Sample

Business Case
and
Financial Analysis

Typical Corporate Presentation

Description of the Product or Service

- Precise description of what the venture sells (what it does and how it works)
- Why the product or service will be in demand
- Recognition and presentation of the applications of the product or service
- Different types of product/service that will be offered
- Life cycle of the product/service

Description of the Technology

- State of development of the product/service
- Amount of work remaining to achieve "commercial" status
- Unique aspects of the product/service (performance, speed, accuracy, efficiency, durability, price, quality...)
- Unique benefits of the product/service and what type of client benefits from each characteristic
- Cost factors associated with product/service

Applications

- New market sectors
- Replacement of existing technologies
- Repeat or one time only purchase
- Any customization required for different applications

Venture Fit with Parent

- Possible opportunities with:
  - other operating companies/divisions
  - other partners
- Use of company expertise (what we bring to the table besides $$$)
- Use of current alliance partners
- Are the clients/vendors our current clients/vendors?
- Does this use/expand our current competencies?

Market Description

- Age of the market (emerging, mature...)
- Structure of the market (a few major players vs fragmented...)
- Is the market growing, stationary or declining
- Any "closed" markets
- Is market segmented? How?
- Is the market seasonal or subject to environmental factors?
- Total market size
- Market size by segment

Market Description (con't)

- Total number of competitors
- Average price
- Average cost
- State of technology in current market

Description of Competitors

- Number of major domestic and international competitors and annual revenues
- Number of small operators and annual revenues
- Average age of competitors
- Location of competitors
- Market share of each competitor
- Are some growing and some declining?
- Are there substitutes for the product/service?

Analysis of Clients

- Geographical considerations (regional, domestic, global)
- Government or non-government
- Business, OEM, or private individuals
- Unique characteristics of purchaser
- How many there are
- How large they are
- How often do they purchase
- How do they purchase

Description of Market Forces

- Regulations
- Local affiliations/relationships required
- International agreements
- Socio-economic or political areas which impact the market

Description of the Potential Partner(s)

- Financial position of the partner
- Corporate affiliations
- Corporate liabilities
- Number of employees and labor posture
- Any potential business conflicts
- Background and due diligence on the principles
- Headquarters location
- Location of incorporation

Description of the Venture

- Venture mission
- Structure of the venture (contract,JV, partnership, corporation, alliance, licensee/licensor)
- Where venture will operate
- Description of what each participant will contribute to the venture (intellectual property rights, sales network, financial and legal clout, name, reputation, management and engineering capability, any payment of fees or capital contributions)
- Percent participation (management control, board of directors, profit...)

Description of the Possible Risks

- Liabilities associated with operations of the venture (product liability, environmental hazards)
- Unit reliability/maintainability
- Technical risk
- Emerging superior technology
- Patent infringement from competitors
- Competes with current clients
- Venture structure/control of operations
- Overestimate of market penetration
- Excessive supplier/customer power

Mitigation Strategies for Each Risk Identified

- Liability:
  - Review potential projects using same approach as ESOC
  - Identify and procure sufficient insurance coverage
- Reliability:
  - Document reliability/maintainability performance records, institute a maintenance regime based on historical data and "lessons learned"
- ETC.

Overview of Marketing/Sales Strategy

- Identify market segment(s) targeted
- Describe marketing effort for target segment(s)
- Describe sales force (independent, company-wide...)
- Describe promotional activities
- Identify intended use of print ads, brochures and videos
- Identify current clients who may be venture clients
- Identify known opportunities

Description of Manufacturing/Operations Plan

- Facilities (Storage, office, sales, computers, communications...)
- Lease/Buy equipment
- Staffing of sales, management, clerical, engineering and operations positions
- Production start-up
- R&D activities
- Insurance and Legal requirements

