



Business Finance Services Ltd

Our clients come first and stay

Project Brief

Participation in the free green electricity revolution

July 2011

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Investment: Up to £2,000,000 in £10,000 tranches

Summary

Our clients are offering an opportunity for investor(s) to acquire shares in a company that generates superior and low risk returns through participation in the free green electricity revolution. The basic concept is that our clients will provide property owners (both domestic & commercial) with free installation and free maintenance of photovoltaic systems to generate free green electricity for their use during daylight hours. Any additional electricity generated will then be sold back into the National Grid, thereby generating revenue for our clients.

Investors will share the benefits of a managed solution that will create income from a portfolio of domestic and commercial installations throughout the UK, whilst property owners will use their roofs to generate free green electricity for their own use over a 25 year period without committing any of their own funds.

Our clients are looking for a total £2,000,000 from investors in tranches of £10,000 (or multiples thereof). In return investors will receive a proportionate share of the total 75% equity stake that is available in return for this level of investment. The investment will be used to install 140 photovoltaic systems in suitable properties across the South West and South East. Breakeven occurs after 90 domestic and 12 commercial installations have been completed.

The Business

Renewable energy Feed In Tariffs (FIT clean energy cash back scheme) were introduced by the government in April 2010 and have created the opportunity for this business proposition. The FIT scheme is regulated by OFGEM, administered by the electricity suppliers and provides a guaranteed index linked income stream over 25 years. Further, the FIT scheme is funded by a small premium on all electricity tariffs so has been unaffected by the recent government spending cuts.

How it works

Our client will be positioned as an 'aggregator' in the free green electricity market by taking a pool of investments in units of £10,000 and then spreading the performance risk across a portfolio of installations and locations.

In essence the company will pay for a residential or commercial property with a large, structurally sound, pitched and south facing roof to have a set of photovoltaic cells installed on the roof. Income is generated from the FIT, whereby the utility company pays our client 37.8-44.3p per KWh for the solar photovoltaic electricity produced for a contract period of 25 years. In addition a further 3.1p per KWh is paid for any 'surplus' electricity that is generated but *not* used by the property owner and 'exported' to the national grid. These FIT rates quoted are both index linked and guaranteed for a 25 year period.

The installed assets, ie the photovoltaic systems, will therefore generate a quarterly income stream for our client over a 25 year period. Each installation will generate an initial gross return of 14% per annum on the total cost of the installation and this return will increase in time due to the index linking of the FITs.



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In addition to the benefits described above for the investors, the property owners will not have to pay for the installation and will only have to pay for any electricity consumed at night so will avoid the usual problems of upfront capital and extended pay back periods. Agreements will be entered into with the property owners to allow the use of their roof space for 25 years in return for free daytime electricity.

All installations will be carried out by a panel of accredited installers who will provide comprehensive warranties together with long term manufacturers' warranties. This will both keep overheads to a minimum and allow the business to scale up. The rate of growth will be constrained by the availability of finance for new systems rather than demand for free green electricity.

The Market

As an indication of the potential of this business the government is aiming for at least 780,000 installations to be completed by 2020 to contribute towards the UK's target of at least 15% of energy being generated from renewable sources by this date. In total only 6,688 solar photovoltaic systems have been installed since April 2002, due largely to the very high payback periods associated with installing solar power systems at the property owner's expense. This proposal overcomes that problem.

Future Plans

An investment of £2,000,000 will fund 140 installations but with a proven business model then the company is scalable and further installations could be sought with additional funding.

Financials

The proposed investment will fund 140 installations, with breakeven being achieved after 90 domestic and 12 commercial installations.

Year One FIT revenue forecast at £1,760,000, Year Two £5,400,000 and Year three £5,540,000 based on the assumed RPI index increase of 4.8%. Post installation which is funded via the £2,000,000 investment then ongoing overheads are very minimal enabling surplus cash to be generated and returned to the investors.

It should be noted that the secondary market for solar PV tariff contracts has already started to become established in the UK and is has been active in parts of Continental Europe for some time e.g. Deutsche Bank sold 6 MW of solar PV tariff contracts to Etrion in April 2010.

The Investment Opportunity

In return for an investment of up to £2,000,000 in £10,000 tranches the investor(s) will be offered up to a 75% equity share in the business. The investors' returns will consist of;

- EIS tax relief at 30% on the initial investment.
- Dividends from distributable reserves in the ordinary course of business.
- Capital repayments by a reduction in share capital from surplus cash.
- Potential profit on the sale of assets, i.e. the photovoltaic systems and the associated FITs

Whilst an opportunity exists for investment for the full 25 years of the contract period our clients are predicting a return on investment in excess of 27% pa after Yr 4.



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Exit route

In all likelihood, as the market for renewables, and free green electricity in particular, develops, there will be a secondary market for the FIT contracts, which will thus be sold and capital returned to investors early.

Our clients believe that a likely scenario is that all FIT contracts could be sold on in Year 4 and all capital returned at that stage. They estimate that for a £100,000 investment the investor, in addition to the return of their capital will receive revenues of £77,000 over the 4 years.

The alternative will be for capital to be repaid from revenue post Yr4.

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