CEPS
INDUSTRIALS

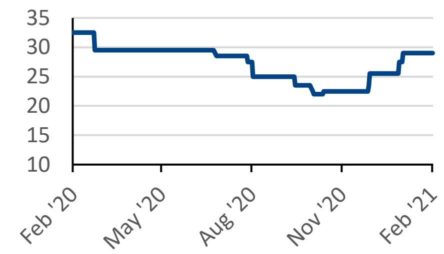
1 March 2021

CEPS.L

29p

Market Cap: £4.9m

SHARE PRICE (p)



12m high/low	33p/22p

Source: LSE Data

KEY DATA

Net (Debt)/Cash	£(7.5)m *(at 30/06/20)*
Enterprise value	£12.5m
Index/market	AIM
Next news	FY20 results, May '21
Shares in Issue (m)	17.0
Executive Chairman	David Horner
Finance Director	Vivien Langford

COMPANY DESCRIPTION

CEPS is an industrial holding company that buys majority stakes in profitable, growing entrepreneurial UK companies.

www.cepsplc.com

CEPS IS A RESEARCH CLIENT OF PROGRESSIVE

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Partnering for profitable growth

Building a cash-generative industrial trading group

CEPS is an AIM-quoted, industrial trading holding company that seeks to acquire growing, profitable and cash-generative specialist companies with defensible margins. Its acquisitions are characterised by private equity-style financial structuring and the entrepreneurial drive and flair of incentivised management teams. CEPS aims to achieve capital growth through steadily growing profits from its underlying companies and repaying acquisition debt. A conservative approach to capital allocation is guided by the medium-term objective to use the group's cash flow to reduce gearing, add further businesses and provide a robust, steadily growing dividend stream.

- The driving force behind CEPS (an acronym for **C**helverton **E**quity **P**artner**S**) is its chairman and 28.8% shareholder David Horner, who founded Chelverton Asset Management in 1998 and has refocused his attention on CEPS over the last few years. Horner's private equity corporate finance background is reflected in the typical deal structure of CEPS' acquisitions, which incorporates debt and equity components to create a capital structure that he considers to be most effective to achieve the desired outcomes for both CEPS and the vendor.
- CEPS seeks to own majority stakes in stable, profitable and steadily growing entrepreneurial UK companies where the current management are motivated to drive their business forward. CEPS focuses on UK-based small to medium-size businesses with an attractive level of profitability and effective management teams in place to run day-to-day operations, but which are seeking support to achieve further growth.
- The key to CEPS' strategy is its focus on businesses valued at £2m to £5m, which are generally too large to be funded by friends, family and associates, but too small to be on the radar of most venture capital houses and private equity firms. This area of the market is also underserved by financial lenders, which consider these smaller companies too high-risk to provide non-asset based, longer-term funding at attractive rates.
- Since its launch in 2004, CEPS has acquired majority holdings in six private companies, with decisions taken to discontinue two loss-making businesses in 2018 and 2019, and one company completing a merger in 2020 to improve its prospects for growth and profitability, leaving CEPS with a minority stake. During 2019 and 2020, two of the three subsidiaries also completed strategic acquisitions to enhance their prospects for growth and profitability.
- CEPS entered 2020 as a more streamlined business with a reduced cost base and management teams were proactive in putting in place plans to navigate through the COVID-19 crisis. This enabled CEPS to trade profitably at the ongoing operating level for the first half of 2020.
- Looking ahead, further strategic business acquisitions by group subsidiaries are the most likely near-term developments, while there is the prospect of new companies being added to diversify the group over the medium term, as cash flow permits.

Diversified, UK-based industrial trading group

CEPS is an industrial trading group whose current portfolio of three subsidiaries (Signature Fabrics, Hickton Group, Aford Award Group Holdings) and one associate (Vale Brothers Group) comprise seven businesses operating in diverse niche markets, including specialist stretch fabrics and gymnastics wear; clerk of works, building control and energy consultancy services; trophies and engraving; equestrian supplies, body armour and specialist footwear components.

Growth achieved through acquisition from 2004 to 2016

CEPS was created in April 2004 and acquired majority holdings in six private companies from 2004 to 2016: Davies Odell, Friedman's, Sunline Direct Mail, CEM Press, Aford Awards, Hickton Consultants. In 2017, Hickton acquired BRCS (Building Control) to broaden its service offering, and the Sunline Direct Mail business was discontinued in 2018, after experiencing significant delays in client orders resulting from the introduction of the General Data Protection Regulation (GDPR) and the debate on banning plastics.

Group now streamlined after restructuring in 2019 and 2020

During 2019 and 2020, the group was restructured more significantly, with operations discontinued at CemTeal (the holding company for CEM Press), when planned cost-savings and synergies from the acquisition of Sampling International did not transpire quickly enough; Signature Fabrics diversification into a parallel market through acquiring Milano International, a customer of Friedman's, to boost profitability and improve its growth prospects; Hickton acquiring Cook Brown Building Control and Cook Brown Energy, further broadening its service offering; and Davies Odell merging with Vale Brothers to improve its growth and profitability prospects.

