

# XYZ Food Ingredients

Information for investors

Example only

The logo consists of the letters 'XYZ' in a bold, red, sans-serif font, centered within a light blue oval with a dark blue border.

XYZ

# Overview

This document provides prospective investors in XYZ with information about the company's plans and prospects. It has been prepared for readers who have been introduced to XYZ and are interested in the opportunities that investment in the company presents.

XYZ has grown steadily over the past two years and has made plans to continue on a rapid growth trajectory. It has developed a range of new products to complement its existing range. Products like A, B and C will allow XYZ to expand from current distribution channels (channel A & B) into channel C. The combination of new products and new channels mean that XYZ expects to grow revenues by approximately 10 times over the next five years.

XYZ's products are sold with a gross margin of approximately 50%. This high margin will enable XYZ to remain profitable while it grows, even as it expands investment in R&D and marketing. However, further investment is needed to provide the working capital to fund such rapid growth.

These slides provide some detail about the company's plans and translates these into financial projections. It examines the assumptions that underpin the company's business plan and explores the sensitivity of the financial projections to deviations from this plan. Business risks are discussed and the offer to investors is presented.

# Contents

## Track record – XYZ's growth to date

Plan for growth

Pricing, margins and costs

Financial projections and sensitivity analysis

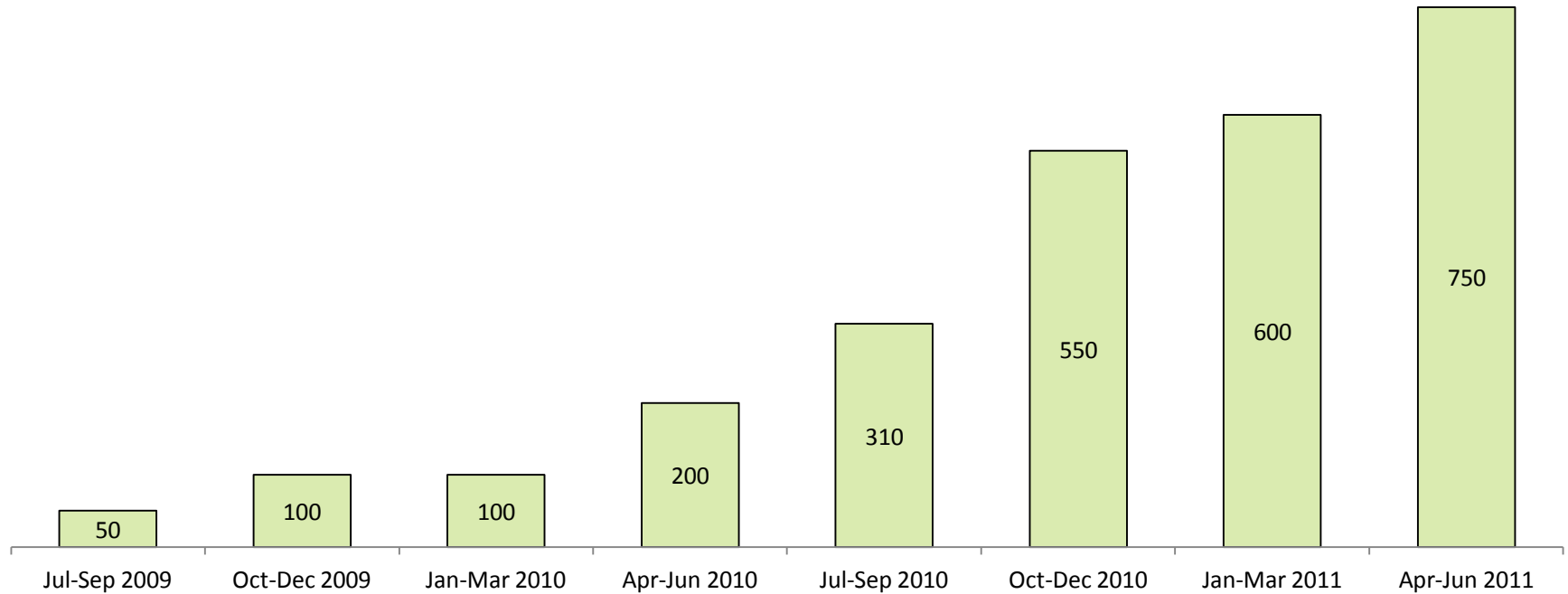
Risks and risk mitigation

Company detail & investment offer

XYZ has grown strongly over the past two years.

## Sales growth

XYZ sales (NZ\$000)