Identify Specific Near Term Prospects

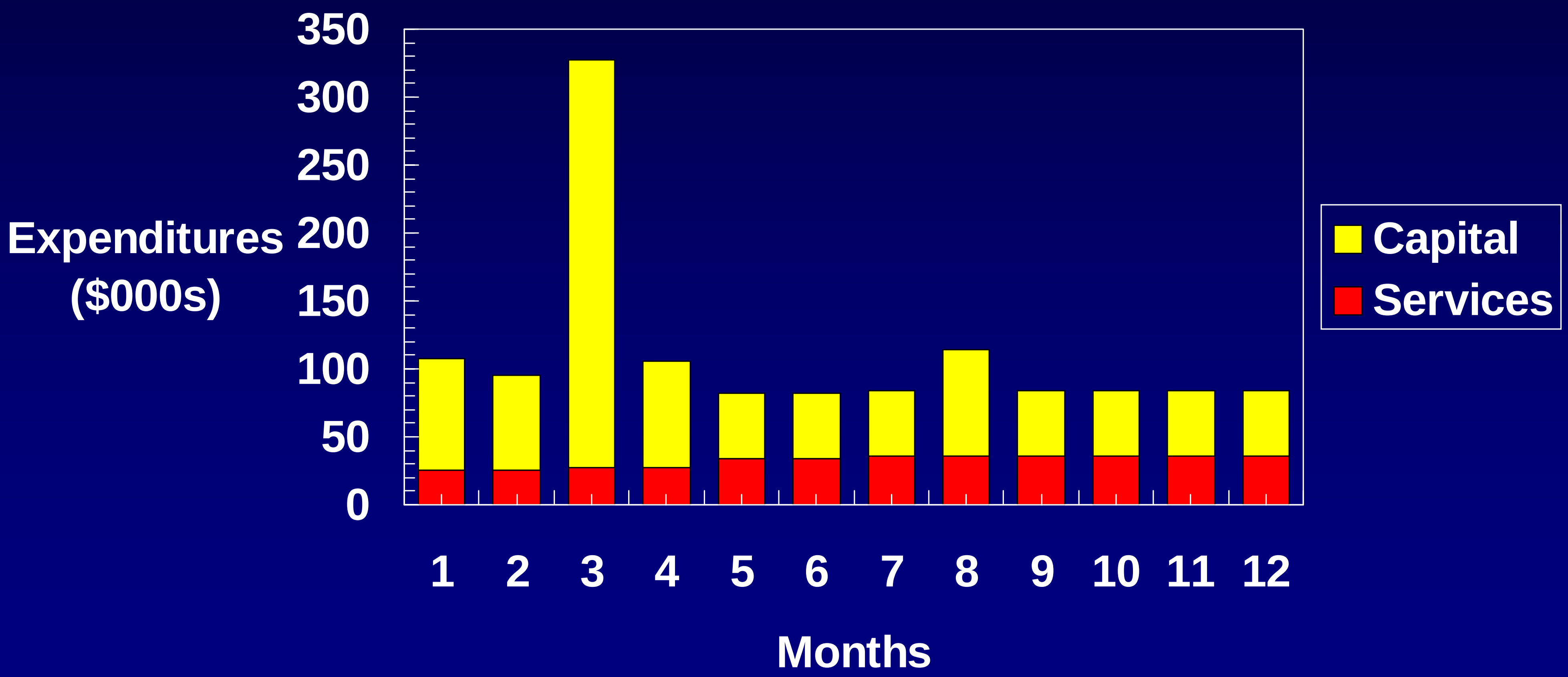
- Services: Project Prospects
  - Client
  - Location
  - Job size
  - Project timing
  - Estimated value
- Products: Client Prospects
  - Market Segment/Application
  - Client
  - Location
  - Current Supplier
  - Total number of units and $ value
  - Anticipated delivery date

