

# Balluga<sup>®</sup>

Smart Interactive Beds

## Business plan

February 2015



Click on the link below to watch the Balluga bed prototype demonstrated on ITV by

Holly Willoughby and Phillip Schofield

[http://youtu.be/irN5vxT\\_6tw?t=42s](http://youtu.be/irN5vxT_6tw?t=42s)

### **Balluga Limited**

41 Chalton Street, London, NW1 1JD

Company No: 7268092

### Mission

To disrupt and expand the bed market with  
a range of Smart Interactive Beds

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## Executive Summary

Since the patenting of the first coil spring in 1763, beds have been commercialised for mass sales to an expanding consumer market that currently stands at £15bn per annum.

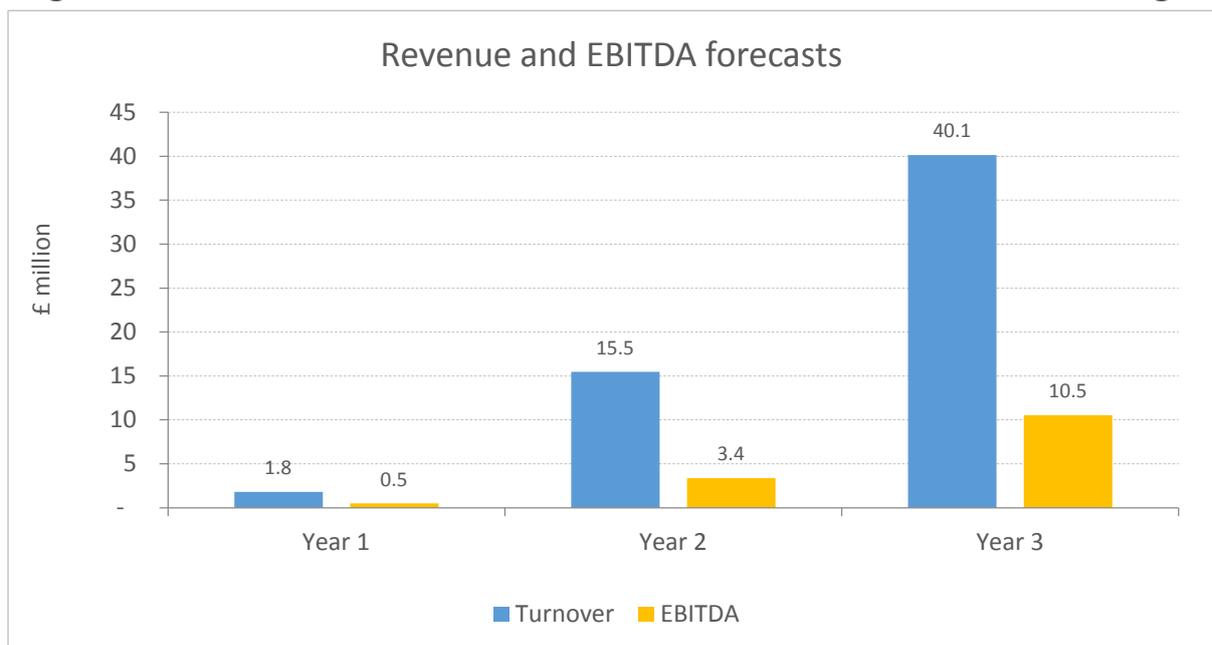
Design innovations like pocket springs, polyurethane foam, latex and recently memory foam, have been launched to disrupt the incumbent market leader through effective marketing campaigns and backed by IP protection.

Balluga has such an opportunity now, with its innovative suspension system protected with an IP portfolio in over 40 countries. Balluga's technology isn't limited to just one sector or industry, it provides a legal monopoly for a further 18 years to disrupt all market sectors for any sleep product worldwide.

Following a round of seed investments of £600,000 over the last 4 years Balluga is now seeking a second round of funding of between £500,000 and £600,000 to launch Balluga in 2015.

These funds will be used to set up a small scale manufacturing and marketing base in the UK and employ a management, production and sales team.

