Full EIS Report

Dorset County Distilling Co. Limited

Gold Due Diligence for GrowthInvest

Summary

Dorset County Distilling is raising new money to fund the development of a brand-new distillery in Dorset.

	Positives	Issues
Why Invest	**Strategy:** The company plans to distil and market premium whisky and other spirits from new and converted farm buildings in Dorset.	**Competition:** There are already a number of "craft" distilleries dotted around the UK. The trend is well established, but it is still an emerging market.
The Management	**Team:** It is initially a family enterprise: the father has a substantial track record in managing businesses, mainly in shipping; the son has experience in brewing.	**Track Record:** The management team has no previous experience in running a distillery or marketing craft spirits, but it has researched the market extensively for the past four years.

Nuts & Bolts

- **Share Issue:** Initial open offer issue for 25,000 shares (33% of enlarged equity) at £110 per share i.e. raising £2.75m gross, and looking to raise £4.5m in total in due course.
- **Offer**: Offer launched on 20th December 2017 and will close on 30 June 2018.
- **Exit Strategy:** No planned exit but the most likely first liquidity event will be a trade sale of either brands or a stake in the whole company.

Specific Issues

- **Start Up:** Dorset County Distilling is a pre-revenue proposition. Currently, there are only buildings that need to be converted, but management has the relevant planning permissions and a well-researched business plan. There are some low-level construction risks to be tackled before the first spirits are produced and sold.

Consultant information

Pre-money valuation	£5.50m
Initial target fundraise	£2.75m
Post-money valuation	£8.25m

Risks

- **Generic:** Dorset County Distilling is a small unquoted company. There will be no formal market in the shares. It is not intended that there will be any capital returns or dividends paid in the first five years. There can be no guarantee that the investment will be successful, that an exit will be achieved or that there will be any value to be distributed.
- **Specific:** The building project is not complex, and project managers have been hired. Once the distillery is operational, the company has to make flavoursome products and be successful in its sales efforts, in many cases to enterprises much larger than itself and against stiff competition. None of these obstacles is insurmountable; the market for UK whisky, craft gin and other spirits is growing robustly, and is forecast to continue to do so for some years to come.

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Factsheet

Dorset County Distilling Co. Limited	
Product name	Dorset County Distilling Co. Limited
Tax eligibility	EIS
Type of product	Single company equity issue
Term	N/A
Sectors	Consumer Goods, Beverages, Distillers and Vintners
Diversification	
Number of companies	1
(Expected) Gini coefficient	1

Fees	Amount	Paid by
Professional related to offer	5%	The company

Advisor fee facilitation	Yes
Advisor fee amounts	On an advisor by advisor basis
Investment Memorandum	GrowthInvest
HMRC Advance Assurance	Received
Reporting	Quarterly
Minimum investment	£5,000
Minimum raise	£2,000,000
Initial fundraising target	£2,750,000*
Expected closing date	30 June 2018
Expected exit method	Not determined, but partial trade sale in due course most likely

Source: Dorset County Distilling Co. Limited, Hardman & Co research
** looking to raise £4.5m in total in due course*

Offering

Dorset County Distilling Co. Limited is making an offer of shares in a single company that will fund the conversion of farm buildings to a distillery and the commencement of production of various spirits. The open offer is initially for 25,000 shares in the company, at £110 each, looking to raise £2.75m in total. Together, the investment and a pre-money valuation of £5.5m lead to a post-money valuation of £8.25m. The company intends to raise a further £1.75m in the two years following the closing of the issue on 30 June 2018.

There is no specific exit plan or timetable, but management believes that the most likely first liquidity event will be the sale of either specific brands or a stake in the whole company to a trade buyer. This is not expected within the first five years.

Summary of Risk Areas

Note: There are generic risks from investing in EIS or unquoted companies, in addition to the specific ones commented on below. Comments on relative risk refer to other EIS investments and not to wider investments.

Project

Any building project has the risk of delays and cost overruns. With planning permission already granted, a big hurdle has been overcome, but there is still the modification of existing buildings and the construction of new ones to complete. This is not a complex project, however, and Dorset County Distilling has engaged Acheson Construction of Dorset to project-manage the construction phase. In addition, the distilling equipment is provided on a turnkey basis.

Management says that the project costs have a built-in cushion of 30%-40%.

Operations

Once the distilling equipment is installed, the operations should be relatively straightforward. Dorset County Distilling will have plenty of professional advice to turn to; nor should the sourcing of ingredients cause any issues.