Assumptions Used in Pro Formas and Return Calculations

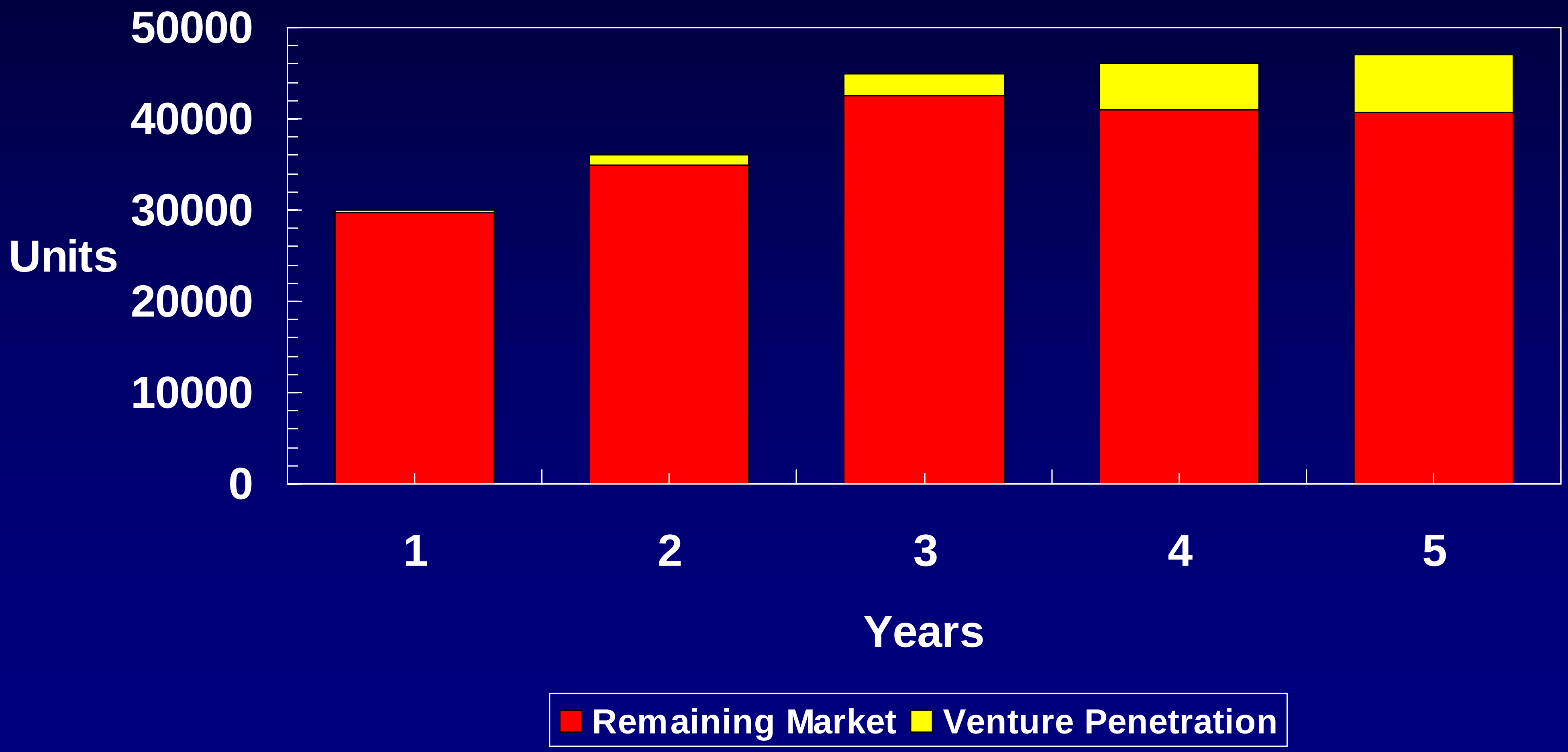
- Who provides funding and of what form
- How annual payouts are determined
- Basis for cash flow to company versus total cash flows from venture
- Projected timing of operations
- Basis for capital equipment required
