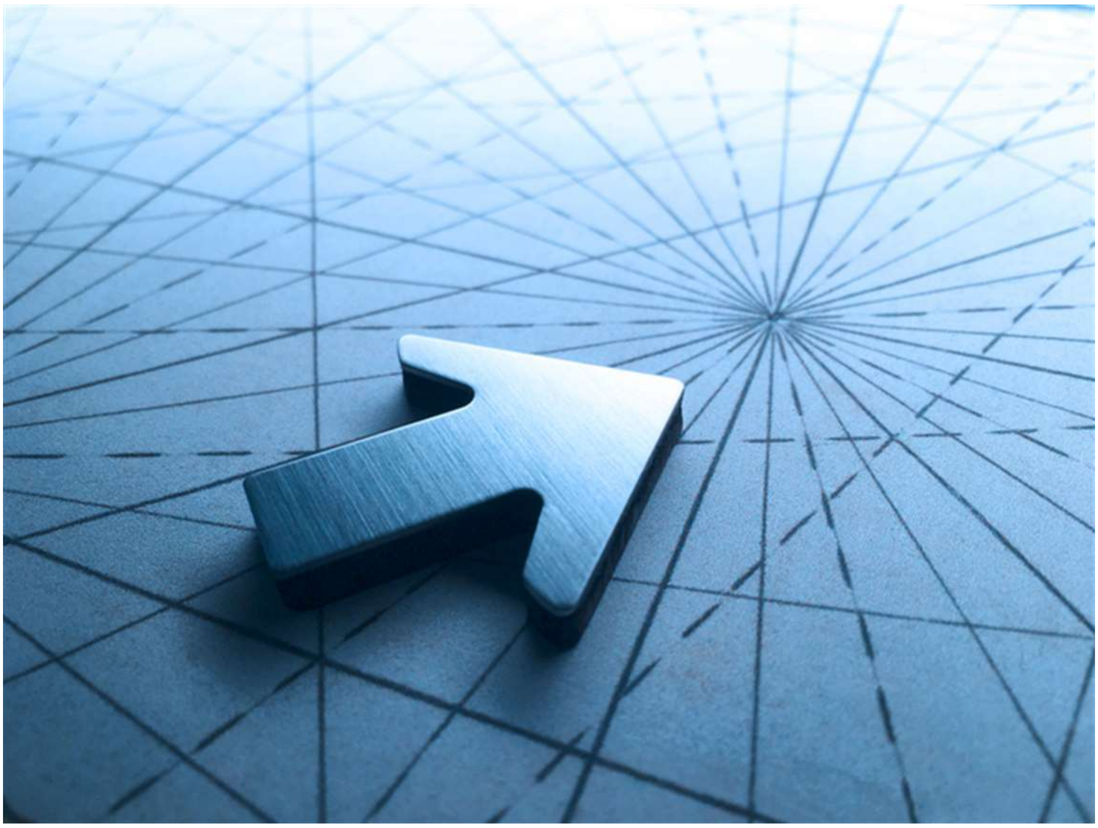
DWF CORPORATE INTELLIGENCE°

Camp Outside UK Ltd



DWF Corporate Intelligence Report			
DWF Reference	Financial Due Diligence	Client	Orient Partners
DWF Accountant	Victoria Middleton	Date	17 December 2019
DWF Analyst	Andy Bethall	Version	1

Contents

DWF CORPORATE INTELLIGENCE°

1. Executive Summary

Background and scope

1.1 We were instructed to carry out a desktop-based, financial due diligence review in relation to Camp Outside UK Ltd ("**Camp Outside UK** "). Camp Outside UK is based in Lincolnshire and imports, designs and distributes camping and caravanning equipment**.** Our enquiries were undertaken as part of legal advice that DWF Law LLP are engaged to provide to Orient Partners in connection with a potential investment in Camp Outside UK.

1.2 Our review has focused only on public financial information sourced from the most recently filed accounts for the year ended 31 December 2018. We have not been provided with any additional financial information at this time, although we suggest that should Orient Partners seek to pursue an investment opportunity further, it should first request up-to-date financial information, supported by explanations from the directors, for further review.