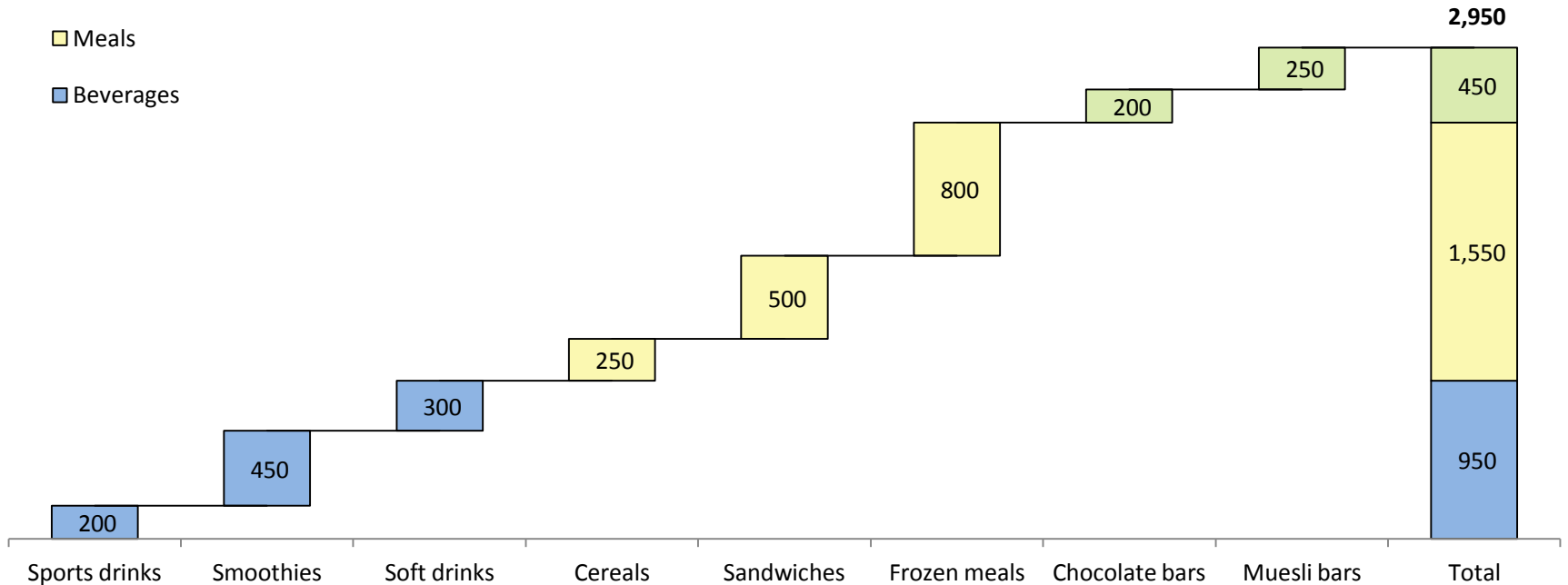


XYZ has three core product categories, with meals and beverages making up the bulk of sales.

## Current sales by product

XYZ sales in 2010-11 by product (NZ\$000)

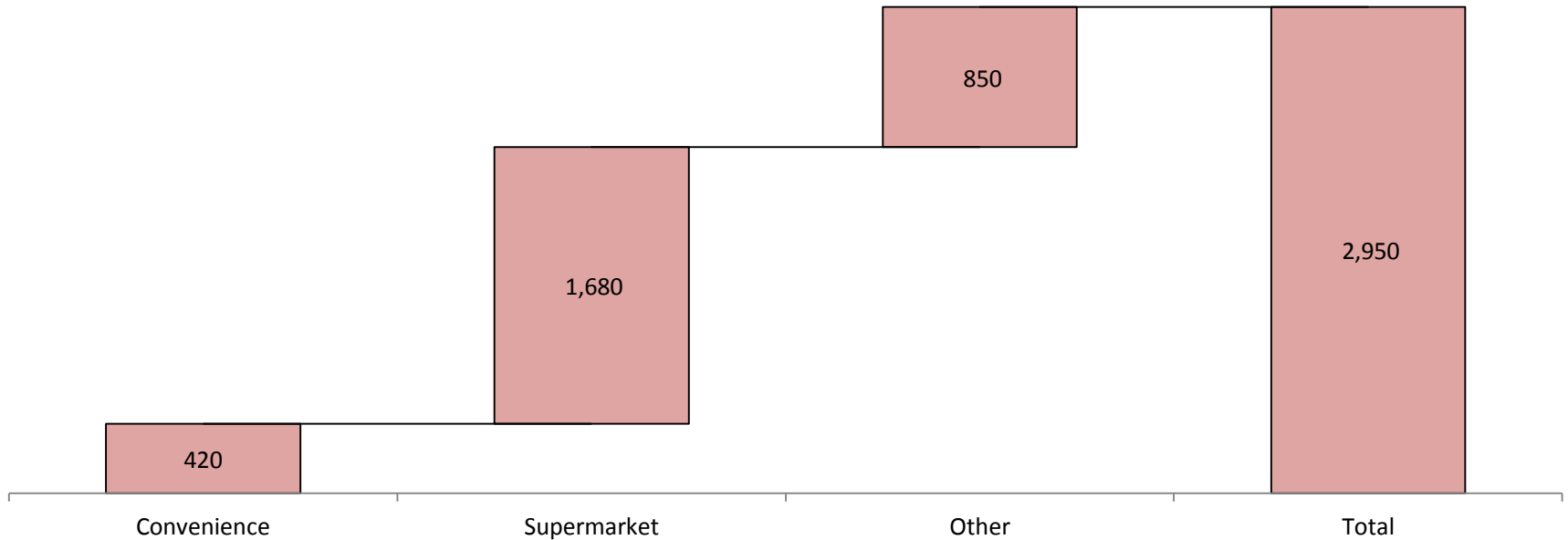
- Snacks
- Meals
- Beverages



XYZ sells mainly to convenience stores & supermarkets with product on the shelves of over 400 stores.

## Current sales by channel

XYZ sales in 2010-11 by channel (NZ\$000)



# Contents

Track record – XYZ's growth to date

## **Plan for growth**

Pricing, margins and costs

Financial projections and sensitivity analysis

Risks and risk mitigation

Company detail & investment offer

Over the next two years XYZ will launch a range of new products across all three of its core product categories.