Diverse group companies smooth revenue and profits growth

Progress has not always been smooth across group companies. However, the group's prospects have been bolstered by the recent restructuring, with some weaker businesses discontinued and other businesses strengthened through merger and acquisition transactions. Steps taken during 2019 meant that CEPS entered 2020 as a more streamlined group, with a reduced cost base, that made it better positioned to navigate the COVID-19 crisis. Reflecting the benefit of the group's diversification, while some group companies, such as sports trophy and engraving specialist Aford Awards, have utilised government support schemes due to the nature of their business, others have continued to perform well during the pandemic, such as construction industry services provider Hickton Group.

Targeting low risk bolt-on acquisitions in the near term

The COVID-19 crisis is not yet over and CEPS' management retains a cautious disposition, expecting recovery to be gradual, with the UK economy taking 6-12 months to finally recover. However, looking ahead, the most likely near-term developments are further strategic business acquisitions by group subsidiaries, similar to the strategically important transaction which took place just before the lockdown, where Hickton Group acquired Cook Brown Building Control and Cook Brown Energy. Over the medium term, there is the prospect of new companies being added to diversify the group, as cash flow permits.

Group restructuring completed during 2019 and 2020

2019 was an active year for CEPS, with the reshaping of the group continuing. This included its subsidiary Signature Fabrics purchasing 90% of Milano International (trading as Milano Pro-Sport) for £1.85m in October, which the CEPS board believes represented a valuable addition to the group. This acquisition fitted Friedman's (the main operating company within the Signature Fabrics business) strategy of broadening its service offering into complementary areas, also working with a management team that is committed to developing the business further. Both management teams expected their businesses to benefit from the relationship.

In March 2019, CemTeal acquired 100% of Travelfast (trading as Sampling International) for a nominal £9 (with a maximum potential consideration of £1.2m payable over three years), but the decision to discontinue the business was taken in December that year, as it was quickly realised that, despite the complementary nature of the two operations, cost-savings and synergies could not be achieved rapidly enough to justify continuing efforts to turn the business around.

These events followed the acquisition by CEPS' subsidiary Hickton Holdings of BRCS (Building Control) in 2017 (with the businesses integrated during 2018), and the discontinuation of the Sunline Direct Mail business in 2018. These developments resulted in CEPS being reshaped into a smaller group of companies with improved prospects for both profitability and growth.

2020 proved to be equally if not more important for the restructuring of the group, starting with Hickton Group acquiring Cook Brown Building Control and Cook Brown Energy in March for £3.53m, of which £1.87m was paid in cash, funded by existing resources and a new £2.0m term loan bank facility, with no further investment by CEPS required. On acquisition, the two businesses were profitable, cash generative and experiencing rapid growth, and fitted well with Hickton's strategy to expand its service offering into complementary areas.

In October 2020, CEPS' holding in Aford Awards was restructured, with Jon Ford stepping down as managing director and selling his 30% stake in the business. Paul Wood joined the business as managing director and Robert Ferguson was promoted to sales and marketing director, with each taking a 12.5% equity stake in the business as well as subscribing for £62,500 in loan notes. CEPS subscribed for £281,420 in loan notes, providing the balance of the £318,420 cash payment to Jon Ford in respect of the purchase of his shares. CEPS' subscription was funded by a £425,000 loan facility provided by its chairman David Horner. Following the transaction, CEPS holds a 75% equity interest in the business and currently holds £685,000 in loan notes, while Jon Ford retains £90,000 in loan notes. CEPS will be issued up to a further £500,000 in loan notes, subject to the performance of the business in 2021 and 2022.

In December 2020, CEPS's subsidiary Davies Odell completed a merger with the larger Vale Brothers, with the new holding company Vale Brothers Group minority owned by CEPS, which holds a 33% equity stake and £405,000 in loan notes, while the former owners of Vale Brothers hold a 67% equity stake and £800,000 in loan notes. Former managing director of Davies Odell, Andrew Gregory, left the business and repaid his outstanding loan balance with Davies Odell, with CEPS acquiring his 15% equity stake in the business for £100,000. The directors believe a number of economies of scale can be achieved through the merger and see potential for development of new products to be marketed by the enlarged sales team. The view is also firmly held that opportunities will arise over the medium term to consolidate the market segments in which the businesses operate.

CEPS' strategy

- CEPS' strategy addresses the need for equity finance in the unquoted area of the market that has been all but abandoned by mainstream private equity providers. Currently, there is a gap in the market for providing financing to companies valued sub-£20m and most evidently in the £2m to £5m value range. CEPS aims to fill that gap.

- The core of the strategy is to acquire majority shareholdings in privately owned low capital intensity, usually service-related companies, which have steady profit growth and a history of profitability and cash generation, through a series of majority owned holding companies.

- Acquisition consideration is provided by a sensible balance between ordinary shares, preference shares and loan stock issued to CEPS and the business owners/management team, as well as external bank finance.

- Over time the businesses will grow, generate profits and cash, repay debt capital and pay coupons and dividends.

- Income received by CEPS will cover central costs and, in future, be used to pay dividends to shareholders, while capital repayments will be collected and reapplied in a series of further acquisitions.

