

TO ALL KNOWN CREDITORS

18 August 2022

Ref: TV/SW/BL

SDNrealisations@parthenon.ey.com

Dear Sirs

SDN Realisations Limited (formerly Scandiborn Limited) (In Administration) (“the Company”)

Trading names: Scandiborn

Principal trading address: Unit O Unit O Melton Commercial Park, Welby, Melton Mowbray, LE14 3JL

On 11 August 2022 the Company entered Administration and S J Woodward and I were appointed to act as Joint Administrators. The appointment was made by the director of the Company under the provisions of paragraph 22 of Schedule B1 to the Insolvency Act 1986. I attach formal notice of our appointment for your information.

As licensed insolvency practitioners, we are bound by the Insolvency Code of Ethics when carrying out all professional work relating to the Administration.

Sale of the business

On 11 August 2022 we completed a sale of the business and certain assets to an unconnected party, Findel Education Limited (“Findel”). The total consideration is subject to the conclusion of a full stock count and valuation exercise and the reconciliation of certain creditor balances which form the basis of deductions to the consideration value applied by the buyer.

In accordance with Statement of Insolvency Practice 16, a detailed explanation of the transaction is set out below.

Background

The Company is a standalone entity which traded as an online retailer of Scandinavian-inspired nursery products via its UK and US websites.

The operations of the Company were based in the UK, operating principally from a leased warehouse in Melton Mowbray (Leicestershire) and employed 21 employees.

Initial introduction to the Company

We were introduced to the Company by Eversheds Sutherland LLP on 24 September 2021.

Pursuant to an engagement agreement dated 30 September 2021, EY have conducted 4 phases of work. Initially EY were engaged to assist the Company in assessing its financial position and assist in

communications with its secured lender. The scope was subsequently broadened to conduct a marketing process for the business, outline options to the Company and to plan for an insolvency appointment

Circumstances Giving Rise to the Appointment of the Administrators

Following start up in 2016, the Company had experienced rapid growth, achieving c.£17m turnover in FY21. The business had grown organically but had benefitted from favourable market dynamics for online retail during the COVID lockdown.

In May 2021 the Company was provided with a £4.0m CBILS loan by Growth Lending 2020 Limited, part of Boost & Co (“Boost”).

With the increased levels of activity and to seek to improve profitability, the Company decided to transition from a third-party logistics provider to operating its own leased warehouse during FY22.

However, during FY22, growth stalled amid a reduction in consumer demand (c.20% lower turnover compared to the previous financial year).

Unfortunately, the Company suffered heavy net losses in FY21 and FY22 due to inefficiencies arising from operating from two sites, increased marketing expenditure, and the change in operating model (with turnover reducing at the same time as the Company committed to a higher fixed cost base in anticipation of further growth).

Alongside this, the Company’s internal systems, processes and financial information had not evolved quickly enough to deal with the rapid growth experienced and management information required improvement.

Sale process

As a result of the above, in September 2021, the Company sought the services of EY to assist it in assessing its financial position, its ability to continue to trade in the short term, the options available to the Company, and in its communications with its secured lender (Boost). An interim financial consultant also began working with the Company around the same time to assist in improving management information.

The Company took actions to implement a turnaround plan through:

- Overhead reductions, exiting the third party logistics provider, reducing stock and managing suppliers;
- Transitioning to a drop ship model and implementing price increases to improve gross margin.

Unfortunately, market conditions deteriorated significantly during calendar year 2022 with sales at unsustainable levels and continuing net losses despite the actions taken with regard to the turnaround plan.

Consequently, this led the Director to consider options for the business, concluding in March 22 that a sale of the Company or external investment was necessary and EY was subsequently engaged to assist in seeking a buyer for the business.

During the sale process, further headwinds were experienced from further decreasing demand, cost inflation, and working capital pressure due to a lack of credit terms with a number of its suppliers.

A total of 54 potential purchasers were approached during the sale process of which, 18 entered into non-disclosure agreements.

Three offers were received, summarised as follows:

1. **Confidential Party 1 (“CP1a”)**: 25p in the £ against an estimated unencumbered stock balance of £1.0m, which was free from supplier creditor claims. This consideration was to also include the intellectual property and plant and machinery assets of the Company. It was envisioned that this offer would be transacted through a business and assets sale via an Administration process.
2. **Confidential Party 1 (“CP1b”)**: a second offer was also received from the same Confidential Party on another basis, which included £nil consideration, Boost switching its debt for an equity stake and Confidential Party 1 becoming the primary shareholder. This was not acceptable to Boost.
3. **Findel**: submitted an offer to acquire the business, IP & stock assets of the Company via a pre-packaged Administration sale. The ultimate consideration to be dependent on stock and certain creditor balances as at the time of the transaction. Based on the balance sheet as at 30 June, the consideration for the stock equated to an effective 54p in the £ (with value attributed to IP this reduces to 48p in the £). This is set out in further detail in the sections below.