The key risk in operations that we see is marketing. This is absolutely essential to the success of Dorset County Distilling. In a competitive market, with many brands competing for attention, it will not be easy to stand out. The trends in the market are in its favour – craft distilling is definitely a growth segment of an otherwise mature UK whisky market – but that itself is no guarantee of success. Dorset County Distilling will still have to get the packaging, the promotion and the pricing right.

Competition

There are plenty of whisky distillers globally – some of them part of huge organisations with massive marketing skill and heft. There are also an increasing number of much smaller craft distillers with which Dorset County Distilling will be competing. The English whisky renaissance began in around 2003 and, with its first whisky not due to be released until 2024[1], Dorset County Distilling is not the first to the party. It will however be selling its Founder's "new-make spirit" in barrels in the first production year in 2019. It cannot call the product "whisky" until it has been in

[1] The first whisky will be produced a year from the project starting and needs to rest in the cask for a minimum of three years, so Dorset County Distilling could release it earlier (i.e. 2022) if it decided to.

cask for three years. In this report, however, we will refer to Founder's whisky regardless of when it is sold, for simplicity's sake.

It is difficult to predict what the state of the spirits market will be like in 2024, but we do not see the growth in craft[2] whisky as a fad that will have faded. Dorset County Distilling will benefit from the pioneering work done by its competitors to make English whisky more mainstream.

Finances

The business plan projects a peak cumulative cash outflow of £4.1m in 2020, with £3.4m spent in year one. The company starts with a cash balance of £50,000 (less expenses related to the issue). It plans to modify the rate at which cash is spent depending on the sum raised, and believes that the 30%-40% cushion in the projected costs is unlikely to be needed.

Included in those calculations is £1.1m of revenue from the sale of Founder's whisky in casks to supporters and whisky investors. It is planning on selling 8% of the first year's production in year one, 10% in year 2 and 12% in year 3. If this assumption proves too optimistic (and/or there are cost overruns in the building phase), Dorset County Distilling might need to raise some debt. It should be able to borrow against both the valuable specialist distilling kit and whisky stocks.

The problem any start up distiller has is the lack of cash flow – it takes time for the whisky to mature to be ready for sale and delivery. Dorset County Distilling intends to fill this gap partly by distilling and selling gin, vodka and rum, which face no such delays, but this market too is competitive.

Management

The management team has no direct experience of running a distillery or selling spirits into the on- and off-trade. The two executive directors have contrasting CVs: Hutch has 40 years' experience as a businessman, mainly in the shipping world; and his son, Alex, has experience as both a chef and a brewer – he has completed a distilling course and had some experience of working in a small distillery in Scotland; he also has a graphic design degree.

Management believes that its skills and experience are transferable to the world of distilling. In addition, management will be supported by "experienced distillers and marketing and sales ambassadors": for help with advertising and marketing, blending and vatting, and with regulation.

Regulation

Industry

The principal regulator for Dorset County Distilling is HMRC. Customs regulate all the issues regarding bonding and excise duty. In order to operate a distillery, you need a licence from HMRC, and the latter needs to approve the plant and process. Dorset County Distilling has received provisional outline approval for the site. Formal approval can be granted only once the site is completed and ready to go.

[2] "Craft" is not a formally defined term. In this report, we take it to mean a spirit fermented and distilled from scratch with local ingredients, and with the owners involved directly in the business. It is not a function of size, although a craft distillery will necessarily be smaller than a full-scale industrial facility.

The full rules governing running a distillery can be found in the link below:

https://www.gov.uk/government/publications/excise-notice-39-spirits-production-in-the-uk/excise-notice-39-spirits-production-in-the-uk

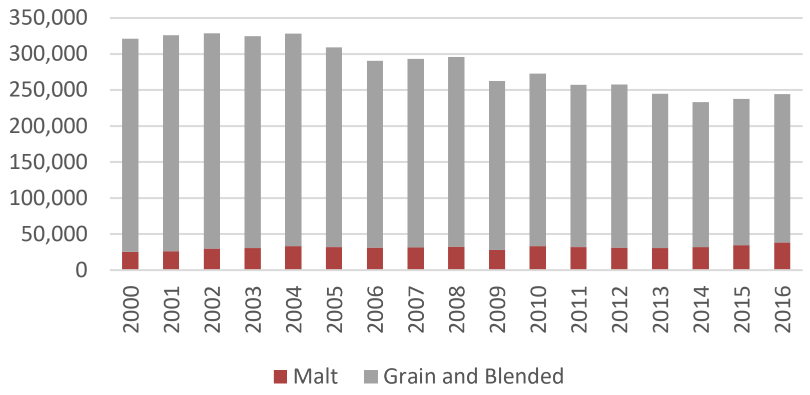
Company

HMRC Advance Assurance for EIS approval has been applied for and received.