By combining advanced design with the latest technology, Balluga aims to disrupt and expand the bed market with a product portfolio that will be targeted to suit the needs of consumers of all ages.



## The Problem - Current bed designs

Consumers are currently resigned to selecting a bed in a public environment while fully dressed.

The firmness of the mattress is fixed at time of purchase and will diminish over time.



Users are compelled to suffer the discomfort of a deteriorating mattress for many years in order to attain value for their purchase.

This process is exacerbated by the fact that used mattresses are un-hygienic and have to be discarded into landfill sites, polluting the planet and the environment.

## The Solution - Balluga

Balluga provides a range of advanced beds that allow users to customize every aspect of their sleep experience.

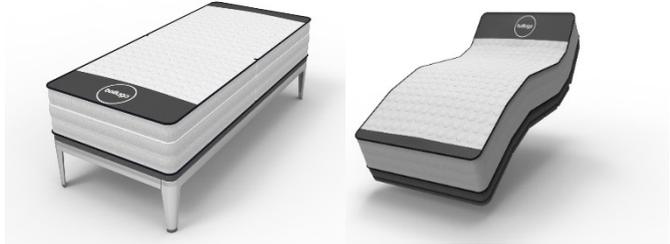
Balluga's adjustable firmness support will not deteriorate over time and has an active suspension that constantly adjusts to eliminate any discomfort during sleep.

Balluga beds are cleanable, recyclable and remain hygienic and infestation free throughout their life cycle.

They provide a future proof investment with an extensive range of comfort and luxury accessories that can be added to enhance the sleep experience.

## The Technology

Balluga has developed and patented an air cell suspension system that can support any user on a sumptuous cushion of air.



Balluga's responsive sensors continually adjust the mattress's firmness, temperature and other features to match the user's chosen settings.

Balluga's modular components are moulded from hypoallergenic non-absorbent materials that can be steam cleaned to maintain a uniquely hygienic sleep environment.

## Advanced fabrication

Balluga beds are manufactured to the highest quality standards using modern manufacturing techniques.

All the production processes have been carefully selected to be highly labour efficient and scalable.



Balluga's manufacturing processes and skills are easily transferable for licensing worldwide.

## The Market

The world bed market is worth in excess of £15bn per annum while the UK mattress and bed market has grown to reach an estimated value of £650m in 2013.

Mattresses sold separately have grown to account for around a quarter of the market in value terms. This progression has been underpinned by the growth in the higher value pocket sprung sector and by the increasing popularity of other materials, such as memory foam. Mattresses are one specific area of the bed market where opportunities for value development exist, with consumers trading up to higher quality products.

Total sales of beds in the UK are forecast to reach £760m by 2018, with the market showing steady and increasing momentum during that period. It is forecast that the beds market will continue to grow in the medium term in both value and volume, supported by factors including; an ageing population, which will support the trend to higher quality and value products, and growth in the contract sector. These include hostels, institutional accommodation and the care sectors. Several major hotel groups are still expanding their portfolios, as well as upgrading and refurbishing existing outlets and need to purchase products able to withstand regular heavy usage.

Several large suppliers dominate the beds sector and the imports of beds and mattresses have increased steadily in the last few years, reaching £164.2m in 2013. Exports have expanded steadily to reach £52m in 2013. The distribution of beds is dominated by the furniture multiples with 46% of the market.

In the US, the bed market is worth over £9bn of which the specialty bed market is worth £2bn with 1.5 million units sold at a retail price point in excess of £1,500.

\*Source - AMA Upholstered Furniture and Beds Market Report - UK 2014-2018 and other published market research.

## Target Market

Balluga's initial target market will be high-end consumers and early technology adopters willing to spend £1,500 - £2,000 on a bed. The company already has a database of nearly 900 people who have shown a keen interest in buying a Balluga bed since its prototype demonstration at the Gadget show in April 2014.

While initially this will be an 'early adopter market', the board believes that Balluga will expand to a wider market audience who will bring forward their bed replacement to trade up to the unique benefits of a Balluga. The company will also benefit from the "keeping up with the Jones' effect" as Balluga beds become a must-have product.

