

Smith Fuel Efficiency Limited

Funding application and financial forecasts 20XX/20XY

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Information

Directors: Mr A Smith

Main office: Street
Anytown
Postcode

Storage facility: c/o SSSS Yard
Fuel Yard
UK

Accountants: Accountants details
Street
Anytown
Postcode

This commentary was requested by the finance company as part of the application. A meeting was initially held with them involving the director and his accountant. The meeting involved general discussions relating to the background of the company, its new products and the reason behind the need for funding.

Type of finance required

- Full factoring facility with a funding line of £75,000
- Initial payment to be 75% of approved debts including current invoices
- Remainder payable on receipt of payment from customer

History and overview of the business

The company was incorporated in 2003.

The owner/manager has always been Mr Smith and there have been never been any other Directors or shareholders. Mr Smith is 45 and has worked in the fuel efficiency industry for approximately 15 years, 7 of these being with other companies before Smith Fuel Efficiency Ltd commenced trading. He is responsible for all management and operating decisions. He has worked for approximately 15 years in this trade and is well known nationally as an expert in his field.

The purpose of the company has always been to supply and fit fuel monitoring equipment to commercial vehicles. The equipment sends back data to the company's server which produces reports on the driving and fuel efficiency of each vehicle. The ultimate aim is to save the customer money by cutting their fuel costs.

The company operates from rented offices in a West Midlands Business Park. There are currently two other members of employed staff, however this is expected to increase by at least one with the new order book.

There are also two sub-contract fitters who operate nationally depending on where the customer is. Both of these fitters have been involved with the company for several years and they have both indicated that they would like to formalise their working relationship in terms of becoming directors/shareholders at some stage.

The target customers are all large fleet operators such as haulage companies, mine operators (open cast) and bus companies.

The company's primary method of gaining orders has always been to mailshot its targets and also to have a visible presence at industry conferences and seminars. Mr Smith is a highly efficient networker and salesman and he also writes articles for trade magazines on the subject of fuel efficiency.

The company used a standard SAGE 50 package which is fully utilised including using the orders and budgets options. Full customer details are entered on the system and it is

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maintained two to three times per week. Regular customer statements are sent out for outstanding invoices. There is also an outside qualified firm of accountants used who prepare year end accounts/ tax returns and also advice on various related issues during the year.

There is lot of reliance on IT for the running of the business and the office contains a lot of modern computer equipment. These and the servers are maintained by an outside computer consultancy company.

Details of product

The equipment is fitted to the vehicles by the sub contract fitters who charge a fee per day. They also carry out repairs and remedial work when necessary.

The company buys the equipment from South Africa from a specialised company - SA Ltd - that hold the patents etc. for this equipment. Smith Fuel Efficiency Ltd has gained the accreditation of being the only UK business that is supplied by SA Ltd. This is an open ended agreement and will not be terminated providing sufficient units are purchased. Mr Smith is confident that this relationship is very strong but as a safeguard the company is also looking at other suppliers in the Far East who have similar products and who would be cheaper to buy from. The technology is improving all the time and so other suppliers will very soon be available. The units are quite small and compact making import, transport and fitting quite straight forward. Therefore a margin is made on the actual supply/fitting which is very lucrative. However the data handling and reporting also commands a regular monthly fee and regular predictable income.

Each client does have the option to manage the data themselves which involves them buying the necessary software again which would be supplied to them by Smith Fuel Efficiency Ltd at a profit.

The current economic climate and the high cost of fuel makes the need for efficiencies and cost savings ever more important.

Reason for finance application

Smith Fuel Efficiency Ltd has many contacts in the mining industry both in the UK and abroad. Mr Smith has been nurturing these contacts for many years to try and gain orders. Due to his hard work and the advances in technology in the equipment, a number of these contacts have now placed orders for the supply, fitting and data handling of the monitors. Mr Smith is confident that once the product is rolled out properly in the market, then it will become an economical 'must have' for all fleet operators.

The company has done a lot of research into the optimum sales terms to maximise its profits. This has resulted in different methods of selling the equipment depending on the customer. Currently Smith Ltd will sell it outright or lease the equipment over a three years term to the customer. The main method will be sale outright.

The funding issue comes from the timing issue between the payment terms to the supplier and the receipt of funds (of whichever method) from the customer:

- Purchase of equipment from SA Ltd
Deposit of 30% on order, final payment due on delivery to UK
- Sales receipt from customer – leasing
Sales price plus leasing charges over three years
- Sale outright
Sales price due after 60 days of invoice

Therefore there is a need for funding to bridge the on-going gap between the initial outlay and the receipt from the customer especially where leasing is employed as a sales medium. The long credit terms given to customers are an industry norm as after the sales invoice has been issued, the customer may well have initial teething problems which require minor rectification work and which will result in the invoice not being processed until everything is signed off.

The current debtor book is based on customers enjoying 30-45 days credit and currently stands at £25,000.

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Information attached

We are therefore attaching the requested information being (not attached and only for illustrative purposes):

- Copies of confirmed orders from customers which have not yet been processed
- Forecast orders to be received within the next 12 months
- Copy of SAGE software as at today's date
- Copy of current debtors list as at today's date – we confirm that all sales invoices at today's date have been included
- An example of a typical audit trail from purchase order through to signed sales completion/fitting note
- Financial statements for the years ended 31 March 2010 and 31 March 2011