

Project Brief

A new brand approach to Energy Supply

BFS Ref.: HE/437

**Finance required: up to £500,000
(SEIS/EIS applied for)**

Summary

Our client High Street Energy Ltd (HSEL) is looking to enter the lucrative UK Energy Supply market by offering a very attractive package devised by its Founder, who has considerable experience of the market, particularly from the data systems point of view.

HSEL proposes to supply Gas and Electricity (including dual fuel) to UK domestic customers and businesses, primarily focusing on delivering:

- Competitively low cost energy prices with a simple tariff base
- Excellent customer care embedding an honest, reliable and trustworthy approach. This will be greatly enhanced by the use of “The Concession concept”.
- Personalised rewards recognising valued customers as individuals.

The Plan is to generate revenue of £26.3 million by year 2018/19, a realistic target when compared with existing independent suppliers in the market (examples are cited in the full Business Plan).

The marketing strategy has a two pronged approach;

1. Digitally through use of switching sites, online advertising, search engine optimisation and direct email campaigns.
2. Through a more personal approach using Concession space in high density retail areas, an approach to the market not currently used by any Suppliers outside of the “Big 6”.

The business has been funded initially by the Founder, who will contribute a further £25,000 towards short term working capital. To complete development of the business further funding to the value of £500,000 is required; the main components of which are:

1. The acquisition of OFGEM operating Licenses including OFGEM audits and industry related technologies (£100,000).
2. The implementation of new and advanced technologies to underpin operations.

All market entrants are required to be registered by OFGEM and have technologies and systems in place that guarantee data security and sufficient industry data management. The plan is for this to be an equity investment funding project with up to 40% shares being offered (on a pro-rata basis) in return for the £500,000 investment. SEIS/EIS relief is being applied for.

The current owners anticipate an exit in 3-5 years by which time the business is predicted to have a value in the region of £25,000,000 based on a 5x EBITDA multiplier. That exit is likely to be via a trade sale or possibly an AIMS Floatation.

The Market

This market is heavily regulated by OFGEM (www.ofgem.gov.uk), whose purpose is to make a positive difference for energy consumers by influencing ability to reduce energy bills, improve industry reliability, improve quality of service deliverables, encourage benefits for society as a whole and reduce environmental damage.

Having said that, the UK Energy Supply market is an attractive one to enter due to low level entry barriers and a significantly high level consumer base (27 million UK households alone). Competition is encouraged and independent energy supply companies are achieving success in a highly regulated environment in spite of the "BIG 6" seemingly monopolising the market for decades. Market share, late 2015, demonstrated 90% for the Big 6 and 10% for the 31x Independents; increasing competition demonstrates that the Independents' share of the market has been increasing year on year since 2011. An Energy Customer Survey (2016) demonstrated better results for Independents compared to the Big 6; a good indication that consumer habits are changing, often reviewing energy suppliers as they become price sensitive, and that switching energy suppliers is a consumer right. With 10% of the total market already, the independents have plenty of room for growth.

The Business

HSEL will deliver effective and efficient customer services primarily via online services; making best use of modern technology that benefits the customer (low costs) and the business as a whole (lean processes and low overheads). This will provide a national on line presence to achieve the expected high volume customer base, and to compete effectively with market incumbents.

A major part of the uniqueness of the business is that a small number of High Street Energy Concession Stalls (customer service orientated) will be created throughout the UK during the lifespan of the business in order to achieve local presence in various UK counties and contribute to local trading and community support. This approach supports the more traditional route to market visibility and exposure, and underpins competitive advantage at a local level through B2C accessibility.

The overarching business objectives are as follows:

- i. To provide low cost energy services to UK consumers (domestic and commercial), whilst delivering excellent customer care.
- ii. To create a technically advanced energy supply business so as to effectively maintain lean operations for the benefit of the customers and business alike, and compete effectively within a dynamic environment.
- iii. To exceed customer target figures and create a reputable, profitable and operationally secure business in readiness for sale, effective 2019/2020.
- iv. To provide value added services via use of retail partners (domestic customers) and energy efficiency savings (business customers) via Auditel partner, thus underpinning retention rates of loyal customers.