- How price schedules were determined
- What was the basis for the production rate
- Bases for labor, material and other direct costs
- Assumptions used for market penetration values
- Tax rate

Venture Expenditures - Worst Case

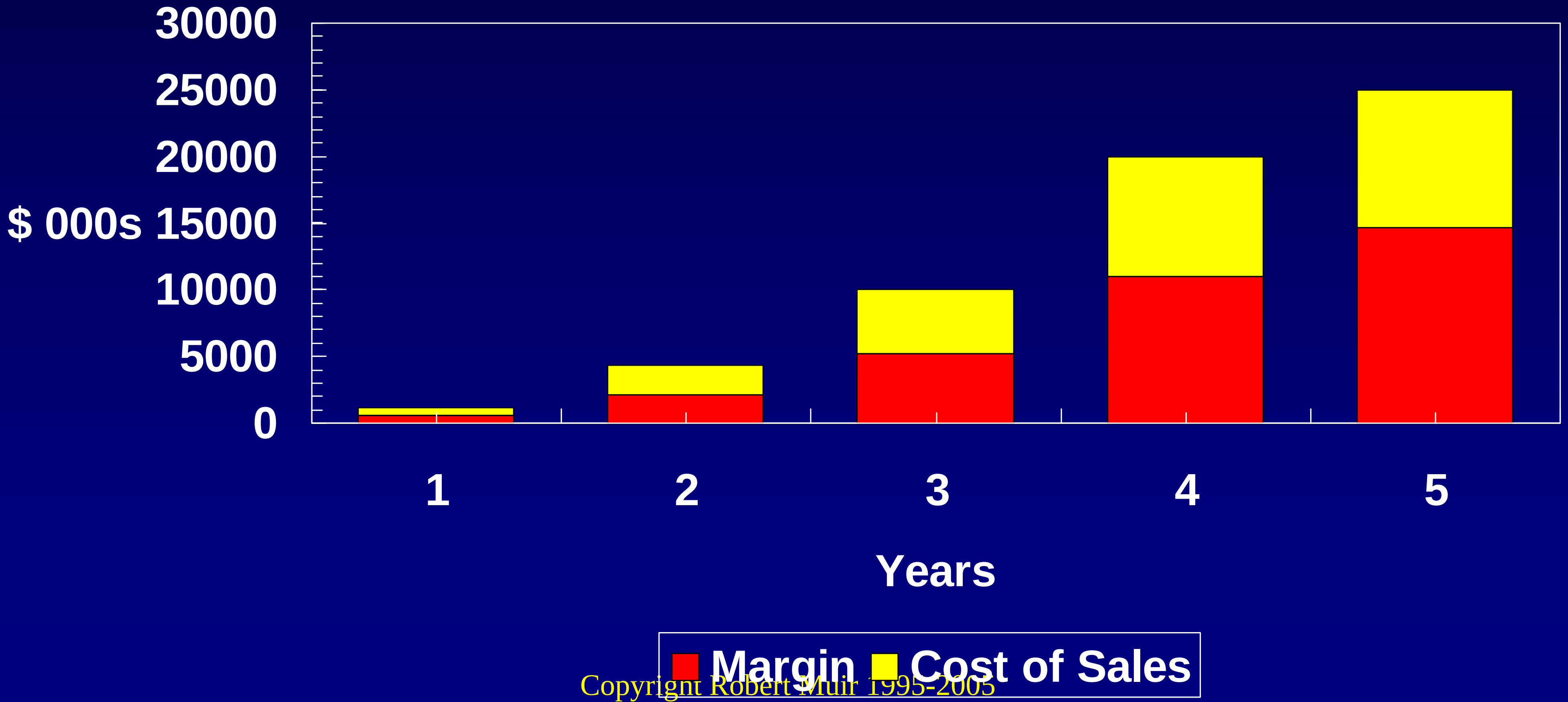
"If we never make a penny how much will this cos