Industry Commentary

The production of whisky, and spirits in general, is a mature business. Production of whisky for sale in the UK peaked in 2004 at just under 330,000 hectolitres by alcohol (equivalent to about 117m bottles, or two per head). In 2016, it was 244,000 Hl (87m bottles).

Volume of whisky sold in the UK (hectolitres)



Source: HMRC

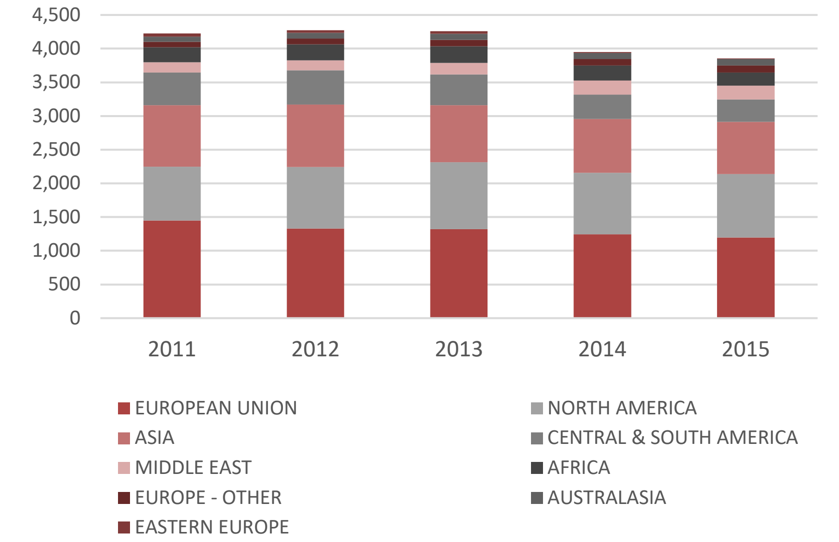
However, this gentle decline disguises the 2.6% annual growth seen in malt whisky sales since 2000.

In addition to domestically produced whisky, there is a growing market for imported whisky (or whisky, or bourbon), with the bulk of it coming from the USA (£86m in 2016 and reported to be up 39% in the first half of 2017).

The domestic market is only a small part of the UK whisky story, though. The vast bulk of whisky production is for export; that too is a mature market, whether looked at by value (just over £4bn in 2016) or volume.

The global whisky market as a whole is forecast by IWSR to grow by 55 million nine-litre cases over the next five years (c+3% pa) with "other whiskies" – predominantly Indian – growing by 28m cases; Scotch by 10.5m and American whiskey adding 9m cases.

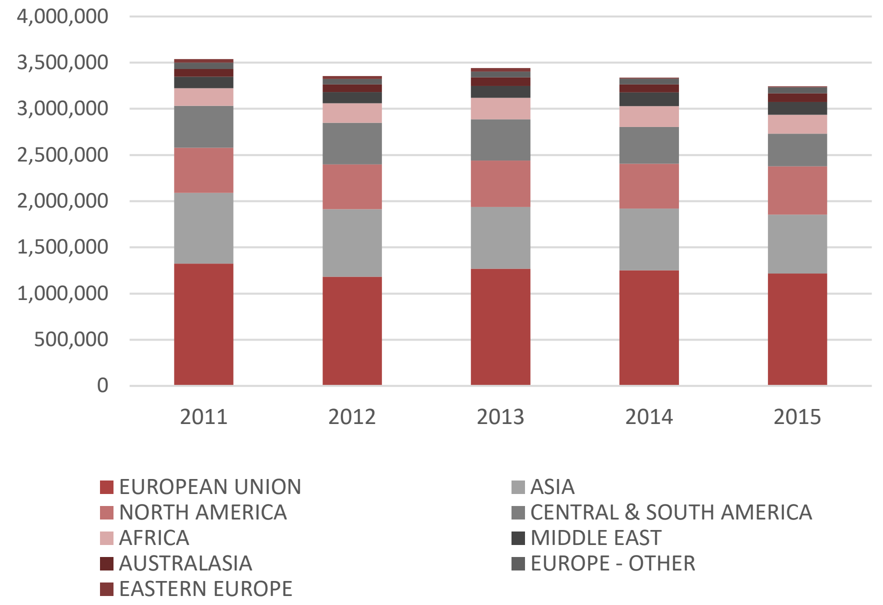
Whisky exports by value (£m)



Source: Scottish Whisky Association

By volume, it is 3.2m hectolitres, the equivalent of 1.15bn 70cl bottles.