Summary of findings

Headline results	**Year ending 31/12/2018**	**Year ending 31/12/2017**	**% increase or decrease on prior year**
Net Assets	£13,972,000	£10,582,680	32%
Ratio of current assets to current liabilities	3.0	2.3	
Turnover	£36,297,000	£32,698,962	11%
EBITDA	£4,792,816	£5,279,843	(9%)
EBITDA margin	13%	16%	
Profit for the year	£3,766,000	£4,371,900	(14%)

1.3 Camp Outside UK is a successful company with a healthy balance sheet and stable financial position. The Company has no long term debt and is entirely funded by retained profits. The Company is owned and run by a husband and wife team.

1.4 Although sales increased in 2018, overall profit declined due to increased distribution costs. These were a result of an increase in international sales leading to higher delivery costs and exchange rate losses. Administration costs also rose due to an increase in director's salaries in the year. These salaries now appear to be higher than the market rate.

1.5 The Company faces a number of potential risks:

(a) It carries a high level of stock, above the industry norm, which exposes the Company to the risk of being left with obsolete stock.

(b) The directors do not appear to have made any investment in the fixed assets of the business in recent years. Together with increases in director's emoluments and significant dividend payments in 2017 and 2018, this could suggest the owners are looking to realise their investment in the Company in preference to further developing the business.

(c) The accounts reveal a contingent liability in respect of legal proceedings in relation to the potential breach by the Company of a competitor's intellectual property rights. The Company is defending against the claim and believes it is more likely than not that it will be successful and avoid any future pay-out.

1.6 Orient Partners might seek to obtain further information from the directors in relation to the issues highlighted above.

2. Detailing Findings

2.1 In the tables below we set out a summary of the financial results of the business for the past two years, and the variance in the year.

2.2 Areas of concern have been highlighted in red and strength areas have been highlighted in green . We comment on these further in the body of this report.

2.3 The accounts have been prepared in compliance with UK GAAP (FRS 102).

Balance Sheet	Year ending 31/12/2018	Year ending 31/12/2017	% increase or decrease on prior year	See further details at paragraph:
Tangible assets	£68,000	£96,666	(30%)	2.5
Current assets				
Stock	£16,648,000	£13,732,317	21%	2.6
Trade debtors	£2,355,000	£2,840,028	(17%)	
Other debtors and prepayments	£1,622,000	£1,399,972	16%	
Cash at bank	£545,000	£467,785	17%	
Current liabilities				
Bank overdraft	£nil	£2,860,981	(100%)	2.8
Trade creditors	£4,773,000	£3,060,000	56%	
Other current liabilities	£2,392,000	£2,015,019	19%	
Net current assets	£14,005,000	£10,504,102	33%	
Provisions for liabilities	£101,000	£18,088	458%	2.9
Net Assets	**£13,972,000**	**£10,582,680**	**32%**	
Share capital	£100	£100	nil%	
Retained earnings	£13,971,900	£10,582,580	32%	
Shareholders' funds	**£13,972,000**	**£10,582,680**	**32%**	

DWF CORPORATE INTELLIGENCE°

Profit & Loss Account	Year ending 31/12/2018	Year ending 31/12/2017	% increase or decrease on prior year	See further details at:
Turnover	£36,297,000	£32,698,962	11%	2.12
Cost of sales	£25,020,000	£22,748,935	10%	
Gross Profit	£11,277,000	£9,950,027	13%	2.12
Distribution costs	£2,861,000	£1,833,000	56%	2.14
Administrative Expenses	£3,681,000	£2,872,000	28%	2.16
Operating profit	£4,735,000	£5,245,027	(10%)	
EBITDA	*£4,792,816*	*£5,279,843*	*(9%)*	
Interest payable	£76,000	£130,000	(42%)	
Profit before tax	£4,659,000	£5,115,027	(9%)	
Tax on profit	£893,000	£743,127	20%	
Profit for the year	**£3,766,000**	**£4,371,900**	**(14%)**	

Further useful information from the Reports and Notes	Year ending 31/12/2018	Year ending 31/12/2017	% increase or decrease on prior year	See further details at:
Audit report	Unqualified opinion	Unqualified opinion		
Accounts and returns filed on time	Yes	Yes		
Audit fees	£30,000	£12,000	150%	
Depreciation	£23,000	£34,816	(34%)	
FX losses/ (gains)	£252,000	(£175,000)	(244%)	2.15
Number of employees	31	27	15%	
Wages costs	£2,258,000	£1,758,000	28%	
Director's emoluments	£949,000	£621,000	53%	2.16
Dividend for the year	£380,000	£630,000	(40%)	2.17
Contingent liability	Yes - legal case	No	n/a	2.10

