

Name: Wood Shares Ltd

Place: Jedburgh, Roxburghshire

Headline: From trees to table – a model for investment

Keywords: timber processing, furniture, investment, enterprise

Context: Real Wood Studios (RWS) was established in 2009 as a centre for furniture design, timber processing and sales. It specialises in the use of Scottish native hardwoods and provides workshop facilities for a number of furniture designer-makers. It is run by its members as a non-profit distributing social enterprise.

There are between 50 and 100 furniture makers based in Scotland, but what makes RWS unique is the direct access to a mobile sawmill, timber storage (outdoors and under cover), kilning facilities, timber sales, workshop and gallery all on one site. The success of the operation requires a regular supply of hardwood timber and in 2010, stocks of timber in the yard had become low. Investment was required to rebuild the supply.

Original aims: Wood Shares Limited was set up as a private investment opportunity for individuals to invest in RWS. The original investment target was £30,000, to be used for the purchasing, processing and sale of hardwood timber. The processed timber would be sold internally, to makers within RWS, and externally as retail products. The key aims were to give RWS access to good quality hardwood, primarily oak, ash and elm, and to create a model for investment that provided a return for investors and a return to RWS.

What actually happened as a result and what has been achieved?

Wood Shares was set up as a Private Company Limited by Shares registered at Companies House with two directors – Stephen Finch (maker and Director at Real Wood Studios) and Willie McGhee (then Director of Borders Forest Trust). The details of the investment scheme were drawn up – the period of the scheme would be three years with a minimum individual investment sum of £1,000 and a maximum of £3,000. David Campbell, from Deans Chartered Accountants and Business Advisors, was appointed as company accountant.

A prospectus was written and distributed to interested parties (mostly family and friends of RWS makers and people connected to RWS and Borders Forest Trust). Wood Shares initially sought to raise a sum of £30,000, however after nine months of recruitment, a total of £23,000 was achieved from 14 investors. In return for investing in Wood Shares, investors were given a guaranteed return of 20% on their initial investment. After this sum was paid back, any remaining investment capital would be divided 50/50 between RWS and the investors after operational costs, tax etc.

The duration of the investment was estimated to be three years with three phases of operation that would overlap. These were:

Phase 1: Raise funds, source timber, purchase logs and process into boards and the air drying of timber.

Phase 2: Start of sales of air dried timber, kilning to begin and sales of kiln dried boards. Repayment of initial investment plus 20% return to be completed in this phase.

Phase 3: Continued sales of remaining stock with funds split 50/50 with Real Wood Studios and investors after costs, tax etc.

Buying logs

Wood Shares purchased four large parcels of round wood logs in the first quarter of 2011, just over 110 tons in total. It concentrated on the three most popular species for hardwood - namely oak, ash and elm. All the logs were locally sourced from sustainably managed woodlands as part of replanting schemes and selective felling.

By the end of Phase 2, Wood Shares had spent £19,151 on logs:

59 tons of Oak for £10,583

36 tons of Ash for £5,148

16 tons of Elm for £3,083

3 tons of Beech for £336

All the logs were sourced within a 50-mile radius of the RWS workshop - the ash from Chapel en Leader, oak from Dalkeith and Ashiestiel, and elm from Edinburgh Council.

Processing

The logs were processed into sawn boards and flooring in 2011/12. The majority of the timber was cut into sawn boards for furniture making in a range of standard thicknesses. Some flooring stock was also cut, ready for either conversion into flooring or selling as shelving. The sawn stock was carefully stacked in the air drying shed or under cover outside.

Wood Shares developed a production model that ensured that both RWS and Wood Shares benefitted from the processing of the timber. RWS received payment in Phase 1 for processing and Wood Shares had a consistent set of operational costs to feed into its projections. The 'By the Ton' model paid a fee of £45 per ton for use of machinery (Woodmizer and forklift) directly to RWS and a subcontractor fee of £25 per ton to Keith Threadgall, the Timber Operations Manager.

Kilning

Kiln hire was paid on a per cuft price of £3 - standard to all makers at Real Wood Studios. Kiln payments were made on each load of timber tried.