The Company’s forecasts indicated an additional cash requirement first arising during September 2022. With no further funding available from either the secured lender or shareholders, the Director concluded that:

- The Company could not avoid an insolvency process; and
- The Findel offer provides the greatest financial benefit to the creditors of the Company compared to the other offers received.

On 26 July 2022 EY were engaged to take the necessary steps to in planning for an insolvency appointment.

Notice of intention to appoint Administrators

A notice of intention to appoint Administrators was filed on 4 August 2022. Due to a technical issue with the original notice, a further notice of intention to appoint Administrators was filed on 10 August 2022. This was to provide protection from creditor action through an interim moratorium whilst the proposed Joint Administrators continued to work to execute the pre-packaged sale of the business and certain assets of the Company.

Alternatives to the Findel transaction

The proposed Joint Administrators have considered the outcome from alternative scenarios to accepting the Findel offer, specifically, realising the assets via a wind down strategy or trading on the business in order to realise stock.

It was decided that it was not appropriate to trade the business in Administration due to:

- High commercial risks in the current economic climate meaning that the success of a discounting / trade out strategy would be highly uncertain;

- A lack of certainty over continued support from the sole director and other key staff required to run the business;
- The Company not holding sufficient stock to service the seasonal peak trading period;
- High trading, Administration and potential ransom costs impacting the net outcome for creditors;
- It being highly likely to result in a lower return to creditors than other options including wind down; and
- It being highly unlikely to support a going concern sale of the business (following the low level of interest arising from the sale process).

It was also concluded that realising the Company's assets via a wind-down strategy would likely result in a lower net outcome for the creditors than the proposed Findel offer. This is supported by valuation advice received from Hilco Asset Appraisal.

Accordingly, immediately following appointment as Administrators on 11 August 2022, the business and certain assets of the Company were sold to Findel.

Consultation with major creditors

The Secured creditor (Boost) was consulted with throughout the process and consented to the transaction.

No direct consultations took place with other creditors given the outcome pursued already resulted in the best financial outcome for the secured and unsecured creditors, whilst minimising job losses and therefore the employee's preferential and unsecured claims in the Administration.

The Company has the following registered charge(s):

Date of creation of charge	Date of registration of charge	Details of charge	Name of charge holder
27 May 2021	28 May 2021	Fixed and floating charge	Growth Lending 2020 Limited

Statutory purpose of Administration

The purpose of an Administration is to achieve one of three objectives:

- To rescue the company as a going concern.
- To achieve a better result for the company's creditors as a whole than would be likely if the company were wound up (without first being in Administration).
- To realise property in order to make a distribution to one or more secured or preferential creditors.

The objective being pursued is b) to achieve a better result for the company's creditors as a whole than would be likely if the company were wound up (without first being in Administration).

The sale of the Company's business and certain assets enables this objective to be achieved through delivering a better outcome than would have been achieved through a winding up. The outcome achieved through the pre-packaged sale to Findel was the best available outcome for creditors as a whole in the circumstances.

Marketing of the business and assets

As noted above, the Company has explored a wide-ranging marketing process, over a period of over 3 months. During the marketing process, 54 parties have been approached, including trade buyers, institutional investors (including special situations and distressed investors) and high net worth individuals. The parties approached included UK, European and US based parties.

This list was compiled with the assistance of the Company's management and shareholders, Boost and EY's Mergers and Acquisitions team and retail sector experts.

We believe the marketing process to have been sufficiently thorough, over an appropriate period of time and that it was proportionate to the nature and size of the Company's business.

The marketing has complied with the "Marketing Essentials" set out in SIP 16 in all aspects other than the use of "Connectivity", with no online communication being used to market the business. It is our view that this medium would not have been appropriate, given that an extensive marketing exercise was able to be conducted via direct communication. Additionally, it was decided not to market the business online for the following reasons:

- The sale process needed to be conducted quickly and was focused on parties who were likely to be interested and be able to perform within relatively short timescales;
- The level of marketing which could be undertaken online is relatively limited, as the process needed to be confidential until parties signed an NDA; and
- We believe there would have been limited value in advertising the business to a general audience given the niche nature of the business and its precarious financial position.