Key features of CEPS' business model

- A combined debt and equity deal structure – not a unique proposition, with acquisition deals structured in a similar manner across the wider private equity market.

- The investment return is partly achieved by repayment of nearly all of the initial investment, through the debt funding element of the deal structure.

- Post repayment of capital, a strong and rising dividend stream should be generated.

- Free cash flow can be utilised for further investments and/or return of capital to shareholders. Opportunities may arise for refinancing to release further capital.

- Once sufficient capital has been raised, no further equity should be issued by CEPS, as all subsequent transactions will be financed from recycled funds.

CEPS' investment opportunity

- The 'MacMillan Gap' identified in 1930 has re-emerged – financial lenders consider smaller companies too high-risk to provide longer-term funding at attractive rates.

- Small, exciting companies with a potential to achieve a many-fold increase in value remain popular with equity investors and attract higher valuations.

- Companies operating in mature industries with steadily growing profits are of lesser interest to equity investors and often overlooked, creating an opportunity.

Strategic framework

CEPS' approach differs from the traditional private equity model in that it does not seek to enhance investment returns by significantly leveraging acquisitions with external debt financing, and its portfolio is not primed for short-term exit strategies.

A key element of its strategy is the focus on businesses valued at £2m to £5m. CEPS uses the analogy of a wine glass (shown below), where the width of the glass represents the relative number of potential buyers, which highlights that CEPS is targeting an area of the market where there is less competition.

CEPS' preferred value range for acquisition target companies

Main glass (value >£20m)	Higher value corporate businesses with access to capital from venture capital firms, private equity houses, etc.
Stem (value £2-20m)	Profitable and growing businesses which struggle to attract capital Off the radar screen of the larger private equity houses
Base (value £0-2m)	Smaller businesses where requirements for equity can be met by support from friends, family, associates

Target companies

Source: Company information

CEPS sees significant opportunities among the companies found in the 'stem' of the glass – particularly towards the lower end of this value range – that have the potential to generate a significant level of free cash flow to fund capital repayment and subsequently provide a robust and steadily growing dividend stream.

Investment approach

CEPS targets specialist businesses with defensible margins, typically in niche sectors. It structures acquisitions so that a company's management team will own part of the equity and commit to the business for at least five years. CEPS makes its investment via ordinary shares and high-yielding loan stock, with vendor loan stock ranking ahead of CEPS' and management's loan notes for repayment. In some cases, CEPS investment may include preference shares as well as ordinary shares.

Dividends and interest are paid on preference shares and loan stock and, once all preference share and loan stock capital is redeemed and repaid, with associated dividends and coupons, the subsidiary company commences ordinary share dividend payments.

CEPS' typical deal structure

CEPS' typical acquisition deal structure reflects David Horner's private equity corporate finance background and utilises several debt tranches, as well as equity, aiming to ensure that the acquired business remains focused on cash generation, and CEPS' capital investment is steadily repaid. This is not the simplest financing structure, but it represents what CEPS considers to be the most efficient deal structure for both CEPS and the vendor.

CEPS creates a new holding subsidiary to which it pays the cash element of the acquisition price (plus acquisition costs) and is issued debt and equity stakes in the holding subsidiary. The holding subsidiary then purchases 100% of the company being acquired, issuing debt and paying the cash element to the vendor, and issuing equity and debt to management (who may also be part of the vendor team).

Following the transaction, management holds minority equity stakes, typically between 10% and 25%, in the subsidiary, while CEPS holds the majority of the equity in the subsidiary, with the significant majority of its investment represented by the debt stake.

Generic capital structure of CEPS' new holding subsidiary on acquisition of a company for £4m

Equity/Debt Funding issued	Amount/ Value	Held by		
		CEPS	Management team	Vendor
£1 ordinary shares	100,000	75,000 (75%)	25,000 (25%)	
8% Shareholder Loan Stock	£1,000,000	£750,000	£250,000	
7% Acquisition Loan Stock	£2,200,000	£2,200,000		
5% Vendor Loan Stock	£1,000,000			£1,000,000

Source: Company information

In the example above, CEPS pays a total of £3.025m in cash to receive a 75% equity stake in the business and £2.95m in loan stock; the vendor receives £3.0m in cash and £1.0m in loan stock; and the management team receives £0.25m plus a 25% equity stake in the business; with £0.025m being paid in transaction costs.

Under this ownership structure, management is incentivised to ensure the acquired business remains cash-generative, so that coupons and debt capital repayments are received. CEPS benefits from a steady flow of coupon and debt capital repayments, intended to repay CEPS' capital investment ideally over a five-year period, enabling it to reinvest in new opportunities.

CEPS' proposition to business owners and managers

CEPS offers prospective management buyouts (MBOs) and owner managers some significant key benefits relative to many other potential investors:

- Companies continue to operate on a stand-alone basis, without being restructured, while increased funding is available to grow the business.
- Management is incentivised through a geared equity stake in the business.
- There are no time pressures for CEPS to achieve an exit for shareholders, as its business model is based on a long-term approach.
- CEPS' directors' financial, business and management insight combines with management's drive and determination to provide an entrepreneurial partnership for profitable growth.
- Being part of CEPS can give management confidence to take strategic decisions and explore opportunities that may have appeared to present undue risks under private ownership.