# New product releases

## Existing product range

### Meals

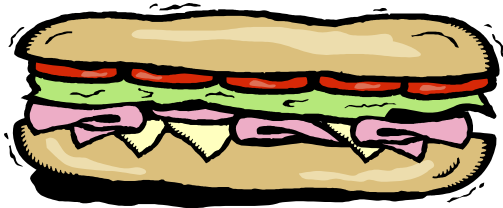
- Range of low-carb, packaged sandwiches sold largely in convenience stores and service stations

### Snacks

- Range of 200g chocolate and muesli bars sold in supermarkets, convenience stores and service stations

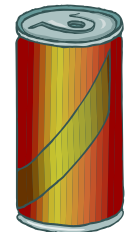
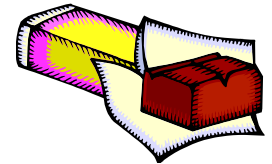
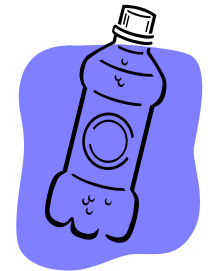
### Beverages

- Range of ready to drink low-fat fruit smoothies (250ml) and ready to drink sports beverages (500ml) sold in supermarkets, conveniences stores and service stations



## New product release timetable

1 <sup>st</sup> Qtr 2012	● — ●	Smoothies • New sizes for existing range of fruit smoothies (500ml, 1L)
2 <sup>nd</sup> Qtr 2012	● — ●	Protein bars • Chocolate & fruit flavoured protein bars (200g)
3 <sup>rd</sup> Qtr 2012	● — ●	Sports beverages • New packaging option (250ml can) for existing range of sports drinks
4 <sup>th</sup> Qtr 2012	● — ●	Smoothies • New sizes for existing range of fruit smoothies (500ml, 1L)
1 <sup>st</sup> Qtr 2013	● — ●	Soft drinks • New range of flavoured soft drinks (500ml bottle)





New product releases will be used to support XYZ's channel expansion strategy.

## Channel expansion

### Channel strategy

#### What

- Expansion of existing channels (convenience and supermarket)
- Launch into new channels including health food stores and gyms
- Launch of new product lines to support expansion

#### How

- XYZ has signed an exclusive supply deal with a major national chain of gyms
- XYZ's existing distribution network is already capable of servicing most of the target distribution expansion
- XYZ will also hire its own national sales force to represent the products to potential new channels



### Channel targets

#### June 2012

- Distribution in 100 health food stores
- Distribution in 200 gyms
- Distribution in 400 supermarkets and convenience stores

#### June 2013

- Distribution in 300 health food stores
- Distribution in 300 gyms
- Distribution in 500 supermarkets and convenience stores

A significant aspect of XYZ's growth strategy is the move to distribute products in gyms and other sports nutrition stores.

## Penetration into gyms

### Benefits for XYZ

#### Distribution

- There are over 500 gyms or sports nutrition stores nationwide

#### Volume

- Expansion into gyms will allow XYZ to increase sales volumes by approximately 40% over a two year period

#### Customer

- Distribution in gyms creates additional purchase opportunities for existing customers.
- Distribution in gyms will also provides access to new market segments.



### Benefits for gyms

#### Product

- XYZ has designed a range of new products specifically for gyms

#### Revenue

- XYZ products carry enough margin (50% of RRP) to make them highly attractive to gyms and sports nutrition stores

#### Customers

- Channel switch opportunity; buyers from supermarkets & convenience stores will be able to buy XYZ products in gyms, thus increasing patronage

There is already considerable scope within the gym and sports nutrition sectors for XYZ to increase distribution and expand its product range.

## Market size

### Revenue by channel

- General retail within gyms and sports nutrition stores is \$1.0b
- Total snack food sales are approximately \$300m
- Total beverage sales are approximately \$500m

### Market outlook

- Sales of sports beverages and protein bars are estimated at around 50%, therefore the direct market for XYZ's products is estimated at **\$400m per annum**
- Growth of these sectors is all positive, and in most cases they are the fastest growing segments within each channel – **the market is increasing rapidly.**