Valuation of the business and assets

Hilco Valuation Services (led by Peter Atkinson MRICS and assisted by Jack Gillespie), were instructed to provide advice on the realizable value of the stock owned by the Company and the Company's Intellectual Property. They have confirmed their independence and that they carry adequate professional indemnity insurance. They indicated the following:

- **Stock:** It would be difficult and costly to trade the stock to the public due to it currently being a non-peak trading period, a lack of warranty and the requirement to retain fully operational sales, distribution and customer service teams.
- Whilst there may be an appetite for the stock from retailers and distributors, they are likely to have already sourced Christmas stock and would therefore be overstocking and therefore expect the attendant discounts. Additionally, due to the lack of available credit terms, this could restrict interest and / or value.

- A valuation of range of c.20-30pence in the £ on an ex-situ basis (prior to costs of realisation).
- **Intellectual Property:** It was estimated, that a value of £78,000 would be applicable to the Company's intangible assets in the event of a forced sale from insolvency (although could ultimately be lower due to the relatively small size of the business with relevant comparatives).

The Joint Administrators did not obtain a valuation for the remainder of the assets prior to the proposed transaction due to the timing of the realisations being likely to be in early 2023. Given the marketing process that was undertaken prior to the transaction and third-party valuation advice we are satisfied that the market has been tested and that market value has been obtained.

The transaction

As previously stated, sale was completed on 11 August 2022. Further details of the transaction are given below;

The purchaser and related parties

The purchaser is Findel Education Limited and has no connection to the Company.

We are not aware of any directors, former directors or associates of the Company who are involved in the financing or management of the Purchaser. The Purchaser has advised that it will employ the Company's director.

We are not aware of any guarantees given by the director of the Company for amounts due from the Company to a prior financier, or that a prior financier is financing the new business.

The assets

The assets sold comprise the following:

Description of asset	Purchase consideration (£)	Allocation of consideration between fixed and floating charge
Stock	48p in the £ subject to final stock count and reconciliation process	Floating
Brand & IP	78,000	Fixed
Business records	1	Floating
Goodwill	1	Floating
Sales information	1	Floating
Customer database	1	Floating
Customer list	1	Floating
Customer contracts	1	Floating
Rights of action	1	Floating

The transaction is in respect of the business and certain assets of the Company.

The consideration has been allocated between the fixed and floating charges in accordance with the existing registered charge.

Sale consideration

Initial funds of 429,957 were transferred to the Company upon completion and a retention balance of £321,276 is being held on trust by the Administrators' solicitors, which is subject to the stock count and valuation and the reconciliation of certain creditor balances, which are taken into account in calculating the final value.

Once this has been clarified, the appropriate amounts will be paid to the Company and to Findel (if applicable). If the calculated consideration value exceeds the retention balance, the additional amount will be paid by Findel to the Company.

Significant assets not included in the sale agreement

The assets that have been excluded from the sale agreement include all other assets owned by the Company, including, but not limited to:

- Trade and other debts due to the Company;
- Cash in the Company's bank accounts upon completion of the transaction; and
- Plant and machinery, computer & office equipment and a motor vehicle.

Given the short period since our appointment, we do not currently have a clear estimate of what the related realisations from the excluded assets may be. We shall therefore provide further updates in our future progress reports.

Administrators' proposals and remuneration

In accordance with paragraph 49(5) of schedule B1 to the Insolvency Act 1986, we shall be preparing proposals within eight weeks of our appointment. The proposals will be made available to all creditors and will give an indication of the likely dividend prospects.

At this time, we will also set out our proposals for remuneration and will seek approval for the basis. The statutory provisions relating to remuneration are set out in Chapter 4, Part 18 of the Insolvency (England and Wales) Rules 2016 (the Rules). Further information is given in the Association of Business Recovery Professionals' publication 'A Creditors' Guide to Administrators' Fees', a copy of which may be accessed from the web site of the Institute of Chartered Accountants in England and Wales at <https://www.icaew.com/en/technical/insolvency/creditors-guides>, or is available in hard copy upon written request to the Joint Administrators.

Creditors' claims

Please note that debts incurred by the Company before our appointment will rank as unsecured claims against the Company. Any sums due to the Company arising after our appointment must be paid in full and without set-off against any debts incurred by the Company prior to our appointment.

The directors are required to submit a statement of affairs to us and you will appreciate that the full financial position is not yet known.

Should you believe that you are an unsecured creditor and wish to submit a claim against the Company then please email SDNrealisations@parthenon.ey.com, detailing the nature of your claim.