Primary value drivers

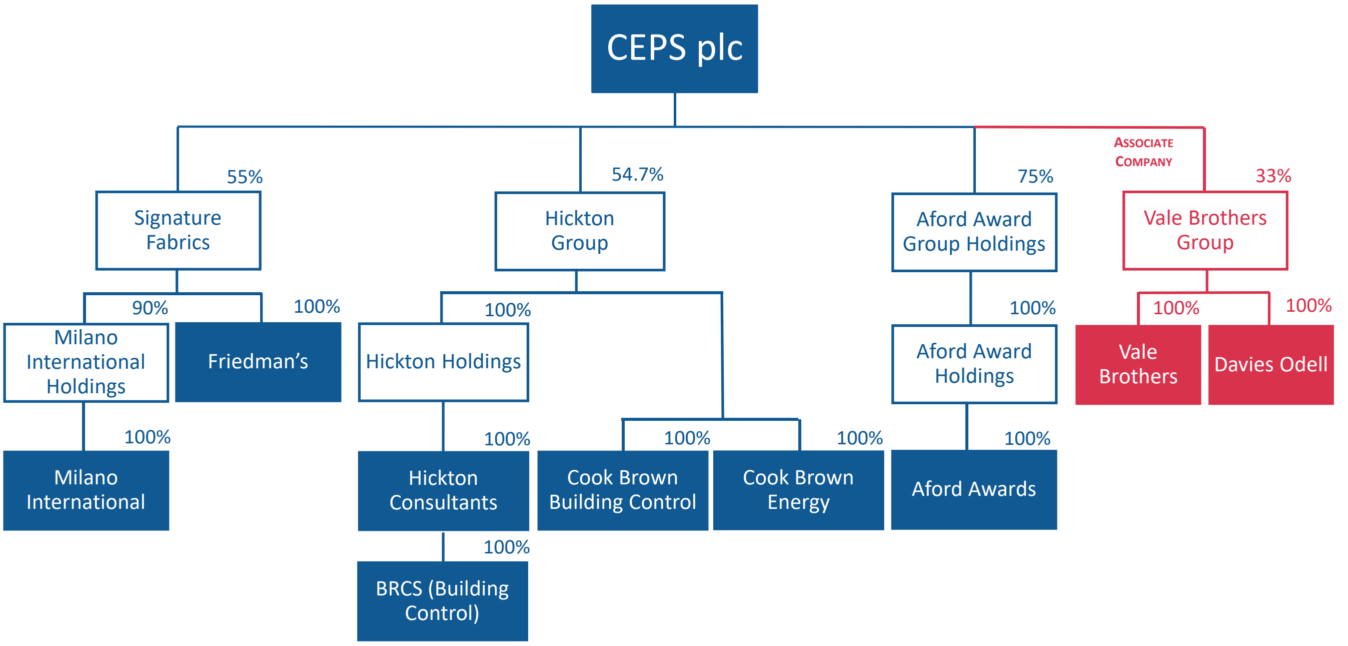
CEPS' business model is structured to increase shareholder value in the following ways:

- Steady earnings growth by the CEPS group companies.
- Repayment of vendor loans, preference shares and loan stock from strong cash flow.
- Interest on loan stock, dividends on preference shares, and ultimately a strong and rising dividend stream on ordinary shares, as the group matures.
- Possibility for de-merger and AIM flotation or trade sale for more successful companies.
- Acquisition of additional CEPS subsidiaries from cash flow and opportunities for refinancing to release further capital on periodic occasions.
- Once sufficient capital has been raised no ongoing requirement for further equity to be issued by CEPS, with all subsequent transactions to be financed from recycled funds.

CEPS group companies

The CEPS group currently comprises three core subsidiary businesses (Signature Fabrics, Hickton Group and Aford Awards Group Holdings), with seven separate operating companies, and one associate business (Vale Brothers Group), with two separate operating companies, as shown in the organisational structure chart below. Most of the companies rank as leaders in their respective market niches and they are all based in the UK, with headquarters spread across the country, from Preston in Lancashire to Maidstone in Kent.

CEPS organisational structure



Source: Company information

An overview of each core business holding company and each group company follows, including subsidiaries and associates, highlighting where each business is headquartered, and the date CEPS acquired a stake in the business.

Signature Fabrics: Friedman's, Milano International

Products and services:

- Specialist textile importer, converter and distributor of plain and bespoke Lycra.
- 'Funki Fabrics' and 'Colour Me' B2C websites.
- 'Alexander Maverick' B2C website – cotton and textile colour and design for home furnishings.
- In October 2019, Signature Fabrics acquired Milano International (trading as Milano Pro-Sport), adding expertise in the following areas:
  - Bespoke fabric and garment products.
  - Specialist manufacturer in the dance, swimming and gymnastics performance sectors.

Friedman's – Altrincham, Cheshire – January 2005

Friedman's was established in 1962 as a wholesale trader of general household fabrics. Its sister company, Bacher Fabrics, which ran a retail operation in Manchester, eventually became the larger of the two companies and Friedman's ceased its trading operations.