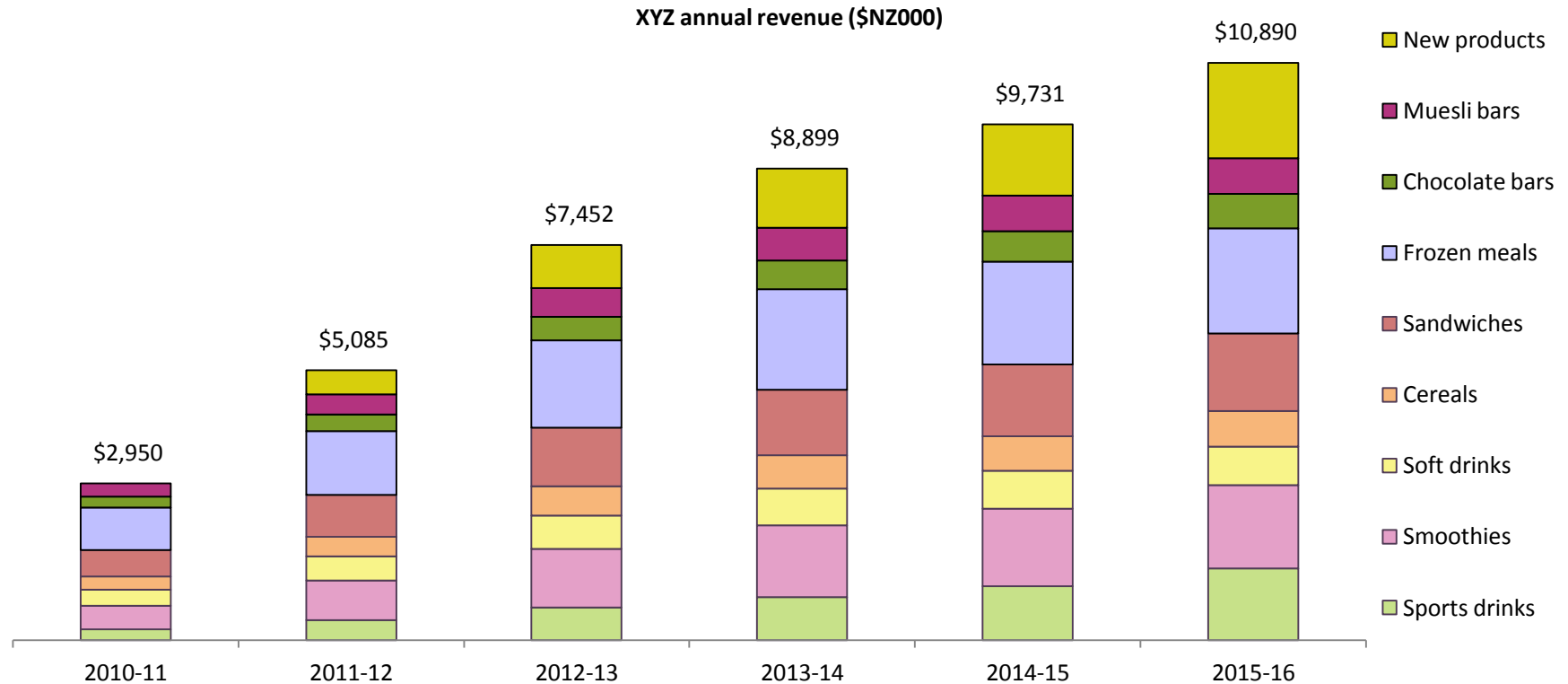


### XYZ market share target

- XYZ's goal is to achieve 2% market share of the sports beverage sector in the next financial year.
- Within 5 years XYZ targets 10% market share, therefore achieving revenue of \$40m based on existing market size with no growth

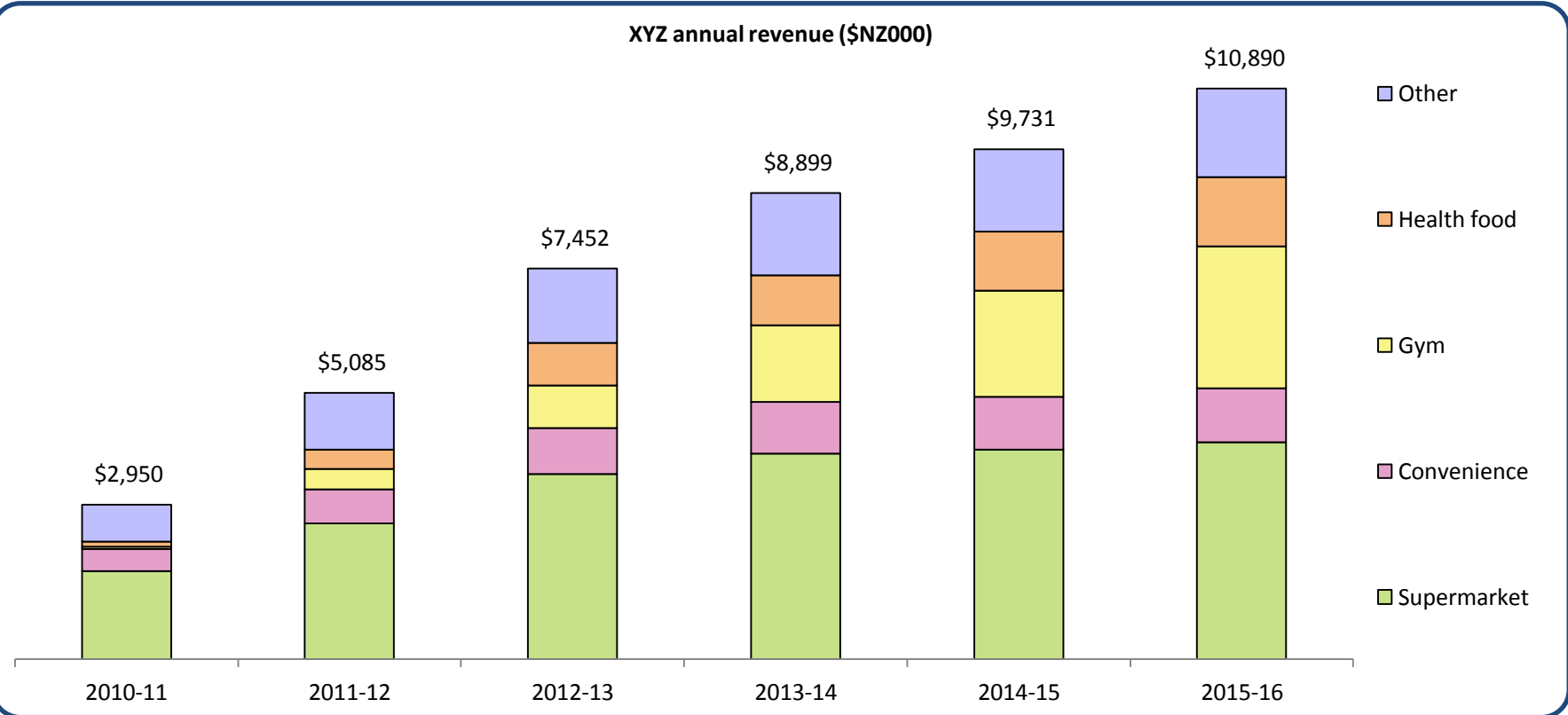
New products will make up an increasing component of XYZ's revenues.

## Revenue projections by product category – base case



Gyms and health food stores are expected to account for around 40% of total sales by 2015-16.