Whisky exports by volume (hectolitres of pure alcohol)



Source: Scottish Whisky Association

The UK whisky market overall, then, is mature and, if it is growing at all, it is doing so very slowly. Within this, though, the English whisky business is completely different. Essentially, there was no English whisky produced in the 20th century, although there had been a thriving business in the 19th century. Since 2003, various distilleries have been established, and there are now maybe 14 in total in production in England. We estimate that their total capacity may reach around 6m bottles annually, or about

0.5% of total UK whisky production once they are all running at full capacity. Some of these distilleries are very small, and others are producing predominantly other spirits. There are only around 115 whisky distilleries in Scotland, but they are on an altogether different (industrial) scale.

Some English whisky distilleries

Est.	Name	County	Status	Whisky release date	Spirit still capacity (litres)
2006	The English Whisky Company	Norfolk	Available	2009	1,800
2014	Lakes Distillery	Cumbria	Laying down casks	2018	3,500
2016	Copper Rivet Distillery	Kent	Pre-prod	2020	2,000
2016	Dartmoor Whisky Distillery	Devon	Pre-prod	2019	1,400

Source: Hardman & Co Research

So English whisky is a tiny part of the whole market, and has different drivers. It is part of a global movement looking for "authenticity" in its food and drink. This means products created on a human scale, from local ingredients, and crafted by owners who are involved in the whole process – which is precisely where Dorset County Distilling is pitching its business.

English whisky producers

We have not been able to get hold of data for the English whisky market as a whole, but, where we have been able to see financial accounts, the companies involved have seen substantial growth.

Three English whisky distilleries' financials

	Cotswolds Distilling Co		East London Liquor Co		Lakes Distillery Co	
'£000	2016	2017	2015	2016	2015	2016
Turnover	1,085	2,180	1,072	2,219	3,040	3,432
Cost of sales	-573	-1,088	-601	-1,365	-1,527	-1,619
Gross profit	513	1,092	471	854	1,513	1,814
Marketing and selling	-143	-322	0	0	0	0
Admin.	-520	-766	-539	-1,047	-2,267	-2,672
EBIT	-150	5	-68	-193	-754	-859
Interest	-74	-91	-15	-62	25	48
PBT	-224	-86	-82	-255	-729	-811
Tax	0	0	0	0	0	61
PAT	-224	-86	-82	-255	-729	-750
					-509	-586
Turnover	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*
Cost of sales	*-53%*	*-50%*	*-56%*	*-62%*	*-50%*	*-47%*
Gross profit	*47%*	*50%*	*44%*	*38%*	*50%*	*53%*
Marketing and selling	*-13%*	*-15%*	*0%*	*0%*	*0%*	*0%*
Admin.	*-48%*	*-35%*	*-50%*	*-47%*	*-75%*	*-78%*
EBIT	*-14%*	*0%*	*-6%*	*-9%*	*-25%*	*-25%*

Source: Company Accounts

Note: over £1.2m of the Lakes Distillery Co revenue in 2016 was from its bistro and tours

There is also further evidence of a booming UK craft spirits industry in the Adnams Annual Report and Accounts 2016, which is worth quoting from:

"Our spirits business had a particularly good 2016 with very strong growth across all channels including supermarkets, pubs and our own shops … The tripling of capacity that we put in place at the start of 2016 came just in time to allow us to fulfil the demand that we have seen. The fact that we can produce high quality alcohol, that

we then distil, means that we can deliver a true 'grain to glass' drink, which sets us apart in a market that largely comprises distillers who buy alcohol from bulk producers."

Adnams started distilling in 2010. In its 2015 Annual Report and Accounts, it said that spirit volumes were up 39% on 2014, which itself was up 37% on the previous year.

Other spirits

In addition to whisky, Dorset County Distilling will be producing gin, vodka, rum and other spirits. The UK gin market is currently booming. In the year to September 2017, 47m bottles of gin were sold in the UK, which represented an increase of 18% on the year before. Exports are growing too, with sales growing by 32% in the past five years, according to the Wine and Spirit Trade Association (WSTA). Much of that growth is being driven by new craft distillers: the number of distillers in England has grown from 25 in 2011 to 118 in 2016, according to the HMRC.