Timber Sales

Sales of timber began in 2011/12 with the first loads of kiln dried stock and sales of air dried oak. Sales were fairly evenly split between RWS makers and external customers.

Unfortunately, due to the economic downturn, sales were not initially as strong as predicted. This meant it would take an additional 12 months above the original three year schedule in order to provide the expected return to investors. In order to complete the

scheme, the remaining stock of Wood Shares timber was sold to RWS, with the final payment being made in June 2015.

Return for investors

By 2013, Wood Shares was able to repay half of investors' initial investment plus a 20% return on the total sum invested. The balance of the remaining 50% investment was repaid in 2014 and then in 2015, a share of the additional sales income was distributed (split 50/50 between RWS and Wood Shares investors). At 40%, the return was double what was initially predicted.

What is the evidence for these outcomes?

£23,000 was raised from 14 investors over a period of nine months, showing a desire to support RWS and confidence that the investment would be successful.

115 tons of Scottish hardwood was purchased, processed and sold through the scheme. The logs were purchased for £19,151 and total sales of the processed timber achieved £63,000.

Phase 1 saw RWS receive significant payments for processing which boasted turnover in that year and in Phase 3 RWS saw more of a return on sales.

Feedback from timber customers, including the RWS makers, was very good, with comments on the high quality of the timber stock, much of which was used in free standing domestic pieces – chairs, tables and cabinetry.

There was a good return for investors, surpassing the original target of 20%. The final return was closer to 40%, so, for example, an original investment of £1,000 resulted in a return of £400 over and above the initial investment.

What were the factors that contributed to those outcomes?

Coming up with a creative solution to a problem set things in motion. Wood Shares was agreed to be the way forward for RWS as it provided a low risk way for timber to be brought into the business without the Directors ploughing money in or getting a loan from the bank to cover the purchase of the timber.

Considerable time and effort was spent researching the potential for such a scheme and then obtaining expert advice on how to administer the scheme. As those involved didn't have a background in investments, ensuring everything was done correctly was vital.

Finding sympathetic investors who were prepared not only to invest but also to allow some leeway in the timescale of the scheme contributed to its success.

Existing knowledge of the Scottish hardwood timber market, from having contacts among landowners and forest managers to an understanding of the costs involved in processing and storing the timber was essential. Having this expertise and in-house RWS lessened the potential risks.

The on-site facilities at RWS for processing, storage and sales, as well as an existing customer base made the scheme more straightforward and cost-effective to administer than if the different elements had taken place at different locations.

Finally, there was lots of hard work, hours spent poring over spreadsheets and an acceptance that any financial reward would take time.

How replicable is this experience; what is its potential as an element of a better approach to forestry?

As previously mentioned, RWS has a unique set-up with a sawmill, timber processing and storage facilities and an in-house customer base for timber all on the one site. In order for an investment scheme such as Wood Shares to succeed at a different location, all stages of the process would need to be carefully researched and costed.

Undertaking thorough research and accessing expertise is vital. This applies to the setting up and management of the investment scheme; overseeing the timber processing and selling to customers.

Key messages:

The traditional routes of taking out a bank loan or applying for public funding in order to grow a timber business are not necessarily the only options. With detailed research and expert financial advice, an investment scheme like Wood Shares has the potential for success (but also comes with risks).

Sourcing the logs is likely to be the easy part of the process. You need to think about having space to process the timber, somewhere to store it (preferably under cover), you need access to a kiln at a reasonable rate and ideally with no transport costs. Post-kilning you need to have a storage facility for the dry timber – ideally in a moisture-controlled environment.

Most importantly, you need to have access to customers who will buy timber of varying quality - from mediocre to excellent - at prices reflected by the market.

Changing circumstances can have an impact on sales – whether it is an economic downturn or increased competition from the growing number of sawmills in the Edinburgh and Borders area.

The legal and financial aspects of the investment scheme need to be understood and clearly communicated to all involved.

If all goes well, there is the potential for real success – Wood Shares meant that RWS had access to a substantial supply of timber and investors got a very healthy return on their investment.