## Revenue projections by channel – base case



# Contents

Track record – XYZ's growth to date

Plan for growth

**Pricing, margins and costs**

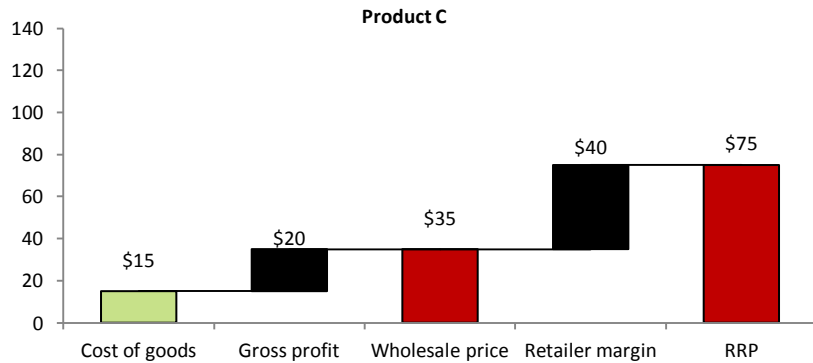
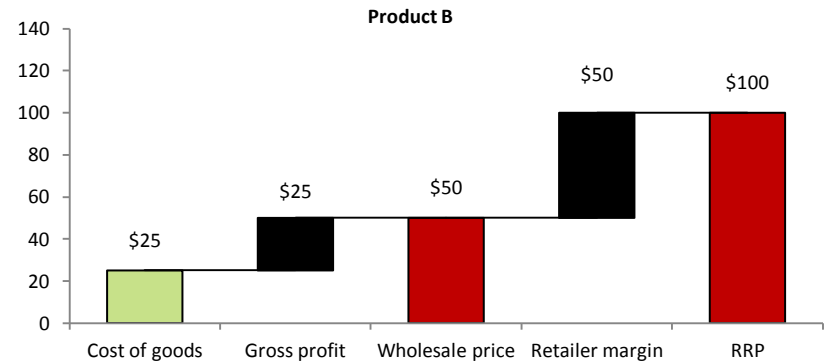
Financial projections and sensitivity analysis

Risks and risk mitigation

Company detail & investment offer

XYZ products all sell with a gross margin of approximately 50%.

## Pricing and gross margins



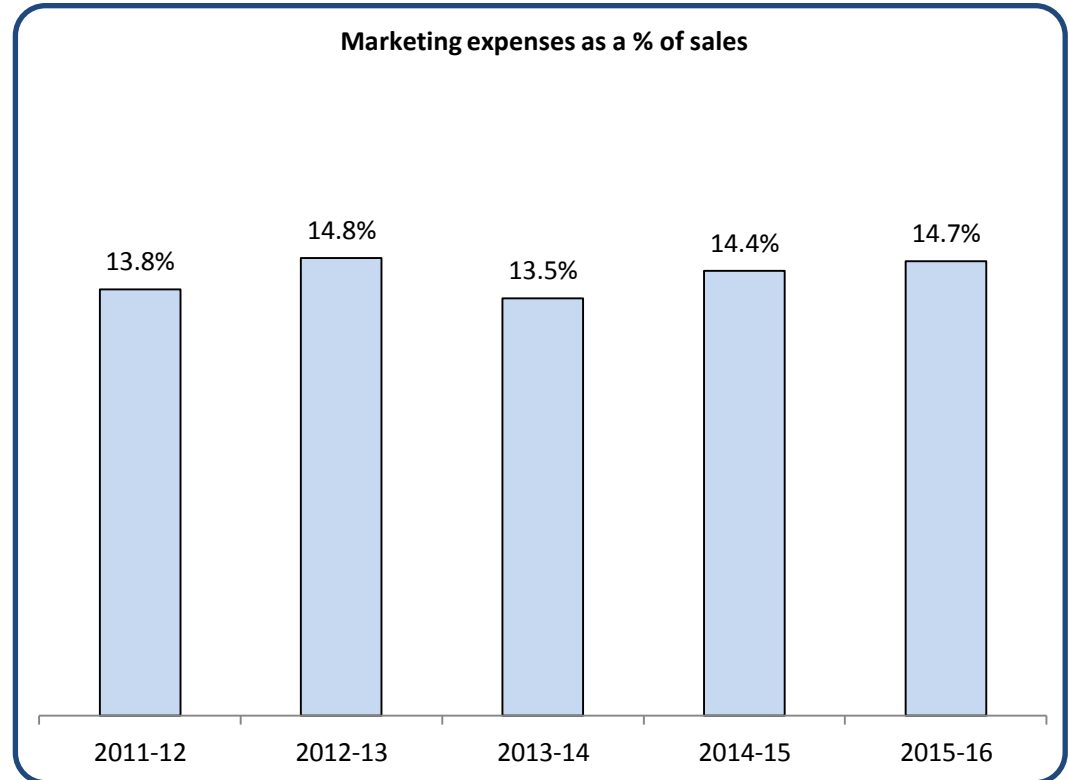
Marketing costs will be around 14% of sales. This will fluctuate depending on new product launches.

## Marketing expenses

Marketing expenses can be directly related to the launch of a new product or they can be part of ongoing marketing.

Ongoing marketing expenses include:

- Print
- Design artwork
- Apparel
- Media
- Client coop advertising
- Promotions
- Events
- Sponsorship
- Online