When the third family generation came to lead Bacher Fabrics in 1989, David Kaitiff, its newest director, saw an opportunity to re-start the wholesale business concentrating on stretch fabrics. He set about revolutionising the UK stretch fabric business, and Friedman's has become one of the premiere fabric wholesalers and stretch fabrics specialists worldwide. CEPS invested in Friedman's in 2005 and supported David Kaitiff's ideas for expansion and his long-term plans when he re-entered the business as managing director.

Being part of the CEPS group has given Friedman's management confidence to make larger decisions and has encouraged them to be more dynamic and forward thinking, exploring expansion avenues that may have otherwise remained closed under private ownership.

Milano International – Preston, Lancashire – October 2019

For over 25 years, Milano International has been designing and manufacturing leotards. Milano has produced gymnastic wear for the British gymnastic team and also for over 16 international gymnastic teams. In the last few years, Milano has branched out into unique cycle wear and producing cheerleading uniforms.

From January 2021, Milano will supply leotards for British national gymnastic teams at senior and junior level, having previously supplied kit for Great Britain's gymnasts for World, European and other prestigious Championships from 1996 to 2016.

Hickton Group: Hickton Consultants, BRCS (Building Control), Cook Brown Building Control, Cook Brown Energy

Products and services:

- Hickton is one of the UK's leading independent providers of specialist clerk of works services in respect of building construction, civil and structural engineering, and historic building refurbishment.
- Clerk of works services include:
  - quality assurance
  - compliance inspection
  - NEC project supervision
  - construction supervision
  - expert witnessing
  - forensic investigation
- Hickton has a 'bank' of c 100 referenced and vetted clerks of works across the UK.
- Hickton's experience in certain fields and its specialist services are of particular value when tendering.
- In May 2017, Hickton acquired BRCS (Building Control), a leading UK provider of building control services, as a corporate approved inspector, bringing together clerk of works and building control surveyors with a unique quality and compliance inspection service.
- In March 2020, Hickton Group acquired Cook Brown Building Control and Cook Brown Energy, further broadening its service offering into complementary areas.

Hickton Consultants – Elsecar, South Yorkshire – January 2016

Hickton Consultants Ltd was founded in 1991 and today is one of the UK's leading independent providers of quality site inspectors, which include specialist clerk of works and NEC supervisors to monitor the quality of UK construction projects. Services include building, M&E and landscaping, clerk of works services, NEC supervision, technical reviews, audit and coaching and condition surveys.

The partnership with CEPS allowed the founder of the business, Tony Hickton, to retire whilst keeping his wish for the business not to become part of a conglomerate after his retirement and for the existing management team and personnel to be retained. Chairman, Tony Mobbs, maintained business operations as normal, making a smooth transition into the group. He now heads a highly motivated team who successfully manage the day-to-day operations of the business, and the company continues to provide an award-winning service for its nationwide clients.

BRCS (Building Control) – Chelmsford, Essex – May 2017

BRCS (Building Control) was formed in 1996 to address the challenging opportunity that legislation provided for corporate approved inspectors to practise in the private sector. As one of the first three bodies able to undertake the building control role for commercial projects, the company contributed to breaking the local authority monopoly. BRCS's prime role is acting as a statutory building control body, with clients ranging from small high street retailers to large public-sector organisations.

CEPS approached BRCS directly when the directors put the company on the market as part of an ultimate retirement strategy. BRCS wholly met CEPS' acquisition criteria and it was an ideal company to work alongside CEPS subsidiary Hickton Consultants, thus enhancing the joint offering.

The backing and support of the wider group has enabled BRCS's former directors to retire and hand over strategic responsibility for the business to the current management team. Ultimately the introduction of improved financial management and quality assurance systems will strengthen BRCS's position in the competitive approved inspector market, which is expected to be a huge benefit.

Cook Brown Building Control, Cook Brown Energy – Bristol – March 2020

Cook Brown Building Control is a leading provider of building control services in England, based in Bristol, with offices in London, Birmingham, Leeds and Tewkesbury. The management team is driven by improving standards across UK construction and the business has enjoyed rapid growth since it commenced trading in 2014. Under common ownership, Cook Brown Energy was established in 2017 to provide a range of energy consultancy services.

The services provided by the two businesses are expected to continue to be incremental to the those offered by BRCS and complementary to the clerk of works, quality assurance role performed by Hickton Consultants.

Strategic leadership input from CEPS allows the Cook Brown businesses to expand their service delivery alongside other group companies, while Matt Brown and James Cook have taken on additional responsibilities as Joint Managing Directors of Hickton Group, finding a strong cultural fit and ambition for growth and quality. They now benefit from access to high levels of business support, along with marketing and tendering experience, while the Hickton Group of companies benefits from their wealth of knowledge and experience.

Aford Awards – Maidstone, Kent – November 2014

Products and services:

- Trophies, trophy cups, medals, crystal awards and gifts for sporting and other events.
- Products are sourced from UK and overseas suppliers for sale to the company's clients.
- Free engraving and delivery is offered on all new sales over a minimum value; additional engraving on existing trophies is also undertaken in-house.