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Ratios	Year ending 31/12/2018	Year ending 31/12/2017	Improvement or decline on prior year	Competitor average[1]
Profitability				
Gross profit margin	31%	30%	Improvement	44%
Operating profit margin	13%	16%	Decline	6%
EBITDA margin	13%	16%	Decline	6%
Net profit margin	10%	13%	Decline	4%
Return on Capital Employed *(Operating profit/Total assets -current liabilities)*	34%	50%	Decline	38%
Solvency and liquidity				
Current ratio *(Current assets/Current liabilities)*	3.0	2.3	Improvement	2.6
Gearing ratio *(Short + Long-term borrowings/Capital+Retained Earnings)*	nil%	27%	Company has no borrowings	109%
Working capital management				
Stock turnover days *(Inventory/Cost of sales x 365)*	243	220	Decline	75
Debtor days *(Trade debtors/Turnover x 365)*	23	31	Improvement	25
Creditor days *(Trade creditors/Cost of sales x 365)*	47	49	Decline	40

Directorships and shareholdings

2.4 Details obtained from UK Companies House identified the following information in relation to Camp Outside UK:

(a) Incorporated in October 2006.

(b) There are two directors; Mrs Jane Loveday and Mr Mark Loveday. They were both appointed upon incorporation and have been the only directors of the Company since that time.

[1] The competitor average has been derived based on the results of Mountain Warehouse, Ellis Brigham and Go Outdoors, three companies operating in the same sector as Camp Outside UK.

(c) Mrs Jane Loveday and Mr Mark Loveday are equal 50% shareholders.

Comment on financial strengths and issues of concern

2.5 The fixed assets balance has declined by 30% in the year. The notes to the accounts reveal that in 2018 the Company disposed of motor vehicles with an historic cost of £50,000. The Company made no investment in fixed assets in 2018 or 2017. This could indicate a lack of desire to invest in improving or developing the Company's operations. Instead the shareholders may be looking to realise their years of investment in the Company by prioritising payments to themselves in the form of significant dividends and increased directors' emoluments (further details of these appear later in this report). The owners may be looking for a complete exit in the near future. Orient Partners should consider how integral the two directors/shareholders are to the continued success of the Company. Orient Partners should explore with the directors their personal plans to remain with or exit the business over the short to mid-term period.

2.6 The Company carries a relatively high stock value. As at the end of 2018 the Company held £16.6 million of stock. This has increased by 21% on the prior year. The Company's stock turnover days, a ratio that measures how many days on average it takes to sell stock, increased to 243 days in 2018 (up from 220 days in 2017). In general, the less time it takes to turnover stock, the better, although this ratio is industry specific. We have undertaken research into the stock turnover days of competitor companies including Mountain Warehouse, Ellis Brigham and Go Outdoors. Our analysis reveals that the stock of these companies is turned over within 65 to 85 days. This suggests that the time it takes Camp Outside UK to turnover stock is significantly higher than the industry average.

2.7 In the Strategic report, the director's explain that the Company carries significant stock in order to improve the availability of products for online customers and reduce delivery times. This suggests that the directors have concluded that holding a higher level of stock enables them to achieve higher levels of sales and they are therefore willing to take on the risk of stock becoming obsolete. Nevertheless, obsolete stock could be a threat to the business.

2.8 The Company is currently funded solely by retained earnings. At 31 December 2017 the Company carried a bank overdraft of £2.9m. At 31 December 2018, this had reduced to nil. The Company has no long term debt. Given the Company’s historically low level of gearing it is likely that a bank would look favourably upon it should it seek to secure long term debt funding in the future. The high levels of stock mentioned above could serve as security for such funding. Debt could be used to fund future international expansion if required.

2.9 The balance sheet contains a £100,000 provision for liabilities. Note 15 to the accounts reveals that this provision relates to the expected warranty costs on products sold to end users that are still within the warranty period. In 2017, there was no such warranty provision in place. The reason for this is not provided. It is possible that the Company has only recently introduced warranty cover for its products.