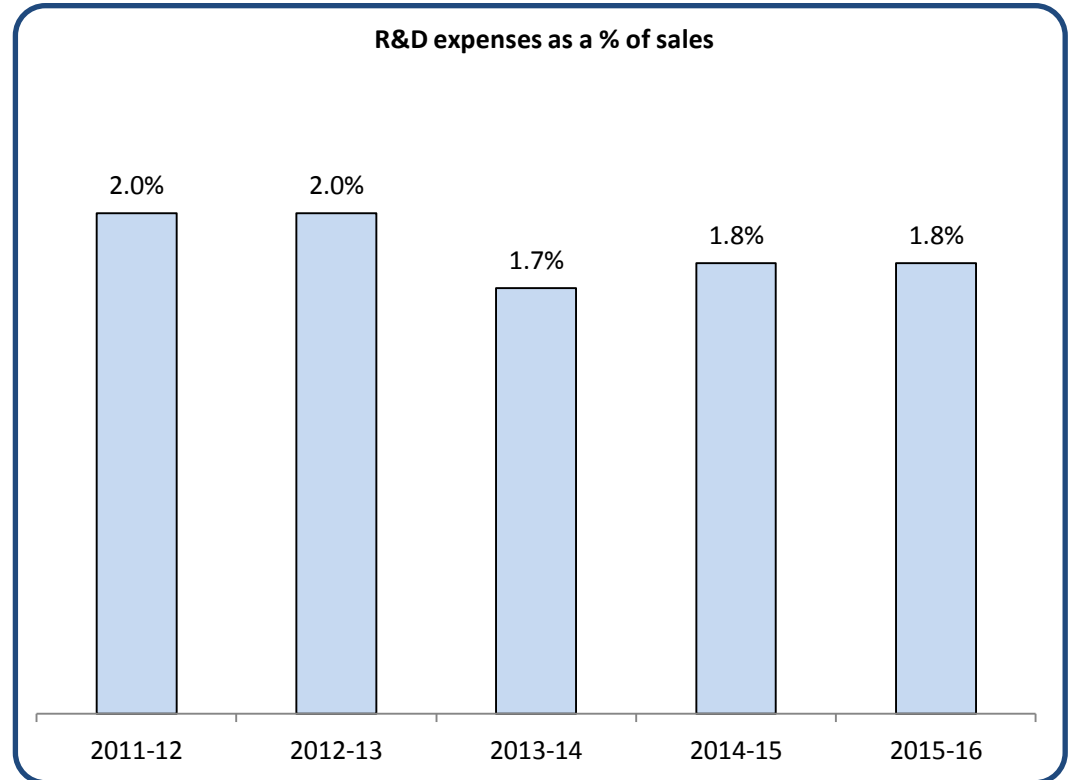
R&D costs are expected to be about 2% of sales in the medium term.

## Research & development expenses

Research & development (R&D) expenses are driven by new product launches.

R&D expenses are approximately \$16,000 per product launch.

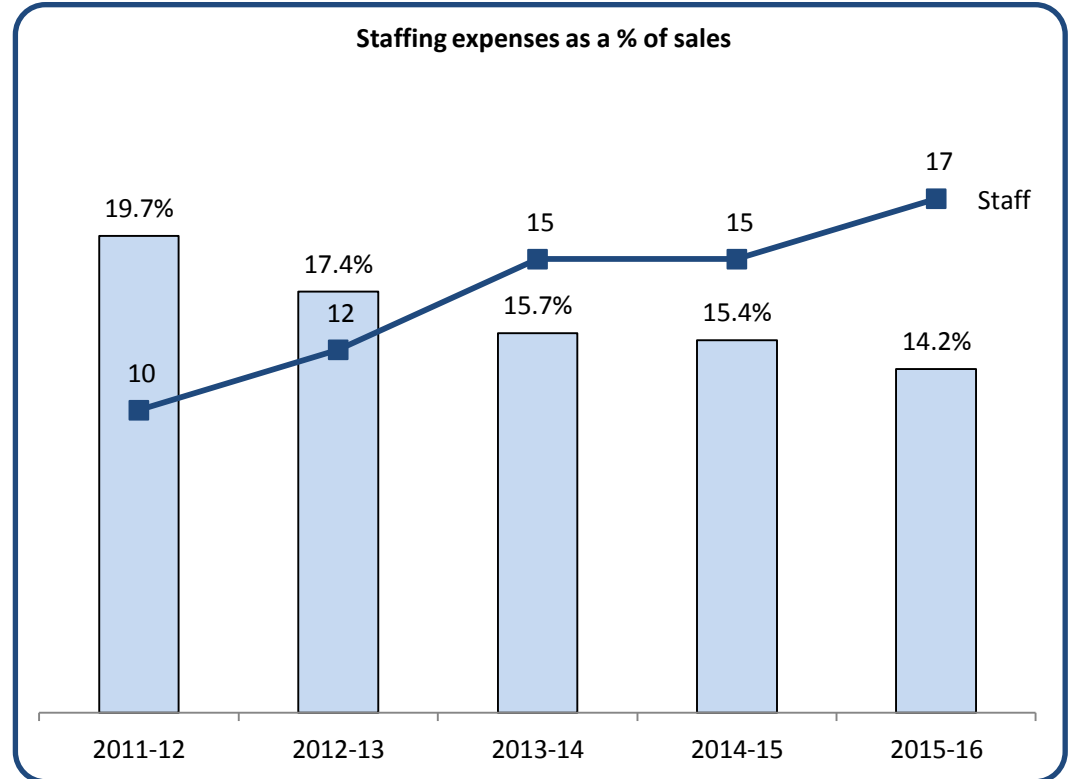
It is assumed that R&D expenses will continue at around 2% of sales in the medium term.



Although staff numbers will grow from the existing 10 people, staffing costs will fall as a proportion of sales.

## Staffing expenses

Role	Employee name
CEO	John Lemon
CFO	Paul McFlaherty
Marketing	Yoko Uno
Marketing	Janice Chopping
Operations	James Handricks
Office Admin	David Bluey
HR	Mick Swagger
Sales	Kiri TeNana
Sales	Roger Doubtery
Sales	Bridget Barlow