Aford Awards is one of the leading trophy and medal specialists in the UK and has been supplying trophies, trophy cups, medals and crystal awards for end of season awards nights, presentation evenings, sporting events and business conferences for over 35 years. The company also offers a professional engraving service and its experienced engravers can personalise a wide range of products.

Partnership with CEPS allowed the business founder, Andy Ford, and his wife Jenny to retire, while CEPS' vision for the potential growth of the business was shared by Andy's son, Jon, who remained as managing director until October 2020, overseeing over 50% growth in turnover prior to the effect of the COVID-19 pandemic.

Jon Ford had expressed how invaluable the financial and strategic support provided by CEPS was in the growth of the business. Discussing strategy and finances monthly with like-minded business people proved particularly useful in running a fast-growing business.

In October 2020, Jon Ford stepped down as managing director to take on new challenges outside the group, although he will still be involved with the business on a part-time consultancy basis. Paul Wood, who is well-known by CEPS' directors and brings many years of sales experience, joined the business as managing director and Robert Ferguson was promoted to sales and marketing director, with both taking a financial stake and keen to continue to develop and grow the business over the medium term.

Vale Brothers Group: Davies Odell, Vale Brothers

Products and services:

- Matting – equine (under the Equimat brand), sports and agricultural.
- PPE – body armour and protective underclothing under the Forcefield brand.
- Leather heels.
- Rubber soles and heels under the Itshide brand.
- Phillips, Comtesse and Super Dark brand shoe repair products (eg ladies PU pin tops).
- Branded products for the equestrian market.

Davies Odell – Rushden, Northamptonshire – April 2004

Davies Odell was originally formed by the amalgamation of Davies & Co and Odell Components, who dominated the UK shoe manufacturing sector dating back to 1863, and included the famous Phillips Rubber Company, and Dinkie Heel. Today, Davies Odell is a leading UK supplier of synthetic rubber products and operates within diverse industry sectors. The company designs and distributes protective body armour products for use in a range of power sports and industrial applications under its Forcefield brand, as well as supplying premier industrial, agricultural and gym flooring matting products. It also continues to supply the footwear market by providing leather heel components for specialist quality shoe manufacturers and shoe repair products.

The CEPS journey with Davies Odell began following the refinancing and restructuring of Dinkie Heel in 2004, when it was renamed CEPS. Davies Odell was the first company to receive both financial and business investment from the group, utilising CEPS' strategic support to continue to grow and diversify within multiple business sectors.

Prior to the company merging with Vale Brothers in December 2020, Davies Odell's management team benefited from the strategic support provided by CEPS. While the business continued to develop and successfully adapt to market trends, it lacked scale. Following the merger, Davies Odell is managed by the majority owners of Vale Brothers Group, while CEPS chairman David Horner continues to represent CEPS' interests through becoming a director of Vale Brothers Group.

Vale Brothers – Walsall, West Midlands – December 2020

Vale Brothers ranks among the world's largest specialist manufacturers of horse grooming brushes. Founded in 1786, the business has 225 years of experience, craftsmanship and dedication in developing the comprehensive range of Vale horse brushes and grooming products available today. With its history steeped in tradition and its modern management approach, Vale has grown rapidly over the past 20 years, with acquisitions adding whips, saddles, bridles and horse rugs to its manufacturing capabilities. Vale Brothers now has an impressive array of brands and quality products in the equestrian world.

CEPS acquired its minority stake in Vale Brothers Group through the merger of its subsidiary company Davies Odell and Vale Brothers in December 2020, which gave the business greater scale with the potential for cost-saving and growth synergies. While CEPS is not directly involved in the day-to-day management of the business, CEPS chairman David Horner has a seat on the board of Vale Brothers Group, representing CEPS' interests.

CEPS Board of Directors

David Horner – Chairman

David Horner qualified as a chartered accountant in 1984, working for Touche Ross Insolvency and Corporate Recovery before joining 3i Corporate Finance, where he advised on buying and selling unquoted companies, generally up to £10m in value. He has also worked extensively with public companies. After 3i, Horner joined Strand Partners, specialising in rescue, recovery and restructuring of small public companies, prior to founding Chelverton Asset Management in 1998 – a UK small company investment specialist, currently with some £1.5bn in funds under management. He manages Chelverton Growth Trust and Chelverton UK Dividend Trust and is a director of a number of private companies.

Vivien Langford – Group Finance Director & Company Secretary

Vivien Langford qualified as a chartered accountant in 1987 and has many years' experience in senior finance roles in service sector companies, particularly with listed public relations and marketing companies. She has significant project management experience with expertise in financial analysis, contract negotiation and company acquisitions. Langford was appointed CEPS' finance director in July 2010 and also acts as CEPS' company secretary. She is also finance director for Chelverton Asset Management. She plays a major role in the financial management, strategic and day-to-day business support provided to CEPS group companies and is also heavily involved in the completion of acquisitions and their subsequent integration into the group, as well as managing the group's exit from businesses that are being discontinued.