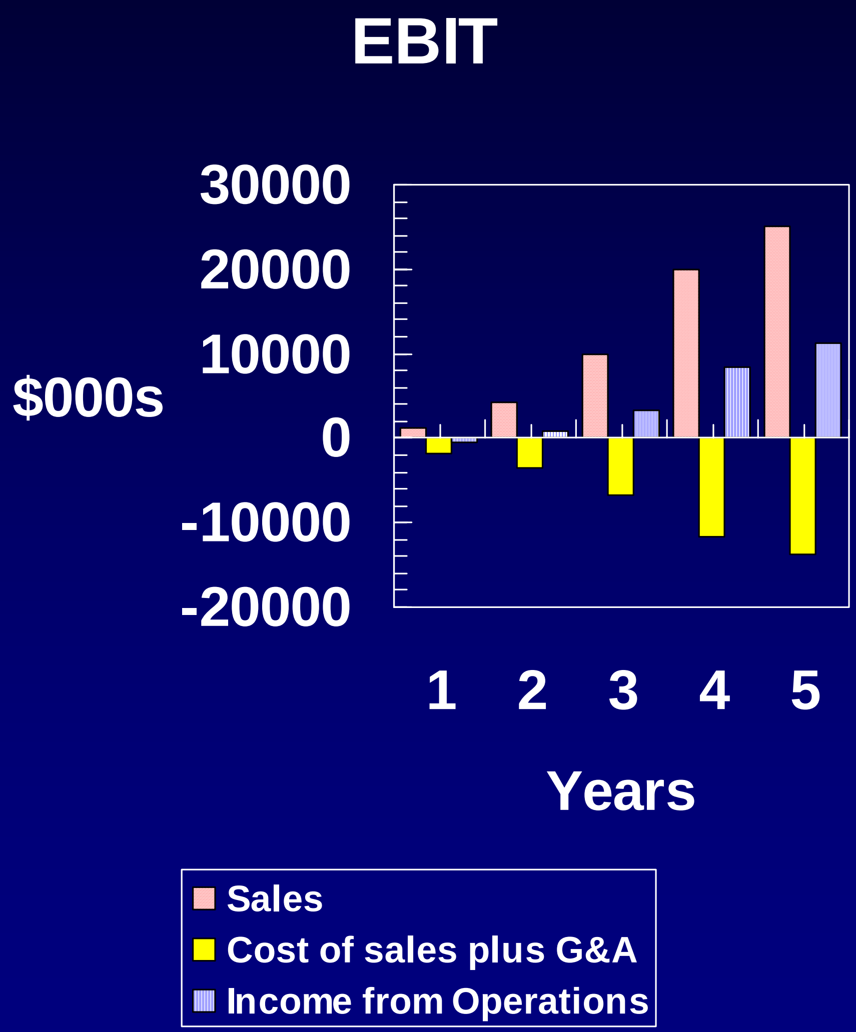
Estimated Market Penetration

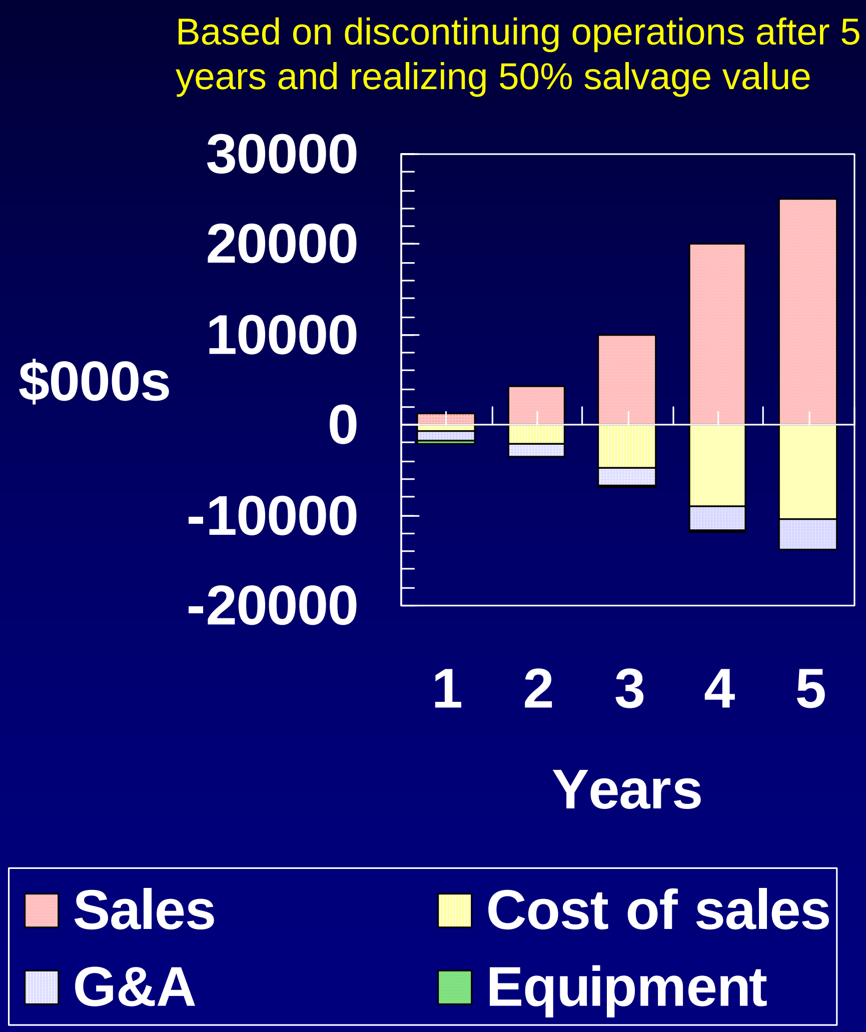


Revenue Projections at $4000/unit



Return


EBIT
$000s
30000
20000
10000
0
-10000
-20000
1
2
3
4
5
Years
Sales
Cost of sales plus G&A
Income from Operations


Based on discontinuing operations after 5 years and realizing 50% salvage value
$000s
30000
20000
10000
0
-10000
-20000
1
2
3
4
5
Years
Sales
Cost of sales
G&A
Equipment

What IRR is Acceptable?

- How much is the initial investment?
- What would the NPV be if ‘r’ were set to account for actual risk?
- What is the term of the investment?
- What is the opportunity cost of the investment?
- When are the initial positive cash flows realized?
- Does this investment have strategic importance?
- Does this investment conflict with other investments/ ventures?

Sample Summary

Calculate return for several options available assuming an investment of 750,000 at t=0 and 100% of drawings.

Year	Sales (000s)	Net Profit (000s)	Ending Cash Balance (000s)	Maximum Drawings/ Dividends (000s)
1	1200	(579)	3	3
2	4300	704	449	446
3	10,000	2,000	2,199	1750
4	20,000	5,000	6,897	4698
5	25,000	6,750	13,850	6953

If cash flows equal the maximum allowed to maintain a positive cash balance and:	n=3	n=5
If after the nth year no further drawings/dividends are received:	IRR =	IRR =
If after the nth year a perpetuity is assumed similar to the nth years' profit level:	IRR =	IRR =
If the business is closed after year n with a salvage value of 50% for machinery and accounts receivable are collected at 50%:	IRR =	IRR =
	67%	108%