# Contents

Track record – XYZ's growth to date

Plan for growth

Pricing, margins and costs

**Financial projections and sensitivity analysis**

Risks and risk mitigation

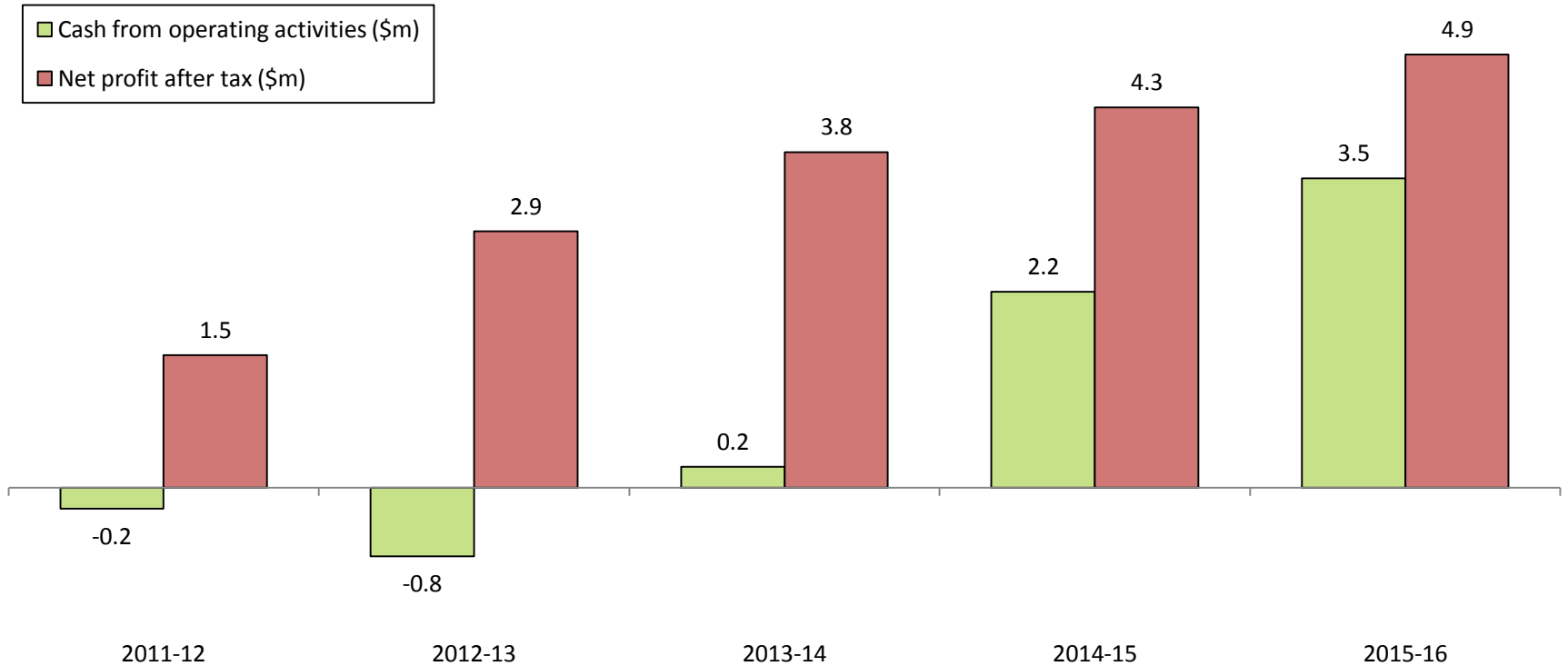
Company detail & investment offer

XYZ is expected to remain profitable throughout its growth.

## Profit & loss summary – base case

	2011-12		2012-13		2013-14		2014-15		2015-16	
	\$m	% of sales	\$m	% of sales	\$m	% of sales	\$m	% of sales	\$m	% of sales
Sales	5.1	100%	7.5	100%	8.9	100%	9.7	100%	10.9	100%
Cost of sales	1.5	30%	1.7	23%	1.9	21%	2.0	21%	2.1	19%
<b>Gross profit</b>	<b>3.6</b>	<b>71%</b>	<b>5.8</b>	<b>77%</b>	<b>7.0</b>	<b>79%</b>	<b>7.7</b>	<b>79%</b>	<b>8.8</b>	<b>81%</b>
R & D expenses	0.1	2%	0.2	2%	0.2	2%	0.2	2%	0.2	2%
General/admin expenses	0.1	2%	0.2	2%	0.2	2%	0.2	2%	0.2	2%
Marketing expenses	0.7	14%	1.1	15%	1.2	13%	1.4	14%	1.6	15%
Employment expenses	1.0	20%	1.3	17%	1.4	16%	1.5	15%	1.6	14%
Depreciation	-	0%	-	0%	-	0%	-	0%	-	0%
<b>Operating expenses</b>	<b>1.9</b>	<b>37%</b>	<b>2.7</b>	<b>36%</b>	<b>2.9</b>	<b>33%</b>	<b>3.2</b>	<b>33%</b>	<b>3.5</b>	<b>32%</b>
<b>EBIT</b>	<b>1.7</b>	<b>33%</b>	<b>3.1</b>	<b>41%</b>	<b>4.1</b>	<b>46%</b>	<b>4.5</b>	<b>46%</b>	<b>5.3</b>	<b>48%</b>
Tax	0.2	4%	0.2	3%	0.3	3%	0.3	3%	0.4	3%
Interest	-	0%	-	0%	-	0%	-	0%	-	0%
<b>Net profit after tax</b>	<b>1.5</b>	<b>29%</b>	<b>2.9</b>	<b>38%</b>	<b>3.8</b>	<b>43%</b>	<b>4.3</b>	<b>44%</b>	<b>4.9</b>	<b>45%</b>

## Cashflow vs. profit



## Balance sheet summary – base case

	2011-12	2012-13	2013-14	2014-15	2015-16
	\$m	\$m	\$m	\$m	\$m
Current Assets	4.0	6.9	13.3	20.3	27.7
Fixed Assets + Loans	0.1	0.1	0.1	0.1	0.1
Total Assets	4.1	7.0	13.4	20.4	27.8
Current Liabilities	2.5	3.4	4.3	4.9	5.2
Long-term Liabilities	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Total Liabilities	2.3	3.2	4.0	4.6	4.9
Equity	2.4	4.1	9.7	16.0	23.1
	2011-12	2012-13	2013-14	2014-15	2015-16
Net Current Assets (\$m)	1.5	3.5	9.1	15.4	22.5
Current Ratio	1.59	2.01	3.13	4.15	5.34
Capital = LT Liabilities + Equity (\$m)	1.9	3.9	9.5	15.8	22.9
Current Liabilities to Capital Ratio	1.34	0.89	0.45	0.31	0.23

Under the base case, projected net profit after tax in the 2015-16 financial year is approximately \$4.9m. We have conducted sensitivity analyses on eight alternate scenarios to the base case (four good & four bad) as well as a best/worst case scenario combining each of these.