And it is not just gin: according to the WSTA, UK rum sales have increased 18% by volume and 38% by value in the past five years. The number of brands available has also expanded, growing from 50 in 2006 to 150 in 2016.

It would be fair to say that the English whisky market, and craft spirits market generally, is growing fast from a small base. In addition, as in other businesses (like, say, pharmaceuticals), the large players are happy to see small new entrants take on the risk of developing a new product, bringing it to market and establishing its presence before buying them out to give exposure to this growing sub-segment.

Deals

Below is a list of some deals done in recent years. The terms are not always disclosed.

Craft distillery deals

Year	Distiller acquisitions	Acquirer	Price	Comment
2016	Monkey 47 Gin	Pernod Ricard	n/a	Monkey 47 is a German gin producer; majority stake acquired.
2017	Bulldog Gin	Campari	£47m	UK gin producer, Bulldog, had net sales of £8m in 2015, 1.4m litres.
2012	Bruichladdich	Rémy Cointreau	£58m	This Scotch whisky producer had sales of £9m in 2011, and £28m of stock.
2016	Sipsmith Gin	Beam Suntory	n/a	This UK gin producer reported £7m of revenue in 2016.
	Fundraiser		**Pre-money valuation**	**Fundraiser**
2017	Lakes Distillery	Crowdfunded capital	£44m	Revenue of £3.4m in 2016, and £1.3m of stock at cost. Raised £1.6m.

Source: Hardman & Co Research

Included in the table is a fundraising for Lakes Distillery, which valued the company at £44m. It was completed right at the end of 2017 on the crowdfunding platform Crowdcube.

Company Analysis

Development Plans

Dorset County Distilling plans to take a 25-year lease on three acres of farm buildings and four acres of arable land off one of the directors, and convert them into a distillery, bonded warehouse, bottling plant and visitors' centre. It has acquired detailed B1 industrial planning permission for most of the works – a not inconsiderable achievement, as the farm lies in an area of outstanding natural beauty in the Fontmell Magna conservation area in north Dorset. The rental terms have been agreed.

An existing long barn will be renovated to become the distillery room, and two new-build bonded warehouses (totalling 12,000 square feet) will be erected adjacent to the barn to store the maturing whisky. A bottling plant, gin room, fermenters and storage will be created in a further third barn. In addition, the existing granary will be converted into offices, together with a visitors' centre.

Once the buildings are ready, the distilling equipment can be installed. This will come from Holstein in Germany, a highly regarded manufacturer of top-quality equipment. There is a nine-month delivery period from ordering.

Holstein & Co distilling equipment

Source: Holstein & Co

Dorset County Distilling expects that it will take around 12 months from the start of work to the start of production. The total cost of the building work and fitting out the distillery is estimated to be up to a maximum of £2.7m, generating a depreciation charge of £290k. Management estimates that there is a 30%-40% cushion in these estimates.

Capital expenditure		
£000's	**Cost**	**Useful life (years)**
Distillery equipment	1,300	10
Building and outfitting	1,198	10
Steam generator	100	5
Fork lift truck	10	5
Office equipment	10	5
Computer system	10	2
Phone system	5	5
Vans (x2)	50	5
Trailers (x2)	8	10
Total	2,691	

Source: Dorset County Distilling Co. Limited

The site is well located. In addition to having its own water from a specially drilled bore hole, it is close to suppliers of all the necessary raw materials: grains, fruits and potatoes. It will source the crucial malt from Warminster Maltings, which is just 20 miles away. It is also in a holiday area, which should supply plenty of customers to its visitors' centre.

Manufacturing process

The distillery is designed to be very flexible, allowing production of Irish, Scottish and Bourbon-style whiskies, as well as gin, brandy, rum, vodka and other *eau de vies*.

The plan is that the distillery will initially produce approximately 80,000 litres of pure alcohol per year, which is the equivalent of 280,000 bottles. Production could be doubled by the addition of a second shift and just two extra staff. This is assuming that the full £4.5m is raised.

In the first three to four years, Dorset County Distilling will buy in three- to five-year whiskies to blend with its own production and produce its own proprietorial blended whisky.

It is common for distilleries to make a mixture of spirits since, from the start of production, no "whisky" can be sold for three years; it is a legal requirement that, to be called whisky, it must have been matured in casks for at least three years. Dorset County Distilling will produce its own neutral spirit from grain, molasses, potatoes, apples and pears – all sourced locally. The spirit will be macerated with its own recipe of botanicals to produce proprietorial gin and with other fruits and berries to produce various vodkas and *eau de vies*.

