PLANNING TO WIN

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY – ROCKET SCIENCE PTY LIMITED

[A HYPOTHETICAL BUSINESS AND BUSINESS PLAN]

This business plan outlines an opportunity to invest in Rocket Science Pty Limited (RS).

RS will process Rockplants™ – a revolutionary new vegetable – into dry products used to make new, healthy fast foods. Low-fat products made from *Rockplants* are meat substitutes.

MANAGEMENT

The owner and CEO of RS is Fredrik (Fred) Gecko – a distinguished Australian farmer and businessman. The growing trials for *Rockplants* were on Fred's family farms. He has excellent relationships with the research and the industrial members of the Centre for Research on Alternative Agricultural Products (CRAAP) that will commercialise *Rockplant* products. He has negotiated an agreement to sell the entire product produced by RS for the first two years.

The new business will be managed by Fred and his wife, Mary. They have built a multi-million dollar farming operation over 18 years. They are supported by a contract cost accountant – who will become company secretary – and good production staff who ran the pilot plant operations.

TECHNOLOGY, PRODUCTS AND MARKETS

Dried foods are used by food processors due to their long shelf-life, stable supply and cost. The product is produced by drying high-solids fresh *Rockplants* with hot air in a process known as Rocket (*Rockplant* Kinetic Evaporation Technology) Science.

Rockplants will be grown on farms adjacent to the new factory using seeds supplied by CRAAP and protected by their intellectual property. RS will undertake an R&D program to enhance both the drying process and the agronomy of growing *Rockplants*. An application for a grant from the Elaborate Support for Trade and Industry Grants (ElastiGrants) scheme of $260,000 over three years is supported by this business plan.

CRAAP has made *Rockplants* from genetic modification of eggplants, by inserting DNA from a compatible rock. Low-fat products from the dried vegetables have more body but a "mouth feel" similar to fat from the smooth texture of the eggplant.

Fred has negotiated a contract to supply all the production from the plant in Years 1 and 2. The average price is $3.60/kg in 2001, $3.42 in 2002 and will be $3.25 from 2003 onwards.

Product from final pilot plant trials in 2000 will be market-tested by other food companies, including the healthy fast food chain ThinFoods. RS sales are expected to increase from $2.0M in 2001 to $3.2M in 2002 and a "steady state" level of $3.5M from 2003.

PLANNED OPERATIONS

RS will relocate the equipment from the pilot plant in the town of Hotspot to land adjacent to the family farms, and completely refurbish the equipment at a capital cost of $2.373M. Its rated capacity will then be 500kg of dried product per operating hour.

Production will begin in January 2001. Plant efficiency is expected to increase from 72% in 2001 to 87% in 2002 and 90% from 2003. Fred employed an independent engineer for advice.

Primary production – the dehydration process – occurs during the harvest season from January to April. Secondary processing – sizing the stored dried product, milling the powder, packing, and QA – takes place the month before the final products are sold and delivered to customers. Results of production cost forecasts, compared with selling prices, are as follows.

PRODUCTION COSTS AND SALES PRICE ($/KG)

	2001	2002	2003	2004
Primary Production	1.15	1.09	1.07	1.07
Total Production	2.53	2.16	2.03	1.98
Ave Sales Price	**3.85**	**3.67**	**3.50**	**3.50**

FINANCIAL FORECASTS

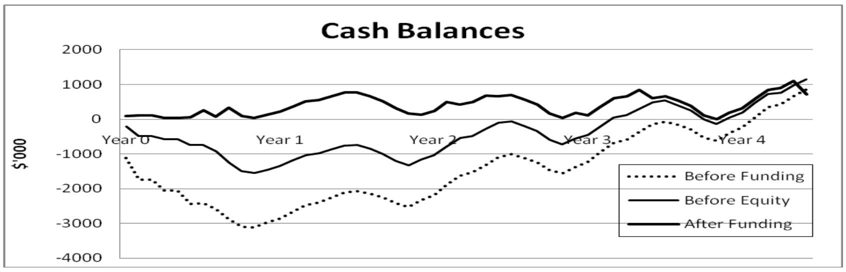
Capital expenditure totalling $2.373M is expected to be partially funded by secured bank loans of $1.708M – 72% of new assets – secured by a first charge over the assets of the business.

The results of the P&L and cash flow forecasts are:

P&L RESULTS ($'000)

	2001	2002	2003	2004
Sales	2019	3216	3465	3465
Gross Margin	691	1152	1224	1280
% of Sales	*34.2%*	*35.8%*	*37.2%*	*38.9%*
EBIT	340	739	779	1001
NPAT	115	487	549	662
% of Sales	*5.7%*	*15.1%*	*15.8%*	*19.1%*

The cash flow forecast is derived from expected terms of payment, and includes GST. It shows a need for a minimum of $1.547M in new equity. That is the balance of capital expenditure ($665K) plus working capital ($882K).



RISKS, RETURNS AND DEAL STRUCTURE

Five major areas of risk are identified. Their maximum individual effect is to increase the equity funding requirement by $151K. Accordingly, up to $1.7 million in new equity is sought.

The combined effects of the major risks have been estimated using a probabilistic approach, based on a Monte Carlo simulation. They result in the following distribution of results.

EFFECTS OF COMBINED RISK FACTORS

Equity Needed ($'000)			Project IRR (% pa)		
Min	Mean	Max	Min	Mean	Max
1498	1593	1729	5.4%	25.2%	39.0%

The structure proposed for new equity investment in RS involves $700K in share capital and $900K (but up to $1.03M, with no penalty) in convertible notes, repayable from cash flow, with any balance as at December 2003 convertible into shares.

The proposed equity deal is based upon a fair distribution of returns from the project between the owners and new equity investors. The overall return from the project is estimated (IRR with annual rests) at 34.6% pa – a very good result for a new agribusiness project. The project return is divided to produce returns of 27.2% for new investors and 46.1% for the owners, based on a share price for new equity of $1.50 a share, for 47.4% of the shares. The owners will contribute $517K in equity, mainly fixed assets, at $1.00 a share. However, sophisticated risk analysis slightly increases the funding and decreases returns.

The most likely exit path for investors is that the Gecko family will buy back their shares in Year 4. The sale value in the forecasts is the basis for the return of 27.2% pa. Alternatively, a trade sale is a realistic option if *Rockplant* products become the great success that is anticipated.