Geoff Martin – Non-Executive Director

Geoff Martin qualified as a chartered accountant in 1968. He has experience in the profession, in commerce and overseas. He joined CEPS (operating as Dinkie Heel) in 1981 and was appointed finance director in 1986. In this role, he assisted the company with takeovers and disposals and was involved in the review of the refinancing and restructuring proposals in 2004. He retired as finance director in February 2010 and became a non-executive director with effect from March 2010.

David Johnson – Non-Executive Director

David Johnson was appointed as a director of CEPS in March 2019. He has considerable experience in the investment sector, having worked at leading City investment houses as both an investment manager and in equity sales. His career includes periods at Sun Life Investment Management, Henderson Crosthwaite, and Investec Securities, where he was head of sales. He worked at Panmure Gordon & Co from 2004 until 2013, acting as head of sales from 2006, then head of equities from 2009. Johnson is also non-executive chairman at Diversified Gas & Oil.

CEPS' Major Shareholders

CEPS' Top 3 Shareholders		
Shareholder name (*director/non-executive director)	**Shares held**	**% Holding**
Chelverton Growth Trust	5,060,000	29.8
David Horner and family*	4,903,810	28.8
Mark Thistlethwayte and family**	3,000,000	17.6
Total Top 3 shareholders	**12,963,810**	**76.3**

*Source: Company information. Note: **Mark Thistlethwayte is not related to CEPS or its management team.*

As shown in the table above, CEPS has three main shareholders, which hold a combined stake of just over 75% in the company. Chelverton Growth Trust is managed by CEPS chairman David Horner and the trust's holding in CEPS represents c 45% of its total assets. Mark Thistlethwayte is familiar with CEPS' investment approach through previous investments made by Chelverton Asset Management on his family's behalf and is otherwise unrelated to CEPS or its management team.

David Horner and his wife purchased a total of 72,500 shares in December 2020 and January 2021 – at prices ranging from 23.125p per share to 30p per share, representing the first change in the family interest in CEPS since a share placing in June 2018, when 3.8m new shares were issued at 35p per share to raise £1.3m, with David Horner subscribing for 881,310 shares.

Former non-executive director Mark Pollard holds a c 4% stake in CEPS, while c 1% stakes are held by Richard Organ and the estate of Peter Cook, both former directors of CEPS. Other than David Horner, CEPS' other three current directors, Vivien Langford, Geoff Martin and David Johnson hold a combined stake of c 0.9%.

Risks

The group and company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and cash flow and fair value interest rate risk), credit risk and liquidity risk. The group and company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the group's financial performance. Risk management is carried out by local management under policies approved by the board of directors.

Risks and mitigations

RISK	MITIGATION
Market risk – Foreign exchange risk	
The group undertakes transactions internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the euro, US dollar and sterling. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.	Management has a policy to require group companies to manage their foreign exchange risk against their functional currency. The policy is to match as far as possible through the normal course of trade the level of sales and purchases in foreign currencies and, where applicable, to enter forward foreign exchange contracts as hedges of foreign exchange risk on specific assets, liabilities or future transactions.
Market risk – Cash flow and fair value interest rate risk	
As the group has no significant interest-bearing assets, the group's income and operating cash flows are substantially independent of changes in market interest rates. The group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the group to cash flow interest rate risk. Borrowings issued at fixed rates expose the group to fair value interest rate risk.	Group policy is to maintain an appropriate balance between borrowings expressed in fixed rates and those at variable rates. All of the group's borrowings are denominated in sterling. CEPS' strategy is as far as possible to use the assets of businesses in which it makes investments to secure the necessary borrowings for those investments.
Credit risk	
The group is exposed to the credit risk inherent in non-payment by either its customers or the counterparties of its financial instruments.	The group utilises credit insurance policies to mitigate its risk from some of its trading exposure, especially in overseas markets, and in all cases seeks satisfactory references and the best possible terms of payment. It mitigates its exposure on financial instruments by only using instruments from banks and financial institutions with a minimum rating of 'A 1+'.
Liquidity risk	
Prudent liquidity risk management implies maintaining sufficient cash and having available an adequate amount of committed credit facilities.	Management monitors rolling forecasts of the group's available liquidity on the basis of expected future cash flows. Forecasts are generated in the first instance at local level in the operating subsidiaries of the group.
Capital risk	
The group's objectives when managing capital (being the equity and reserves of the group) are to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.	In order to maintain or adjust the capital structure, the group may pay dividends to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The group monitors capital on the basis of the gearing ratio. This ratio measures net debt as a proportion of total equity. Net debt is calculated as total borrowings less cash and cash equivalents.

Source: Company information

Appendix I: History of CEPS

April 2004 – David Horner organised and led the refinancing and restructuring of Dinkie Heel (renamed CEPS) in April 2004, raising £1.3m of new equity capital at 50p per share to repay HSBC £900k and to provide working capital.

January 2005 – CEPS acquired a 75% equity holding (reduced to 55% in 2009 on conversion of shares) in Signature Fabrics – set up to acquire Friedman's. The acquisition was funded by CEPS subscribing £92k for equity and £408k for loan stock, a 20% equity investment from Signature's management, bank finance and the issue of 5% of the share capital to the vendor. Close to £750k of new equity was raised by CEPS at 112.5p, with David Horner taking up his rights.

