – three months
  - c) October Books shall always give priority to applications from persons who are not members of October Books in repaying Loanstock.

### 5. Repayment on Default

October Books shall repay the Loanstock in full immediately, if October Books:

- i. is in breach of these Conditions; or
- ii. is overdue on any payment by 21 days or more; or
- iii. passes a resolution for winding up or goes into liquidation or has an administrative receiver appointed over any of its assets or has an administration order made against it or an effective instrument of dissolution is made by the members of October Books.

### 6. General

- i) These Conditions shall not give the Lender any rights to attend meetings or participate in any way in the management of October Books.
- ii) Loanstock may be transferred by the Lender with the consent of October Books.
- iii) Loanstock holders shall receive an electronic copy of the Co-operative's annual accounts.

### 7. Order of creditors

Please note that Loanstock ranks with unsecured creditors in a winding up.

# October Books Investment Application form

Issue of a minimum of £300,000, maximum of £400,000 in loanstock 9<sup>th</sup> March to 31<sup>st</sup> May 2018

I wish to apply for loanstock value of

- The minimum you can apply for is £100
- Applications must be in whole pounds only

I wish to invest for:

1 year

5 years

10 years

Please complete a separate application form for different loanstock maturity dates

## Interest

The loanstock will pay 1.5% interest

You may choose to waive your interest payments. If you wish to do so please indicate here

Yes I plan to opt out of taking interest attached to my investment

## Your details

If you are applying on behalf of an organisation please provide your Organisation Name, Registered Office address and Registration Number

Your name .....

Your address .....

.....

.....

Mobile/Landline number/Reg. no.....

Email address.....

By signing and returning this form, I confirm I accept the offer Terms and Conditions

Signature.....

Date.....

Payment can be made by cheque payable to October Books or bank transfer to

Co-operative Bank Acc/no: 67068001 Sort Code: 089026 and Ref(*Your Surname*)

Please return this form to [info@octoberbooks.org](mailto:info@octoberbooks.org) with 'Loanstock' in the subject line. Or deliver or post to October Books, 243 Portswood Road, Southampton SO17 2NG

If you have any questions please do not hesitate to phone us on 023 80581040 or pop in to the shop

Data Protection: October Books will use these details to contact you with regard to your investment and to update you on the performance of the co-operative. Your details will not be passed to a third party