Products

Dorset County Distilling's main product will be whisky. Its first two whiskies will be contrasting styles: one a single malt and the other a premium rye whisky. Malt whisky has just three ingredients: malted barley, yeast and water. The flavour is a product of many factors, including the mash mix itself, the design of the pot-still, the distillation process and the cask in which it matures.

Grain whisky can be made from a mixture of malted barley, maize, wheat, rye and yeast.

The casks are important too. They are typically made from oak and can be either new or used. In the case of used barrels, the former use can have a marked impact on the flavour. Typically, barrels have previously held Kentucky bourbon, but they could have contained sherry, rum, port or even brandy. Since Dorset County Distilling is not a Scotch whisky maker, it can even make use of different woods for its casks, such as maple or cherry.

There are laws regarding the manufacture of Scotch whisky – The Scotch Whisky Regulations 2009 – which, *inter alia*, prescribe the use of oak barrels no bigger than 700 litres, to be used for maturation and (perhaps surprisingly to the neophyte) allow the addition of plain caramel colouring. There are no specific rules for making English whisky – it just has to conform to generic EU regulations.

The size of the barrels (notably the volume of liquid to the surface area of the barrel) and even the temperature at which they are stored have an impact on the speed of the whisky maturity. The company will use external expert guidance to help design its maturation process.

Gin is made by flavouring a base ethanol spirit (vodka) with natural ingredients called "botanicals" and re-distilled.

The vodka is made by distilling grain wash until it reaches 96%-proof alcohol.

Both gin and vodka can be sold immediately – there is no legal requirement for a maturation period.

Marketing

The production process is only part of creating the product to be sold. The branding and marketing of the spirits is probably even more important. Even in a growing market, like craft spirits, it is critical to get distribution – to get the product in front of the public.

The most important route to market is through distributors. Dorset County Distilling has already initiated contact with a number of distributors, and it will need to build more relationships. Distributors hold the key to the on-trade and most retail trade too.

To enhance the product in the eyes of the distributors, Dorset County Distilling will need to get the packaging right and create a buzz around the new products. This can be done through online advertising, social media, and attending events where potential customers can see and sample the new drinks.

Dorset County Distilling will be helped by one of the founding shareholders, William Wright, who is an Art Director at JWT – a major advertising company based in London – and another of Hutch's sons.

It will also have a direct sales strategy: literally visiting outlets up and down the country and promoting the product.

International sales

Overseas sales will be conducted through distributors. Dorset County Distilling will initially target Northern Europe (France is the second-largest whisky market after the USA), the Far East and the USA.

Management expects that more than half its sales will be from international markets within five years.

Pricing

Writing about successful marketing is far easier than doing it, and it is absolutely essential to the success of Dorset County Distilling. Also, of course, part of the process is getting the price right.

In the UK, ca.80% of the retail price of a bottle of whisky is tax – VAT and duty. The average price of a bottle of ordinary blended Scotch whisky in the off-trade is £12.90, of which £8.05 is excise duty, £2.15 is VAT and the whisky is £2.70. [3] Excise duty is a flat rate per unit of pure alcohol, and VAT is 20% on top of the whisky, plus the duty price. So, for a bottle retailing at £33, £5.50 is VAT, £8.05 is excise duty and the whisky is £19.45.

Dorset County Distilling is looking to retail its whisky at between £30 and £40 per 70cl bottle – this is in line with other English whisky producers. By comparison, the Lakes Distillery, "The One", a blend of UK whiskies, retails at about £33. The Cotswolds Distillery (at the same retailer, Majestic) has its single malt on sale for £50 per bottle. At the other end of the scale, the English Whisky Company recently released its first-ever 10 year-old single malt; it sold at £185 per bottle.

[3] These data came from the Scotch Whisky Association and are consistent with data from the Wine and Spirits Trade Association. The retail price might look very low, but currently, on Amazon.co.uk and at ASDA, you can buy a bottle of Bell's or Famous Grouse for £12. This is accurate at the time of writing.

Financial Projections

The projections provided by the company are summarised and given in the table below. We have used the original projections when it was assumed that Dorset County Distilling would raise £4.5m. As previously mentioned, the plan is still to raise £4.5m but not all in the first tranche. The numbers also assume the full projected capex.