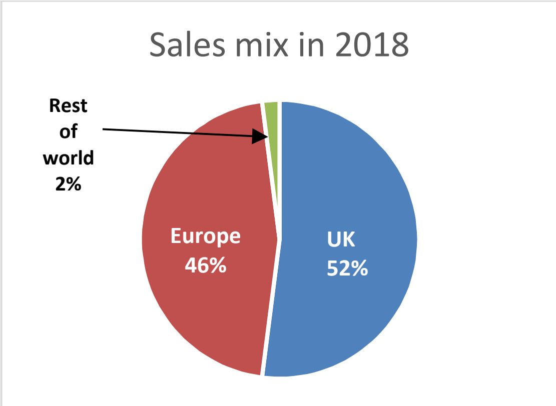
2.10 The accounts disclose the existence of a contingent liability, meaning the Company has a possible obligation that may lead to a future payment. Neither the balance sheet or profit and loss account are required to contain any amount for this possible future payment as it is not yet probable. The users of the accounts are made aware of its potential existence by way of a note to the accounts. In this instance the contingent liability relates to legal proceedings in relation to the potential breach by the Company of a competitor's intellectual property rights. The Company is in the process of defending a claim from a competitor, the outcome of which is not certain. The Company has taken legal advice on the issue. The Company states that it will continue to defend against the claim and believes it is more likely than not that it will be successful.

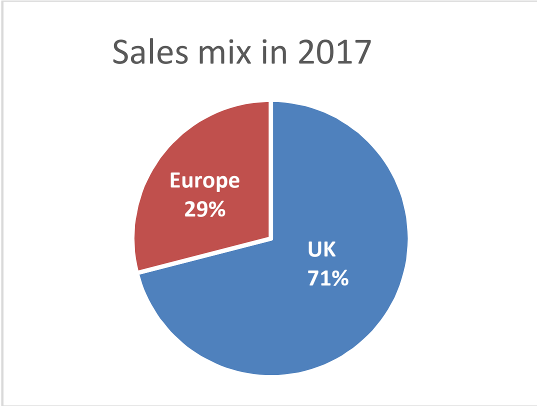
2.11 The Company is managing its working capital well. Debtor days (which is an estimate of the number of days that it takes the Company to collect payments from its customers) has improved since 31 December 2017, reducing from 31 days to only 23 days in 2018. The competitor average is 25 days. In addition creditor days (which is an approximation of the number of days that a company takes to pay its suppliers) has held reasonably steady at 47 days in 2018, compared to 49 days at 31 December 2017. The competitor average is 40 days. This suggests that the Company is ensuring it quickly collects payment from its customers but is making good use of the short-term trade credit available to it as part of payment terms agreed with its suppliers. It is doing this better than many of its competitors.

2.12 The Company's operating profits suffered a 10% decline in 2018. The Strategic Report of the directors explains that this fall has resulted from a significant increase in both distribution costs and administration costs. This explanation is borne out in the financial analysis which shows that distribution costs and administration costs increased by 56% and 28% respectively in the year, compared to only an 11% increase in turnover.

DWF CORPORATE INTELLIGENCE°

2.13 Note 2 to the 2018 accounts provides details of the sales mix which is set out in the charts below.





2.14 In the Strategic Report the directors state that they will be focusing on further expanding into new European markets in the coming year and making inroads into the American market. This focus on foreign markets is presumably what has led to the increase in distribution costs which contributed to the decline in operating margin. Understanding the Company's plans for managing and reducing the costs of international distribution will be a key area for Orient Partners to review and discuss with management prior to any investment.

2.15 The Company suffered £252,000 of foreign exchange rates losses in 2018. In the prior year the Company had benefited from a £175,000 exchange rate gain. In addition to the consideration of distribution costs, Orient Partners should also review and discuss management's plans for hedging against the Company's increased exposure to exchange rate movements as it expands further internationally. This is particularly important given the dynamic political landscape in the UK at present.

2.16 The two directors paid themselves £949,000 in the year, a 53% increase on the £621,000 they paid themselves last year. This contributed to the substantial increase in administration costs of 28% in the year. We carried out research into the average pay of a managing director of similar sized retail businesses by reviewing filings at Companies House and relevant internet-based job adverts. The typical salary appears to be in the region of £250,000 to £300,000. As a consequence this might be an area for Orient Partners to consider when valuing the business.

2.17 A dividend of £380,000 was declared and paid in the year. In the prior year a total dividend of £630,000 was paid. Since dividends are paid from distributable reserves (rather than being treated as an operating cost) Orient Partners might seek to ensure that any future investment is protected and that sufficient profits are retained by the business going forward to support and fund future growth.

Appendix - Sources

1. Our enquiries use online databases and internet searches and cover identifiable information in the public domain. Research is predominantly conducted in English. We have not sought to independently verify or audit the information contained within the public sources of information that we rely upon and as such cannot be certain of their overall accuracy or reliability.

2. The disclosure or modification of this document or any other materials (or any part thereof) are not permitted without our express written permission.