## Route to Market

**Retail** – The consumer market will be developed through direct website and premium retail group channels. These will be backed by demonstrations in shopping centre pop-ups, consumer exhibitions, home-furnishing magazines, Internet based endorsements and press promotions.

**Hospitality** – The hospitality market will be developed alongside the consumer market by offering demonstration beds to premiere hotels for trials. Balluga

beds will be promoted through in room infomercials and supported by limited period special discount offers. Once proven successful, hotel owners will be offered part of our sales revenue in return for signing sign up to an annual service contracts.

**Care Sector** – The care home and care at home markets will be expanded by a specialist industry sales team which will deal with care home owners and regional health authorities. They will also sell directly to the disabled consumer market through shows, related magazines and websites.

## **Balluga the journey so far...**

The Balluga concept and IP was originated by the founder Joe Katan (JK) over 6 years ago. After extensive searching of the existing IP for mattress support systems Joe developed the Balluga air cell suspension system.

It took a number of months to refine the concept into a viable working design and to search for the correct materials and manufacturing methods from which the new components would be made.

Almost 4 years ago and after a lot of market research, JK felt that he was ready to seek seed finance to develop the concept into working prototypes for testing and instigate worldwide IP protection.

He was successful in finding seed backers and embarked on a series of test principle prototypes to produce the first bed. This journey has remained very cost efficient considering its mechanical and technological challenges, as JK has

not charged the company for all his time, skill and effort to propel Balluga to this stage.

JK has also assigned all the design and IP portfolio to Balluga Limited to ensure fair value for all the investors going forward.

Balluga has been very well received by consumers, manufacturers, retailers as well as potential investors over its development cycle. They are all awaiting for the completion of the launch models to either purchase, retail or co Produce the Balluga bed range.

Balluga is now seeking funding to set up a manufacturing base in the UK to provide consumers, retailers and future partners the opportunity to purchase, retail or take part in what we believe to be the future of beds worldwide.

## Launch Timetable

### 1 - 4 months

- Instigate parts and tooling production to manufacture first batch of Balluga beds.
- Find commercial space for product testing, assembly and dispatch.
- Set up manufacturing system capable of producing 50-100 units per month.
- Build and test a number of units in house and then test products in the field with beta testers over a 4 week period.
- Prepare Kickstarter campaign to attain forward orders. Launch website and hire admin and marketing staff.

### 5 - 6 months

- Set up a customer service centre to support initial sales.
- Recruit specialist sales, marketing and other members of the management team and complete an international marketing plan.
- Launch with a fundraising campaign and support through pop up displays.

### 7 - 9 months

- Expand production to 200-400 units per month and set up a customer service centre to support initial sales.
- Prepare for additional Capital investment to be raised for January 2016 through EU grants, equity fundraising, or financing of capital equipment.

## International Expansion

International opportunities will be explored during 2015, once the manufacturing process in the UK has been established and processes such as supply, customer support and marketing have been successfully mastered.

The initial plan is to expand internationally via licensing and joint venture agreements with established local partners.

## Business Model & Product Advantages

- Balluga’s product range will be supplied to all market sectors utilising just one manufacturing facility in each country or territory.
- Seasonal market fluctuations are cushioned by hospitality and care sector sales.
- Completely scalable automated manufacturing process requiring minimal labour cost that can be replicated worldwide.
- Unique hygienic and cleanable bed designs that provide new business models to overcome any price point barriers.
- Profitable add on accessories which can be added pre or post-sale to provide an ongoing revenue stream.
- All production methods and the technology accessories are currently used in other products eliminating any untested product risks.
- Balluga beds are lighter easier to transport and assemble in comparison to existing beds, making them ideal for courier distribution.
- Beyond the bed market, other product ranges like seating will be launched to consumer, hospitality, care and office seating sectors to expand product portfolio.

## Current consumer & commercial interest

**Consumer** – Live consumer database from Gadget show as well as interest already shown by worldwide distributors will be converted to orders post launch. Harrods is awaiting testing of launch model to confirm offering Balluga to their client base.