Financial projections

£000's	Build year	Production year 1	Production year 2	Production year 3	Production year 4	Production year 5
Gin/Vodka		196	295	393	589	857
Whisky malt		0	0	0	0	229
Whisky grain		0	0	0	0	54
Whisky Founder's		480	600	900	571	686
Whisky blended		139	166	181	205	212
Visitors' centre Contribution		10	30	75	100	110
Total sales	0	826	1,090	1,548	1,465	2,147
Cost of production	0	-73	-96	-125	-119	-161
Gross profit	0	753	995	1,424	1,346	1,986
		91%	91%	92%	92%	93%
Total overheads	-670	-866	-937	-948	-974	-1,322
EBITDA	-670	-113	58	476	372	664
		-14%	5%	31%	25%	31%
Net profit	-670	-404	-233	190	86	378
Net cash at year-end	1,139	530	374	669	664	1,065
Value of stored whisky	0	2,160	4,829	8,090	12,310	16,383

Source: Dorset County Distilling Co. Limited
Note: the net cash year-end assumes £4.5m net is raised

Investors should note the following points when assessing these projections.

Generic disclaimer: *Generally, management projections, particularly for revenue, are at the optimistic end of likely outcomes. The planning fallacy can significantly affect timescales, and even those that are successful usually have delays somewhere that adversely affect revenue progress or increase costs.*

Specific comments

Hardman & Co has been supplied with a detailed financial model covering 10 years of production and the first construction year. We have included only the first six years in the table above. We would make the following observations.

The business and the financial model are both straightforward. There is a year of construction, followed by immediate start to the production and sale of gin and vodka. The first whisky is not currently planned to be sold until production year 5 (i.e. 2024), but it could be sold legally as whisky after only three years.

Dorset County Distilling intends to sell (but not deliver) Founder's whisky from the first year. We think the estimates of the revenue from this source may prove over-optimistic. It intends to sell 30% of the first year's production to founder members and whisky investors in the first three years.

In addition to the whisky distilled at Springhead Farm, Dorset County Distilling will buy in three- to five-year English, and other world grain and single malt whiskies, which will be blended and marketed on completion of its own maturation methods and branding. This is known as blending and vatting (common practice in the trade). This will allow the company to market its own proprietorial Anglo-Irish, Anglo-Welsh and Anglo-Scottish blended whiskies. This is not a huge contribution to the bottom line, but it will help the brand get recognition prior to the launch of its own whiskies.

It also plans to open a visitors' centre as soon as practicable.

As can be seen from the forecasts, the business is not projected to be especially profitable in its early years. This is completely normal for this sort of business. The value is being built up literally in the stocks of maturing whisky and in the creation of desirable brands.

The whisky in the table above is valued at £10 per bottle – its replacement value rather than its cost of production.

In its projections, Dorset County Distilling is planning to spend £165k in 2019 and then in excess of £200k per year on marketing. This is in the same range as the Cotswolds Distilling Co discloses: it spent £143k in 2016 and then £322k in 2017, while generating sales of £1.1m, rising to £2.2m. We would not expect that Dorset County Distilling could get away with spending any less than it plans, and it might have to increase spending in order to gain early traction in a competitive market place.

After the initial spend, the only capex required is spending on acquiring casks. These cost £240 each. In the first year, it needs just over 500, and this need will grow as production grows, with over 1,150 needed by year 4. By year 10, Dorset County Distilling will have invested nearly £3m in casks alone.

The plan is to fund the whole project with equity so that there is no interest to pay. In the projections, its peak cumulative cash outflow will be just over £4.1m in year 2, and it should then decline gently. If the full amount is spent, then it will have to find funding, in addition to the £2.75m planned raise. This might come from further equity raising or, if necessary, Dorset County Distilling will be able to get some reasonable asset-backed leases on some of the machinery and the whisky stocks.

Assuming there are no funding issues in the construction phase, the success of this venture will come down to the successful marketing of the whisky and other spirits produced. The plan assumes moderate success – which is entirely reasonable. If, say, the sale of Founder's whisky is at only half the projected level, then, by year 4, the cash outflow will peak at £5m (assuming the full capex is spent), which is probably at the outer limit of funds available, having raised £0.5m through asset-backed finance and the full planned £4.5m of equity. If the rest of the business is flourishing, though, it should not be too difficult to get a loan as the business begins to generate cash once the five-year-old whisky can begin to be sold.

Ownership

Assuming all the new shares being offered initially are issued (25,000 at £110 raising £2.75m gross), the shareholder register will be as set out in the table below.

