



# Business Finance Services Ltd

*Our clients come first and stay*

**Project Brief**

**Commercial Lighting Manufacturer**

**November 2010**

**BFS Ref.:** PS/288

We have been approached by a client seeking finance to grow their electronics business. They are seeking a combination of trade finance and a commercial loan/investment.

## **The client**

Our client is a manufacturer of specialist lighting controls for both domestic and commercial usage. The company was incorporated in 2004 and has a manufacturing operation on Anglesey. The main products at this stage are a range of dimmer switches and a newly introduced range of PIR light switches.

The owner has a background in electronic & mechanical engineering. There are currently 4 full time employees plus one sales person on straight commission.

## **The Market**

All sales are B2B and are expected to remain so. Target clients include trade catalogues and wholesale/retail lighting outlets. Sales of the dimmer switches are currently running at £20,000/month and building steadily. Gross Margins are in the region of 50%. The new PIR switch range is expected to provide a very substantial increase in revenue. Discussions are already well advanced with one of the trade catalogues which, if successful, will lead to a doubling (at least) of t/o in the next 12 months. A second catalogue firm has also recently expressed interest (in an own label product).

Plans are in hand to further extend the product range. This will however involve additional design and development costs. Our client is confident that, with the special features they have in mind, the new products will have significant USP's over the competition, as do their current products. One particular product is potentially very big and they are intending taking out a patent on this idea.

## **Forecasts**

The following is the forecast of performance over the next 3 years, given a suitable injection of working capital:

£000's	Y/e March 2010	2011	2012	2013
<b>Total Revenue</b>	<b>215</b>	<b>385</b>	<b>850</b>	<b>1,300</b>
<b>Gross Profit</b>	<b>10</b>	<b>186</b>	<b>402</b>	<b>626</b>
<b>Est. EBITDA</b>	<b>0</b>	<b>46</b>	<b>160</b>	<b>311</b>

These figures are based on latest cash flow forecasts but do not take into account the expansion of the business into other markets already identified e.g. lighting for high-end Hotels and for theatres.



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## **Finance requirement**

Lack of working capital is holding back the development of the business in various areas. These include design and development of the new PIR products (one of which, at least, can be patented) and expansion of the production facility within the existing premises. There is also a requirement for equipment finance (c. £80,000). This is currently scheduled for acquisition in Yr 2 of the plan (2011/12) but, as it will bring substantial reductions in production costs, its earlier introduction would be beneficial.

Thus the immediate funding requirement is £30,000 for working capital. If the production equipment purchase is to be brought forward an additional £20,000 would cover the deposit. Whether the balance should be covered by the same loan will depend upon whether the rate compares favourably with that of commercial finance.

Our client would like to replace its current invoice discounting facility. Having had the facility for over 1 year they are in a position to be able to do so at short notice.

## **The Investment Opportunity**

In summary our clients are seeking a combination of trade and invoice financing &/or a suitable commercial loan to provide the working capital needed to grow the business. An equity investment would also be considered. As far as the size of the capital injection is concerned, this will depend upon whether it is done in conjunction with a trade finance facility. A gross figure in the region of £50,000 would be sufficient; perhaps with the option to add to that amount at a later date as further opportunities arise. Investors will be offered a suitable equity share in the business.

## **Exit route**

The most likely route for investors is through a trade sale in 3 to 5 years time. Alternatively forecasts show that the loan could be repaid from revenue over a similar period.

For further information please contact us at [enquiries@bufinserv.co.uk](mailto:enquiries@bufinserv.co.uk) or call us on **0800 093 5240**

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