



Business Finance Services Ltd

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Web Brief

Beauty Products Wholesaler & Retailer

June 2012

BFS Ref.: BW/352/040

Investment required: up to £300,000 over 6 months

Summary

This is an opportunity to invest in an established business that supplies professional beauty equipment to a wide range of **blue chip customers** within the wholesale and retailing sectors both in the UK and overseas. At its peak the Company supplied 50% of supermarket sales of these products and 25% of the high street retail market in beauty products, demonstrating the ability and quality of the products and strength of the management. Recently the Company has had to deal with a number of external and internal issues that have impacted on the business. Combined with a growing order book and expanding product range this has prompted the owner to seek external investment to fund this growth.

The Business

The Company was established in 1993 with the objective of miniaturising professional beauty equipment and making it suitable for the consumer market. The products fall into a number of key areas being **hair, beauty, toning/fitness, nails and health**. Most of the product range are exclusive core health and beauty products that have been designed specifically for the consumer market with very little competition except in the area of hair care products where the manufacturers abilities to provide bespoke products with added features maintains competitive advantage.

The Management team have successfully delivered on their objective of establishing a business to deliver bespoke products and are in the unique position of supplying hair care, beauty, fitness and health products to a range of blue chip customers including Sainsburys, Asda, Aldi, Next, John Lewis, New Look, Internationale, Wilkinsons and pharmacy chains as well as many internet (eg; Amazon), mail order and other retail customers, both in the UK and overseas. The products are also sold through a couple of television shopping channels. This diverse range of products is supplied under both the supermarkets 'own' brand and our clients own name brand. In addition the Company has acquired the **exclusive license** to the "TOWIE" brand and the "Forever Friends" brand. The products are designed by the Company and sourced from a number of factories in China with the necessary audit approvals and appropriate certification.

The size of the health and beauty market in 2008, according to Verdict, was estimated to be around £16 billion and growing at circa 3% per annum. It has proven to be one of the most resilient retail sectors during the recession. With its strong product and customer base our client is well positioned to take advantage of this ongoing growth and will continue to develop and source new innovative products in order to maintain its competitive position. In particular a new updated range of body toning machines, **EMS Body Toners**, will be launched in 2013.

In the late 1990's the company was the market leader in the EMS Body Toning Market with £5.5 million sales from these products alone. However, due to a lack of investment in design and packaging whilst the owner was out of the business on maternity leave there was a gradual slide in sales of these products. They also came to be seen as being "dated" and the company fell behind its competitors. The business expects to regain its 80% market share over the next 12 months as the market demand for these products is currently both massive and unexploited.

The business actively promotes itself via PR coverage in glossy magazines, press coverage and social media building on its existing strong reputation with its blue chip customer base.



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The owner started her career as a beauty therapist in the 90's and has developed the company through her 20 years knowledge of the health and beauty market. She continues to be a pioneer in the field of miniaturized professional salon health and beauty equipment. She has been nominated for "The Woman In Business" Award and is a winner of the 2010 IoD Awards. She is supported by an experienced senior management team along with strong stakeholder support from its existing bankers and professional advisors. The company is currently 79.2% owned by the MD with her mother owning the balance.

The business operates from rented premises in the South East.

Financials

Summary P&L figures as follows. All figures in £000's

	2009 actual	2010 actual	2011 actual	2012 forecast	2013 forecast	2014 forecast
Turnover	3,796	4,578	3,450	4,796	8,421	10,000
Gross Profit	962	691	546	1,026	2,048	2,800
Operating Profit	111	(203)	(69)	310	1,345	2,000

The historic performance has been affected by a number of factors such as;

- Owner taking time away from the business following birth of children
- Woolworths, a major customer, going into administration in 2008
- Increasing margin pressures from supermarkets in 2010
- Fraud by senior buyer leading to an overstocking situation of around £150k in 2011

Steps have been taken to deal with all of these issues and the business is now well placed to deliver organic growth and take advantage of new products and new markets. Upside sales from the EMS Body toners and other new products have not been factored into the base case to show the strength of the core business from its existing base.

Management figures to March 2012 show sales of £429k after 3 months generating a £36k Gross Profit but have been impacted somewhat by the stock overhang issue detailed above. It should also be noted that the business is seasonal with approximately 60% of total turnover being achieved in the last four months of the year. The company is already receiving strong enquiries for orders to the Christmas build up and its current "order" book of firm purchases stands at some £500k. The EMS Body toner is a significant opportunity which can be delivered with the cash injection. Further, internet sales (with higher margins) are also proving to be strong and the MD is confident of achieving the December 2012 forecasts.

Investment Opportunity

In the short term funding is required for additional working capital beyond existing trade finance/invoice finance facilities. In the short term this will fund additional stock to meet increased seasonal demand for Christmas and to support new retail sales via the internet and TV shopping channels. In the medium term, the funding will allow the company to enter new markets as well as investing in the exciting development of a new, recently designed version of its fastest selling "body toning" lines which are in huge demand worldwide.



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Funding of £300k is required to support this growth plan and an equity stake is being offered.

Exit route

The cashflow forecasts demonstrate that the business will be cash positive by the end of year 2013. It will therefore have sufficient liquidity to repurchase shares within a three year horizon or consider a part repurchase earlier without adversely affecting the continued growth of the business. The company is open to alternative exit routes including a trade sale, VC exit or merger. Given the current challenges and the opportunities this has presented, the company is looking for potential investors with a focus on the medium to long term (3 to 5 years) and those who want to take part in the significant upside.

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