Shareholders post full EIS issue

Surname	First name	Shares	% of shares
Wright	Sean	5,000	6.7%
Wright	James (Alex)	15,000	20.0%
Wright	William Robin	15,000	20.0%
Wright	Luke Edward	15,000	20.0%
New shareholders		25,000	33.3%
Total		**75,000**	**100.0%**

Source: Dorset County Distilling Co. Limited

Exits

There is no specific exit timeline or plan, but the company expects that, after five or more years, it will sell either a stake in the whole company or specific brands to a trade buyer.

Given the lack of liquidity, investors will inevitably need to treat this as a long-term investment.

Management

Dorset County Distilling Co. Limited is managed by a team of two, Roger Hutchinson Wright and Alex Wright.

Roger Hutchinson ("Hutch'') Wright, Director

Hutch has over 40 years' experience in all aspects of the maritime industry, including logistics and asset management – with a track record and reputation for the creation, development and performance optimisation of successful shipping enterprises. He has also been involved in building a residential block in Southampton and a luxury yacht.

Hutch will be responsible for the overall performance and management of the business.

Alex Wright, Director

Alex is one of Hutch's sons. He worked for four years as a self-employed chef on film and TV sets. In 2015, he took a Master Distiller course in British Columbia and then worked at the Strathearn Distillery before becoming a trainee brewer at the London Beer Factory, and subsequently General Manager of the Barrel Project – an offshoot of the London Beer Factory, where beer is aged in casks and where the premises are open as a bar at weekends. He has a degree in graphic design.

Alex will be operations director, overseeing the supply chain, production and sales, and marketing.

In addition, there is one non-executive director, Sean Wright.

Sean Wright, Non-executive Director

Sean (no relation) is a corporate lawyer, and will oversee compliance and professional investor relations, as well as legislation on HR, and health and safety. He heads up the National Private Equity practice at Shoosmiths and has acted for numerous private equity deals since 2004.

Potential Conflicts of Interest

Although, in the normal course of events, many business relationships of Directors are positives for a company, under some circumstances, they may cause conflicts of interest. We note those that have been disclosed to us.

The distillery will be built on land and buildings leased from Hutch Wright. The lease is for 25 years and will cost £15,000 in the construction year, rising to £25,000 once the facilities are built. The Directors consider the lease cost to be substantially below market value and there to be a significant advantage in the existence of planning for permission for such an operation in the middle of an Area of Outstanding National Beauty.

We have not identified any other specific potential conflicts of interest.

Appendix – Due Diligence Summary

Summary of core due diligence questions		
Company		**Validated by**
Company	Dorset County Distilling Co. Limited	
Founded	15 April 2016	Hardman & Co
Type	Limited Company	Hardman & Co
Ownership	See page 16	Hardman & Co
CRN	10126967	Hardman & Co
EISA member	No	Hardman & Co

Source: Hardman & Co research

Regulation

This will be a single company EIS, where investors receive shares in Dorset County Distilling Co. Limited. The company was incorporated on 15 April 2016 and has its accounts made to 30 April 2017. Ownership is described in full on page 17 of this report. HMRC Advance Assurance has been applied for and received.

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Some professional investors, who are subject to the new MiFID II rules from 3rd January, may be unclear about the status of Hardman research and, specifically, whether it can be accepted without a commercial arrangement. Hardman's company research is paid for by the companies about which we write and, as such, falls within the scope of 'minor non-monetary benefits', as defined in the Markets in Financial Instruments Directive II.

In particular, Article 12(3) of the Directive states: 'The following benefits shall qualify as acceptable minor non-monetary benefits only if they are' (b) 'written material from a third party that is commissioned and paid for by an[sic] corporate issuer or potential issuer to promote a new issuance by the company, or where the third party firm is contractually engaged and paid by the issuer to produce such material on an ongoing basis, provided that the relationship is clearly disclosed in the material and that the material is made available at the same time to any investment firms wishing to receive it or to the general public;'

The fact that we are commissioned to write the research is disclosed in the disclaimer, and the research is widely available.

The full detail is on page 26 of the full directive, which can be accessed here: http://ec.europa.eu/finance/docs/level-2-measures/mifid-delegated-regulation-2016-2031.pdf

In addition, it should be noted that MiFID II's main aim is to ensure transparency in the relationship between fund managers and brokers/suppliers, and eliminate what is termed 'inducement', whereby free research is provided to fund managers to encourage them to deal with the broker. Hardman is not inducing the reader of our research to trade through us, since we do not deal in any security.

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