**Hospitality** – Several international hotel groups including the [Intercontinental Hotel Group](#) as well as the [NH Hotel Group](#) have expressed interest in testing and then launching in some of their hotel chains.

**Care sector** – A specialist UK care equipment sales team is already interested in joining Balluga post launch. They will contact local authorities, private health companies and NHS Trusts and attend disability shows and promote Balluga suitable trade magazines.

**USA** – Balluga has already been approached by Investors and some of the largest bed manufacturers in the USA. They have expressed an interest in testing our final designs for either licensing or joint venture investments.

# Financials

## PROFIT AND LOSS ACCOUNT FORECAST 1 Years ending 31 Dec 2015

Year ending 31 Dec	2015 £	2016 £	2017 £
Turnover	1,807,900	15,470,432	40,142,388
Cost of sales	(705,936)	(5,775,628)	(14,986,491)
Gross profit	<u>1,101,964</u>	<u>9,694,804</u>	<u>25,155,896</u>
Gross profit %	61%	63%	63%
<b>Direct costs</b>			
Tooling and mould replacement costs/Move Costs	14,000	120,000	240,000
Shipping & distribution	126,060	1,031,362	2,676,159
Total direct costs	<u>140,060</u>	<u>1,151,362</u>	<u>2,916,159</u>
<b>Overheads</b>			
IP/Trade Mark applications and protection	79,992	249,996	399,996
Advertising and marketing	49,996	3,094,086	8,028,478
Salaries - management	107,683	522,532	850,655
Salaries - administrative	76,341	317,407	587,682
Recruitment costs	11,288	99,169	80,625
Rent & rates	30,000	500,000	1,000,000
Utilities	13,833	100,000	200,000
Consultancy	50,000	100,000	200,000
Motor expenses/Travel	18,000	24,000	36,000
Legal and accountancy	15,000	30,000	40,000
Insurances	5,000	50,000	100,000
Telecons	1,740	20,000	50,000
Website	16,000	36,000	60,000
PPS and sundry expenses	10,000	40,000	100,000
Total overheads	<u>484,873</u>	<u>5,183,190</u>	<u>11,733,436</u>
EBITDA	477,031	3,360,252	10,506,301
Plant and machinery depreciation	(35,625)	(313,333)	(317,500)
Office equipment depreciation	(1,250)	(26,250)	(26,250)
Profit (loss) for the year before tax	<u>440,156</u>	<u>3,020,668</u>	<u>10,162,551</u>
Tax	(88,031)	(604,134)	(2,032,510)
Net profit after tax	<u>352,125</u>	<u>2,416,535</u>	<u>8,130,041</u>
Retained profit brought forward	-	352,125	2,768,660
Retained profit carried forward	<u>352,125</u>	<u>2,768,660</u>	<u>10,898,701</u>

## **Financial Notes**

*The notes below will help to clarify certain assumptions and projections found on the 3 year forecast included with our fundraising attachments.*

### **Seasonality**

Due to the multi-channel market appeal of the product the seasonality sale fluctuations that would apply to consumer products are cushioned by hospitality and care market sales which are forecast on a contract or need basis.

### **Average Mean Price**

The average unit price shown on the spreadsheet reflects different size variations for beds as well as add on extras. The gross profit margin is based on bed manufacturing costs, however all add on extras have a greater margin of profitability which are not reflected in these figures.

### **Margin**

The margin in the second and third years is lower than the first year to allow for increased sales through 3<sup>rd</sup> party distributors or retail group sales.

### **Capital investment for 2016**

Capital investment will be raised for January 2016 through either EU grants, equity fundraising or financing of capital equipment. This will help expand the manufacturing output, reduce manufacturing costs and increase profits. The manufacturing facility will have the capacity to produce £50m in sales per annum.

## MANAGEMENT PROFILES

### **Joe Katan – Founder, Interim CEO**

Joe Katan has been developing and designing the Balluga technology for 9 years. He has a background in manufacturing furniture, beds as well as glass processing. He has supplied major furniture retailers in the UK as well as launching a bespoke mail order sofa business. He enjoys working with management and creative teams to deliver the ultimate consumer experience.