HSEL further aims to support local communities (trade, education, social care and social enterprises) where possible and contribute to a greener environment with industry partners.

The Team

The Founder, as an experienced director, is in an enviable position having previously been exposed to the energy market by way of supplying software to market incumbents; significant knowledge has been naturally gained to understand the energy industry as a whole, its regulations and supply chain, and how energy suppliers typically operate.

The operational structure of the business will ensure that operations, customer service and commercial activities are performed at Head Office while technical services are performed by established specialist vendors already serving the energy market.

HSEL will launch with the Founder and three customer service assistants in place; the remaining workforce will be recruited during the initial 7 month trading period, as growth permits. IT, Legal, Finance, and HR are outsourced activities.

The Product

HSEL's business offering is to supply Gas and Electricity (including dual fuel) to domestic consumers and businesses across the UK.

The value proposition focuses on delivering low cost energy prices, excellent customer care, personalised rewards, commitment to a greener environment and contributing to local communities where possible.

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HSEL will operate a Customer Reward Scheme, the purpose of which is three-fold;

- i. To attract new customers with an "added value" proposition to HSEL service deliverables.
- ii. To increase HSEL customer retention rates, reducing the risk of customers switching to energy competitors.
- iii. To create a sales channel for retail partners, driving increased sales and / or repeat sales

The scheme will be run in co-operation with carefully chosen strategic partners, whose products/services will comprise part of the offer.

Financials

The Financial model focuses on collecting revenue via a monthly Direct Debit scheme with payment in advance; this supports positive cash flow management. HSEL aims to achieve in excess of 20K customers (meter points) in the first 18 months of trading. Financial planning reflects a more conservative picture, however the business is expected to move into profit by month 5 of the initial trading period.

The salient points from the financial planning are as follows:

- Set up and launch are phased to accommodate one head office and two teams (operational and sales).
- Employees are recruited in a phased approach according to growth.
- Strategic milestones are positioned at various points in accordance with positive financial positions.
- Month 4 (FY 16/17) demonstrates a turning point enabling profitable trading.
- The following table shows the forecast trading figures for the first 3 years:

£'000s	FY16/17	FY 17/18	FY 18/19
Total Sales	707.5	10,350	26,300
Total Expenditure	882.0	7,642	20,764
Pre-tax profit/-deficit	-174.5	2,708	5,536

Funding requirements & rewards for Investors

The business has been funded initially by the Founder, who has also contributed a considerable amount of “sweat equity” in researching and developing the concept of this business. The plan is for the Founder to contribute a further £25,000 towards short term working capital.

High Street Energy has the strategic, technical and operational capabilities to launch this business as planned and to successfully sustain it into the future. The business requires financial investment to the value of £500k to support the launch activities as detailed throughout this business plan and to further compete effectively with market incumbents.

Ideally financial funding needs to be secured by end of July 2016 so as to achieve the industry pre-accreditation tasks that typically take 6-8weeks. If funding is not secured within a reasonable time the launch of the business will be delayed.

Launching the business during an autumn period is the most favourable time as consumers behaviours suggest this is a change for considering the winter months and associated family / domestic costs.

Syndication of investors is acceptable.

Exit routes

The expectation is that there will be a trade sale within 3 to 5 years to one of the major competitors or a corporation wishing to enter the very lucrative energy supply market. Alternatively the Company may be floated on AIMS.

To discuss this opportunity in more detail or to obtain a copy of the full Business Plan please contact:

Peter Douglas Phone: **01327 349779** Mobile: **07770 866955** or e-mail to:
peter@bufinserv.co.uk

Or

Alan Price on **07768 636246** or e-mail to: alan@bufinserv.co.uk

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