# Sensitivity analysis

Projected net profit after tax 2015-16		
Bad case	Base case	Good case
Protein bars are launched in gyms but product 'fizzles'	<p>\$3.1 m      \$9.0m</p>	Protein bars are launched in gyms and target sales are achieved
Ingredient A is not available	<p>\$5.8m</p>	Ingredient A is used
All new product launches are three months late	<p>\$4.7 m</p>	All new products are launched on time (same as base case)
Sales growth is 50% less than base case	<p>\$2.1 m      \$7.9 m</p>	Sales growth is 50% more than base case
Worst case (all of the above)	<p>\$1.8 m      \$14.0 m</p>	Best case (all of the above)
	\$4.9m	

Source: XYZ financial model

# Contents

Track record – XYZ's growth to date

Plan for growth

Pricing, margins and costs

Financial projections and sensitivity analysis

**Risks and risk mitigation**

Company detail & investment offer



## Risk and risk mitigation

Risk	Likelihood	Impact	Mitigation strategy
Loss of key personnel	Medium	High	<ul style="list-style-type: none"> <li>• Document all policies and procedures so that other staff can manage processes in absence</li> <li>• Keep accountant and banker involved in business</li> <li>• Implement CEO succession plan</li> </ul>
Reduced demand	Low	High	<ul style="list-style-type: none"> <li>• Create ability to diversify product range</li> <li>• Maintain high quality control standards</li> <li>• Develop robust communications / marketing strategies</li> </ul>
Collapse of key supplier	Medium	Low	<ul style="list-style-type: none"> <li>• Maintain relationships with alternative suppliers</li> </ul>
Gym penetration fails	Medium	High	<ul style="list-style-type: none"> <li>• Continue to develop other channels</li> <li>• Continue to diversify product range</li> <li>• Increase emphasis on global expansion</li> </ul>
Can't raise sufficient finance	Medium	Medium	<ul style="list-style-type: none"> <li>• Reduce pace of expansion and finance through revenues / debt rather than capital</li> </ul>

# Contents

Track record – XYZ's growth to date

Plan for growth

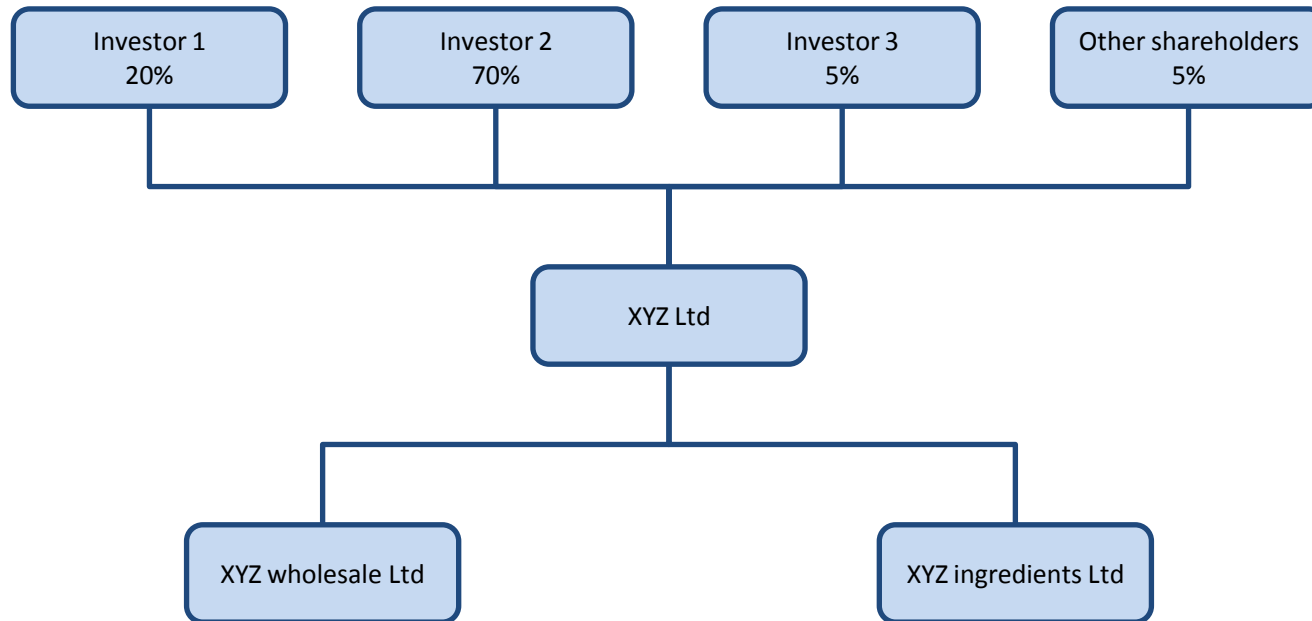
Pricing, margins and costs

Financial projections and sensitivity analysis

Risks and risk mitigation

**Company detail & investment offer**

## Company structure and existing shareholding



# Investment offer

## **Purpose**

A capital injection is required from a strategic investor to fund expansion of XYZ products into new channels (gyms and health food stores) and to fund new product development.

## **Proposal**

XYZ is seeking (NZ\$) \$1 m equity funding in return for a 20% shareholding

For further information on XYZ and this proposal, please contact:

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