February 2007 – Sunline Direct Mail Holdings (SDMHL) acquired the entire issued share capital of Sunline Direct Mail for an initial consideration of £3.8m – with CEPS acquiring 80% of SDMHL – satisfied by £3.45m in cash and the issue of SDMHL shares and loan notes valued at £350k.

March 2012 – CEPS acquired a 21.4% equity holding in CEM Press Holdings – established to acquire 100% of CEM Group, the 100% owner of CEM Press – with the £500k purchase price raised via a placing of 1.25m CEPS shares at 40p per share, with David Horner oversubscribing.

November 2014 – CEPS acquired a 70% equity holding in Aford Awards (Holdings), a company established to acquire 100% of Aford Awards.

June 2015 – CEPS raised gross proceeds of £1.25m through placing 4,166,667 new ordinary shares to repay a loan relating to the Aford Awards acquisition and for future acquisitions.

September 2015 – CEPS increased its indirect shareholding in CEM Press to 71.5%, effected by the introduction of a new holding company, CemTeal.

January 2016 – CEPS acquired a 52.36% equity holding in Hickton Holdings, a company established to acquire 100% of Hickton Consultants.

January 2017 – CEPS raised gross proceeds of £1.27m by way of a placing of 3,626,118 new ordinary shares to repay a loan made to fund the acquisition of Hickton Consultants and for general working capital purposes.

February 2017 – CEPS increased its shareholding in CemTeal from 73% to 80%.

May 2017 – Hickton Holdings acquired 100% of the issued share capital of BRCS (Building Control) for a maximum aggregate consideration of £1.30m.

June 2018 – Administrators were appointed to Sunline Direct Mail, with the business having declined precipitously due to the introduction of GDPR (General Data Protection Regulation) and the "Blue Planet Plastics Debate". Discontinuation of this business had a neutral effect on CEPS' consolidated balance sheet and led to an improvement in consolidated profit.

March 2019 – CemTeal acquired 100% of the issued share capital of Travelfast (trading as Sampling International) for a maximum aggregate consideration of £1.20m.

October 2019 – Signature Fabrics (parent company of Friedman's) acquired 90% of the issued share capital of Milano International Holdings, a company established to acquire 100% of the issued share capital of Milano International (trading as Milano Pro-Sport), for £1.85m.

December 2019 – CEPS elected to appoint administrators to CemTeal and its subsidiaries. Despite management's efforts and cash injections from CEPS since March 2019, savings and efficiencies from consolidating CEM's and Sampling's operations were not achieved as quickly as planned.

March 2020 – Hickton acquired 100% of the issued share capital of Cook Brown Building Control and Cook Brown Energy for a total consideration of £3.53m, with the £1.87m cash element funded by existing cash resources, supplemented by a new £2.0m term loan bank facility.

October 2020 – Managing director Jon Ford sold his 30% equity stake in Aford Awards, with new managing director Paul Wood and sales and marketing director Robert Ferguson each taking a 12.5% equity stake, and CEPS increased its shareholding from 70% to 75%.

December 2020 – CEPS acquired the 15% equity stake in Davies Odell held by managing director Andrew Gregory, who left the business. Davies Odell was then merged with the larger Vale Brothers, and CEPS received 33% of the equity in the newly established holding company Vale Brothers Group.

Progressive EQUITY RESEARCH

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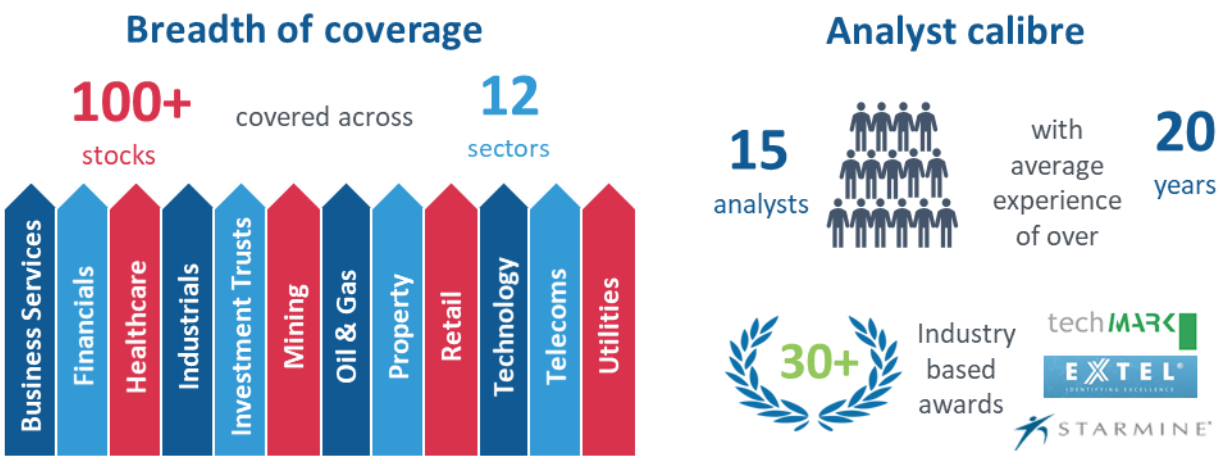

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