### **Paul Adrian – COO & Marketing Director**

Paul's area of experience is growing Challenger brands both in the UK and internationally. He commenced his career in advertising founding two award winning international Advertising Agencies Revolver and Nitro working on Volvo Cars, Mars, Disney and RBS. In 2010 he joined King of Shaves as the Global Sales and Marketing Director growing the brand internationally with innovative new ranges and marketing campaigns and launching the brand into the electrical category. Most recently Paul was the CEO of Pawz Ltd a VC backed Ecommerce pet care company.

### **Finance Director – TBA**

Our proposed head of finance has a degree in business management and is currently working in the bed manufacturing and retailing industry. He qualified as a CIMA accountant in 2009 and has worked as a management accountant within the film finance and production sector. He has assisted in the implementation of Enterprise Resource Planning systems and achieved the

title of Head of Finance in 2011. He has a proven record at improving the communication of financial information to all areas of the business environment from front-line staff to management and directors.

**Andy Harding – IP UK Chartered Patent Attorney, European Patent Attorney  
(Partner at Forresters)**

Andy graduated from Cardiff University with a first class Masters degree in Integrated Engineering. His work involves preparing and filing patent and design applications and developing and implementing filing strategies across the world. He has been actively involved in successful opposition and appeal proceedings before the European Patent Office and regularly prepare validity and infringement opinions. His work spans a wide field of technologies, from mechanical inventions, including engine technology, tribology, building construction, medical devices and materials sciences; to electronic and software inventions, including data processing techniques, telecommunication protocols and computing inventions.

**Chris Woodward – Principle Designer (Self-employed)**

Chris graduated over 19 years ago, with First class honours from the University of Hertfordshire. He has worked in and around London at many design consultancies. Chris is currently working at CWD consultants using his proven track record to enhance his client's skill base and design projects. He is currently working with consumer electronics and FMCG clients. Chris has a wide experience of the design and manufacturing process and has many

products in the market; he and his designs have numerous awards and accolades.

### **Jim Chapman – Electronic Hardware & Software Developer (Self-employed)**

After studying Maths at Imperial College, Jim has 25 years of experience in software development, device driver design, manufacture of custom telecommunications equipment and systems integration. His expertise has enabled new companies to develop novel hardware and internet service related products. He is a named inventor of the patented sensor system in the Eigenharp (a uniquely sensitive electronic musical instrument). Lately, he has been working primarily on medical monitoring systems, and is involved with the whole ecosystem from Bespoke hardware design and programming, Mobile and Desktop application development, and back end provisioning. Has been involved with Balluga for over 12 months working on the operating and control systems as well as the control Apps.

### **Hugo Selly – Product, circuit board and hardware design (Self-employed)**

Hugo Shelley is a product design consultant specialising in electronic sensing and control. Since graduating from Kings College he has worked as a freelance designer for several stage and television shows as well as creating a variety of products for clients as diverse as Criss Angel and David Blaine.

In 2013 he founded Iota Technology, a design consultancy specialising in the application of new technologies to both industrial and consumer products.

**Martin Ellis – Head of Production and Operations**

Martin has previously worked for a bed manufacturer and managed his own family's furniture business, supplying John Lewis, House of Fraser and Debenhams. Martin has been responsible for managing the production process. He was appointed Head of Production and Operations in 2012 managing a team of over 100 staff.

**Olando Salina – Online Marketing Consultant (Self-employed)**

Experience in managing marketing function and leading teams to formulate, plan, develop, implement and integrated marketing strategy to support the and increase sales. Optimising website navigation to increased traffic via tablets and mobiles. Managing external support agencies including on and off line Media, PR, Creative, Social Media, SEO and Web Hosting on strategy development and delivery across all channels. Planned competitions to build customer database and increase Facebook and Twitter likes with strategic partners.

Developing and producing customer communications store package including copy writing, in-house design, selecting and dealing with outside design companies and buying in print. Directed photography and briefed stylist for all product photo shoots for use on the website, advertising and all other printed literature.