Certain debts due from the Company may be preferential in accordance with section 386 of the Insolvency Act 1986. If you consider that you have a claim in this category, please advise me immediately. If you hold any security for your claim or you consider that you have title to any assets in the Company's possession, please forward details to me as soon as possible.

You may be entitled to VAT bad debt relief on debts arising from supplies more than six months old. This procedure does not involve the Administrators and claims should be made directly to HM Revenue and Customs.

Opting out

Under the provisions of Rule 1.39, creditors have the right to elect to opt out of receiving further documents relating to the Administration.

If you do elect to opt out you will still receive the following documents:

- Any which the Insolvency Act requires to be delivered without expressly excluding opted-out creditors;
- Notice relating to a change in the Administrators, or their contact details;
- Notice of dividend or proposed dividend; or
- A notice which the court orders to be sent to all creditors, or all creditors the particular category to which you belong.

Any election to opt-out will not affect your entitlement to receive dividends, if any are paid.

Unless the Rules provide to the contrary, opting-out will not affect your rights to vote in a decision procedure or participate in a deemed consent procedure, although you would not receive notice of such procedures.

Any opted-out creditors will be treated as opted out in respect of any consecutive insolvency procedure which might follow the Administration.

You may opt-out by delivering an authenticated (eg signed) and dated notice to me stating that you are electing to be an opted-out creditor in relation to this Administration. You may at any time revoke this election by delivering to me an authenticated and dated notice stating that you no longer wish to be an opted-out creditor.

Other matters

If there are any matters concerning the Company's affairs which you consider may require investigation and consequently should be brought to our attention, please forward the details to me in writing as soon as possible.

If you require any further information or explanation, please do not hesitate to contact at SDNrealisations@parthenon.ey.com

Yours faithfully
for the Company



T Vance
Joint Administrator

Enc Notice of Administrator's Appointment

T Vance is licensed in the United Kingdom to act as an insolvency practitioner by The Institute of Chartered Accountants of Scotland and S J Woodward is licensed in the United Kingdom to act as an insolvency practitioner by the Institute of Chartered Accountants in England and Wales.

The affairs, business and property of the Company are being managed by the Joint Administrators, T Vance and S J Woodward, who act as agents of the Company only and without personal liability.

The Joint Administrators may act as data controllers of personal data as defined by the UK General Data Protection Regulation (as incorporated in the Data Protection Act 2018), depending upon the specific processing activities undertaken. Ernst & Young LLP and/or the Company may act as a data processor on the instructions of the Joint Administrators. Personal data will be kept secure and processed only for matters relating to the Joint Administrator's appointment. The Office Holder Data Privacy Notice can be found at www.ey.com/uk/officeholderprivacy.

Notice of Administrators' Appointment – paragraph 46(3) of Schedule B1 to the Insolvency Act 1986

SDN Realisations Limited (In Administration) (“the Company”)

Name of Court	High Court of Justice, Business and Property Courts Manchester, Insolvency and Companies List (ChD)	
Court reference number	CR-2022-MAN-000677	
Company registered number:	10159378	
Nature of business	Online Retailer	
Registered office of company	c/o Ernst & Young LLP, 1 Bridgewater Place, Water Lane, Leeds, LS11 5QR	
Principal trading address (if different from above)	Unit O, Melton Commercial Park, Welby Melton Mowbray, LE14 3JL	
Any other name under which the company was registered in the previous 12 months	Scandiborn Limited	
Any other name(s) or style(s) under which the company carried on business or incurred debts	Scandiborn	
Date of appointment of administrators	11 August 2022	
Name(s) and address(es) of administrator(s)	Timothy Vance Ernst & Young LLP 1 Bridgewater Place Water Lane, Leeds LS11 5QR	Samuel James Woodward Ernst & Young LLP 2 St Peters Square Manchester M2 3EY
Joint / Administrator(s) IP No(s)	26710 / 12030	
Telephone number	0161 234 0521	
Name of alternative person to contact with enquiries about the case	Max Wilde	

Notice to all creditors

On 11 August 2022 the Company entered Administration and S J Woodward and I were appointed as Joint Administrators. The appointment was made by the Company's Directors under the provisions of Paragraph 22(2) of Schedule B1 to the Insolvency Act 1986.

Signed



Date 11 August 2022

T Vance

T G Vance is licensed in the United Kingdom to act as an insolvency practitioner by The Institute of Chartered Accountants of Scotland and S J Woodward is licensed in the United Kingdom to act as insolvency practitioners by the Institute of Chartered Accountants in England and Wales.

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